

Corporate Environmental and Social Responsibility in the East Asia and Pacific Region

Review of Emerging Practice

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This study was prepared jointly by the Environment and Social Development Unit (EASES) of the East Asia and Pacific Region and the Environment Department (ENV) of the World Bank.

Environment and social development issues are an integral part of the development challenge in the East Asia and Pacific (EAP) Region. The World Bank's recently completed Environment and Social Development Strategies for the World Bank in the region have provided the conceptual framework for setting priorities, strengthening the policy and institutional frameworks for sustainable development, and addressing key environmental and social development challenges through projects, programs, policy dialogue, non-lending services, and partnerships. The EASES Discussion Paper series provides a forum for discussion on good practices and policy issues within the development community and with client countries.

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FOREWORD

The economies of the East Asia and the Pacific (EAP) region have grown rapidly over the last few decades. However, this rapid growth was accompanied by considerable environmental damage, such as water and air pollution, deforestation, biodiversity loss, and climate change impacts. Environmental deterioration often disproportionately affects poor people and constrains future economic growth. This is particularly true for the EAP countries, since most of the countries in this region are critically dependent on natural resources. The World Bank's regional environment strategy recognizes that such environmental deterioration and pollution affects people's quality of life.

In response to growing environmental challenges, governments have introduced environmental policies, regulations and programs. It has become obvious, however, that governments alone cannot solve serious

environmental problems. Civil society and business leaders have important complementary roles.

Corporate Environmental and Social Responsibility (CESR) has emerged as a business initiative. While CESR continues to evolve in many countries, some businesses are beginning to view CESR as a way to enhance competitiveness and increase their exports to markets with strong environmental regulations and environmentally conscious consumers. In addition, awareness of environmental degradation and the need for improving sustainable production and consumption practices is growing domestically even in less developed countries, and there is an increasingly vocal civil society and other stakeholders who call for improved corporate practices.

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ACRONYMS

| | | | |
|-------|---|---------|---|
| ACCA | Association of Chartered Certified Accountants | IBL | Indonesia Business Links |
| AFR | Africa | ICCA | International Council of Chemical Associations |
| APEC | Asia-Pacific Economic Forum | ICTI | International Council of Toy Industries |
| ATC | Agreement on Textiles and Clothing | IFC | International Finance Corporation |
| Bank | World Bank | ILO | International Labor Organization |
| BITC | Business in the Community | ISO | International Standards Organization |
| CCF | Corporate Citizenship Facility (IFC) | JSE | Jakarta Stock Exchange (Indonesia) |
| CEC | China Environmental United Certification Center | KLSE | Kuala Lumpur Stock Exchange (Malaysia) |
| CER | Corporate Environmental Reporting | LAC | Latin America and Caribbean |
| CESR | Corporate Environmental and Social Responsibility | Meralco | Manila Electric Co |
| COC | Chain of Custody | MESRA | Malaysia Environmental Reporting Award |
| CSR | Corporate Social Responsibility | MNCs | Multinational corporations |
| DJSI | Dow Jones Sustainability Indexes | MSC | Marine Stewardship Council |
| DJSWI | Dow Jones Sustainability World Index | NGOs | Non-governmental organizations |
| DENR | Philippines Department of Energy and Natural Resources | OECD | Organization for Economic Co-operation and Development |
| EAP | East Asia and the Pacific | PBSP | Philippine Business for Social Progress |
| EBFP | Environmental Business Finance Program (IFC) | PPPs | Public-private partnerships |
| EC | European Commission | PROPER | Program for Pollution Control Evaluation and Rating (Indonesia) |
| ECA | Europe and Central Asia | RoHS | Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment |
| EIA | Environmental Impact Assessment | SFMF | Sustainable Financial Markets Facility (IFC) |
| EMAS | Eco-Management and Audit Scheme | SMEs | Small and Medium-sized Enterprises |
| EMS | Environmental Management System | SRI | Socially Responsible Investments |
| EOF | Environmental Opportunities Facility (IFC) | TBL | Triple Bottom Line |
| EPBs | Municipal environmental protection bureaus (China) | TPI | Thai Petrochemical Industry |
| EPR | Extended Producer Responsibility | TRI | US Toxic Release Inventory |
| EU | European Union | USAID | US Agency for International Development |
| FSC | Forest Stewardship Council | UNDP | United Nations Development Programme |
| FM | Forest Management | WEEE | Waste Electrical and Electronic Equipment |
| GC | United Nations Global Compact | WTO | World Trade Organization |
| GEN | Global Ecolabeling Network | | |
| GRI | Global Reporting Initiative | | |
| GTZ | Deutsche Gesellschaft für Technische Zusammenarbeit (international development agency in Germany) | | |
| HSBC | Hong Kong and Shanghai Banking Corporation | | |

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EXECUTIVE SUMMARY

The East Asia and the Pacific (EAP) region experienced not only rapid economic growth, but also considerable environmental damage over the last few decades. For economic growth to continue without further degradation to the environment, governments and business leaders have begun to address private sector's role in sustainable development. One of the private sector responses is Corporate Social and Environmental Responsibility (CESR), voluntary business contributions through companies' core business activities that address environmental and social concerns of society at large.

CESR became an established concept by the 1970s mainly driven by the ethics and labor concerns in developed countries, and later by the same concerns about operations of multinational corporations (MNCs) in developing countries. With environmental disasters like the Bhopal accident in the 1980s, environmental issues also became an important aspect of CESR. Following these incidents, the private sector began to undertake environmental management initiatives such as voluntary codes of conduct and environmental management systems.

Focusing on the environmental management aspect of CESR, the review of corporate environmental management practices in EAP countries indicates that CESR activities are increasing in the region. For example, the number of International Standards Organizations (ISO) 14001 certification increased tremendously.

Over 6,700 organizations obtained ISO 14001 certificates in the EAP region. About 190 companies in the region participate in the Global Compact (GC) that promotes commitments to the environment and labor-related principles among businesses. Some large companies in the region participate in the Global Reporting Initiative (GRI) that promotes the adoption of the GRI environmental reporting guidelines.

Companies in the EAP region have also been adopting other private certifications, such as the forestry management certificates of the Forest Stewardship Council. Although some EAP companies are listed in a sustainability index like the Dow Jones Sustainability World Index (DJSWI), companies and investors in the EAP region are not yet very keen on sustainability indexes and socially responsible investments (SRI). A limited number of SRI funds are available in the region - only in Hong Kong, Singapore, Malaysia, and Taiwan.

There are two sets of CESR tools described in this paper: (1) CESR tools for companies such as environmental reporting, codes of conduct, environmental management certification and standards, and eco-labeling and (2) CESR promotion tools for stakeholders¹ such as command-and-control and market-based regulations, mandatory public disclosure programs, public recognition programs, and CESR indexes. CESR tools for companies are applied on a voluntary basis while some CSR promotion tools used by governments such as public disclosure programs are mandatory.

Cases from the EAP Region

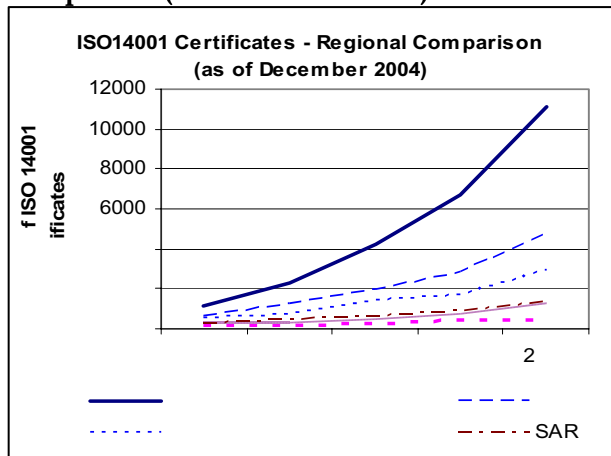
Some companies and stakeholders in the EAP region have been using CESR tools to undertake or promote CESR activities. Examples of using voluntary CESR tools exist in the EAP region. A voluntary CESR tools, Corporate Environmental Reporting (CER), has been undertaken by some companies in the EAP. However, the participation in the GRI to apply the international reporting guidelines is low (only 11 companies). Larger companies and multinational corporations (MNCs) tend to publish information about their environmental performance more than others. Codes of conducts in the EAP region are also influenced by MNCs. Subsidiaries of MNCs apply the headquarters' codes of conduct. Companies in

¹ Stakeholders include government, civil society, and investors.

the supply chain are adopting the codes of conduct of international industrial associations such as International Council of Toy Industries (ICTI) and International Council of Chemical Associations.

Environmental management certification and standards have been spreading beyond MNCs. The majority of the ISO 14001 certification in the EAP region belongs to Chinese companies. The number of certificates in China has doubled every year for the last five years. Companies in other EAP countries are also steadily increasing the number of ISO 14001 certificates. However, there is little information available on the actual environmental performance improvement from adopting environmental management system like ISO 14001 (See Figure 1).

Figure 1. ISO 14001 Certificates - Regional Comparison (as of December 2004)



Source: The ISO Survey - 2004. Available: <http://www.iso.org/iso/en/prods-services/otherpubs/pdf/survey2004.pdf>.

Eco-labeling programs exist in China and Taiwan, Malaysia, the Philippines, and Thailand. The Philippines, Taiwan, and Thailand are also members of the Global Ecolabeling Network (GEN) that promotes cooperation, information exchange and harmonization of eco labels. Since most eco labels are national programs, some countries - e.g., Australia and China - have signed mutual recognition agreements to facilitate the use of eco labels.

As for CESR promotion tools for stakeholders, governments have piloted mandatory public disclosure programs in countries of the EAP region. For example, disclosure of corporate environmental performance has been piloted in China, Indonesia, the Philippines, Thailand, and Vietnam. These programs have increased awareness among the public and helped improve companies' compliance with environmental regulations. The pilot programs in Indonesia and Vietnam are continuing or plan to be continued while China plans to expand its pilot programs to more areas.

To promote CESR efforts, public recognition programs such as CESR awards can be helpful. Companies in the EAP region have viewed the receipt of a CESR award as an achievement in their environmental reporting. Awards can be supported by national governments as in the cases of Cambodia, Indonesia, Malaysia, and Thailand. There are also other CESR awards in the Philippines and Malaysia.

In addition, other efforts to promote CESR are found in the EAP region. Different stakeholders have worked together to address corporate environmental contributions in partnerships. For example, a non-profit organization, the Philippine Business for Social Progress (PBSP), carries out programs that contribute to the CESR promotion by bringing together a wide range of stakeholders from the EAP region and the world to address issues that reach beyond one company's influence and control (e.g., supplier responsibility and standards harmonization). Efforts to support small and medium-sized enterprises (SMEs) on CESR activities are also emerging in the region.

Drivers and Barriers

From the review of cases in the EAP, key drivers for CESR are identified. These are (1) the business/environment context; (2) global trade; (3) requirements through the supply chain to SMEs, and the informal sector; (4) pressure and support stemming from government actions such as regulations and financial incentives; and

(5) demand from civil society such as campaigns. Business concerns for reputation and relationship with external stakeholders including the public and importers motivate companies to improve their environmental performance. Given the large number of smaller companies in the region, tapping into SMEs and informal sector is important. Once they can integrate CESR, it could drive the spread of CESR throughout the region.

There are also barriers in the EAP region for CESR promotion: (1) lack of demand and awareness of CESR, including what it is and how it benefits companies and society; (2) limited effectiveness of some CESR tools that CESR may not result in environmental improvements; and (3) financial and technical constraints to implement CESR activities.

Toward a CESR Strategy for the World Bank in the EAP Region

There are opportunities to increase CESR activities or create a favorable business environment for CESR in the EAP region. IFC has been playing an integral role in promoting CESR activities. IFC is managing four social and environmental facilities to promote CESR and sustainable businesses in the private sector and four regional technical assistance facilities that improve the business environment for SMEs in developing countries. In addition, it encourages a change in approach to social and environmental stewardship in its direct contact with private sector companies, advocates the Equator Principles and the GRI, and continues to disseminate good private sector practices.

While IFC promotes CESR directly among private sector companies, the Bank can promote CESR by working with governments. The Bank

can support governments to improve the design and enforcement of regulations to set the minimum standards for all companies. They could also provide an impetus to drive for innovation and improvements that makes companies more environmentally friendly and competitive.

In addition, the Bank can support countries to improve their transparency and dissemination of environmental information to build awareness on corporate environmental performance and CESR. Awareness of companies, particularly SMEs, needs to be increased so that more companies undertake CESR activities. Awareness of civil society also needs to be increased for greater demand for information and corporate CESR actions. The Bank can encourage countries to bring together different stakeholders including private sector, public sector, and NGOs into decision-making. By involving stakeholders in decision making, smaller companies and civil society will also increase their knowledge and awareness on corporate environmental performance and its implications to stakeholders.

This paper serves as a first step toward a CESR Strategy in the EAP Region. CESR awareness is increasing, built upon the environmental awareness in the region. Larger companies have started to undertake CESR activities. In order to spread CESR among companies in the region, both the Bank and IFC have roles to play. There is a need for improving stakeholder activities, including those of governments, consumers, and investors, which affect companies' behavior and CESR. There is equally a need to support companies themselves in building greater awareness of CESR, its tools, and advantages as linked with their core business.

INTRODUCTION

HISTORICAL AND DEVELOPMENT CONTEXT

The evolution of the CESR concept started as early as the 1700s over dissatisfaction with prevailing business practices. Slave labor was still allowed, but some consumers found it unethical. In the 1790s, a consumer product boycott was carried out by Elizabeth Heyrick, who urged the people in Leicester, England, not to buy sugar from the West Indies where slave labor was used. This incident forced the East Indian Company to get sugar from producers who did not use slave labor (Economist 2002).

Concerns for labor rights eventually led to the formation of trade unions in the late 1800s and the early 1900s. In 1945, an international labor union, the World Trade Union Federation, was founded (Trade Union World 1999). By the mid-1900s, international labor standards began to form. Since 1919, the International Labor Organization (ILO) has been promoting social justice and internationally recognized human and labor rights by formulating international labor standards. The ILO's conventions impose obligations on the member states, but do not directly address the behavior of international employers, even though it works with governments as well as employers and workers (Jenkins 2001).

An additional issue, corporate bribery, also contributed to CESR development. In the 1970s, hundreds of American companies admitted to making illegal payments to foreign government officials, politicians, and political parties in order to secure business contracts. As a result, the United States passed the Foreign Corrupt Practices Act. In the late 1970s, many U.S. companies and others adopted voluntary corporate codes of conduct focusing on ethics (Jenkins 2001). The Brookings Institution, a well-established economic think tank in Washington, had by this time already recognized the concept of corporate social responsibility (CSR) and

considered it "an important issue not only for business but in the theory and practice of law, politics and economics" (McKie 1974).

Simultaneously, developing countries and international bodies became concerned about multinational corporate practices. In the 1960s and 1970s, multinational corporations (MNCs) expanded their operations into developing countries. Developing country governments tried to regulate the business practices of MNCs by imposing restrictions on foreign ownership or requiring local development (Jenkins 2001)². More than 20 developing countries passed legislation to control the activities of MNCs (Hepple 1999).

At about the same time, international bodies supported the regulation of corporate behavior and the protection of workers' rights. The member countries of the Organization for Economic Co-operation and Development (OECD) adopted the Declaration on International Investment and Multinational Enterprises in 1976 to improve the investment climate while encouraging social progress and minimizing damage to the environment. The declaration includes a set of voluntary codes of conduct for multinational enterprises. In 1977, the ILO's governing body approved its Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy. In the same year, the Global Sullivan Principles, a code of conduct for companies operating in South Africa, was developed to improve human rights and equal opportunity.³

² This is a view that is prevalent in the literature. However, the picture is more complex. As pointed out by one reviewer, developing countries have passed legislation that would stimulate foreign companies' activities.

³ See <http://globalsullivanprinciples.org>.

The 1970s also saw heightened concerns for the environment, highlighted by the first Earth Day. Followed by a disaster in 1984 at Bhopal, India, where a Union Carbide gas leak killed thousands and the site was left contaminated (Luce 2004), environmental issues finally became an element of corporate responsibility. All these events increased the pressures on businesses to behave more responsibly toward the environment, labor, and society.

In the 1990s, CESR became a global issue. By this time, the pressure to control foreign ownership has been reduced by most of the countries (Jenkins 2001). The role of MNCs in developing countries became the focus of grassroots activities for human rights, labor, environment, and improved social conditions (Hopkins and Cowe 2003). In addition, new corporate codes of conduct focused more on environmental and labor issues (Jenkins 2001). These codes of conduct were more comprehensive than the ones developed in the 1970s, which covered mainly ethics.

As concerns for the environment grew, businesses started to address CESR and implement various environmental management initiatives. For example, the chemical industry's initiative to help the industry improve its health, safety and environmental performance called Responsible Care initiative, was first adopted by the Canadian association in 1985. The initiative includes principles and codes of practices to address concerns about manufacture, distribution and use of chemicals. The American Chemistry Council, Australian Plastics and Chemicals Association, and British Chemical Industries Association followed suit in the late 1980s and the initiative has been implemented in more than 50 countries since then⁴. Similarly, environmental management systems (EMS) emerged as a tool to help corporations systematically improve their environmental performance. An international EMS standard, ISO 14001, was published in 1996 and it has been widely adopted worldwide.

⁴ See <http://responsiblecare.org/>.

Although environmental issues are now considered in CESR activities, attention for environmental issues in CESR still lags behind labor issues. Even the 1991 version of the OECD Guideline for Multinational Enterprises makes limited reference to environmental issues (FitzGerald 2001). The lack of focus on the environment may be due to the inability to agree on acceptable international environmental standards and the variability in environmental conditions across different locations (Fischer, Parry, Aguilar, and Jawahar 2005). This is also recognized by research papers that international environmental standards are few (Jørgensen and others, 2004) and that environmental challenges are diverse (Ashida and Plinke 2004).

Today, companies and governments worldwide have begun to recognize the importance of CESR. For companies, CESR represents opportunities and risks. By undertaking CESR, companies could increase competitiveness in export markets by meeting higher expectations or improve profitability by cutting costs and improving material efficiency. By not undertaking CESR, companies may increase risks such as reputation damages and litigations. Governments also started to recognize the potential contribution of CESR to economic growth.

For governments, CESR and regulations can be also complements to environmental protection. Theoretically, if all companies have met the minimum standards set by environmental regulations, any additional efforts on environmental improvements mean going beyond compliance. Regulations could be also designed to promote the development of environmentally and socially responsible products and services as well as the development of demand for such products. Lastly, CESR could also contribute to economic growth by increasing competitiveness in exports markets.

The World Bank (Bank) also recognizes and promotes CESR and sustainable private sector growth in several ways. The EAP regional

environment strategy supports efforts by client countries to improve policy and regulatory frameworks and engage the private sector and civil society in improving environmental management. In addition, the Bank's Environment Strategy also explicitly highlights sustainable private sector development as an important aspect of the "quality of growth." Furthermore, the Bank's Private Sector Development unit has been promoting CESR through its Corporate Social Responsible Practice by assisting client governments to work more effectively with businesses, use incentives, and take advantages of the linkage between voluntary programs and regulations. Lastly, the Bank itself has adopted CESR within its own institution through its Environmental and Social Sustainability Initiative. As CESR's importance increases in the EAP region and the Bank, so too does the need to better understand CESR issues and challenges.

The primary objective of this paper is to review the environmental management aspects of CESR and discuss the issues and challenges related to promoting CESR activities in the EAP region. It also identifies drivers and constraints to CESR, and looks at how the Bank can support these

efforts. This is a desk-top review of CESR practice and not a comprehensive study of the CESR in the region. It is intended to serve as a first step to help the region form a view and approach on the issue. The first chapter discusses the CESR model by describing the concepts and key tools of CESR. Chapter 2 reviews the current trends and Chapter 3 looks at CESR cases in the EAP region. Chapter 4 describes drivers of change, followed by a discussion on barriers. The final chapter concludes with suggestions for a potential complementary role of the Bank and the International Finance Corporation (IFC) to move toward a CESR promotion strategy in the EAP region.

The term, CSR, Corporate Social Responsibility, is most often used when discussing corporations' performance on social and environmental matters. To reflect the accurate coverage of the issues, the term, CESR, Corporate Environmental and Social Responsibility, is used in this paper where appropriate.

CHAPTER 1

THE CESR CONCEPT AND KEY TOOLS

CESR Concept

CESR or CSR has more than a single name and definition. CESR is often synonymous with corporate citizenship, corporate sustainability, and corporate philanthropy, although each of these terms has slightly different connotations. Among the various definitions, here are two widely accepted definitions:

The World Business Council on Sustainable Development:⁵

[B]usiness' commitment to contribute to sustainable economic development, working with employees, their families, the local community, and society at large to improve their quality of life.

The European Union (EU) (Commission of the European Communities 2001, p. 6):

[A] concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing "more" into human capital, the environment and the relations with stakeholders.

These widely accepted definitions do not agree on the treatment of charitable donations that is also called corporate philanthropy. The EU's definition implies that corporate social responsibility excludes corporate philanthropy because CESR is about a company's core business operations, not just about its charitable donations (Luetkenhorst 2004). CESR, when it is incorporated into core business practices, is more than corporate philanthropy. Instead, CESR is about the way a company does its business and how a company conducts itself in relation to stakeholders (Crook 2005). However,

CESR has a philanthropic focus in reality. Charitable donations such as supporting educational and health organizations dominate CESR activities (Commission on Private Sector and Development 2004). This focus on charitable corporate activities has reinforced the idea that CESR is just corporate window-dressing that does not make any real changes to corporate business practices.

However, it is possible for CESR activities to have real impacts on the environment. It is especially when CESR becomes part of a firm's core business practices and strategy that impacts from such business changes can be long lasting. For example, Mirant, an international energy company in the Philippines, uses CESR as a business strategy. The company has reforested upstream areas and mangroves near coastal areas in Pagbilao and Badre Burgoes and in Quezon in collaboration with the Philippines Department of Energy and Natural Resources (DENR). This action is strongly tied to the company's core business of producing energy because these forested areas serve as a "carbon sink" to offset its carbon emissions from the energy production (Business World 2003a).

Other examples exist in Asia. Fuji Xerox Co. group now recycles almost 100 percent of its resources at its Shenzhen and Shanghai factories in China, producing almost no waste from their operations. For three years, the company taught employees to recycle at the factories and the company dormitories and also negotiated with a local power company to use Fuji Xerox's waste as fuel (International Herald Tribune, 2005). This practice made employees aware of the importance of sorting waste inside and outside of the company.

There are many ways to integrate CESR that fits to each company's core business. In Malaysia, a Malaysian energy provider, Tenaga National Berhad, and a supermarket chain, Carrefour,

⁵ See <http://www.wbcsd.ch/>.

incorporate CESR into their operations. Tenaga runs a Carbon Isolation program through reforestation and Carrefour provides environmentally friendly shopping bags to shoppers (Luan 2004a). When business benefits and broader social benefits are connected through CESR activities, CESR is not just a public relations agenda. It becomes a business strategy that brings about long-lasting impacts on the longevity of business, the environment, and society at large.

Other names of CESR include corporate citizenship and corporate sustainability. There are various definitions of these terms. The World Economic Forum defines corporate citizenship as follows⁶:

Corporate citizenship is the contribution a company makes to society through its core business activities, its social investment and philanthropy programs, and its engagement in public policy. The manner in which a company manages its economic, social and environmental relationships, and the way it engages with its stakeholders (such as shareholders, employees, customers, business partners, governments and communities), has an impact on the company's long-term success.

According to the Dow Jones Sustainability Indexes (DJSI), corporate sustainability is defined as "a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments"⁷. Former World Bank President James D. Wolfensohn also emphasized that corporate sustainability is good business and not simple philanthropy. He noted that "corporate sustainability today includes recognition of the leadership role that the private sector must take in ensuring social progress, improved equity, higher living standards, and stewardship for the environment" (World Bank, 2001). All these

⁶ See <http://www.weforum.org/site/homepublic.nsf/Content/Global+Corporate+Citizenship+Initiative>.

⁷ See <http://www.sustainability-indexes.com/html/sustainability/corpsustainability.html>.

terms illustrate business approaches or strategies that are good for business, the environment, and society.

There is also a similar concept that links business benefits, the environment, and society at large. It is called triple bottom line (TBL). TBL is a business concept under which a company tries to satisfy three types of business performance simultaneously: environmental performance, social performance, and financial performance. It is a business approach that intentionally pursues environmental and social betterment as much as profits. All these terms may be used interchangeably in business.

These terms are used in business today. It makes sense to businesses when CESR contributes to profitability on its own and in a direct sense. These are "win-win" situations that companies behave responsibly, because they are good business. Theoretically, these situations encourage more companies to undertake CESR activities and lead to continuous environmental improvements to the point that corporate performance goes beyond legal obligations. However, it is not always the case.

In this paper, CESR is defined as voluntary business contributions to society at large through companies' core business activities that address environmental and social concerns. By this definition, firms undertake CESR activities based on their own decisions, rather than regulatory requirements. However, CESR is linked to regulations, because CESR can internalize externalities. CESR implementation contributes to the internalization of environmental and social concerns and objectives into corporate planning and management practices. These CESR practices include a variety of activities ranging from corporate environmental performance improvements and environmental disclosure to cleaner production activities such as material substitution and energy efficiency.

Key CESR Tools for Companies

The following section briefly introduces the key CESR tools that companies can voluntarily use. This section presents some examples of the types of tools that are currently used, but it does not aim to provide a comprehensive list of CESR tools.

*Corporate Environmental Reporting (CER).*⁸ CER is voluntary reporting and disclosure of companies' environmental performance. Most companies that publish such reports do so voluntarily as part of their annual reports. Depending on the guidelines (for example, the Global Reporting Initiative) and criteria (for example, wastewater discharge, energy consumed) chosen, the data in CER may not be comparable or meaningful in evaluating their environmental performance.

Codes of Conduct. These codes represent a set of policies or guidelines, which a company or group of companies are committed to adhere to. They can be complementary to government legislation—they typically include a provision to comply with local laws—but they are not typically used as devices for compliance with local regulations. A company-based code is typically a learning and innovation tool rather than a driver for compliance (Angel and Rock 2004).

Environmental Management System (EMS) Standards. Companies can voluntarily decide to apply an EMS standard. To obtain an EMS standard certification, companies must meet specific requirements, such as establishing an environmental policy and mechanisms for monitoring and measurement of performance, and the compliance to the EMS requirements must be verified by a third-party audit. The third-party does not set the requirements but only certifies the companies for meeting such requirements. These EMS standard programs include the International Standards Organization (ISO) 14000 standards series, the Eco-Management and Audit Scheme (EMAS) of

the EU, the Forest Stewardship Council (FSC) certification, and the Marine Stewardship Council's (MSC) Sustainable Fishing (see annex A for details).

Among them, the ISO series (Box 1) are widely used across industries. However, they are not necessarily concerned with outcomes. They do not ask whether a management system actually reduced a company's emissions or waste significantly (Krut and Gleckman 1998).

In the case of ISO 14001 on environmental management, it typically assists companies in striving for continuous improvement in environmental management practices and in meeting government regulations, but does not guarantee regulatory compliance.

Although the ISO series are not directly associated with governments, they are linked to governments. Many member institutes in the ISO are governmental entities and some countries refer to and use health, safety, and environmental ISO standards in their regulatory framework⁹.

Eco-Labeling. Eco-labeling is also a certification scheme for environmentally friendly products and services. Eco-labels are not given to a company, but to products and services.

Although criteria may differ among different labeling programs, the certification processes are similar. In general, impacts on the environment by products and services throughout their lifecycle are evaluated, and only the products and services that meet certain criteria receive the labels. Since 1977, when the first eco-label was introduced in Germany, eco-labeling has increased rapidly (OECD 2001).

Many different types of eco-labels exist today, including those sponsored by governmental organizations, private organizations, and companies themselves.

⁸ In some countries such as Denmark and France, environmental reporting is required by law.

⁹ See <http://www.iso.ch/iso/en/aboutiso/introduction/index.html>.

Box 1. What is the ISO 14001?

International Standards Organization (ISO) is a non-governmental organization, comprised of national standards bodies from 149 countries (as of March 2005). It develops voluntary international standards for products, services, processes, materials, systems, conformity assessment, and managerial and organizational practices. ISO has published over 600 standards related to health, safety, and environment issues by the end of 2004.

ISO 14000 series address environmental management. In particular, ISO 14001 sets requirements for environmental management systems so that an organization can develop and implement a policy and objectives about environmental issues that the organizations can control and influence. It does not specify environmental performance criteria. The conformity to the requirements can be certified by an external organization that has been accredited by national accreditation bodies. In the EAP region, both national accreditation and certification bodies were set up in China, Indonesia, Malaysia, the Philippines, and Thailand. A national accreditation body was established in Vietnam.

A challenge remains for increasing ISO certification among exporting companies in developing countries. There is no ISO mechanism governing the mutual recognition of registration certificates, except individual mutual recognition agreements by involved parties. It means that a company certified in country X may not be accepted as an ISO-certified company in country Y, if its business partners and customers in country Y do not trust the certification obtained in country X. Therefore, lack of user confidence in certification bodies can lead to repeated conformity assessments.

Source: See <http://www.iso.org>.

Governmental eco-labeling programs include the Blue Angels of Germany, the Eco-mark of Japan, the Environmental Choice of Canada, and the EU Daisy. Each scheme evaluates products and services sold in a country. However, eco-labeled products and services may be recognized in other countries when two countries agree on mutual recognition.

The degree of governmental involvement varies significantly among programs. For example, the Eco-Mark of Japan is managed by a foundation with subsidies from the government.¹⁰ In Germany, the quality assurance and product labeling institute called RAL Deutsches Institut für Gütesicherung und Kennzeichnung e.V., the Federal Environmental Agency, and the state where the manufacturer or supplier of the product or service is located are all involved in awarding and developing the criteria with other stakeholders.¹¹

Private labels focus typically on one issue as in the cases of the FSC label and the MSC's sustainable fishing label. There are also self-claimed labels by manufacturers and retailers, which may lack credibility and verifiability due to their vagueness and the lack of life-cycle assessments (OECD 2001). All of these labels attempt to provide consumers with information on which their purchasing decisions are based, allowing the companies to differentiate their eco-labeled products from non-labeled products of competitors.

Key Tools to Promote CESR

Stakeholders, such as governments and investors, can also indirectly promote CESR. The primary purposes of the tools in this section are typically not to promote CESR. However, they can influence business behaviors. CESR is, by definition, a voluntary business commitment and not mandated by regulation, but business decisions and behaviors are often influenced by regulations (Box 2).

¹⁰ See <http://www.jeas.or.jp/english/aboutjea.html>.

¹¹ See http://www.blauer-engel.de/englisch/navigation/body_blauer_engel.htm.

Box 2. How Regulations can Help Facilitate CESR – Improving Competitiveness

Government actions mandate companies to take specific actions, which contradicts with the voluntary nature of CESR. However, properly designed laws and regulations can instill in companies the mind-set for innovation and improvements. This mind-set allows companies to continuously seek business benefits that result in beyond-compliance behavior. Some companies do so regardless of regulations but others do not. Regulations can help more companies to innovate and improve by (Porter and van der Linde 1995):

1. Creating pressure that motivates companies to innovate;
2. Improving environmental quality in cases where innovations are unlikely to occur immediately (i.e. innovations and the resulting improvements do not offset the costs, or it takes time to reduce the costs of such innovative solutions);
3. Alerting and educating companies about likely resource inefficiencies and potential areas for improvement;
4. Raising the likelihood that product and process innovations in general will be environmentally friendly;
5. Creating demand for environmental improvement until companies and customers are able to perceive and measure the resource inefficiencies of pollution better; and
6. Leveling the playing field during the transition period to innovation-based environmental solutions, ensuring that one company cannot gain position by avoiding environmental investments

Good regulations in terms of promoting CESR are those that instill the mind-set for innovation and improvements. Once companies have this mind-set, they continue to improve their environmental performance and their contributions to a larger society, because they realize that negative environmental impacts are the result of resource inefficiency, regardless of regulations. This is one way that regulations can help companies become more competitive and more responsible.

Source: Porter and van der Linde 1995.

Command-and-Control and Market-Based Regulations. Command-and-control regulations are traditional environmental regulations used by governments. They specify the permissible amount of pollution or equipment and process to abate pollution. They include emission caps and emission standards; pollution permits; mandatory phaseouts; and the use of the “best available technology economically achievable.” Market-based instruments include pollution charges and emission taxes, tradable permits, deposit refund systems, and government subsidies. They differ from command-and-control regulations in that the market-based instruments allow companies to determine whether to pay the charges for pollution or incur the cost to abate the pollution (Ahmed 1995).

Both command-and-control and market-based instruments can trigger companies to take precautionary actions to improve their environmental performance. When companies anticipate the change in regulations, such as an increase in the future price of pollution charges, they may start searching for ways to reduce pollution loads to minimize their regulatory costs because companies do respond to regulatory charges. For example, an analysis based on a survey of Mexican factories suggests that regulatory pressure improves environmental performance (Dasgupta et al. 1998). These regulations bring the companies up to the minimum compliance level when enforced, but are not always successful in urging companies to go beyond compliance.

Mandatory Public Disclosure Programs. This is an information-based regulation used by governments. It can also compel companies to shift to cleaner production. It influences the behaviors of polluters through consumer and community pressure by revealing corporate environmental performance records to the public. The resulting public pressure can stimulate a company’s interest to portray itself as a good company. In public disclosure programs, governments mandate companies to disclose their pollution records and release the records or a ranking of such records. For

example, the U.S. Toxic Release Inventory (TRI) makes publicly available a database documenting releases of chemicals at individual plants, counties, states, or the entire nation. Public disclosure programs in China, Indonesia, and others rate the companies based on their environmental performance (the details of the public disclosure programs are provided in annex C).

Public disclosure programs are primarily a tool used by governments. They are, in most cases, regulations aiming at environmental performance improvements. For example, the participation in the TRI has been always mandatory for the industrial facilities that release and transfer specific chemicals. Although a public disclosure program can be voluntary, as in the case of the Indonesian Program for Pollution Control Evaluation and Rating (PROPER) I, the fact that regulators asked companies to voluntarily participate in the program differentiates it from company-initiated voluntary CESR efforts.

If public disclosure of environmental performance records is totally company-initiated on a voluntary basis, in this paper, it is referred to as CER rather than as a public disclosure program. However, government may convert CESR activities into regulatory programs¹². The mandatory environmental performance reporting works as an information-based instrument like public disclosure programs. It makes the information publicly available and allows stakeholders to pressure the poor performers.

Extended Producer Responsibility (EPR). This is a new type of governmental regulation that can promote CESR practices. In short, EPR is a policy to reduce post-consumption product waste by requiring manufacturers to take

responsibility for products after the lifecycle ends. This policy shifts the responsibility of a post-consumption product upstream in the production-consumption continuum and provides incentives to producers to design products to integrate such environmental responsibility (OECD 2003), particularly through eco-efficiency such as material substitution and reuse and recycling of product materials. This has a tremendous impact on manufacturers' core business by encouraging companies to behave in a more environmentally responsible fashion than their business requires. Through life-cycle assessments of companies' products and services, the EPR also promotes upstream changes in material used or product design (OECD 2003). This regulatory instrument has been implemented primarily in Europe such as Germany, Norway, and Sweden (OECD 2003). It has prompted legislation on waste packaging, waste electrical and electronic equipment, end-of-life motor vehicles, batteries, tires, and newsprint, particularly in the EU, but also in China and the U.S. state of California (Lomas 2004).

Public Recognition Programs. Public recognition programs are a type of information-based tools. They are not regulations and can be implemented by a wide variety of stakeholders from governments to private organizations. These programs praise the good performers, which is contrary to public disclosure programs that typically shame polluters. In addition, companies that are good stewards of the environment can be recognized in speeches given by public officials and given awards for their good environmental performance. These programs are linked to CESR, because companies regard these awards as one of their CESR accomplishments.

CESR Indexes. CESR indexes are ratings of a set of companies or countries on their CESR performance. Various organizations develop these indexes to provide information on corporate environmental performance, and various stakeholders use these indexes. For example, non-governmental organizations

¹² For example, CER is required for polluting companies in Denmark and all publicly-listed companies in France See http://europa.eu.int/comm/employment_social/emplweb/csr-matrix/csr_topic_allcountries_en.cfm?field=7.

(NGOs) may promote CESR by targeting a campaign on companies with poor CESR ratings. Investors may consider CESR indexes as one criterion for selecting companies to invest.

These indexes can affect the reputation and image of companies, and thus motivate companies to improve their own performance. They are more comparable than individual indicators provided in CER, because a set of companies or countries is assessed against the same criteria.

A few indexes are now available. Financial indexes that rate companies against environmental and social criteria as well as financial criteria include the DJSI and the FTSE4Good. The Corporate Responsibility

Index has attempted to provide a comparison of CESR activity levels among companies. In addition, the CESR penetration at the country level has been measured in the National Corporate Responsibility Index and the Environmental Sustainability Index.

Social Responsible Investment (SRI) Funds. CESR indexes can be used by the investment community to evaluate and screen companies for socially responsible investments (SRI). SRI funds are pools of funds invested in companies that meet environmental and social criteria as well as financial criteria. The criteria were set by the company that manages specific SRI funds. The abundance of SRI funds suggests that investors are keen to businesses' CESR practices.

CHAPTER 2

CESR TRENDS IN THE EAP REGION

Indicators and statistics are useful in showing trends in the adoption of CESR practices by companies in the EAP region. Valuable indicators and statistics include the number of companies certified by environmental certification programs, the number of participants in business initiatives for the environment, and the use of sustainability indexes.

ISO 14001 Certification

Table 2.1 shows the number of ISO 14001 certificates issued in the EAP region during the last five years. As of December 2004, 90,569 ISO 14001 certificates have been issued to organizations in 127 countries worldwide. Of this total, about 12 percent belong to companies in the EAP region. In particular, China's ISO certification has grown tremendously, ranking second in the world after Japan in 2004.

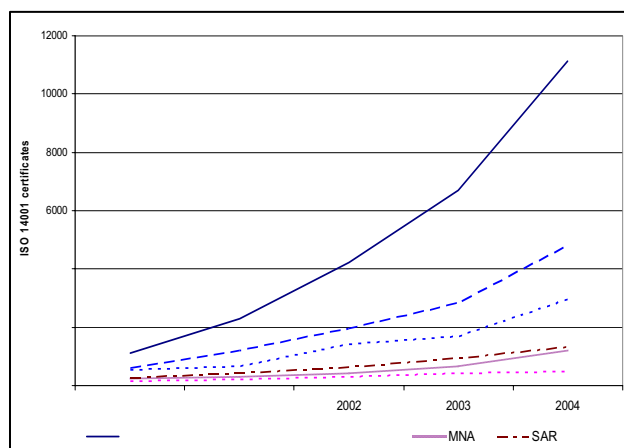
Table 2.1 ISO 14001 certificates in EAP (as of December 2004)

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|------------------|-------|-------|-------|-------|--------|
| Cambodia | 0 | 0 | 0 | 1 | 1 |
| China | 510 | 1,085 | 2,803 | 5,064 | 8,862 |
| Fiji | 0 | 0 | 1 | 1 | 0 |
| Indonesia | 77 | 199 | 229 | 297 | 373 |
| Malaysia | 174 | 367 | 367 | 370 | 566 |
| Myanmar | 0 | 1 | 1 | 0 | 2 |
| Papua New Guinea | 0 | 0 | 0 | 1 | 0 |
| Philippines | 46 | 120 | 124 | 174 | 261 |
| Thailand | 310 | 483 | 671 | 736 | 966 |
| Vietnam | 9 | 33 | 33 | 56 | 85 |
| Total | 1,126 | 2,288 | 4,229 | 6,700 | 11,116 |
| % of World Total | 5% | 6% | 9% | 10% | 12% |

Source: The ISO Survey - 2004. Available: <http://www.iso.org/iso/en/prods-services/otherpubs/pdf/survey2004.pdf>. Notes: Data for China excludes Macao, Hong Kong, and Taipei.

Companies in the EAP region are more aggressively obtaining ISO 14001 certificates compared to other World Bank regions (Figure 2.1). However, ISO certificates are still predominantly issued in developed countries. For example, companies in eight major industrialized countries - France, Germany, Italy, Japan, Spain, Sweden, the United Kingdom, and the United States - obtained over 52,000 ISO 14001 certificates in 2004.

Figure 2.1 ISO 14001 Certificates-regional comparison (as of December 2004)



Source: The ISO Survey - 2004. Available: <http://www.iso.org/iso/en/prods-services/otherpubs/pdf/survey2004.pdf>.

United Nations Global Compact

Other initiatives have fewer participants, notably in Asia. For example, an international network, the UN Global Compact (GC), supports and promotes 10 principles among businesses (for the detailed description of the GC, see Box 3). The GC's current participants exceed 2,200 worldwide, but less than 10 percent of this number is located in five EAP countries (China, Indonesia, Malaysia, the Philippines and

Box 3. What is the Global Compact?

The United Nations Global Compact (GC) is an international CESR initiative that brings together the private sector, UN agencies, and labor and civil society. It encourages the spread of 10 principles in the areas of human rights, labor, the environment, and anticorruption.

These 10 principles are as follows:

Human Rights

Principle 1: The support and respect of the protection of international human rights. Principle 2: The refusal to participate or condone human rights abuses.

Labor

Principle 3: The support of freedom of association and the recognition of the right to collective bargaining. Principle 4: The abolition of compulsory labor. Principle 5: The abolition of child labor. Principle 6: The elimination of discrimination in employment and occupation.

Environment

Principle 7: The implementation of a precautionary and effective program to environmental issues. Principle 8: Initiatives that demonstrate environmental responsibility. Principle 9: The promotion of the diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: The promotion and adoption of initiatives to counter all forms of corruption, including extortion and bribery.

Among over 2,000 companies worldwide participating in the GC, 187 are from the developing countries of the East Asia and the Pacific region, but none are SMEs. Jakarta Stock Exchange (JSE) (Indonesia) also participates in this initiative.

See <http://www.unglobalcompact.org>.

Thailand) of the EAP region (Table 2.2). Over 1,000 GC participants are located in developed countries while about 450 in the Latin America and the Caribbean (LAC) region and 260 in the Europe and Central Asia (ECA) region.

Table 2.2 Number of EAP Participants in the UN Global Compact (as of September 2005)

| Country | Number |
|-------------|--------|
| China | 48 |
| Indonesia | 2 |
| Malaysia | 1 |
| Philippines | 116 |
| Thailand | 19 |
| Vietnam | 1 |
| Total | 187 |

Source: The UN Global Compact web site.

Available: <http://www.unglobalcompact.org/>.

Environmental Reporting

The Global Reporting Initiative (GRI) develops and disseminates global guidelines for environmental reporting. Overall, fewer companies participate in GRI than ISO or GC. Most participating companies are the subsidiaries of MNCs. Out of 747 companies participating worldwide, only 13 are located in the EAP region (Table 2.3).

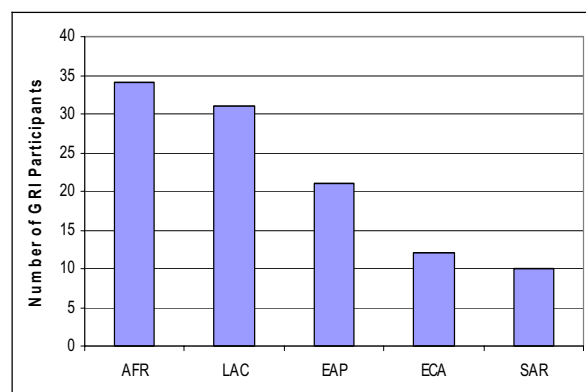
Table 2.3 List of GRI Participants in the EAP region

| Organization | Country | Sector |
|---|-------------|---------------------------|
| Architectural Services Department, HKSARG | China | Public Agency |
| British American Tobacco Hong Kong | China | Tobacco |
| CLP Holdings Limited | China | Energy |
| Ford Lio Ho Motor Company | China | Automotive |
| Mass Transit Railway Corporation (MTR) | China | Railroad |
| The University of Hong Kong | China | Universities |
| British American Tobacco Fiji | Fiji | Tobacco |
| British American Tobacco Malaysia | Malaysia | Tobacco |
| Ford Malaysia - Shah Alam Assembly Plant | Malaysia | Automotive |
| Manila Water Company, Inc. | Philippines | Water Utilities |
| Siam Cement Group | Thailand | Conglomerates |
| Siam Cement Industry (Siam Cement Group) | Thailand | Construction materials |
| Siam Kraft Industry (Siam Cement Group) | Thailand | Forest and Paper products |

Source: The GRI web site. Available: <http://www.globalreporting.org/guidelines/reports/search.asp>.

The EAP region does not necessarily have a large number of GRI participants, compared with other Bank regions. The EAP region falls behind Africa (AFR) and LAC regions (Figure 2.2).

Figure 2.2 Regional Comparison of Global Reporting Initiative Participants (as of November 2005)



Source: The GRI web site. Available: <http://www.globalreporting.org/guidelines/reports/search.asp>.

Other statistics on Corporate Environmental Reporting (CER) are available through reporting initiatives, associations, and other research. The Association of Chartered Certified Accountants (ACCA) published a report on CER based on the CorporateRegister.com database, an online directory of corporate non-financial reports. According to this report, non-financial reports produced worldwide increased from 100 in 1993 to over 1,500 in 2003.

According to this report, in Asia, Australia, and the Pacific, over 1,300 non-financial reports were produced during the period from 1990 to 2003. More than half of the reports were about the environment and about 20 percent were about sustainability. However, only 5.8 percent of non-financial reports were actually produced in the countries of the EAP region; Japan and Australia published the majority of such non-financial reports (ACCA and CorporateRegister.com 2004).

Another research analyzes the percentages of the top 50 companies (based on the operating

revenues in respective countries) that report their environmental performance on their web sites: 42% in Thailand, 32% in Malaysia, 30% in the Philippines, and 24% in Indonesia. In contrast, 96 percent of the top 50 companies in Japan and 98 percent in the United Kingdom release environmental performance reports (Chambers and others 2003). Japanese and British statistics indicate that a higher level of CER may also be attainable for large companies in the EAP region, if certain conditions such as a high demand for such reporting and a favorable economy exist (Box 4).

Sustainable Forest Management Certification

Sector-specific certification programs, like the FSC (Box 5), can gather more participants. The FSC's certification programs have more participants than GRI, as forestry is a major industry in some of the EAP countries. One type of certificate, chain of custody (COC), provides guarantees that production (including processing, transformation, manufacturing and distribution) does not contribute to the destruction of forests¹³. As of February 2005, there were 3,625 COC certificates worldwide; 257 companies (about 7 percent) are in the EAP region (Table 2.4).

Table 2.4 Number of FSC COC certificates (as of February 2005)

| Country | Number of COC Certificates |
|-------------|----------------------------|
| China | 87 |
| Indonesia | 27 |
| Malaysia | 48 |
| Philippines | 2 |
| Taiwan | 6 |
| Thailand | 11 |
| Vietnam | 76 |
| Total | 257 |

Source: The FSC web site. FSC chain of custody certificates by continent (February 2005) is available: http://www.fsc.org/keepout/en/content_areas/92/1/files/ABU_REP_70_2005_01_total_COC_continent.pdf.

¹³ See <http://www.fsc.org/coc/>.

Box 4. Environmental Awareness Exists in the EAP Region with Varying CESR Focus Areas

Social and labor issues in particular, have historically driven the CESR agenda. Similarly, in terms of corporate activities, more labor issues than environmental concerns caught the public attention in the EAP region. For example, labor rights violations by MNCs such as Gap and Nike were intensely reported by NGOs and media, while deforestation that continues today receives less attention. In terms of public exposure, it appears that labor issues have been more visible than environmental issues in the EAP region.

However, this does not mean that companies in the EAP region do not pay attention to environmental issues. Chambers and others (2003) analyzed the top 50 companies in seven countries (India, South Korea, Singapore, Thailand, Malaysia, Philippines, and Indonesia) for their CESR activities through their environmental reporting. It shows that social and environmental considerations vary among companies of different countries.

For example, there were similarities in the percentage of companies in Thailand and Singapore reporting environmental performance, which indicates that both countries have a similar level of CESR awareness. One of the most important CESR issues for the companies in both countries was education and training. The Thai companies also include environmental issues as the most important CESR, while the companies in Singapore add welfare and public health issues.

The CESR-reporting companies in the Philippines and Malaysia focus on environment, education and training. However, community development is also considered important among the Filipino companies, and welfare is a priority among Malaysian companies.

This study implies that the companies in the EAP region see environmental issues as one of their CESR areas, even if it is not the most important one. The concerns for the environment exist at least among largest companies, as demonstrated by their CER. If this awareness can be translated into demand, it may have a significant impact on CESR activities in the EAP region.

Source: Chambers and others (2003)

Box 5. Forest Stewardship Council's Forest Certifications

The FSC promotes environmentally responsible, socially beneficial and economically viable management of forests based on 10 principles and criteria:

- Principle 1: Forest management shall respect all applicable laws of the country.
- Principle 2: Long-term tenure and use rights to the land and forest resources shall be clearly defined, documented and legally established.
- Principle 3: The legal and customary rights of indigenous peoples shall be recognized and respected.
- Principle 4: Forest management operations shall maintain or enhance the long-term social and economic well-being of forest workers and local communities.
- Principle 5: Forest management operations shall encourage the efficient use of the forest's multiple products and services.
- Principle 6: Forest management shall conserve biological diversity and its associated values, water resources, soils, and unique and fragile ecosystems and landscapes.
- Principle 7: A management plan shall be written, implemented, and kept up to date.
- Principle 8: Monitoring shall be conducted to assess the condition of the forest, environmental impacts, etc.
- Principle 9: Management activities in high conservation value forests shall maintain or enhance the attributes which define such forests.
- Principle 10: Plantations shall be planned and managed in accordance with the Principles and Criteria

The FSC runs an accreditation program for two internationally recognized forest management certificates: the Forest Management (FM) Certificates for forest management operations and the Chain of Custody (COC) Certificates for processing, transformation, manufacturing and distribution of forest products. The FSC accredits certification bodies and national initiatives and the certification bodies audit and certify interested parties based on the FSC standards or national initiatives that have met the FSC standards.

See <http://www.fsc.org>

The FSC also endorses certificates for forest sites with environmentally and socially sustainable forestry management. As forest resources differ among countries, participation varies across countries. The FSC certified forests exist in four countries – China, Indonesia, Malaysia, Papua New Guinea, and Thailand – in the EAP region. However, the FSC certified forest areas are a very small portion of the forest areas of these countries (table 2.5). There are also certification programs for other industries (Box 6).

Sustainability Indexes

In the EAP region, the development of indexes, particularly financial indexes for sustainable businesses, seems limited. Globally, financial indexes such as the DJSI and the FTSE4Good are available to track financial performance of the companies committed to sustainability.

The majority of the companies in these financial indexes are from developed countries. Only a few from the EAP region are identified among over 300 companies of the composite DJSI World Index¹⁴, including a Malaysian company, British American Tobacco Malaysia Bhd¹⁵, and a Thai company, the Siam Cement Public Company of Thailand. Furthermore, the Jakarta Stock Exchange (JSE) is going to launch its own Social Responsibility Index. The JSE's index will be “the first of its kind in an emerging market, and the first such index sponsored by an exchange” (Global Compact 2004).

There have been some attempts to rate and rank the CESR, instead of the financial performance, of companies. In the Philippines, the Philippine Business for Social Progress (PBSP), with the funding from Ford Foundation, benchmarked CESR practices. This Benchmarking Corporate Citizenship Practices measures the efficacy of a

company's CESR programs against a set of established performance indicators so that the company can improve its practices. PBSP is also assisting the Indonesia Business Links (IBL) to replicate the program in Indonesia¹⁶. In China, a CESR benchmark was developed by an Australian CESR research and rating agency, Reputex¹⁷. The environmental aspect of this benchmark covers areas such as environmental management system, code of conduct, and product stewardship and life-cycle assessment.

At a global level, the Corporate Responsibility Index was developed by Business in the Community (BITC) of the United Kingdom in 2003. This is based on voluntary self-assessment of companies from the FTSE 100 and FTSE250, the Dow Jones Sustainability Index Sector leaders¹⁸. Another such index, the National Corporate Responsibility Index, was created in 2003 by the Copenhagen Centre and Accountability, to compare a country's state of corporate responsibility. This index was also linked with the World Economic Forum's Growth Competitiveness Index to create Responsible Competitiveness Index. In the 2005 version, 6 EAP countries were included in these indexes with 77 other countries. A significant correlation is found between a country's competitiveness and its corporate social responsibility (Accountability 2005b). Among the EAP countries, the same correlation can be seen (Figure 2.6).

There are other sustainability indexes that do not directly measure CESR performance. For example, Environmental Sustainability Index compares “the ability of nations to protect the environment over the next several decades” (Yale Center for Environmental Law and Policy of Yale University, and the Center for International Earth Science Information Network of Columbia University 2005).

¹⁴ See Dow Jones Sustainability Index web site for the most recent list. Available: <http://www.sustainability-index.com/html/data/djsiworld.html>.

¹⁵ In addition to the composite DJSI World Index, there are subset DJSI World indexes that exclude companies generating revenues from tobacco and firearms among others.

¹⁶ See <http://www.pbbsp.org.ph/benchmarking.htm>.

¹⁷ See <https://secure1.impactdata.com.au/reputex/>.

¹⁸ See http://www.bitc.org.uk/programmes/key_initiatives/corporate_responsibility_index/index.html.

Table 2.5 FSC Certified Forest Areas in the EAP region

| Country | FSC Certificates | Total Area under Certified Forests (ha) | Total Forest Area (ha)* | FSC Certified Forests (as % of country's total forest area) |
|------------------|------------------|---|-------------------------|---|
| China | 4 | 439,630 | 163,500,000 | 0.27% |
| Indonesia | 3 | 274,598 | 105,000,000 | 0.26% |
| Malaysia | 4 | 81,389 | 19,300,000 | 0.42% |
| Papua New Guinea | 1 | 19,215 | 30,600,000 | 0.06% |
| Thailand | 1 | 921 | 14,800,000 | 0.01% |

Source: The Little Green Data Book 2005 (World Bank, 2005) and FSC certified forests (January 2006). The FSC report is available: http://www.fsc.org/keepout/en/content_areas/92/1/files/ABU_REP_70_2006_01_09_FSC_certified_forests.pdf.

*Note: Total Forest Area is obtained from the Little Green Data Book 2005 (World Bank, 2005) and converted into hectares.

Box 6: Green Globe Eco-Tourism Certification

An international ecotourism certification program was introduced by Green Globe 21 in 1999. A company or site can be certified against one of four standards: company, community, international ecotourism, and design and construct. In addition, there are three progressive levels of qualification: awareness (a company or site is committed to benchmarking and certification), benchmarking (a company or site developed an environmental and social sustainability policy and completed an independent assessment of measurements against key indicators, and the indicators passed the baseline performance level), and certification (a company or site implemented an integrated Environmental Management System and passed an independent on-site audit).

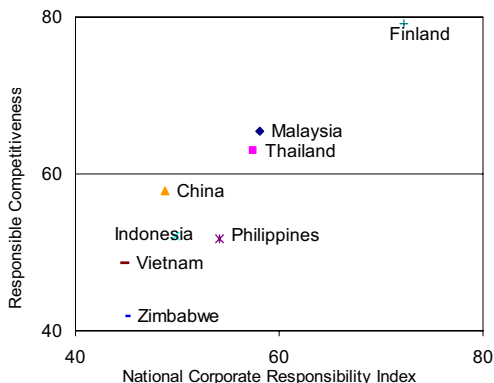
As of June 2005, 112 companies or sites worldwide and fourteen in the EAP region achieved the highest level of Green Globe qualification.

Green Globe Certified Companies or Sites in the EAP region (as of June 2005)

| Country | Location |
|-----------|---|
| China | Huanglong National Scenic Area |
| China | Jiuzhaigou National Scenic Area |
| China | Sanxingdui Heritage Site Museum |
| China | Shenzhen Pavilion Hotel Co. Ltd |
| China | South Sichuan Bamboo Sea Scenic Area |
| China | World Trade Center Grand Hotel Zhejiang |
| Fiji | Sonaisali Island Resort, Fiji |
| Indonesia | Bali Tourist Development Corporation |
| Indonesia | Bali Hilton International |
| Malaysia | Malaysia Airport Operations |
| Malaysia | Melia Kuala Lumpur |
| Thailand | The Evason Hua Hin |
| Thailand | The Evason Phuket Resort & Spa (Managed by Six Senses Resorts & Spas) |
| Vietnam | Meliá Hanoi Hotel |

Source: The Green Globe 21 web site. Available: <http://www.greenglobe21.com/Participants.aspx>.

Figure 2.6 National Corporate Responsibility Index and Responsible Competitiveness Index for Selected Countries



Source: National Corporate Responsibility Index 2005 (Accountability 2005a) and Responsible Competitiveness Index 2005 (Accountability 2005b)

Note: This figure includes Finland and Zimbabwe (ranked first and last respectively in the Responsible Competitiveness Index 2005) in order to provide a sense of the index range.

The index is based on 76 indicators, and 5 of which measure private sector responsiveness to environmental sustainability.¹ In the 2005 version, Malaysia, the Philippines, Taiwan, and Thailand have positive values for private-sector responsiveness in the EAP region (Yale Center for Environmental Law and Policy of Yale University, and the Center for International Earth Science Information Network of Columbia University 2005).

¹ Five indicators are: Dow Jones Sustainability Group Index (DJSI); average Innovest EcoValue rating of firms headquartered in a country; number of ISO 14001 certified companies per billion dollars GDP; World Economic Forum Survey on private sector environmental innovation; Participation in the Responsible Care Program of the Chemical Manufacturer's Association

Green gross domestic product (GDP) also does not directly measure CESR performance. However, inputs to green GDP, such as pollution and loss of timber assets, are closely linked to private sector activities. China is developing green GDP with ongoing research and pilot projects to measure its industrial pollution and forest accounts (NBS 2004).

Socially Responsible Investments (SRI)

Although Asian SRI funds are very limited, they are available in Hong Kong, Malaysia², Singapore, and Taiwan³. For example, investors in Hong Kong can invest in a fund called F&C Stewardship International, with its total value of, US\$ 169 million⁴ (as of January 2005) (F&C 2005). It excludes companies that were considered harmful to society, people, and wildlife, and includes companies like Tesco, Statoil, and Starbucks. In Taiwan, UBS Investment Bank offers the UBS (Lux) Equity Fund—Eco Performance B, which focuses on companies that demonstrate above average environmental, social, and economic performance. As of April 2005, its fund size reached over US\$ 600 million⁵ and its portfolio included companies like Citigroup and BP (UBS 2005). A limited number of global SRI funds include companies from the EAP region. For example, Henderson Global Investors' SRI funds include Telekomunikasi Indonesia and Hong Kong & China Gas (Henderson Global Investors 2005).

² In Malaysia, there are Islamic funds based on Syariah finance principles which exclude certain activities.

³ See <http://www.asria.org/sri/asia/sriasia>.

⁴ 89.7 (in million Pound Sterling) was converted into US dollars based on the January 31, 2005, spot exchange rate, 1.8850 (US dollar per Pound Sterling). The rate obtained from the United States Federal Reserve Statistical Release on Foreign Exchange Rates. Available:

http://www.federalreserve.gov/releases/h10/Hist/dat00_uk.txt.

⁵ 516.97 (in million Swiss Franc) was converted into US dollars based on the April 29, 2005, spot exchange rate, 1.1898 (Swiss Franc per US dollar). The rate obtained from the United States Federal Reserve Statistical Release on Foreign Exchange Rates. Available: http://www.federalreserve.gov/releases/H10/Hist/dat00_sz.htm.

CHAPTER 3

CASES FROM THE EAP REGION

The use of the tools discussed in Chapter 1 is emerging in the EAP region. Overall, MNCs, large domestic companies, and companies with greater environmental impacts tend to dominate the scene.

Public Disclosure Programs

With the World Bank's support, public disclosure programs on company environmental performance were piloted in China, Indonesia, the Philippines, Thailand, and Vietnam. While the disclosure of chemical release inventories in the United States simply provide emission data without interpretations, these public disclosure programs rate companies along with the provision of emission data. Most of them are applied as regulatory tools.

Indonesia's PROPER I was started in 1993 to overcome enforcement difficulties of the existing command-and-control environmental regulations (Afsah and others 2000). It made Indonesia the first developing country to implement a public environmental disclosure initiative. This voluntary participation program started with 187 companies, mainly large water polluters but more companies joined over the years. As noted earlier, even though it was labeled "voluntary" by the government, companies were asked to participate by the regulators. The program monitored and rated company's regulatory compliance level and the results shown by five colors were publicized through the media. Its five-color scheme – Gold, Green, Blue, Red and Black in declining order of environmental performance – provides a simple but effective format for communicating environmental information to the public, putting pressure on industries to take a better care of their environmental performance and/or image.

To increase their leverage, officials organized a high-profile awards ceremony to congratulate

five top-ranked 'green' factories. Privately, they notified illegally polluting factories of their failing grades and gave them six months to clean up. In addition to disclosing the rating, the environmental authority also made efforts to provide accurate and timely advice on how to improve the rating and provided a check-list for environmental performance for each company (Lopez and others 2004). Within 18 months of the first ratings, water pollution from the 187 pilot plants fell by 40 percent. Although the program does not require companies to comply with regulations, it was able to reduce the proportion of plants that were not in compliance with environmental regulations from 65 percent in June 1995 to 47 percent by September 1996 (World Bank 2002).

A survey of companies that participated in PROPER I revealed companies that still had not complied with environmental regulations – but improved their environmental performance – were concerned about international clients, while companies in compliance were more concerned about their shareholders (Afsah and others 2000). In addition, the same survey pointed out that the most common reason why the companies made improvements in their environmental performance was that program participation made them realize how well they were doing on pollution control and how to abate their emissions (Afsah and others 2000).

Following the success of the Indonesian PROPER I, public disclosure programs have been expanding in the EAP region. However, they are applied as regulatory tools, including the revamped, now mandatory, PROPER II in Indonesia (see annex C).

Environmental Reporting

Despite an increase in the last five years, CER has been undertaken by a relatively small number of companies worldwide (Wilenius 2005). In the EAP region, only six companies in

China (including Hong Kong), one in Fiji, two in Malaysia, one in the Philippines, and three in Thailand participate in the GRI (Table 2.3). These companies are mostly large conglomerates or subsidiaries of MNCs from industries with significant impacts on the environment and society, such as tobacco, automobiles, and cement. So far in the EAP region, only the government of Hong Kong mandated environmental reporting but it is required only for governmental agencies (ACCA and CorporateRegister.com 2004).

A report entitled "The State of Corporate Environmental Reporting in Malaysia" (Environmental Resources Management Malaysia 2002), looked at corporate reporting on the environment for all companies listed on the Kuala Lumpur Stock Exchange (KLSE) main board between 1999 and 2001. It revealed that the number of companies reporting on environmental performance increased from 25 in 1999 to 40 in 2001. These 40 companies represented about 7.7 percent of the KLSE companies listed on the main board. Half of them were among the largest 100 companies in Malaysia based on their stock values, including Shell Refining Company and Matsushita Electric Company Berhad. Most companies were resource-intensive industries, such as industrial products (oil and gas, metals, cement, chemicals), plantations, and consumer products. It also found that most companies devoted a few pages to environmental issues in annual reports, rather than a stand-alone report. The content focused on environmental management and achievements. Environmental performance indicators such as effluent and waste were hardly reported.

Indonesia appears to lag slightly behind Malaysia with respect to CER. No companies in Indonesia participate in the GRI, although CER can be undertaken without GRI participation. Chambers and others (2003) compared the CER of the top 50 companies in the Philippines, Malaysia, Thailand, Indonesia, among other countries and found that Indonesian companies has the lowest level of CER among other EAP

countries studied. Nevertheless, there are Indonesian companies that report their environmental performance, including P.T. Astra International, Tbk., Asia Pacific Resources International Holdings, Ltd., and P.T. Aneka Tambang, Tbk. (Finneren and Rachmawaty 2003).

The content of CER varies from a company to a company. However, CER typically lists specific achievements and future goals. For example, environmental performance data of Matsushita Electric Company Berhad, Malaysia, is found on its corporate web site²⁴. The company's goal is to produce environmentally friendly products such as lead-free products in 2003. Along with achievements such as environmental compliance and increased recycling rates, it also reveals that the company is facing a difficult challenge in the area of energy saving.

In 2001, MTR, a mass transit railway company in Hong Kong, published a corporate sustainability report for the first time in Hong Kong. Using the GRI guidelines, its first report specifically lists immediate goals, such as attainment of ISO 14001, roll-out of the Green Procurement Policy, and achievements such as the Green Office Grand Award from the Hong Kong Eco Business Award Committee. Its latest report also discusses its environmental regulatory compliance level on noise control and water discharge. The drivers that MTR identified for the sustainability reporting include attracting investors and SRI and publicizing the incorporation of environmental matters in its business strategy.²⁵

²⁴ See http://panasonic.co.jp/semicon/environment/en/pf_pdf/tdm.pdf.

²⁵ See <http://www.asria.org/sri/resources/casestudies> & http://www.mtr.com.hk/eng/sustainability/introduction_e.htm.

**Box 7. Voluntary Code of Conduct for Bankers
- Equator Principles**

The Equator Principles are voluntary international standards concerning the impact of lending practices on social and environmental performance. The principles are based on the pollution abatement guideline and safeguard policies of the Bank and the IFC. There is no single organization responsible for maintenance of these principles. Today about 30 of the world's leading banks have adopted these principles in financing projects. By adopting these voluntary principles, borrowers are required to assess social and environmental impacts and to follow social and environmental management plans for higher-risk projects.

The adoption of the Equator Principles could affect companies in the EAP region, because projects financed by these banks must meet such standards. Some of these banks carry loans in Asia. For example, Standard Chartered Bank lends SMEs in Malaysia as well as businesses in industries, such as finance and insurance, manufacturing, and agriculture in EAP countries. ABN AMRO Bank offices are located in China, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam to support the local financing businesses. According to the ABN AMRO annual report 2004 for the Malaysian office, it invests in construction and manufacturing industries among others.

Source: See <http://www.equator-principles.com>.
See http://investors.standardchartered.com/downloads/SCB_R&A_2004_low.pdf.
See <http://www.abnamro.com.my/General/FinanHigh/annualReport2004.pdf>

Codes of Conduct

It is estimated that more than 1,000 codes of conduct exist today (World Bank 2003). For example, there is a code of conduct for Bankers (Box 7). These codes are brought to companies in the EAP region in different ways. However, few are developed by and for the companies in the EAP region.

MNC's codes of conduct are developed generally in their headquarters and implemented throughout their subsidiaries. For example, MNCs like Novartis (Thailand) Ltd. and BP Indonesia must adhere to corporate policies and principles of their respective headquarters.

Other companies apply their standards to companies outside of their own. Levi Strauss & Co. has created its version of a code of conduct, the Global Sourcing and Operating Guidelines. The company directs business practices of suppliers based on the code of conduct.

Some companies apply the codes of conduct of industry associations. In the EAP region, there are international associations such as the International Council of Toy Industries (ICTI) (China is a member) and a global network of chemical industry associations called the International Council of Chemical Associations (ICCA) (Indonesia, Hong Kong, the Philippines, Taiwan, and Thailand are members). Members of these associations are required to follow specific business principles of respective associations.

In terms of content, codes of conduct are general and rarely have measurable performance criteria. Environmental protection in codes of conduct, corporate policies and guidelines is generally limited to compliance with laws, although variations exist depending on the industry. These codes also tend to focus on ethics rather than environmental issues (see Annex B).

Environmental Management Certification and Standards

Some countries in Asia have their own environmental management certification and standards. For example, Korea has its own certification scheme for environmentally friendly companies. However, most countries seem to follow the existing international standards such as ISO 14001 for environmental management—as shown by the increasing number of companies with ISO 14001

certifications in the EAP region (Table 2.1).

Companies may adopt environmental management systems, because it is required by their headquarters. Japan-based Canon, Inc. developed its own global environmental management system for its manufacturing plants overseas; four out of nine plants in China were certified to ISO 14001, applying standards that are mostly stricter than Chinese environmental standards. In 2003, waste in Canon's Chinese plants was reduced by 38 percent from the 1998 level (Ashida and Plinke 2004).

Other companies implemented environmental management systems to increase their sales. For example, the Cheng Loong Corporation in Taiwan was able to obtain a major contract with Nike because of its Environment, Health, and Safety performance as well as its ISO 14001 certification²⁶. However, the benefits of ISO 14001 certification on the environment is not always clear as the certification does not guarantee environmental improvements (Box 8).

There are over 11,000 companies in the EAP region that attained ISO 14001. Little information on their actual environmental performance improvements is available, which could be due to the fact that CER has not been undertaken by many companies, that there are time lags between ISO implementation and actual results, or that improvements are not being made.

Eco-Labeling

Eco-labels are a voluntary CESR tool, but governmental agencies are involved in eco-label schemes in some countries. These labels differentiate environmentally friendly products and services from other products and services. In Asia, they are beginning to be viewed as a competitive advantage in global trade, where trading partners seek credible quality products. The recent heightened attention to eco-labels in

Asia was also triggered by the EU's abolishment of its global quota system for the garment and textile trade in 2005. It is anticipated that exporters with eco-label certifications may gain an advantage in the EU market because of the EU's existing voluntary eco-labels.

Box 8. Thai Petrochemical Industry (TPI) Group

Thai Petrochemical Industry (TPI) Group is in the process of attaining ISO certification at all of its plants in response to their poor environmental performance. In the late 1990s, the company's factories released foul odors and waste, and the company was sued by the Harbor Department for discharging wastewater into the Kon Peck Canal (ONEP 1998). The company had been seen as an environmental culprit. Two of the companies – ABS Co., Ltd. and TPI Polyol Co., Ltd. – implemented ISO 14001 standards and since then have been awarded the ISO14001 certification. The rest of the companies plan to implement environmental management systems.

It was not possible to find evidence of specific environmental performance improvements at TPI. According to the Blacksmith Institute's polluted place initiative, adequate monitoring and emergency response plans were in place at an industrial area where some TPI plants were located. However, fly ash samples collected from a coal-fired power plant of the TPI Group showed that all samples were still contaminated with toxic substances like arsenic, chromium, lead, and mercury. Furthermore, very fine particles contained in this fly ash could pose a health threat, as they could travel to the lungs.

Source: Thai Petrochemical Industry (TPI) Group. Also see http://www.pollutedplaces.org/region/se_asia/thailand/maptaphut.shtml. and (Brigden and others 2002).

This link to competitiveness seems to gain a high profile. Unlike codes of conduct, eco labels have been developed by and for some EAP countries. Unlike other schemes to address environmental issues, eco labels are not necessarily overseen by environmental agencies. For example, in countries like the Philippines and Thailand,

²⁶ See <http://www.sustainability.com/developing-value/details.asp?bcid=43&sfid=100&bsid=1>.

ministries dealing with industrial standards are also involved. The involvement of various organizations indicates that eco-labels are a tool for businesses and industries to improve their product and service quality.

Green Mark, Taiwan. In 1992, the Environmental Protection Administration of Taiwan launched the Green Mark Program. The program covers 26 product categories according to the Global Ecolabeling Network (GEN). Many of the products are consumer electronic products such as computers and printers. In order to be certified, a company first submits documents to prove that a product meets its pre-determined criteria. This is followed by an on-site assessment or a random sample check of the product. Upon approval, the Green Mark logo can be used on the product.

Green Label Scheme, Thailand. The Thai Green Label Scheme was formally started in 1994 by a NGO, the Thailand Environment Institute, along with the Ministry of Industry. This scheme can cover 39 product categories, including washing machines and fertilizers, however, currently 153 products from 17 product categories are in use²⁷. The certification process is similar to the Taiwanese Green Mark. After the application and documents are submitted, a governmental agency, the Thai Industrial Standards Institute, investigates the fulfillment of the requirements. Green Labels are generally valid for a maximum of two years.

Eco-Label, Malaysia. Malaysia also has an eco-labeling program. A government-owned company, SIRIM, researches and develops national standards and quality. It introduced a voluntary eco-label for CFC-free refrigerators in an attempt to comply with the Montreal Protocol in the 1990s. In 2004, it initiated the SIRIM eco-labeling scheme for four products: recycled paper, biodegradable cleaning agents, environmentally degradable and nontoxic plastics packaging material, and hazardous

metal-free electrical and electronics equipment components and parts (Cruetz 2004).

Environmental Label, China. China introduced its own labeling scheme in early 1994. China's Environmental Label certifies a company's products as healthy, safe, and environmentally friendly (Chuan 2004). In early 2000, China linked domestic eco-labels with international standards by adopting ISO 14020, 14021, and 14024, which concern environmental labels, as national standards²⁸. Its certification process is managed by the China Environmental United Certification Center, Ltd. (CEC). The CEC is responsible for environmental label certification. The State Bureaus of Environmental Protection also carry out local inspections and examinations as part of the certification process. For Chinese environmental labels, there are 55 product categories, including furniture and glass dishware (Chuan 2004). The total number of products with environmental labels increased from 1,000 products in 1999 to 9,000 in 2003. Currently, it includes 12,000 products from more than 800 companies (Chuan 2004).

These individual eco-labels can be cumbersome for companies that export to many countries. To address this issue, for example, eco-label programs in Taiwan and Thailand are linked by the GEN along with the programs of 26 other countries. The GEN is a non-profit international association, whose objective is to improve and promote eco-labeling programs by sharing objectives and criteria of individual labeling schemes. In addition, there are bilateral efforts to mutually recognize eco-labels. For example, the Chinese eco-label is also accepted in Australia under a cooperative agreement effective in 2005 (Chuan 2005).

The textile industry, in which some EAP countries are large exporters, is not the only industry that may benefit from eco labels in the EAP region. For example, Thailand is among the top 10 cut-flower exporters, although the

²⁷ See http://www.tei.or.th/greenlabel/pdf/TGL_Name_May2005_eng.pdf.

²⁸ See <http://www.cqc.com.cn/main?siteid=6823&classid=9497&docid=9434>.

Asian cut-flower industry is not as large as Kenya or Columbia (Van Liemt 1999). The existing codes of conduct for the cut-flower industry include the Kenya Flower Council codes and the German Flower Label Programme. By joining or aligning their standards with these initiatives, Thailand may gain access to a wider market.

Public Recognition Programs

Public recognition programs are sometimes viewed as public relations efforts. However, the public recognition of CESR activities can contribute to awareness building when awareness level is low. It can also encourage companies to undertake CESR activities, because the awards can contribute to a good public image. Environmental awards are one of the most frequently discussed items in CER, according to Malaysia's ACCA report (Environmental Resources Management Malaysia 2002).

Asian CSR Awards. Awards for CESR activities are emerging in the EAP region. The first regional Asian CSR awards were given at the 2003 Asian Forum on Corporate Social Responsibility in Bangkok, Thailand (*Business World* 2003b and 2003c). The Asian Institute of Management of the Philippines is the major organizer of this award, in collaboration with international partners. The Asian CESR awards have different categories. For example, an environmental excellence award is given to commend companies with best practices in environmental performance and sustainability.

Environmental and Social Reporting Awards, Malaysia. The ACCA Malaysia presents the annual Environmental and Social Reporting Awards (ACCA MESRA) since 2002 (*Bernama Daily Malaysian News* 2004). The ACCA MESRA recognizes companies that disclose their environmental and social practices and that promote the reporting of such activities.

SME and Local Business Awards, Hong Kong. Award programs have started for local businesses and small and medium-sized

enterprises (SMEs). In Hong Kong, the Industry's Environmental Performance Grand Award and the Hong Kong Eco-Business Awards are given to local companies (Nam 2004). An award for SMEs, the SME Living Business Awards 2005, was also developed by the Hong Kong and Shanghai Banking Corporation (HSBC) with support from the Hong Kong Business Environment Council to recognize SMEs for their responsible and sustainable business management (*China News Digest* 2005).

Hibiscus Award, Malaysia. CESR awards can be endorsed by governments. The Malaysian Hibiscus Award is given annually to businesses. The purpose of the award is to recognize companies for their environmental accomplishment and leadership, so that good corporate environmental performance is encouraged. This award has been endorsed by the Ministry of Science, Technology and the Environment and supported by the Department of Environment. Companies such as ST Microelectronics Sdn Bhd and Advanced Micro Devices Export Sdn Bhd received the 2002/ 2003 awards.

Industry Awards, Thailand. In Thailand, industry awards include a category for Environmental Quality Preservation. The Thai Ministry of Industry, Thailand Environmental Institute, and Industrial Estate Authority of Thailand select a recipient annually based on comprehensive criteria, including a company's environmental targets and achievements, its implementation of clean technologies, its waste management and recycling programs, and its use of clean products and raw materials, among others (GM 2005).

Corporate Awards, Indonesia. In Indonesia, annual corporate awards for corporate governance and financial reporting are given since 2001 to demonstrate positive contributions made by companies and to regain investor confidence (Finneren and Rachmawaty 2003). It is supported by the Minister of State Owned Company, the Directorate General of Tax, the

Department of Finance, the Capital Market Supervisory Agency, Jakarta Stock Exchange, the Committee of National Government Policy, and Indonesian Institute of Accountants²⁹. The award evaluation process includes the ranking of participating companies. Although the award does not specifically refer to environmental reporting, one of the companies that published a sustainability report, P.T. Astra International, Tbk., has been selected for the awards in 2001.

Corporate Citizenship Awards, Cambodia. In Cambodia, the government introduced the Corporate Citizenship Awards in 2005 with support from the IFC (World Bank 2005a). The Cambodian award is to praise companies with best practices in at least one of the following areas: employment and labor practices, environmental stewardship, community engagement, and corporate governance.

Partnerships

Partnerships engage a wider range of stakeholder groups to address common concerns. Broadly speaking, partnerships include the GRI and the Equator Principles (Box 7) in which international organizations and private sector cooperate. They attempt to reflect a wider consensus from civil society on corporate codes of conduct, improve coordination and collaboration, and share the costs of implementation (Jørgensen and others 2004). In addition, they try to address areas, such as supplier responsibilities, and harmonization and standardization of codes, which corporate self-regulating codes of conduct fail to reach (Utting 2002).

In public-private partnerships (PPPs), individual companies can engage directly with public entities. When a PPP works, a project for a community or the local environment seems to offer clear benefits for the participating company. For example, Manila Electric Co. (Meralco) worked together with the DENR to reforest the stripped land under the Meralco

industrial tree plantation project in the Philippines. In exchange, the company was allowed to cut 10 percent of the trees grown (Business World 2005). The DENR and Meralco agreed in 1991 that the government would lease a denude land for reforestation for 25 years to Meralco. The trees harvested serve as Meralco's electricity poles and other wood-based materials. Meralco also manages three tree nurseries for reforestation and excess seedlings from the nurseries are distributed to schools and nearby communities³⁰. This reforestation project not only helps the local environment but also contributes to their core business practices by producing the materials needed.

In Indonesia, Unilever initiated and partnered with local agencies and communities to clean up the polluted Brantas River in East Java's Malang district. The cleanup was aligned with the company's commercial interests, because its factory, located 5 kilometers from the river, needed a clean water supply in order to manufacture soap, toothpaste, and shampoo. Under the project, the company provided management expertise, voluntary help, and equipment donations³¹. This cleanup improved the local water quality for the communities and their core business operations.

In the Philippines, a non-profit foundation, PBSP, works in a partnership with government, NGOs, civil society, and donor institutions to assist industries to address environmental concerns and impacts in the Philippines. One of the major PBSP's CSR activities is the Industry Waste Exchange Program (IWEP), which matches companies generating wastes with companies that can re-use those materials. In another program, the Environmental Management and Public and Private Sector Ownership (EMPOWER) aims at improving industry access to its Industrial Environment Management (IEM) information and providers

²⁹ See http://www.bri.co.id/english/berita/berita_detail.aspx?id=11.

³⁰ See Meralco's web site: <http://www.meralco.com.ph/Consumer/commitments/treeforest.htm>.

³¹ See http://www.unilever.com/Images/Unilever_mailer_sustainable_development.pdf.

of environmental services.

The PBSP also serves as a resources pool to which member companies can donate 1 percent of net income before tax in order to support the development of communities and the protection of the environment. Its members have grown from 50 to over 180 companies today (Reyes 2003). The member companies include prominent ones in the Philippines, such as APO Cement Corporation, Cebu Power, Mindanao Development Bank, and a mining company, Oxiana Philippines Inc.

These types of donations are unlikely to affect the core business practices of the member companies. However, to be a member, donation and adherence to the PBSP principles, such as commitment to social development and business contributions to the quality of life, are required. At least, its membership and yearly donations make continuous commitments to the betterment of society at large.

International organizations also actively participate in promoting private sector activities to improve their environmental performance. The list of such organizations and their activities are provided in Annex A.

Supply Chain

Activities to influence smaller companies in the supply chain are also emerging in the EAP region. Smaller companies may not have resources and capacity to undertake CESR activities. However, there are examples that aim to help smaller suppliers to integrate CESR into their business operations.

A multi-stakeholder project, the common code for the coffee community, aims to improve the sustainability of the coffee trade throughout its supply chain, including production, processing, and trading. Supported by the German

governmental development agency (GTZ) and major European buyers including Kraft Foods, the project helps local producers' practices with financial and technical support to a local processor and improves agricultural practices through training classes (*Vietnam Investment Review* 2004). The United States Agency for International Development (USAID) also manages projects in Asia to promote sustainable performance of cocoa, coffee, and fishery industries.

The Environmental Management Programme for Industry Competitiveness by the United Nations Development Programme (UNDP) and the Philippines Department of Trade and Industry promotes the adoption and implementation of EMS among SMEs and establishes indicators to measure the impact of such environmental management tools to industries' productivity and competitiveness³².

Companies can also provide assistance to their suppliers. For example, Sony Technology Malaysia carries out the Green Partner Environmental Quality Approval Programme, which trains and supports its direct suppliers to receive ISO 14001 (Luan 2004b). Companies can also influence their suppliers by adopting green procurement policies. In Malaysia, several multinational companies are following national policy directives to establish green procurement programs by giving priority to products that save energy and contribute to the reduction of waste (Philippine Business for the Environment, 2004).

³² See <http://www.pbe.org.ph/epic.htm>.

CHAPTER 4

LESSONS LEARNED: DRIVERS AND BARRIERS

This section discusses the key drivers that emerged from the cases in the EAP region. Many stakeholders are involved in creating drivers for CESR, including company owners, shareholders, investors, employees, suppliers, customers, communities, and NGOs. These stakeholders put pressure on companies in different ways to demand CESR practices, which becomes a driver for CESR. In this context, five drivers are identified in this paper: (1) the business/environment context; (2) global trade; (3) requirements through the supply chain to SMEs, and the informal sector; (4) pressure and support stemming from government actions; and (5) demand from civil society.

Key Drivers

Business/ Environment Context. The business/environment context refers to the general business conditions or factors affecting business operations such as reputation, risk, stakeholder relationship, customers and suppliers, and market opportunities. A change in these factors can make CESR practices a good or a bad decision.

Reputation and business risk are often seen as one of the drivers behind CESR implementation, because companies undertake CESR activities to improve companies' future outlook by proactively addressing potential issues such as environmental damages, regulatory costs, and accountability and transparency. For example, MTR in Hong Kong identified attracting investors and SRI as the drivers for environmental reporting, suggesting that the company was concerned about business risks and reputation perceived by investors.

In addition, transparency is becoming important in emerging markets, where investor confidence needs to be built. Malaysian

companies undertaking environmental reporting included meeting the demand for transparency and accountability as their drivers for environmental reporting, because privatization in Malaysia has led to a more rigorous assessment of companies regarding reputation and risk (Environmental Resources Management 2002). Along with environmental reporting, CESR indexes like the DJSI also raised the profile of corporate environmental performance to investors.

The examples reviewed in this paper also indicate that a stronger relationship with external buyers and potential business opportunities, such as a new market and export growth, can motivate companies in the EAP region to undertake some CESR activities. Environmental issues are being addressed, because international buyers, customers, and corporate headquarters demand that the production of goods and services be environmentally benign, as in the cases of Canon and the common code for the coffee community project. CESR efforts can make businesses attractive to external clients by progressively addressing environmental concerns.

These companies that already incorporate CESR are considered "CESR-ready" suppliers by international buyers because, for example, they already meet the buyers' standards with their ISO 14001 certification. Buyers do not need to train and educate these "CESR-ready" suppliers to be aware of environmental issues and international standards. They are more likely to meet the environmental, health, and safety requirements in consuming countries because of their awareness and approach for continuous improvements.

The use of eco-labels also creates a favorable business environment for CESR promotion.

Eco-labeled products can attract external buyers as these products already meet minimum requirements of certain labeling programs. In addition, mutual recognition of eco-labels (such as between China and Australia) further strengthen companies' interests in eco-labeled products, because it allows immediate acceptance of the products in both markets. For example, the mutual recognition agreement between China and Australia encourages companies in China to obtain domestic eco-labels, because such products can be accepted and distinguished as environmentally friendly in the Australian market.

Global Trade. The potential impact of CESR on trade is complex. Implementing CESR may help a company gain markets in an increasingly competitive world. On the other hand, in some cases a national government's requirements for CESR could be perceived as a trade barrier. Finally, domestic requirements in developed countries may act as a driving force towards cleaner production and CESR in developing countries.

Implementing CESR may make a difference in an increasingly competitive global market. CESR is seen as one way to differentiate from competitors. For example, the Cheng Loong Corporation in Taiwan secured a major international contract by obtaining ISO 14001 and improving its environmental performance, according to the Sustainability Developing Value Matrix³³. Companies with CESR activities may gain easier and faster access to export markets than their non-CESR competitors.

On the other hand, when a country requires CESR, it could be perceived as a trade barrier. Some developing country governments are concerned about being blocked from developed country markets if they do not meet these

CESR requirements. At the WTO, for example, the Colombian government has argued that eco-labels were a form of non-tariff barrier (Fox and others. 2002). Similarly, ISO standards could also become a non-tariff barrier for companies in developing countries, particularly in the countries without requisites like qualified certification bodies and staff, if they were to become de facto standards for international business (Crooks and others 2005).

Domestic promotion of CESR has the potential to influence domestic companies toward greater CESR activities but also to become barriers to trade for companies in other countries. Even when a country promotes CESR domestically, it may have trade implications, because regulations and CESR codes of the consuming country could influence production in another country through global trade. Not all the regulations and CESR codes translate into pressure for manufacturing companies overseas to adopt CESR activities. However, some CESR efforts that involve technical requirements and conformity assessment (e.g., eco-labels and product content requirements) may constitute a barrier to trade (Fischer, Parry, Aguilar, and Jawahar 2005; WTO 1999).

For example, two EU directives that will be implemented soon may have impacts on exporting companies in the EAP region. The European Commission (EC) Directives on Waste Electrical and Electronic Equipment (WEEE) encourages the design and production of electrical and electronic equipment, which take into account and facilitate dismantling and recovery, particularly the reuse and recycling of waste electrical and electronic equipment, by requiring producers of certain product categories³⁴ in the EU member states to provide

³³ See <http://www.sustainability.com/developing-value/details.asp?bcid=43&sfid=1&bsid=1#top>.

³⁴ These categories are large and small household appliances, IT and telecommunications equipment, consumer equipment, lighting equipment, electrical and electronic tools (with the exception of large-scale stationary industrial tools), toys, leisure and sports equipment, medical devices (with the exception of implanted and infected products), monitoring and

for the financing of the collection, treatment, recovery and environmentally sound disposal of waste electrical and electronic equipment and to set up systems for the collection and recovery (EC 2005). The EC Directive on Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS) requires certain hazardous substances in electrical and electronic equipment - lead, mercury, cadmium, hexavalent chromium, polybrominated biphenyls (PBBs) and polybrominated diphenyl ethers (PBDEs) - to be replaced by other substances (EC 2005). Although these requirements could put pressure on manufacturers in the EAP region to shift toward cleaner production and incorporate extended producer responsibility so that products can meet the consuming countries' requirements, they may also be perceived as a trade barrier.

Requirements through Supply-Chain to SMEs and the Informal Sector. Large companies sometimes work with their suppliers to introduce CESR practices. This mechanism could potentially be an important driver for CESR, since small companies consist of a large portion of the private sector activities in the EAP region. Although detailed information on the informal sector is not available, the size of the sector is thought to be quite large in the EAP region. For example, it is estimated that the informal non-agricultural workforce in countries like Indonesia and the Philippines reaches 70 percent, according to data provided by the Bank and ILO (Commission on Private Sector and Development 2004). As for SMEs, the Asia-Pacific Economic Forum (APEC) indicates that 98 percent of all enterprises are SMEs in the Asia-Pacific region³⁵.

Buyers in developed countries have attempted to influence the supply-chain practices in developing countries with some success.

control instruments, and automatic dispensers (see <http://europa.eu.int/scadplus/leg/en/lvb/l21210.htm>).

³⁵ See http://www.apec.org/apec/news___media/fact_sheets/smesmicroents.html.

Generally, direct suppliers of international buyers tend to receive support from MNCs, as in the case of Sony Technology Malaysia. The second and third tier suppliers (i.e. suppliers of suppliers) tend to receive less support to improve their practices. A few initiatives by international organizations target SMEs, such as the GRI's handbook for SMEs and the Common Code for the Coffee Community (see Table A.1 in annex A for a list of projects).

Pressure and Support Stemming from Government Actions. Government actions, laws and regulations as well as incentives, can be drivers for CESR. Government actions to mandate environmental information disclosure, such as public disclosure and CER, can indirectly provide incentives for companies to adopt CESR. Information disclosure itself does not require regulatory compliance, though the ultimate goal is to promote the compliance. First, information disclosure educates the public on companies' environmental performance and creates pressure on companies to make improvements. Investors and shareholders also put pressure on the poor performers, as financial markets and stock exchanges increasingly recognize that corporate environmental performance and disclosure policy affect business risks and long-term profitability. Secondly, information disclosure educates companies on their performance and makes companies realize potential areas of improvement.

Regulations and enforcement, not CESR activities such as ISO 14001 certifications, ensure environmental regulatory compliance (Box 9). Voluntary CESR actions do not fully protect the environment and thus they do not eliminate the need for regulations. If regulatory enforcement is working, companies meet the minimum standards and CESR activities mean beyond-compliance activities. Regulations and enforcement complement the CESR efforts by setting the level playing field for all the companies.

Box 9. Enforcement, not CESR, Ensures Compliance

A waste handler operating in the Hsinchu Science-Based Industrial Park of Taiwan, where high-tech production plants generate toxic waste, was caught dumping and polluting the nearby river, even though the company was ISO14001certified. This incident left the local people without water for two days. As a result, the government immediately revoked its ISO certification.

This example demonstrates a failure of regulatory enforcement. CESR does not replace regulations and regulatory compliance. ISO 14001 does not guarantee the environmental improvements or environmental compliance. For CESR to go beyond compliance, a government needs strong regulations and enforcement in order to ensure that the minimum environmental standards are met.

Source: (NHI, the Nautilus Institute, and HRA 2002)

Regulatory compliance is also important for CESR, because it ensures that companies meet minimum environmental standards. In addition, companies with regulatory compliance are considered to have the ability to understand and meet the regulatory requirements. They become attractive for foreign customers and buyers that seek CESR-ready companies. In other words, "CESR-ready" suppliers are likely to exist in countries with sufficient regulatory compliance. A survey of multinational enterprises also supports this argument by indicating that strong regulations and enforcement of host governments greatly help when seeking "CESR-ready" suppliers (Berman and others 2003).

There is a fear that such intense competition in global trade will undermine the progress made with the application of codes of conduct. In order to remain competitive, suppliers in Asia may revert back to compulsory longer working hours and compromise workers' safety and health conditions (Doane 2005). CESR activities are independent of regulations. CESR is

voluntary and companies can stop embracing it at any moment. With sufficient regulatory enforcement and strong awareness, companies will find it difficult to undo the good progress made by CESR efforts. To promote CESR further, governments can strengthen their enforcement capacity and awareness among stakeholders.

Lastly, governments can provide incentives for companies to undertake business activities that contribute to environmental improvements. In Vietnam, the government established the Environmental Protection Fund to provide financial incentives for companies that undertake clean production (Nghì 2002). The fund can provide low-interest loans to companies pursuing cleaner production; more than 40 companies have shown interest in this program so far (Huynh 2004). Since the change in production was required by law, this was not a voluntary commitment by companies to improve their environmental performance, and thus it is not a CESR activity. The fund subsidizes and promotes clean production, expecting that companies become conscious about business benefits of material and energy efficiency such as reduced costs and better reputation through better environmental performance.

Demand from Civil Society . Civil society actions can be drivers for CESR activities, because companies seek social acceptability. The EAP region can be considered culturally adaptive to CESR initiatives. Asian culture tends to put stronger pressure on companies to seek social acceptance than western cultures, because Asian companies are traditionally less focused on the ideas of private property and individualism (Chambers and others 2003).

But CESR, which reflects the social and environmental concerns of citizens and communities, is not yet undertaken as a mainstream business practice in the EAP region, except philanthropic donations by larger companies. One reason may be that regulatory capacity, particularly enforcement, and

consumer and community pressures are weak, and thus do not demand improved environmental performance by companies. Weak regulatory capacity and powerless consumer and community organizations, typically found in developing countries, do not fully support the effort to promote CESR (Luetkenhorst 2004). There are, however, a few examples in the EAP suggesting that civil society is working to fill the gap left by weak governmental regulations and enforcement.

Actions involving civil society such as campaigns, public disclosure programs, and CESR indexes can create pressure on companies to undertake CESR activities. For example, public disclosure programs help raise awareness and activism among citizens and community groups, as seen in the improved environmental regulatory compliance with the PROPER and the Green Watch programs. They inform the public about companies' environmental performance and pollution in their community. In the case of Thailand's industrial site (Box 10), if public disclosure had been required in this industrial site, corrective actions might have been taken earlier and the illnesses and deaths might have been prevented.

NGOs and industrial associations are also active in developing various CESR-related standards. Globally, various organizations, such as industrial associations and chambers of commerce, have programs or policies supporting CESR; however, the extent of involvement is typically superficial or narrowly focused. For example, the FSC's standard covers only forestry operations and production. The ICTI has a policy on labor and the work place, including health and safety issues, but adherence to the ICTI's policy is based on self-assessment. Other CESR-supporting activities are also described in Annex A.

**Box 10. Thailand Electronics
manufacturing company**

In Thailand, employees of an electronics

manufacturing company repeatedly developed illnesses or died at an industrial site. Although occupational hazards were suspected to be a cause, sufficient evidence was not available and the government did not take action. In addition, reliable health and safety data was not accessible, because workers were not allowed to get information about occupational hazards.

A coalition of civil society groups campaigned and demanded that the government establish an independent institute for occupational health and the environment. Although the company strengthened its occupational hazard monitoring as a result of the pressure of active civil society groups, the proposed institute is still under consideration.

Source: (NIH, the Nautilus Institute, and HRA 2002)

Main Barriers

Despite the various initiatives to promote CESR in the EAP region, barriers still exist. These barriers include (1) lack of demand and poor awareness of CESR, including what it is and how it benefits companies and society; (2) limitations of CESR tools, such as environmental reporting and ISO standards; and (3) financial and technical constraints to implement CESR. These barriers lead to insufficient pressure and incorrect signals by consumers, investors, regulators, and others.

Lack of Demand and Poor Awareness. In the EAP region, awareness on environmental issues is increasing. Yet, there seems to be a lack of demand for CESR activities. Companies may not know how good their environmental performance is or if there are any areas to improve. They may not have enough support such as training and financial incentives in order to undertake CESR. They may also not know the benefits of CESR activities.

Progress has been made in the EAP region. Public disclosure programs and CER can help companies understand their own performance, because companies may not realize such CESR benefits when they are not required to collect, review, and report their environmental performance information. The slow improvements in CESR in the EAP region have prompted some governments to consider mandatory information disclosure, such as Indonesia and China, and environmental reporting. In Malaysia, the Minister of Science, Technology and Environment has mentioned the possibility of mandatory environmental reporting (Thompson 2002). Singapore is also considering the same path. A committee, led by the private sector and sponsored by the Singapore government, has recommended a financial statement of all listed companies to include their social and environmental impacts (Thompson 2002).

Some companies consider CESR is not about making environmental improvements in their core businesses. For example, businesses in Hong Kong as well as China only view CESR as donations to the community and do not recognize its benefits (Watson 2004). Some companies view CESR as a costly undertaking and do not implement such activities. For companies to understand CESR benefits, training and information sharing may be helpful.

In some countries, a clearinghouse of CESR information for businesses has been developed. Companies that have not adopted CESR may not understand what it entails, what benefits it brings, which codes and standards should be used, or how much CESR costs. Such information can be provided from a single source. The Canadian government collaborated with provincial and economic development agencies to develop a website, the Canadian-Provincial Business Centre.³⁶ It provides a single window for businesses regarding regulatory information, although its provision of information on sustainability is limited

³⁶ See www.cbosc.org.

(Canadian Business for Social Responsibility 2001). Although it is not carried out by governmental agencies, the Prince of Wales Business Leaders Forum operates the CSR Forum Project, which aims at serving as a central website for CESR practices worldwide.³⁷ These efforts may be useful in the EAP region.

Despite the progress, there are challenges with regard to awareness and demand. The first challenge is to create demand for responsibly produced goods and services. Most customers, both end-product consumers and intermediate suppliers, are not taking part yet in improving the environmental performance of companies through demanding responsibly-produced products and services. Studies indicate that CESR can easily result in a competitive advantage in countries where citizens' awareness on environmental issues is strong (FitzGerald 2001). However, even in developed countries, "responsible" consumers, as opposed to "ethical" consumers, are not yet sufficiently strong to encourage responsible businesses (Doane 2005). Customers with awareness on environmental issues do not always purchase environmentally and socially friendly products and services. For example, a survey of 21,000 American and British consumers – many of whom buy goods from the EAP region – revealed that many consumers said that they would not buy from companies with poor ethical reputations although only 5 percent of them have actually done so (Daily Telegraph 2005). Translating awareness into demand remains a challenge worldwide for both consumers and intermediate suppliers.

The second challenge is the large number of SMEs and companies in the informal sector in the EAP region. SMEs and the informal sector may not have received enough attention from civil society. Exploring the views of stakeholders on corporate codes of conduct worldwide, smaller companies generally attract less attention from civil society and media because of their small size and impact (Jenkins 2001). With the lack of strong attention and demand, the pressure to pursue CESR may not be strong for SMEs and informal

³⁷ See <http://CESRforum.com>.

sector. There is a need to reach out SMEs and the informal sector so that they can also realize environmental performance improvements and the resulting long-term prosperity.

Limitation of CESR tools – environmental reporting and ISO standards. CESR tools have limitations. Some CESR activities do not ensure better environmental performance. In particular, voluntary initiatives such as environmental reporting do not guarantee that companies will have good environmental records. For example, Unilever received an award from the ACCA for its environmental reporting despite the fact that the company did not mention a mercury poisoning accident in India that occurred in the same year (Doane 2005). An ISO-certified waste handler in the Hsinchu Science-Based Industrial Park in Taiwan (Box 9) is another example.

On the other hand, there are CESR activities that have made measurable environmental improvements. For example, a Vietnamese company, Tan Thanh Rubber Processing Enterprise, considerably reduced its wastewater generation, water consumption volume, and electricity use by applying clean production processes (Huynh 2004). However, regional or country-level statistics on environmental improvements through CESR are not available to determine CESR effectiveness.

CESR continues to evolve and it may increase the private sector's responsibility on the environment in the future. However, CESR activities alone, particularly environmental reporting and ISO standards, seem to have a limited ability to improve environmental performance without external pressure. As discussed in the section on drivers for CESR, different stakeholders, such as government and civil society, need to create demand and support for CESR, so that more companies would have the incentive to undertake CESR activities.

Financial and technical constraints to implement CESR. Companies in developing countries, particularly SMEs, may experience financial and technical difficulties in implementing CESR. For

example, ISO certifications may not be applied quickly among SMEs because of the costs involved. Even in economically advanced Hong Kong, SMEs still view CESR as something of a luxury that they can afford only when the economy is good (*South China Morning Post* 2004). At the company level, the cost for CESR activities can be prohibitive for SMEs. The costs for the first-time ISO certification generally range from \$5,000 to \$20,000 including consultation for environmental management systems (Utting 2002). Limited information is available on the costs involved in ISO certification, particularly in developing countries. However, as shown by one study on Canadian SMEs, at least 74 percent of the SMEs cannot undertake ISO 14001 certification due to the cost. SMEs in developing countries are, therefore, likely to face greater challenges (Johansson 1997).

Time to get certified may be substantial for some companies. Obtaining an ISO certification requires tasks such as performance measurement, documentation, development of process control and oversight, training of staff, and evaluation, followed by an external audit. The time involved varies depending on type and size of a company as well as its existing environmental management system. The US Minnesota Pollution Control Agency estimates that it takes 1-2 years³⁸. If any assessment requires a factory to shut down operations, it also incurs lost production. However, limited information is available on the actual time needed for ISO 14001 certification, particularly for companies in developing countries.

In order for standards and certification programs to expand in the EAP region, the essentials, such as certification bodies, qualified auditors and trainers, must also exist. For example, no ISO certification body is yet available in Vietnam.³⁹ MNCs may use a certification body from their headquarters, but

³⁸ See <http://www.pca.state.mn.us/programs/ems-faq.html#3>.

³⁹ See <http://www.iso.org>.

for a smaller company in Vietnam, it may be difficult to get certified when there is no certification body in the country. Thus, there is a concern that developing countries are at disadvantage in adopting international standards (Crooks and others 2005).

Financial and technical constraints can be eased by technical assistance and support, like

financial incentives provided by the Government of Vietnam for companies undertaking clean production. Governments in the EAP region may benefit economically and environmentally from providing more support to promote CESR and growth of the private sector in the region.

CHAPTER 5

TOWARD A CESR STRATEGY FOR THE WORLD BANK IN THE EAP REGION

The review of CESR cases is summarized in a strength/ weakness/ opportunity/ threat (SWOT) analysis in Table 5.1.

Overall, the SWOT analysis highlights the existence of opportunities to increase CESR activities and create favorable business environment for CESR. In particular, awareness needs to be built; more attention and support is needed for SMEs; regulatory enforcement needs to ensure the minimum standards; and regulations should not to hamper CESR activities. Together with the IFC, the Bank can work with client governments to address these challenges.

IFC's role: promoting CESR through direct engagement with client companies

IFC has been improving its approach to sustainability in its business of financing private sector investments. Its new approach will establish performance standards by providing clients with a solid framework to manage business risks and promote consistent improvements in their sustainability performance. IFC also aims to use its client relationship as an opportunity to encourage a change in the approach to social and environmental stewardship, while engaging with client companies. For example, it:

- advocates the Equator Principles in developing countries;
- collaborates with the United Nations to promote the Global Compact (Box 3) in developing countries; and
- Helps market development for environmentally and socially friendly products and services, such as in renewable energy and eco-tourism industries (some

IFC's projects are listed in Table A.1⁴⁰).

In addition, IFC manages four social and environmental facilities to promote CESR and sustainable businesses in the private sector and four regional technical assistance facilities that improve the business environment for SMEs in developing countries (Table 5.2). Social and environmental facilities provide supports for companies to realize the opportunities that CESR offers their businesses. The Sustainable Financial Markets Facility (SFMF) can be beneficial to many SMEs in the EAP region. Regional technical assistance facilities also help SMEs improve supply chains and sustainable resource management. IFC has been providing supports for SMEs as the SWOT analysis identified.

IFC also promotes the CESR practices through disseminating the CESR examples and their benefits. In 2002, the IFC together with Sustainability and the Ethos Institute published a report entitled *Developing Value: the business case for sustainability in emerging markets*. It collected examples and analyzed CESR benefits. About 30 cases from the companies in the EAP region were included. The research on these cases has a dual purpose for the regions like EAP, where more CESR activities can be undertaken. First, the sustainable business cases provide the public with information on corporate environmental performance. Second, these cases increase awareness among not only citizens, but also other companies and investors, and thus the demand for information as well as products produced by companies with CESR activities.

⁴⁰ More information on IFC's work on mainstreaming sustainability can be found in IFC's annual sustainability report. Available: [http://www.ifc.org/ifcext/publications.nsf/AttachmentsByTitle/2004SusReport/\\$FILE/2004SustReport.pdf](http://www.ifc.org/ifcext/publications.nsf/AttachmentsByTitle/2004SusReport/$FILE/2004SustReport.pdf).

Table 5.1: SWOT analysis from the review of CESR cases in the EAP region

| | | Opportunities | Threats/Risks |
|------------------------------------|--|---|---|
| Strength (existing drivers) | Business Environment/Context | <ul style="list-style-type: none"> • Awareness among shareholders and investors can be increased • ISO 14001 certification and ecolabels encourage CESR activities | <ul style="list-style-type: none"> • Regulation (e.g., environmental reporting) may increase |
| | Global Trade | <ul style="list-style-type: none"> • Product and company differentiation through CESR-related activities • Bilateral trade negotiations • Packaging and waste regulations in consuming countries | <ul style="list-style-type: none"> • Trade barriers (e.g., ecolabels) may be created |
| | Supply Chain, SMEs and Informal Sector | <ul style="list-style-type: none"> • A large number of SMEs and informal firms in supply chain can be influenced | <ul style="list-style-type: none"> • A few efforts are under way |
| | Governmental Pressure and Support | <ul style="list-style-type: none"> • Disclosure of environmental performance may be mandated • Disclosure policy for listed companies can encourage CERs • Financial support for environmental improvements may be considered (e.g., Vietnamese Environmental Protection Fund) | <ul style="list-style-type: none"> • Weak regulatory enforcement does not create a level play field |
| | Civil Society Pressure | <ul style="list-style-type: none"> • Stronger civil society provides an organized effort to press governments and companies to take action • Public disclosure programs may be applied to other regions to increase awareness among civil society • Codes of conduct by NGOs and industrial associations may act as standards, especially for export markets | <ul style="list-style-type: none"> • Community pressure may not be strong enough to induce further CESR actions in some places |
| Weakness (barriers) | Lack of Demand and Poor Awareness by Companies | <ul style="list-style-type: none"> • Awareness of companies needs to be increased so that more companies undertake CESR activities | <ul style="list-style-type: none"> • Smaller companies attract less attention (and get less pressure) but also less support • Awareness needs to translate into actions |
| | Lack of Demand and Poor Awareness by Civil Society | <ul style="list-style-type: none"> • Awareness on environmental issues is growing, which needs to be catalyzed for greater demand for CESR actions • Awareness of civil society needs to be increased to create the demand for information | <ul style="list-style-type: none"> • Awareness needs to translate into actions |
| | CESR Does not Mean Compliance with Laws | <ul style="list-style-type: none"> • Continuous CESR evolution may increase the responsibility of private sector on environmental issues | <ul style="list-style-type: none"> • Regulatory enforcement needs to complement CESR efforts because CESR alone will not protect the environment |
| | Financial and Technical Constraints | <ul style="list-style-type: none"> • Necessary arrangement (e.g., certification bodies, auditors, and trainers) needs to be established | <ul style="list-style-type: none"> • Costs can be high, especially for SMEs |

Table 5.2 IFC's Technical Assistance Facilities for Sustainable Private Sector Development

| | Program Name | Focus |
|-------------------------------------|--|---|
| Social and Environmental Facilities | Corporate Citizenship Facility (CCF) | Promotes corporate social responsibility in IFC client companies |
| | Environmental Opportunities Facility (EOF) | Finances innovative projects that promote local environmental benefits |
| | Environmental Business Finance Program (EBFP) | Works to develop a sustainable market for SMEs, whose activities benefit the global environment (renewable energy and energy efficiency; ecotourism; sustainable agriculture and agro-forestry; and certified fishing) |
| | Sustainable Financial Markets Facility (SFMF) | Provides advisory and technical assistance to enhance the social and environmental impact of financial intermediaries and the broader financial sector in IFC member countries, and promote increased private sector investment in emerging markets |
| Regional TA Facilities | China Project Development Facility (CPDF) | Supports the development of private small and medium sized enterprises in the interior of China |
| | Mekong Private Sector Development Facility (MPDF) | Supports the development of private, domestically-owned SMEs in Vietnam, Lao PDR, and Cambodia |
| | Program for Eastern Indonesia SME Assistance (PENSA) | Supports expansion of the SME sector in eastern Indonesia |
| | Pacific Enterprise Development Facility (PEDF) | Supports development of viable small and medium-sized private sector businesses |

See <http://www.ifc.org/ifcext/proserv.nsf/Content/TechnicalAssistanceandAdvisoryServices>.

There are over 11,000 companies in the EAP region with ISO 14001 certification. Each of the companies is making (or has made) an effort to address their environmental management systems. However, these cases and the results are not publicized. Thus, disseminating these examples may be beneficial for companies as well as the public in the EAP countries where demand and awareness for CESR activities could be increased.

Bank's role: promoting CESR through strengthening the capacity of governments

While IFC promotes CESR directly among private sector companies, the Bank can promote CESR by working with governments. Helping governments make improvements in regulations and enforcement, and build awareness and demand for CESR would lead to a favorable business climate for companies to integrate CESR activities.

Regulations. Economic and environmental regulatory tools and regulatory enforcement have not been discussed extensively in this

paper because they are not always direct CESR tools. CESR practices may not need them, although they are helpful. For economic and environmental regulations to facilitate CESR, they need to be properly designed to urge companies to strive for innovation and improvements that reduce their impacts on the environment. They could create pressure, point out resource inefficiencies, or build demands for environmentally friendly products and processes (see Box 3).

Environmental regulations are necessary for environmental protection because, as discussed, CESR does not guarantee the compliance with laws. Appropriate regulations and enforcement do. As for economic regulatory tools, they are not necessary for environmental protection or CESR. Some economic regulatory tools, such as tax incentives and subsidies, typically have purposes other than promoting CESR or protecting the environment. However, they can affect the environment through changing business behaviors. Unintended effects on the environment can be negative or positive. Regulations need to complement the CESR

efforts and ultimately the environmental protection, such as tax incentives for energy-efficient equipment and products. On the contrary, for example, subsidies for fossil fuels could undermine the CESR efforts by promoting the use of non-renewable fossil fuel consumption. Regulations should not hamper CESR efforts. In this regard, the Bank's analytical work can support governments to improve the design and enforcement of regulations.

As the Bank's Environment Strategy and the EAP Environment Strategy emphasize, a more comprehensive approach to address environmental priorities at early stages of policy, program, and development plan is helpful in ensuring that private sector development positively contributes economically, environmentally, and socially. Through the use of analytical work such as Country Environmental Analyses and Strategic Environmental Assessments, the Bank can help governments form policies and regulations that send right signals to companies, even if they may not directly address private sector activities.

Capacity Building for Governments – Enforcement and Public Administration. Regulatory enforcement must exist along with regulations, because good regulations may not bring results, if they are not enforced. Strengthening governments' capacity for regulatory enforcement would help governments achieve the minimum compliance for all companies and create the favorable business climate for CESR promotion. Furthermore, smoother trade administration can promote CESR by facilitating the international trade and thereby increasing the exposure of domestic companies to the international market standards. For example, public administration initiatives – such as technical assistance programs in Vietnam and Cambodia and investment climate assessments – can help improve the business climate, integrate companies into the global trading system, and, thus indirectly promote CESR activities. In this context, the World Bank's effort

to strengthen the capacity of governments complements the effort to expand CESR activities in the region (Box 11).

Awareness Building. Lack of demand and poor awareness of CESR still remain as a challenge in the EAP. The Bank can support countries to improve their transparency and dissemination of environmental information. Opportunities to do this include supporting implementation of transparency laws, access to information in environmental process, such as environmental impact assessment (EIA) and licensing, and programs that disclose environmental information. For example, public disclosure programs in Indonesia and other countries brought together different stakeholders to improve corporate environmental performance. They have proven to improve awareness of the public and companies themselves through dissemination of environmental performance information. The Bank can continue to help governments design public disclosure programs to improve the demand for better environmental performance (see annex C for the Bank's support for the public disclosure programs).

In order to build awareness further among smaller companies and civil society, the Bank can encourage countries to bring together different stakeholders including private sector, public sector, and NGOs into decision-making processes. By involving various stakeholders in decision making, stakeholders will increase their knowledge and awareness of environmental impacts and their linkages with corporate environmental performance. This will also lead to demands for information and corporate environmental performance improvements. In addition, the Bank could support client governments in designing and implementing reward schemes to encourage voluntary CESR activities.

Finally, the Bank could continue to encourage CESR in other companies through its own efforts to improve the environmental and social aspects of its operations. The Bank has implemented initiatives such as green

Box 11. Improving Trade Administration – Trade Increases Companies’ Exposure to CESR

International buyers and customers can expose companies to their standards, norms and cultures, and regulations. Pressure to undertake CESR may come from such international buyers and customers. This potential positive impact on CESR may not be realized, if a government is not ready for international trade.

The Bank supports the improvement of public administration by assessing the quality and predictability of business regulations and government services. This support aims to increase the private sector activities and investments with international business partners. The Private Sector group’s investment climate reports identify the inefficiency and ineffectiveness of government policies and services experienced by local businesses. By identifying the bottlenecks, these reports help improve the efficiency and effectiveness of the governments’ capacity. Efficient and effective regulatory inspections and business registration can support suppliers improve their overall business performance and opportunities.

The Bank provides technical assistance to the Cambodian and Vietnamese governments to improve their public administration and to help companies in the supply chain to integrate into the global trading system. For the Royal Government of Cambodia, the Bank assists the government in addressing the constraints in trade development. Government officials understand that their regulatory processes are acting as constraints. This project aims to address these constraints by reducing transaction costs associated with trade and investment, introducing transparency in investment processes and facilitating access of smaller enterprises to export markets (World Bank 2004). By incorporating rural and informal companies to access export markets, the project will promote these companies’ compliance with environmental and other regulations. As a result, it will provide an opportunity for small companies to operate as reliable and responsible suppliers.

The Government of Vietnam is currently modernizing its Customs Administration in an effort to improve its functions as part of preparations to join the WTO. Within the Customs Modernization project, the government has introduced modern systems and procedures based on internationally recognized standards and practices. It has also attempted to improve private sector compliance and the investment climate with various incentives (World Bank 2005b). Improved private sector compliance and an improved investment climate will encourage companies’ interaction with international buyers. Increased international exposure will likely promote compliance with international environmental standards.

Source: World Bank 2004, 2005b.

procurement and actions to “green” its facility management (e.g., renewable energy programs). By building awareness among stakeholders, consumers will demand environmentally and socially responsible products; investors will demand companies to reduce risks from environmental consequences; civil society will demand companies to protect communities and workers; governments will be pressured to design better regulations to facilitate CESR further; and suppliers will desire to benefit from CESR.

This paper serves as a first step toward a CESR Strategy in the EAP Region. CESR awareness is increasing, built upon the environmental awareness in the region. Larger companies have started to undertake CESR activities. In order to spread CESR among companies in the region, both the Bank and IFC have important roles to play. There is a need to improve stakeholder activities, including those of governments, consumers, and investors, which affect companies’ behavior and CESR. There is equally a need to support the companies themselves in building greater awareness of CESR, its tools, and advantages, as linked with their core businesses.

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ANNEX A

CESR SUPPORTING ORGANIZATIONS ACTIVITIES IN THE EAST ASIA AND THE PACIFIC REGION

The following list provides brief descriptions of CESR supporting activities in the EAP region by some of the major bilateral and multilateral, nongovernmental, and private organizations.

Bilateral and multilateral organizations

Asia-Pacific Economic Co-operation. Asia-Pacific Economic Co-operation (APEC) is an inter-governmental forum of Asian Economies (Australia, Brunei Darussalam, Canada, Chile, People's Republic of China, Hong Kong, China, Indonesia, Japan, Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, The Republic of the Philippines, The Russian Federation, Singapore, Chinese Taipei, Thailand, United States of America, and Vietnam), established in order to engage member countries in dialogue and exchange views on the basis of non-binding commitments. Although CSR is not undertaken as a separate agenda, it has been discussed in the APEC meetings during the last few years. In the 2004 APEC Small and Medium Enterprise Ministerial Meeting, environmental awareness was discussed as a critical factor for APEC micro-enterprise development, and Thailand's efforts in this area were to be shared among member countries. In the 2003 APEC Small and Medium Enterprise Ministerial Meeting, compliance with various foreign standards, rules, and regulations was discussed as one of the small exporters' barriers. Various corporate codes of conducts may have been imposing additional burdens on small exporters. In the 2002 APEC Women Leaders Network Meeting as part of the APEC Small and Medium Enterprise Ministerial Meeting, responsible corporate governance and socially responsible business practices were discussed.⁴¹

Asian Development Bank. The Asian Development Bank (ADB) is a multilateral development financial institution that promotes economic and social progress in Asia and the Pacific. ADB encourages governments in the EAP region to incorporate environmental protection measures in their project design and implementation procedures and promotes projects and programs that will protect, rehabilitate, and enhance the environment and the quality of life. In addition, the Asian Environmental Outlook (AEO) 2005, focusing on Corporate Social Responsibility, is launched. The AEO 2005 highlights the need for collaboration between public and private sectors and environmental reform to harness public-private partnerships and promote new technologies and greener products. In addition, the ADB has a couple of projects on pollution mitigation in industries.

Association of Southeast Asian Nations. The Association of Southeast Asian Nations (ASEAN) is an inter-governmental association of Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei Darussalam, Vietnam, Laos, Myanmar, and Cambodia. The purpose of ASEAN is to accelerate economic growth, social progress, and cultural development in the region and to promote regional peace and stability. ASEAN has a working group on environment, but it is not focused on corporate responsibility or corporate citizenship issues. The 2002 ASEAN Report to the World Summit on Sustainable Development lists priority areas. These include the promotion of environmental campaigns and awareness activities such as the proposed ASEAN Environmental Awards, the promotion of environmentally sound technologies, and cleaner production such as

⁴¹ See <http://www.apec.org/>.

programs to reduce waste in manufacturing and benchmarks to highlight “best practices” for certain industries.⁴²

German Public-Private Partnership Programme. On behalf of the German Ministry for Economic Cooperation and Development (BMZ), a German government-owned corporation for international technical cooperation, Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH, partnered with private companies and local organizations to support sustainable private sector development in Vietnam under the program called Public Private Partnerships (PPP). Projects such as ecological production of marine products for exports and sustainable coffee production are currently under way⁴³.

In addition, the GTZ has projects in Cambodia, China, Indonesia, Thailand, and Vietnam. They focus on pollution reduction and resource efficiency in industries.

International Organization for Standardization. The International Organization for Standardization (ISO) is a nongovernmental organization linking national standards institutes of 149 countries. ISO developed and maintains international standards for environmental management processes. The ISO 14000 family of standards was first published in 1996. The latest addition to the ISO environmental series, ISO 14063, “Environmental Management – Environmental Communication – Guidelines and Examples,” aims to help companies communicate their environmental performance to external stakeholders. These are voluntary standards, but auditing is required for certification. Currently there are more than 11,000 organizations certified in the East Asia and Pacific region out of over 90,000 organizations worldwide at the end of 2004.⁴⁴

Organization for Economic Co-operation and Development. The Organization for Economic Co-operation and Development (OECD) is an international forum of 30 countries that share a commitment to democratic government and the market economy. Its Investment Committee works on the issue of corporate social responsibility. Its main work includes reporting developments and good practices, improving the understanding of business and government roles, and identifying areas of collaboration between its guidelines and private initiatives⁴⁵. The guidelines refer to the OECD Guidelines for Multinational Enterprises, which are recommendations to transnational corporations operating in or from the 38 adhering countries. The guidelines include voluntary principles and standards⁴⁶.

United Nations. The United Nations (UN) is an international association of governments that facilitates cooperation in international law and justice, peace and security, economic development, and social equity. There are several CESR initiatives carried out by the UN agencies. Although this list is not comprehensive, it indicates the areas in which the UN works with the private sector to improve environmental performance.

Global Compact: The UN Global Compact (GC), a global voluntary corporate citizenship initiative, was launched in 2000. It brings together the private sector, UN agencies, and labor and civil society to encourage the spread of 10 principles in the areas of human rights, labor, the environment, and anticorruption.

Business Partnership Programme: The UN Industrial Development Organization (UNIDO) Business Partnership Programme aims to assist SMEs in developing countries to meet the mandate of multilateral institutions and international standards brought by global supply chains. It focuses on quality, efficiency,

⁴² See <http://www.aseansec.org/>.

⁴³ See http://www2.gtzt.de/vietnam/ppp/ppp_eng.htm.

⁴⁴ See <http://www.iso.org>.

⁴⁵ See http://www.oecd.org/department/0,2688,en_2649_33765_1_1_1_1_1,00.html.

⁴⁶ See http://www.oecd.org/department/0,2688,en_2649_34889_1_1_1_1_1,00.html.

and the international competitiveness of SMEs. Trade increasingly demands that producers and manufacturers in Asia meet international standards. This program helps SMEs to increase their competitiveness and environmental performance⁴⁷.

Cleaner Production (CP) Programme: UNIDO also encourages cleaner production to increase productivity and environmental performance of companies in developing countries, including China and Vietnam. It aims to give a competitive edge, and thereby facilitate their access to international markets⁴⁸.

Global Reporting Initiative: The Global Reporting Initiative (GRI) is a multi-stakeholder process to develop and disseminate Sustainability Reporting Guidelines worldwide. It was originally established by a partnership between the UN Environment Programme (UNEP) and the U.S.-based Coalition for Environmentally Responsible Economies (CERES). It became an independent institution in 2002. Out of 632 companies worldwide, 11 companies in the East Asia and Pacific region use GRI for reporting. GRI also published a sustainability reporting handbook for SMEs entitled "High 5!" Developed through a multi-stakeholder advisory committee, it addresses issues related to reporting throughout the supply chain, and highlights the benefits of reporting⁴⁹.

Other initiatives by the United Nations Environment Programme: In addition to the UN Global Compact and GRI, UNEP introduces and promotes various tools available for environmental management; carries out outreach activities and publications, including sector-specific partnerships; and sponsors forums for the mining sector, tourism sector, information and communications technology (ICT) sector, and agri-food production and consumption sectors⁵⁰. It has also published

several reports with sustainability focus; its latest report covers the issue of sustainability reporting.

The UN Industrial Development Organization (UNIDO) has a variety of projects and programs to support environmental performance improvements of companies. These projects, excluding ODS and CFC phaseout projects (as they attempt to simply comply with regulations), are listed in the table A.1. It runs the Business Partnership Programme which focuses on quality, efficiency, and the international competitiveness of SMEs and aligns with the Global Compact principles. It also carries out the Cleaner Production (CP) Programme, which aims to build national CP capacities, foster dialogue between industry and government, and enhance investments for transfer and development of environmentally sound technologies. Many of the listed projects in the table A.1 fall under these programs. The UN Development Programme (UNDP) also has projects to promote, among others, environmental management for SMEs, energy efficiency, and renewable energy.

United States Agency for International Development. The United States Agency for International Development (USAID) is an American federal government agency for foreign assistance and humanitarian aids. It promotes increased development activity by the private sector by supporting linkages between the business sector and USAID programs through an initiative called the Global Development Alliance (Franco, 2002). There are at least four projects in Asia to promote sustainable performance in the fishery, cocoa, and coffee industries. Two of these are carried out by the U.S.-Asia Environmental Partnership (USAEP).

World Bank. The World Bank (Bank) is an institution for financial and technical assistance to developing countries. The Bank supports CESR in various ways.

Its private sector investment arm, International Finance Corporation (IFC), drafted the Equator

⁴⁷ See <http://www.unido.org/doc/4364>.

⁴⁸ See <http://www.unido.org/doc/4460>.

⁴⁹ See <http://www.globalreporting.org>.

⁵⁰ See <http://www.unep.org/themes/business/>.

Principles together with the Equator Banks. For the financial institutions that adopted the principles, IFC also offers training. Its commitment to CESR is also shown by the publication of a sustainability report separately from its annual report.

The Bank's Corporate Social Responsibility Practice specifically focuses on CSR issues in private sector development by advising developing country governments and undertaking research. It assessed the environmental issues of the mining sector in the Philippines and developed appraisal tools containing guidelines to appraise the relative merits of a set of public sector options.

There are other projects and programs that promote CESR activities, including pollution reduction and energy efficiency improvement. Public disclosure programs on companies' environmental performance have also been undertaken in China, Indonesia, the Philippines, and Vietnam. In addition, the World Bank Institute provides programs to increase understanding of the role of business in society and the capacity for sustainable business practices, including projects such as Implementing Environmental and Social Accountability and Governance in SMEs.

World Economic Forum. The World Economic Forum (WEF) is an independent international organization with more than 1,000 corporate members. Under the Global Corporate Citizenship Initiative, it works with member companies and other organizations in CSR to organize discussions and produce reports, in order to increase businesses' awareness, engagement, and support for CSR. It held the Asia Roundtable and China Business Summit in 2005⁵¹.

The last part of Annex A lists projects, programs, and publications by major development agencies that potentially

⁵¹ see <http://www.weforum.org/site/homepublic.nsf/Content/Global+Corporate+Citizenship+Initiative>

contribute to the promotion of CESR in the East Asia and the Pacific region. Since it is difficult to determine whether projects, programs, and research contribute to CESR promotion, this list includes their projects, programs, and publications with *potential* direct contributions to CESR promotion through encouraging environmentally-friendly products and environmental performance improvements in companies. This is not a comprehensive or definitive list, but provides areas and types of work done by development agencies. The following projects are excluded:

- Projects that may indirectly promote CESR, such as technical assistance to improve customs administration, which promotes international exposure through increased trade.
- Projects that promote compliance with policy and international agreements, such as CFC or ODS reduction projects, because they may not promote further improvements beyond specific requirements.

Not-for-profit and nongovernmental organizations

Accountability. Accountability was established in 1995 as an international nonprofit organization. It aims to bring together members and partners from business, civil society, and the public sector from across the world to promote accountability in sustainable development. Although it is focused more on the social agenda, it publishes the Responsible Competitiveness Index in collaboration with the Copenhagen Centre, which compared and ranked countries⁵².

Business for Social Responsibility. Business for Social Responsibility (BSR) is an international nonprofit organization that helps its member companies integrate corporate social responsibility into their operations and strategies. It provides information, tools, training, and advisory services and maintains cross-sectoral collaboration. Its members are not

⁵² see <http://www.accountability.org.uk>

required to adhere to a set of standards.⁵³

Forest Stewardship Council. The Forest Stewardship Council (FSC) is a global not-for-profit non-governmental organization that promotes responsible forestry. It provides forest management standard and accreditation services based on its ten Principles and Criteria of responsible forest management.

The FSC accredits certification bodies, which certify forestry operations and production. FSC operates in more than 34 countries. There are almost 260 organizations in Asia that are eligible to display the FSC logos. Some critics say this changes little on the ground, because the companies that are already good performers get the certification (Bass and others. 2001).⁵⁴

Green Globe 21. The Green Globe 21, a global affiliation for sustainable travel and tourism, introduced the international ecotourism certification program in 1999. The program is independently audited. As of 2004, participants spread across approximately 50 countries. Depending on the criteria that tourist sites meet, they are given different levels in the certification process. As of June 2005, 112 companies are currently certified worldwide. The certification involves annual renewal, requiring these companies to monitor and minimize the environmental impacts from their operations⁵⁵.

International Business Leaders Forum. The International Business Leaders Forum (IBLF) was established in 1990 as a not-for-profit organization to support sustainable business activities, particularly in developing and transitional economies. It carries out the CSR Forum Project⁵⁶ initiated by the Prince of Wales Business Leaders Forum, which aims at serving as a central website for CSR practices worldwide. In the East Asia and Pacific region, its current projects include implementation of occupational health and safety evaluation as

well as environmental monitoring in Vietnam and Indonesia through partnerships with public, private, and civil society organizations⁵⁷.

Marine Stewardship Council. The Marine Stewardship Council (MSC) was originally established in 1997 by Unilever and WWF and became an independent global nonprofit organization in 1999. Supported by over 100 organizations from more than 20 countries, it developed an environmental standard for sustainable fishing and an accreditation program. The accreditation for sustainable fishing is provided by independent bodies. No Asian companies are either certified or are in the process of being certified. The MSC has a program that covers small-scale fisheries in the Pacific and an outreach program in East Asia⁵⁸.

Associations

Association of Chartered Certified Accountants. The Association of Chartered Certified Accountants (ACCA) Malaysia⁵⁹ has sponsored the annual Environmental and Social Reporting Awards (MESRA) since 2002. The awards are endorsed by the Department of Environment, Ministry of Natural Resources and Environment of Malaysia. Similarly, ACCA Hong Kong⁶⁰ sponsors the Awards for Sustainability Reporting, and ACCA Singapore⁶¹ sponsors the Singapore Environmental Reporting Awards. They also report on the status of such reporting in each country. ACCA China⁶² has not yet developed such awards.

Association for Sustainable & Responsible Investment in Asia. The Hong-Kong based Association for Sustainable and Responsible Investment in Asia (ASRIA) is a not-for-profit membership organization that promotes corporate social responsibility and sustainable investment in the Asia and Pacific region. It conducts research and holds conferences and

⁵³ see <http://www.bsr.org/>

⁵⁴ See <http://www.fsc.org>

⁵⁵ see <http://www.greenglobe21.com>

⁵⁶ see <http://csrforum.com>

⁵⁷ see <http://www.iblf.org>

⁵⁸ see <http://www.msc.org>

⁵⁹ see <http://malaysia.accaglobal.com/>

⁶⁰ see <http://hongkong.accaglobal.com/>

⁶¹ see <http://singapore.accaglobal.com/>

⁶² see <http://china.accaglobal.com/>

briefings to raise awareness among investors, business, and communities⁶³. SRI funds exist in Indonesia, Malaysia, and Taiwan, along with more developed economies, such as Korea and Singapore.

International Council of Chemical Associations. Responsible Care is the chemical industry's initiative to improve its health, safety, and environmental performance through national chemical industry associations. Since its start in Canada in 1985, 52 national chemical industry associations—members of the International Council of Chemical Associations (ICCA)—have adopted the Responsible Care initiative, including Indonesia, Hong Kong, the Philippines, Taiwan, and Thailand. Responsible Care is unique among voluntary codes of conduct, because it has enforcement mechanisms. Although there is no punishment involved, companies can detect noncompliance, because they regularly sell and buy intermediate products from one another (Reinhardt 1999). National chemical associations provide periodic reports or devote part of their association's annual report to discuss progress in adopting the common guidelines.⁶⁴

International Council of Toy Industries. The International Council of Toy Industries (ICTI) is a non-governmental organization of toy associations, originally established in 1975. The China Toy Association and Chinese Taipei Toy & Children's Article Manufacturers Association are members. The Code of Business Practices was accepted in 1991 and adopted in 1995. Environmental issues have been discussed at its annual meetings. However, the code only refers to compliance with laws protecting the environment.

Asia Pacific Roundtable for Cleaner Production. The Asia Pacific Roundtable for Cleaner Production (APRCP) is an international nongovernmental and nonprofit membership organization that was formally established in 1998. It aims to provide leadership and support for cleaner production and to stimulate the promotion and implementation of cleaner production strategies and technologies in the Asia and Pacific region. Since its inception, it has held five roundtables in the region.⁶⁵

World Business Council for Sustainable Development. The World Business Council for Sustainable Development (WBCSD) is a coalition of companies that are committed to sustainable development. The council was originally conceived in 1991 and merged with the World Industry Council for the Environment in 1995. Its members consist of 180 companies from more than 30 countries, including five from China and two from Thailand. These companies represent 18 major industrial sectors. It aims to catalyze change toward sustainable development and to promote corporate social responsibility and eco-efficiency.⁶⁶

For-Profit Organizations

Sustainability was established in 1987 as a for-profit advocacy, consulting, and think-tank organization to advocate transparency and accountability for business and others. Although most of its work is concentrated in the OECD countries, it has worked with international organizations to publish reports, including *Developing Value: the business case for sustainability in emerging markets*.⁶⁷

⁶³ see <http://www.asria.org>

⁶⁴ See <http://www.responsiblecare.org/>.

⁶⁵ See <http://www.aprcp.org>.

⁶⁶ See <http://www.wbcds.com>.

⁶⁷ See <http://www.sustainability.com>.

Table A.1: A list of projects/ programs/ publications by major development agencies that potentially contribute to CESR promotion in the EAP region

| Agency | Project/ Programme/ Publication | Country | Content to Promote Better Environmental Performance in Private Sector |
|----------|---|-------------|---|
| ADB | Asian Environment Outlook 2005: Corporate Responsibility for Environmental Performance | Regional | A publication on CSR in Asia, with related workshops |
| ADB | Metro Manila Air Quality Improvement (Air Pollution Control Facility) | Philippines | A project to strengthen compliance monitoring and subsequent enforcement of emission standards for polluting industries and contribute to the funding of air pollution monitoring equipment for individual or groups of industries as well as the installation of pollution abatement equipment |
| ADB | Shanxi Environment Improvement | China | A project to introduce policies which will mitigate the environmental pollution and environment-friendly technologies to conserve energy and raw materials |
| GTZ | Common Code for the Coffee Community | Vietnam | A project to develop a global code for the sustainable growing, processing and trading of mainstream coffee and ensure the feasibility and sustainability of the code implementation |
| GTZ | Enhancing the competitiveness and eco-efficiency of small and medium-sized enterprises (SMEs) | Thailand | A project with a component that includes promotion of eco-efficiency in industry that aims at sustainable and clean industrial development |
| GTZ | Environmental policy advisory service and environment management for enterprises (EPEM) | China | A project to achieve environmental pollution reduction through improved environmental policy measures of the Chinese government |
| GTZ | Environment-oriented Enterprise Consultancy Zhejiang (EECZ) | China | A project to support cleaner and eco-efficient production through provision of information and know-how to industries |
| GTZ | Indonesian-German Environmental Programme (ProLH) | Indonesia | A project with a component that includes reduction of industry-related pollution and improvement of usage efficiency of resources, capacity building at micro and meso level, pilot-projects and PR campaigns |
| GTZ | Multilateral EU trade promotion | Cambodia | A project that includes the preparation of "A National Action Plan" for developing the commercialization of Organic and GMO free products in Cambodia |
| IFC | Cagayan Electric Power and Light Company (CEPALCO) | Philippines | A project to developing a solar photovoltaic plant to enhance the capacity of CEPALCO's existing 7 MW run-of-river hydroelectric facility |
| IFC | Ecolodges: Exploring Opportunities for Sustainable Business | Global | A report summarizing the results of research into the sustainability of ecolodges |
| IFC | Efficient Lighting Initiative (ELI) | Philippines | A program to reduce greenhouse gas emissions by increasing the use of energy-efficient lighting technologies |
| IFC | Fenglin medium-density fiberboard (MDF) | China | A project to finance construction of a new MDF production line, a laminated-flooring line and MDF printing line among others, but it also addresses the reduction of resource consumption at the plant |
| IFC/ GEF | GEF Asian Conservation Corporation | Philippines | A project to conserve significant coastal and marine biodiversity through a partnership between a private equity investment holding company (Asian Conservation Company) and two local NGOs |

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| IFC/ GEF | Marine Aquarium Market Transformation Initiative | Indonesia and Philippines | A project to transform the marine aquarium trade of the Philippines and Indonesia to ecological and economic sustainability using conservation management and rehabilitation |
| IFC/ WWF | Sustainable Forestry | Indonesia and others | A sectoral project to develop competitive, sustainable wood trade with programs to help forestry managers, sawmills, furniture manufacturers, and buyers capitalize on the business potential for producing certified wood products for export by promoting sustainability throughout the supply chain |
| UNDP | Barrier Removal for Efficient Lighting Products (Greenlights) | China | A project to address identified market barriers by broadening the China Green Lights start-up efforts into a major national effort, including upgrading the quality of Chinese lighting products and establishing a self-sustaining market in efficient lighting products and services |
| UNDP | Capacity 2015: Partnership for Sustainable Development in Papua | Indonesia | A project to devise a 30-year plan for the region that matches economic growth with needs for social and ecological security and seek to engage British Petroleum's commitment to corporate responsibility in the 'Tanggung' Liquefied Natural Gas operation in Papua province |
| UNDP | Capacity 21: Strengthening National Capacities to Integrate the Environment into Investment Decisions | Vietnam | A project to Influence investment decisions of all scales to incorporate environmental considerations, through development of new environmental management instruments |
| UNDP | Capacity Building to Remove Barriers to Renewable Energy | Philippines | A project with a long term objective of reducing greenhouse gas (GHG) emissions by identifying and removing key market, policy, technical and financial barriers to the development of renewable energy to replace fossil fuel use in the Philippines |
| UNDP | End Use Energy Efficiency Program (EUEEP) | China | A program to remove barriers to the widespread application and practice of energy conservation and energy efficiency in the major energy consuming sectors (buildings and industrial) |
| UNDP | Energy Conservation and GHG Emissions Reduction in Township and Village Enterprise Industries (TVE) in China Phase II | China | A project to remove key market, policy, technological, and financial barriers to the production, marketing and utilization of energy efficient technologies and products in the brick, cement, metal casting and coking sectors |
| UNDP | Environmental Management Programme for Industry Competitiveness | Philippines | A project that aims to develop an internationally competitive Philippine industry sector, specifically the Small and Medium-scale Enterprises (SMEs) primarily through the use of environmental management tools |
| UNDP | Industrial Energy Efficiency Improvement Project | Malaysia | A project to reduce barriers to the implementation of energy efficiency and conservation efforts and will contribute to the rational use and improved energy efficiency in Malaysian industries |
| UNDP | Philippine Efficient Lighting Market Transformation Project | Philippines | A project consisting of preparatory activities that will culminate in the design of a multi-component program that will address the removal of the remaining technical, financial and market barriers to the accelerated introduction/ large-scale promotion and commercialization of energy-efficient fluorescent lighting systems |
| UNDP | Private Sector Participation in Managing the Environment (PRIME) | Philippines | A project that aims to strengthen the role of the private sector in environmental management (an environmental partnership of the UNDP and the Philippines' Board of |

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| | | | Investments - Department of Trade and Industry) |
| UNDP | Promoting Energy Conservation in Small and Medium-sized Enterprises (PECSME) | Vietnam | A project to reduce the greenhouse gas emissions from small-and medium-sized enterprises (SMEs) by removing existing policy, institutional, technical, informational, and financial barriers to adoption of more energy efficient technologies and practices |
| UNDP | Promoting Methane Recovery and Utilisation from Mixed Municipal Refuse | China | A project to promote indigenous enterprises that will build and operate recovery systems and utilize the energy |
| UNDP | Public Private Partnership for the Urban Environment (PPPUE) | Global | A project to increase the access of the urban poor to basic urban services by promoting collaboration between the private and public sectors; established the Project Development Facility to support the development of joint-venture companies in cities around the world, along with a capacity building element for the analysis and dissemination of best practices and lessons learned |
| UNEP | Buried Treasure: Uncovering the business case for corporate sustainability | Global | A report to uncover evidence to test the premise that responsible business is value enhancing |
| UNEP | Driving Sustainability: Can the Auto Sector deliver sustainable mobility? | Global | A publication that focuses on the ways in which a number of leading companies in the sector are defining and responding to the sustainable mobility agenda |
| UNEP | Environmental Management of Environmental Estates | China, Vietnam, and Philippines | A program to promote eco-industrial development, including training workshops in Vietnam (1999), China (1999), and Philippines (2001) |
| UNEP | Environmental Management Tools | Global | An area of activities to make available environmental management tools to assist individuals and organizations to undertake various environmental management tasks |
| UNEP | Finance, Environment and Sustainable Development: Corporate Responsibility and Capital Markets: Managing Qualitative Risk Issues | Global | A report of the European Seminar on Finance, Environment and Sustainable Development on January 10, 2003 |
| UNEP | Greenhouse Gas Emission Reduction from Industry in Asia and the Pacific (GERIAP) | China, Indonesia, Philippines, Thailand, Vietnam | A project to reduce greenhouse gas (GHG) emissions from industry through capacity building in national institutions and industry, energy assessments in participating plants, and a review of national policies |
| UNEP | Industry Outreach Activities | Global | A program to promote the use of Corporate Environmental Reporting, including the Efficient Entrepreneur calendar that introduces environmental performance measures through a month-by-month programme for SMEs |
| UNEP | International High-Level Seminars on Cleaner Production | Global | Biannual seminars to review and evaluate the progress of Cleaner Production initiatives worldwide, assess obstacles as well as opportunities for further development, and recommend future directions for UNEP's Cleaner Production activities (1998, 2000, 2002, and 2004) |
| UNEP | Life and Science: Accountability, Transparency, Citizenship and Governance in the Life Sciences Sector | Global | Research that demonstrates that most life sciences companies fail to acknowledge many of the issues of most concern to external stakeholders |
| UNEP | Offshore Oil and Gas | Malaysia, | A multi-stakeholder initiative to create a medium to |

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| | Environment Forum | etc. | locate and disseminate environmental information concerning the sustainable development of the offshore oil and gas industry, including regulatory profiles of selected countries |
| UNEP | Risk & Opportunity: Best Practice in Non-Financial Reporting | Global | An international review of corporate sustainability reports by SustainAbility, the United Nations Environment Programme and Standard & Poor's |
| UNEP | Roundtable "Can Sustainability Sell? - Communicating Corporate Responsibility/Sustainability, a business case for the automotive industry" | Global | A roundtable at the International Motor Show, September 12th, 2003 - Frankfurt/M, Germany |
| UNEP | Strategies and Mechanisms for Promoting Cleaner Production Investments in Developing Countries | Vietnam, etc. | A project to demonstrate how helping national and local policy makers, industrial associations and financial institutions understand the importance of CP can stimulate such investments |
| UNEP | The 1997 Benchmark Survey | Global | A report that analyses 1000 company environmental reports from 16 sectors and 18 countries |
| UNEP | The Global Reporters | Global | A report that spotlights emerging best practice around the world, focusing on a number of key sectors and hot topics |
| UNEP | The Non-Reporting Report | Global | A publication that aims to promote reporting by exploring why some companies choose to produce corporate environment reports while others choose not to |
| UNEP | The Oil Sector Report: A Review of Environmental Disclosure in the Oil Industry | Global | A report that aims to increase the number of companies with environmental reporting, the quality of reporting, and the comparability of reporting across the sector and industry |
| UNEP | Trust Us: The Global Reporters 2002 Survey of Corporate Sustainability Reporting | Global | An UNEP/SustainAbility report that reveals both significant gains and important gaps in the latest crop of corporate environmental, social and sustainability reports |
| UNEP | Virtual Sustainability: Using the Internet to Implement the Triple Bottom Line | Global | A publication that documents examples of how companies communicate their social and environmental performance online |
| UNEP/UNIDO | UNIDO/UNEP National Cleaner Production Centre (NCPC) programme | China, Vietnam | A program to promote and implement the Cleaner Production strategy in enterprises and government policies, in harmony with local conditions |
| UNEP/UNIDO/UNDP | Global Compact | Global | A global voluntary corporate citizenship initiative that offers facilitation and engagement through several mechanisms: Policy Dialogues, Learning, Country/Regional Networks, and Projects |
| UNIDO | Advisory Assistance on Avoidance of Environmental Damages and Pollution from Artisanal Mining and Processing of Tin Ores | Vietnam | Preparatory assistance to assist the government in the preparation of a programme and appropriate strategies that are most effective in achieving the necessary change in the polluting behaviour of the artisanal tin miners |
| UNIDO | Advisory Assistance on Reducing Air Pollution Caused By Copper Refinery in Shanghai | China | A project that aims at increasing energy efficiency and improving substantially the environmental performance of the so-called poling process |
| UNIDO | Assistance in Cleaner Production of Basic Organic Chemicals | China | A project to provide advisory services to Jilin Chemical Industries needed for the installation and modification of cleaner production equipment for the production of basic chemicals such as acetaldehyde, acetic acid and acetic anhydride |
| UNIDO | China Motor System Energy | China | A project to control the growth of greenhouse gas |

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| | Conservation Programme | | emissions by establishing a national programme to promote motor system improvements in factories throughout China |
| UNIDO | Corporate Social Responsibility and the Development Agenda: Should SMEs Care? | Global | A publication that reviews recent trends in CSR theory and practice and, in doing so, places special emphasis on their relevance for small and medium enterprises (SMEs) and on the context of economic development in developing countries. It is argued that at the end of the day, CSR will only prevail and remain an important force if SMEs can be effectively engaged |
| UNIDO | Corporate Social Responsibility: Implications for Small and Medium Enterprises in Developing Countries | Global | A report published in 2002 that focuses on CSR implications and potential roles for SMEs in developing countries |
| UNIDO | Energy Conservation and Ghg Emissions Reduction in Chinese Tves - Phase II | China | A project to reduce GHG emissions in China from the Township-Village Enterprises (TVE) sector by increasing the utilization of energy efficient technologies and products in the brick, cement, metal casting and coking sectors |
| UNIDO | Energy Conservation and Pollution Control in Township and Village Enterprises | China | A project to review the current manufacturing patterns in the four most energy-intensive TVE sub-sectors (brick making, cement, coking and metal casting), identify key marketable technologies and demonstration sites, and formulate an institutional strengthening programme and a commercialization strategy |
| UNIDO | Environmentally Sound Technologies Programme | China | A program to reduce environmental pollution and improve the competitiveness of industrial entities through the adoption of cleaner and environmentally sound technologies |
| UNIDO | Establishing Climate-Friendly Technology Financing Facility | China | A project to substantially increase financing to small and medium-sized enterprises (SMEs) that can provide clean and efficient energy services, thereby reducing greenhouse gas emissions |
| UNIDO | Evaluation and Adjustment of China's Industrial Policies For Key Industries To Promote Sustainable Development | China | A project to strengthen the capacity of the Department of Long-term Planning and Industrial Policy (DLTPIP) of the State Planning Committee to revise China's industrial policy for the five key sectors in light of sustainability (competitiveness, employment and environment) considerations |
| UNIDO | Industrial Environmental Protection Policies | Vietnam | Analysis of environmental degradation and associated problems originating from industrial activities |
| UNIDO | Industrial Pollution Control | Thailand | An assessment of existing policies and strategy in industry-related norms, standard regulations and legislation in environment |
| UNIDO | Industrial Pollution Reduction in Viet Tri | Vietnam | A project to reduce the negative environmental impacts from industrial operations in Viet Tri by carrying out studies to better define the regional impacts, prescribing appropriate guidelines for waste emissions, formulating a strategy to meet these guidelines, and promoting voluntary compliance |
| UNIDO | International Conference on Plastics Waste Recycling Technology, Shanghai, 15- 18 April 1991 | China | A conference to demonstrate to participating countries the applied technologies and the equipment for plastics waste recycling |
| UNIDO | Investment Promotion For Environmentally Sound | China | A project to assess the policy, institutional and business climate existing in the Taihu Basin with a view to |

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| | Technology For The Taihu Basin | | identifying opportunities for investing in environmentally sound technologies and processes |
| UNIDO | Packaging and the Environment | Thailand | A project to formulate international technical assistance that aims to establish up-to-date knowledge and advisory capability on environment suited packaging production and recycling at the thai packaging centre |
| UNIDO | Packaging Technology and Development Centre | Vietnam | A project to establish technological support capability and to introduce modern packaging technologies that ensures packaging with minimal damage to environment |
| UNIDO | Promotion of Cleaner Industrial Production | Cambodia | A project to assist the government to improve the productivity and competitiveness of its growing industry base, as well as improve industry's access to international and more local markets, through the application by export-oriented enterprises of cleaner production techniques and technology |
| UNIDO | Promotion of Cleaner Industrial Production | Lao | A program to assist the government to improve the productivity and competitiveness of its growing industry, as well as improve its access to international and more local markets, through the application by export-oriented enterprises of cleaner production techniques and technology |
| UNIDO | Reduction of Industrial Pollution in Ho Chi Minh City | Vietnam | A project to diagnose the causes for industrial pollution and inefficient plant operation in and around Ho Chi Minh City and recommend remedies which may involve changing operating procedures or plant modifications which are expected to increase operating efficiency and profitability |
| UNIDO | Reduction of Industrial Pollution in Ho Chi Minh City, Viet Nam: Phase Iii | Vietnam | A project to address development of Clean Production (CP) friendly policies, assistance to companies in the advanced aspects of CP, feasibility study to explore cost effective ways of disseminating CP, and institutionalization and capacity-building of local R&D institutions |
| UNIDO | Reduction of Industrial Pollution: Ho Chi Minh City: Phase Ii | Vietnam | A project to demonstrate how pollution and especially waste water pollution can be reduced through cleaner industrial production |
| UNIDO | Reduction, Control and Treatment of Effluent in A Textile Factory | Vietnam | Preparatory assistance to analyze the dyeing, finishing and printing departments at the Nam Dinh Textile Mill to determine to what extent they could be modified in order to reduce the effluent |
| UNIDO | Support For Upgrading Seafood Products To International Standards and Quality Requirements | Vietnam | A project to establish the institutional framework for the fishery processing sector so that advice, information and guidelines on a number of issues including export marketing, quality control, financial and environmental issues and project design/technology for fish processing can be provided |
| UNIDO | Transfer of Cleaner Process Technologies in The Pulp and Paper Industry | Vietnam | A project to improve the environmental performance of the pulp and paper industry in Vietnam |
| UNIDO | Viet Nam National Cleaner Production Centre | Vietnam | A project to promote and disseminate the concept of cleaner production through the development and operation of a Viet Nam National Cleaner Production Centre |
| USAID | Fisheries Improved for Sustainable Harvest (FISH) project in the Philippines | Philippines | A project to assess the current fishing industry challenges and recommend good fisheries management practices in order to balance biodiversity conservation with increased fisheries production |

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| USAID | Strengthening the National Coffee Cooperative System | Timor-Leste | A project to improve production, processing, and marketing of organic and fair-trade coffee products by the Cooperative Café Timor (CCT), a federation of Timorese-owned cooperatives that produces and exports premium organic coffee in the world specialty coffee market |
| USAID | USAEP Environmental Governance (EcoGov) | Philippines | A program to links the sustainable yield of fish stock with the capacity of commercial and municipal fishing fleets, and link the issuance/renewal of licenses with performance |
| USAID | USAEP Sustainable Cocoa Extension Services for Smallholders (SUCCESS) | Philippines | A project to strengthen the partnership between local governments, universities and farmer groups and the U.S. private sector to better utilize resources to support the sustainable development of the cocoa industry |
| WB | Beijing Environmental Project | China | A project to assist Beijing Municipality to plan cost-effective strategies for a comprehensive environmental protection program, strengthen the policy and institutional framework required, and support priority investments needed to start the process including renovation of a number of highly polluting industries |
| WB | Chongqing Industrial Pollution Control and Reform Project | China | A project to help Chongqing municipality achieve a significant reduction in pollution and restructure productive facilities (iron and steel industry) and establish a strategy and prepare a long-term plan |
| WB | Company Codes of Conduct and International Standards: An Analytical Comparison | Global | Research analyses to determine the content of CSR codes of conduct in apparel, footwear, and light manufacturing, agribusiness, tourism, oil and gas, and mining sectors and the extent to which code content derives from internationally agreed standards |
| WB | Demand-Side Management & Energy Efficiency Project | Vietnam | A project to develop and expand demand-side management (DSM) business programs and develop sustainable business models and mechanisms to support energy efficiency retrofit investments in commercial and industrial facilities |
| WB | Diagnostic study of the Corporate Social Responsibility (CSR) activities of large scale mining companies in the Philippines and the respective public sector roles that strengthen CSR | Philippines | A diagnostic study into CSR mining practices of companies operating in the Philippines |
| WB | Efficient Industrial Boilers Project | China | A project to reduce Greenhouse Gas Emissions (GHG) and emissions of total suspended particulates, sulfur dioxide and nitrogen oxides through the development of affordable energy efficient and cleaner industrial boilers (IB) design and the mass production and marketing of such IB models |
| WB | Electricity Generating Authority of Thailand (EGAT) Investment Program Support Project | Thailand | A project that includes the regulatory-system reform for the energy sector such as formulation of corporate policy for environmental and social management |
| WB | Energy Conservation Project | China | A project to achieve large, sustained and growing increases in energy efficiency and associated reductions in the rate of growth in carbon dioxide emissions and other pollutants as well as to provide access to information on successful domestic experiences, particularly to enterprises |

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| WB | Forest Certification: Toward Common Standards | Global | A paper by the Resources for the Future that illustrates the active roles that industry associations, environmental NGOs, national governments, and international organizations in developing and promoting codes of conduct that are formally sanctioned and certified |
| WB | Guangzi Urban Environment Project | China | A project to improve the environment of Nanning and Guilin, in support of sustainable economic growth and poverty alleviation in the region, which includes a pilot project to fund sugar refinery pollution abatement |
| WB | Hubei Urban Environment Project | China | Part of a phased development program designed to improve environmental conditions and management in Hubei Province, including identification of the highest-impact industrial air and water polluters and significantly reduce their pollution |
| WB | Industrial Restructuring Project | Philippines | A project to strengthen environmental protection along with the revival of the industrial sector through credit line and export credits for on-lending to enterprises in eligible industrial subsectors for modernization, expansion and new facilities, including investments in energy conservation and pollution control devices among others |
| WB | Laguna de Bay Institutional Strengthening and Community Participation Project | Philippines | A project to assist the Laguna Lake Development Authority, Local Government Units, and other stakeholders improve the environmental quality of the Laguna De Bay watershed, including the introduction of incentives for environmental management through public disclosure of environmental performance (Eco Watch) |
| WB | Liaoning Environment Project | China | A project to assist in financing an investment program addressing air pollution mitigation measures in enterprises among others |
| WB | Mining Sector Institutional Strengthening Technical Assistance Project | Papua New Guinea | A project to strengthen institutional capacity within the Mining Department (DoM) and the Internal Revenue Commission (IRC) to administer and regulate exploration and mining projects and to thereby contribute to socially and environmentally sustainable private mineral investment |
| WB | Public Sector Roles in Strengthening Corporate Social Responsibility: A Baseline Study | Global | A report categorizes and discusses the range of roles that public sector agencies have played in providing an 'enabling environment' for corporate social responsibility |
| WB | Public Sector Roles in Strengthening Corporate Social Responsibility: Taking Stock | Global | An assessment of public policy roles to strengthen corporate social responsibility |
| WB | Public Sector Support for the Implementation of Corporate Social Responsibility (CSR) in Global Supply Chains: Conclusions from Practical Experience | Global | A report on ways in which governments of developing countries can create more effective enabling environments for corporate social responsibility in global supply chains |
| WB | Race to the Top: Attracting and Enabling Global Sustainable Business (Business Survey Report) | Global | A report that identifies business initiatives worldwide to increase profits by making progress on sustainability |
| WB | Renewable Energy Development Project | China | A project to foster development of a sustainable market for PV technologies and demonstration of the viability of commercial wind development |
| WB | Shandong Environment | China | Part of a phased development program of Shandong |

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| | Project | | Province to improve environmental conditions, including a revolving credit subloans facility to assist heavily polluting small and medium-sized enterprises to carry out pollution abatement such as waste minimization in order to comply with environmental regulations |
| WB | Solar Home Systems Project | Indonesia | A project to facilitate private sector participation in advancing renewable energy commercialization among others |
| WB | Southern Jiangsu Environmental Protection Project | China | A project to strengthen their environmental planning and management capabilities, including a line of credit for large-scale industrial pollution control subprojects and small-scale industrial pollution control subprojects and pilot township and village industrial enterprise environmental management subprojects |
| WB | Technology Development Project | China | A project to support the government's continuing reforms in technology policy and institutions so as to promote the development of clean, productivity enhancing technologies in China's industries |
| WB | Tianjin Urban Development and Environment Project | China | A project to help the Tianjin Municipal Government to increase efficiency and responsiveness of its infrastructure and environmental management systems, including a line of credit for pollution control investments for industrial enterprises to undertake waste minimization or other cost-effective pollution reduction measures |
| WB | Western Java Environmental Management Project | Indonesia | A project to lay the strategic framework which will form the institutional and community foundation for sustainable environmental waste management, including a Community and Private Sector Participation component to provide technical assistance, training, and information on ways to reduce pollution to SMEs |
| WB | Yunnan Environment Project | China | Part of a phased development program of Yunnan Province to improve environmental conditions, including industrial pollution control component with direct financial support for enterprises to abate pollution |

ANNEX B

ENVIRONMENTAL CONTENT OF CODES OF CONDUCT AND POLICY

This table shows the environmental codes of conduct, policies, and guidelines of companies discussed in the paper.

| NAME | INDUSTRY | COUNTRY | MAIN ENVIRONMENTAL CONTENT |
|--|---------------------|------------------------|---|
| International Council of Toy Industries | Manufacturing | International | Comply with or exceed all applicable local laws concerning sanitation and risk protection |
| International Council of Chemical Associations | Chemical | International | Continuously improve their company's and the chemical industry's performance in protecting people and the environment throughout the life cycle of their products and processes |
| Novartis (Thailand) Ltd. | Pharmaceuticals | (Swiss based) Thailand | Respect highest standards to protect the environment |
| BP Indonesia | Oil and Gas | U.K. | Comply with the BP Health, Safety, Security and Environment Management System and rules to minimize any damages to the environment |
| Levi Strauss & Co | Textile and Garment | U.S. | Do business only with partners who share the company's commitment to the environment |
| Fuji Xerox | Office Equipment | U.S. | Conduct operations in a manner that safeguards health, protects the environment, conserves valuable materials and resources |
| Thai Petrochemical Industry (TPI) Group | Petrochemical | Thailand | Comply with the laws, regulations and international standards; minimize risks to the environment and community |
| Dow Chemical (Union Carbide) | Chemical | U.S. | Ensure that products and operations meet applicable government and Dow standards |
| British American Tobacco | Tobacco | U.K. | Comply with all applicable laws and regulations, establish procedures for assessing the environmental, health and safety impacts |
| CLP Holdings, Limited | Energy | H.K., China | Comply with all applicable environmental laws and regulations, continuously improve environmental performance |
| Hong Kong Architectural Services Department | Government | H.K., China | Deliver our services in an environmentally responsible manner, comply with all relevant legislation and regulations as a minimum requirement |
| Mass Transit Railway Corporation (MTR) | Railroad | H.K., China | Comply with all occupational health and safety legislation, commit to the continuous review of environmental issues |
| Ford Malaysia - Shah Alam Assembly Plant | Automobile | Malaysia | Compliance with laws, rules and regulations |
| Ford Motor Company | Automobile | U.S. | Work to provide effective environmental solutions and to continuously reduce environmental impacts |

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| Siam Cement Group | Conglomerates | Thailand | Control pollution to meet or exceed all applicable government requirements, reduce waste from production and other processes |
| Tesco | Retail | U.K. | Comply with all applicable laws and regulations relating to the environment, commit to reporting on its environmental performance |
| Statoil | Oil and Gas | Norway | "Zero harm" to the environment - conserve biodiversity, limit emissions and discharges as well as land use |
| Starbucks | Retail | U.S. | Work with suppliers that are committed to our universal principles of operating their business in a responsible and ethical manner and helping to protect the environment |
| Citigroup | Financial | U.S. | Run business in an environmentally sensitive manner, support the Equator Principles |
| Shell Refining Company | Oil and Gas | Malaysia | Aim to have a Health, Safety, Security and Environment (HSSE) performance we can be proud of and to earn the confidence of customers, shareholders and society at large |
| Matsushita Electric Company (Malaysia) Berhad | Electronics | Malaysia | Comply with environmental requirements, promote 'green products' and 'clean factory' programs |
| PT Freeport Indonesia | Mining | Indonesia | Comply with environmental statutes and regulations and commit to continuous improvement of environmental performance |
| Rex Hotel | Tourism | Vietnam | Comply with all local environmental legislation and continuously seek to improve its environmental performance |
| Excelbond Metal Recycling Industries Sdn Bhd | Metal | Malaysia | Commit to continual improvement and prevention of pollution |
| HSBC | Financial | Hong Kong | Seek to demonstrate the highest standards of environmental stewardship |
| Canon | Office Equipment | (Japan based) China | Contribute to society, including preservation of the global environment |
| ST Microelectronics | Semiconductor | Switzerland | Commit to Total Quality and Environmental Management and to publish as part of its Annual Report, a specific Social and Environmental report |
| Advanced Micro Devices | Semiconductor | U.S. | Protect the environment and assure compliance with applicable laws and regulations worldwide |
| Kraft Foods | Retail | U.S. | Commit to reducing environmental impact, preventing pollution and promoting the sustainability of natural resources while providing quality products |
| Oxiana Inc. | Mining | Australia | Comply with any applicable statutory laws and regulations, integrate sound environmental management into all of its business |

ANNEX C

PUBLIC DISCLOSURE PROGRAMS AS REGULATORY TOOLS

Annex C describes public disclosure programs, one of the successful regulatory tools that are used to facilitate CESR and to improve corporate environmental performance in the EAP region.

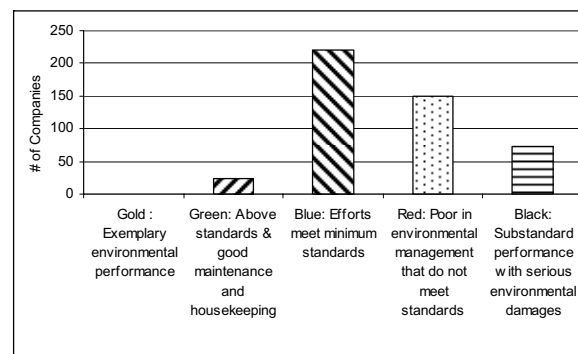
Indonesia Pollution Control, Evaluation and Rating Program (PROPER) II. Indonesia's goal was to expand PROPER, which was introduced in 1993, to a national scale, hoping to evaluate 2000 firms in the year 2000. However, overtaken by the East Asian crisis of the late 1990s, the PROPER program became dormant between 1998 and 2000.

In 2001, as the country recovered from the financial crisis, the Ministry of Environment asked the World Bank to help revamp PROPER. Between 2001 and 2002, the original PROPER methodology was reworked and adapted to the newly deployed country-wide decentralized administrative structure. As a result, PROPER II was officially launched in 2002. The new design would enable the program to reach a much larger number of firms and to apply a wider range of performance parameters, including indicators for air quality, hazardous waste and resources management, Environmental Impact Assessment requirements, and specifics about factories' Environmental Management Systems. It is based on at least 50 criteria, such as waste management for liquid and hazardous waste, environmental impact analysis, and resources management. A company's rating goes up as it satisfies more of these criteria (Jakarta Post, 2005).

Finally, a ministerial decree endorsed PROPER II and encouraged further community development and firm participation. The annual ratings are disclosed to the public over the summer months in an official ceremony sponsored by the Ministry of Environment,

which sees ample participation of TV and daily newspapers, and environmental advocacy groups. The number of firms/factories audited has been consistently increasing over the past three years: in 2002-2003, ratings for only 85 companies were disclosed; in 2003-2004, the number went up to 251, and in 2004-2005, it saw a further increase of about 20 percent, thus reaching 466 firms. In 2005, not a single company received a Gold mark: 23 were rated Green, 221 Blue, 150 Red, and 72 Black (Figure C.1). Of the 72 companies rated black, 14 have also received a Black rating in the two previous PROPER II audits. The latest result shows that more than half of the 466 companies meet the minimum standards or above.

Figure C.1 PROPER II Rating in 2004-2005



Source: Jakarta Post, 2005.

PROPER II is a successful example of an innovative approach to complement the existing rather weak command-and-control regulation. It shows how public disclosure can influence other areas, such as informal regulation by communities, investor preference for clean firms, and consumer preference for green products. It offers another option to policymakers, but it also imposes new responsibilities for strategic thinking about the benefits and costs of pollution control, strong

commitment to public participation, and a clever, focused use of information technologies.

Philippines EcoWatch Program. Modeled after the Indonesian PROPER program, the Industrial EcoWatch program in the Philippines also rated companies' environmental performance with five colors based on companies' compliance with environmental regulations. This pilot program was undertaken in 1997. Out of 12,000 companies in the Metro Manila region, it involved about 1,000 companies, including industries such as beverages, food, textiles, and pulp and paper (*Business Daily* 1998). It required self-monitoring and reporting of the data on water quality. In this program, 39 companies were found to be discharging pollution more than the regulations allowed (i.e., rating Black) and only 26 companies were in compliance with the regulations⁶⁸. In 1998, the number of companies rated black, indicating that companies made no effort to achieve compliance, declined to 19 (DENR 1998). No follow-up surveys on participating companies from this pilot program were found.

In 2003, the Philippines decided to extend the program nationwide, providing incentives such as permit extensions and reduced frequency of submitting monitoring reports to high achievers (DENR 2003). In 2005, the program disclosed the names of 43 companies that were consistently out of compliance with environmental standards. However, some of the 43 companies had not even submitted the required self-monitoring reports (DENR 2005).

The 2003 Philippines Environment Monitor has identified that water pollution in the Philippines affects the health of the population, fishery and tourism with total damages and costs reaching US\$1.3 billion. To improve and monitor the beach environment, the Beach EcoWatch program was designed to raise awareness and address water quality-related issues by providing the public with information on water pollution.

⁶⁸ See http://www.worldbank.org/nipr/pub_info.htm#ecowatch.

The International Workshop on Beach EcoWatch Program for the Philippines was held in 2004 with 100 participants from various government agencies, non-government organizations, academia and private institutions. The local governments in partnership with other stakeholders in La Union, Cebu, Bohol, and Oriental Mindoro in the Philippines also led several Beach EcoWatch consultations.

Currently, a draft national ecotourism standard is being prepared by the Department of Tourism, which will hopefully include a set of national Beach EcoWatch standards and a Monitoring and Evaluation framework. A national certification for beaches, similar to the Blue Flag certification, is also envisioned. An intermediate goal is to test an information management system and systematic provision of public access to information on beach water quality in the Philippines based on lessons from the U.S., Europe and Latin America.

China Green Watch Programs. In 1999, Green Watch programs were carried out in two locations in China—Zhenjiang in Jiangsu Province and Hohhot in Inner Mongolia. Both programs mandated participation for the companies selected. For the Zhenjiang program, 91 large polluters selected from several industries were rated based on their environmental performance, including emissions, inspection records, regulatory compliance, records of public complaints, and environmental management systems. It covered not only water pollution, as in the Indonesian PROPER or the Filipino EcoWatch program, but also air, noise, solid waste, etc. The result showed that a few companies achieved the highest green rating and 31 percent of the companies earned a superior blue rating (Wang and others 2002).

For the Hohhot program, the scale of this public disclosure program was smaller than the Zhenjiang program. Since it was a poor economic region in China, the program covered only 56 companies and only water and air pollution. Companies were selected based on

their pollution level, their susceptibility to public pressure, and their ability for independent action. Among the 56 enterprises, companies that were at least in compliance increased from 24 percent to 62 percent, while the companies in the worst categories declined from 11 percent to 5 percent from 1999 to 2000 (Wang and others 2002).

These two pilot programs in China revealed that governmental support and leadership were important to success, enabling politically weak municipal environmental protection bureaus (EPBs) to disclose the information (Wang and others 2002). In addition, they also demonstrated that companies improved their environmental performance at both locations where economic and institutional developments were significantly different (Wang and others 2002). This supports the application of the program to other regions where economic and institutional circumstances may be different. As a result, the program has been expanded to 13 municipalities in Jiangsu Province involving about 2,500 companies (Wang and others 2002).

Vietnam Green Bamboo Program. In 2002, Green Bamboo program was created in Vietnam with assistance from the World Bank as part of an IDF-funded project on Strengthening Institutional Capacity for Environmental Information Management. 50 enterprises, heavy water polluters in the textile and food processing sectors, were selected to participate in the pilot program in Hanoi. Environmental performance of the enterprises was rated through quick environmental assessment, independent monitoring, and self-monitor reporting. The participating enterprises were classified twice in February and June 2002, using

the "Green Bamboo" rating software. There was a significant shift of results between the two rounds, showing the effort of enterprises to reduce water pollution. The figures for first round changed from no enterprises rated Excellent and Good and five enterprises rated as satisfactory to one excellent, one Good and ten Satisfactory in the second round.

The pilot program had also great impacts on other stakeholders involved in the program. Technical staff from the enterprises was trained on pollution prevention and quick assessment methods. Staff from regulatory agencies was trained to use the "Green Bamboo" rating software and became more aware of the new approach in using information as an effective management tool. The local communities became more collaborative through the knowledge of water pollution and the efforts taken by enterprises and regulatory agencies in solving the problems. The mass media had proven to play an effective role in putting pressure on the enterprises to improve their environmental performance.

As a result of the pilot program, the Ministry of Environment and Natural Resources allocated an operational budget of approximately US\$ 20,000 in 2002 to continue the program in Hanoi and disseminate the experience to other provinces and cities. In addition, the Danish Government committed support during the period 2003-2005 as a follow-up activity to strengthen the environmental public disclosure, and, at the same time, to enhance the capacity of the environmental information and reporting system from central to local levels.