

## EXECUTIVE SUMMARY

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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 stakeholders<sup>1</sup> 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 tool, 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

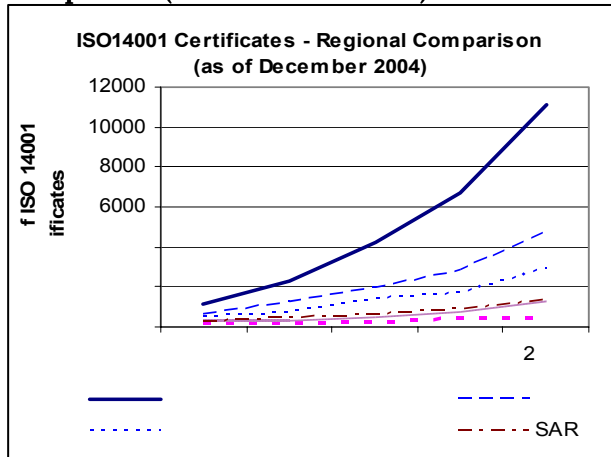
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<sup>1</sup> Stakeholders include government, civil society, and investors.

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.