FROM CORPORATE SOCIAL RESPONSIBILITY TO CORPORATE SUSTAINABILITY

Studies in Trade and Investment

7

Moving the AGENDA **FORWARD** in ASIA and the PACIFIC

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FROM CORPORATE SOCIAL RESPONSIBILITY TO CORPORATE SUSTAINABILITY: MOVING THE AGENDA FORWARD IN ASIA AND THE PACIFIC

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From corporate social responsibility to corporate sustainability: Moving the agenda forward in Asia and the Pacific

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PREFACE

Corporate social responsibility (CSR) has been a well-known concept for some time though the interpretation of this concept differs among countries, companies and stakeholders. In many cases, CSR has been abused as a marketing ploy, masking unsustainable practices of companies, in others it has simply constituted a charity event, again, often to mask the negative impacts of companies' operations. However, the winds of change are blowing, in particular in the wake of the United Nations Conference on Sustainable Development (Rio+20). Increasingly, companies are adopting sustainable business practices as an integral element of their corporate strategies, which is the true meaning of CSR. In fact, some companies have gone beyond the traditional interpretation of CSR and either engage in social or impact investment and/or play active roles in development cooperation, including the provision of disaster relief and humanitarian assistance. In this regard, the concept of CSR has evolved and today is often referred to as "corporate sustainability" or "responsible business practices" to avoid confusion with the narrow (and wrong) interpretation of traditional CSR as charity events.

Various global CSR instruments and sustainability frameworks, such as the Global Compact, Global Reporting Initiative and ISO 26000, have been in existence for some time and have been increasingly adopted by many companies, usually the bigger transnational corporations (TNCs). However, two main issues can be identified which require attention by both policymakers and companies. First, many companies in the Asia-Pacific region, in particular the millions of small and medium-sized enterprises (SMEs), are slow to adopt CSR instruments as they are considered to undermine their competitiveness and belong to the realm of the public sector. Secondly, the increasing number of different CSR instruments and sustainability frameworks has led to a certain level of confusion and imposed cumbersome and duplicative reporting burdens on companies, and therefore some form of convergence is required.

This publication looks at recent developments in CSR with particular attention to the growing role of impact investment and the need for greater convergence of global CSR instruments and provides recommendations to policymakers to enhance the adoption of CSR as an integral part of business strategy and operations.

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CONTENTS

Page

CONTENTS (continued)

Page

LIST OF FIGURES

Page

LIST OF TABLES

Page

ABBREVIATIONS AND ACRONYMS

ANDE	Aspen Network of Development Entrepreneurs
ASR	Asian Sustainability Rating
ASrIA	Association for Sustainable and Responsible Investment in Asia
AVPN	Asian Venture Philanthropy Network
BoP	bottom of the pyramid
CED	Committee for Economic Development
CIC	community interest company
CR	corporate responsibility
CSIP	Center for Social Initiatives Promotion
CSR	corporate social responsibility
ESG	environmental, social and corporate governance
ESCAP	Economic and Social Commission for Asia and the Pacific
GEM	Global Entrepreneurship Monitor
GIIN	Global Impact Investing Network
GRI	Global Reporting Initiative
GSVC	Global Social Venture Competition
IFC	International Finance Corporation
IFC PS	International Finance Corporation Performance Standards
ILO	International Labour Organization
IPO	initial public offering
IRIS	Impact Reporting and Investment Standards
ISO	International Organization for Standardization

ABBREVIATIONS AND ACRONYMS (continued)

L3C	low-profit limited liability company
M&E	monitoring and evaluation
MFI	microfinance institution
MNEs	multinational enterprises
NGO	non-governmental organization
OECD	Organisation for Economic Co-operation and Development
OPIC	Overseas Private Investment Corporation
PRI	Principles for Responsible Investment
R&D	research and development
SET	Stock Exchange of Thailand
SGB	small and growing business
SMEs	small and medium-sized enterprises
SRI	socially responsible investing/investment
TNCs	transnational corporations
TSEO	Thai Social Enterprise Office
UNEP	United Nations Environment Programme
UNGC	United Nations Global Compact
UNHR	United Nations Human Rights
WBCSD	World Business Council for Sustainable Development
WEF	World Economic Forum
YMCA	Young Men's Christian Association

CHAPTER I

INTRODUCTION: SETTING THE STAGE

A. BUSINESS AS UNUSUAL: OUTCOME OF THE UNITED NATIONS CONFERENCE ON SUSTAINABLE DEVELOPMENT (RIO+20)

The concept of corporate social responsibility (CSR) has evolved. This was clear when the United Nations convened the United Nations Conference on Sustainable Development (Rio+20) in Rio de Janeiro in June 2012. The outcome document, "The future we want" makes references to the role of the private sector in promoting inclusive and sustainable development in various paragraphs. For instance, paragraph 46 states:

"… We recognize that the active participation of the private sector can contribute to the achievement of sustainable development, including through the important tool of public-private partnerships. We support national regulatory and policy frameworks that enable business and industry to advance sustainable development initiatives, taking into account the importance of corporate social responsibility. We call upon the private sector to engage in responsible business practices, such as those promoted by the United Nations Global Compact."[1]

Paragraph 47 recognizes the importance of business reporting on sustainability:

"We acknowledge the importance of corporate sustainability reporting, and encourage companies, where appropriate, especially publicly listed and large companies, to consider integrating sustainability information into their reporting cycle. We encourage industry, interested governments and relevant stakeholders, with the support of the United Nations system, as appropriate, to develop models for best practice and facilitate action for the integration of sustainability reporting, taking into account experiences from already existing frameworks and paying particular attention to the needs of developing countries, including for capacity-building".[2]

Paragraph 268 recognizes the role of the private sector in the implementation of the Outcome document:

"We recognize that a dynamic, inclusive, well-functioning and socially and environmentally responsible private sector is a valuable instrument that can offer a crucial contribution to economic growth and reducing poverty and promoting sustainable development. In order to foster private sector development, we shall continue to pursue appropriate national policy and regulatory frameworks in a manner consistent with national laws to encourage public and private initiatives, including at the local level, to foster a dynamic and well-functioning

[1] General Assembly resolution 66/288: the future we want (A/RES/66/288), 11 September 2012. Available from http://sustainabledevelopment.un.org/futurewewant.html.
[2] Ibid.

business sector, and to facilitate entrepreneurship and innovation, including among women, the poor and the vulnerable. …".[3]

Prior to the Rio+20, the Global Compact Office organized the Corporate Sustainability Forum in cooperation with the Rio+20 Secretariat, the United Nations System and the Global Compact Network Brazil from 15 to 18 June 2012. The Forum brought together 2,700 business leaders, investors, academics, government officials, environmentalists and grassroots activists. At the Forum, 200 voluntary private sector commitments to the Rio+20 process were made covering areas ranging from low- or no-carbon footprints to re-forestation, business plans for subsistence farmers and renewal of clean, fresh water sources.[4] After the Rio+20, these commitments had surged to over 700 out of which some 181 were from business. The criteria for commitments are (1) advance one or more United Nations goal/issue; (2) include time-bound target(s) that can be measured for success; and (3) include an agreement to publicly disclose, on an annual basis, progress made to realize the commitment, throughout its duration.

Sustainability is defined to consist of three pillars: (1) economic; (2) environmental; and (3) social. Delegates discussed sustainability in 120 separate sessions in the following substantive areas: (1) energy and climate; (2) water and eco-systems; (3) agriculture and food; (4) economics and finance; (5) social development; (6) urbanization and cities; (7) education for sustainable development and responsible management education. In all these areas issues related to innovation and collaboration were discussed.

Among the major results of the Forum were the following[5]: (1) the launch of a new corporate policy framework to assist companies in the development, implementation and disclosure of policies and practices related to ecosystems and biodiversity; (2) the launch of a social enterprise investment framework, designed for large corporations, institutional investors and Governments interested in incubating and scaling up for-profit startups and small enterprises with social and environmental missions; (3) an offer by business leaders to be part of the creation and promotion of new Sustainable Development Goals; (4) a communiqué signed by 45 CEOs of major corporations outlining ways of how Governments can do better on water management and can set frameworks that will help business to scale up its own role in reducing usage and restoring natural sources; (5) a plan endorsed by nearly 300 institutions of higher learning to place sustainable development at the heart of college and university curricula; (6) an announcement by 16 companies and other stakeholders in the food and agriculture sector committed to lead the development of global voluntary business principles on good practice and policy for sustainable agriculture – to develop a common understanding and agreement on what resources and impacts are needed to transform markets and agricultural supply systems; (7) endorsement by over 70 businesses, Governments and international organizations of the Green Industry Platform, an initiative to mainstream environmental and social considerations into corporate operations through efficient use of energy and raw materials, innovative practices and applications of new green technologies; (8) the launch of a new platform to advance transparency and disclosure on gender equality issues in business by the Women's Empowerment Principles

[3] Ibid.
[4] UNGC, *Rio+20 Corporate Sustainability Forum: Overview and Outcome – Summary Report* (New York, 2012). Available from http://www.unglobalcompact.org/docs/news_events/2012_CSF/Rio_CSF_Overview_Outcomes.pdf.
[5] Ibid.

(WEPs), which are now endorsed by over 400 chief executives worldwide.[6] In another recent development, a group of nine corporate titans, i.e. the Coca-Cola Company, Exxon Mobil Corporation, Delta Air Lines, Inc., ManpowerGroup Inc., Carlson, LexisNexis Group, NXP Semiconductors, Microsoft Corporation and Travelport, have decided to take action against human trafficking by forming the Global Business Coalition Against Human Trafficking (gBCAT).[7]

ESCAP co-organized a session at the Forum entitled "A Changing World: Business as Unusual". The session contained two panel discussions which discussed the ways business has to change their operations to address sustainable development. The principal outcomes of the session are reflective of the outcomes of the Forum in general and include the following: (1) businesses are part of the solution to sustainable development and need to shift their CSR attention from how to spend their money (on charity) to how they make their money (i.e. in a sustainable and socially responsible manner; (2) businesses have to move from traditional CSR to corporate sustainability and move from focus on shareholder to focus on stakeholder; (3) Governments have responsibilities too and should provide an enabling environment for business to allow them to adequately address sustainability issues, including enforcement and implementation of laws and regulations and curbing corruption; (4) CSR efforts have to be visible and recognized to provide incentives to businesses to practice corporate sustainable principles; (5) There is an urgent need to move from talk to action. Time is running out; (6) Businesses need to adopt mandatory plans on the mitigation of adverse effects of their operations on environment and communities; (7) Partnerships are necessary at all levels, including between global organizations and local governments and institutions; (8) The tone of dialogue between Government and private sector has to change towards a language businesses understand and which creates mutual trust and cooperation; (9) Engaging all stakeholders is the best way forward to promote the concept of corporate sustainability; (10) Businesses have to be more aware of the impact of disasters on their operations and play an active role in the reduction of disaster risk and mitigation of disaster impacts on local communities. Business engagement in disasters needs to be properly coordinated.

The results and recommendations from the Forum are welcome and show increasing commitments and engagement of the private sector in the "Future we want", the theme of Rio+20, which would be impossible to achieve without the active participation of the business sector. Only two decades ago when the United Nations hosted the Earth Summit in Rio, few companies were exploring the notion of sustainable business and the long-term impacts of their operations on the environment and society. Today, there are thousands of companies advancing corporate sustainability through a number of global initiatives. Most of these initiatives are led by the world's leading transnational corporations (TNCs)[8] which operate extensive global supply chains, including in the Asia-Pacific region.

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[6] Ibid.

[7] See, for instance: http://thecnnfreedomproject.blogs.cnn.com/2012/09/25/global-brands-team-up-to-fight-slavery.; and http://www.odysseymediagroup.com/csan/Editorial-People.asp?ReportID=549816. For more information on gBCAT, please visit: http://www.gbcat.org.

[8] In this publication the terms transnational corporations (TNCs) and multinational enterprises (MNEs) are used interchangeably and refer to the same group of enterprises that engage in foreign direct investment.

A few examples, as revealed by the United Nations Global Compact (UNGC), may illustrate this trend. As data centres eat up an increasing share of energy output, Microsoft Corporation says it will achieve carbon neutrality through offsetting actions. Unilever is launching a drive to halve the greenhouse gas impact of their products, and Nike, Inc.'s target is zero discharge of hazardous chemicals along its entire supply chain, both by 2020. With the world facing a need to double food production by 2050, DuPont pledged $10 billion in R&D for increasing productivity, scaling up nutrition and cutting back on food waste. DuPont will develop 4,000 new products along these lines by 2020. Also looking to product development, the Proctor & Gamble Company promises $50 billion in sales of "sustainable innovation products" by the end of 2012, and H&M will upgrade to 100 per cent sustainable cotton – either organic, recycled, or certified – in its cotton garments. Groups of companies are engaging in shared efforts. Forty-five companies, including Levi Strauss & Co., PepsiCo Inc. and the Coca-Cola Company are extending their commitments to water management and 23 companies pledged to transparency and disclosure on their impact on climate change. And numerous companies are taking action on the United Nations Secretary-General's campaign for Sustainable Energy for All.[9]

Since the Rio+20, 20 private companies from 14 ESCAP regional member countries made just over 23 commitments in various areas which is just below 13 per cent of all commitments made by private business worldwide. Some examples are ITC Limited of India which pledged to remain committed to carbon, water and waste recycling; Socentix of Indonesia which has committed to develop and to maintain an Internet-based investment platform to promote, profile, monitor, report and manage Socially Responsible Investing Funds. Other examples are SK Holdings of the Republic of Korea which has committed to enter into a partnership with the Global Compact Office towards the development of a Global Action Hub for social enterprises. Infosys Limited of India has committed to become carbon neutral by reducing energy consumption by 50 per cent and sourcing 100 per cent of electricity from renewables. Sime Darby of Malaysia has pledged to improve food security and sustainable agriculture.

Despite these excellent examples, corporate sustainability has not penetrated the majority of companies around the world, in particular the small and medium-sized enterprises (SMEs) which make up the vast majority of all companies, nor have we seen the depth of action needed to address the most pressing challenges. Another disturbing trend is the delisting of over 3,000 companies from the Global Compact since 2005, whose total membership is currently about 5,300 worldwide, with about a third comprising Asia-Pacific public and private business entities from both developed and developing countries, with no members from the Pacific islands and very few from Central Asia. Most companies and Governments simply are not doing enough to achieve the global acceptance of sustainability as a value proposition. To reach scale, economic incentive structures must be realigned so that sustainability is valued and profitable. This issue is of particular importance in the Asia-Pacific region. Companies in this region often do not have a good record in ensuring sustainability, putting growth and profits first. Only 16 per cent of the participants in the Rio Forum were from the region of which two thirds were from business. Of course, it is understood that the priority of business is profits and growth. Without such growth,

[9] UNGC, "Rio+20: action pledges by business kick off Rio drive for sustainability solutions", 18 June 2012. Available from http://www.unglobalcompact.org/news/246-06-18-2012.

many developing countries of the region would not have been able to develop fast and lift millions of people out of poverty. However, unsustainable growth will lead to massive costs and problems later. The air quality and traffic jams in Asia's leading cities already clearly demonstrate the predicament of the region. There are some exceptions and major enterprises of. Japan and the Republic of Korea have taken the lead in the region with the adoption of sustainability programmes. The challenge is to expand these programmes as part of strategic management of all companies, large and small, and integrate them as the new "business as usual" throughout the whole supply chain.

With this background in mind, the current publication aims to advance the CSR agenda to the next level. In chapter II, Masato Abe provides a brief overview of historical and recent trends in CSR and presents a conceptual model which helps Governments and businesses alike to understand CSR and incorporate and mainstream sustainability practices and elements in all their policies and strategies rather than treat CSR as an isolated area.

B. THE EMERGENCE OF SOCIAL ENTERPRISES AND IMPACT INVESTMENT

In some cases the demand to incorporate sustainability into the strategic management of an enterprise is taken even a step further, as illustrated by the emergence of social enterprises, a concept which took centre stage at the discussions in Rio. Contrasting business enterprises and social enterprises, the former are created with the primary goal to create profits and growth, while the latter ones exist to create social value and sustainable change while operating in a financially sustainable manner. Having sustainability built into its organizational DNA, regular business enterprises may very well benefit from studying social enterprise business models, as business enterprises are pursuing their own path to streamline sustainability into all their dimensions of work.

In parallel with the emergence of an increasing number of sustainable businesses, the sustainable investment sector is also gradually moving towards centre stage. Sustainable investment can be defined as investment with the goal of creating positive impact on society and the environment in addition to financial returns and has significant potential to contribute to the sustainable development agenda. While sustainable investment should not be understood as one particular kind of investment approach, it serves as an umbrella concept, capturing several investment models. Under this umbrella, socially responsible investment, social venture capital and impact investment are all examples of investment models which differ with respect to the degree to which they focus on contributing to development, by the types of investors that engage in the model, by the risk level the investments take, by the nature of enterprises that the model seeks to invest in, and by how much emphasis is put on financial and impact goals. However, all of them are aiming to minimize negative effects, or create positive effects, on society and the environment.

Already back in 2008, the Monitor Group estimated that the sustainable investment sector could grow to $500 billion within the next 5 to 10 years, which equaled an estimated 1 per cent of global assets under management in 2008.[10] Newer figures from a joint research initiative

[10] Monitor Institute,*Investing for Social and Environmental Impact: a Design for Catalyzing an Emerging Industry* (2009). Available from http://www.gbn.com/consulting/article_details.php?id=88.

between J.P. Morgan and the Rockefeller Foundation from 2010 forecast a market size of profit potential ranging from $183 billion to $667 billion, and invested capital in the range of $400 billion to nearly $1 trillion.[11]

The actors in the field of sustainable investment who put this money to work range from family and corporate foundations, high net-worth individuals, government development agencies, development finance organizations, SME funds, institutional investors to private equity and venture capital funds. And while acknowledging that there are and always will be social and environmental problems that cannot be addressed through market based models, sustainable investing is now mostly focusing on a few selected sectors such as microfinance, clean energy, food and agriculture, affordable housing, education and water and sanitation.

While the emergence of social enterprises and sustainable investing clearly illustrates how far certain entrepreneurs and investors have come in furthering the sustainable development agenda, expectations, particularly with regard to financial returns need to be managed in order to avoid grand disillusions and expectations which could lead to a withdrawal from investors and severely hurt the development of this promising industry.

In chapter III, Jana Svedova takes a closer look at trends and issues related to impact investment and its importance in the Asia-Pacific region.

C. TOWARDS A CONVERGENCE OF GLOBAL CSR INSTRUMENTS

In the meantime, while the sustainable investment field will without doubt develop further, changes on a different front need to take place as well. Against the backdrop of taking a more active rather than reactive approach when it comes to the role of business and the private sector in development, a shift away from the traditional concept of CSR is necessary. Too many times, CSR has been simply a charity programme of leading businesses which made them look good, a marketing ploy rather than a systematic and integrated part of strategic management. As a result, new terms have emerged, such as corporate sustainability (CS), corporate responsibility (CR) or responsible business practices (RBPs). The idea behind this new terminology is to emphasize a shift from a mindset based on charity to a mindset which focuses on a new way of doing business, i.e. a way which incorporates sustainability criteria (linked to due reporting) as an essential part of corporate strategy on which the long-term survival of the business depends.

There are multiple international instruments to evaluate corporate sustainability or responsibility, including the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines, the ISO 26000 standard on Social Responsibility, the United Nations Guiding Principles for Business and Human Rights, the OECD Guidelines for Multinational Enterprises, the IFC Sustainability Performance Standards and UNGC. There is a need for convergence of these instruments to reduce reporting requirements and provide the right incentive for businesses to take sustainability serious and make it easier and affordable for them to report on their progress in this area.

[11] J.P. Morgan Global Research, *Impact Investments: An Emerging Asset Class* (2010). Available from http://www.socialfinance.org.uk/sites/default/files/JP%20Morgan.pdf. See chapter IV.

An OECD-ESCAP Conference on this issue was organized as part of the Asia-Pacific Business Forum (APBF) 2012 which was organized by ESCAP in Kuala Lumpur, Malaysia on 15 and 16 October 2012. The objectives of the Conference were: (1) to highlight the new features of the recently transformed landscape of leading international CR instruments; (2) to show how this new landscape has resulted in a more convergent and coherent CR framework for companies operating in Asia and the Pacific; (3) to highlight the key features of the increasingly convergent management paradigm for CR: risk-based due diligence, reporting, stakeholder engagement; and discuss how business in Asia and the Pacific can implement and benefit from it; (4) to increase understanding of CR tools and provide examples of good practices by business in Asia and the Pacific; (5) to demonstrate how social dialogue and access to consensual and non-adversarial means such as mediation and conciliation can contribute to the resolution of societal issues linked to company operations; (6) to explore how "good offices" mechanisms such as that provided by OECD National Contact Points can play a constructive role in resolving corporate responsibility challenges in Asia.

The Conference concluded that convergence of CR instruments was useful as it reduced confusion, achieved more alignment and less deviance, contributed to more and deeper collaboration between stakeholders and cut costs in trying to comply with many different instruments. However it was also noted that proliferation of instruments is not always a bad thing as long as it does not confuse users and leads to greater CSR implementation. The Conference observed that there is not enough adoption of CR instruments in Asia and the Pacific and that there was a need for scaling up of these instruments. It was also observed that there were too many audits related to CR for the supply chains and that such audits do not necessarily indicate the true status at the supply chain and may actually be seen as non-tariff barriers to trade.

It was also observed that local instruments are important and may have more impact than international instruments. For example, the Singapore Exchange Ltd. guidelines have been very effective as companies "feel closer" to them. Other examples include the BCA Green Mark label in Singapore and also the China Social Compliance 9000 for the Textile and Apparel Industry (CSC 9000 T) management system and CSR Gate (reporting system with 201 indicators).

Other observations of the Conference included the following: (1) The priorities of companies remain financial and companies are often not convinced that there is a return on investment from engaging in CSR, in particular as CSR is expensive and requires a lot of investment and efforts; (2) Cultural differences hamper the adoption of CR instruments, especially in Asia where transparent reporting conflicts with some aspects of the local culture; (3) Interest in compliance remained low as the requirements were not compulsory by law; (4) Social dialogue was important but local cultures tended to avoid conflict and therefore there was not enough dialogue among concerned stakeholders on CR; (5) There was often a mismatch between local government and central government policies.

The Conference suggested that there was a need to simplify the CSR concept; help organizations make it easier for them to embed CSR; get instruments into action; and recognize the importance of the role of the Government. The Government can and should influence outcomes positively, e.g. in the way licenses and contracts are awarded. In particular, the Conference called for a mega linkage document for convergence, the need to develop more local tools and enforce a certification mechanism for CR. The adoption of international CR

instruments should be obligatory and not be seen as marketing tools. There should be a shared social responsibility among all actors in supply chains which included observance to human rights. Furthermore, the impact of CSR on society should be measured in order to enhance the visibility of the concept.

With respect to the need for social dialogue, the Conference concluded that capacity-building in problem solving is essential before actual and effective conflict resolution dialogues could take place. A shift in the mindset of the people involved in the conflict resolution process was often necessary. It was important to work towards breaking down stereotypes and greater understanding of cultures and learning from people about their needs before acting. Finally, options for processes to prevent conflicts rather than just resolving them should be actively explored.

In chapter IV, Leena Wokeck provides an elaborate overview of the issues related to convergence with focus on the Asia-Pacific region. The chapter is the final version of her paper on this topic which was presented at the OECD-ESCAP Conference during APBF 2012.

CHAPTER II

DEVELOPMENTS IN THE CONCEPT OF CORPORATE SOCIAL RESPONSIBILITY (CSR)*

INTRODUCTION

Corporate social responsibility (CSR) is a concept which has many interpretations and typically has economic, social and environmental dimensions.[12] The concept has increasingly gained interest among businesses and Governments and other stakeholders and has triggered a vivid discussion on its meaning among a number of scholars (cf., Carroll, 2004; Dahlsrud, 2006; Robins, 2005). The increase in interest is primarily a result of efforts made by international organizations (in particular UNGC[13]), Governments (e.g. China's green growth strategy[14]) and civil society organizations.[15] These efforts have contributed to improved labour standards, enhanced use of renewable energy and practical anti-corruption measures (UNGC, 2012).

A number of transnational corporations (TNCs) have been involved in CSR initiatives to promote sustainable and inclusive business practices and improve labour conditions in Asia and the Pacific (ESCAP, 2009). However, since the concept of CSR has been evolved mainly in Western countries, most notably the United States of America, the historical development of CSR has received little attention from policymakers and business practitioners in the region.

The roots of the concept of CSR as it is known today have a long history which indicates that business people have paid increasing attention to the concerns of society (Carroll, 2004). A better understanding of the transformation of the concept not only contributes to a better understanding of the meaning of CSR and the relationship between businesses and their key stakeholders but also to a better idea of what should be the role of business in development and their contributions to society.

This chapter reviews how the concept of CSR has evolved over time and what alternative interpretations and approaches have emerged in discussions on CSR. Since the United States has led the development of CSR, the analysis in this section is mainly based on the relevant literature from this country. The chapter also presents the recent developments in CSR that focuses more on its integration into core business management. The chapter concludes with a presentation of a CSR conceptual model.

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* This article was prepared by Masato Abe, Economic Affairs Officer, and Wanida Ruanglikhitkul, Researcher, both in the Business and Development Section of the Trade and Investment Division of ESCAP. The authors would like to acknowledge useful inputs provided by Suhyon Oh and Michiel Vos for this paper.

[12] This three-dimensional framework is often called as the triple bottom line of CSR.

[13] The objectives of the Global Compact centre around four issues, namely labour condition, human rights, environment and anti-corruption. Over 7,000 businesses have signed on to this Compact (UNGC, 2012).

[14] This strategy, formulated as part of the five-year development plan (2011-2015), particularly focuses on the increased use of renewable energy in China (KPMG China, 2011).

[15] For instance, civil society has led protests against firms that are viewed as polluting (WEF, 2012).

A. EMERGENCE OF CSR AS A PUBLIC AND BUSINESS CONCERN

Already in the late nineteenth century, businesses raised concerns on the welfare of their employees and their impact on society in general. With the emergence of the labour movement and spreading of slums triggered by the industrial revolution, businesses started to provide social welfare on a limited scale, including the construction of hospitals and bath houses and provision of food coupons (Carroll, 2008). In the same period, individual business philanthropists became active in the United States (e.g. John D. Rockefeller and Cornelius Vanderbilt). Although the legitimacy of philanthropy was not yet well established, benefits offered by those philanthropists were recognized by local communities and various social groups (Sharfman, 1994). The principle which underpinned these activities was characterized mainly by religious groups such as the Young Men's Christian Association (YMCA) (Carroll, 2008). The Great Depression in 1929 further strengthened this trend with the introduction of public trusteeship management (in addition to traditional profit-maximizing management) (Hay and Gray, 1974). Carroll (2008) highlights business philanthropy in this period as spearheading the development of the CSR concept.

The concept of CSR emerged in the 1950s. Bowen (1953) defined CSR as the obligations of businessmen[16] to pursue their policies, to make their decisions or to follow their lines of action which are desirable in terms of the objectives and values of society. He argued that businessmen are responsible for the consequences of their actions in a sphere somewhat wider than corporate financial performance, indicating the existence and importance of corporate social performance. Davis (1960) set forth his definition of CSR as it refers to businessmen's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest. By arguing that CSR was a blunt idea but had to be discussed in a managerial context, he further suggested that some socially responsible business decisions can be justified by the long-run economic gains of the firm, thus paying back for its socially responsible behaviour. Frederick (1960) saw CSR as a private contribution to society's economic and human resources and a willingness on the part of business to see that those resources were utilized for broad social ends. He also summarized the development of CSR in the 1950s into three core ideas: (1) corporate managers as public trustees through the shareholding system; (2) stakeholders' balanced claims to corporate resources; and (3) the acceptance of business philanthropy.

Especially the 1960s and 1970s were distinguished by the rapid growth of social movements advocating labour rights, consumer protection and environmental preservation. During this period, labour issues underwent a transition from special interest status to the subject of formal government regulations. In line with Samuelson (1971), who argued in favour of the role of CSR, Davis (1973) concluded that CSR refers to "the firm's consideration of and response to issues beyond the narrow economic, technical and legal requirements of the firm" (pp. 313-321). Johnson (1971) also proposed that instead of striving only for larger returns to its shareholders, a responsible enterprise takes into account the interests of employees, suppliers, dealers, local communities and the nation as a whole. It is noteworthy that he pioneered the stakeholder theory with a framework which identified key stakeholders for business, and thus for CSR. One of the notable contributions to the development of CSR at that time was made by the

[16] Until the emergence of modern corporations whose shares are owned by shareholders, these obligations were not for the corporations but for the businessmen who manages their businesses.

Committee for Economic Development (CED) of the United States, which defined CSR, in 1971, as a business function to serve constructively the needs of society (Carroll, 2008). The CED argued that businesses should have broader responsibilities to society reflecting the changing social contract between business and society (or the nation) in general. During the same period, one of the most critical views against CSR was also brought by Friedman (1962) who claimed that corporate managers' primary responsibility was to maximize values for shareholders instead of incorporating CSR in their daily activities.

At the end of the 1970s, perhaps the earliest and most comprehensive framework of CSR was proposed by Carroll (1979). He constructed a three-dimensional CSR conceptual model, which consisted of corporate responsibilities, social issues of business and corporate actions. Corporate responsibilities embodied four types, namely economic, legal, ethical and philanthropic (the order of those four types of responsibilities suggests the relative importance of each type). While social issues of business can include various topics, such as labour standards, human rights, environment protection and anti-corruption, to which the four types of responsibilities are tied, corporate actions are more concerned with specifying generalized modes of response (e.g. reactive, defensive, accommodative and proactive). According to the four types of corporate responsibilities, CSR issues are selected by each firm and the actions of the firm are derived from this selection. In other words, the responsibilities lead to responses of the firm on particular social issues partially depending on the seriousness of issues perceived by society (and the firm). It should be observed that these issues and their relative importance may be different between business and society and have changed over time. The model also helps managers to have a clearer view of the social issues they face and helps them plan and improve their social performance.

During the 1980s and 1990s Carroll's CSR model was refined. Wartick and Cochran (1985) proposed another three-dimensional model of principles, policies and processes or the 3P CSR model. This model extended Carroll's earlier three-dimensional CSR model (i.e. responsibilities, issues and actions) by accepting Jones' notion (1980) that CSR is not a set of outcomes but an evolving process (e.g. analysis, debate and modification) regulated by formally embedded principles and policies. Principles are equivalent to Carroll's corporate responsibilities, and policies guide social issue management including corporate actions. The process is further extended by undertaking more actions to various social issues, while responding to the changing challenges of society. In summary, this new model integrates the principles of corporate responsibility, the policies of social issue management and the processes of actions into an evolutionary dynamical system.

Wood (1991) further reformulated the two three-dimensional models by emphasizing the outcomes or performance of CSR initiatives. First, Carroll's four types of corporate responsibilities (i.e. economic, legal, ethical and philanthropic) were linked to three institutional levels (i.e. legal, organizational and individual).[17] This helps to explain CSR more clearly, as the society's expectation of business behaviours and outcomes is more distinguished. Second, Wood came up with three principles of corporate behaviours and outcomes: legitimacy, public responsibility and managerial discretion. Legitimacy refers that society grants permission to do

[17] The institutional framework relating to CSR may also include the politics, history, culture and religion of a country or a region (Doh and Duay, 2006; Lammers, 2003).

business and business should follow the rules of the game. Public responsibility means that businesses have to be responsible for outcomes related to their primary and secondary areas of involvement with society. Managerial discretion emphasizes that corporate managers are moral actors and they are obliged to play such a role to make CSR matter. Third, social issues were reorganized as the outcomes, or performance, of CSR initiatives. The outcomes are separated into three types: social impacts of corporate behaviours, policies that companies use for handling social issues, and CSR programmes. Fourth, corporate actions were further divided into external assessment, stakeholder management and implementation management. The firms must monitor and analyse the external environment (i.e. economic, technological, social, political and legal) which changes over time; take stakeholder demand into consideration for proper designing of CSR initiatives; and emphasize quality implementation to enhance the effectiveness of the CSR initiatives.

During the same period, the focus on developing new or refined concepts of CSR gradually gave way to alternative approaches such as corporate citizenship[18] (Pinkston and Carroll, 1994), business ethics[19] (Shapiro, 1995) and stakeholder theory[20] (Freeman, 1984), although the core concerns of CSR were reflected in those new approaches. The CSR concept served as the basis, building block or point-of-departure for other related initiatives, many of which adopted CSR principles (Carroll, 2008).

Since entering into the twenty-first century, more focus has been given to implementation of CSR initiatives and empirical study of CSR impacts. However, some development of the CSR concept has been continuously observed. Schwartz and Carroll (2003) reduced Carroll's four categories of corporate responsibilities (i.e. economic, legal, ethical and philanthropic) to three-domain approach, namely economic, legal and ethical. The International Labour Organization (ILO) (2007) redefined CSR as a way that enterprises consider the impact of their operations on society and CSR principles are integrated in enterprises' internal processes and interactions with stakeholders on a voluntary basis. More recently, the European Commission (2011) simplified the CSR definition as the responsibility of enterprises for their impacts on society, which indicates that enterprises should have a process in place to integrate CSR agenda into their operations and core strategies in close corporation with stakeholders. The World Business Council for Sustainable Development (WBCSD) (2012) also emphasized a balance of return on financial, natural and social capitals, particularly suggesting the integration of CSR reporting into annual report. Table II.1 summarizes the major development of CSR concepts.

[18] While the term corporate citizenship strongly indicates the principle of corporate personhood, which may possess the same political and legal rights of a citizen in a country, in practice it can be seen as the equivalent of CSR (Matten and Crane, 2005).

[19] Business ethics is a form of perceptions, attitudes and behaviours derived from professional principles and moral norms which regulate the conduct of individuals (and organizations) in business (cf., Frederick and Carroll, 1999). It can also be seen as part of CSR.

[20] The stakeholder theory states that businesses operate with various groups of stakeholders within a particular society and need to respond to the interests and requirements of these stakeholders (cf., Clarkson, 1995; Maignan, Ferrell and Hult, 1999; Wood and Jones, 1995). Main stakeholder groups include customers, employees, shareholders, suppliers, the Government and members of communities where the business operates. Stakeholders may advocate not only issues that affect their own welfare (e.g. consumer protection and product safety) but also additional issues that affect others (e.g. consumer activists condemning pollution and child labour).

Table II. 1. Development of CSR concepts

Period	Name of concept	Description	Literature
1950s	Social responsibility of businessmen	The obligations of businessmen to pursue policies, to make decisions or to follow lines of action which are desirable in terms of the objectives and values of society	Bowen (1953)
		Some socially responsible business decisions can be justified by the long-run economic gain of the firm, thus paying back for its socially responsible behaviour.	Davis (1960)
		Private contribution to society's economic and human resources and a willingness on the part of business to see that those resources were utilized for broad social ends	Frederick (1960)
1960s–1970s	Stakeholder approach	Instead of striving only for larger returns to its shareholders, a responsible enterprise takes into account the interests of employees, suppliers, dealers, local communities and the nation as a whole.	Johnson (1971)
	Three dimensional model	The concept consists of corporate responsibilities (i.e., economic, legal, ethical and philanthropic), social issues of business (e.g., labour standards, human rights, environment protection and anti-corruption) and corporate actions (e.g., reactive, defensive, accommodative and proactive).	Carroll (1979)
1980s-1990s	Three-dimensional model of principles, policies and processes	Integration of the principles of corporate responsibility, the policies of social issue management and the process of action into an evolving system.	Wartick and Cochran (1985)
	Institutional framework and extended corporate actions	Four types of corporate responsibilities (i.e., economic, legal, ethical and philanthropic) were linked to three institutional levels (i.e., legal, organizational and individual), while corporate actions are extended to assessment, stockholder management and implementation management.	Wood (1991)
2000s	Three-domains approach	Three domains of corporate responsibilities: economic, legal and ethical.	Schwartz and Carroll (2003)

	New concept	A process to integrate social, environmental, ethical, human rights and consumer concerns into business operations and core strategy in close corporation with the stakeholders	European Commission (2011)

B. RECENT DEVELOPMENTS IN CSR AS AN INTEGRAL PART OF BUSINESS MANAGEMENT

As mentioned above, with the entry of the twenty-first century, the CSR community has focused more on the implementation of CSR initiatives, while the refinement of the CSR concept has received less attention. As businesses face intensified challenges, including rapid globalization, increasing environmental concerns and mounting pro-poor needs, there has been a growing need for the adoption of result-based CSR management and stringent evaluation of CSR performance (ESCAP, 2009). These trends suggest that businesses integrate CSR into their core operations throughout the value chains they are part of at both national and global levels. However, such integration requires strong corporate motivation as well as adequate reporting systems. Within this context, this subsection covers the most recent developments in CSR, particularly relating to CSR's ongoing integration in various managerial aspects, including global value chains, sustainability and inclusiveness, core business activities, entrepreneurship, investment decision, international standards, business motives and monitoring and evaluation (M&E).

A global value chain refers to the full range of cross-border, value-added business activities (ESCAP, 2007), involving the diverse interactions between individual companies and their key stakeholders, both locally and globally. When companies operate in or procure from other countries, such as developing countries where laws and regulations are different and standards are not compatible with those in the home country, managing CSR throughout the value chain becomes more challenging in terms of governance, assessment and information management. The difficulty in tracing back entire production processes and distribution networks reveals a number of risk factors critical to CSR management. Although there is a wide array of unique managerial issues in global value chains, CSR issues such as environmental impacts, child labour and forced labour, fair trade, corruption, suppliers' business practices and human rights have received increased attention from business.

Similarly, the contribution of CSR to sustainable development has recently attracted more attention. Sustainable development is defined as development that meets the needs of the present without compromising the ability of the future generations to meet their own needs (Strategis, 2003). In this sense, sustainable development is inextricably linked to environmental issues in addition to social and economic issues (Sachs, 2012). For instance, the environmental damage caused by business (e.g. water pollution and deforestation) has an impact on local communities which, in turn, becomes a barrier to their long-term socio-economic development. As such, CSR activities in the context of sustainable development could reverse or mitigate the adverse impacts of business (Carroll, 2006).

The concept of inclusive business or pro-poor business has also been gaining attention. Newell and Frynas (2007) suggest that CSR initiatives should target poorer groups more than other groups. They stress the key role of government in inclusive development (e.g. education and employment of minorities) and argue that CSR initiatives can make a larger contribution by reinforcing state-led pro-poor policies in addition to their direct contribution. Inclusive businesses typically encourage local employees, suppliers, producers and growers to participate in their production and other activities in the value chain so that they can not only achieve commercial objectives but also improve local competitiveness and productivity. Inclusive businesses can also offer opportunities to local stakeholders in terms of skills development and knowledge accumulation that are conducive to the formation of local industry clusters. Businesses, however, need focused CSR initiatives with a long-term commitment to the development of the poor and require close partnerships with government to ensure the successful implementation of such initiatives.

One example of inclusive business is the bottom of the pyramid (BoP) concept. BoP is based on the belief that the market mechanism can play a key role in alleviating global poverty (Prahalad, 2005). Under the BoP initiative, it is recognized that traditional business neglects the poor who have untapped capacity to be creative entrepreneurs as well as profitable customers. Thus, businesses can make profits by encouraging the poor to be entrepreneurs or selling to the poor, while contributing to poverty alleviation by bringing prosperity through BoP's involvement in such commercial activities. The most famous example of BoP is represented by the Grameen Bank, a microfinance institution of Bangladesh. The majority of customers of the Bank's microfinance facilities are women who run small business in rural areas. Microfinance can empower those women both financially and socially, and thus contributes to a more equitable and responsive society (Abed and Matin, 2007). The BoP concept can encourage businesses to stimulate innovation by way of targeting a new market (Landrum, 2007). Large firms in particular, such as TNCs, are also expected to play a leading role in the BoP process (Prahalad, 2005). However, a causal relationship between BoP and its impact on the eradication of poverty has not been fully supported by empirical research (Walsh, Kress and Beyerchen, 2005).

Many argue that CSR should be secured within core business activities and add value to corporate success (cf., Newell and Frynas, 2007; Carroll, 2008). Generally speaking, there are two ways for businesses to implement CSR. The traditional approach is that companies deliver a CSR programme, often seen as charity, which is separated from their core operations. In other words, the core business focuses on maximizing shareholder value, while the CSR programme addresses specific CSR issues and targets stakeholders. Some scholars including Porter and Kramer (2011a; 2011b) have been skeptical of conventional CSR. They argue that CSR is not successful unless mainstream companies begin reporting some aspects of CSR as being critical to the company's performance. Another point is that CSR can be just a tool to raise a business's own brand image and reputation, which are core corporate motives (Porter and Kramer, 2011a). The other approach, which is gaining increased attention, demands the full integration of CSR in core operations and value chains so as to minimize negative impacts resulting from business activities on the society and the environment. Such integration requires complying with codes of conduct, labour standards and environmental standards, which should be strengthened over the years and must be part of the daily operations of enterprises. In short, business can make a greater impact on the society and the environment by streamlining CSR practices into their core business than through isolated CSR programmes (Ashley, 2009).

Social entrepreneurship has also been discussed by the CSR community (ESCAP, 2012) recently. The Global Entrepreneurship Monitor (GEM) report of 2009 refers social entrepreneurship as individuals or organizations engaged in entrepreneurial activities with a social goal (Global Entrepreneurship Monitor, 2009). Although it often embeds in SMEs, social entrepreneurship could be applicable to any type of organizations at both public and private sectors as well as at a non-profit organization. Borstein (2004) described social entrepreneurs as a transformative force for social change with novel ideas, which seeks to inspire and moves people at large. Social entrepreneurs aim to create a positive change by applying business methods in various fields, ranging from education and health to environment. Each social entrepreneur can contribute to society in a different area and with a varying degree, embracing positive social, environmental and cultural purposes. Therefore, Governments have to deal with the specific needs of individual social entrepreneurs. Governments can also strengthen social entrepreneurship by financially supporting social entrepreneurs, or their associations, and implementing promotional programmes targeting potential social entrepreneurs.

Corporations have been increasingly aware of the shareholders' consideration over CSR initiatives and performances to be supplementary to traditional financial criteria for investment decision-making. Such shareholders' consciousness on CSR is called social (or impact) investment (cf., Calvert Foundation, 2012). They typically inject the interest of social and environmental concerns into investment activities so that their commercial behaviours can influence business practices while making adequate profits. By implementing social investment practices, shareholders (or investors) can give pressure on firms to operate reasonably and ethically in order to ensure business continuity (ESCAP, 2009). Social responsible indexes, such as the Dow Jones Sustainability Index in the United States and the FTSE4GOOD Index in the United Kingdom,[21] provide information about the CSR practices of individual companies, so their shareholders can make their investment decision by tracking CSR records easily. Furthermore, the United Nations launched a set of Principles for Responsible Investment (PRI) that are guidelines for investors and include economic, social and environmental considerations (or the triple bottom line) in investment practices. The PRI provide a menu of possible actions for incorporating the agenda into mainstream investment decision- making.[22]

CSR instruments, which are voluntary regulatory measures for CSR activities, have also taken centre stage in international frameworks.[23] Those international CSR instruments include UNGC, OECD Guidelines for Multinational Enterprises, ISO 26000 and the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (cf., ESCAP, 2009). UNGC is a strategic policy initiative for businesses that are committed to align their operations and strategies with ten principles in the area of human rights, labour, environment and anti-corruption. The OECD Guidelines for Multinational Enterprises provide a framework for business conduct covering various areas of business ethics, such as tax, competition, disclosure, anti-corruption, labour, human rights and environment. While ISO 26000 is the sole international CSR standards, providing guidance for businesses to translate CSR agenda into effective

[21] For more details of those two social responsible indices, see http://www.sustainability-index.com/ and http://www.ftse.com/Indices/FTSE4Good_Index_Series/index.jsp, respectively.
[22] Accessed from http://www.unpri.org/about-pri/about-pri/.
[23] These instruments are global in character and their coverage, as well as issues in forging a convergence among them, is further discussed in chapter IV of this publication.

corporate actions, the ILO Tripartite Declaration of Principles offers guidelines to enterprises, Governments and employers' and workers' organizations in such areas as employment, training, conditions of work and life and industrial relations. Under increasing globalization and bandwagon effect, each country is expected to follow the international instruments and make them link effectively with the national regulatory framework. As a result, the country naturally becomes more concerned with the CSR agenda and receptive to cooperate with the private sector for the promotion of the CSR concept.

Following the above development, Porter and Kramer (2011b) present four motives for business to integrate the CSR concept into their core business: moral obligation, sustainability, licence to operate and reputation. The moral obligation is the argument that companies have duties to be good citizens and "to do the right thing". Sustainability highlights environmental and community stewardship. The concept of licence to operate derives from the fact that every company needs tacit or explicit permission from Governments, communities and numerous other stakeholders to do business. Many companies use reputation to justify CSR initiatives on the grounds that they improve a company's image by strengthening its brand, enlivening its morals and even raising the value of its stock. ESCAP (2009) also suggests that the CSR motives also consist of risk management, financial gains and innovation. CSR can be a tool to offset business risk, which could be derived from any malfunction in the company and its suppliers and distributors, promoting the "doing the right thing" culture throughout the value chain. While successful CSR practices could save cost from the reduction of pollution and waste, companies with good CSR records could access external capital easier than others as financial institutions are increasingly incorporating social and environment criteria into their investment decision-making (i.e. social or impact investment). CSR practices can also benefit both society and company from creating innovation (e.g. new products/services and efficient production process) through CSR practices. However, further study is required on the motives for CSR initiatives which are becoming important to attract an increasing number of businesses to integrate the CSR concept into their core operations. For example, McWilliams and Siegel (2001) suggest that CSR outcomes and R&D spending are highly correlated with a positive effect on profitability as both CSR and R&D relate to product and process innovation. Many efforts have also been devoted to the relationship between CSR and corporate financial performance but the results of these efforts have been inconclusive.

Finally, the planning, measurement and appraisal of CSR initiatives are commonly referred to as CSR (or sustainability) reporting. In recent years CSR reporting has raised considerable interests in business and academic communities although its roots, such as social audit and non-financial accounting, go back to the 1940s (Carroll and Beiler, 1975). As a form of measurement of environmental protection, labour relations, human right records, outstanding legal issues and community relations, CSR reporting is a natural evolutionary step in the operationalization of CSR initiatives and, in its essence, represents a managerial effort to measure, monitor and evaluate a company's CSR performance. CSR reporting is an attempt to enhance the company's accountability to its stakeholders with respect to CSR objectives and programmes. For example, the "triple bottom line" corporate reporting framework has gained popularity in the CSR community. The framework incorporates economic, social and environmental aspects of reporting and facilitates CSR activities through the efficient use of economic capital while simultaneously building and using social and natural capital (UNGC,

2012). The Global Reporting Initiative (GRI) and UNGC are two of the major initiatives of CSR reporting at the global level (UNGC, 2012; GRI, 2012).[24]

C. A COMPREHENSIVE CSR CONCEPTUAL MODEL

As described above, some form of CSR has always existed and has evolved with the growth of modern industries. For years, the need for a positive relationship between business and society has been a common concern. The CSR concept will remain an essential part of business languages and practices because it responds to rising public expectations from the business community. As the theory of CSR is further developed and more research is conducted, scholars may revise and adapt existing definitions of CSR. However, such definitions and interpretations will build on the groundwork that has been ongoing in the area of CSR for over half a century.

Within this context, it may be useful to present a comprehensive conceptual framework of CSR, which describes the main drivers, factors, issues, strategies and stakeholders of CSR. This framework has been developed mainly on the basis of previous work done by Carroll (1979; 1991), Wartick and Cochran (1985) and Wood (1991). The results of recent research on corporate motives are added to identify the specific drivers of CSR. The present framework is also based on stakeholder theory and includes concepts such as global value chains, sustainable business, inclusive business and CSR reporting. The framework appears in figure II.1.

The conceptual framework describes CSR phenomena of interest in their most general but evolving form. It specifically places, in sequence, five components: (1) corporate motives; (2) corporate responsibilities; (3) CSR issues; (4) institutional frameworks; and (5) corporate actions, reflecting the natural logical flow of conventional human behaviours that perceptions precede attitudes and attitudes precede behaviours (cf., Wartick and Cochran, 1985). Corporate motives are formed as a firm's perceptions, while corporate responsibilities and CSR issues are recognized as a firm's attitudes. Institutional frameworks and corporate actions are categorized as a firm's behaviours.

Corporate motives in figure II.1 refer to demands of or pressures on a firm to adopt a CSR practice. They are based on the motive model for business (Porter and Kramer, 2011b; 2011c; ESCAP, 2009), which comprises moral obligation, corporate sustainability, reputation, economic gain, licence to operate, risk management and innovation. Firms have increasingly realized that their ability to compete in the market significantly associates with their contribution to society and environment. The more the firm has a clear motive on CSR, the more likely it successfully implements CSR activities while achieving both social and economic gains.

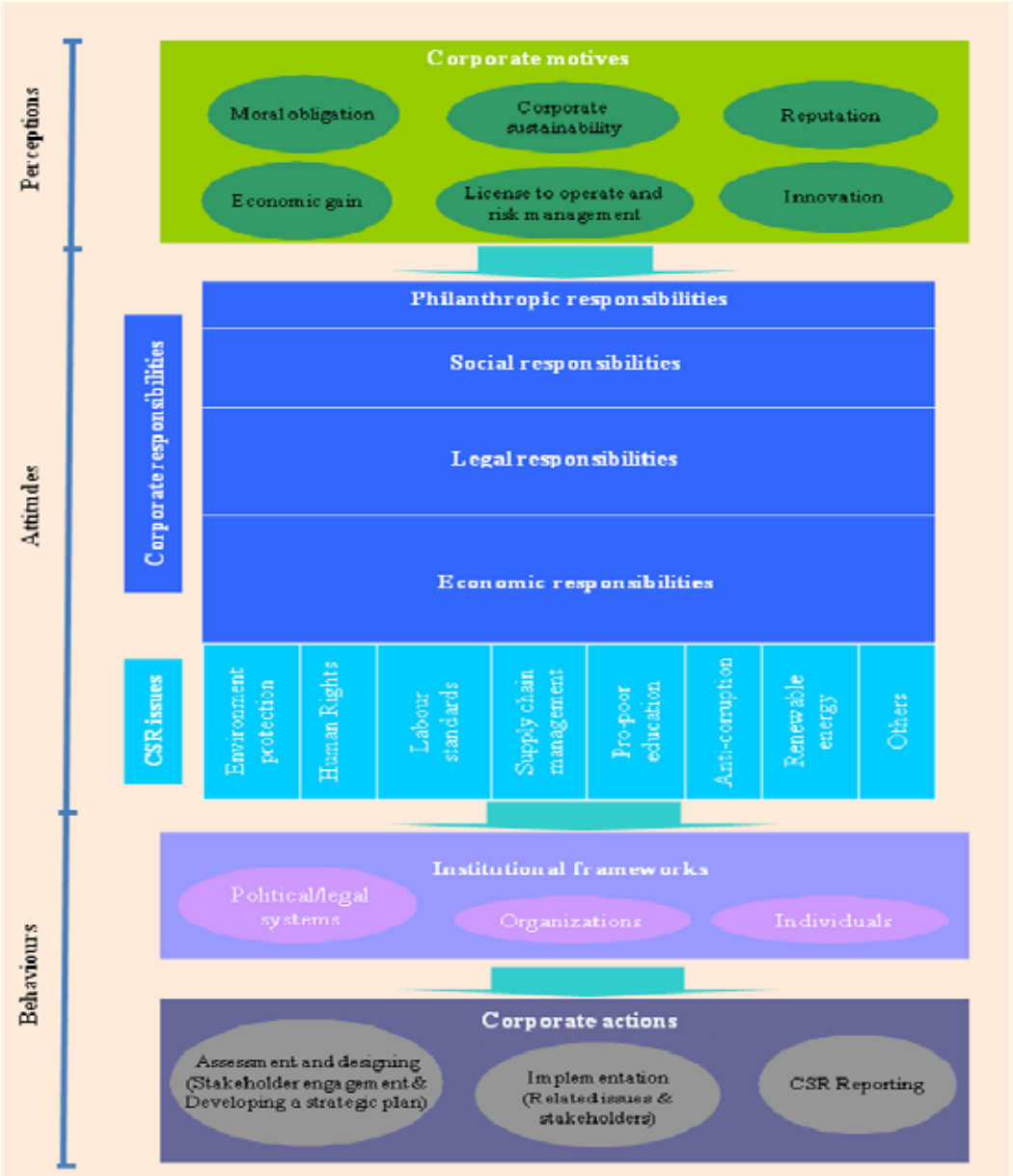
Corporate responsibilities are defined as obligations of a firm to contribute to society. They follow Carroll's four types of responsibilities, covering economic, legal, social and philanthropic (Carroll, 1979). Economic responsibility is the most fundamental goal of business entities, followed by legal responsibility that each firm has to act within the given legal framework. However, society is putting increasing emphasis on firms' higher social responsibility. Social responsibility generally reflects ethical attitudes of managers and

[24] See chapter IV of this publication for more details.

entrepreneurs. Similar to social responsibility, philanthropic responsibility depends on managers' attitudes to the firm's relationship with society and environment.

CSR issues are considered to be target areas of a firm's CSR initiatives. The issues build up on individual firms' attitudes on corporate responsibilities and perhaps depend on their assessments on social and environmental needs. The CSR issues identified in figure II.1 expand on Carroll's social issues framework (Carroll, 1979), adding environmental and pro-poor aspects. The coverage of CSR issues has been gradually expanded as the needs of society are changing and new issues, such as environment, human rights, labour standards, value chain management, pro-poor education, anti-corruption and renewable energy, have invited more attention in the CSR arena.

Figure II. 1. Comprehensive CSR conceptual framework



Then, target CSR issues must be addressed through appropriate institutional frameworks, namely political and legal systems, organizations and individuals. These institutional frameworks are taken from Wood (1991), adding political aspect to legal systems. The political and legal systems, which are conscious of the society's needs and expectations in general, are expected to provide a proper policy and regulatory framework to firms' CSR initiatives. While organizations by nature have to be responsible for social outcomes of their activities and interests, individuals are supposed to take moral actions to support society's well-being.

Finally, corporate actions are viewed as a firm's responsiveness to CSR issues. Following Deming's popular "plan-do-check-act" cycle (1966), Wood's three types of corporate actions (i.e. external assessment, stakeholder engagement and implementation management) (Wood, 1991) were reorganized as assessment and designing, implantation and CSR reporting. The assessment and designing are necessity to develop an effective CSR plan or programme. Stakeholder engagement is focused in both the step of assessment and designing and implementation. Implementation also covers both management of CSR issues and CSR stakeholders, while the recent development of CSR reporting, which includes M&A process, was included in the corporate actions as the third and last element.

All in all, this CSR conceptual framework highlights a process flow from motives that drive business to adopt the practices of corporate responsibilities to implementation of CSR activities into business operations through the selection of key issues to society and environment as well as an appropriate institutional mechanism. The framework covers the various concepts of CSR that have been developed for years. It can also contribute to further conceptual development for effective CSR practices and provide clear guidelines and specific approaches for business, government and other stakeholders (e.g. international, non-profit and non-governmental organizations) to conduct their ongoing and future activities, resulting in better CSR performance.

D. CONCLUSIONS

With the ongoing discussions and arguments on the role of business in development, increasing environmental concerns and the need for pro-poor development, the conceptualization and implementation of CSR have received increased attention. With the spread of globalization, intensification of competition and increased ecological footprint of TNCs, in particular in developing countries, the activities of businesses which focus on both social and environmental impacts have increased as an integral part of core business operations and management.

The concept of CSR finds its roots mainly in the Western world, in particular in the United States, where individualism and arms-length relationships are predominant (Carroll, 2008; Hofstede, 2001). The way in which CSR is practised and communicated is often related to specific cultural and social contexts, and in the Asia-Pacific region debates on CSR have tended to follow developments in the West (ESCAP, 2009). This observation invites some immediate questions. Can the present CSR model as presented in figure II.1 be fully applied to a non-Western context? Which elements of the CSR model are more essential to make the model as a whole function better in the region? Is there any missing CSR element which is unique to the region? While the core principles of environmental management, social responsibility and sustainable development are part of any CSR model, countries in the Asia-Pacific region may

have different priorities depending on national culture, level of economic development and nature of state-business relationships (Welford, 2005). Further research is needed in this area.

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CHAPTER III

UNLOCKING THE POWER OF IMPACT INVESTING IN ASIA AND THE PACIFIC*

INTRODUCTION

Sustainable business practices, corporate social responsibility (CSR), sustainable investment, social investment and impact investment are means by which business activity contributes to creating social value in addition to financial value, and are means through which the private business sector contributes to social impact and development. Social impact and development goals have traditionally been seen as the responsibility of Governments and non-profit non-governmental organizations but the opportunity to engage the private sector in contributing resources to the development agenda warrants attention from Governments, policymakers and multilateral agencies that can help facilitate the growth of sustainable business and investing practices.

Sustainable investment is an investment discipline that aims to create both a financial return as well as social and environmental benefits and is gaining traction and interest from both the commercial investment sector and the development sector. While the fast increasing interest in sustainable investment is positive for the development sector, this has also resulted in much confusion in the sector. Within the field of sustainable investment, different models exist; for example socially responsible investment which refers to investment in publicly traded securities and seek risk-adjusted market rate returns while avoiding certain industries deemed to create negative impact, or impact investment, which refers to private placement structures that actively seek to create impact.

There is much confusion on the topic of sustainable investment and the differences between socially responsible investment and impact investment, complicated further by the use of other terms such as venture philanthropy or social venture capital. This spectrum of jargon terms and the fact that models are constantly evolving make it difficult for both investors and policymakers to distinguish between distinct models that require different approaches. Confusion between models and applying a single approach to distinctly different model can have unintentional negative consequences and can delay the development of the practice of sustainable investment.

Effective policies by Government and support mechanisms by other actors for sustainable investment first require an understanding of the distinct models within this spectrum. The aim of this study is to provide an overview of the models within the spectrum of sustainable investment, to determine which models can make the most significant contribution to development, and to provide recommendations for Governments and other actors on how to increase the type of sustainable investment activity that has the most potential to respond to intervention.

The research methodology for this report consists primarily of secondary research, an informal survey of selected actors in the sustainable investment environment in Asia and the

* This chapter was prepared by Jana Svedova, co-founder of Synergy Social Ventures.

Pacific and draws upon the author's own experience and knowledge of the current state of sustainable investment practices in the Asia-Pacific region and at the global level. The details of the informal survey of investors in the region are not published in this chapter as the sample size was small, but the findings did conform to the findings of larger published global surveys of investors. It is also important to note that the field of impact investment, as a subsector of sustainable investment, is a very dynamic and continuously evolving field. It is also a very new field and many claims and predictions are not yet supported by data. Data are beginning to emerge in the sector and were collected to the extent available.

Examples and case studies are also an important component of this chapter. Due to the relatively newness of the impact investment sector, examples of investors and enterprises provide important insights into the investment practices and into the variations of the model. Care was taken to choose examples of impact investors who have the longest history of experience with investing in the region and who have a degree of transparency, publicly available information, and an excellent reputation among peers. These examples, however, are not intended to be endorsements of any particular entity. In addition to examples of investors and investees, examples of policies and other support mechanisms for the impact investment sector being implemented by Governments and various non-government actors are provided. Although there are no data on the effectiveness of these measures, the examples were chosen based on the perceptions of good sources of impact investment by investors.

The chapter begins with an overview of the spectrum of sustainable investment, from socially responsible investment to impact investment and a discussion on the differences between the various models (section A). Section B continues with a more in-depth discussion of impact investment, a distinct model within the spectrum of sustainable investment, and explains how the types of investors that engage in impact investment and the types of entities they invest in provide new opportunities for creating impact beyond what is possible with the more established model of socially responsible investment. Section C further discusses how impact investment activity contributes to development goals as well as the limitations of impact investment as a tool for development. Section D examines the current state of and the future prospects for the impact investment sector globally, while section E examines the sector in the Asia-Pacific region and identifies the primary barriers to enhanced impact investment activity in the region. Section F focuses on how the various barriers to impact investment in the region can be effectively addressed. The paper concludes with recommendations for policymakers and other actors such as nonprofit organizations, philanthropists and investors to overcome the current barriers and help increase impact investment in the region (section G).

A. THE SPECTRUM OF SUSTAINABLE INVESTMENT – FROM SOCIALLY RESPONSIBLE INVESTMENT TO IMPACT INVESTMENT

The various models existing within the spectrum of sustainable investment differ by the degree to which they intentionally focus on impact creation and by the weight put on intended financial versus social returns. An understanding of these differentiating factors is critical to understand how much each model can contribute to development and social agendas, and what support mechanisms can enable enhanced activity of these types of investment. This knowledge will help policymakers and other actors select the particular model where intervention can be most effective in increasing investment activity and ensuring impact.

1. Socially responsible investment

(a) Overview

The term socially responsible investment (SRI) emerged in the early 1990s when the practice of taking social and ethical considerations in the investment decision became more formalized. In its most basic form, SRI is investment activity that factors environmental, social, and corporate governance (ESG) into investment decision-making. At a minimum, SRI involves negative screening, or not making investments into sectors deemed to have negative social or environmental impacts, such as tobacco, gambling, and defence. Another method of practising SRI goes beyond negative screening and involves active engagement with company leadership through shareholder advocacy. Under this scenario, investment funds not only screen out certain sectors but also use their shareholder power to proactively try to influence management of the companies they invest in to improve ESG.

SRI most commonly refers to investment in a fund that invests in shares of publicly traded companies. Each SRI fund defines its own criteria for the application of negative screening and the extent to which it practises shareholder advocacy. It is each investor's choice as to which fund's screening criteria align with his or her values. SRI funds do not differ from other types of funds investing in public securities in terms of their risk profiles. Investors have a range of funds of different risk profiles and sector focuses to choose from, and SRI products are available for retail and institutional investors.

Industry associations exist to support SRI, while internationally accepted guidelines exist for both investors and companies to help them consider and report on factors related to social responsibility. National level and multinational initiatives and organizations are engaged in promoting and supporting the SRI industry and setting best practices. For instance, the United Nations Global Compact backed Principle for Responsible Investment (PRI) initiative lays out six principles that provide a voluntary framework which enables institutional investors to incorporate ESG issues into their decision-making and ownership practices[25]. Another example is the Global Reporting Initiative (GRI) which provides voluntary standards for uniform reporting on sustainability issues and helps standardize the reporting methodology by companies on ESG issues.

SRI investment practices are widespread. Currently, 1,096 asset owners and investment managers representing some of the world's largest institutional investors such as pension funds are currently signatories to the PRI[26]. Despite its widespread adoption, policies to further encourage and enable SRI have been implemented by some Governments. These policies aim at providing information to investors to enable them to make SRI decisions, legislating against investment in certain sectors deemed to be not socially responsible, and providing investors with economic incentives to engage in SRI. The Government of the Netherlands, for example, has sponsored a guide providing investors with information on SRI and available sustainable investment funds and grants a tax incentive for investment in the green energy sector, while

[25] The United Nations Principles for Responsible Investment website. http://www.unpri.org/signatories/. Accessed on 8 August 2012
[26] Ibid.

Belgium has enacted a law prohibiting Belgian investors from investing in companies in the weapons sector (Steurer, Margula and Martinuzzi, 2008).

Although SRI activity has been slower to gain traction in the Asia-Pacific region than in Europe and North America, the level of interest and activity in SRI is increasing. A 2012 report published by the Association for Sustainable and Responsible Investment in Asia (ASrIA) stated that in 2011 there were over 130 investment managers in Asia that engaged in SRI with $74 billion of sustainable investment assets under management.[27] As a share of the total investment assets market, identified sustainable investment assets in Asia (excluding Japan) were 2.9 per cent compared with 21.6 per cent globally.[28] The lack of credible ESG data was identified as the primary barrier to more SRI in the region, but the report published by ASrIA states that stock exchanges in Asia are making progress to take ESG disclosure more seriously. The role of asset owners, especially large ones such as pension funds and sovereign wealth funds, in providing direction to their asset managers is also critical to increased SRI activity.[29]

(b) Social venture capital

SRI generally refers to investment in publicly traded securities, but there is also a practice of incorporating sustainability and social responsibility considerations into investment in the private equity sector. Several private equity and venture capital funds have chosen to focus on industries that, by their nature, create positive impact for society and the environment and thereby contribute to sustainable development. An example of a venture capital fund that focuses on investments with a social impact is SJF Ventures. Since its founding in 1999, SJF has invested in companies in the clean tech and sustainability-related sectors. SJF has invested in ventures in the areas of reuse and recycling, resource efficiency and infrastructure, sustainable agriculture and food safety.[30]

There is no difference between "social venture capital" funds and traditional private equity/venture capital funds in terms of the financial returns they seek or in the way they are regulated. For some investors, the fact that a fund has focused on a sector such as clean technology or a fund that is investing in an underdeveloped market is sufficient to ensure them that the investment will create positive impact on society or the environment. Some private equity funds actively market their social focus while others do not, and ultimately the decision of what constitutes impact lies with the investor and is a matter of individual opinion. The primary investment goal remains maximizing financial return.

There is no system of measuring the impact created by funds that identify themselves as "social venture capital", and Governments have not been active in directly encouraging more of this type of investment activity. However, Governments have been developing and implementing policies to encourage certain industries considered beneficial to society or the environment, such as clean technology. Government initiatives have included measures such as subsidies to the industry or requirements for clean energy use, which in turn have had a positive impact on

[27] Association for Sustainable and Responsible Investment in Asia, *Asia Sustainable Investment Review 2012* (Hong Kong, China, 21 December 2012). Accessed from http://www.asria.org/news/press/1356084134 on 13 January 2013
[28] Ibid.
[29] Ibid.
[30] SJF Ventures website, www.sjfventures.com. Accessed on 3 August 2012.

demand in the industry and thus have made financial investments in these industries more lucrative for investors. Through this type of support to a particular industry, policy has also effectively created incentives for investment from the private sector in that industry.

2. Impact investment

(a) Overview

The concept of impact investment emerged from discussions within the social and business sectors throughout the late 1990s and early 2000s on moving from the bifurcated view that non-profit organizations and Governments were responsible for addressing social and developmental challenges, while the business sector was only expected to focus on profit maximization. This thinking eventually evolved to the realization that the business and private sectors could also contribute to the development and social agendas while the social sector could engage with the market and business sectors while pursuing social and development goals.

The term impact investment was coined at the Rockefeller Foundation and "Harnessing the Power of Impact Investing" has been one of the Foundation's primary initiatives as of 2007.[31] The Rockefeller Foundation has played a significant role in building the impact investment industry to date, funding research, conferences, playing a founding role in establishing industry organizations and infrastructure, and engaging in many other industry building activities worldwide. Although the popularity of impact investment has significantly increased since the Rockefeller Foundation's efforts to promote it, the concept of investing for impact is not new. In a 2012 survey of impact investors by J.P. Morgan, 17 respondents stated that they had been engaging in impact investment already before 1995 (J.P. Morgan, 2013).

Since the adoption of the term "impact investment", its definition has remained quite broad and the term actually refers to a range of models, not one specific model. A 2009 report published by the Monitor Institute and funded by the Rockefeller Foundation defines impact investment as "actively placing capital in businesses and funds that generate social and/or environmental good and at least return nominal principal to the investor" (Monitor Institute, 2009). This definition encompasses a range of models from philanthropic funding of impact-focused enterprises to commercial investment in ventures that seek to create a positive social or environmental impact in addition to maximizing financial returns. What impact investing models have in common is their focus on using the private sector, via enterprise and investment, to create social impact and achieve development goals.

Since 2009 the discussion around the topic of impact investment has grown very widespread and has engaged private investors, philanthropists, foundations, and development organizations. The following provides an overview of different types of impact investors and the type of investment activity they engage in. As is evident from these examples, impact investors are varied, as are their reasons for engaging in the model and impact goals. Furthermore, there is also a wide range of impact investment models.

[31] Rockefeller Foundation website, http://www.rockefellerfoundation.org/what-we-do/current-work/harnessing-power-impact-investing. Accessed on 3 August 2012.

Impact investment is an extension of SRI practices, moving beyond negative screening and shareholder advocacy to even more intentional creation of impact through investment in private enterprise. The differences between SRI and impact investment are significant and impact investment has developed as an independent industry. SRI and impact investment, however, are not mutually exclusive. An investor can engage in SRI and impact investment simultaneously with different pools of capital. Table III.1 lists the most common sectors of impact investment as identified by a survey of global impact investors.

Table III. 1. Common sectors of impact investment

Sector	Number	Percentage	Notional[a]	
			Millions of United States dollars	Percentage
Microfinance	742	34	1,612	37
Food and agriculture	339	15	247	6
Clean energy and technology	291	13	281	6
Cross-sector	286	13	650	15
Other	270	12	436	10
Housing	165	7	906	21
Healthcare	59	3	89	2
Education	44	2	139	3
Water and sanitation	17	1	16	0
Total	2,213	100	4,377	100

Source: J.P. Morgan Global Social Finance, *Perspectives on Progress: The Impact Investor Survey*, 7 January 2013. Accessed from http://www.thegiin.org/cgi-bin/iowa/download?row=489&field=gated_download_1 on 14 January 2013.

[a] "Notional" refers to the total value of a leveraged position's assets, as impact investments are often leveraged.

While SRI primarily refers to investment in publicly traded securities, most commonly through SRI funds, impact investment is private placement. Impact investments can be made into a range of legal structures ranging from charities to corporations and can be made through various funding vehicles. Funding structures include but are not limited to:

(i) *Grant funding* with no requirement for repayment or repayable grants
(ii) *SME loans with preferential rates*
(iii) *SME loans at market rates*
(iv) *Patient capital* – debt or equity investment with a long-term horizon and usually seeking return of capital below market rate of return
(v) *Equity investment* – private equity investment ranging from angel investments to venture capital investment are common forms of impact investment as social ventures are private companies and the majority of these companies are in the start-up and early stages of venture development.
(vi) *Social venture* specific investment structures. A common problem with using equity structures for making impact investments is lack of exit opportunities. The most common exit strategies for private equity investments are an initial public offering (IPO)

or an acquisition. Both are unlikely for socially focused companies due to the risk of impact dilution. In response, investment structures such as demand dividend and royalties based repayment have recently been suggested as alternatives.[32]

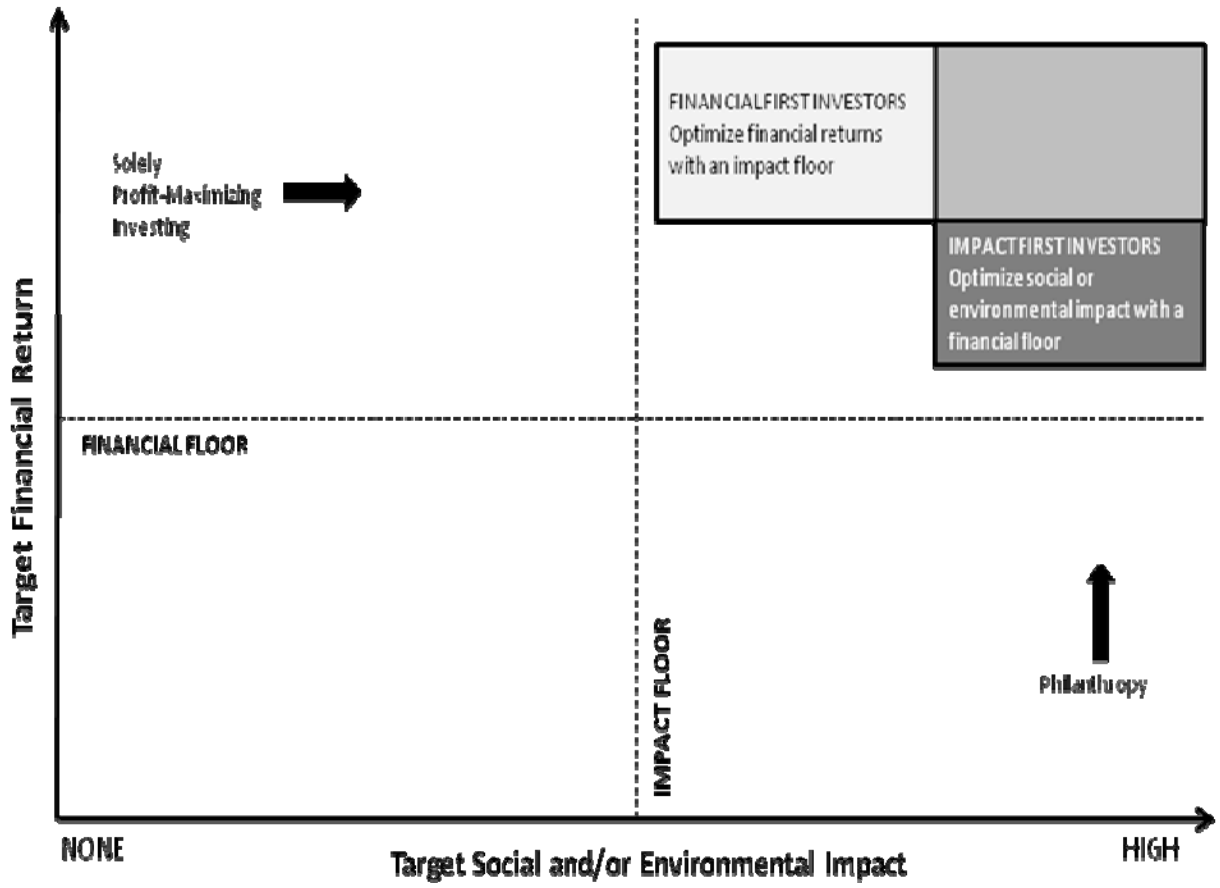
(b) Financial-first impact investment versus impact-first impact investment

While practitioners agree that the purpose of an impact investment is to create both social/environmental impact and a financial return, there is not yet agreement about the weight given to each goal. A 2010 survey by J.P. Morgan of leading impact investors showed that expectations of financial return vary dramatically, from those that expect to trade off financial return for impact to those who expect impact investments to outperform traditional investments (J.P. Morgan, 2012).

As the current definition of impact investment is wide in scope, the practice has been further subdivided into "financial-first" impact investment and "impact-first" impact investment in a report by the Monitor Institute (Monitor Institute, 2009). Financial-first impact investment refers to investment where an investment will be made only if the opportunity to create impact also has the opportunity to realize a risk-adjusted market rate return. In the practice of impact-first impact investment the primary goal is impact creation, and investments are evaluated on their potential social/environmental impact, and financial returns are sacrificed if the impact potential is high (figure III.1)

[32] Santa Clara University Center for Science, Technology, and Society news. *Santa Clara University Team Selected to Design New Capital-Investment Approach for Developing-World Entrepreneurs,*8 October 2012. http://www.scu.edu/socialbenefit/news/blog.cfm?c=14525.

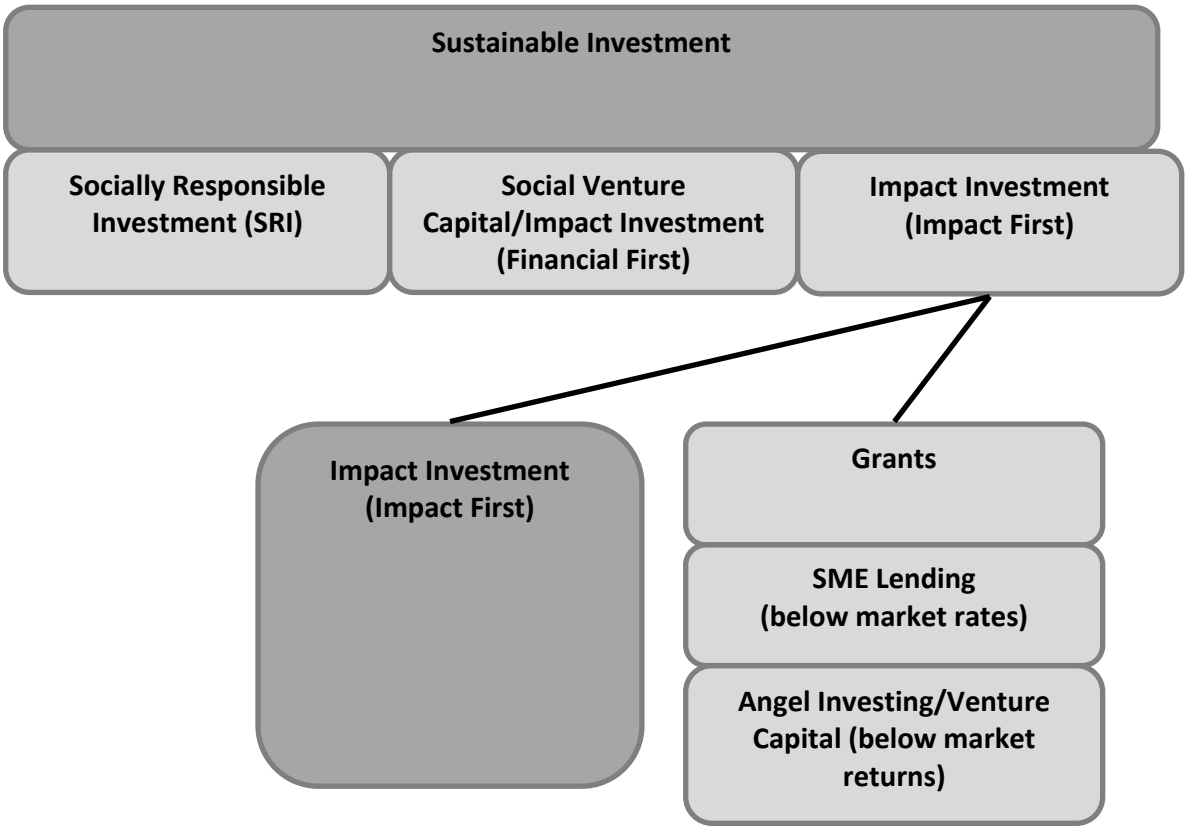
Figure III. 1. Segments of impact investors



Source: Monitor Institute, *Investing for Social and Environmental Impact: A Design for Catalyzing an Emerging Industry,* January 2009. Accessed from http://www.rockefellerfoundation.org/uploads/files/3d58520b-a89d-42ff-8ed1-9f5efa7c8aa0.pdf.

Financial-first impact investment is not a new concept, but is traditionally referred to as social venture capital. This investment practice has, however, gained more popularity and an increased number of investors are seeking to engage in impact investment. As the return expectations are the same as in traditional venture capital and private equity, financial-first impact investment does not provide new opportunities to create impact or contribute to development. Impact-first impact investment, however, is a new type of funding that blends development and impact creation goals with private sector mechanisms in new and innovative ways for the purpose of impact maximization. Figure III.2 shows impact investment within the spectrum of sustainable investment.

Figure III. 2. Summary of the spectrum of sustainable investment



B. IMPACT INVESTMENT – IMPACT OPPORTUNITIES BEYOND SOCIALLY RESPONSIBLE INVESTMENT

1. The impact potential of private, small and hybrid enterprises

Private companies are a significant component of the economy and present a significant potential for impact creation. Unlike large publicly traded companies, smaller and privately held companies often have the flexibility to focus more intentionally on impact. A company with a smaller group of shareholders is able to focus on a social or environmental mission more directly. A privately held company can often even legally integrate its social objectives by modifying standard company documents.

Unlike SRI, impact investment focuses on privately held companies and presents new opportunities for privately held companies that intentionally focus on impact creation to access financing and grow their business and increase impact. Companies that seek impact maximization while they distribute profits that are below the market rate are another modality for impact creation through business models. Impact investment also refers to investment in companies that seek to create financial as well as social/environmental value and where profit maximization is not sought if it would come at the expense of impact ("hybrid" companies).

Impact-focused companies commonly take one of the following forms:

(a) Social enterprises and social ventures

Social enterprises and social ventures are not legal forms but umbrella terms for organizations using market-based models to create social or environmental impact. As such, social enterprises or social ventures come in many different legal forms, determined by the legal contexts in which they operate. Social ventures can be legally structured as traditional businesses, non-profit organizations, or hybrid forms, for example a non-profit organization that fully owns and controls a business entity.

(b) Small and medium-sized enterprises

The majority of what is referred to as "social ventures" or "social enterprises" globally are in essence small and medium-sized enterprises (SMEs). As such social venture development has many parallels to SME development and impact investment has many parallels with SME financing. An important implication is that countries that wish to attract impact investment funds must first have a supportive environment for SME development.

(c) New legal structures for impact-focused businesses

Some jurisdictions have legislated new legal structures to create a formal entity for social enterprises. Examples of such legal entities include the Low Profit Limited Liability Company (L3C)[33] and the Benefit Corporation[34] in the United States, and the Community Interest Company (CIC)[35] in the United Kingdom. These legal structures are all different in form, but the common purpose is to help investors determine that impact truly is the goal of the enterprise and that this cannot be changed after an investment is made.

Another alternative taken by social enterprises in jurisdictions without a specific legal entity is the B Corporation certification.[36] B Corporations are defined as organizations that use business to create a public benefit. Social enterprises globally can apply for the B Corporation certification. The primary benefit, as with special social enterprise legal structures, is to provide a form of third party verification of the venture's intentions of impact creation to investors.

2. Impact investor criteria and types

Who qualifies as impact investor? Impact creation has traditionally been the domain of foundations and philanthropists, while investors focused solely on profit maximization. With the development of impact investment an increasing number of actors can engage in funding impact and development, increasing the overall funding that is channeled toward these goals. It is, however, important to note that only a minority of financial investors can engage in impact

[33] For more information on L3C structures see http://www.sec.state.vt.us/corps/dobiz/llc/llc_l3c.htm
[34] For more information on Benefit Corporations see http://benefitcorp.net/
[35] For more information on the CIC see http://www.bis.gov.uk/cicregulator/
[36] For more information on the B Corporation certification see http://www.bcorporation.net/

investment due to its higher risk profile and the fact that impact investment is a form of private placements.

Impact investment is not accessible to two large groups of asset holders: most institutional investors and most retail investors. The regulatory environment does not presently allow many institutional investors, such as pension funds, to engage in most forms of impact investment. An exception in the institutional investor category are sovereign wealth funds, the Government Pension Fund of Norway and the Abu Dhabi Investment Authority, which are two examples of funds that engage in impact investment. For individual investors, securities regulators in most jurisdictions require a certain level of net worth to access private placement investment opportunities, thereby excluding most retail investors. For example, in the United States, a company that intends to issue securities must make a filing first which requires approval from the Securities and Exchange Commission unless the investor qualifies as "accredited", in which case an individual must have a net worth exceeding $1 million or an income exceeding $200,000 in the past two years prior to the securities purchase.[37]

Investors who currently engage in impact investment include high net worth individuals who meet the risk profile or are willing to sacrifice financial returns for social impact and qualify for access to private placement opportunities as accredited investors. Philanthropists and foundations may engage in impact investment and justify the risk level by considering the potential of creating a significant positive social/environmental impact. Impact investment is also of interest to government development agencies and development finance institutions. It is important to note that the various types of investors engaging in impact investment have varied goals for their investment, and as a result follow different models of impact investment.

Impact investment clearly has a higher risk profile than SRI. At its basic level impact investment carries a comparable range of level of risk to investment in private equity and venture capital investment. Often, however, impact investors are willing to assume an even higher risk and invest in new and unproven models, justified by the potential impact that could be created if the model was proven to generate the expected impact.

Acumen Fund, a veteran of over 10 years in the impact investment sector, stresses that innovation is risky, and even more so when innovation takes place across multiple dimensions to pioneer new business models that serve the world's poorest people. Furthermore, margins are lower and more volatile (Koh, Karamchandi and Katz, 2012). Traditional venture capital investment is characterized by high risk, but this risk is balanced with a potential for high return. Although impact investment carries the same or higher levels of risk, the potential for financial return is not the same.

[37] United States Securities and Exchange Commission website, http://www.sec.gov/answers/accred.htm. Accessed on 2 February 2013.

C. THE CONTRIBUTION OF IMPACT INVESTMENT TO SOCIAL AND DEVELOPMENT GOALS

1. Impact investment as a tool for achieving inclusive and sustainable development

Impact-first impact investment has the potential to be a powerful tool to help achieve inclusive and sustainable development goals. Enterprises that seek to address market failures and provide goods or services to underserved populations in a financially sustainable way can create solutions to long-standing problems and decrease the dependence on ongoing grant funding. SMEs that help create jobs also make a significant contribution to a country's economic and social development. However, it is important to recognize that the social enterprise model is just one type of development tool that is appropriate to address certain types of development challenges. It is not a panacea for all development issues and cannot replace aid and philanthropy.

Most impact investment is made in businesses that are small and medium-sized. SMEs make up a significant portion of the global economy. As such, their potential to make a positive contribution to development is also significant. Some impact investors believe that investment in any SME in developing countries or emerging markets has a positive impact on economic development and is socially beneficial. An organization actively working to unleash the potential of SMEs to contribute to development is the Aspen Network of Development Entrepreneurs (ANDE).

Launched in 2009 and based in Washington, D.C., ANDE is a global network of organizations working to promote sustainable development by supporting SMEs (referred to as small and growing businesses, or SGBs, by ANDE) that create economic, environmental and social benefit for developing countries. In 2012, the membership of ANDE amounted to 157 organizations that support the growth of SMEs in developing regions worldwide, working in 150 countries globally.[38] This is evidence that the potential of SMEs to contribute to sustainable development is recognized and that support for these enterprises is growing.

Impact investment is also able to fund organizations working toward the goals of impact and development through business models as opposed to charity structures. These business-like models are an important component of sustainable development but cannot be funded by traditional grants due to their business-like legal structures. Impact investment can fund these types of entities, and can therefore support the growth of this important model.

Social ventures that are funded through impact investment operate in many sectors and address many different social and environmental challenges. The most common types of impact-focused business models are listed in table III.2.

[38] Aspen Network of Development Entrepreneurs website, http://www.aspeninstitute.org/policy-work/aspen-network-development-entrepreneurs/about-membership. Accessed on 8 August 2012.

Table III. 2. Impact-focused business models

- **Products and services for the bottom of the pyramid**
  - Low-cost products that improve the quality of life of people in the lowest income categories
    * Examples: low-cost water filters, solar powered lighting
  - Low-cost products that improve productivity and increase incomes
    * Examples: low-cost irrigation pumps
- **Employment opportunity creation**
  - Developing or reviving industries in areas with high unemployment
  - Employment opportunities for marginalized groups
- **Environmental protection**
  - Examples
    * Renewable energy
    * Sustainable agriculture
    * Alternative industry development to prevent resource depletion

The concept of impact investment also attracted interest during the global financial crisis in 2008 as concerns rose about the availability of public and philanthropic funding necessary to address mounting global challenges. Elizabeth Littlefield, CEO of the Overseas Private Investment Corporation (OPIC) claims that private sector funds are essential to address the world's problems. "Every dollar that we catalyze from the private sector to invest in development is one more dollar that does not need to be spent by the public sector or philanthropists." She does, however, caution that investing for this type of impact and public good needs a longer and broader perspective as opposed to investors' common preferences for short-term returns and quick payback.[39]

Impact investment is of course not only applicable in developing regions, but can contribute to achieving social and environmental impact in developed countries as well. Countries in different stages of development face different social and environmental challenges, and consequently social ventures and impact investment mechanisms will look different in a developing country from those in a developed country. Market-based solutions and financing mechanisms, however, are relevant to address challenges faced by all countries, developed or developing.

2. The new role of impact investment in development finance

Development funding agents are increasingly beginning to view impact investment as a financing tool for sustainable development. At the November 2011 Fourth High Level Forum on Aid Effectiveness in Busan, Republic of Korea,[40] the United States Secretary of State Hillary Clinton said: "We need to continue shifting our approach and our thinking from aid to

[39] Overseas Private Investment Corporation blog. *Putting the Impact in Investin,*. 25 April 2012. Accessed from http://www.opic.gov/blog/impact-investing/putting-the-impact-in-investing on 4 October 2012.
[40] 4th High Level Forum on Aid Effectiveness. Busan, Republic of Korea. 29 Novemeber-1 December 2011. Conference website, http://www.aideffectiveness.org/busanhlf4/.

investment, investment targeted to produce tangible returns." She added that, "with official development assistance representing a much smaller share of the resources flowing into developing countries, we have to think differently about how we use it." She mentioned several important agency-level methods to spur greater investment in the developing world. She argued that development assistance can reduce the risks companies face when investing in the developing world, increase access to finance for local SMEs, reduce structural barriers to investment, and provide local Governments with technical assistance to increase their own capacity in these areas.[41]

The following examples demonstrate how various development organizations worldwide have begun to use impact investment as one of the tools to achieving their goals:

(a) The Overseas Private Investment Corporation (OPIC)

OPIC is the United States Government's development finance institution, and has been mobilizing private capital to address development challenges globally for over 40 years. In response to the increasing interest in impact investment, in October 2011 OPIC made a commitment of up to $285 million for six new investment funds with the aim to catalyze $875 million in investments in emerging markets.[42] The funding was provided to a selection of equity funds that invest in emerging markets projects that improve lives, create employment, enhance health care, protect forests, and address climate change.[43] Among the funds to receive funding from OPIC is Sarona Asset Management. This fund-of-funds intended to invest in 12-18 private equity funds that target market-based returns and invest in SMEs in frontier markets, which are expected to contribute to employment, wealth creation, and access to goods and services to underserved populations.[44]

(b) The Bill & Melinda Gates Foundation

The Bill & Melinda Gates Foundation is a United States based philanthropic foundation that focuses on addressing needs in the areas of health, development and education. In addition to its grant activities, the Foundation also engages in impact investment through programme-related investments (PRIs), which are the legal form for impact investment for foundations in the United States. An example of a PRI by the Gates Foundation is an equity investment of $2 million in Inigral Inc. Inigral is an early-stage social media company that creates closed and safe virtual social networks for post-secondary students, their peers, professors and administrators. The Gates Foundation was interested to invest in this company because of its potential to create virtual campus communities and address challenges ranging from recruitment to retention and

[41] United States Department of State website, http://www.state.gov/secretary/rm/2011/11/177892.htm. Accessed on 17 August 2012.
[42] Overseas Private Investment Corporation website, http://www.opic.gov/blog/education/six-questions-about-impact-investing. Accessed on 18 August 2012.
[43] Overseas Private Investment Corporation press release, In historic commitment to impact investing, OPIC Board Approves $285 million for six funds catalyzing $875 million in investments, 27 October 2011. Accessed from: http://www.opic.gov/press-releases/2011/historic-commitment-impact-investing-opic-board-approves-285-million-six-funds-c.
[44] Ibid.

support at a fraction of the cost of traditional methods, resulting in increased post-secondary student retention and degree completion. [45]

(c) Oxfam

Oxfam is a leading charity in the United Kingdom that addresses poverty and development issues worldwide.[46] Recently, Oxfam identified support of SMEs as an important modality to help achieve development goals and further decided to engage in impact investment as a way to support SMEs in the developing world. For that purpose, it launched the Small Enterprise Impact Investment Fund in collaboration with the City of London and Symbiotics (an international development organization), a fund that aims to deploy up to $100 million. Contributors to the fund are private and institutional investors, and Oxfam's role is to monitor and measure the impact of the investments. According to Oxfam "there are countless small businesses in developing countries that have the potential to thrive but are completely stifled by the limited access to credit." Impact investment can unlock this potential by providing credit to these SMEs.[47]

An important characteristic of initiatives supported by impact investors is innovation. Innovation is often lacking in traditional NGO approaches to development. This is potentially a result of traditional project-based grant funding, which does not value innovation and risk taking. Impact investors, on the other hand, are more willing to take risk and fund innovation, and understand that funding made available up-front is necessary to innovate, test models and build organizational capacity before a model can be scaled.

3. Limitations of impact investment as a tool for development

To achieve inclusive and sustainable development goals, a range of tools applied in appropriate contexts is necessary. While impact investment is an important tool that can unlock new opportunities and make significant contributions to development, it also has many limitations. With the growing challenges facing societies and the environment, no silver bullet solution exists. However, with private enterprise participation it is possible to unleash the power of market mechanisms to break these challenges down into smaller more manageable parts and attack them in a more sustainable manner and more efficiently and effectively than what Government alone could do (Rangan, Appleby and Moon, 2011).

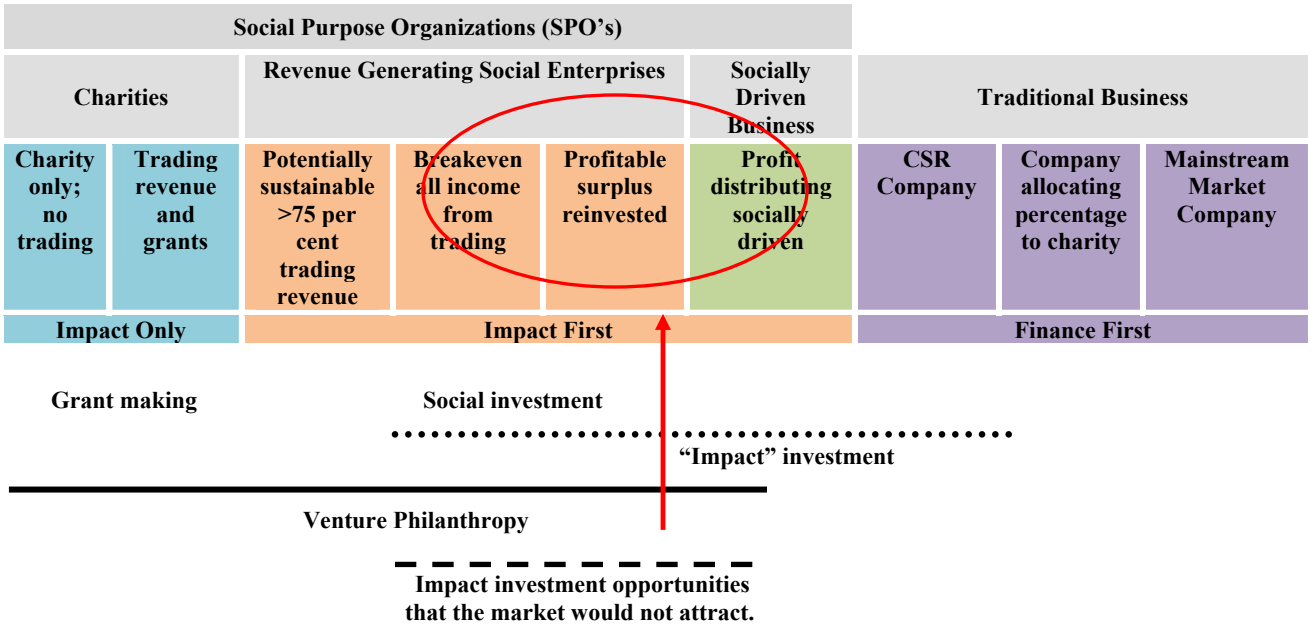
The generally accepted definition of impact investment requires a deliberate intent to create social or environmental impact while providing a return on the principal invested, but allows for a range of expected returns from return of principal only to risk adjusted market rate financial return (Rangan, Appleby and Moon, 2011) This is a wide range and implies that market rate investments are included in the definition of impact investment. However, it can be argued that investments that have the potential to generate market rate returns in additional to social

[45] Global Impact Investing Network website, *Impact Investment Profile: The Bill & Melinda Gates Foundation/Inigral Inc*. Accessed from: http://www.thegiin.org/cgi-bin/iowa/resources/profile/9.html.
[46] Oxfam website, http://www.oxfam.org.uk/what-we-do/introduction-to-oxfam. Accessed on 30 October, 2012.
[47] Third Sector United Kingdom, *Oxfam Launches Fund to Make "Impact Investments" in the Developing World"*. 10 October 2012. Accessed from: http://www.thirdsector.co.uk/go/social_enterprise/article/1154243/oxfam-launches-fund-impact-investments-developing-world/ on 12 October 2012

impact will attract investors regardless of the social impact as the market is seeking the level of returns the investments promise. As such, impact-first impact investments are not necessarily a new opportunity.

As figure III.3 shows, impact investment provides funding for only a small subsector of the spectrum of charity and business models.

Figure III. 3. The spectrum of social purpose organizations and impact investment



Source: European Venture Philanthropy Association: An Introduction (October 2011), p. 5. Available from http://evpa.eu.com/wpcontent/uploads/2010/08/EVPAIntroduction-October _2011__2.pdf. Accessed 20 October 2012 and adapted by the author.

4. Case study: microfinance and the limitations of impact investment

The microfinance sector is one of the biggest sectors for impact investment inflows (J.P. Morgan, 2012) and is often used as an example of how social goals can be achieved while generating market rate returns for investors. At the same time, however, recent insights into the microfinance industry have resulted in claims to the opposite, and microfinance has also become the example used by those who believe it is not possible to achieve impact and market rate financial returns simultaneously.

The pioneer of microfinance is Grameen Bank, founded in Bangladesh in 1976 by Professor Muhummad Yunus. Professor Yunus learned that basket weavers in his community were selling their products to middle men at an extremely low profit margin because they had no way to purchase their raw materials other than from the eventual buyer of their product, who also required that the baskets be sold to him at a pre-agreed price which was very disadvantageous for the weavers. He tested a model of lending these weavers small amounts of funds so they could

purchase their raw materials and then sell their products at a market price.[48] The success of this experiment led to the establishment of the microfinance model, where access to credit is made available to people who are at the bottom of the economic pyramid and are excluded from formal credit systems.

When Professor Yunus developed the microfinance concept he was addressing a specific problem faced by micro business people at the bottom of the economic pyramid who needed to access credit for their businesses. Access to credit for the poor in itself is not a solution to poverty. Rather, it can be the cause of a cycle of indebtedness for an individual resulting in more problems. This is true in any context and the implications of excessive access to consumer credit were demonstrated by the recent consumer credit crisis in the United States. In developing contexts consumers are even more likely to access available credit as they are often faced with truly dire situations. Even when funds are used to meet life's essentials such as food and housing, access to credit does not benefit the poor overall if they are not able to repay it. The resulting over-indebtedness without a means of repayment compounds the borrowers' problems when they have to face aggressive collection practices or resort to loan sharks to borrow funds for repayment.

It took the Grameen Bank 17 years to break-even (Koh, Karamchandi and Katz, 2012) and it is still not a commercial business model, nor does it intend to become one. The organization's business model has, however, developed and proven to be a microfinance model that is now used by many other organizations to provide people at the bottom of the economic pyramid access to appropriate credit that has helped many people significantly improve the economic situation and quality of life of their families. Microfinance is currently a frequently used tool to address poverty that is effective only when applied appropriately. Funders who helped to develop this model have made a significant contribution to poverty alleviation globally.

The success of the Grameen Bank's microfinance model also attracted attention from investors who saw a potential new market opportunity in providing credit services to the world's poor. Viewed at this basic level, the market of poor people who would take loans is very large. However, when taking into consideration the appropriateness of credit for an individual and the required sources of repayment the potential market shrinks considerably, limited for example to micro business owners who can demonstrate that they can use credit effectively to grow their business and generate sufficient income to repay their loans and still have a surplus. Furthermore, small loans have a very high transaction cost as even for very small loans a loan officer must assess the borrower, his or her business, and intended use of funds.

The drive to commercialize microfinance has led to efforts to make this model more profitable. As a result, lending criteria have become very loose, loan sizes have increased to decrease average transaction costs, and collection practices have become more aggressive. The average microfinance loan size in Cambodia is currently $559, which is not the usual loan size targeting the poorest people.[49] In 2010, the microfinance industry in India came under scrutiny

[48] Grameen bank website, http://www.grameeninfo.org/index.php?option=com_content&task=view&id=19&Itemid=114. Accessed on 4 November 2012.
[49] Cambodia Microfinance Association website, http://cma-network.org/drupal/MicrofinanceEnvironment. Accessed on 28 November 2012.

after reports that as many as 200 microfinance borrowers in the state of Andhra Pradesh had committed suicide after being unable to repay their loans. Microfinance lenders were accused of coercive collection practices that had led these borrowers to take their lives.[50]

The experience of the microfinance sector demonstrates that commercial investment cannot always, and likely not even often, be effective in addressing social issues. Although the contribution of private sector finance to development has a strong potential, caution is warranted about the expectations of financial return that can be generated alongside impact. Impact investment is not the same as commercial investment.

D. PROSPECTS FOR IMPACT INVESTMENT

1. Developing impact investment

In a December 2011 survey, 75 per cent of respondents defined the impact investment sector as "in its infancy and growing".[51] As a relatively new concept impact investment has generated attention, but it is not clear how much this attention has translated into actual impact investment activity. In 2010, J.P. Morgan estimated that the potential size of the impact investment sector ranged from $400 billion to $1 trillion.[52] However, in this report impact investment is defined broadly as any investment that also seeks to generate social or environmental impact, regardless of whether impact or financial returns are primary objectives. It is difficult to determine how much impact investment capital is actually allocated to "impact-first" impact investment.

The SRI industry is a mature industry. Investments that qualify as SRI investments are a subset of traditional investments and fall under the same regulations. Investors are protected in the same way as they are when they invest in any publicly traded security. Industry associations are established and there is plenty information available to investors about SRI investment opportunities. Investment advisors are knowledgeable about SRI opportunities and able to offer their clients investment options. There are few barriers for an investor who desires to invest into publicly traded securities in a way that is socially responsible.

Impact investment, on the other hand, is a very new industry in its early stages of development. Impact investment models are also still developing, and there is no agreement yet on which method of impact investment is the most effective one. There is little track record of financial returns in the industry and a lack of transparency as to the details of past investments as the information of privately held companies is not readily accessible to the public.

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[50] New York Times. India Ink. *"Yunus was Right", SKS Microfinance Founder Says.* 27 February 2012. Accessed from http://india.blogs.nytimes.com/2012/02/27/yunus-was-right-sks-microfinance-founder-says/, on 28 November 2012.

[51] J.P. Morgan Social Finance Research, *Insights Into the Impact Investment Market"*, 14 December 2011. Accessed from http://www.thegiin.org/cgi-bin/iowa/resources/research/334.html .

[52] J.P. Morgan Global Research, *Impact Investments: An Emerging Asset Class*, 29 November 2012. Accessed from https://www.jpmorgan.com/cm/cs?pagename=JPM/DirectDoc&urlname=impact_investments_nov2010.pdf&track=no.

As an emerging sector, the impact investment sector has until recently lacked a formal infrastructure of industry associations, standards, and other sector building institutions. One of the most notable supporters and champions of impact investment has been the Rockefeller Foundation with its initiative "Harnessing the power of impact investing".[53] The Rockefeller Foundation has initiated and led research and dialogue, and contributed to building much needed infrastructure for the sector, which will enable more impact investment activity to take place.

Currently the most active and largest industry organization supporting impact investment is the Global Impact Investing Network (GIIN). The GIIN manages several initiatives to provide infrastructure and market mechanism support to impact investment:

(a) *ImpactBase* is an online global directory of impact investment vehicles;
(b) *The Impact Reporting and Investment Standards (IRIS)* is a set of metrics that can be used to measure and describe an organization's social, environmental and financial performance;
(c) *The Investor's Council* is a leadership group that supports knowledge exchange, peer collaboration and field building among active large-scale investors.

The GIIN's highlights the obstacles faced by the impact investment sector on its website.[54] It observes that this emerging sector remains beset by inefficiencies and distortions that currently limit its impact and threaten its future trajectory. In particular it identifies three main issues that hamper the future development of impact investment: (a) Investors are largely unable to work effectively together given the general confusion on terminology; (b) This limits investors' ability to share knowledge and co-invest, which perpetuates inefficiency and fragmentation in the sector; (c) The absence of basic market infrastructure, such as standards for measurement and benchmarking performance, constrains impact and capital flows; (d) These problems are exacerbated by the weakness of market mechanisms such as rating agencies, market clearinghouses, syndicated facilities, and investment consultants. The combination of these factors – barriers to information flows and collaboration, a lack of infrastructure, and an underdeveloped environment of intermediaries and services providers – threatens the evolution of the impact investment sector and, ultimately, its ability to realize its potential to achieve social and environmental impact.

2. The future of impact investment

Interest in impact investment is significant and continues to grow. Between 2008 and 2012, 200 impact investment funds were established.[55] The majority of these funds are in their very early stages, i.e. in the process of fundraising and making their first investments. Although funds have set their financial return targets, it will take another 5 to 10 years before these investments are completed. Only after these initial investments have been completed, data will be available on the potential financial returns of impact investments.

[53] Rockefeller Foundation website. http://www.rockefellerfoundation.org/what-we-do/current-work/harnessing-power-impact-investing. Accessed on 1 August 2012.
[54] GIIN Website. http://www.thegiin.org/cgi-bin/iowa/resources/about/index.html. Accessed on 15 November 2012.
[55] Aspen Network of Development Entrepreneurs. *Impact Report 2010.* March 2011. Accessed from: http://www.aspeninstitute.org/publications/ande-2010-impact-report on 9 September, 2012.

When surveyed in 2011, investors identified the lack of a track record of successful investments" as the primary challenge to the growth of the sector.[56] The true interest in and potential of impact investment cannot be assessed until the first investments are completed and a track record is established. If the majority of investments are successfully completed and financial returns are close to or above the risk-adjusted market rate returns, it is likely that impact investment activity will continue and the volume of impact investment will increase. New investors who currently find impact investment too unproven to engage in, such as pension funds, would likely also enter the sector. The level of investment activity could reach the levels as predicted by J.P. Morgan.

If current impact investment funds fail to achieve financial returns close to the risk-adjusted market rate, the volume of impact investing will significantly decrease. Not all impact investors expect an acceptable level of returns but the majority of funds currently self-identifying as impact investing funds do. These investors would likely not reinvest in funds if their current investments fail to meet their expectations. Due to these unknown factors the future size of the impact investment sector could be much smaller than is currently predicted.

3. The role of philanthropy in impact investment

There are many existing successful examples of using business models and market interaction to create social and environmental impact. It is, however, not clear whether most of these models can also generate market rate financial returns. Many such models require significant philanthropic support at the onset to reach a level where they would be of interest to investors. Acumen Fund, a United States based non-profit impact investment fund with over 10 years of experience, recently published a report with the Monitor Group highlighting the importance of philanthropy in impact investment. This report argues that impact investment is not a replacement of philanthropic funding, but rather a complement that can continue funding organizations that have proven their model with the initial support of philanthropic funding (Koh, Karamchandi and Katz, 2012).

The term venture philanthropy is also frequently used to refer to impact investment models that use philanthropic funding. The terms can refer to both philanthropic funding of social ventures in grant form and funding that requires repayment. As impact investors face a lack of capital, this philanthropic form of impact investment will be increasingly important for funding models until they are proven and have developed a track record, for funding models that cannot achieve market rate returns but nevertheless create significant impact, and for funding new models that address pressing social problems in ways that will not require ongoing grant funding. Table III.3 shows the different forms of philanthropic impact investment with examples.

[56] Rockefeller Foundation website, http://www.rockefellerfoundation.org/what-we-do/current-work/harnessing-power-impact-investing. Accessed on 1 August 2012.

Table III. 3. Forms and examples of philanthropy in impact investment

Approach	Description	Options for New Funding agents	Examples
1. Grants to firms, including for profits	'Classic' enterprise philanthropy direct to inclusive businesses in less-developed countries	▪ Build own capability ▪ Collaborate/co-fund with established players	▪ Shell Foundation ▪ Lemelson Foundation ▪ Africa Enterprise Challenge Fund ▪ KL Felicitas Foundation
2. Grants to nonprofit hosts or intermediaries	Grant making to non-profit incubating or otherwise developing inclusive businesses	▪ Seek own opportunities ▪ Collaborate/co-fund with established players	▪ Bill & Melinda Gates Foundation – AKAM, IDEI
3. Philanthropic funds deployed as equity or debt	Investing debt or equity into businesses in higher-risk situations, aiming for 1x return	▪ Build own capability ▪ Fund or co-fund with established players	▪ Acumen Fund
4. Early-stage accelerators	Layering grant funding with investment capital to pursue high-risk, early-stage situations, with significant capacity building support for investees	▪ Build own capability ▪ Fund established players	▪ First Light Accelerator ▪ Village Capital ▪ ACCION Venture Lab
5. Technical assistant/capacity building adjunct	Grant funding to enable investee capacity building, alongside return-capital investment operation	▪ Build own capability ▪ Fund established players	▪ Grassroots Business Fund
6. Market/ecosystem development	Grant funding to develop a range of complementary business models and promote wider conditions(e.g. standards, regulation) needed for sustainable impact at scale – focused on a given sector	▪ Build own capability ▪ Fund or co-fund with established players	▪ Shell Foundation – clean burning cooking stoves ▪ Omidyar Network – microfinance ▪ Michael & Susan Dell Foundation –clean water ▪ Gatsby Foundation – agriculture

Source: Harvey Koh, Ashish Karamchandi and Robert Katz, *From Blueprint to Scale: The Case for Philanthropy in Impact Investing* (April 2012), p. 45. Accessed from: www.mim.monitor.com/blueprinttoscale.html

Most funding required by start-up social ventures will be small scale, and can be most efficiently deployed if it comes from domestic sources of philanthropy. In regions such as Asia-Pacific where the model of funding social entrepreneurship is new to philanthropists, initiatives that introduce potential funding agents to the model can have significant impact in unlocking sources of funds. An example of such an initiative is the Nexus Global Youth Summit (Nexus), which introduces innovative philanthropy and social entrepreneurship to next generation wealth holders.[57]

Nexus is now developing regional and national initiatives to further the discussions from the annual global event. The first Asian Nexus initiative, Nexus Beijing, convened over 30 young Chinese wealth holders and social entrepreneurs in July 2012. As philanthropy as a professional sector is relatively new in China, the conversation revolved around the importance of philanthropy in addressing major social issues in China. Older philanthropists shared their

[57] Nexus Global Youth Summit website, http://www.nexusyouthsummit.org/nexus-beijing/. Accessed on 12 August 2012.

perspectives and experiences with the next generation of leaders eager to learn how to be effective and strategic change makers. Participants visited two well-known social ventures initially supported by philanthropic funding and learned about the significant challenges facing both young and established social ventures in China. Some challenges were related to policy and regulatory issues while difficulties involved access to funding and revenue generation.[58]

Another case study of philanthropy in impact investment is provided by Husk Power Systems in India.[59] More than 1 billion people in India, many of them living in remote villages, have no access to electricity. This lack of access to electricity is a key barrier to development that the Government was not able to address effectively despite attempts at policy reforms to increase power generation. In 2002 Gyanesh Pandey and Ratnesh Yaday were exploring ways to bring electricity to India's rural villages through solar or wind power when they discovered the biomass properties of rice husks, which are plentiful in India. Pandey and Yaday realized that rice husks, when combined with diesel, could be gasified without emissions using simple technology, and provide clean energy for local populations. Although Husk Power's goal is development and access to electricity, the model operates as a business. Using a biomass that is plentiful and free and requires simple technology, Husk Power could provide affordable energy to local village households.

The development of Husk Power was financed by many different sources of capital as the venture progressed from start-up to growth stage. In the start-up phase, the entrepreneurs used their own savings and winnings from business plan competitions but later used foundation grants and impact investment capital. After the feasibility of Husk Power's model was proven with the help of grant funding including over $2.4 million in grants from the Shell Foundation, impact investors were able to provide growth stage funding for the venture. Impact investment received by Husk Power included $750,000 in debt financing from OPIC and $390,000 in convertible debt from Acumen Fund.

E. UNLOCKING THE POTENTIAL OF IMPACT INVESTMENT IN THE ASIA-PACIFIC REGION

1. Impact investment in the Asia-Pacific region

As impact investment is an emerging sector and most impact investment data are not publicly available, it is a challenging effort to determine the exact level of impact investment in any region. However, there is evidence that the interest in impact investment has been growing fast in the Asia-Pacific region over the last few years, though the region lags behind most other regions globally in the level of activity. A notable exception is South Asia, namely India, where social entrepreneurship and impact investment have a longer history and are more firmly established.

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[58] Interview with Abigail Jung, Nexus Asia Coordinator, 12 August 2012.

[59] This case study has used the following references: OPIC website. http://www.opic.gov/projects/husk-power-systems, accessed on 10 November 2012. Acumen Fund website. http://www.acumenfund.org/investment/husk-power-systems.html, accessed 10 November 2012. The Monitor Group. *From Blueprint to Scale: The Case for Philanthropy in Impact Investing* (April 2012), accessed from: www.mim.monitor.com/blueprinttoscale.html

In recent years, the increased interest in impact investment in the Asia-Pacific region is evidenced by the increasing number of discussions among investors and academics on the topic and the emergence of industry organizations focusing on providing assistance to help the sector develop. Most of the discussions on impact investment have taken place in traditional investment hubs such as Hong Kong, China, Japan and Singapore, while impact investors generally appear to be interested in investing in countries throughout the region. These investors include both Asian investors who are looking to engage in impact investment, many for the first time, and foreign impact investors who either are already actively making impact investments in Asia or desire to expand their investment activity to the Asia-Pacific region.

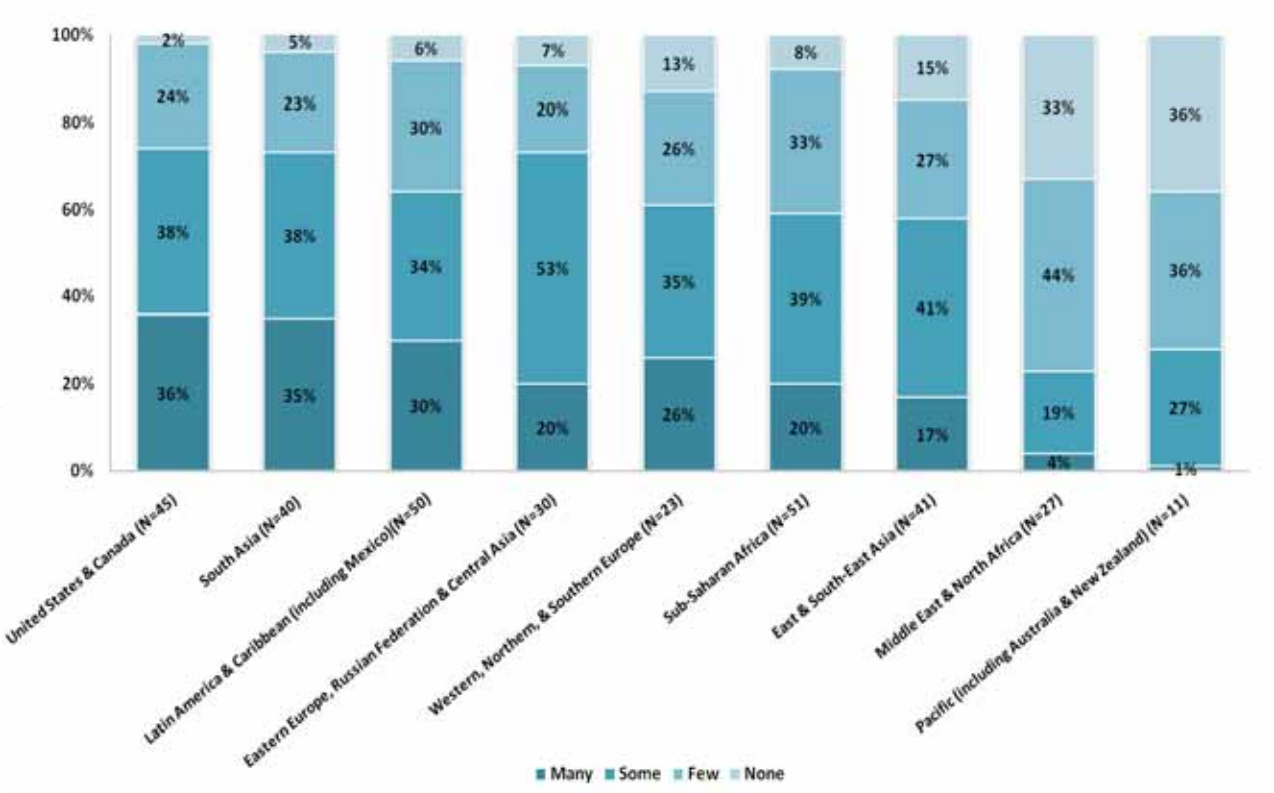
Between 2009 and 2012 the region saw the establishment of several organizations that are working to create an environment conducive to impact investment in the region. Examples include the Impact Investment Exchange Asia, which is an organization that aims to facilitate connections between social entrepreneurs and impact investors, and the Asian Venture Philanthropy Network (AVPN) which targets organizations practicing venture philanthropy (impact investment using philanthropic funds) and provides resources and support to members. The AVPN was developed out of the established European Venture Philanthropy Association and leads regular gatherings and conferences in Asia and the Pacific where Asian venture philanthropists have the opportunity to interact with and learn from the experiences of their European counterparts. As of January 2013, the AVPN had 38 practising and 79 associate members,[60] which is evidence at least of significant interest in impact investment and venture philanthropy in the region.

Despite the evidence of growing interest in impact investment, most social entrepreneurs feel that it is difficult to find investors to support their social ventures and it appears that there is a lot of conversation but not as many closed funding deals. A recent report by J.P. Morgan, based on a global survey of impact investors, presents some evidence for the lack of impact investing activity in the Asia-Pacific region. From the total number of impact investors surveyed (members of the GIIN), 56 per cent were headquartered in Canada and the United States and 27 per cent in Europe. Although this survey is not representative of all impact investors, it is a good sample of the most active investors and an implication is that in the Asia-Pacific region most impact investors are foreign. Almost a third of investors surveyed stated they were seeking investments in Asia, but the majority of investors, 78 per cent, are seeking investment opportunities in growth stage companies rather than early stage ventures (J.P. Morgan, 2013).

The report also concludes that compared with other regions of the world the actual implementation of impact investments in Asia (with the exception of South Asia) is one of the least robust, as evidenced by the number of investment opportunities which pass the initial screening by the investor. East and South-East Asia ranked above only the Middle East and North Africa and Oceania (figure III.4).

[60] The Asian Venture Philanthropy Network membership directory, available from http://www.avpn.asia/directory/avpn-members.

Figure III. 4. Number of inves tment opportunities considered in 20 12 that pas sed initial impact and financial screening based on a survey of impact investors

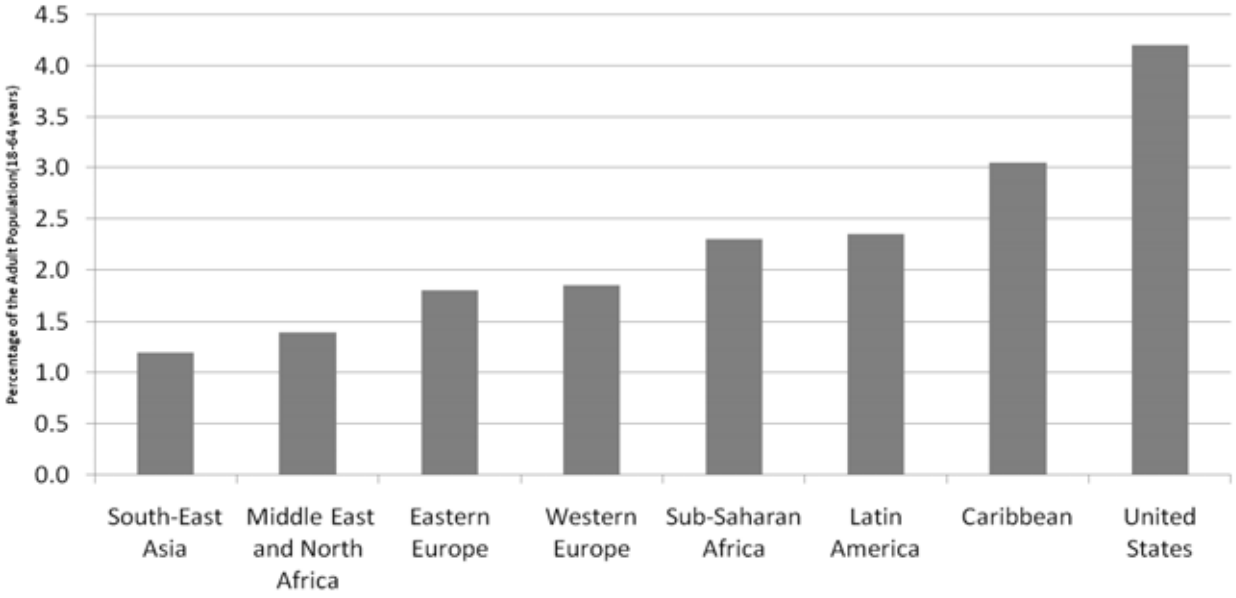


Source: J.P. Morgan Global Social Finance, *Perspectives on Progress: The Impact Investor Survey* (7 January 2013). Accessed from http://www.thegiin.org/cgi-bin/iowa/download?row=489&field=gated_download_1, on 14 January 2013.

2. Increasing social entrepreneurship in the Asia-Pacific region

Impact investors identify the lack of investment opportunities as one of the primary barriers to impact investment. When comparing the level of impact investment activity in the Asia-Pacific region with the level of social entrepreneurship activity in the early stage, both are low in the region relative to the rest of the world. This clearly shows that efforts to increase impact investment must first be focused on increasing social enterprise activity in general and providing more support for early stage social ventures that will enable them to become attractive investment targets for foreign impact investors. Figure III.5 shows the level of social entrepreneurship activity in the region.

Figure III. 5. Level of social entrepreneurship activity in the Asia-Pacific region



Source: Global Entrepreneurship Monitor, *2009 Report on Social Entrepreneurship* (2009). Accessed from: http://www.gemconsortium.org/docs/download/2519.

Social enterprise and impact investment activity have a longer history and are at a more advanced stage in countries such as Canada, the United Kingdom and the United States. These countries intend to further increase the amount of impact investment activity through measures specifically related to the social venture sector, such as the implementation of special legal structures, investment incentives, and development of social stock exchanges. For most countries in the Asia-Pacific region, however, such measures will have no effect until the basic environment conducive for SME development and attraction of foreign private equity investment in general has been improved. The development of such an environment for enterprise development should therefore be a priority for policymakers as impact investors need more quality investment opportunities than incentives or special mechanisms to encourage investment.

3. Examples of impact investment in the Asia-Pacific region

Despite the fact that Asia and the Pacific lags behind most other regions in impact investment and social enterprise activity, some impact investors are actively seeking and making investments in the region. The following are examples of investments made by veteran impact investment organizations in the Asia-Pacific region: Insitor Fund and Finance First, Cambodia; Acumen Fund; Hippocampus Learning Centers, India; LGT Venture Philanthropy; and Driptech, China.

(a) Insitor Fund and First Finance in Cambodia[61]

[61] This example has drawn on the following references: Asian Venture Philanthropy Network Directory. http://www.avpn.asia/directory/organisation/35/ Accessed on 2 November 2012; and

Insitor Fund is a self described "social venture capital fund" that focuses on investing in developing Asia, primarily Cambodia, India, the Lao People's Democratic Republic, and Viet Nam. Insitor fund is structured as a for-profit private fund and seeks to invest in young innovative for profit companies with a strong social mission and solid business model which are working in the housing, water, education, or health sectors. Insitor aims to maximize social impact with its investments, while providing patient and responsible financial returns.

The fund invests in companies as early as their pilot and start-up stages, and the typical investment size is over $500,000. In addition to financing, Insitor Fund provides investee companies with non-financial support such as strategy consulting and mentorship.

The mission of First Finance is to build economic stability of low-income Cambodian families by increasing access to home ownership. The company provides long-term home loans and medium-term home improvement loans to underserved low-middle income Cambodians who do not have access to formal commercial lending.

(b) Acumen Fund[62]

The United States-based Acumen Fund is a non-profit impact investment fund that has been investing for impact since 2001 and is one of the pioneers in the field. Acumen Fund supports entrepreneurs who are pioneering sustainable solutions to poverty by developing models to offer critical services (water, health, housing, and energy – at affordable prices to people earning less than $4 a day.

Acumen Fund uses philanthropic capital from donors to make loans and equity investments and seeks to achieve social and financial returns. Any financial returns remain in the fund and are reinvested. Core to the organization's investment model is the concept of patient capital, defined as capital that has the characteristics of: long time horizons, risk-tolerance, and a goal of maximizing social rather than financial returns.

The fund's geographic focus is on East Africa, India, Pakistan and West Africa, and investments typically range from $300,000 to $2,500,000.

(c) Hippocampus Learning Centres, India[63]

Hippocampus Learning Centres was established to address the failures of the local education system in rural Karnataka, India by providing extremely low cost pre-school and after-school coaching programmes for children aged 3-12. While the low quality local primary education system fails to prepare students for further academic achievement or success in the job

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First Finance website, http://www.firstfinance.biz/. Accessed on 2 November 2012.

[62] Acumen Fund website,
http://www.acumenfund.org/about-us/what-is-patient-capital.html
http://www.acumenfund.org/investments/investment-discipline.html

[63] Acumen Fund website,
http://www.acumenfund.org/investment/hippocampus-learning-centres-.html

market, Hippocampus Learning Centres is pioneering a new model to fill this gap with a low-cost system to deliver quality learning outcomes at a cost of monthly $2-5 to parents.

(d) LGT Venture Philanthropy[64]

LGT Venture Philanthropy Foundation (LGTVP) was founded in 2007 by the initiative of the Princely Family of Liechtenstein. Any profits generated by impact investments made by LGTVP stay within the foundation and are reinvested into new social ventures. The aim of LGTVP's impact investments is to support organizations with outstanding social or environmental impact with tailored financing, strategic advice, and access to relevant networks. LGTVP has investments and staff in five continents and supports organizations in various sectors whose models are aimed at improving the life of less advantaged people.

LGTVP provides funding in the form of donations and investments and their typical funding range is from $200,000 to $1 million. The time horizon for investments ranges from three to seven years.

(e) Driptech[65]

Driptech is a water technologies company based in Silicon Valley and with offices and operations in China and India. The company produces affordable, high quality irrigation systems designed for small plot farmers. Most small plot farmers cannot grow crops year round due to insufficient rainfall and are unable to utilize existing irrigation systems as they are too expensive, too complicated to use or of too poor quality.

F. OVERCOMING BARRIERS TO IMPACT INVESTMENT IN THE ASIA-PACIFIC REGION

1. Entrepreneurial ecosystem as a requirement for impact investment

Despite the fast growing global interest in impact investment, barriers on both the capital supply and demand sides are preventing more impact investment activity in the Asia-Pacific region. Global barriers are also present in the region, in addition to the presence of region-specific factors inhibiting a higher level of impact investment activity.

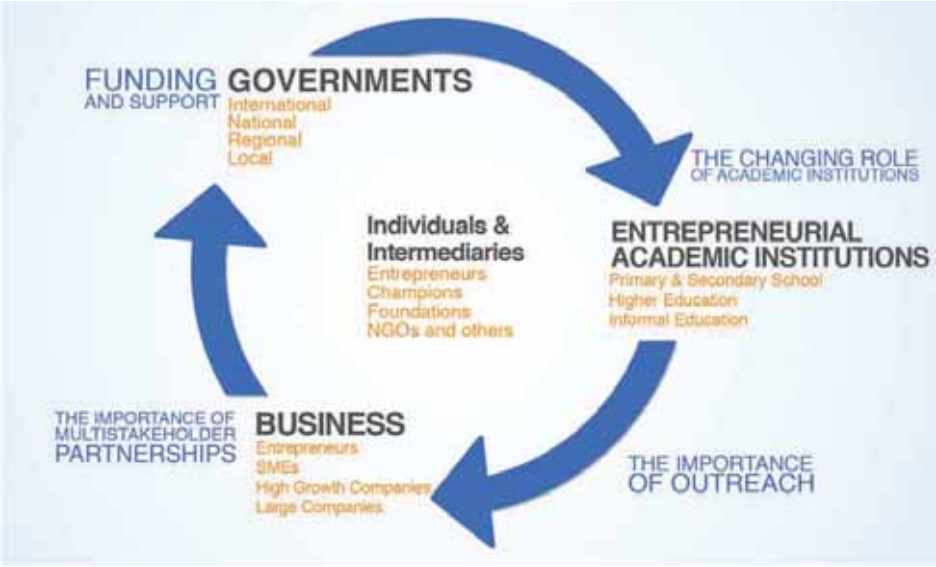
The primary barrier frequently identified by prospective impact investors is the lack of investment ventures, or a lack of "deal flow". The lack of deal flow is a result of several factors. As is the case in other parts of the world, there appears to be no shortage of impact investors and capital seeking investment opportunities in the Asia-Pacific region. However, very few impact investments have been made so far because investors find that deal flow is of low quality and few enterprises are "investment ready". This does not indicate that there is a lack of entrepreneurial talent in the region or lack of opportunity for social ventures to develop. Rather,

[64] LGTVP website, www.lgtvp.com.
[65] Driptech website, www.driptech.com.

it is an indication of the need for more support for the development of entrepreneurial talent and start-up ventures, generally.

A country that seeks to benefit from social enterprise and impact investment activity must first be supportive of SMEs and have in place an environment or ecosystem which is conducive to the establishment and development of both traditional and social enterprises. Policymakers, at the international, national, and regional levels, all have important roles to play in the entrepreneurial ecosystem, as do other actors such as academic institutions, the business sector, philanthropists and the non-profit sector. To be most effective these parties need to work in a coordinated way to provide the required range of support to such a system (figure III.6).

Figure III. 6. Entrepreneurial ecosystem



Source: World Economic Forum Global Education Initiative, *Educating the Next Wave of Entrepreneurs* (April 2009). Accessed from: http://www3.weforum.org/docs/WEF_GEI_EducatingNextEntrepreneurs_ExecutiveSummary_2009.pdf on 15 October 2012.

Culture and social norms also play an important role in determining the level of entrepreneurship and the level of development and attraction of both traditional and impact investment ventures in any country. While in some countries entrepreneurship is celebrated and encouraged, in others it is viewed as a last resort for employment. The level of risk aversion in a culture also contributes to acceptance or non-acceptance of entrepreneurship. This is a much more difficult factor to address, and a generational shift in mentality may be needed to realize the required culture change in favour of entrepreneurship.

2. The role of education in social enterprise development

A 2012 survey of impact investors in emerging markets found that an experienced management team is highly valued by impact investors (Darragh and Aman, 2012). This implies that countries with a strong entrepreneurial culture and experienced entrepreneurs who launch

social ventures are likely to see more inflow of impact investment capital than countries with a lack of experienced entrepreneurs. Entrepreneurship itself cannot be taught directly – it takes a certain personality and appetite for risk in an individual. The education system, however, can help to nurture and develop entrepreneurial skills in those who naturally have them, and expose students to the idea of social enterprise.

In 2009 the World Economic Forum's Global Education Initiative published a report that consolidates existing knowledge and practices in global entrepreneurship education. The WEF believes that education systems must transform and adopt methods and tools to develop learning environments that encourage creativity, innovation, and the ability to "think out of the box" to solve problems. The following approaches were found as most effective in entrepreneurship education: developing leadership and life skills, embedding entrepreneurship in education, taking a cross-disciplinary approach, utilizing interactive pedagogy, and leveraging technology.[66]

Around the world examples of teaching social entrepreneurship can be found at all levels of the education system. In Scotland, teachers in primary and secondary schools are exposing young students to entrepreneurship through experiential learning where a class starts and operates a small social business, for instance a business making and selling scarves from recycled materials.[67] In the United States, the PBS Foundation has developed a social entrepreneurship curriculum targeting secondary school students that teachers can download and incorporate into the standard curriculum.[68]

Social entrepreneurship education is most active at the university level, based primarily within business faculties. In addition to a wide variety of courses focusing on social entrepreneurship, there are university centres focusing on it as well, for example the Centre for the Advancement of Social Entrepreneurship[69] at Duke University in the United States and the Skoll Center for Social Entrepreneurship at the Said Business School at Oxford University in the United Kingdom.[70] Universities are currently providing support to students who launch social ventures, going beyond the curriculum. For instance, the Levy Social Entrepreneurship Lab at the Kellogg School of Management at Northwestern University supports students launching social ventures with funding of up to $80,000.[71]

In Asia and the Pacific, a notable example of a university initiative focusing on social enterprise and impact investment is Thammasat Business School of the Thammasat University in

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[66] World Economic Forum Global Education Initiative, *Educating the Next Wave of Entrepreneurs* (April 2009). Accessed from: http://www3.weforum.org/docs/WEF_GEI_EducatingNextEntrepreneurs_ExecutiveSummary_2009.pdf on 15 October 2012.

[67] Social Enterprise Academy website, http://www.theacademy-ssea.org/latest/news/551_award_winning_pupils_prove_budding_scots_social_entrepreneurs_mean_business. Accessed on 15 October 2012.

[68] PBS.org Enterprising Ideas, http://www.pbs.org/now/enterprisingideas/educators.html. Accessed on 15 October 2012.

[69] Duke University Center for the Advancement of Social Entrepreneurship, http://www.caseatduke.org/. Accessed on 3 November 2012.

[70] Skoll Centre for Social Entrepreneurship, http://www.sbs.ox.ac.uk/centres/skoll/Pages/default.aspx. Accessed on 3 November 2012.

[71] Kellogg's Social Entrepreneurs, http://www.kellogg.northwestern.edu/Departments/seek/extra-cur/levy/social-entrepreneurs.aspx. Accessed on 3 November 2012.

Bangkok, Thailand. The School's Center for Sustainable Enterprise not only works to incorporate social entrepreneurship into the business curriculum, but is also a partner of the Global Social Venture Competition (GSVC). The GSVC, based out of the Haas School of Business at the University of California at Berkeley, is one of the world's longest running business plan competitions with focus on social ventures. The finalists for the annual competition are chosen through regional rounds, and the Center for Sustainable Enterprise at Thammasat Business School is the organizer of the GSVC South-East Asia competition.[72] Each year, GSVC South-East Asia brings social entrepreneurs from around the subregion to Bangkok to compete for two spots at the GSVC final in Berkeley. In addition to the business plan competition, applicants are provided with mentorship leading up to the competition, and impact investors from outside the subregion are brought to Bangkok to participate in the competition and meet promising social entrepreneurs in the region.

Creating an education system supportive of entrepreneurship development may require significant change, especially to some Asian education systems that historically have not focused on aspects such as critical thinking and experiential learning, favouring instead methods such as memorization and drilling. Producing entrepreneurs will require a rethinking of formal and informal education systems, and changes in the way in which teachers and educators are trained, examination systems function and the way in which rewards, recognition and incentives are given.[73] However, if entrepreneurial talent is not nurtured, there will always be a shortage of enterprise activity and investment opportunities for both traditional and impact investors and significant opportunities for development through enterprise activity will be missed.

3. Domestic funding support for social enterprises

(a) The need to develop domestic funding

The concept of impact investment first developed in North America and Europe, and these regions currently also account for most of the sources of impact investment capital. The implication for the Asia-Pacific region is that most impact investment capital is from foreign rather than domestic sources. A recent survey of impact investors found that the majority of impact investors would prefer to fund enterprises in the growth stage and that the top government policy that would help them to make impact investments would be "technical assistance for investees" (J.P. Morgan, 2012). This supports the conclusion that countries in the region that wish to attract more impact investment need to provide more technical assistance and funding to social ventures, in particular those in the start-up stage. Governments can engage by providing support and funding to experienced intermediaries that are in the best position to provide their own support to social enterprises and to monitor funding.

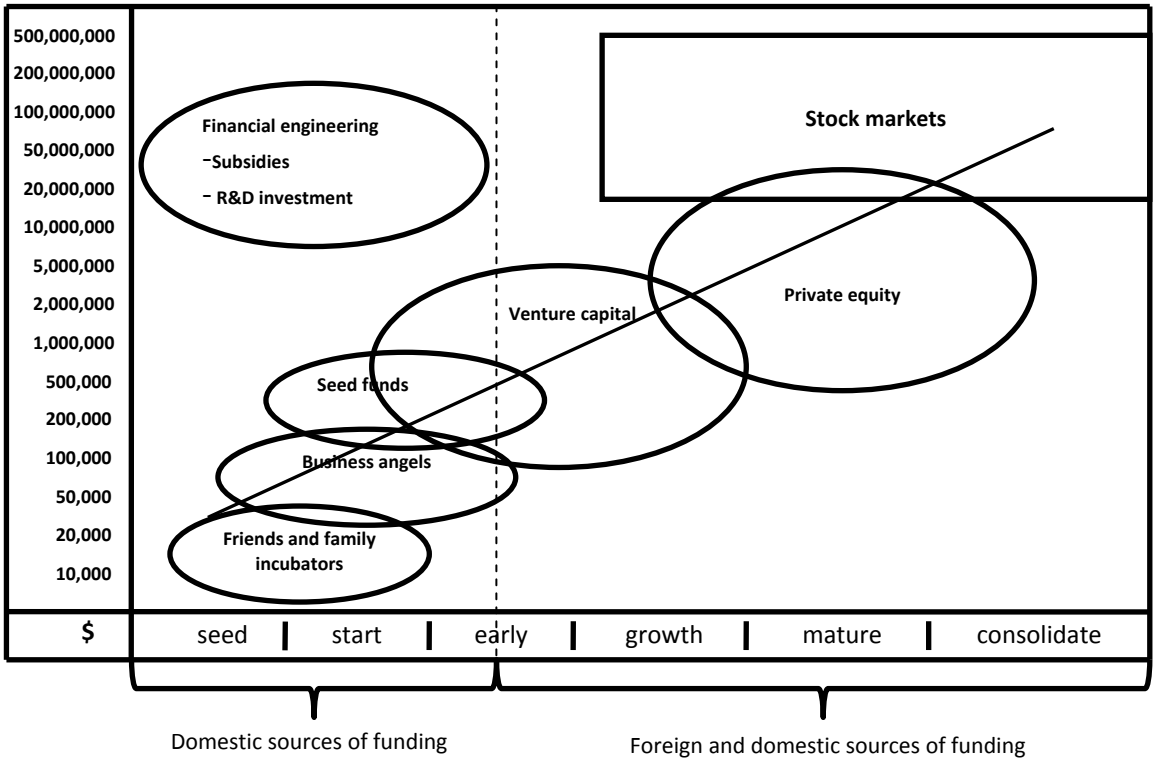
Early stage funding requires sufficient time for a proper conduct of in-country due diligence and sufficient time spent for the investment team to meet with the management of social enterprises and ventures, and more detailed knowledge of the local context. For a foreign

[72] Thammasat Business School website, http://www.bba.bus.tu.ac.th/studentnewview1.php?newid=2762. Accessed on 3 December 2012.
[73] World Economic Forum Global Education Initiative, *Educating the Next Wave of Entrepreneurs* (April 2009). Accessed from www3.weforum.org/docs/WEF_GEI_EducatingNextEntrepreneurs_ExecutiveSummary_2009.pdf on 3 December 2012.

investor these requirements usually carry significant sourcing costs in terms or time and money, and it is not always feasible to meet these requirements. Foreign impact investors are best positioned to fund a social venture once it has passed the seed and early start-up stages and has entered the growth stage while domestic capital sources need to be found to fund ventures in the start-up stage.

Figure III.7 shows the types of capital involved in the various stages of venture development and growth.

Figure III. 7. Sources of venture funding



Source: Diagram adapted from Nils De Witte, Short guide on creating sustainable informal capital markets in emerging economies (2010). Available from https://sites.google.com/site/nilsdewitte/short-guide-on-creating-sustainable-informal-capital-markets.

Typically, countries with a strong track record of traditional and social venture development also have a developed a diverse range of funding options available to start-up enterprises. In the United States for example, early stage social enterprises have a wide range of seed and start-up funding options from government to university to foundation funds. As they develop and their capital requirements grow, they can access funding from angel investor networks before graduating to commercial bank or venture capital funding.

However, a country cannot rely only on foreign resources for the early-stage development of domestic social venture activity. Domestic investment in social ventures in Asia-Pacific countries, both in terms of seed and early stage funding, can have a large pay-off as the supply of global impact investment capital is currently larger than demand and investors are

eager to find investment opportunities to deploy capital. Domestic support from various sources ranging from the Government to private angel investors and philanthropists is essential to every entrepreneurial ecosystem. Domestic funding agents, however, face a learning curve with respect to the impact investment model, which significantly deviates from traditional methods of funding development. In the region, the Asian Venture Philanthropy Network provides learning and networking opportunities for organizations interested in the venture philanthropy and impact investment model.[74]

(b) A case study of domestic impact investment support: the Thai Social Enterprise Office[75]

In Thailand, the Thai Social Enterprise Office (TSEO) was established to provide support for social enterprises. TSEO was created in 2010 under the Thai Health Promotion Foundation Act as the executive authority to deliver the Social Enterprise Master Plan (2010-2014). As an entity directly under the Cabinet, TSEO is managed by the Thai Social Enterprise Board which is chaired by the Prime Minister. It is funded by the Thai Health Promotion Foundation and has received operational support of 105 million Baht ($3.4 million) over three years as well as direct funding for Thai social ventures of 40 million Baht ($1.3 million) over two years.

The Government's Social Enterprise Master Plan has set three non-negotiable criteria for social enterprises to receive support. Social enterprises must: (i) have clear objectives related to community development and addressing social or environmental problems; (ii) have a primary revenue model based on a good or service that is in line with its social mission; (iii) not have profit-maximization as an objective.

TSEO carries out its mission to support the Thai social enterprise sector through various modalities including awareness creation, capacity-building, facilitating access to financing and resources, and policy formulation. Key to TSEO's model is close collaboration with Thai organizations that support social enterprises.

Three different financial support programmes serve social enterprises in various stages of development:

(i) *The Open Grants Programme* conducts awareness raising and capacity-building activities through business plan competitions and workshops. Twenty-five seed stage enterprises working in the areas of health, food, learning, energy and environment receive grant funding of 100,000 Baht ($3,300).

(ii) *Development Grants* provide funding of up to 1 million Baht ($33,000) for start-up social enterprises and intermediaries or 3 million Baht ($98,000) for so-called "mover" enterprises.[76]

[74] Asian Venture Philanthropy Network website, http://www.avpn.asia/about-us/avpn-background/. Accessed on 1 December 2012.

[75] The material for this case study is derived from an interview with Prapapan Banlusilp, Senior Associate, Thai Social Enterprise Office, August 2012.

[76] "Mover" enterprises are enterprises that have developed past the start-up stage.

(iii) The Investment Fund makes interest free debt or equity investments in social enterprises of up to 3 million Baht ($98,000) and in social enterprise clusters of up to 5 million Baht ($163,000).

In terms of policy, TSEO is working on passing the Social Enterprise Act, which would establish TSEO as a government entity. It is also lobbying for the Government and private sector to purchase goods and services from social enterprises and incentivize this with tax benefits. The Ministry of Finance and Thailand Board of Investment have also agreed to reduce taxes for "accredited" social enterprises.

There are some lessons which can be drawn from TSEO's experience.

(i) There are few "investment ready" social enterprises in Thailand.

(ii) In Thailand, social enterprises have access to a wide range of financing options including grants from competitions, awards, foundations, incubators and government and loans from SME funding schemes operated by commercial banks and government programmes.

(iii) Capacity-building support is the biggest need of social enterprises. Despite the interest from the Government and private impact investors to invest in social enterprises, not many are "investment ready". TSEO has recognized this and is trying to build up the support infrastructure for early stage social ventures by funding intermediary organizations that can provide capacity-building, incubation or help with the "clustering" of social enterprises.

(iv) While new legal structures and tax incentives are being considered they may not be needed because social enterprises have expressed willingness to pay their share of taxes. Instead, the type of support they would prefer to receive from the Government involves capacity-building, marketing, sales and access to relevant networks.

4. Domestic capacity-building support for social enterprises

The Thai case study of domestic funding demonstrates the importance of capacity-building for a start-up venture. In particular, the types of non-financial support that early stage entrepreneurs need include mentorship, knowledge resources, and access to networks. Providing a tailored set of support to early stage enterprises is often referred to as venture incubation or acceleration. The importance of incubator and accelerator programmes to the impact investment ecosystem was core topic at the 2012 Social Capital Markets conference in San Francisco, the world's biggest annual event focusing on the theme of capital markets for social good.[77] Explaining the reason for this focus, Mark Beam of Halloran Philanthropies stated that "accelerators are a core piece of the ecosystem in impact investing that wasn't getting enough attention."[78]

[77] SOCAP12 website, http://socap12.socialcapitalmarkets.net/details/themes/. Accessed on 29 November 2012 .
[78] Mark Campanale, How can accelerators help? Reflections from SoCap2012, *Alliance Magazine* (1 December 2012). Accessed from: http://www.alliancemagazine.org/node/4172 on 9 December 2012.

The following examples describe social venture incubation and acceleration programs in the Asia-Pacific region that are providing this critical type of venture development support:

(a) Dasra, India[79]

Dasra is a philanthropic organization in India that works with social entrepreneurs and philanthropic funders to build the capacity of both funders and entrepreneurs thereby increasing the amount of social enterprise and philanthropic impact investment activity. For social entrepreneurs, Dasra provides capacity-building through education and mentorship programmes as well as funding support.

For philanthropists, Dasra provides education and resources to help funders determine which enterprises to support and how to create the most impact with their money. The organization also provides philanthropists the opportunity to join Giving Circles, a programme which allows them to access funding opportunities and connections to other funders. A key component of Dasra's successful model is that the programmes are personal and interactive, rather than online platforms.

(b) UnLtd Thailand[80]

Instead of developing a new model to support social ventures, ChangeFusion Institute in Thailand adapted a successful model for supporting social enterprises from the United Kingdom, namely UnLtd UK, which promotes and supports early stage social enterprises in the United Kingdom through education and funding.

By bringing an existing programme to Thailand, UnLtd Thailand benefited from the resources, knowledge and networks of the more established and experienced United Kingdom organization. UnLtd Thailand provides seed funding, capacity-building and network linkages to young social ventures in Thailand. UnLtd Thailand is supported by the Thai Social Enterprise Office and works in close collaboration with other players in the Thai social enterprise ecosystem.

(c) Center for Social Initiatives Promotion (CSIP), Viet Nam[81]

CSIP is a non-profit and non-governmental organization that supports the emerging social entrepreneurship sector in Viet Nam. The organization aims to provide direct capacity-building and funding support to early stage social ventures in order to maximize their chances of success. CSIP also works and engages with other stakeholders to improve the operating environment for social enterprises in the country and engages in raising public awareness and network building initiatives as well as lobbying the Government to promote social enterprises.

CSIP receives support and funding from international agencies and donors including One Foundation, a philanthropic organization based in Dublin, Ireland, and the British Council in Viet Nam.

[79] Dasra website, http://www.dasra.org/what-we-do.
[80] ChangeFusion website, http://www.changefusion.org/workgroups/change-venture/social-enterprise/468.
[81] CSIP website, http://www.doanhnhanxahoi.org/index.php.

5. Investment attractiveness and impact investment

As the majority of impact investors today are from North America and Europe, foreign investment will play an important role in impact investment activity in the Asia-Pacific region. The most important area of focus for countries that want to benefit from impact investment is to support an ecosystem for social entrepreneurship which results in investable deal flow for investors. When investable deal flow is present, countries can further increase inflows of impact investment by eliminating barriers to foreign investment. If such barriers are not eliminated, investors may favour other regions with similar quality of deal flow and need for development solutions.

The Global Venture Capital and Private Equity Country Attractiveness Index uses the following indicators of attractiveness of a country for private equity and venture capital investors.[82] These are the key drivers of a country's attractiveness to investors:

(a) Economic activity
(b) Depth of the capital market
(c) Taxation
(d) Investor protection and corporate governance
(e) Human and social environment
(f) Entrepreneurial culture and deal opportunities

Figure III.8 shows the comparative rating of investment attraction factors based on a survey of impact investors undertaking due diligence of investment opportunities.

Figure III. 8. Comparative rating of impact investment attraction factors in host countries

Source: Linda Darragh and Aman Nurkholisoh, *Impact Investing in Emerging Countries: Insights from the Due Diligence Process* (January 2012), prepared for the United States Secretary of State's Global Impact Economy Forum. Available from http://www.chicagobooth.edu/entrepreneurship/docs/impact_investing_in_emerging_countries_v3.pdf.

G. CONCLUSIONS AND RECOMMENDATIONS

1. General

The term sustainable investment encompasses several distinct models, from SRI to impact investment, each of which has a role in engaging the private sector in the development agenda. All of these models warrant policy support, but "impact-first impact investment" can make the greatest contribution to development as a new source of funding. SRI activity is already widespread and financial-first impact investment needs a portfolio of investment opportunities that can only be developed through the support of impact-first impact investment. Policy and other support initiatives should focus on increasing the amount of impact-first impact investment and supporting the development of social ventures.

The potential of private enterprises funded by private investment to create social impact and contribute to inclusive and sustainable development has been demonstrated. However, such investment will not predominantly consist of commercial investment that also generates a market rate financial return. Philanthropy will always play an important role in the development of social enterprises and investments that generate a market rate of return will only be a part of the spectrum of impact investment.

As with any model under development there will be a period of learning and mistakes in developing impact investment and the social enterprise and impact investment sector. Immediate success should therefore not be expected and proper testing and adjustments of the models will be necessary which requires patience.

Impact investment will not replace existing forms of development funding; rather it will be an important addition to the range of available funding tools and will alleviate some of the pressure on grant funding. Impact investment is suitable and can be effective only in addressing social and development challenges that lend themselves to market based solutions.

On the one hand, the utilization of private sector funding for development and impact goals provides important opportunities, but on the other hand this new blended model is also open to exploitation for financial gain at the expense of the poor and vulnerable. Governments have a role to play in protecting their most vulnerable citizens.

The types of support needed for the development of social enterprise and impact investment sectors differs considerably between developed and developing countries. In developed countries policy is needed to support innovation of financial instruments, establish new legal structures for enterprises actively pursuing social or environmental missions, and regulate industry. In developing countries, the development of an entrepreneurial ecosystem and elimination of barriers to foreign investment are the key priority support areas.

2. Support a strong SME sector and entrepreneurial ecosystem

Any country wishing to benefit from impact investment activity and attract foreign impact investment must first ensure that it is supportive of small enterprise development and has in place a domestic entrepreneurial ecosystem that produces a quality deal flow for social enterprise development. This should be the primary focus of initiatives and policy, before the focus can shift to the social aspect of enterprise.

Governments should improve the ability of the education system to develop entrepreneurial talent. Changes to education systems will take a long time to implement and it will also be a long time before the benefits of entrepreneurial education translates into active social ventures. This is, however, a crucial aspect for a country that desires to harness the benefits of social entrepreneurship and impact investment on any significant scale. In this regard, university initiatives such as incubator programmes, social enterprise specific curricula, and engagement with foreign universities can play a significant role in inspiring and enabling students to pursue social entrepreneurship.

Policymakers have an important role to play in creating a supportive infrastructure that enables private enterprise development, encouraging local enterprise activity as well as enabling foreign social entrepreneurs to operate in a country. In this context, areas that should be the focus of policy include the establishment of an effective and efficient system for the registration of new companies, establishment of a legal system that adequately protects entrepreneurs and small business owners' interests, and effective enforcement of measures curbing corruption that distorts entrepreneurial ecosystems.

3. Eliminate barriers to foreign investment and take a multi-stakeholder approach to policy development

In order to attract foreign impact investment, policymakers should ensure that barriers to foreign investment in industries and sectors of interest to impact investors are eliminated. Examples of measures include reductions in foreign investment and ownership restrictions in impact sectors, reductions in paid-up capital required for foreign ownership to enable undercapitalized foreign social entrepreneurs to be active in a country, lower levels of bureaucracy and red tape for setting up and investing in SMEs and ensuring adequate investor protection through a quality legal system which includes proper shareholder protection laws.

Governments and policymakers face a learning curve when engaging with private sector investors. For that reason, policy discussions need to include the investors and entrepreneurs that policy seeks to support. Policymakers should actively engage with investors and entrepreneurs to understand their challenges and needs. For that purpose, Governments should set up a committee or taskforce made up of policymakers, investors, entrepreneurs and social sector experts to advise and guide policy for the development of impact investment and social enterprises.

4. Support domestic funding and capacity-building of social entrepreneurs

Domestic support for seed and early stage social venture activity is essential before foreign investors are able to engage with social enterprises. Governments, the domestic business

sector and domestic philanthropists can contribute to initiatives providing capacity-building and funding to young social ventures. Incubator and accelerator programmes can make a significant contribution to social venture development in this regard.

Non-profit organizations and philanthropists are best positioned to provide seed stage capacity-building and financing support to social ventures. Initiatives to raise awareness among philanthropists of the social enterprise model can unlock more philanthropic support for early stage social ventures.

In addition, Governments should partner with and fund programmes of existing intermediaries experienced in providing support to social ventures rather than develop new initiatives.

In this regard, Governments can help philanthropic organizations more easily engage with social ventures as currently many regulations restrict philanthropic funding to registered non-profit organizations, which in turn are hampered by regulations which limit them from engaging in business activities.

5. Ensure that policy allows for necessary flexibility and innovation in the sector

The diversity in legal structures and organizational forms, motivations, and activities is an important part of the social enterprise sector as it continues to innovate and evolve. Supportive government policies can play an important role in advancing the development of social enterprises and impact investment. However, Governments should take care that policies actually contribute to the development of the sector and do not become a burden. As a new sector, impact investment needs time and space to innovate. Narrow definitions of what constitutes a social enterprise will limit the development and growth of the sector.

Policymakers should not create new legal structures for social ventures. A legal structure is primarily beneficial if a Government is going to provide tax or other incentives to encourage domestic investment into social ventures that fit within the scope of the definition. Impact investors are often foreign and a local legal structure does not provide them with any particular benefit. The limitations caused by defining a legal structure for social ventures at this point in the industry's development are far greater than potential benefits. Rather than setting up new legal structures, an international certification standard as provided by the B Corporation can provide investors with third party verification of a venture's impact intentions.

However, Governments could adopt a non-profit law which allows and properly regulates entrepreneurial initiatives for a social purpose and philanthropic organizations which can fund such activities.

Because impact is often hard to measure and verify, Governments must be cautious to grant incentives for impact industries such as tax incentives. In particular, impact investors have not shown any indication that they need tax or financial incentives to engage with social ventures in a country. Rather, they need an enabling entrepreneurial environment, quality deal flow, and a legal system that allow them to efficiently deploy investment funds.

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CHAPTER IV

CONVERGENCE AND COHERENCE IN INTERNATIONAL CSR INSTRUMENTS: IMPLICATIONS FOR BUSINESS IN THE ASIAN AND PACIFIC REGION*

Executive Summary

A variety of instruments have emerged globally and locally to help companies implement corporate social responsibility (CSR): principles, management standards, reporting indicators and others. These instruments have arisen over the past two to three decades in the absence of clear legal frameworks on the roles and responsibilities for businesses in the areas of environment, labour, human rights, corruption and others. Many of these standards have their roots in the major international conventions on labour, human rights, and environment, leading to a certain degree of convergence of topics.

Over the past decade, and more notably since the release of the ISO 26000 series in 2010, the main developers of CSR instruments have worked to align their frameworks so that they are easier to use in tandem by companies. Some of the more practical instruments are commonly used together by companies globally and also in the Asia-Pacific region.

However, in the Asia-Pacific region, the general uptake of international CSR instruments remains low for a variety of reasons including lack of government incentives, low levels of stakeholder pressure and, in particular, lack of consumer concern. Interestingly, stock exchanges are one of the drivers for CSR and for uptake of instruments in the region, particularly in China; Hong Kong, China; Malaysia; Singapore; and Thailand. Locally or sectorally developed CSR instruments get better traction in the region than the international standards, but these may or may not align with the major global CSR instruments nor cover the core issues.

Human rights are one of the biggest barriers to the further adoption of global CSR instruments. There is a common perception that human rights are outside the sphere of influence of businesses and a matter for Government. Moreover, Governments in the region have not consistently developed or adhered to human rights policy in line with the United Nations Universal Declaration of Human Rights and other frameworks, often providing limited leadership to business. A further hindrance is that the global CSR instruments are perceived as somewhat inconsistent or at least unclear in the area of complicity in human rights. One way forward is to integrate human rights issues with other categories which are much less challenging for business, such as labour standards, community development, non-discrimination, consumer rights, and protection of vulnerable people or the rights of children.

Although many of the global CSR instruments do converge on the issues related to supply chains, in practice many companies in the Asia-Pacific region struggle with limited

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practical guidance on managing sustainability throughout complex supply chains and often limited expertise in the effective management of sustainability.

For the most part, companies in the region have not taken up global instruments as rapidly as companies in other regions. This is for a variety of reasons, including lack of pressure from Governments and consumers. There are several things that can be done to help improve business understanding of the benefits of using global CSR instruments, and to help increase the relevance of these instruments to the local Asian and Pacific context. These include:

- Address the emerging issues in the region better through further research, guidance and capacity-building for the private sector (especially in the areas of biodiversity, human rights and supply chains)
- Promote and showcase best practices in the application of global CSR instruments
- Encourage business networks in the Asia-Pacific region, multi-stakeholder partnership to develop guidance and tools for CSR, including at sectoral level
- Improve human rights and the role of Asia-Pacific business in this regard
- Bridge the implementation gap between global CSR instruments and Asia-Pacific companies by offering companies more useful guidance for implementation of these instruments

INTRODUCTION

With the rapid growth in scale and power of the private sector over the last 30 years there has been widespread recognition by Governments, civil society and companies alike that they share responsibilities towards society and environment. Companies should be accountable for their social and environmental impacts and cognizant of the contributions they make to economic development and community welfare. The level of responsibility also arises when the private sector, in its pursuit to deliver products and services, fills gaps that Governments are unable to do so, such as the delivery of infrastructure, health and education.

In the absence of consensus on key issues and company responses, dozens of initiatives have emerged over the years to help bring definition and consistency of CSR. Some originated from Governments or multilateral organizations, while others were developed outside the government sphere on the basis of a multi-stakeholder format and others found their origins in special interest groups or in the private sector itself. Some of the instruments provide high-level principled-based guidance, while others provide very specific implementation guidance. Some initiatives focus on just one issue while others tackle the full spectrum of social and environmental issues, and they all have different functional purposes including codes of conduct, sets of principles, management systems and reporting indicators.

A consistent set of CSR instruments and standards which provide clear guidance and clearly defining expectations and responsibilities for business would be a positive factor in accelerating the commitment to and implementation of CSR. Differing or competing instruments can cause confusion among businesses and their stakeholders and delay business action for sustainable development.

This chapter examines the evolution of the primary global CSR instruments, namely the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines, the ISO 26000 standard

on Social Responsibility, the United Nations Guiding Principles for Business and Human Rights, the OECD Guidelines for Multinational Enterprises (MNEs), the International Finance Corporation (IFC) Sustainability Performance Standards and the United Nations Global Compact (UNGC). The aim is to assess the level of consistency and convergence among these instruments, their adoption by Asian and Pacific companies, and their overall impact on corporate responsibility in the region, today and in the future.

The chapter gives an overview of key issues, examines convergence of instruments, discusses drivers in the Asia-Pacific region, and includes sector, issue and country examples. Section A provides a brief overview of issues related to convergence of global CSR instruments, while section B provides a more detailed analysis of issues related to convergence. Section C discusses the use of CSR instruments in the Asia-Pacific region and the relevance and applicability of global CSR instruments in the region. Section D discusses other drivers of CSR with focus on national and sectoral CSR instruments and trends towards convergence, including the role of local stock exchanges. Section E provides some country, issue and sector examples of CSR convergence. Section F concludes with some recommendations for the way forward.

A. OVERVIEW OF ISSUES RELATED TO CONVERGENCE OF CSR INSTRUMENTS

1. Evolving convergence

A series of international conventions and agreements form the basis for international norms on human rights, labour and environment. These include the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the United Nations Convention Against Corruption, a series of environmental conventions such as the Montreal Protocol on Substances that Deplete the Ozone Layer, the Convention on Biological Diversity, the Rio Declaration on Environment and Development, and many others. Most of the global CSR instruments either take these international agreements as their starting point or align their content with these agreements. As a result, there is some level of consistency on priority topics covered by these instruments and on language and expectations.

UNGC and the GRI Guidelines have strategically pursued alignment for nearly a decade at the institutional level as well as at the level of particular instruments. The two are complementary in nature with UNGC providing the high level principles and commitment mechanism, and the GRI Guidelines providing guidance on monitoring and reporting on progress on CSR implementation. Until recently, what was missing were the integral components linking principles to reporting, i.e. a comprehensive standard for CSR management and implementation. This gap has now been filled in the form of the ISO 26000 standard released in late 2010. Due to their alignment with international legal conventions, their consistency in language and format, and their coverage of three key areas of the business response – principles, management systems, and monitoring and reporting – there is potential for these three instruments to provide a seamless package of guidance for companies.

The oldest of the global CSR instruments are the OECD Guidelines for Multinational Enterprises, first issued in the 1970s and updated several times over the years. The ISO 26000

standard was heavily influenced by the OECD Guidelines and many elements are central to both. The ISO's global network of national standard organizations, experience with business standards, and certification platform are strengths that may see the adoption of ISO 26000 exceed by far the historical use of the OECD Guidelines, which have benefitted from implementation support by national contact points in OECD countries plus only an additional 10 countries.

However, modalities to convert international policy conventions into guidance for responsible business practice leave much room for interpretation. Some of these modalities can be interpreted as being contradictory, which is confusing for companies. For example, although UNGC and the United Nations Guiding Principles for Business and Human Rights take the Universal Declaration of Human Rights and the ILO Core Conventions as their underpinning foundations, UNGC addresses business complicity in human rights abuses directly, while the Guiding Principles do not. Although there have been major steps toward convergence over the past two years, the various frameworks can send different signals to companies about their expected roles and responsibilities in the absence of strong government leadership in human rights.

In sum, this chapter reveals that there is a degree of convergence between the principle CSR instruments in terms of prioritizing the key issues. But the instruments were developed for different purposes – for eliciting high level commitment, for guiding the development of management systems, for guiding investment decisions, for improving governance and for reporting and communications. This chapter assesses the level of complementarity between the instruments in terms of their practical application by companies.

2. Convergence and implications for CSR in the Asia-Pacific region

Having a common point of departure in the international conventions on human rights, labour and environment supports convergence among the global CSR instruments. In practice this benefit can be negated when international conventions have not been consistently ratified, implemented and enforced in the countries where businesses operate. If companies are not currently required to comply with basic human rights and environmental standards, they often find there is a gap between their existing performance and the performance levels required to comply with CSR instruments. In situations where there is weak governance and rule of law, the more practical CSR instruments can help bring structure and guidance for companies to elevate their practices to be on par with international expectations. In the Asia-Pacific region this is especially challenging in the areas of human rights, labour practices and anti-corruption despite the strength of the international conventions in these areas and the alignment of CSR instruments to these conventions.

Our research finds some indications that leading Asian and Pacific companies are using multiple instruments in parallel – namely UNGC with the GRI Guidelines, or ISO 26000 with the GRI Guidelines. Whether two or three of these instruments will be used regularly as a package will be revealed over time as best practice emerges.

In the Asia-Pacific region the most commonly used instruments are UNGC, the GRI Sustainability Reporting Guidelines, and the ISO 26000 standard, although the latter has only been available since late 2010 so its adoption lags the adoption of the GRI framework to date.

The potential prospect for the development of various forms of certification associated with the ISO 26000 standard is likely to drive rapid adoption of this standard in the future. The relatively high level of use of the GRI Sustainability Reporting Guidelines and the ISO 26000 standard may be a reflection of their practical and flexible nature. Both standards were developed through extensive multi-stakeholder processes that involved Asian and Pacific stakeholders although the processes were mainly centred in the West. Although the growth in use of these instruments by Asian and Pacific companies generally follows global trends, the absolute numbers remain fairly low: just over 150 of the largest 750 companies[83] by market capitalization in the region issue a report based on the GRI Guidelines, whereas 95 per cent of the world's 250 largest companies currently report.[84] This chapter will address the case for CSR in Asia in section B below.

The United Nations-originated instruments typically begin with high-level principles and they have contributed to the elevation of the urgency of sustainable development and the role of business in the Asia-Pacific region. In support of UNGC in the region, 11 countries have formally recognized structures known as "Local Networks" that coordinate activities in the country, while a further six other Local Networks are making progress towards formal recognition by UNGC. But with limited implementation guidance and in-country support available beyond the UNGC Local Networks which mainly play a stakeholder coordination and education role, converting the high level principles into corporate systems practice action can be a challenge for Asian and Pacific companies. There are over 800 business participants from South and South-East Asia involved in the UNGC network, of which over 200 are listed as "non-communicative" for failure to submit a Communication on Progress.[85] Some of the ten principles fail to resonate with the private sector and some of them (e.g. collective bargaining) are seen as inconsistent with local business practices.

The OECD Guidelines for Multinational Enterprises have been influential amongst many of the large Western companies. They were also central to the development of ISO 26000 which contains many elements of the OECD Guidelines.[86] They have often been used by MNEs to guide their governance structure and social responsibility policies. Although comprehensive and often cited by the other international instruments, the OECD Guidelines have not been adopted by companies in the Asia-Pacific region to a large extent. This is partially a reflection of the limited membership of Asian and Pacific countries of OECD (only the Republic of Korea and Japan) and partially due to the more recent rise of non-OECD Asian and Pacific MNEs.

The IFC Performance Standards are some of the more comprehensive and prescriptive standards available, but they are specifically geared toward IFC clients working on major infrastructure projects in emerging markets. They are designed to be standards for project financing and have formed the basis of the Equator Principles which guide the investment decisions of the Equator Banks. Many leading companies have used the IFC guidance in order to demonstrate best practice in their own social and environmental performance. However, although recognized as a valuable source reference, only Asian and Pacific companies receiving IFC funds and investment have adopted these standards.

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[83] Responsible Research, *Asian Sustainability Rating 2011* (2011).
[84] KPMG, *KPMG International Survey of Corporate Responsibility Reporting 2011* (2011).
[85] UNGC Participants list, available from http://www.unglobalcompact.org/participants/search.
[86] The OECD Guidelines are broader in scope in terms of subject matter than ISO 26000, but ISO 20000 is designed for use by any organization whether business, non-profit or government organization.

Section C examines the adoption of the global CSR instruments in the Asia-Pacific region, considers other factors such as regulation and the role of stock exchanges that are having an influence on convergence, and assesses the applicability of CSR instruments in the sectoral and country contexts in the region.

B. CONVERGENCE OF GLOBAL CSR INSTRUMENTS: A CLOSER LOOK

Over the past half century the size and scope of private companies have grown enormously, as have their social and environmental footprint. By the mid-1990s, a variety of initiatives had been started up which tried to concretize the issues and create a set of standards for the expectations of companies. Some of these standards were initiated by companies themselves, others by multi-stakeholder consortiums, Governments and multilateral organizations. Some focused on just one issue, while others covered the full range of social, environmental, and governance issues. The instruments also had a wide variety of functional purposes: codes of conduct, sets of principles, management guidance, investment guidance and reporting indicators. This section describes the development of the main international instruments over the past 20 years, and then proceeds to look at the degree of convergence between these instruments in terms of both functionality and themes.

1. Key milestones in the development of global CSR instruments

This chapter focuses on six of the primary global CSR instruments. These are designed to be generally applicable to most companies globally operating in most sectors. A timeline diagram of the development and evolution of CSR instruments is contained in annex 1, and annex 2 provides for more detailed information on each instrument, including notes on convergence over time.

(a) OECD Guidelines for Multinational Enterprises

The OECD Guidelines for Multinational Enterprises are far reaching recommendations for responsible business conduct that 44 adhering Governments (34 OECD members plus 10 others) encourage their enterprises to observe wherever they operate. The Guidelines are recommendations by Governments covering all major areas of business ethics and encourage enterprises to obey the law, observe internationally recognized standards and respond to other societal expectations. Of the six instruments covered in this chapter, the OECD Guidelines are the only ones emerging directly from national Governments, although they are non-binding.

The Guidelines were updated in 2011 for the fifth time since they were first adopted in 1976. The last two revision processes – in 2000 and again in 2011 – sought the feedback and involvement of Governments, businesses and civil society stakeholders. There were a number of changes in specialized chapters. Key amendments in the 2011 release included new recommendations on human rights abuses and company responsibility for their supply chains. For example, the wording of the recommendations in the area of employment and industrial relations was amended to be consistent with the ILO conventions. In the chapter on "Combating Bribery, Bribe Solicitation and Extortion", MNEs are guided to take on greater responsibility to

detect and resist corruption, and references are made to the 2005 United Nations Convention Against Corruption (UNCAC). Similarly, there is a greater emphasis on tax compliance, transparency and responding to requests for information, referencing related the United Nations/OECD conventions. A new, tougher process for complaints and mediation was also introduced.

Key updates in the 2000 revision were designed to bring the Guidelines in line with other emerging CSR instruments and to increase consistency with international conventions such as the ILO Core Principles. New additions in the Guidelines addressed corporate contribution to sustainable development; respect of human rights; MNE's encouragement of suppliers, subcontractors and business partners to apply principles of corporate conduct compatible with the Guidelines; respect of core labour standards (child labour, forced labour, freedom of association and collective bargaining and non-discrimination in terms of race, religion, gender etc.); establishment of environmental management systems, the precautionary principle; and new chapters on bribery and consumer interests.

(b) United Nations Global Compact

The Global Compact is a global platform which convenes companies with United Nations agencies, labour and civil society to support 10 universally accepted principles in the areas of human rights, labour, environment and corruption. The initial functional purpose of the Global Compact was to catalyze corporate commitment to these issues by inviting them to sign on to its ten principles and to embrace, support and enact, within their sphere of influence, a set of core values. Each of the ten principles is supported by a United Nations implementing agency, and cross-referenced to the following conventions: the Universal Declaration of Human Rights, the ILO's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.

In order to participate, a commitment must be made at the Chief Executive Officer level and be supported by the highest-level governance body of the organization, such as the Board. Participants are expected to make the Global Compact and its principles an integral part of business strategy, day-to-day operations and organizational culture, and integrate in annual reports (or in a similar public document, such as a sustainability report) a description of the ways in which it implements the principles and supports broader development objectives (also known as the Communication on Progress). Signatories can be delisted from UNGC if they do not report on progress within a defined period of time. UNGC also expects a nominal financial commitment from its signatories to support the platform.

(c) Global Reporting Initiative's Sustainability Reporting Guidelines

The Global Reporting Initiative (GRI) is a non-profit organization that provides all companies and organizations with a comprehensive sustainability reporting framework to disclose practices on economic, environmental, social and governance performance. The GRI's Sustainability Reporting Guidelines are divided into two sections. The first section consists of a set of principles that help companies determine the content of their report (materiality, stakeholder inclusiveness, sustainability context, completeness) and achieve quality of the report (balance, comparability, accuracy, timeliness, clarity, reliability). The second section of the

Guidelines contains a set of disclosure guidance and performance indicators that companies can use to report on their management approach and performance on environmental, social, economic and governance issues.

Each indicator is accompanied by a protocol that provides further guidance to reporting organizations on how to respond to the indicator. The indicator protocol will also contain information on which major international convention or other standard the indicator is cross-referenced to.

The GRI issued the first version of its reporting Guidelines in 2000, and they became widely recognized as the predominant standard for reporting on sustainability by 2002,[87] the same year that the GRI released the second version of the Guidelines. Subsequently, other international instruments began referencing and integrating GRI's Reporting Guidelines. The GRI released the third version of its Sustainability Reporting Guidelines in 2006 (known as "G3") with major upgrades in guidance for reporting on strategy, management and risk, and upgrades of the indicators themselves. Following the publication of the G3 Guidelines an update was issued in 2011 (G 3.1) with updates on principles for defining report content and reporting guidance on human rights, community and gender. A global multi-stakeholder process is now underway which will culminate in the release of the G4 Guidelines in 2013.

(d) ISO 26000

The International Standard Organization (ISO) is a network of national standards bodies of 163 countries producing both technical and organizational standards. ISO's strength and expertise is in developing harmonized international agreements based on multiple levels of consensus both among the principal categories of stakeholders and among countries. With the success of certifiable management systems standards such as the ISO 9000 series on quality management, it has established its own "brand" that is influential in the business community.

ISO 26000 Guidance on Social Responsibility distils a globally relevant understanding of what social responsibility is and what organizations need to do to operate in a socially responsible way. After a lengthy global multi-stakeholder development process, ISO 26000 was published in 2010. ISO 26000 provides guidance rather than requirements and unlike other ISO standards cannot be certified. Instead, it helps clarify what social responsibility is, and helps businesses and organizations translate principles into effective actions and guidance for implementation. It is aimed at all types of organizations regardless of their activity, size or location.

Some practitioners and consultants now see ISO 26000 as the most comprehensive "definition" of social responsibility. Its seven principles and seven core subject areas are comprehensive and build on international conventions and other sustainable development and social responsibility initiatives. It provides further guidance on implementing and integrating social responsibility into the organizations and on reporting and communications. Leading companies advocating CSR have been using the ISO 26000 guidance to benchmark their own activities and identify strengths and weaknesses in their approaches.

[87] Brown, de Joing and Lessidrenska (2007).

(e) IFC Performance Standards

The IFC Performance Standards (IFC PS) were first published in 2006 and updated in 2012. They are the principal component of the IFC's sustainability framework and are required to be implemented by IFC clients (companies that receive IFC investment for major infrastructure projects). They include eight performance standards addressing a range of social and environmental risks and impacts that can arise from operations.

The IFC PS are directed towards clients, providing guidance on how to identify risks and impacts, and are designed to help avoid, mitigate, and manage risks and impacts as a way of doing business in a sustainable way, including stakeholder engagement and disclosure obligations of the client in relation to project-level activities. Together, the eight PS establish standards that the client must meet throughout the life cycle of an investment by IFC.

The IFC PS have been influential outside the IFC itself since they have provided the foundation for the Equator Principles[88] launched in 2003 and to date adopted by 77 banks and financial institutions from 32 countries – covering over 70 per cent of international project finance debt in emerging markets. The IFC PS have also been used as "best practice" guidance by companies which consider themselves to be leaders in the CSR field, particularly in high impact, high risk operations such as extractives, agribusiness and forestry. Their influence is therefore probably more significant than first imagined.

(f) United Nations Guiding Principles on Human Rights

The United Nations Human Rights Council endorsed the "Guiding Principles on Business and Human Rights" drafted through a long-term stakeholder engagement process by Special Representative for Business and Human Rights, John G. Ruggie, in June 2011. The Guiding Principles were designed to implement the "Protect, Respect and Remedy" policy framework that the Special Representative had proposed and which the Council and the United Nations General Assembly had approved in 2008. This framework requires the state to protect against human rights abuses, corporations to have responsibility to respect human rights, and greater access by victims to effective remedies. While the role of the state is to protect human rights, the expectation is that businesses, in particular, must respect human rights in their own operations and their sphere of influence and also remedy violations. This approach is new among the instruments considered. It also clearly delineates the respective roles of the state and of private enterprises.

As stated in the principles, their "normative contribution lies not in the creation of new international law obligations but in elaborating the implications of existing standards and practices for states and businesses; integrating them within a single, coherent and comprehensive template; and identifying where the current regime falls short and how it should be improved."

[88]The Equator Principles (EPs) form a credit risk management framework for determining, assessing and managing environmental and social risk in project finance transactions. Project Finance is often used to fund the development and construction of major infrastructure and industrial projects. The EPs are adopted by financial institutions and are applied where total project capital costs exceed $10 million.

The Principles state that companies should specifically adhere to the Universal Declaration of Human Rights and the ILO core conventions.

(g) Overall observations on convergence

Most instruments, whether they are developed by single entities or the product of government or multi-lateral initiatives, derive their authority and credibility by using the major international conventions and agreements on human rights, labour, corruption and the environment as a basis. Sharing this fundamental aspect of design has resulted in a general level of convergence on many (but not all) of the key topics and language covered in the instruments. This alignment of instruments with the major pillars of international norms should increase their applicability worldwide as Governments are expected to ratify and implement local laws that reflect the universal conventions. In practice, however, ratification and implementation varies greatly and continues to be weak in parts of the Asia-Pacific region thus increasing the need for CSR instruments to guide business how to address resulting challenges for responsible operations, brand and reputation. However, many businesses in the region have been slow to respond to this new challenge for numerous reasons, including a lack of movement by both the state and many of the largest Asian MNEs. Table IV.I shows the main characteristics of the various global CSR instruments.

Table IV.1. Major characteristics of global CSR instruments

Instrument	Origin: owner	Origin: source	Primary function	Issue focus	Adherence mechanism
OECD Guidelines for MNEs	Inter-governmental	Major international conventions	Policy and management	Broad coverage	No
UNGC	Inter-governmental	Major international conventions	Policy and principles	Selected issues	Yes
GRI Guidelines	Multi-stakeholder	Major international conventions, Other CSR instruments	Reporting and disclosure	Broad coverage	Yes
IFC Performance Standards	Inter-governmental	Major international conventions	Management system	Selected issues	No
ISO 26000	Multi-stakeholder	Major international conventions, Other CSR instruments	Management system	Broad coverage	No
Guiding Principles for Business and Human Rights	Inter-governmental	Major international conventions	Policy and principles	Single issue	No

Note: Explanation of table headings:

- Origin: owner – what sort of organization initiated and stewards the instrument?
- Origin: source – where does the instrument derive its content?
- Primary function – what practical application within a business management system is the instrument designed for or primarily used for?
- Issue focus – in terms of social, economic, environment and governance issues, how many does the instrument focus on?
- Adherence mechanism – can a company take steps to comply with or formally register its use of the instrument?

2 Analysis of the degree of functional complementarity among global CSR instruments

A key criterion of success of CSR instruments in helping companies improve their CSR practices and sustainability performance is full adoption and effective application of these instruments. In order to achieve this, there is a need for clear implementation guidance for companies. In order to avoid confusion from a plethora of CSR instruments that could dissuade companies from using them or hinder effective use of compatible instruments in conjunction, many of the bodies responsible for their development are placing increasing emphasis on issuing guidance on how their instruments relate to and can be used in conjunction with the other main instruments.

The six main CSR instruments that are the focus of this chapter have relatively different functional purposes. In that regard, they do not generally replicate each other (though overlap does exist), but can serve as complimentary tools for different parts of the business management spectrum. This subsection presents an analysis of the evolution of each of the main CSR instruments over time to determine to what degree they are developing bridges to other standards and promoting complementarity for ease of use.

(a) Institutional relationships

In the last few years, the achievement of a minimum level of harmonization or convergence between CSR instruments has been an explicit objective or strategy by most of the organizations developing these instruments. As a result, strong institutional relationships have grown, particularly over the last five years.

Evidence of functional convergence is most notable in the two years since ISO 26000 was published (2010), along with the release of important revisions to the IFC Performance Standards (2012) and the OECD's Guidelines for MNEs (2011). There is currently a process underway to update the GRI Guidelines that has included references to other frameworks in the various public consultations (expected 2013).

In many ways, ISO 26000 came about for the express purpose of forging functional convergence. It captured the best practice that had emerged over the years through lessons learned from the implementation of multiple high level declarations and principles related to CSR and associated issue- or sector-specific social responsibility initiatives. ISO signed Memorandums of Understanding with ILO, UNGC and OECD to ensure institutional cooperation with these organizations on the development of ISO 26000. By its very nature, ISO

26000 has created a degree of convergence, although at the same time it has added considerable new material to the guidance on social responsibility.

There has been a longstanding cooperation between UNGC and GRI to promote complementarity of their instruments, and these two organizations issued joint statements and tools on how to combine the use of these instruments as early as 2002. The level of cooperation was elevated in 2006 when the two organizations co-released an integration document showing the relationship between the *Communication on Progress* (COP) required by Global Compact signatories and the GRI's G3 Guidelines called "Making The Connection – Using GRI's G3 Guidelines for the COP." This guide provided ways to use the GRI Guidelines to meet Global Compact COP requirements simultaneously. This level of practical guidance on integrated use of these instruments continues and is supported by an MOU that cements a long-term collaboration between the two organizations.

(b) Cross-referencing other standards within instruments

The 2011 update of the OECD Guidelines included a variety of changes that link the Guidelines to other initiatives. One example is the inclusion of a new chapter on human rights based on the United Nations Protect, Respect and Remedy Framework. There is a greater emphasis on stakeholder consultation, a theme which is receiving increased attention and which has already been addressed by the GRI Guidelines in its reporting principles and was given priority in ISO 26000 as an operational approach to be embraced. Regarding disclosure, the recent OECD Guidelines place greater emphasis on disclosure of all "material" issues, which is terminology also found in the GRI Guidelines. The OECD Guidelines recommend the GRI Guidelines as a way to report, and an MOU between GRI and OECD has been signed.

In the ISO 26000 standard, convergence is clearly seen on substantive topics such as human rights, environment, supply chain management, transparency and disclosure and consumer issues. Considerable reference is made to relevant United Nations, ILO and OECD conventions and agreements. However no explicit reference is made to any other CSR instruments in the text itself. The reporting guidance in ISO 26000 does not specifically refer to the GRI Guidelines but does use language and guidance that is consistent with the GRI guidelines – including an emphasis on stakeholder engagement.

ISO 26000 does contain a section on "voluntary initiatives for social responsibility" generally, which helps companies understand what these initiatives are and how to make decisions about getting involved in their development or whether or not to use them. In addition, ISO 26000 includes an annex that provides an overview of the many CSR instruments, guidance and initiatives which are globally available. CSR instruments mentioned were determined to be able to help the company apply ISO guidance contained in the standard. The section provides detailed information on how initiatives overlap or match up with ISO 26000 principles, core subjects, and guidance.

The IFC's recently revised Sustainability Policy and Performance Standards have stronger requirements for extractive industry projects disclosure, which is a sector that GRI has also covered in an Extractive Industry Sector Supplement published in the same year. The Performance Standards follow the trend set in place by the "Respect, Protect, Remedy"

Framework in referring to private sector responsibility to respect human rights, especially for migrant workers. The United Nations Guiding Principles for Business and Human Rights were subsequently integrated into the 2011 Revision of the OECD Guidelines for MNEs and the 2012 update of IFC's Sustainability Policy and Performance Standards.

One of the stated goals of the ongoing revision of the GRI Reporting Guidelines is "to harmonize as much as possible with other internationally accepted standards". This is particularly relevant in the sections addressing disclosure on (i) supply chains, (ii) governance and remuneration, and (iii) management approach, all three of make reference to additional international standards including the "Respect, Protect, Remedy" Framework and the OECD Guidelines for MNEs.

(c) Overall observations on functional complementarity

In the four major revisions and releases of CSR instruments over the past two years (ISO 26000, OECD Guidelines, IFC Standards, United Nations Guiding Principles for Human Rights) there is currently a trend towards referencing other instruments, but there is also considerable evidence of increasing functional convergence in other ways. Instruments may refer to other CSR instruments in annexes or protocols, purposefully providing a bridge between the two. Not insignificant is the amendment of language towards a consistent lexicon of issues and operational procedures. These indirect references within instruments can help improve the ease of utilizing multiple instruments together.

The institutions behind the development of CSR instruments are using a variety of means to help create linkages between their respective standards and make it easier for companies to use them simultaneously. Some have entered into official institutional relationships, while others are working together to create resources and guidance documents on using the instruments together.

Three multinational Asian [89] companies that have historically used some of the instruments were interviewed for this chapter. Two companies reported that they strategically use multiple instruments together, namely the ISO series, and the GRI Guidelines in combination. Each company covers different functional aspects, from top line principles, to management, to reporting. In this way a variety of instruments are still useful to companies, especially if they share similar content.

3. Analysis of trends in convergence across selected themes

Companies are more likely to use instruments in tandem if their guidance is consistent on key topics and principles. In earlier sections of this chapter it was observed that there is a general convergence around themes and that the functional complementarity of instruments is moving in the right direction. But how does this translate in the actual application of the instruments by companies? This subsection analyses the instruments to identify convergence both on principles of conduct and on key themes and issues.

[89]The companies were Aitken Spence, www.aitkenspence.com; Swire Pacific, www.swirepacific.com; and City Developments Limited (CDL) - www.cdl.com.sg.

(a) Principles of conduct

(i) Contribution of companies to sustainable development

The issue of corporate contribution to sustainable development was first mentioned in the OECD Guidelines for MNEs in 2000, and has since become a central theme of many of these instruments, particularly ISO 26000. The GRI's G3 Guidelines are set up for companies to first discuss their overall vision on their role in sustainability and related strategy before proceeding to performance reporting. UNGC has a stated objective to catalyse action in support of United Nations goals, including the Millennium Development Goals.

There is an increasing convergence on commitments to sustainable development, although not all instruments cover all key issues associated with that concept commonly. There are also some limitations as material issues vary regionally and by sector and industry. To comply with this principle, some of the instruments are offering companies more useful guidance for implementation such as UNGC's Management Model and Blueprint for Corporate Sustainability Leadership. There is some convergence on principles such as transparency and accountability as well as an increasing importance of stakeholder engagement and inclusiveness. Implementation, however, generally remains weak beyond a minority of sustainability leaders.

(ii) Reporting and disclosure

An increased focus on reporting and disclosure can be seen in various key instruments since GRI's Reporting Framework assumed international prominence around 2002 and especially after the launch of the G3 Guidelines in 2006. Transparency and disclosure was a component of UNGC since its inception through its Communication on Progress requirements.

This was further emphasized in ISO 26000 which expects companies to report on their operations as well as the impact of their operations on stakeholders, among other key topics essential for transparency and accountability. Other instruments, including the OECD Guidelines and the IFC Performance Standards also have sections on the importance of communication and disclosure. This consensus on the importance of monitoring, reporting and communicating with stakeholders among the instruments has helped to establish the practice as an essential component of CSR management.

(iii) Stakeholder engagement

Growing recognition of the role of stakeholder engagement and a broadened definition of stakeholders beyond clients or locally impacted communities can be seen across all CSR instruments. Continuously present even in the early versions of the OECD Guidelines, stakeholder consultation is central to the process outlined in ISO 26000 and to the GRI Reporting Framework. The central importance of stakeholder engagement was also further stressed in the IFC's 2012 Performance Standards which requires engagement beyond affected communities and clarifies the level of stakeholder engagement expected in different circumstances.

(iv) Governance, bribery and corruption

Good governance is often said to be the foundation of good CSR as it establishes the systems and procedures to ensure that a company is governed in an ethical and responsible way. Principles of accountability, transparency and ethical behaviour are at the centre of the ISO 26000 approach to good governance. In many ways, the OECD Guidelines were written with good governance in mind and have been used by many MNEs to be the basis of good governance and policies on CSR.

Organizational Governance and Fair Operating Practices are two of the seven core subject areas of the ISO 26000 standard and these include specific reference to bribery and corruption. UNGC included fighting corruption as its tenth principle in the same year that new chapters on Bribery and Corruption were added to the OECD Guidelines, and just one year after the United Nations Convention Against Corruption was adopted. An overview of the governance structure is required in GRI's Reporting Framework, but this topic is not included in IFC's Sustainability Framework or Performance Standards, whose scope is limited to other social and environmental issues.

(b) Key issues

(i) Human rights

Human rights had not been addressed specifically in early versions of the OECD Guidelines, but were first mentioned in the 2000 revision. Human rights took centre stage in CSR instruments when addressed specifically as the first two principles of UNGC in 2000 and as both a key principle and a core subject area by ISO 26000 in 2010. Following the United Nations Guidelines on Business and Human Rights, a new chapter on human rights was introduced into the OECD Guidelines in 2011 and is mentioned as a central theme in all of the IFC Performance Standards. GRI issued guidance on human rights reporting in 2009 and developed various sectoral or other focused guidance frameworks and implementation tools. The human rights indicators were improved in GRI's G3 revision in 2006, but a further upgrade was released in 2011 in the form of G3.1 which contained updates on human rights reporting. The G4 revision due in 2013 is expected to be aligned with the United Nations Guidelines for Business and Human Rights.

Nevertheless human rights remain difficult for businesses in practice and one of the biggest barriers for the continued adoption of international CSR instruments in the Asia-Pacific region. In many cases businesses simply do not recognize the importance of human rights in terms of their own activities. Two major barriers that seem to be preventing further business involvement in human rights in the region can be identified.

First, businesses clearly do not understand the context of human rights and are nervous about engaging in an area that they see primarily as the domain of Government. While they understand the importance of labour rights (including rights along the value chain), non-discrimination and good employment practices in terms of human resource policies, the broader context of human rights including land rights, indigenous peoples' rights and the rights of the child are often not recognized.

Second, in many Asian and Pacific countries companies are actually nervous to get involved in issues associated with human rights since the term is politically sensitive. Talking about human rights risks attracting the attention of Governments who often see any mention of human rights as an implicit attack on the human rights performance of the Government itself. This makes the private sector cautious and the outcome is that human rights had better not be addressed. In countries where human rights are not protected by the Government, the adoption of the Protect, Respect and Remedy Framework remains a challenge.

Another problem in the area of human rights involves a seeming inconsistency within the instruments relating to the private sector's complicity in human right abuses. For example, while UNGC and ISO 26000 specifically and directly address the issue of complicity, the Protect, Respect, Remedy framework does not. The United Nations Guiding Principles may implicitly include complicity in its approach to "do no harm", but some CSR practitioners and many human rights NGOs have interpreted this as a "watering down" of the private sector's commitment to uphold human rights along value chains.

It is certainly the case that the area of human rights has caused the biggest problem for businesses in the Asia-Pacific region in terms of their own CSR practices and reporting. Why human rights is so prominent in many of the instruments is not understood by businesses (or some other stakeholders) who often see human rights as adequately covered by labour rights, community rights, non-discrimination and protection of vulnerable groups.

(ii) Labour

With regard to labour issues there is convergence around the standards and conventions set by ILO, which are referred to in GRI, UNGC, OECD Guidelines for MNEs and the United Nations Guidelines for Business on Human Rights. Expectations that businesses respect core labour standards have become more stringent over time, as seen in the OECD Guidelines 2000 revision which guides companies to respect core labour standards (child labour, forced labour, freedom of association and collective bargaining and non-discrimination in terms of race, religion, gender etc.), the 2011 update which addresses labour in its new chapter on human rights, as well as in the 2012 revision of the IFC Performance Standards which specifically address labour issues related to migrant workers and worker conditions more broadly.

Though much has changed since the 1990s crisis in the apparel sector, when companies did not consider themselves responsible for labour practices in factories down the supply chain, while their customers did, labour rights violations along supply chains continue to rank prominently among common CSR challenges in Asia.[90]

[90] CSR Asia: "CSR in 10". CSR Asia conducts an annual research project on the biggest CSR-related issues in Asia over the next 10 years. CSR Asia's "CSR in 10" project asks 80 CSR Experts across the Asia-Pacific region 3 questions:

- What environmental, social and governance trends and "hot topics" do you see emerging over the next ten years?
- Who or what is going to shape these topics?
- How will businesses have to respond and prepare for these new and emerging trends and issues?

Businesses continue to be confused with regard to the terms human rights and labour rights. While the latter can be seen as a subset of the former the distinction and delineation is not clear. Addressing concerns about child labour, for example, is both a human rights and a labour practices issue and businesses can find this confusing when it comes to reporting practices, despite the flexibility inherent in the GRI and UNGC reporting frameworks. As noted above, whilst many companies are comfortable discussing labour practices in their own operation and in their sphere of influence, they are often not comfortable when international instruments reinterpret these as human rights.

(iii) Supply chains

The last few years have shown an increased recognition of the responsibility of companies in relation to their supply chains. This concept is introduced in the 2000 version of OECD's Guidelines which encourage suppliers, subcontractors and business partners to apply principles of corporate conduct compatible with the Guidelines. The issue was addressed even more comprehensively in the 2011 version.

The IFC PS also emphasize the responsibility of companies to monitor their primary supply chain. This coincides with an increase in attention to the responsibility of companies to ensure that international standards are observed not just in their own operations but in their supply chains as well. The supply chain scope is also strengthened in the topic of protecting biodiversity and natural resources. Indeed, many international CSR instruments mention the environmental performance of supply chains.

GRI issues guidance to help companies determine what to include and not include in their report when it comes to supply chains. Sustainability reporting poses a unique boundary challenge since an organisation's economic, environmental, and social impacts occur as a result of activities involving a complex network of entities in its value chain. These range from entities wholly or partially owned by the organization, to others such as suppliers, distributors, or consumers. For example, when reporting on its water use, a company may want to include information from several entities responsible for the development of its product, therefore extending its boundary beyond just the corporate headquarters. GRI provides other capacity-building resources and programmes to encourage large companies to engage with their suppliers on sustainability issues and reporting.

ISO 26000 also puts considerable influence on companies to engage with their "sphere of influence" and this includes management of supply chains. Like GRI it provides some guidance on what this may mean in practice but companies continue to struggle with moving any social or environmental initiatives beyond "tier 1" of the supply chains. In practice, therefore, although there is convergence on supply chain issues, many companies struggle with the high level of complexity in supply chain relationships, limited practical guidance on managing sustainability throughout complex supply chains with highly variable material issues, and often limited expertise in their effective management.

An analysis of the frequency and content of responses leads to a "top 10 ranking" of issues and responses from across Asia.

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(iv) The environment

The expectation that companies limit their impact on the environment has strengthened significantly in tone and philosophy since the environment was included in the first version of the OECD Guidelines in 1976. A significant expansion of scope and of corporate responsibility for the impact of its operations on the environment can be seen in ISO 26000 and subsequently in IFC's 2012 Performance Standards which set clear expectations for resource efficiency, energy efficiency and measurement of various emissions. This is likely facilitated by GRI's emphasis on similar requirements for measurement and reporting.

Instruments vary in the degree to which they include more sophisticated issues. ISO 26000, for example, includes guidance not only on climate change mitigation but also on climate change adaptation. It also emphasizes the need for biodiversity protection, and ecosystem protection and restoration. The IFS PS probably have the most comprehensive guidelines on managing biodiversity. Yet, most businesses fail to see the link between their own operations and biodiversity unless they have direct and immediate impacts associated with biodiversity loss.

While the Global Compact principles on environment are fairly high level, they do not provide guidance on more advanced issues. For that reason, the Global Compact launched a "Caring for Climate" initiative in 2007 to advance business engagement with climate change, as well as a the "CEO Water Mandate" that focuses on developing strategies and solutions to meet the emerging global water crisis. GRI issued supplementing resources on reporting on climate change (2003 and 2009), biodiversity (2009) and ecosystem services (2011).

Environmental management has increasingly become a key value chain issue as well requiring responsible business strategies which include investments in "green" supply chains as well as "green" procurement and distribution practices. However, few companies other than some with leading brands have the knowledge, tools or guidance to influence other organizations in their broader value chain (including consumers) in dealing with challenging issues related to the environment.

In conclusion, it can be recognized that there is considerable convergence around environmental issues and many of the CSR instruments provide guidance to companies to consider issues related to climate change, biodiversity and value chain environmental impacts in their operations. However, the private sector often lacks the capacity and tools to put such guidance into practice. Therefore, actions have to be taken to raise the level of understanding in the business sector, train managers, develop tools for operationalization of the instruments' requirements and help with creating appropriate partnerships on environmental issues.

C. USE AND APPLICABILITY OF GLOBAL CSR INSTRUMENTS IN THE ASIA-PACIFIC REGION

While we are seeing increasing adoption of CSR instruments by leading Asian and Pacific companies, especially large, listed companies, the vast majority of companies in the region are not using any of the instruments discussed above. While leading companies are moving from declaring commitments to working on developing management systems and

ensuring implementation, many other companies continue to find the different international instruments overwhelming (or are even unaware of them). In many cases this means that companies are interested in applying one instrument only, if at all. This section looks at the overall rate of adoption of global CSR instruments, identifies gaps between these instruments and the local Asian and Pacific context, and finally assesses the impact of CSR instruments on performance in the Asia-Pacific region.

1. Use of CSR instruments in the Asia-Pacific region

In order to assess use of CSR instruments by Asian and Pacific companies, and whether or not this improved CSR performance, the results of the 2011 Asian Sustainability Rating[91] (ASR) were used. The ASR is an analytical tool that covers 750 of the largest companies across 10 Asian economies (www.asiansr.com) and rates them based on a set of 100 indicators of public sustainability disclosure, including the use of instruments. For the purpose of this study, the companies that received an ASR™ score of 50 per cent or better – a total of 167 companies – were separated for further analysis of whether use of CSR Instruments improved a company's ASR™ score. Comparative statistics are also provided based on the GRI Sustainability Disclosure Database (GRI Database). The tables below indicate whether the statistics are from the ASR™ or the GRI Database.

Table IV.2 provides a simple statistical breakdown of the economies in the ASR and their companies' use of GRI, UNGC and ISO 26000. It is important to recognize that this is a sample of instruments the leading companies (in terms of disclosure quality) are using and is not representative of companies in the Asia-Pacific region as a whole. Nevertheless, it provides a very useful overview of the usage of the various instruments by top reporting companies. The percentages are the proportion of the ASR™ 167 companies from each country that use or reference GRI, UNGC and ISO 26000 in their sustainability reports or websites.

Table IV.2. Use of Global Reporting Initiative, United Nations Global Compact and International Organization for Standardization among Asian Sustainability Rating™ top performing companies (n=167) in 2011

Country/economy	Number of Companies	Total of data sample			Percentage of data sample (per cent)		
		GRI	UNGC	ISO	GRI	UNGC	ISO
China	27	19	7	0	70	26	0
Hong Kong, China	13	12	3	1	92	23	8
Indonesia	4	3	0	0	75	0	0
India	22	19	18	1	86	82	5

[91] The Asian Sustainability Rating™ (ASR™) is an environment, social and governance (ESG) benchmarking tool developed by Responsible Research and CSR Asia. ASR™ examines the publicly available information of the leading listed companies in ten Asian countries and provides investors, companies and other stakeholders with a view of strategic sustainability of these companies.

Country/economy	Number of Companies	Total of data sample			Percentage of data sample (per cent)		
		GRI	UNGC	ISO	GRI	UNGC	ISO
Japan	15	12	5	1	80	33	7
Malaysia	8	6	2	0	75	25	0
Philippines	3	2	1	0	67	33	0
Republic of Korea	38	38	24	19	100	63	50
Singapore	9	6	2	1	67	22	11
Taiwan Province of China	20	19	2	0	95	10	0
Thailand	8	5	2	2	63	25	25
Total	**167**	**141**	**66**	**25**	**84**	**40**	**15**

Source: ASR.

An average of 84 per cent of the top ASR™ 167 companies in the Asia-Pacific region are using the GRI Guidelines as the basis of their sustainability reporting. The ISO 26000 standard has a fairly low official adoption rate so far except in the Republic of Korea, but it was only released in late 2010, and since it is not certifiable many companies do not know how to indicate that they have used the instrument as a reference. The prospects of a certification scheme for the standard may drive its adoption in the coming years. The Global Compact is popular in India and the Republic of Korea but has otherwise remained around the 25 per cent range in other markets. Again it must be emphasised that the sample is based on CSR best practice, not on companies as a whole. The problem with analysing CSR leaders on ASR is that we are simply highlighting the activities of a minority of companies and ASR is actually made up of relatively few leaders (167 received a score of 50 per cent or more) with a rather long tail of laggards (total companies in the 2011 ASR are 750™).

Table IV.3 shows the number of companies in the GRI Database (www.globalreporting.org) for the countries/economies in the 2011 ASR™ that are using or referencing UNGC and ISO 26000 in their GRI report. This table includes all companies from those listed countries/economies to understand the level of adoption of CSR instruments across these countries/economies.

Table IV.3. Total companies from the Asia-Pacific region using Global Reporting Initiative, and cross-referencing United Nations Global Co mpact and International Orga nization for Standardization in 2011

Country	Number of companies	GRI	UNGC	ISO	GRI (year 2007)
China[a]	162	161	17	11	12
India	49	43	24	2	6
Indonesia	3	3	0	1	3
Japan	197	155	30	8	26
Malaysia	9	8	2	1	2
Philippines	13	13	4	1	2
Republic of Korea	98	94	54	48	31
Singapore	19	13	4	1	0
Thailand	24	13	3	3	1
Total	**574**	**503**	**138**	**76**	83
World Total	**2802**	**2501**	**854**	**223**	**721**

Source: Data from GRI database.

[a] Includes Hong Kong, China; and Taiwan Province of China

Asian and Pacific companies currently comprise about 20 per cent of the total number of companies globally that are using the GRI Guidelines; this is up from 11 per cent in 2007. If we compare the figures and assess growth over the past five years, it can be observed that the biggest strides were made in countries with the larger economies, such as China, Japan and the Republic of Korea, but rapid growth has also occurred in India, Philippines, Singapore and Thailand.

Table IV.4 is a summary from the GRI Database for the year 2011 of the number of companies that are using two CSR instruments. It can be observed that globally, the use of GRI and Global Compact is fairly common as it is in the Asia-Pacific region as well. However, the combination of UNGC and ISO 26000 remains low globally and there is some trend towards the use of GRI and ISO 26000 together despite the recent release of the standard (late 2010). The trends in use of more than one standard together in the region generally match the trends observed globally.

Table IV.4. Comparison of tw o CSR instruments by companies in the Asia-Pacific region and the world

Use/reference of two CSR instruments	World	ASR Asia	Percentage
GRI and UNGC	833	132	16
GRI and ISO 26000	216	75	35
UNGC and ISO 26000	117	43	37

Generally, the use of international voluntary CSR instruments by even the largest, leading Asian companies is fairly low. One of the most significant barriers in the Asian context is that the business case for CSR is limited due to little pressure or interest from stakeholders demanding better social and environmental performance from companies, or transparency on their impacts. Stakeholder pressure is generally weak and disorganized. The main interventions originate from the international socially responsible investment community, international business partners requiring higher performance standards, and in some sectors (such as mining and palm oil) from local communities, although recent "CSR in 10" survey results indicate that this may be changing.

In interviews with three leading Asian companies for this study, all responded that strong and clearer requirements from Government and investors would help to drive the adoption of CSR instruments. Two companies reported that they started to adhere to global instruments when they began to expand operations targeting an expanded global customer base or became listed on European stock exchanges. These same companies reported that their Asian investor and customer bases do not seem to prioritize CSR as much as their international stakeholders, but that the direct and indirect benefits of implementing the instruments were still beneficial. None of the three companies interviewed listed their own employees as being interested in CSR, but all mentioned that without CEO and top management leadership and commitment, CSR would not be prioritized and CSR instruments would not be implemented by the company.

Implementation of CSR standards and instruments can be a long process and it can take several years to introduce, refine and systematize them. It is clear that across much of the Asia-Pacific region there is a lack of capacity of businesses to drive sustainability agendas and deliver on the tools and initiatives required to implement them. The three Asian companies interviewed also agreed that some of the international standards can seem complex and prescriptive, especially to those getting started, but they also mentioned that high level principles can be too vague and somewhat more difficult to interpret and implement. Finding the right balance for companies operating in the region will be the principal challenge to improve the adoption rate of CSR instruments.

However, there are some positive signs that this might be changing. Many Governments have become more interested in CSR and sustainability issues and encourage the private sector to take a closer look at its impacts and contributions. The push factor from stock exchanges and their indices is growing in significance and will be discussed in further detail below. There is pressure from the local and international investment community for better transparency on environmental and social risks and corporate governance. Importantly, there are some signs of green consumerism amongst younger, wealthier sectors which could drive companies to prioritize sustainability. One of the companies interviewed reported that benchmarking with international standards is picking up speed in the Asia-Pacific region and companies are almost in competition to outdo each other in their CSR/ sustainability activities.

In addition, in many emerging markets (including in the Asia-Pacific region) there is a growing interest in how the private sector can contribute to development. The leading international development agencies have encouraged engagement with business through their own CSR programmes. This can be observed, in particular, in connection with issues such as poverty alleviation, climate change, education, and health initiatives. International NGOs are

becoming more active in the region and are helping to elevate key issues such as human rights, poverty and biodiversity, which would require some sort of business response. Increasingly important is also the drive from multination corporations to demonstrate their CSR credentials through initiatives associated with a range of challenges including, water, poverty alleviation, child rights, climate change, education and health. A push from corporate headquarters to get Asian and Pacific subsidiaries and partners involved in such initiatives has clearly been visible.

2. Relevance and applicability of global CSR instruments in the Asia-Pacific region

One explanation for the relatively low levels of adoption of global CSR instruments in the Asia-Pacific region could be that these instruments do not adequately address local issues and priorities.

(a) Relevance and material issues

Convergence around "hot CSR topics" and CSR trends could help to focus the minds of companies that are seemingly overwhelmed by the many existing CSR initiatives and need to take a more staged approach to their CSR strategies. There are some key CSR issues where the management of corporate impacts and innovative solutions to established global challenges are particularly important for sustainable development.

(b) Applicability – local and sectoral relevance of instruments

Generally, reference to the international norms of behaviour that define the concept and analysis of sustainable development has become common practice. However, implementation and effective change management remain weak. In some cases this may be due to limited local relevance or applicability. Many industry-led, industry-specific and locally based initiatives that are driving CSR are quite dissimilar from the global instruments.

Some of the more locally based initiatives come from monarchs (e.g. the King of Thailand's Sufficiency Economy), Governments (China and India), stock exchanges (China; Hong Kong, China; Malaysia; Singapore; and Thailand), local indices (Hang Seng Sustainability Index in Hong Kong, China) and localized guidance (e.g. the Caring Company Scheme in Hong Kong, China) that often enjoy a lot more traction for local companies, and in some cases are mandatory, soon to be mandatory or come with considerable "coercion" to comply.

There are sector specific initiatives that are often seen as more important and relevant to businesses, e.g. the Round Table for Sustainable Palm Oil (RSPO)[92] and others.[93] These initiatives are often targeted to the local industry as well as the international instruments and allow for a degree of cooperation within the sector.

In Islamic countries there is an interest in Sharia compliant investment funds and banking practices which is driving some companies to develop and report on issues not even considered by the global CSR instruments.

[92] The RSPO was established in 2004 to promote the production and use of sustainable palm oil (www.**rspo**.org).
[93] See sample list on p. 92 below

D. OTHER DRIVERS OF CSR AND CONVERGENCE IN THE ASIA-PACIFIC REGION

International initiatives on sustainability and social responsibility are not the only external drivers of change and influence for Asian and Pacific companies. Over the last decade the development of both industry-led and industry-specific initiatives can be observed. These initiatives have often been driven by the private sector itself and in some cases have resulted from leadership of business associations. Many of the most successful of these initiatives have also been industry-specific focusing on the material issues that are most relevant to the specific industry sector under consideration.

But even more recently, a number of more geographically oriented initiatives that have focused on leadership and guidance for companies in a particular location have emerged. Many of the most recent (and most influential) initiatives have come from local stock exchanges and have involved guidance mostly in relation to reporting on environmental, social and governance issues. Other initiatives have been driven by local industry and/or NGO initiatives. Some have taken the form of local CSR regulations enacted by Governments.

1. National and sectoral CSR instruments and trends towards convergence

The instruments included in sections above are primarily established by intergovernmental or global bodies to provide guidance to companies on broad categories of issues such as the environment, labour, human rights, and other stakeholder interests. In some cases, these standards can be too generic or high level to address the unique circumstances and issues found in specific geographic locations or industry sectors.

In order to fill this gap, a wide variety of voluntary standards have emerged from NGOs, industry organizations and business networks. Many of these standards provide guidance and implementation tools of various types, including certifiable standards. These initiatives have a more narrow scope but they are actually gaining some traction because businesses are under greater pressure to use them, while often the specific industry guidance is more practical and usable than high level international guidance.

These standards and guidelines can be sector specific or issue specific. This subsection provides a few select examples among the vast array of existing voluntary sustainability initiatives that provide a snapshot of the types of initiatives that exist and the degree of convergence with primary international CSR instruments.

(a) Sector specific initiatives

A wide range of sector specific initiatives exists that have been developed by NGOs, business networks, industry associations, Governments and multilateral institutions. Some sector specific initiatives include:

(i) Agriculture: a range of specific agricultural commodities such as coffee, cocoa, sugar, palm oil and cotton. Examples include the Round Table on Sustainable Palm Oil (RSPO), Better Sugar Cane Initiative and Fair Trade Labelling Organization (FLO).

(ii) Apparel: examples include the Clean Clothes Campaign (CCC) and Fair Wear Foundation (FWF).

(iii) Biofuels: for example the Roundtable on Sustainable Biofuels (RSB).

(iv) Construction: examples include the Green Business Council LEED programme and UNEP's Sustainable Business and Climate Initiative.

(v) Chemicals: for example the International Council of Chemical Association's "Responsible Care" initiative.

(vi) Consumer goods: examples include the Business for Social Compliance Initiative, the Global Social Compliance Initiative and the Sustainability Consortium.

(vii) Electronics: for example the Electronic Industry Code of Conduct (EICC).

(viii) Extractive industries: examples include the International Petroleum Industry Environmental Conservation Association (IPIECA) and the Extractive Industries Transparency Initiative (EITI).

(ix) Finance: examples include the Equator Principles (discussed above) and the United Nations Principles for Responsible Investment (UNPRI).

(x) Fisheries: for example the Marine Stewardship Council (MSC) certification programme.

(xi) Forestry: for example the Forest Stewardship Council (FSC) certification programme.

(xii) Information technology: for example the Global e-Sustainability Initiative (GESI).

(xiii) Tourism: for example the Rainforest Action Network's Global Sustainable Tourism Criteria Partnership.

(b) Industry-led initiatives

The primary global CSR instruments mainly utilize some form of multi-stakeholder process to develop and govern the standards, as do most of the sector specific instruments outlined above. This is generally seen as a necessary element to ensure that the perspectives of all stakeholders are included in the development of CSR guidance. But often, standards developed "by business, for business" resonate well with companies and have wide appeal. A variety of industry associations have emerged over the past decade that work with their business members to develop tools and guidance that often become "standard practice" for members.

Examples include:

(i) Caux Round Table: a network of business people that developed "Principles for Business" which defines several principles across thematic areas for responsible business.

(ii) World Business Council for Sustainable Development: a membership based network of businesses which has developed comprehensive set of thematic and sectoral guidelines as well as tools for implementation aspects.

(iii) International Petroleum Industry Environmental Conservation Association (IPIECA): an industry organization that has published guidance materials and implementation tools on social responsibility within the sector.

(iv) International Council on Mining and Metals Sustainable Development Framework which has established 10 operating principles for the sector across a range of social responsibility themes and implementation guidance.

(v) Business for Social Compliance Initiative (BSCI): an industry initiative established in 2003 to "create consistency and harmonization for companies wanting to improve their social compliance in the global supply chain.

(vi) Global Social Compliance Initiative (GSCI): an industry driven initiative among consumer goods companies seeking to improve social compliance in their value chains.

(vii) CSR Europe: a European membership organization/consultancy which provides a web-based collection of guidance materials addressing a range of thematic areas as well as implementation aspects.

(viii) Ethos Institute: a Brazilian organization promoting CSR by providing tools and indicators addressing a range of thematic areas as well as implementation aspects for their business members.

With the emergence of such a vast number of voluntary industry-led sustainability initiatives, it is difficult to judge convergence (or lack thereof). Most of these initiatives establish principles for conduct across one or more sustainability themes such as labour, human rights, environment, governance, fair operating practices, consumer issues and community impacts. Meanwhile, most of them also provide guidance on one or more implementation aspects such as stakeholder engagement, practices for integrating social responsibility across an organization, communication and improving the organization's sustainability practices.

There is often a good deal of convergence on the issues between the industry-led initiatives and global instruments. The main difference is that the industry specific initiatives are often very targeted to a particular industry and are better tailored to address industry specific issues and more detailed in terms of the responses needed and the guidance or principles outlined. For example the Roundtable on Sustainable Biofuels provides extremely detailed coverage of issues associated with biodiversity and community rights as one would expect in the palm oil industry. While these topics are covered in, for example, the IFC and OECD Guidelines, the guidance provided by the Roundtable remains at a fairly high level so that that it is broadly applicable to most companies.

2. The role of local stock exchanges and convergence of CSR instruments in the Asia-Pacific region

For listed companies, complying with the reporting requirements of stock exchanges, or performing well on indices are often a priority since investors are key stakeholders for companies. Stock exchanges are potentially one of the most powerful drivers of CSR and the use of global instruments if they align their listing and reporting requirements with these instruments, or recommend their use.

The following is a review of local guidance issued by stock exchanges and other national players on global CSR instruments in key Asian and Pacific markets and analyses whether and how stock exchanges promote convergence and foster implementation of, or dilute the impact of the main global CSR instruments.

(a) Regional focus: stock exchanges

According to the Sustainable Stock Exchanges 2012 update report (Responsible Research, 2012) stock exchanges are increasingly aware of their responsibility to encourage their listed companies to report on sustainability issues. Globally, over half of the stock exchanges reviewed in the report provide sustainability guidance documents. However, the report also states that the content or mandate of these guidance documents varies widely.

In the report, it was found that the leading stock exchanges promoting sustainability were from G20 emerging markets: Brazil (BM&FBOVESPA, created in 2008, through the integration between the São Paulo Stock Exchange (Bolsa de Valores de São Paulo) and the Brazilian Mercantile & Futures Exchange (Bolsa de Mercadorias e Futuros)), South Africa (Johannesburg Stock Exchange, JSE), and Turkey (Istanbul Stock Exchange, ISE). This goes against the usual perception of national and international investors and companies that environmental, social and governance regulations and standards in emerging markets were lagging international norms. Indeed, the local exchanges were aiming to counterbalance this view and help bring confidence to international investors by demonstrating that these issues were being addressed by companies regardless of gaps in regulation.

Of 12 stock exchanges assessed in the Asia-Pacific region on their regulations, encouragement or guidance on sustainability or CSR disclosure, it appeared that six stock exchanges provide guidance documents on disclosure and three require companies to report on sustainability issues. Table IV.5 presents the summary results. The first three columns indicate whether or not the exchange issues sustainability guidance, a sustainability index or requires disclosure on environmental, social and governance issues. The next six columns indicate whether or not the exchange specifically recommends the use of (or has directly integrated) any of the international instruments.

Table IV.5. Asian stock exchanges and CSR

Stock Exchanges	Sustainability Guidance?	Sustainability Index?	Mandatory Disclosure?	GRI	UNGC	IFC	OECD	ISO	UNHR
Singapore Exchange	Yes ('11)	Planning	No	Yes	No	No	No	Yes	No
Hong Kong (China)	Yes ('11)	Yes	No	No	No	No	No	No	No
Bursa Malaysia	Yes ('06)	Planning	Yes	Yes	No	No	No	Yes	No
Indonesia Stock Exchange	No	Yes	No	No	No	No	No	No	No
The Stock Exchange of Thailand	Yes ('12)	Planning	No	Yes	Yes	No	No	Yes	No
Korea Exchange	No	Yes	No	No	No	No	No	No	No
Tokyo Stock Exchange	No	Yes	No	No	No	No	No	No	No
Shenzhen Stock Exchange	Yes ('06)	?	No	No	No	No	No	No	No
Shanghai Stock Exchange	Yes ('08)	Yes	No	Yes	No	Yes	No	No	No
Taiwan Stock Exchange	No	?	Yes	No	No	No	No	No	No
Securities and Exchange Board of India	No	Yes	Yes	No	No	No	No	No	No

Sources: Sustainable Stock Exchanges Report and primary research of the individual stock exchange websites.

(i) Singapore Exchange

The Singapore Stock Exchange (SGX) produces a Guide to Sustainability Reporting for Listed Companies. This brief guide attempts to provide clear and succinct guidance to listed companies on sustainability reporting while making reference to ISO 26000 and the GRI Sustainability Reporting Guidelines as resources from which companies should obtain more detailed guidance. It does not presume to provide exhaustive guidance, but merely to establish a position in favour of reporting and provides some guidance on what issues should be covered and how and where this information should be published. As a result, the Guide is likely to foster an increase in sustainability reporting among listed companies.

(ii) Hong Kong Exchanges and Clearing

In December 2011, Hong Kong Exchanges and Clearing published detailed sustainability reporting guidance for listed companies. The published documents include general sustainability guidance, industry specific guidance, and a toolkit for reporting. Hong Kong Exchanges launched and explained these guidance documents during a three days workshop for listed

companies. While these guidance documents do not specifically make reference to a specific global CSR instrument, the guidance is generally aligned to the principles of the GRI Guidelines and ISO 26000.

The Hong Kong Stock Exchange (HKEX) published a Consultation Paper on its proposed Environmental, Social and Governance, or ESG, Reporting Guide for companies listed in Hong Kong ESG Reporting in December 2011. It decided to implement the Guide that is divided into four areas, Workplace Quality, Environmental Protection, Operating Practices and Community Involvement, in 2012. The Hang Sang Index includes a Sustainability Index. Companies listed on the sustainability index are required to respond to a set of indicators covering governance, workplace practice, environment and community. This, coupled with training on sustainability and reporting offered to companies listed on the Hang Sang Index, has raised awareness of sustainability among companies and is likely to foster much greater adherence to global CSR instruments.

(iii) Bursa Malaysia

Since 2007, CSR reporting has been a mandatory listing requirement at Bursa Malaysia on a "comply-or-explain" basis. However, the exchange does not specifically state what should be included in a CSR report. Rather Bursa Malaysia merely states that companies shall report on its "CSR activities."

In addition, Bursa Malaysia offers extensive sustainability guidance for companies on its website, broken down by industry sector and covering four core areas: community, environment, market place and work place. It specifically makes reference to the GRI Guidelines, ISO 26000, ISO 14000, LGB Community Investment Framework, among others, and to some industry specific standards that are relevant to the country. Overall, Bursa Malaysia's website provides a wide array of information to assist companies with their sustainability reporting.

(iv) Shenzhen Stock Exchange

The Shenzhen Stock Exchange issues a set of instructions to listed companies on social responsibility (Shenzhen Stock Exchange Social Responsibility Instructions to Listed Companies). The list contains principles that every company on the exchange should abide by. Article 5 of this document states: "companies shall, as required by these instructions, perform their social responsibilities, make regular evaluation and issue voluntary disclosure on the performance." This statement is ambiguous in terms of whether disclosure is mandatory or not. The Chinese translated version is clearer stating that companies shall abide by the principles, but that reporting is voluntary. The set of instructions does not make reference to any sustainability standards, nor does the exchange offer sustainability reporting guidance.

(v) Shanghai Stock Exchange

The Shanghai Stock Exchange issued a similar directive to listed companies on compliance with social responsibility norms and their obligation to report. However, according to a study commissioned by the Exchange this directive cannot be labelled a sustainability

guideline as it does not offer substantive guidance on how companies should report. The study recommended that Shanghai develop comprehensive sustainability reporting guidelines.

(vi) Taiwan Stock Exchange

CSR reporting is mandatory for Taiwan Stock Exchange listed companies. The listing requirements issued by the Exchange set out the topics that all companies must address in their disclosure. However, it is a "comply-or-explain" approach. Companies are further advised to produce a separate CSR report that addresses these issues, but that report is not mandatory.

(vii) Securities and Exchange Board of India

In 2011, the Securities and Exchange Board of India issued a statement mandating companies to begin reporting on CSR issues. Though this body is a government agency it effectively controls the listing requirements for companies on the National Stock Exchange. The Board does not specifically provide reporting guidance; rather it refers to the guidance issued by the Ministry of Corporate Affairs (see discussion on legislation in the following section.)

(viii) The Stock Exchange of Thailand

In June 2012, the Stock Exchange of Thailand (SET) released several pieces of guidance on social responsibility and reporting: (a) Approach to Social Responsibility Implementation for Corporations (based on ISO 26000 and adapted for Thailand); (b) Sustainability Reporting Guidelines, and (c) a Thai translation of the GRI G3.1 Guidelines

The "Sustainability Reporting Guidelines" were developed based on the GRI reporting framework. The document serves as a supplement to the translated G3.1 guidelines and provides an overview of what a report is, why it should be prepared, the role of GRI's reporting framework, and step-by-step guidance on how to prepare the report. While much of the information repeats the translated GRI guidelines, it contextualizes them and links them to the principles of social responsibility and to the expected benefits for the company.

E. CONVERGENCE IN THE ASIA-PACIFIC REGION

This section describes three focus areas that illustrate some of the main issues raised in this chapter. The first is a sector focus and discusses both the adoption of global CSR frameworks and industry-led sectoral sustainability initiatives in the mining sector. The second provides an issue focus and discusses the possibility that the issue of human rights is an obstacle to the adoption of global CSR frameworks in the Asia-Pacific region. The third is a country focus and discusses the adoption of CSR instruments in Thailand.

1. Sector focus: adoption of sustainability frameworks in the mining sector

(a) Mining sector perspective

From both a global and a regional Asian and Pacific perspective, the mining sector has a reputation for the significant economic, social and environmental impacts associated with the

sector. It is therefore considered a high impact industry, and as such it is one that has been forced to critically examine its sustainable development related impacts. While the sector offers attractive economic returns to private investors, Governments and other stakeholders, countries with an abundance of natural resources (minerals, oil and gas), which are developed and sold, have many times experienced worse development outcomes than countries without natural resources (Sachs and Warner, 1995). The mining industry in a region such as Asia-Pacific is therefore indeed an industry where the adoption of solid CSR initiatives is important as such initiatives can significantly mitigate the negative impacts of the industry.

In the late 1990s the global mining and minerals industry faced some of the most difficult challenges faced by any industrial sector, and many people increasingly distrusted the sector. In essence, the industry was failing to convince its stakeholders in many parts of the world that it deserved a "social licence to operate".

Against this background, nine of the world's largest mining companies initiated an industry-led project to examine the contribution of the minerals sector to sustainable development and how that contribution could be increased. Through the World Business Council for Sustainable Development, the companies initiated a two-year independent process of research and consultation: the Mining, Minerals and Sustainable Development Project (MMSD). The project had four objectives:

(i) to assess the global mining and minerals sector in terms of the transition to sustainable development.
(ii) to identify how the services provided through the minerals supply chain can be delivered in ways that support sustainable development,
(iii) to propose key elements for improving the minerals system, and
(iv) to build platforms of analysis and engagement for ongoing communication and networking among all stakeholders in the sector.

The MMSD process sought to find out what the minerals sector could achieve if it were to improve its contribution to sustainable development. It identified actions that could be taken at the community, national and international level. One of the immediate actions that came about as a result of the MMSD project was the establishment of an international body with the objective to improve sustainable development performance in the mining and metals industry. This body, the International Council on Mining and Minerals (ICMM) was established in 2001 with the aim of being an agent for change and continual improvement on issues relating to mining and sustainable development. Member companies make a public commitment to improve their sustainability performance and are required to report against their progress on an annual basis. The ICMM's work programmes reflect a number of the areas where the MMSD report identified need for improved performance:

(i) Reporting and assurance
(ii) Development of partnerships
(iii) Environmental stewardship
(iv) Health and safety
(v) Materials stewardship
(vi) Climate change

(vii) Improving the socio-economic contribution of mining.

Since the establishment of ICMM, the largest global diversified mining companies have adopted a range of voluntary frameworks to help them improve performance and demonstrate credibility to their stakeholders in the seven areas identified above. One of these frameworks is the sustainable development framework of ICMM which includes 10 principles which are closely aligned with GRI, UNGC and the OECD Guidelines.

Table IV.6 demonstrates that as of 2011 the six largest global diversified mining companies (as measured by market capitalization) have also adopted at least two of the six global frameworks examined in this chapter. GRI and UNGC had been adopted by all five companies by 2011, suggesting that these two frameworks may have been considered by most useful by these companies.

Table IV.6. Adoption of sustainability frameworks in the mining sector

Global diversified mining companies	Year	GRI	UNGC	Other frameworks
BHP Billiton	2008	√	√	
	2011	√	√	
Vale	2008	√	√	
	2011	√	√	
Rio Tinto	2008	√	√	
	2011	√	√	IFC PS, UNHR
Anglo American	2008	√	√	
	2011	√	√	UNHR
Xstrata	2008	√	√	IFC PS, OECD Guidelines
	2011	√	√	IFC PS, OECD Guidelines
Newmont	2008	√	√	IFC PS
	2011	√	√	

Table IV.6 shows some degree of convergence on the use of the frameworks among the largest global commercial mining companies.

Are Asian and Pacific mining companies mirroring their global counterparts and converging on the use of GRI and UNGC? Table IV.7 suggests that at least seven Asian and Pacific mining companies do. Chinese and Indian companies in particular are using these frameworks. In addition to these companies, JX Nippon Mining and Metals, Mitsubishi Materials and Sumitomo Metals Mining are all members of ICMM and report against ICMM's sustainable development framework.

Table IV.7 summarizes the analysis of 27 Asian and Pacific mining companies in the ASR company data set of 750 companies. Of the 27 companies assessed, 7 companies from three countries had adopted at least one out of the two global CSR frameworks which had also been adopted by the global diversified mining companies as specified in table IV.6. Again, GRI

and UNGC were the most frequently adopted frameworks. None of the companies had adopted the other standards (IFC, OECD Guidelines etc.) except for China Coal and Indo Tambangraya which use ISO26000.

Table IV.7. Asian and Pacific mining companies using global sustainability frameworks

Country	Company	GRI	UNGC	Other Frameworks cited
India	Sesa Goa	√	√	
	Adaro Energy	√		
	Indo Tambangraya			ISO26000
	Tambang Batubara	√		
China	China Coal	√		ISO26000
	China Shenhua	√		
Thailand	Banpu Public Company	√		

Source: Companies were selected from the pool of 750 companies on the ASR list, which included 27 mining companies. All data were collected from the most recent publicly available Annual (Sustainability) reports.

As pressure and desire to improve environmental and social performance increases, it can be expected that an increasing number of large Asian and Pacific mining companies will adopt sustainability standards, in particular those global CSR instruments that have become "de rigueur" among the listed global diversified miners.

2. Issue focus: human rights as a barrier to the adoption of global CSR instruments in the Asia-Pacific region

As discussed above, there is a common perception in the Asia-Pacific region that human rights are outside of the sphere of influence of businesses and a matter for government. Many Governments in the region are considered abusers of human rights in some form or another and businesses that engage with the issue in an open and transparent way run the risk of conflict with national Governments. The terms "human rights" is seen as a "difficult" area by most businesses in the region. Even companies with human rights policies and sophisticated codes of conduct (as can be seen in the mining and oil and gas sectors, for example) are often nervous to talk too openly about human rights out of fear to attract negative attention from national Governments and international human rights NGOs.

No company in the region really stands out as an advocate for human rights. "Human rights" is a troublesome concept for many companies in the Asia-Pacific region. As it takes centre stage in most of the global CSR instruments, it can even become a barrier to the effective adoption of these instruments for some companies. Most human rights issues could be unpacked and broken down into other categories which are much less challenging for business, such as labour standards, community development, non-discrimination, consumer rights, and protection of vulnerable people or child rights.

Anecdotal experience derived from ISO 26000 assessments and benchmarking exercises has consistently shown that the human rights agenda is underdeveloped even among CSR leaders in the region. This is indicative of the nervousness around human rights and the difficulties that companies have dealing with the issue.

3. Country focus: Thailand's use of global CSR instruments to drive the national CSR agenda

In Thailand regulatory frameworks for CSR exist and support the convergence of several of the global CSR instruments discussed in this chapter as these frameworks are largely built on the existing CSR guidance frameworks. Some variations may exist in the form of complementary local theories and practices such as the Sufficiency Economy concept established by His Majesty the King of Thailand[94] and other cultural driven approaches.

Social responsibility has been included in Thailand's National Economic and Social Development Plan for several years, but has gained new momentum recently, not least driven by developments in international markets and their impact on Thailand's largely manufacturing based economy.

In June 2012, the Stock Exchange of Thailand's (SET) CSR Institute (CSRI) released several pieces of guidance on social responsibility and reporting: (a) Approach to Social Responsibility Implementation for Corporations (based on ISO 26000 and adapted for Thailand), (b) Sustainability Reporting Guidelines, and (c) a Thai translation of the GRI G3.1 Guidelines.

The guidance document "Approach to Social Responsibility Implementation for Corporations" provides an overview of the principles, theory and implementation of social responsibility. It is based largely on ISO 26000, but draws on a number of other global CSR instruments including GRI and UNGC. The guidance document integrates the concept of social responsibility with other relevant principles and guidelines for Thai companies. For example, a large section is devoted to integrating the principles of social responsibility with the Sufficiency Economy Philosophy which also urges companies to operate responsibly. It relates the components of the Sufficiency Economy Philosophy to the seven core subjects of social responsibility in ISO 26000 with an additional specific emphasis on anti-corruption and communication and reporting. The guidance document also integrates the SET's "principles of corporate governance for listed companies", published in 2006, in an attempt to provide a comprehensive guide to companies on how to integrate CSR into their operations.

The "Sustainability Reporting Guidelines" were developed based on the GRI reporting framework. The document serves as a supplement to the translated G3.1 guidelines and provides an overview of what a report is, why it should be prepared, the role of the GRI's reporting framework, and step-by-step guidance on how to prepare the report. While much of the

[94] The Sufficiency Economy Philosophy was initiated by His Majesty the King of Thailand three decades ago and reiterated after the crisis in 1997 as the way to recover from the crisis and that would lead to a more resilient and sustainable economy (Thailand, 2004). The CSRI guidance document "Approach to Social Responsibility Implementation for Corporations" includes a section devoted to the explanation of linkages between ISO26000 principles and core subjects of the Sufficiency Economy Philosophy.

information repeats the translated GRI guidelines, it contextualizes them, linking them to the principles of social responsibility and to the expected benefits for the company.

The translations of ISO 26000 and the GRI Guidelines are accompanied with a guideline for practice that includes a comparison of a wider range of instruments (reprinted in Table IV.8 below, from CSRI/SET 2012a, p.176).

Table IV.8. Guidelines for li sted companies on the Stoc k Exchange of Thailand cross-referenced to international ins truments and sustainability in dices (reprinted from CSRI/SET 2012a:176)

	GRI	ISO 26000	OECD 2000	UNGC	DJSI	FTSE 4 GOOD
Environment	√	√	√	√	√	√
Labour practices	√	√	√	√	√	√
Human rights	√	√	√	√	√	√
Society/fair operating practices	√	√	√		√	√
Product responsibility/ consumer issues	√	√	√		√	
Community involvement and development	√	√	√		√	
Governance	√	√	√	√	√	
CSR innovation	√					
CSR report	√					

Source: Compiled by author from CSRI/SET (2012a), p. 176..
Notes: DJSI stands for Dow Jones Sustainability Index; FTSE 4 (Good) represents the FTSE Sustainability Index.

F. CONCLUSIONS AND RECOMMENDATIONS

The primary global CSR instruments draw, for the most part, from the major United Nations and international conventions on environment, labour, human rights, anti-corruption and others for their subject matter, and therefore some level of convergence naturally occurs. However, as the instruments were all developed for different purposes and have different implementation mechanisms, convergence can be more challenging despite the subject matter overlap.

Convergence between the GRI Guidelines, UNGC, and ISO 26000 is mainly observed as a broad trend. The IFC PS is the most comprehensive and is seen as "gold standard" but is only applicable to companies that have received IFC funds; others will see it as a reference and will not try to implement it directly. Similarly, the OECD Guidelines for MNEs are comprehensive, recently updated, and have been around the longest time, but they have only ever been encouraged for actual implementation by companies from OECD countries. The recent release of the United Nations Human Rights Framework for Business is helping to move stakeholders towards consensus on the role of business and human rights, but this dialogue will continue in the Asia-Pacific region for some time to come.

Not all instruments cover the full range of key social responsibility subject areas and issues. However, it can be recognized that there is considerable convergence around environmental issues and many of the instruments are encouraging companies to engage with climate change, biodiversity and value chain environmental impacts

Local Asian and Pacific CSR initiatives often have more traction with local companies than the global ones. Many industry-led, industry specific and locally based initiatives that are driving CSR practice in the region are quite different from the global instruments, while others draw heavily on the global instruments. In the latter case, this means that they are being used indirectly by Asian and Pacific companies.

Industry initiatives are seen as more relevant to businesses and better encourage cooperation in the private sector but more can be done along the lines of GRI sector supplements. But it can also be observed that the global instruments both inform industry-led initiatives and that over time in some cases the industry-led initiatives encourage adoption of some international instruments.

For the most part, Asian and Pacific companies have not taken up international instruments as rapidly as their counterparts in other regions. This is for a variety of reasons, including the lack of pressure from Governments and consumers. There are several measures that can help improve business understanding of the benefits of using established global CSR instruments, and to help increase the relevance of these instruments to the local Asian and Pacific context. These include:

(1) Promote best practice in the application of international instruments.

(2) Encourage ways to localize the instruments.

(3) Encourage industry-led initiatives in the Asia-Pacific region.

(4) Create tools that can adapt the international instruments to regional or industry specific issues.

(5) Develop capacity-building programmes for:
- (a) Public sector
- (b) Businesses in general
- (c) CSR managers
- (d) NGO and development practitioners' community
- (e) Other influential stakeholder groups including e.g. the media

(6) Address the emerging sustainability issues in the region more effectively through further research and providing guidance to the private sector (e.g. on biodiversity, human rights, supply chains, etc.).

(7) Explain the human rights context of CSR instruments more effectively and/or repackage human rights issues within the context of other subject areas such as community relations, labour rights, protection of vulnerable people or child rights.

(8) Encourage greater cooperation among the leading organizations formulating global CSR instruments to promote and help implement commonalities, taking into account the specific context of Asian and Pacific businesses.

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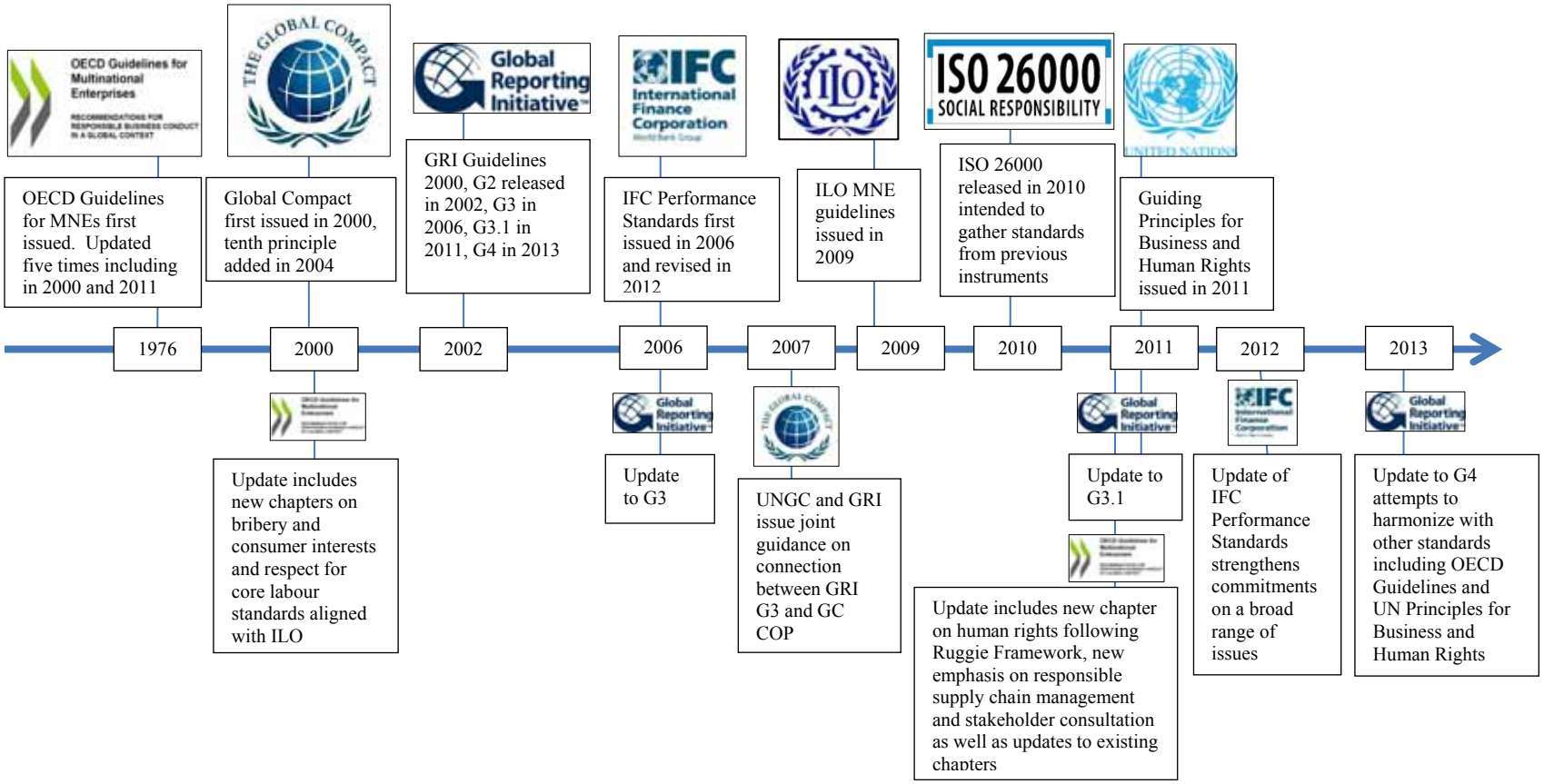
Annex 1: Timeline of development of global CSR instruments



Annex 2: Overview of key international CSR instruments

OECD Guidelines for Multinational Enterprises http://www.oecd.org/daf/internationalinvestment/guidelinesformultinationalenterprises/	
Year of initial publication and revisions	First published in 1976, five subsequent updates in 1979, 1982, 1984, 1991, 2000 and May 2011.
Overview and high level objectives	The Guidelines constitute a set of voluntary recommendations to multinational enterprises in all the major areas of business ethics, including employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation. Adhering Governments have committed to promote them among multinational enterprises operating in or from their territories. The instrument's distinctive implementation mechanisms include the operations of national contact points (NCP), which are government offices charged with promoting the Guidelines and handling enquiries in the national context. Adhering countries comprise all OECD countries, and 10 non-OECD countries (Argentina, Brazil, Colombia, Egypt, Latvia, Lithuania, Morocco, Peru, Romania and Tunisia). The Investment Committee has oversight responsibility for the Guidelines which are one part of a broader OECD investment instrument – the Declaration on International Investment and Multinational Enterprises.
Functional purpose	The OECD Guidelines for Multinational Enterprises are recommendations by Governments to multinational enterprises operating in or from adhering countries. They provide non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognised standards. The Guidelines are the only multilaterally agreed and comprehensive code of responsible business conduct that Governments have committed to promoting.
Specific topics covered	The Instrument addresses the following: Part I I. Concepts and Principles II. General Policies A. Enterprises should: 1. Contribute to economic, environmental and social progress with a view to achieving sustainable development.

	2. Respect the internationally recognised human rights of those affected by their activities. 3. Encourage local capacity-building through close co-operation with the local community, including business interests, as well as developing the enterprise's activities in domestic and foreign markets, consistent with the need for sound commercial practice. 4. Encourage human capital formation, in particular by creating employment opportunities and facilitating training opportunities for employees. 5. Refrain from seeking or accepting exemptions not contemplated in the statutory or regulatory framework related to human rights, environmental, health, safety, labour, taxation, financial incentives, or other issues. 6. Support and uphold good corporate governance principles and develop and apply good corporate governance practices, including throughout enterprise groups. 7. Develop and apply effective self-regulatory practices and management systems that foster a relationship of confidence and mutual trust between enterprises and the societies in which they operate. 8. Promote awareness of and compliance by workers employed by multinational enterprises with respect to company policies through appropriate dissemination of these policies, including through training programmes. 9. Refrain from discriminatory or disciplinary action against workers who make bona fide reports to management or, as appropriate, to the competent public authorities, on practices that contravene the law, the Guidelines or the enterprise' policies. 10. Carry out risk-based due diligence, for example by incorporating it into their enterprise risk management systems, to identify, prevent and mitigate actual and potential adverse impacts as described in paragraphs 11 and 12, and account for how these impacts are addressed. The nature and extent of due diligence depend on the circumstances of a particular situation. 11. Avoid causing or contributing to adverse impacts on matters covered by the Guidelines, through their own activities, and address such impacts when they occur. 12. Seek to prevent or mitigate an adverse impact where they have not contributed to that impact, when the impact is nevertheless directly linked to their operations, products or services by a business relationship. This is not intended to shift responsibility from the entity causing an adverse impact to the enterprise with which it has a business relationship. 13. In addition to addressing adverse impacts in relation to matters covered by the Guidelines, encourage, where practicable, business partners, including suppliers and sub-contractors, to

	apply principles of responsible business conduct compatible with the Guidelines. 14. Engage with relevant stakeholders in order to provide meaningful opportunities for their views to be taken into account in relation to planning and decision making for projects or other activities that may significantly impact local communities. 15. Abstain from any improper involvement in local political activities. B. Enterprises are encouraged to: 1. Support, as appropriate to their circumstances, cooperative efforts in the appropriate fora to promote Internet Freedom through respect of freedom of expression, assembly and association online. 2. Engage in or support, where appropriate, private or multi-stakeholder initiatives and social dialogue on responsible supply chain management while ensuring that these initiatives take due account of their social and economic effects on developing countries and of existing internationally recognised standards. III. Disclosure IV. Human Rights V. Employment and Industrial Relations VI. Environment VII. Combating Bribery, Bribe Solicitation and Extortion VIII. Consumer Interests IX. Science and Technology X. Competition XI. Taxation Part II Implementation Procedures of the OECD Guidelines for Multinational Enterprises
Convergence notes	2000 Revision: The new additions to the text are: MNEs' contribution to sustainable development; respect of human rights; MNEs' encouragement of suppliers, subcontractors and business partners to apply principles of corporate conduct compatible with the Guidelines; respect of core labour standards (child labour, forced labour, freedom of association and collective bargaining and non-discrimination in terms of race, religion, gender etc.); establishment of environmental management systems, the precautionary principle; and new chapters on bribery and consumer interests.
	Convergence between the "Ruggie Framework" and OECD Guidelines for MNEs.

	The consultation process in the preparation for the 2011 update to the OECD Guidelines for MNEs included a consultation with John Ruggie in relation to the human rights issues addressed in the "Protect, Respect and Remedy Framework." In consultation with the OECD member countries, and on the basis of the human rights issues revealed in the "Protect, Respect and Remedy" Framework, he provided recommendations on the main human rights elements the update should include in order to meet its goal of ensuring "the continued role of the Guidelines as a leading international instrument for the promotion of responsible business conduct."
	2000 - 2011 update addresses: Changes to the Guidelines include: • A new human rights chapter, which is consistent with the Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework. • A new and comprehensive approach to due diligence and responsible supply chain management representing significant progress relative to earlier approaches. • Important changes in many specialised chapters, such as on Employment and Industrial Relations; Combating Bribery, Bribe Solicitation and Extortion, Environment, Consumer Interests, Disclosure and Taxation. • Clearer and reinforced procedural guidance to strengthen the role of the NCPs, improve their performance and foster functional equivalence. • A pro-active implementation agenda to assist enterprises in meeting their responsibilities as new challenges arise. More specifically, additions to 2011 OECD Guidelines: • Human rights, due diligence on human rights and supply chains • Increased role in influencing suppliers • Stakeholder consultation • Greater emphasis of disclosure on all "material" issues • Shift in terminology in employment and industrial relations to be consistent with ILO MNE declaration • Instruction that enterprises should not only seek to improve, but also take due account of their social and economic effects on developing countries. • Greater responsibility to detect and resist corruption, references 2005 United Nations Conference

	against Corruption (UNCAC) • Chapter 9: Expectations for companies to provide considerably more information to and protection of consumers • Chapter 10: Greater emphasis on tax compliance, transparency and responding to requests for information, referencing related United Nations/OECD conventions.
	Convergence is clearly seen on substantive topics such as human rights, business impacts and compliance within supply chains, transparency and disclosure and consumer issues. Ample reference is made to relevant United Nations/OECD conventions and agreements, however no direct reference is made to instruments such as: ISO 26000, Global Compact, GRI.

United Nations Global Compact	http://www.unglobalcompact.org/AboutTheGC/index.html
Year of initial publication and revisions	Originally published in 2000 with nine principles clustered under human rights, labour, and environment. An amendment was made in 2004 adding a tenth principle for anti-corruption.
High level objectives	I. Mainstream the ten principles in business activities around the world II. Catalyze actions in support of broader United Nations goals, including the Millennium Development Goals (MDGs) UNGC was established based on the following foundational principles: • Universal Declaration of Human Rights • International Labour Organization's Declaration on Fundamental Principles and Rights at Work • Rio Declaration on Environment and Development • United Nations Convention Against Corruption UNGC asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption.
Functional purpose	Encourage businesses to operate responsibly. Business participants in UNGC make a commitment to make the Global Compact's ten principles part of their business strategies and their day-to-day operations. At the same time, companies are required to issue an annual Communication on Progress (COP), a public disclosure to stakeholders (e.g. investors, consumers, civil society, Governments, etc.) on progress made in implementing the ten principles of the UN Global Compact, and in supporting broad United Nations development goals.

Specific topics covered	UNGC's 10 principles in the areas of human rights, labour, the environment and anti-corruption enjoy universal consensus derived from the key underlying global conventions on these same topics (listed above). Ten Principles: Human Rights Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and Principle 2: make sure that they are not complicit in human rights abuses. Labour Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; Principle 4: the elimination of all forms of forced and compulsory labour; Principle 5: the effective abolition of child labour; and Principle 6: the elimination of discrimination in respect of employment and occupation. Environment Principle 7: Businesses should support a precautionary approach to environmental challenges; Principle 8: undertake initiatives to promote greater environmental responsibility; and Principle 9: encourage the development and diffusion of environmentally friendly technologies. Anti-Corruption Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.
Convergence notes	"Management Model" An updated performance model, developed post 2000 that guides companies through the process of formally committing to, assessing, defining, implementing, measuring, and communicating a corporate sustainability strategy based on the Global Compact and its principles.
	2007 Operational Guide for SMEs: An international taskforce on SMEs and corporate citizenship, consisting of experts from companies, Global Compact focal points and other relevant organizations, reviewed existing material on the implementation of the Global Compact principles and the work of SMEs and produced these operational guidelines for medium-sized enterprises.

	2007 Reporting: UNGC requires "Communication on Progress" annually by participating companies and will de-list companies for non-communication if they fail to report on their progress with the principles. This coincides with increased practical guidance on how to communicate progress, including firmer links to the GRI Reporting Framework and G3 guidelines. UNGC and GRI produced "Making the Connection – Using GRI's G3 Guidelines for the COP." This guide introduces and explores ways to address GRI and Global Compact COP requirements simultaneously. By linking the GRI G3 Guidelines to the 10 principles of the Global Compact, Making the Connection assists companies in bridging the gap between the COP and other sustainability reporting vehicles.
	2008: a) discussion about the importance of and progress on reporting, b) work in recent years by a committed community of institutional investors to consider ESG issues in their investment decisions – through the United Nations-backed Principles for Responsible Investment (PRI) – has played a critical role in strengthening the business proposition of the Global Compact. In 2008, a number of campaigns were undertaken by PRI.
	2010 "Blueprint for CSR Leadership"– provide guidance to advanced companies – is a corporate action plan

IFC Sustainability Framework	http://www1.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_site/IFC+Sustainability/Sustainability+Framework
Overview	The Sustainability Framework consists of three items, of which the "Performance Standards" are the main tool. These must be met by companies the IFC invests in and are looked to by companies globally as an important international benchmark. The three components of the Sustainability Framework are: • The Policy on Environmental and Social Sustainability, which defines IFC's commitments to environmental and social sustainability. • The Performance Standards, which define clients' responsibilities for managing their environmental and social risks. • The Access to Information Policy, which articulates IFC's commitment to transparency.
Year of initial	2006, revised in 2012

publication and revisions	
High level objectives	IFC's Sustainability Framework articulates the Corporation's strategic commitment to sustainable development, and is an integral part of IFC's approach to risk management.
Functional purpose	The Performance Standards are directed towards clients, providing guidance on how to identify risks and impacts, and are designed to help avoid, mitigate, and manage risks and impacts as a way of doing business in a sustainable way, including stakeholder engagement and disclosure obligations of the client in relation to project-level activities. In the case of its direct investments (including project and corporate finance provided through financial intermediaries). IFC requires its clients to apply the Performance Standards to manage environmental and social risks and impacts so that development opportunities are enhanced. IFC uses the Sustainability Framework along with other strategies, policies, and initiatives to direct the business activities of the Corporation in order to achieve its overall development objectives. The Performance Standards may also be applied by other financial institutions.
Specific topics covered	**Performance Standard 1: Assessment and Manage ment of Environmental and Social Risks and Impacts** Objectives: • To identify and evaluate environmental and social risks and impacts of the project. • To adopt a mitigation hierarchy to anticipate and avoid, or where avoidance is not possible, minimize, and, where residual impacts remain, compensate/offset for risks and impacts to workers, Affected Communities, and the environment. **Performance Standard 2: Labour and Working Conditions** Objectives: • To promote the fair treatment, non-discrimination, and equal opportunity of workers. • To establish, maintain, and improve the worker-management relationship. • To promote compliance with national employment and labour laws. • To protect workers, including vulnerable categories of workers such as children, • Migrant workers, workers engaged by third parties, and workers in the client's supply chain. • To promote safe and healthy working conditions, and the health of workers. • To avoid the use of forced labour. **Performance Standard 3: Resource Efficiency and Pollution Prevention**

	Objectives: • To avoid or minimize adverse impacts on human health and the environment by avoiding or minimizing pollution from project activities. • To promote more sustainable use of resources, including energy and water. • To reduce project-related GHG emissions. **Performance Standard 4: Community Health, Safety, and Security** Objectives: • To anticipate and avoid adverse impacts on the health and safety of the Affected Community during the project life from both routine and non-routine circumstances. • To ensure that the safeguarding of personnel and property is carried out in accordance with relevant human rights principles and in a manner that avoids or minimizes risks to the Affected Communities. **Performance Standard 5: Land Acquisition and Involuntary Resettlement** Objectives: • To avoid, and when avoidance is not possible, minimize displacement by exploring alternative project designs. • To avoid forced eviction. • To anticipate and avoid, or where avoidance is not possible, minimize adverse social and economic impacts from land acquisition or restrictions on land use by providing compensation for loss of assets at replacement cost and ensuring that resettlement activities are implemented with appropriate disclosure of information, consultation, and the informed participation of those affected. • To improve, or restore, the livelihoods and standards of living of displaced persons. • To improve living conditions among physically displaced persons through the provision of adequate housing with security of tenure at resettlement sites. **Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources** Objectives: • To protect and conserve biodiversity. • To maintain the benefits from ecosystem services.

	• To promote the sustainable management of living natural resources through the adoption of practices that integrate conservation needs and development priorities. **Performance Standard 7: Indigenous Peoples** Objectives: • To ensure that the development process fosters full respect for the human rights, dignity, aspirations, culture, and natural resource-based livelihoods of Indigenous Peoples. • To anticipate and avoid adverse impacts of projects on communities of Indigenous Peoples, or when avoidance is not possible, to minimize and/or compensate for such impacts. • To promote sustainable development benefits and opportunities for Indigenous Peoples in a culturally appropriate manner. • To establish and maintain an ongoing relationship based on Informed Consultation and Participation (ICP) with the Indigenous Peoples affected by a project throughout the project's life-cycle. • To ensure the Free, Prior, and Informed Consent (FPIC) of the Affected Communities of Indigenous Peoples when the circumstances described in this Performance Standard are present. • To respect and preserve the culture, knowledge, and practices of Indigenous Peoples. **Performance Standard 8: Cultural Heritage** Objective: • To protect cultural heritage from the adverse impacts of project activities and support its preservation. • To promote the equitable sharing of benefits from the use of cultural heritage. Performance Standard 1 establishes the importance of (i) integrated assessment to identify the environmental and social impacts, risks, and opportunities of projects; (ii) effective community engagement through disclosure of project-related information and consultation with local communities on matters that directly affect them; and (iii) the client's management of environmental and social performance throughout the life of the project. Performance Standards 2 through 8 establish objectives and requirements to avoid, minimize, and where residual impacts remain, to compensate/offset for risks and impacts to workers, Affected Communities, and

	the environment. While all relevant environmental and social risks and potential impacts should be considered as part of the assessment, Performance Standards 2 through 8 describe potential environmental and social risks and impacts that require particular attention. Where environmental or social risks and impacts are identified, the client is required to manage them through its Environmental and Social Management System (ESMS) consistent with Performance Standard 1. Business should protect human rights and each of the standards relates to human rights in some way.
Convergence notes:	Summary of changes: http://www1.ifc.org/wps/wcm/connect/b0be9a0049800a44a9e3fb336b93d75f/Board-Paper-IFC-AnnexA_August1-2011.pdf?MOD=AJPERES

GRI	
Year of initial publication and revisions	GRI Sustainability Reporting Guidelines 2000 G2 2002 G3 2006 G3.1 2011 G4 2013
High level objectives	The Purpose of a Sustainability Report Sustainability reporting is the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development. 'Sustainability reporting' is a broad term considered synonymous with others used to describe reporting on economic, environmental, and social impacts (e.g. triple bottom line, corporate responsibility reporting, etc.). A sustainability report should provide a balanced and reasonable representation of the sustainability performance of a reporting organization – including both positive and negative contributions. Sustainability reports based on the GRI Reporting Framework disclose outcomes and results that occurred within the reporting period in the context of the organization's commitments, strategy, and management approach.
Foundational principles	The specific Aspects under the category of Labour Practices are based on internationally recognized universal standards, including: • United Nations Universal Declaration of Human Rights; • United Nations Convention: International Covenant on Civil and Political Rights; • United Nations Convention: International Covenant on Economic, Social, and Cultural Rights;

	• Convention on the Elimination of all Forms of Discrimination against Women (CEDAW); • ILO Declaration on Fundamental Principles and Rights at Work (in particular the eight core Conventions of the ILO consisting of Conventions 100, 111, 87, 98, 138, 182, 29, 105); and • The Vienna Declaration and Programme of Action. The Labour Practices Indicators also draw upon the two instruments directly addressing the social responsibilities of business enterprises: the ILO Tripartite Declaration Concerning Multinational Enterprises and Social Policy, and OECD Guidelines for Multinational Enterprises. The international legal framework for human rights comprises a body of law made up of treaties, conventions, declarations and other instruments. The corner stone of human rights is the International Bill of Rights which is formed by three instruments: I. the Universal Declaration of Human Rights (1948); II. the International Covenant on Civil and Political Rights (1966); and III. the International Covenant on Economic, Social and Cultural Rights (1966).
Functional purpose	The GRI Reporting Framework is intended to serve as a generally accepted framework for reporting on an organization's economic, environmental, and social performance. It is designed for use by organizations of any size, sector, or location. It takes into account the practical considerations faced by a diverse range of organizations – from small enterprises to those with extensive and geographically dispersed operations. The GRI Reporting Framework contains general and sector-specific content that has been agreed by a wide range of stakeholders around the world to be generally applicable for reporting an organization's sustainability performance.
Specific topics covered	The Sustainability Reporting Guidelines (the Guidelines) consist of An Overview of Sustainability Reporting: Part 1: Defining Report Content, Quality and Boundary Part 2: Standard Disclosures. • Strategy and Analysis • Organizational Profile • Report Parameters • Governance, Commitments and Engagement • Management Approach and Performance Indicators: – Economic – Environmental

	– Social – Labour Practices and Decent Work – Human Rights – Society – Product Responsibility **Principles** for defining report content and ensuring the quality of reported information. It also includes Standard Disclosures made up of Performance Indicators and other disclosure items, as well as guidance on specific technical topics in reporting. **Indicator Protocols** exist for each of the Performance Indicators contained in the Guidelines. These Protocols provide definitions, compilation guidance, and other information to assist report preparers and to ensure consistency in the interpretation of the Performance Indicators. Users of the Guidelines should also use the Indicator Protocols. **Sector Supplements** complement the Guidelines with interpretations and guidance on how to apply the Guidelines in a given sector, and include sector-specific Performance Indicators. Applicable Sector Supplements should be used in addition to the Guidelines rather than in place of the Guidelines. **Technical Protocols** are created to provide guidance on issues in reporting, such as setting the report boundary. They are designed to be used in conjunction with the Guidelines and Sector Supplements and cover issues that face most organizations during the reporting process.
Convergence notes:	One of the expressed purposed of the revision to the G4 guidelines is "to harmonize as much as possible with other internationally accepted standards" For example: • Disclosure on Supply Chains will reference OECD Risk Awareness Tool for Multinational Enterprises in Weak Governance Zones (in particular chapters 2, 4 & 7), 2006. • Disclosure on Governance and Remuneration will reference OECD Risk Awareness Tool for Multinational Enterprises in Weak Governance Zones (in particular chapters 2, 4 & 7), 2006. • Disclosure on Management Approach: If specific actions are part of broader processes, such as or including due diligence, explain the processes' components. Refer to the following for further guidance: Organization for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises; the United Nations (UN) 'Protect, Respect, Remedy' framework and its

	guiding principles for additional information on due diligence. Use the ILO Tripartite Declaration Concerning Multinational Enterprises and Social Policy (in particular the eight core Conventions of the ILO) and the Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises as the primary reference points. • Core indicator on Chains will reference the UN "Protect, Respect and Remedy" Framework for Business and Human Rights has affirmed the expectation that organizations should respect human rights throughout their activities and relationships.
	Version G3.1 (2011) had significant updates on Human Rights Reporting, Community Impacts, Gender Reporting Version 3.1 referred to the following standards: The specific Aspects under the category of Labor Practices are based on internationally recognized universal standards, including: • United Nations Universal Declaration of Human Rights; • United Nations Convention: International Covenant on Civil and Political Rights; • United Nations Convention: International Covenant on Economic, Social, and Cultural Rights; • Convention on the Elimination of all Forms of Discrimination against Women (CEDAW); • ILO Declaration on Fundamental Principles and Rights at Work (in particular the eight core Conventions of the ILO consisting of Conventions 100, 111, 87, 98, 138, 182, 29, 105); and • The Vienna Declaration and Programme of Action. The Labour Practices Indicators also draw upon the two instruments directly addressing the social responsibilities of business enterprises: the ILO Tripartite Declaration Concerning Multinational Enterprises and Social Policy, and the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises.
	G2 (2002) to -G3 (released 2006) – Key revisions included: • The introduction of "Application Levels" so reporting organizations could indicate the extent to which they applied the Guidelines • Reporting Principles were better defined, expanded to include self-tests, and given more prominence for their role in determining report content and improving report quality • A boundary protocol was introduced to provide guidance on how to cope with direct and indirect impacts

	• Introduction of a "Strategy and analysis" section of disclosures guiding the reporting organization to set the stage for the reader by describing the company's overall sustainability strategy and vision • The introduction of the "Disclosure on Management Approach" as a technique to consolidate policy or system information for reach reporting category – designed to provide the context in which performance results should be interpreted • Generally the performance indicators were refocused and consolidated – dropping to 79 indicators in the main set (from 97 in 2002). • The water and biodiversity indicators were unpacked and refocused • The social indicators were reworked to be more measurable and auditable • A full revamping of the economic indicators section to ensure metrics addressed a wider range of issues and measured impacts on the economic circumstances of its stakeholders and the wider economic system (vs. 2002 indicators which measured economic value add) • Indicator Protocols developed for every indicator, which included a section cross referencing the indicator to the relevant international convention or standard

United Nations Principles on Business and Human Rights "Ruggie Principles"	http://www.business-humanrights.org/SpecialRepPortal/Home/Protect-Respect-Remedy-Framework/GuidingPrinciples
Year of initiation and revisions	2011
High level objectives	Special Representative John Ruggie first issued the final text of the Guiding Principles for the consideration of the United Nations Human Rights Council in March 2011 with the objective of "Protect, Respect and Remedy" Framework
Foundational principles	General principles (a) States' existing obligations to respect, protect and fulfil human rights and fundamental freedoms; (b) The role of business enterprises as specialized organs of society performing specialized functions, required to comply with all applicable laws and to respect human rights; (c) The need for rights and obligations to be matched to appropriate and effective remedies when breached.
Functional purpose	Guiding Principles operationalize the "Protect, Respect and Remedy" Framework. They elaborate the

	implications of existing standards and practices for States and businesses; integrating them within a single, logically coherent and comprehensive template; and identifying where the current regime falls short and how it should be improved. Each Principle is accompanied by a commentary, further clarifying its meaning and implications.
Specific topics covered	I. The State duty to protect human rights A. Foundational principles: States must protect against human rights abuse within their territory and set clear expectations for businesses on their role B. Operational principles • General State regulatory and policy functions • The State-business nexus • Supporting business respect for human rights in conflict-affected areas • Ensuring policy coherence II. The corporate responsibility to respect human rights A. Foundational principles – all businesses, regardless of size, should respect internationally recognized human rights by avoiding, protecting against and mitigating infringement linked to business operations B. Operational principles • Policy commitment • Human rights due diligence • Remediation • Issues of context III. Access to remedy A. Foundational principle – As part of their duty to protect against business-related human rights abuse, States must take appropriate steps to ensure, through judicial, administrative, legislative or other appropriate means, that when such abuses occur within their territory and/or jurisdiction those affected have access to effective remedy. B. Operational principles • State-based judicial mechanisms • State-based non-judicial grievance mechanisms • Non-State-based grievance mechanisms • Effectiveness criteria for non-judicial grievance mechanisms

Convergence notes:	Highly consultative preparation process, though not much to report on convergence. Conversion evidenced more in subsequent citing of Ruggie Framework by OECD (new chapter on Human Rights), GRI G4 and emphasis on human rights in IFC performance std.

ISO 26000	
Year of initial publication and revisions	2010
High level objectives	ISO 26000 provides guidance on how businesses and organizations can operate in a socially responsible way. This means acting in an ethical and transparent way that contributes to the health and welfare of society.
Functional purpose	This International Standard provides guidance on the underlying principles of social responsibility, recognizing social responsibility and engaging stakeholders, the core subjects and issues pertaining to social responsibility and on ways to integrate socially responsible behaviour into the organization. This International Standard emphasizes the importance of results and improvements in performance on social responsibility. This International Standard is intended to be useful to all types of organizations in the private, public and non-profit sectors, whether large or small, and whether operating in developed or developing countries. While not all parts of this International Standard will be of equal use to all types of organizations, all core subjects are relevant to every organization. All core subjects comprise a number of issues, and it is an individual organization's responsibility to identify which issues are relevant and significant for the organization to address, through its own considerations and through dialogue with stakeholders.
Specific topics covered	Principles of Social Responsibility: 1. Accountability 2. Transparency 3. Ethical behaviour 4. Respect for stakeholder interests 5. Respect for the rule of law 6. Respect for international norms of behaviour 7. Respect for human rights Two Fundamental Practices of Social Responsibility:

	1. Recognizing Social Responsibility 2. Stakeholder Identification and Engagement Core subjects 1. Organizational governance 2. Human rights 3. Labour practices 4. The environment 5. Fair operating practices 6. Consumer issues 7. Community involvement and development Guidance on integrating social responsibility into an organization 1. General 2. The relationship of an organization's characteristics to social responsibility 3. Understanding the social responsibility of an organization 4. Practices for integrating social responsibility throughout an organization 5. Communication on social responsibility 6. Enhancing credibility regarding social responsibility 7. Reviewing and improving an organization's actions and practices related to social responsibility 8. Voluntary initiatives for social responsibility
Convergence notes:	ISO 26000 does not refer to other instruments directly in the text of the standard, but does contain a section on 'voluntary initiatives for social responsibility' (section 7.8) which helps companies understand the landscape of other standards, initiatives, guidelines, etc. and how to make decisions about getting involved in their development or whether or not to use them. The reporting guidance in section 7.5 on communicating about social responsibility the standard does not specifically refer to the GRI Guidelines but does use language and guidance that is consistent with the GRI guidelines – including an emphasis on stakeholder engagement. Annex A provides an overview of the many CSR instruments, guidance and initiatives available globally. The standard filtered out any that are administered on a for-profit basis that are used only in one country or only by a small pool of companies. CSR instruments mentioned must help the company apply ISO

	guidance contained in the standard. The section provides detailed information on how initiatives overlap or match up with ISO 26000 principles, core subjects, and guidance categorized into the following segments: • Intergovernmental initiatives • Multi-stakeholder initiatives • Single-stakeholder initiatives • Sector initiatives (covering 15 industry sectors).