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Promoting Sustainable and Responsible Business in Asia and the Pacific: The Role of Government

A Report by the Investors for Development Project (I4D), Trade and Investment Division, United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP)

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Preface

Corporate Social Responsibility (CSR), Corporate Responsibility (CR) or Corporate Sustainability (CS) are terms used to describe the voluntary efforts of companies to assume a larger responsibility for the effect of their operations on society. As such, CSR/CR/CS is an important complement to development efforts of governments.

ESCAP work related to CSR/CR/CS has during the past few years mainly focused on building the capacity of Global Compact country networks in Asia to support implementation of the Global Compact principles by companies in the region. This has been done by providing tools, training and joint communication platforms for the networks. However, while CSR is implemented at the company level, other actors have important roles in providing the push and pull factors to induce change in company behaviour. Thus, Governments, consumer organizations and other NGOs are crucial to encouraging, supporting and facilitating more responsible business. However, with CSR still being a relatively new concept, in particular for Governments, misperceptions of what it is and what Governments should do, still abound. This has sometimes led to undesirable actions by Governments, which in the worst case can even end up deterring companies from implementing CSR.

With this in mind, ESCAP plans to expand its CSR-related work to increasingly involve both Governments and other key stakeholders. As the only region-wide intergovernmental UN platform in the Asian and Pacific region, ESCAP has an important role to play in providing a platform to discuss policy options, and lessons learned in the region, as well as agree on joint action.

The 2009 ESCAP publication "Creating Business and Social Value: the Asian way of integrating CSR into business strategies" included a short chapter on the role of Governments in supporting and facilitating company implementation of CSR. While providing some insights, the chapter does not take the issues to enough of a practical level, and one that could be easily translated by Governments into action. Thus, the aim of this study is to provide more detailed, and in particular practical and actionable insights, into what Governments can do to support company implementation of CSR, through its various ministries, agencies and functions. It will outline the various policy instruments governments can use for supporting business implementation of CSR, and concretizes this by providing examples from the region and elsewhere. Finally, it provides recommendations for Government action for the future, including regional cooperation through and supported by ESCAP.

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Abbreviations and acronyms

BDS	Business development services
CDM	Clean Development Mechanism
CO_2	Carbon dioxide
CSR	Corporate social responsibility
DHI	Druk Holdings and Investments (Bhutan)
EKN	Swedish Export Credit Bank
EP	Equator Principles (for project financing)
EPFI	Equator Principles Financial Institution
ETS	Emissions Trading Scheme
GHG	Greenhouse gases
GC	Global Compact
GNH	Gross National Happiness
ILO	International Labour Organization
INGO	International non-government organization
IPR	Intellectual property rights
ISO 14000	Standards on Environmental Management
ISO26000	Standards on Guidance for Social Responsibility
JBIC	Japan Bank for International Cooperation
MDG	Millennium Development Goals
NGO	Non-government organization
OECD	Organization for Economic Co-operation and Development
PPP	Public-private partnership

PRI	Principles for responsible investment
PSD	Private sector development
SA 8000	Social Accountability Standard
SASAC	State-owned Assets Supervision and Administration Commission (of China)
SCIC	State Capital Investment Corporation (of Viet Nam)
SE	Social enterprise
SME	Small and medium-sized enterprise
SOE	State-owned enterprise
SWF	Sovereign wealth fund
UN	United Nations
UNDP	United Nations Development Programme
UNESCAP	UN Economic and Social Committee for Asia and the Pacific
UNGC	United Nations Global Compact
UNIDO	United Nations Industrial Development Organisation

Executive summary

Corporate social responsibility (CSR) is about companies operating in a manner that is sustainable, cognizant of their responsibility to the wider community in which they are located. CSR is more than simply acts of philanthropy or allocating a proportion of its earnings to worthy causes; it is strategic in nature, and is about how a business actually functions. CSR typically boils down to a set of policies within a company that seek to ensure that its actions and activities are beneficial, not only to itself and its shareholders, but also to other stakeholders, typically comprising: customers, employees, the wider community and the environment.

CSR tends to be a voluntary and self-regulating process within the firm, and should go beyond simply meeting the letter of the law on various issues, such as worker health and safety. Businesses are increasingly being held accountable in conforming to general ethical standards and international norms. The underlying principle is one of sustainability, and ensuring that a company's activities will, at the very least, have little or no long-term, detrimental effect on the society in which it operates. Or if those activities cannot avoid having some kind of adverse impact, then seeking to mitigate or counter that impact in some way. Beyond that, companies should also be seeking to make a positive contribution to the host society, ideally harnessing their core competencies to best effect.

There are four reasons why governments should seek to promote CSR and sustainable and responsible business practices. Firstly, from a social perspective, governments are expected to play a key role in promoting the economic, social and environmental conditions that favour more inclusive and sustainable development. CSR is widely accepted as the business sector's contribution to inclusive and sustainable development. Thus, government can harness the CSR agenda in pursuit of this goal. Secondly, from a market competition perspective, CSR can play an important role in improving the long-term economic competitiveness of a country. And given the ardent desire of most policy-makers to improve the competitiveness of their home countries, in a bid to support domestic companies and attract foreign investment inflows, CSR promotion is seen as an important tool in achieving that aspiration.

Thirdly, from an economic perspective, the recent spate of financial crises has taken a heavy toll on government budgets and fiscal balances around the globe. This in turn is driving policy-makers to identify ways of sharing the burden of social and environmental advancement through collaborative initiatives with the corporate sector. This is not to suggest that a sustainable and responsible business agenda could ever serve as a substitute for public spending, but it can play a supporting role in a number of areas. Finally, from a governance perspective, policy-makers have a responsibility to promote CSR practices by business, as part of their role to improve social, environmental and economic conditions for the populace. Left to its own devices, the business community will not always be good corporate citizens, and that is why laws, regulations and incentives need to be promulgated to ensure that their legitimate pursuit of profits does not come at the expense of society and the environment.

But legislating for CSR is not advisable, as the direct and indirect consequences of doing so can be costly and ineffectual, at best, and even counter-productive at worst. Further, the introduction by government of fiscal or other financial incentives, intended to encourage companies to pursue sustainable business practices, are themselves unsustainable. Any such

incentives come with a cost, which must typically be borne by taxpayers. The kinds of CSR promotion activities that governments pursue tend to fall into one of the following five categories of intervention: i) a vision leader; ii) a leader by example; iii) a facilitator; iv) a catalyst; or v) as a conventional regulator. What specific interventions can be adopted in each of the five categories depends very much on: i) the kind of economic environment in the country, and the resources available to it; ii) the profile and capabilities of the corporate community as a whole; iii) the capacities and resources of the pertinent government agencies; iv) the scale and competencies of pertinent civil society stakeholders (such as NGOs, INGOs, business associations, the foreign investment community, etc.); v) the specific business sectors that are being addressed; and vi) the specific economic, environmental or social issues that the country is currently facing.

Most government policies on sustainable and responsible business pertain to either: i) economic, ii) environmental, iii) social, and/or iv) governance issues. Economic-oriented CSR activities include (but are certainly not limited to) such issues as: security and safety of employment, retirement entitlements, IPRs, equitable treatment in contracting, labour standards, etc. Government regulation can clearly play a major role here, but also the role of government as a 'visionary' and 'leader by example' is important. One of the first places where governments often start in promoting sustainable and responsible business is through their own procurement and 'spending power'. Similarly, pension funds for national and sub-national government agencies and their employees can be an important vehicle for promoting sustainable business practices, as they are often major investors in a wide spectrum of corporations, and so can have a major say in what companies do, and how they do it. But any policy-oriented initiative needs a 'champion' to take ownership of the issue and drive activities forward.

So what else can policy-makers consider when seeking to develop CSR in their respective economies? One option would be to provide technical assistance in the establishment of a sustainable and responsible business 'Council' in various Asia Pacific countries, intended to: i) develop a national strategy for the promotion of sustainable and responsible business, based on informed diagnostic research and stakeholder consultation; ii) coordinate the various efforts of relevant government agencies in the design and implementation of that strategy, likely to take the form of a time-bound action plan; iii) serve as a permanent platform for stakeholder inputs in the pursuit of that strategy, from conceptualization through to enactment; iv) monitor and evaluate progress being made, and provide strategic oversight of what is likely to require a flexible and evolving set of foci; and v) generally serve as a resource in the pursuit of sustainable and responsible business activity in the relevant host economy.

The promotion of CSR within the (oft-neglected) SME sector also merits greater attention. Most SMEs are less well-resourced and less driven to make advances in sustainable and responsible business than MNEs and larger firms, for a host of reasons. They therefore run the risk of being left behind, and this in turn could constrain their future business prospects, as retail customers and corporate clients alike shift away from firms that cannot meet their CSR needs and expectations. This is not just about raising awareness, but also providing the necessary instruments and mechanisms, and at a price that does not render their products or services uncompetitive. Such instruments might include a 'tool kit' and other training materials especially designed for the needs of SMEs. It should be kept in mind that SMEs typically comprise over 95 per cent of business incorporations in virtually all economies.

A government-to-government (G2G) network could also be established to permit CSR laggard countries to learn from more CSR advanced countries in the Asia Pacific region about how they have approached the issue of sustainable business and CSR promotion. Learning what has worked well, and also what has not worked so well, could prove useful, and there may also be some cost and efficiency gains to be derived through mentoring, 'twinning' and other kinds of practical support. It is also important to ensure that an adequate pool of experts in various CSR-related fields exists, to assist the corporate community to make strides forward in sustainable and responsible business, along the lines of business development service (BDS) providers. A network of such providers could be developed and maintained, to mentor companies in introducing and attaining SA 8000, ISO 26000, ISO 14000, the ILO conventions, OECD guidelines, the United Nations Global Compact etc. Wherever possible, this should be provided on a commercially viable (and therefore sustainable) basis, although there might be a need to catalyze the process at the outset with some sort of partial grant mechanism.

At the regional level, some initiatives that come under the broad CSR umbrella can only be pursued on a multi-country level. For example, following on from the progress made in recent years to develop an Asian bond market, an attempt to introduce an Asian market for carbon credits could be considered, perhaps with the New Zealand and/or Japan government(s) playing a leading role. An emissions trading scheme (ETS) for all or part of the Asia Pacific would be a very significant step for the region's policy-makers to take. Back at the national level, stock market regulators should consider introducing additional IPO and listing criteria that oblige companies to report regularly on their ESG (environmental / social / governance) issues (eg. a devoted section in their annual report as a mandatory requirement), and in conjunction with stock market operators and investment banking institutions, assess the utility of introducing PRI-related indices for all listed firms.

There is merit in designing and implementing a financial support instrument intended to help promote sustainable and responsible business activities, albeit in a way that does not negatively distort the commercial market for business finance. One such financial instrument would be a regional (or multiple country) challenge fund(s) focused exclusively on one or more components of the CSR 'space'. There is also merit in investigating the utility and feasibility of a regional 'green bank'. The green bank's role would be to provide debt financing support for companies seeking to make substantive changes to their businesses in order to become more 'clean' and environmentally friendly, possibly in conjunction with the imposition of new regulations by the host country government on GHG emissions. In short, the bank would serve as the main financing arm of governments' attempts to attain low-carbon economic growth. A scheme to assist governments to promote PRI mainstreaming in their own pension and sovereign wealth funds would likely be an impactful initiative, as would the promotion of CSR practices through government holding companies. Given their very considerable equity holding 'footprint' in their respective countries, they have significant leverage to promote improved CSR practices in their investee companies. And for those Asia Pacific countries with active State-owned export credit and other policy-oriented banking operations, a similar approach could be taken to guiding their activities in a way that encourages a sustainable business approach, both with regard to their own operation sand their clients' operations.

But there is one common denominator across all the diverse recommendations provided above. While government(s) can play an important role in most of these interventions, virtually none can be enacted by government(s) alone. Any initiative to promote sustainable and responsible business needs to be sustainable in itself, and that in turn necessitates the active engagement and tangible inputs of other stakeholders, and particularly the business

community that is ‘Asia Inc.’. Without these critical constituents fully on board, the journey will likely be a short and relatively meaningless one.

Section 1: Beyond philanthropy: what exactly is CSR?

> At its broadest, CSR can be defined as the overall contribution of business to sustainable development ... Defining corporate social responsibility in more detail than this remains a vexed issue.
>
> United Nations (2007), p. 1.

While the term 'corporate social responsibility' (CSR) might be relatively new in various parts of Asia and the Pacific, at least some elements of its practice date back a very long way.[1] Philanthropic activity, for example, whether pursued by businesses or individuals, goes back many millennia. And that may explain in large part why a lot of companies and their executives wrongly perceive of CSR as comprising simply that – philanthropic 'giving'. But, while philanthropy can be seen as one (fairly basic) component of CSR, it is certainly not the case that CSR is limited to philanthropy alone. CSR is something far greater than one-off acts of charitable giving by firms as part of a bid to be (or seen to be) a good corporate citizen, and perhaps with some additional marketing or public relations benefits. It can be an effective form of risk management, ensuring compliance with the social and environmental laws and regulations of the host country, and even a means of (shared) value creation for those companies willing to innovate.

CSR is sometimes known by other pseudonyms, such as 'sustainable responsible business'. And just to make things even more complicated, it can have different terms within specific sectors, such as 'socially responsible investing' within the asset management industry. Numerous definitions of CSR also abound, but it essentially boils down to a set of policies within a company that seeks to ensure that its actions and activities are beneficial, not only to itself and its shareholders, but also to other stakeholders, typically comprising: customers, employees, the wider community and the environment. And in doing so, this helps make the business sustainable over time. Along broadly the same lines, the World Bank defines CSR as "the commitment of business to contribute to sustainable development working with employees, their families, local communities, and society at large to improve their quality of life that are both good for business and good for development".[2]

This tends to be a voluntary and self-regulating process within the firm, and should go beyond simply meeting the letter of the law on various environmental, social and governance issues. Businesses are increasingly being held accountable in conforming to the spirit of host country laws, as well as more general ethical standards and international norms. In multinational enterprises in particular, CSR is being 'mainstreamed' into their business models, due in large part to pressure exerted on them by policy-makers, investors, labour unions, NGOs and customers. Growing public concern about the environment and climate change in recent years has only served to heighten this pressure.

So, what kinds of activities by companies come under the 'CSR umbrella'? Much depends on the type of business sector, and the specific kind of activities, that each company pursues. What is pertinent for a commercial bank, for example, will be very different for an oil and gas exploration company, or for a garment manufacturer. But the underlying principle

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[1] For the purposes of this paper, the terms 'CSR' and 'sustainable and responsible business' are used interchangeably.

[2] World Bank (2005), p. 1.

is one of sustainability, and ensuring that a company's activities will, at the very least, have little or no long-term, detrimental effect on the society (or societies) in which it operates. Or if those activities cannot avoid having some kind of adverse impact (for example, environmental damage stemming from mining), then pursuing activities that will help mitigate or counter that impact in some way.

Beyond that, companies should also be seeking to make a positive contribution to the host society, through various measures, ideally harnessing their core competencies to best effect. For a smaller firm, this host community may be its immediate town or city, for a larger firm it may be at the regional or national level, and for a transnational enterprise it is likely to be a global initiative, possibly taking different forms in different countries.

It is in this context that the notion of the 'triple bottom line' evolved, where the traditional, single bottom line (i.e. the after-tax profits of a firm, which typically appears at the bottom of its annual income statement, hence the term) is joined by two other considerations: people and the planet (or society and the environment). The figure below provides a visual presentation of what the 'CSR universe' is largely made up of; a smorgasbord of various activities that businesses should seek to pursue, to varying degrees, based on their business profile and core competencies.

A number of international initiatives have been enacted in a bid to promote the pursuit of CSR by companies.[3] One of these is the United Nations Global Compact (UNGC), formally launched in 2000. The UNGC is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. By doing so, business, as a primary driver of globalization, can help ensure that markets, commerce, technology and finance advance in ways that benefit economies and societies. The UNGC pursues two complementary objectives: i) mainstream ten principles in business activities around the world; and ii) catalyze actions in support of broader UN goals, including the Millennium Development Goals (MDGs). The ten principles comprise: i) businesses should support and respect the protection of internationally proclaimed human rights; and ii) make sure that they are not complicit in human rights abuses; iii) businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; iv) the elimination of all forms of forced and compulsory labour; v) the effective abolition of child labour; and vi) the elimination of discrimination in respect of employment and occupation; vii) businesses should support a precautionary approach to environmental challenges; viii) undertake initiatives to promote greater environmental responsibility; and ix) encourage the development and diffusion of environmentally friendly technologies; x) businesses should work against corruption in all its forms, including extortion and bribery.

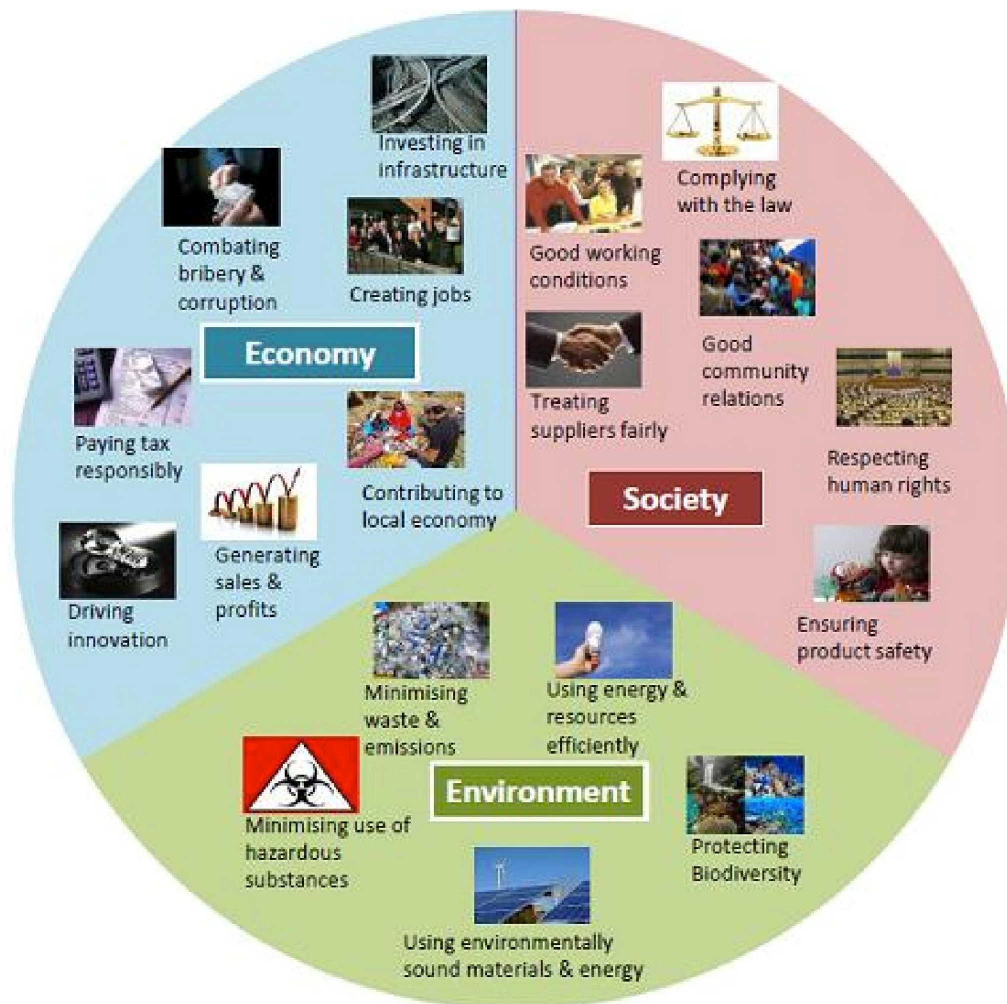
Another initiative is the OECD Guidelines for Multinational Enterprises, which were established in 1976 and revised for the fifth time in May 2011.[4]The Guidelines constitute a set of voluntary recommendations to multinational enterprises in all the major areas of business ethics, including employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation. Adhering governments commit to promote them among multinational enterprises operating in or from their territories. The initiative include the operations of National Contact Points (NCPs), which are government offices charged with promoting the Guidelines and

[3] See: < www.unglobalcompact.org/AboutTheGC/index.html>.

[4] See: < www.oecd.org/document/28/0,3746,en_2649_34889_2397532_1_1_1_1,00.html>.

handling enquiries in the national context. All 34 OECD countries adhere to the guidelines, as well as eight non-OECD countries (i.e. Argentina, Brazil, Egypt, Latvia, Lithuania, Morocco, Peru and Romania).

Figure 1: The CSR universe for sustainable and responsible business



Section 2: Why governments should seek to promote the pursuit of sustainable and responsible business

> In the broadest sense of CSR, the entire body of social and environmental legislation in any country can be seen as an expression of public sector engagement with CSR. Other areas of legislation including competition policy, basic investment and enterprise frameworks, and rights of access to information and public participation in decision-making are also important parts of the 'enabling environment' for CSR.
>
> United Nations DESA (2007), p. 5.

As ESCAP (2010) points out, there are four convincing reasons why host country governments should seek to promote sustainable and responsible business practices. Firstly, "… citizen groups, civil society organizations, as well as international development agencies have all advocated for inclusive and sustainable development; and governments are expected to play a key role in promoting the economic, social and environmental conditions that favour more inclusive and sustainable development. Governments are under pressure with the challenge of facilitating the transition to a more efficient economy, in conjunction with a fairer and more sustainable society. CSR is widely accepted … as the business sector's contribution to inclusive and sustainable development. Thus, government can utilize a CSR agenda in pursuit of this goal."[5] A social driver.

Secondly, CSR is believed to play an important role in improving the long-term economic competitiveness of a country. There does appear to be a positive correlation between sustainable investment practices and competitive performance.[6] And given the ardent desire of most policy-makers to improve the competitiveness of their home countries, in a bid to support domestic companies and attract foreign investment inflows, CSR promotion is seen as an important tool in achieving that aspiration. A market driver.

Thirdly, the recent spate of financial crises has taken a heavy toll on government budgets and fiscal balances around the globe. Most governments are seeking to find ways of reducing their expenditure commitments in any way they can, in a bid to keep burgeoning budget deficits down. This in turn is driving policy-makers to identify ways of spreading the burden of social and environmental advancement through collaborative initiatives. CSR could be seen as a vehicle by which to get the corporate sector more involved – an issue discussed further, below. An economic driver.

Finally, a growing sense that policy-makers have a responsibility to promote CSR practices by business, as part of their role to improve social, environmental and economic conditions for the populace. Left to its own devices, the business community will not always be a good corporate citizen, and that is why laws, regulations and incentives need to be promulgated to ensure that their legitimate pursuit of profits does not come at the expense of society and the environment. A governance driver.

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[5] ESCAP (2010), p. 97.

[6] UNIDO (2007), p. 7.

The demands placed on most governments are considerable, and it is rarely the case that adequate resources exist to respond to all such demands. Priorities have to be made and a pragmatic approach has to be adopted by policy-makers and government officials. In this context, it might initially seem that the pursuit of sustainable and responsible business promotion is not a high priority for a government, and especially a less developed or developing economy with limited resources. But achieving successes in sustainable and responsible business can actually derive socio-economic gains for a government, and help relieve some pressure on limited public funds. It is not an esoteric luxury that only developed and industrialized countries should pursue. Rather, CSR can be used as a vehicle to further public policy goals. Put another way, "CSR offers real opportunities for the governments of middle and low- income countries to change the terms on which they interact with business. Engagement with CSR can help to develop capacity within public policy and regulatory institutions, to free up existing resources, and to leverage additional resources through partnership."[7]

This is not to suggest that a sustainable and responsible business agenda could ever serve as a substitute for public spending, but it can definitely play a supporting role in a number of areas where public spending is often allocated.[8] As the European Commission (2006: 4) points out, CSR can help a country in attaining one or more of the following desirable 'social policy' objectives:

- more integrated labour markets and higher levels of social inclusion, as enterprises actively seek to recruit more people from disadvantaged groups;
- investment in skills development, life-long learning and employability, which are needed to remain competitive in the global knowledge economy and to cope with the ageing of the working population;
- improvements in public health, as a result of voluntary initiatives by enterprises in areas such as the marketing and labeling of food and non-toxic chemicals;
- better innovation performance, especially with regard to innovations that address societal problems, as a result of more intensive interaction with external stakeholders and the creation of working environments more conducive to innovation;
- a more rational use of natural resources and reduced levels of pollution, notably thanks to investments in eco-innovation and to the voluntary adoption of environmental management systems and labeling;
- a more positive image of business and entrepreneurs in society, potentially helping to cultivate more favourable attitudes towards entrepreneurship;
- greater respect for human rights, environmental protection and core labour standards, especially in developing countries;
- poverty reduction and progress towards the Millennium Development Goals.

Alternatively, the pursuit of CSR and sustainable business entails the corporate sector embracing many of the social, economic and environmental needs and expectations of a country, and actively seeking to 'mainstream' these within their own activities and business goals. Given the scale and importance of the business sector in virtually every economy, the

[7] UN DESA (2007), p. 7.

[8] As the World Bank (2005: 1) correctly cautions: "Corporate social responsibility business practices complement rather than substitute for state actions that promote social and environmental development. While corporate social responsibility practices contribute to the realization of social, economic, and environmental goals, promoting them should not be a pretext for shifting public responsibilities to companies."

consequences can be significant, and can allow for the reallocation of scarce public funds to areas where the State alone has to be the primary actor. But CSR should never be seen as the 'privatization' of public policy. And it certainly should not be regarded as a way to transfer some of the core responsibilities of the government to the private sector. Rather, there is a mutual shared interest by government and the corporate community to pursue a series of goals – as depicted in Figure 1 – that can be most efficiently addressed as a public-private collaborative effort.

The pursuit of sustainable and responsible business by government is also an implicit recognition of how large and influential companies have become, and especially in 'big business'. The market capitalizations of some transnational enterprises exceed the GDP (but rarely the capital stock) of some smaller Asia Pacific countries. At the time of writing, the annual revenues of Apple, for example, exceeded US$65 billion – which is roughly ten times the GDP of the Lao PDR. The revenues of some transnational firms exceed the revenues and/or expenditures of developing countries, while their employee numbers can exceed those of whole ministries. The aggregate and/or specialist skills and expertise housed within large firms can be greater than those of whole State agencies, particularly in developing and less developed countries. Not to try and harness and leverage this very considerable set of resources, where public-private interests are aligned in the same direction on various social and environmental issues, is a waste.

And for countries that have made significant in-roads in addressing poverty alleviation in recent decades, such as Viet Nam, it is clear that elements of the policy agenda are mutating a great deal, away from inclusive (pro-poor) economic growth and more towards sustainable economic growth. Changes in the projects and programmes of various multilateral and bilateral development partners also reflect this shift, particularly as concerns over climate change – and its likely impact on livelihoods – increase. Past gains made in addressing poverty could be offset by the impact of climate change in some countries and regions, for example. But tackling climate change has to include the very active participation of the corporate community, one way or another, as it is not something that individual sovereign governments can do alone using conventional policy-making tools, even in economies where the state enterprise sector remains a major force.

Section 3: First principals and factors governments should be mindful of when embarking on CSR promotion initiatives

> Corporate social responsibility has emerged largely from the initiatives of larger, often multinational companies and the case-by-case responses of governments; few coherent national corporate social responsibility policies can serve as models for further development.
>
> World Bank (2005), p. 26.

As with any policy intervention, it is important that government does not seek to expend limited public funds on actions that can be undertaken by existing players in the market. At best, that is duplication, and a misallocation of limited funds. Rather, it should identify where there is market failure or weakness, and seek to catalyze activities in that space, in ways that can become sustainable in the long-term, thereby allowing the government to exit, and move on to other tasks. This is no less true in promoting sustainable and responsible business, which must inevitably be a task that is embraced and practiced by relevant members of the corporate community. Therefore, legislating for CSR, through separate laws on CSR is generally not advisable, as the direct and indirect consequences of doing so can be costly and ineffectual, at best, and even counter-productive at worst.

Clearly, various legislative and regulatory promulgations can establish a clear framework within which businesses must operate, and whereby companies know precisely what their social, economic and environmental responsibilities are. But the underlying concept of sustainable business and CSR in general, implies that businesses recognize the merits of going beyond the minimum legal and regulatory compliance, and pro-actively pursue activities that will generate additional benefits to the societies and environments in which they operate. Going the extra mile, as it were. A country cannot bring about sustainable and responsible business by regulations and laws alone; CSR cannot and should not be solely legislated for.[9]

Further, the introduction by government of fiscal or other financial incentives, intended to encourage companies to pursue sustainable business practices are themselves usually distortionary, open to manipulation, short-lived, and therefore ultimately unsustainable. Any such incentives come with a cost, which must typically be borne by taxpayers, and at the time of writing, the burden being placed on taxpayers – not to mention government expenditure budgets – is already considerable. But more importantly perhaps, the notion of incentives, paid for by the government and underwritten by taxpayers, in a bid to encourage companies to allocate greater resources to various social or environmental concerns, is ultimately a false economy. Operational difficulties will immediately arise, as some kind of eligibility criteria will need to be defined, and firms will seek to maximize their incentive allowances in the way they respond to those criteria. Once the incentives are halted or phased out, companies are likely to halt their CSR or sustainable business activities in tandem. And the government revenues foregone – the real cost incurred – in providing incentives to businesses may have been better allocated to other forms of social spending by government agencies, including

[9] Indonesia did seek to introduce a CSR law; the first country to try and do so. The initial intention had been for the law to apply to all limited liability companies in the country, but this was subsequently scaled back markedly to just cover businesses in the natural resources sector.

(but not limited to) precisely some of the activities that businesses were being encouraged to undertake.

Rather, outside of legislation and regulation (both issuing and enforcing), government should be looking to do one thing only, and that is to catalyze and promote sustainable business practices in areas – large or small – where the business community is failing to respond, and in a manner that will allow for those practices to become permanent over time, even after it has withdrawn. That in turn necessitates conducting a diagnostic exercise to identify where there is 'market failure', so as to identify and prioritize what areas of sustainable business are in greatest need of intervention (outputs), and are likely to derive the greatest impact (outcomes).

Once that has been achieved, government needs to become quite entrepreneurially savvy in finding ways of designing and implementing initiatives that will be embraced by the corporate community, and thereby have the greatest chance of becoming sustainable in the long-term. It entails 'pushing the right buttons' when it comes to galvanizing the interests of businesses that, let's not forget, are run by executives that have an over-riding fiduciary responsibility to protect the interests of, and maximize returns on behalf of their shareholders. The right kinds of incentives need to be in place, as well as some limited prohibitions, such as conventional laws and regulations that ensure firms abide by basic environmental and social standards, intended to protect the planet and consumers.

In this context, it is also important to be cognizant of the increasingly flighty nature of capital in particular, and business in general. If a host location – national or sub-national – is regarded by the corporate community as unduly burdensome in its demands of resident businesses, then it runs a very real risk of seeing companies depart for more benign enabling environments. This is clearly a concern in the design and enforcement of laws and regulations pertaining to business practices. Zealously legislating for sustainable and responsible business practices, however laudable in theory, is rarely going to be a good idea in practice. And without the presence of businesses, the promotion of sustainable and responsible business practices is clearly not attainable. As the United Nations DESA (2007: 8) has rightly pointed out, governments "… should avoid the tendency to over-engineer policy responses. More generally, there is a need to ensure that CSR-related interventions are seen as contributing to an enabling and predictable environment for private sector activity. If they are ill-conceived or represent an extra burden for business that is not justified by the business benefits, they are unlikely to succeed."

Policy makers also need to be cognizant that, for now at least, the trend within the global business community – including Asia – is towards greater sustainable and responsible business practices, and not less. The issue is enjoying strong tailwinds, not headwinds, and so in the promotion of CSR, governments need not feel they are going against market forces. Pressure from civil society, shareholders, consumers and employees are all obliging and encouraging company executives to embrace CSR as part of their long-term business strategy. As Bell (2002: 4) points out, it is "… becoming imperative for companies to build reputations and track records as socially and environmentally responsible corporate citizens if they are to ensure access to new resources, raw materials, skilled employees and markets in which to sell their products." In all sorts of ways, institutional investors (such as large pension funds) and retail consumers alike are 'voting with their feet' on CSR issues, and shunning companies – or the products and services of those companies – that fail to meet their expectations when it comes to sustainable and responsible business.

This is another argument in favour of a 'light touch' approach to the promotion of sustainable and responsible business by governments. Interventions that deliberately seek to distort 'the market', so as to address a market failure or weakness, should only be employed when the market is indeed clearly failing in some regard. (Don't fix what isn't broken.) In numerous ways, the market is arguably not failing in the promotion of CSR, as more and more companies embrace the concept and mainstream it into their business strategies; even if some governments, regulators, civil society and other stakeholders wish that progress could be more rapid, widespread or profound. Therefore, governments may often be simply seeking to accelerate the promotion of CSR, or mainstreaming the concept further within more companies. The global trend is flowing in the right direction, towards greater emphasis on sustainable and responsible business.

Whatever specific CSR promotion activities are ultimately pursued by government, it is essential, given the nature of sustainable and responsible business and its key actors, that they are pursued – as much as possible – as a public-private initiative. A 'top-down' (push-driven) approach by policy-makers is unlikely to gain traction with the key stakeholders within the business community and civil society, unless there is a strong degree of ownership displayed by all participants. There needs to be sufficient appetite from all the key stakeholders, if a CSR promotion activity is to really have impact and ultimately prove sustainable. Those critical success criteria will, in turn, influence which specific activities should be pursued within the broad 'space' where market weakness or failure has been identified to exist. For example, some points of entry may be easier than others, and therefore may result in some 'early wins', thereby building confidence and triggering a demonstration effect that inspires others to get involved. Where there is 'low hanging fruit', it is clearly best to harvest this first, before tackling potentially more lofty and elusive goals, so as to develop some policy momentum. For developing and less developed economies, for example, collaborating with foreign-invested companies and transnational enterprises – that tend to be more familiar with the merits of CSR – might be a good point of entry, even if the long-term goal is to promote sustainable and responsible business within the domestic corporate sector.

One final consideration for government is the perils of focusing unduly on promoting specific CSR activities – such as in the field of 'green business' – at the expense of pushing a more over-arching and holistic approach to sustainable and responsible business. A difficult balance needs to be achieved, between i) spreading the policy too wide across too much of the business community, resulting in a dilution of impact that has little tangible outcome, versus ii) focusing the policy too tightly that only a small proportion of business 'buys into' the concept of sustainable and responsible business, and the rest of the business community displays little or no volition to participate. For CSR to burgeon and have a long-term impact, it not only has to be mainstreamed within individual companies, but also across the wider corporate community itself.

Section 4: CSR promotion activities that have been pursued by governments and related agencies thus far

> "Business sees a special role for a government in shaping supportive polices in areas such as sustainable development, social policies, environmental policies, public procurement, and fiscal, trade, and export policies."
>
> World Bank (2005), p. 25.
>
> "The societal benefits of corporate responsibility practices will remain limited unless they can be incorporated into broader strategies, and public policies certainly have a role to play in this respect."
>
> Pascal Lamy, Director General, World Trade Organization.[10]

As other analyses have noted before now, the kinds of CSR promotion activities that governments pursue tend to fall into one of the following five categories of intervention: i) as a vision leader; ii) as a leader by example and CSR 'endorser'; iii) as a facilitator; iv) as a catalyst or partner; or v) as a conventional regulator (also sometimes referred to as 'mandating'). Figures 2 and 3, below, provide broadly similar representations of these categories, with some indicative examples. In terms of a vision leader, Bhutan's 'Gross National Happiness' Commission is perhaps one of the most ambitious examples at present, with its attempt to mainstream sustainable development issues throughout all policy-making, including those policies and regulations pertaining to business activity. In terms of a leader and endorser, numerous governments run national award programmes intended to raise awareness of CSR and publicly commend those companies that have made the biggest strides in this field. As a facilitator, there is much that government agencies can do to promote CSR through various capacity building initiatives, stimulating market demand, and linking CSR practices to its own procurement policies, and other fields where government agencies – such as export credit bodies – interact closely with business. As a catalyst or partner, governments often have resources that can be directed towards CSR-related projects, including public-private partnership (PPP) projects of various kinds. Finally, as a conventional regulator, Malaysia introduced in 2008 a law that effectively obliges all publicly traded companies to report annually on their CSR activities. Some of these are profiled in more detail in chapter 5.

What specific interventions can be adopted in each of the five categories depends very much on: i) the kind of economic environment in the country, and the resources available to it; ii) the profile and capabilities of the business community as a whole; iii) the capacities and resources of the pertinent government agencies; iv) the scale and competencies of pertinent civil society stakeholders (such as NGOs, INGOs, business associations, the foreign investment community, etc.); v) the specific business sectors that are being addressed; and vi) the specific economic, environmental or social issues that the country is currently facing.

In the case of the latter specific business sectors, the activities most relevant for the mining or energy sectors, for example, will often be different from those most relevant for banking or garment manufacturing. This makes for quite an elaborate lattice (arguably more intricate than a matrix) of potential intervention points for any policy-maker to consider. But beyond this lattice, there is a simpler demarcation of CSR activities that can be identified. Most government policies on sustainable and responsible business pertain to either: i)

[10] Quoted in ESCAP (2010), p. 99.

economic, ii) environmental, iii) social, and/or iv) governance issues. This is not wholly divergent from the seven core principles of social responsibility identified by ISO 26000, namely: organizational governance, human rights, labour practices, the environment, fair operating practices, consumer issues, and community involvement and development.

Economic-oriented CSR activities include (but are certainly not limited to) such issues as: security and safety of employment, retirement entitlements, IPRs, equitable treatment in contracting, labour standards, etc. Government regulation can clearly play a major role here, but also the role of government as a 'visionary' and 'leader by example' is important. Environment-oriented CSR activities might include a range of monitoring, inspection and protection activities relating to biodiversity, climate change, public health and safety, and so on. Here too, the role of government as regulator is most pronounced, but its other potential roles as catalyst, facilitator and 'leader by example' should not be readily discounted.

Society-oriented CSR activities will span issues relating to the harmonization of public needs with the needs of business, the impact that investments have on the wider community, philanthropic acts and social investment. While a significant degree of regulation, monitoring and protection is entailed here, government is also likely to be serving as a visionary, facilitator, and catalyst. Governance-oriented CSR activities typically focus on the rights of investors, and particularly minority shareholders, codes of conduct, the prevention of bribery and other forms of corruption, financial reporting and transparency in the conduct of business. Again, regulation is necessary here, but being a 'leader by example' is a key role for government; the demonstration effect is important if profit-oriented companies are being asked to embrace a wider social and environmental mindset in their own business strategies.[11]

Figure 2: Menu of government interventions in support of CSR

Public Sector Roles			
Mandating	'Command and control' legislation	Regulators and inspectorates	Legal and fiscal penalties and rewards
Facilitating	'Enabling' legislation	Creating incentives	Capacity building
	Funding support	Raising awareness	Stimulating markets
Partnering	Combining resources	Stakeholder engagement	Dialogue
Endorsing	Political support		Publicity and praise

Source:Petkoski and Twose (2003), p. 5.

Figure 3: United Nations Global Compact and Bertelsmann Stiftung's depiction of the range of corporate responsibility interventions that governments can consider.

[11] For the specific purposes of this paper, the author has deliberately not focused on corporate governance as much as other components of CSR. This is largely because corporate governance can be regarded as a separate element in itself, and there is already considerable activity underway in this space.

Types and Instruments	
Awareness -raising	Award schemes, information platforms, campaigns, training and capacity building measures, disclosure of payments to public institutions, naming poor performers, labeling, toolkits.
Partnering	Multi-stakeholder involvement, public-private partnerships, collective action efforts, roundtables.
Soft Law	Corporate governance codes, codes of conduct, implementation of international principles, guidelines for CR reporting, tax exemptions for philanthropic activities, linking CR aspects to public procurement procedures and export credit boards.
Mandating	Company laws, regulations for pension funds, stock exchange regulations, laws on CR reporting, penalties for non-compliance.

Source: United Nations Global Compact and Bertelsmann Stiftung (2010)

Given the above, it is not surprising that regulation (including 'soft laws') is the most conventional form of interjection by a government in seeking to change business sector activities, and it is arguably the activity that is closest to governments' core competencies. If adequately enforced, regulation can at least serve to try and instill some minimum benchmarks on acceptable corporate behavior, as it pertains to impacts on society (including customers), the wider economy and the environment. Much of this regulation may already be in place, in areas such as minimum ages for employment, minimum wages and social benefits, emissions caps, prohibitions on untreated waste, labour conditions in the workplace, the publication of sustainability reports, and so on. The laws may even govern the practices of locally-incorporated companies conducting business overseas, such as the US Foreign Corrupt Practices Act of 1977; a federal law that is primarily focused on outlawing the payment by US companies of bribes to government officials of other countries).[12]

But this is less about promotion of more sustainable and responsible business practices per se, and more about the prohibition of unacceptable business practices. After all, laws and regulations should not tell a country's citizens and companies what they *should* do, but rather only spell out what is *not permissible*; everything else is legally acceptable. And it is in the latter space that most CSR initiatives should be pursued. As the capabilities of the host economy trend up, and the capacities of relevant agencies (both governmental and non-governmental) also strengthen, then a more nuanced approach can be attempted; one that seeks to create and leverage public-private partnerships, with the government more in the role of facilitator and catalyst. The government adopts a role that is more akin to providing the right enabling environment and resources for businesses to advance their CSR activities well beyond the minimum standards demanded by law and the regulatory framework.

A more contentious intervention by governments to promote sustainable and responsible business practices is in the field of fiscal measures. Viet Nam, for example, is to introduce an

[12]The OECD also has its own 'Convention on Combating Bribery of Foreign Public Officials in International Business Transactions'.

'environment protection tax' (EPT) in January 2012, to be imposed on select products that are classified as being hazardous to the environment, including herbicides, pesticides, disinfectants, oil and petrol, coal, etc.[13] And in Australia, the government recently approved plans for a carbon tax.[14] In mid-2010, India introduced a nationwide carbon tax of 50 rupees per metric tonne for all coal, whether produced or imported into India. And in March 2010, metropolitan authority of Tokyo launched a mandatory scheme to reduce CO_2 emissions from large office buildings and factories in the city, using a cap-and-trade system.[15] Such instruments can be used by governments as steering mechanisms intended to try and change business behavior, but outside of Scandinavia (and Switzerland), such taxes have often proved hard to implement and/or gain public support.

One of the first places where – and most direct ways that – governments often start in promoting sustainable and responsible business is through their own procurement and 'spending power' as a major customer of business in their own right. (In many countries, the government is the single largest economic actor.) For companies to be deemed eligible product suppliers and/or service providers to government, they are expected to meet a range of criteria, some of which can pertain to inclusive, responsible and sustainable business. It is through this procurement function of government that CSR can be advocated and promoted. This is likely to be a particularly effective for some government agencies, such as ministries overseeing the environment, transport, energy generation and distribution, various utilities, mining, forestry, industrial activity, etc.

It is also important for governments to be seen 'walking the talk' on CSR and sustainable business before they can legitimately advocate for – let alone legislate for, and then rigorously enforce – such practices by the business community. This is particularly true in countries where the government remains a major shareholder in state-owned or state-managed enterprises. In the same vein, if (often large and well-resourced) state enterprises are unwilling to pursue sustainable and responsible business practices, then it hardly provides much of a demonstration effect for (often small and under-resourced) private companies. There have to be some 'champions of change' that can inspire others to follow, and provide tangible examples of why the pursuit of CSR is not only commercially viable, but actually a good long-term strategy to adopt. Even token efforts, such as ensuring that, wherever possible, only Fair Trade certified or organic foods are sold in the staff canteens of ministries, can be an evocative example of intent by the government to support inclusive and sustainable business. On a more substantive basis, pension funds for national and sub-national government agencies and their employees can be an important vehicle for promoting sustainable business practices,

[13] See *Vietnam News*, 18 August 2011, pp. 1 and 6. It is estimated that the EPT will generate revenues for the government of around US$2.7bn (about 3.5% of total revenues), which could be allocated to help fund various environmental projects. But the scheme is likely to shave 0.8% off GDP growth and feed inflation by 0.4-0.7% per annum, according to one analysis.

[14] Under the scheme, five hundred of Australia's biggest polluters will have to start paying a tax of A$23 a tonne on their own carbon emissions. And then in 2015, a market-based emissions trading scheme will replace the fixed tax.

[15] Business affected by the system must either make emission reductions of their own (according to an incremental scale of targets being gradually introduced) or purchase emission credits from other entities. The penalty for those firms failing to meet their goal will be an instruction from the city authorities to cut their GHG emissions by 1.3 times the amount they failed to reduce, and violators will be 'named and shamed', as well as facing fines. The aim is that by 2020, GHG emissions in the city will be 25% below those of 2000, and that it could serve as a model for the rest of Japan.

as they are often major investors in a wide spectrum of corporations, and so can have a major say in what companies do, and how they do it.[16]

The role of utilities companies, which are often wholly or partially state-owned, and other strategic business providers (e.g. national flag carriers or oil and gas refiners), are important. And the presence on the Board of government representatives can be conducive in this regard. But conversely, if a state-related company is able to openly flout laws and regulations pertaining to sustainable and responsible business, or somehow dodge their enforcement, as a function of its proximity to government, then 'champions of intransigence' (not change) will only inspire other firms to demonstrate the same disregard for the triple bottom line. And policy makers will have no moral platform on which to promote and advocate for improved CSR practices. A government should get its own house in order before it can take the moral high ground on CSR with its resident corporate community.

Public 'warranting' of various CSR practices and the pursuit of sustainable and responsible business can also be a useful form of stimulus activity by governments. Here, the government seeks to throw its own reputational weight and social standing behind specific activities in a bid to catalyze greater acceptance and activity in the realm of sustainable and responsible business. As ESCAP explains, warranting "can take various forms, including commitment to implement international principles; education or awareness raising programmes; official policy documents; publicity of good CSR practice conducted by leading companies; specific CSR- related award schemes (such as a National Green Business Award); or, endorse specific pro-CSR indicators, guidelines, systems and standards."[17] In countries where the reputation, importance and general 'reach' of the government is strong, this can have a positive impact, but is less likely to have an impact on economies where the government's 'footprint' is small, or where the corporate sector has a somewhat jaundiced view of the public sector.

A very important role is typically played by stock markets, and stock market regulators, in promoting the pursuit of sustainable and responsible business practices in a country, particularly for larger companies with a public shareholder base, and especially with regard to corporate governance issues. In an increasing number of countries, stock markets are becoming privately-held companies themselves, and can no longer be seen as wings of the government. However, stock market regulators remain government entities, as do the actual stock exchanges of some countries in Asia and the Pacific.[18]Like another important source of financing for the corporate sector – i.e. the banking sector – stock markets play a useful role in directing the actions of whole corporate communities. If banks and capital markets are successful in introducing CSR considerations into their own lending, investing and other products and services, this provides a very substantial degree of leverage across the whole business community.

There are a number of ways in which stock markets and their regulators can promote listed firms to pursue CSR practices; both direct and indirect. Firstly, they can include

[16] One of the leading institutions in this regard has been the California Public Employers Retirement Scheme, or CalPERS (www.calpers.ca.gov).

[17]ESCAP (2010), p. 101.

[18]Either as a government agency itself, or as a corporate entity that is wholly or partially owned by the State. Examples include the two stock exchanges in Viet Nam, the new stock exchange in the Lao People's Democratic Republic, and Mongolia's stock exchange.

various stipulations into the listing criteria that then oblige public companies to do various things, such as publish an annual sustainability report, or at least address social, and governance issues in their conventional annual report. Secondly, with specific regard to corporate governance, the fiduciary responsibilities placed on publicly traded companies to ensure financial transparency and minority shareholder rights, for example, are typically much higher than for unlisted and privately held companies. Companies seeking a listing in Singapore have been rejected in the past by the regulator in cases where, for example, they were unable to adequately show how they guarded against money laundering by staff and/or customers.

Secondly, in terms of indirect impacts, some of the other actors involved in the issuance and secondary market trading of company shares also help promote sustainable and responsible business practices by listed companies. An increasing number of asset managers/fund owners, for example, are moving towards PRI, ESG and other investment policies and strategies that set quite strict limitations on buying shares of companies that fail to meet a fixed set of sustainability criteria. This is no longer the preserve of specialist boutique investment managers, but an increasingly common trait in some of the largest institutional investment organizations, including large pension fund sand the like.[19] The aggregate scale of that pool of investment money can serve as a very persuasive incentive to companies seeking equity financing. Another indirect impact from stock markets emanates from various service providers, and in particular the rise of various sustainability indices intended to help asset managers allocate their investments wisely. For example, FTSE alone has seven indices designed for so-called 'impact investors'.[20] Similarly, Dow Jones has seven sustainability indices, largely based on geographic regions, including one for the Asia Pacific, while MSCI has over 40 ESG-related indices, including a number pertaining to Asia.[21]And there are numerous other indices providers offering similar products, including some of the first country-specific indices in developing Asia. In Indonesia, for example, the Sri-Kehati index was launched in mid-2009, and provides ESG-related information on all companies listed on the IDX in Jakarta to interested portfolio investors.[22]Inclusion in such indices will be welcomed by many companies, as that can have a positive impact on investor demand for their shares, particularly by index tracking funds, and fund managers that benchmark their performance on one or more of these indices. Tellingly, one of Asia's leading independent investment banks, CLSA, publishes an annual 'Corporate Governance Watch' report for its clients. In the latest (2010) report, firms across the Asia Pacific region were reviewed in terms of "discipline, transparency, independence, accountability, responsibility and fairness. In addition, environmental practice was surveyed to provide the CLSA Clean & Green ('C&G') score and for the first time, Corporate Social Responsibility ('CSR') activities were

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[19] For example, the Canada Pension Plan Investment Board (CPPIB) is "committed to promoting sound corporate governance and responsible investing practices, including using its ownership in companies to encourage improved performance on, and disclosure of, environmental, social and governance (ESG) factors. The CPPIB [also] developed a *Policy on Responsible Investing*, contributed to the development of the UN Principles for Responsible Investing and the Extractive Industries Transparency Initiative, and became a signatory to these."

[20] They comprise: FTSE4Good Index Series, FTSE4Good ESG Ratings, FTSE4Good Environmental Leaders Europe 40 Index, FTSE4Good IBEX Index, FTSE CDP Carbon Strategy Index Series, FTSE ECPI Italia SRI Index Series, and FTSE Environmental Markets Index Series.

[21] See: <www.msci.com/products/indices/thematic/esg/>.

[22] For further details, see: < www.sri-kehati.com>.

also assessed." According to CLSA, "Asia now accounts for more than 20% of global CSR reports versus just 12% five years ago."[23]

But for virtually any of the above interventions by government and policy-makers to have genuine traction, with regard to promoting sustainable and responsible business, there needs to be at least some degree of understanding and awareness of CSR and its benefits. If not, then actions taken by the business community – sometimes just to be legally compliant – will be token in nature (a 'box-ticking' exercise), with companies paying lip service to an issue that they really do not understand, let alone embrace or wish to mainstream within their operations. Knowledge must come before 'buy in'. Once awareness has been raised, then a process of sensitization can commence, the key element of which is for businesses of all kinds to understand that the pursuit of CSR is not only a commendable thing to do, from a 'corporate citizen' point of view, but that it also derives tangible benefits in the medium and long-term. With specific regard to corporate governance, for example, studies have shown that listed companies that adopt good practices tend to enjoy better rates of return and/or a premium on their share prices as a direct result.[24] This is principally because institutional investors recognize – and in a sense 'reward' – those companies for having a lower degree of business risk. While this author is not aware of any empirical studies that show the pursuit of CSR in general can have a similar effect on company share prices, the fact that the business is more sustainable in the long-term should merit some degree of higher interest by long-term investors.

Any policy-oriented initiative, and especially one being driven in large part by government, needs a 'champion' to take ownership of the issue and drive activities forward. Without that 'champion' for change, it is likely that momentum will be dissipated, or lost completely. In the case of CSR and promoting sustainable and responsible business practices, there are various champions of change in the corporate sector and NGO community, typically differing from country to country. But in the case of government, there often tends not to be a single, clear 'thought leader' and policy driver, if only because the issues involved tend to span multiple agency mandates and areas of authority. Instead, one tends to get multiple initiatives being pursued by different government agencies, in a rather piece-meal and uncoordinated fashion. A finance ministry and securities regulator may focus on corporate governance issues; an environment ministry may focus on pollution issues; a labour ministry may focus on worker safety issues, and so on. Add to that, various sector-oriented ministries and agencies may pursue CSR-like agendas that are specific to business operating in their area of responsibility, such as mining or manufacturing. It is therefore important to identify a key government agency, or create a new body (such as a Council), that can serve as an effective coordinator and champion that is "…responsible for leading policy development, supervising its implementation, and accounting for its results. It [should] define the policy's objectives and accountability, create an initial network of stakeholders, and provide a "cultural" perspective to the effort."[25]Regional examples include the Sustainable Development Council

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[23] See: < https://www.clsa.com/about-clsa/media-centre/2010-Media-releases/corporate-governance-watch-2010.php>.

[24] For example, see: <http://www.corporatesecretary.com/articles/international/11357/clsa-claims-returns-linked-governance/>, McKinsey (2002) and Australian Treasury (2009).

[25] World Bank (2005), p. 30.

in Hong Kong and the Inter-Ministerial Committee for Sustainable Development in Singapore.[26]

But it is specious to expect one or more government agencies to develop initiatives that promote sustainable and responsible business in splendid isolation, and then expect the corporate community to then adopt them wholesale. Business – whether sustainable and responsible, or not – is a core competence of businesses, and not government agencies. In some respects, therefore, governments should really only seek to serve as catalysts and facilitators, possibly sharing – for a limited period only – some of the risk and financial burden entailed in pursuing new and innovative sustainable and responsible projects, which if proven successful (i.e. socially impactful and commercially viable) can be mainstreamed into conventional business practices. In the United Kingdom (UK), for example, in the field of 'green business', government support for highly innovative and industry-specific initiatives has allowed: i) brewers to experiment with recycling their waste into the national gas grid, using an anaerobic digestion plant; ii) insurers to offer specialist coverage that is tailored to meet the particular needs of low-carbon infrastructure projects; and iii) engine manufacturers to develop low-carbon engines. Such innovations can only originate from companies that are not only familiar with the 'ins and outs' of their respective industry (including the needs of customers), but retain the kinds of experts that can conceive, design, pilot and implement them.

There is a role for government in providing the kind of benign enabling environment that helps underwrite some of the risks and costs of pursuing innovative ventures that may or may not prove successful. One (impermanent) instrument is the 'challenge fund' mechanism, which takes a venture capital / private equity approach towards the grant funding of particular projects. A more ardent (and permanent) example is the UK's plan for a 'Green Investment Bank', intended to "accelerate private sector investment in the UK's transition to a green economy. Its initial remit will be to focus on green infrastructure assets. It will work to a 'double bottom line' of both achieving significant green impact and making financial returns. It will also operate independently and at arm's length from Government…".[27] But these need not be confined to 'green issues', and could equally pertain to other social activities. Again in the UK, there are plans for such a financing institution, called 'Big Society Capital', to be launched in 2012. Capitalized at GBP600m, it aims to catalyze five times that amount from private funding, for social investing projects of various kinds.[28]

In addition to specifically promoting CSR and sustainable and responsible business by corporates, governments and others have also recently been looking to develop parallel interventions in areas such as impact investing.[29] In some regards at least, this entails

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[26] See: < www.susdev.gov.hk/html/en/council > and
< http://app.mewr.gov.sg/web/Contents/ContentsSSS.aspx?ContId=1034 >

[27] See <www.bis.gov.uk/assets/biscore/business-sectors/docs/u/11-917-update-design-green-investment-bank.pdf>.

[28] GBP400 of its capital will come from unclaimed money in bank accounts, and the balance from four of the country's largest commercial banks. See *Financial Times*, 9th September 2011. Also see: <www.bigsocietycapital.com>.

[29] Also sometimes referred to as 'social venture capital' or 'venture philanthropy'. A hybrid between philanthropic giving and venture capital investment, and somewhat close to 'angel investing'. These tend to be pursued by so-called 'high engagement' philanthropists / high net worth individuals, focused more on outcomes

'flipping' the CSR concept on its head, by seeking to stimulate entrepreneurship and small business development, in developing countries in particular, through strategic 'giving'. As Credit Suisse (2010: 3) points out, impact investors "… are increasingly recognizing the importance of adopting a more business-like approach to philanthropy to maximize social and environmental returns of their philanthropic investments. … Enterprises and social organizations based around business principles have the potential to produce more significant and long lasting returns on investment than those that are not." Indeed, venture philanthropy "… investments have a proven track record of nurturing profitable businesses, with measurable effects on poverty reduction and other social and environmental challenges".[30] At its most basic, the promotion of venture philanthropy and social enterprise is not too dissimilar to conventional private sector development (PSD) initiatives.

Various financing models can be adopted by venture philanthropy, including grant funding (which has to be used with care if it is to support sustainable initiatives), debt financing of various forms, and equity financing. The latter two often anticipate lower rates of return than strictly commercial providers of debt (i.e. banks) and equity (e.g. private equity investors) would expect. There are also various hybrids of the above, such as royalty based finance, which is a form of mezzanine financing, with both debt and equity components. For a government seeking to promote such impact investment initiatives, there can be a number of policy options, including simply ensuring that the existing business and finance laws and regulations explicitly permit such activities to be conducted. Beyond that, encouragement can be provided through various (temporary) fiscal measures that provide incentives to pursue such activities directly, or to provide seed-funding support for such activities. But such initiatives should come with a health warning, and need to be considered with great care, as, like any subsidy, they contain hidden costs (such as tax revenues foregone), and even impermanent measures can sometimes be surprisingly difficult to remove later.

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than outputs, and open to taking calculated risks and innovating. The emphasis tends to be on sustainable business models, developing a strong sense of local ownership, and advancing the skill base of the recipients.

[30] Credit Suisse (2011), p. 3.

United Nations Global Compact Leaders Summit 2010

Annex to the Ministerial Statement

The Role of Governments in Promoting Corporate Responsibility and Private Sector Engagement in Development

Governments can support corporate responsibility and encourage the private sector to contribute to achieving the Millennium Development Goals in several ways:

- **Creating an enabling environment**: Governments can put in place the necessary enabling environment for the private sector to flourish and work according to the principles of corporate responsibility as well as facilitate a stronger engagement of the private sector in development in order to enable business to do what it does best in driving growth, creating jobs and developing innovative products and services.

- **Partnerships**: Governments can use their convening power to enter into partnerships with businesses and other non-state actors, in which all participants agree to work together to achieve a common purpose or undertake a specific task and to share risks, responsibilities, resources, competencies and benefits.

- **Raising awareness**: Governments can enter into a dialogue with the private sector and stimulate public debate through gathering and disseminating information and drawing attention to the benefits of corporate responsibility and private sector engagement in development. Governments can advocate for greater emphases on the positive role that well functioning markets and businesses can play in driving Millennium Development Goals achievement.

- **Promotion**: Governments can highlight best practices as well as endorse or invite business and wider community support for inclusive business models, corporate responsibility programs, activities, or initiatives, such as the UN Global Compact.

- **Tools development**: Governments can assist the development of corporate responsibility programs and inclusive business models specifically designed to enable more inclusive markets and to encourage entrepreneurism and corporate responsibility within the small and medium sized enterprises sector.

- **Technical assistance**: Governments can support capacity development and provide technical assistance to private sector and other partners in order to enable corporate responsibility and the development of more inclusive markets.

- **Funding**: Where they have the resources to do so, Governments can help the private sector to maximize its development impact by providing catalytic and innovative financing instruments in order to leverage private sector engagement and investments that deliver tangible and sizeable development results.

- **Transfer of technology**: Governments can work with the private sector to enhance technology transfer activities, as well as encourage the private sector to provide know-how on technical, operational and managerial fronts, particularly to developing countries.

Section 5: A handful of examples from the region

In this section of the report, we provide some empirical examples of sustainable business promotion pursued by governments in the Asia Pacific region, to give a flavour of what has actually been attempted.

Given their critical socio-economic role as financial intermediaries, pursuing sustainable business development in (and through) the banking sector can be an effective point of entry for a government, as the interventions can be 'leveraged' significantly. This can be pursued by the relevant banking regulatory agencies, through 'soft laws' and other promotional initiatives, in virtually all countries. But a number of Asia's largest commercial banks remain partially or wholly owned by the government of the relevant host country, including in China and Viet Nam. And in such cases, the government can use its ownership position to drive the sustainable business agenda in the banking sector. One example is the Industrial Bank (of China), headquartered in Fujian province, where the Finance Bureau of Fujian Province is a major shareholder.[31] This bank is the only bank in China – and one of a relatively small number in the Asia Pacific region – to become a member of the Equator Principles, to date. Briefly, the Equator Principles (EPs) are "… 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 voluntarily by financial institutions and are applied where total project capital costs exceed US$10 million. … Equator Principles Financial Institutions (EPFIs) commit to not providing loans to projects where the borrower will not or is unable to comply with their respective social and environmental policies and procedures that implement the EPs."[32] To date, there are 73 EPFIs across 27 countries.[33] As part of its membership obligations, Industrial Bank monitors and publishes reports on its implementation of the EPs. And given the importance of debt financing in most kinds of major infrastructure and industrial projects, the imposition of the EPs by the relevant lender can have a marked impact on the way in which such projects are enacted.

Another EPFI from the Asia Pacific region is the Australian Export Finance and Insurance Corporation (EFIC), which signed up to the Equator Principles in 2009, and has adopted them on project finance deals it has conducted.[34] EFIC also has clear policies pertaining to environmental responsibility, anti-corruption and defense sales, among others, and is also a signatory of the United Nations Environment Programme Finance Initiative.[35] Here again, the important role played by an export credit and/or guarantee agency – commonly under some degree of government ownership – can 'hit above its weight' in terms of the impact it can have on sustainable business practices, extending beyond its own operations to the projects of its clients to which it provides funding support.

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[31] See: < www.cib.com.cn>.

[32] See: <www.equator-principles.com/index.php/about-ep/about> and < www.equator-principles.com/resources/equator_principles.pdf>. The EPs have also stimulated the development of the Carbon Principles and the Climate Principles, also serving to guidebank lendingbehavior.

[33] For a list of current members, see: < www.equator-principles.com/index.php/members-reporting/members-and-reporting >.

[34] For example, the Papua New Guinea Liquefied Natural Gas project, in which EFIC has a US$350m exposure.

[35] See: < www.unepfi.org >.

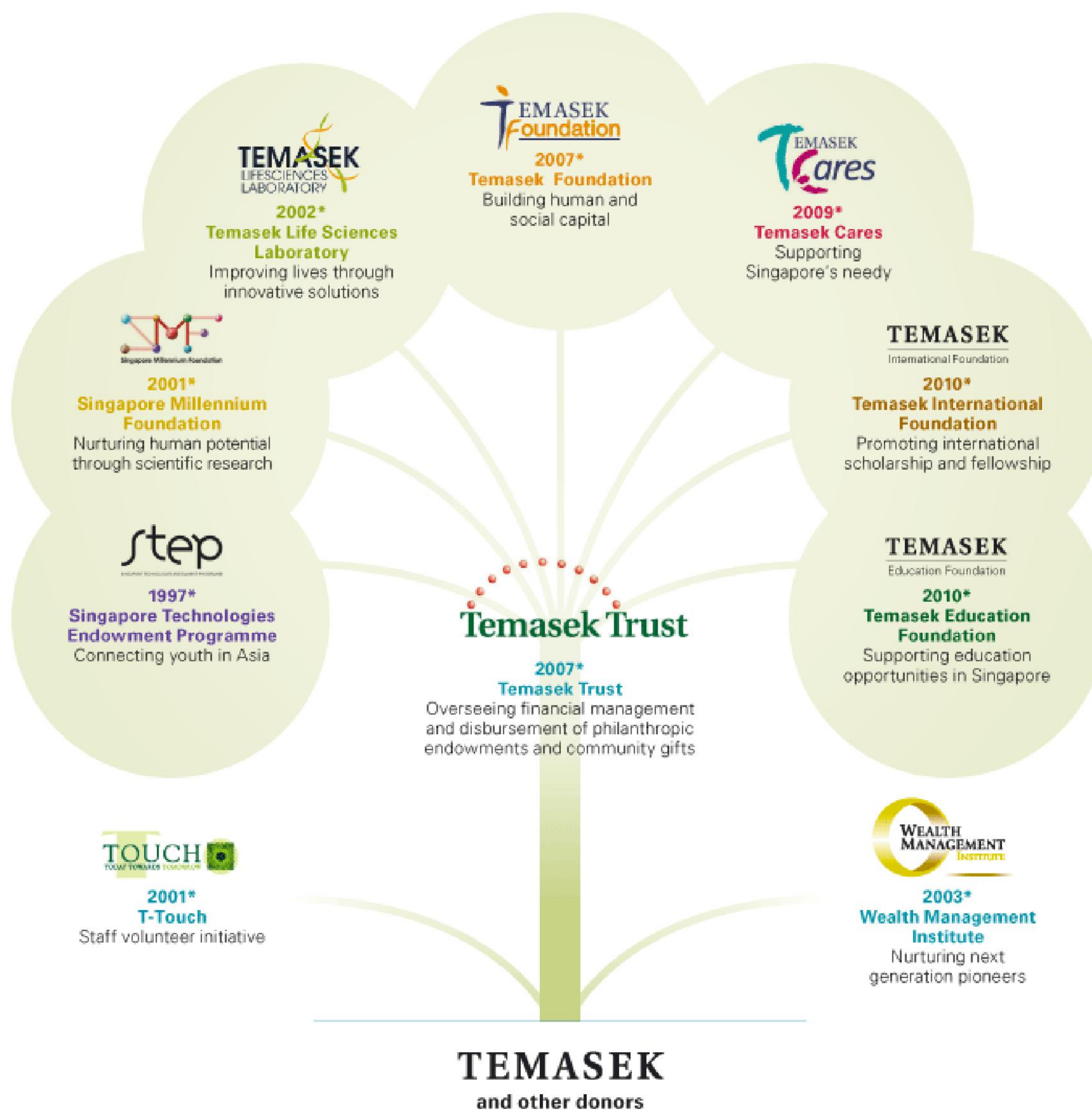
Returning to China briefly, the SOE sector remains a large and important component of the overall corporate sector, as it does in a number of other economies in the Asia Pacific region. The activities of the SOE sector in China, and the government's ownership interests in Chinese SOEs, is governed in large part by the State-owned Assets Supervision and Administration Commission (SASAC).[36] SASAC has sought to issue guidelines on CSR for all SOEs, and encouraged companies to adopt measures in accordance with these guidelines. One recent trend has been substantial outward investment flows of Chinese SOEs to other parts of the globe, including Asia and Africa. Therefore, if CSR is embraced and adopted by some of China's largest companies and biggest outward foreign investors, the impact could even extend beyond China's borders, potentially at least.

Sovereign wealth funds and the holding companies belonging to the State can also play an important role in promoting sustainable and responsible business. In Singapore, for example, Temasek Holdings (wholly owned by the Ministry of Finance, and with a portfolio valued at over S$190bn) operates a devoted trust –TemasekTrust – that is funded from a portion of Temasek Holdings' excess returns.[37] The Trust was established in 2007 to serve as the trustee of Temasek Holdings various endowment activities, and the diagram below gives an indication of its diverse activities. But SWFs and government-run holding companies can, as shareholders in investee companies, also push the CSR agenda within their portfolios of investees, if they so choose. Not to do so, while pursuing more indirect (and potentially more costly) initiatives intended to promote sustainable and responsible business in the wider corporate community, is odd, at best. And yet, there is a tendency for most such SWFs and government holding companies to focus exclusively or mostly on corporate governance issues.

[36] See: < www.sasac.gov.cn >.

[37] More precisely, these are the returns achieved each year, above a risk-adjusted hurdle rate.

Figure 4:Temasek Trust



Source: Temasek Holdings' website<www.temasek.com.sg/community/temasektrust>.

One exception is Druk Holdings and Investment (DHI) in Bhutan, established in 2007, which serves as the investment arm of the royal government, and has an equity portfolio that extends across most of the country's largest corporate entities.[38] Its ownership policy, issued in 2010, calls on DHI to encourage and pursue CSR activities in each of its investee companies, by working with them to develop CSR policies and strategies. In late 2010, DHI commenced work on a 'Corporate Responsibility on Happiness' (CRH) framework, which will presumably attempt to guide this process and ensure that it conforms to the wider Gross National Happiness (GNH) policy that guides all government policy in Bhutan. Given the relative importance and scale of DHI in Bhutan's small corporate sector, any CSR promotion activity pursued by the holding company has the potential to make a marked change in the extent of sustainable and responsible business in the country.

Another important entry point for the government in promoting sustainable and responsible business, particularly for larger firms, is in its role as regulator of the financial

[38] See: < www.dhi.bt >.

sector, and the equity markets in particular. Guidelines and regulations on the reporting requirements of listed companies, for example, can be a significant catalyst for sustainable and responsible business by ‘big business’. Simply obliging listed companies to have a devoted section in their annual report where they report on their sustainable and responsible business activities in detail should not be dismissed. In Malaysia, for example, Bursa Malaysia introduced a CSR Framework in 2006 that includes guidelines for all public limited companies, and helps the latter to identify their CSR priorities, how to implement them, and how to report them. They cover four broad areas, namely: environment, the workplace, community and the market place. Similarly, the SGX in Singapore issued a Sustainability Reporting Guide in June 2011 that aims to promote the increased disclosure of ESG issues by companies listed on the exchange. This can even be taken further, with the promotion of various equity indices oriented towards sustainable and responsible business, such as the Sri Kehati Index in Indonesia, or the global FTSE4Good initiative.[39] But such indices are generally best pursued by independent private sector service providers, rather than government-owned stock market operators or financial regulators.

Promoting sustainable and responsible business within the SME sector tends to be more challenging for governments, for a host of reasons. One option is to create a set of materials and tools that SMEs can usefully adopt if they wish to move towards a more sustainable and responsible business approach. In Viet Nam, for example, the Viet Nam Chamber of Commerce & Industry (a quasi-government entity) has served as the operational hub for the Global Compact Network of Viet Nam, and in that role has produced a CSR toolkit.[40] Where there is a clearly assigned government agency responsible for SME sector development, then it might be appropriate to house such an initiative with that body. But even so, the topic of sustainable and responsible business cuts across different government agency responsibilities, and so there needs to be a central point of coordination and promotion. This ideally should be a fairly permanent entity, such as Hong Kong’s Sustainable Development Council, with the relevant agencies represented, and a very senior government official in the driving seat.

But CSR-related government interventions need not necessarily be wide in scope, nor involve only national government; it can be something much more specific and applied in scope. For example, in Australia, the local government of Queensland collaborated with a mining company and four native title groups to establish, in 1997, an agreement on education, training and employment opportunities for the people of a specific region, as well as various cultural and environmental assurances, in the context of a specific mining project.[41] The agreement, and its contents, would not have been attained without the role played by the government and the inputs it pledged to provide.

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[39] See: < www.sri-kehati.com > and < www.ftse.com/Indices/FTSE4Good_Index_Series/index.jsp >.

[40] See: <www.globalcompactvietnam.org/detail.asp?id=107>.

[41] See < http://www.mmg.com/common/files/MMG_GCA_July2010_lowres1.pdf >.

Section 6: The role of supranational bodies in promoting and coordinating CSR activities by governments

A number of regional bodies have sought to promote the pursuit of sustainable and responsible business at the multi-country level. And as business becomes increasingly international in scope and regionally interlinked, with many firms now straddling multiple country (and continental) borders, the utility of pursuing CSR at the regional – as opposed to the national – level becomes more convincing. It should be noted that the activities of regional bodies in promoting and coordinating CSR activities are not exclusively conducted with governments, as they also work with other stakeholders, such as business associations and chambers, NGOs, independent stock exchanges, and other relevant members of civil society. But for the purposes of this paper, we will only review those activities undertaken with at least some degree of clear participation by governments.

In the case of the European Union, in 2001 the European Commission published a 'Green Paper' entitled 'Promoting a European Framework for Corporate Social Responsibility', which has served to herald the commencement of a regional effort within the EU on CSR. The OECD has arguably been one of the most vocal proponents of improved standards and practices in the corporate governance component of CSR, and more recently has also begun to be active in 'green growth' initiatives. It has issued the OECD Principles of Corporate Governance, which have become widely used, an Anti-Bribery Convention, as well as guidelines for corporate governance in SOEs and the OECD Guidelines for Multinational Enterprises.[42] With regard to the latter, these guidelines not only pertain to MNEs investing in the Asia Pacific countries, but also have relevance for the rapidly growing number of MNEs emanating from the region itself. Looking to the future, it is therefore not wholly inconceivable that a corporate oversight mechanism, similar to that of the OECD, could be developed within Asia and the Pacific, whether for SOEs or MNEs.

Clearly, not to pursue sustainable and responsible business at a regional level runs a number of risks. The first risk is that some countries become isolated examples of high CSR practices and standards, while others gain a reputation for the opposite, with transnational companies effectively arbitraging their operations in a way that allows them to abuse these relative differences. Leading on from that unwelcome scenario, the second risk is that the positive impacts of pursuing sustainable and responsible business in one host country is effectively nullified by the negative impacts of another host country that does not pursue sustainable and responsible business with as much vigour. In areas such as low carbon growth, greenhouse gas emissions and climate change, this is a very real danger, as the consequences cannot be contained within a single country's border – it is an international issue that can only be addressed on an international level. If country X is able to make great strides in reducing its CO_2 emissions, for example, but neighbouring country Y continues to increase its own CO_2 emissions, then the net effect for everyone is nil. In the specific case of pricing and taxing carbon emissions produced by companies, the market mechanism needs the economies of scale that few single countries have, and so a regional approach makes eminent

[42] The OECD Guidelines for MNEs "provide non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognised standards." The guidelines span: general policies; disclosure; human rights; employment and industrial relations; the environment; combating bribery, solicitationand extortion; consumer interests; science and technology; competition; and taxation.

sense. Perhaps the most obvious example of this is the emissions trading scheme (ETS) mechanism in the EU.[43]

[43] Launched in 2005, the ETS is currently the largest trading scheme of its kind in the world, under which large emitters of carbon dioxide must monitor and annually report their emissions, and every year to return amount of emission allowances to the government that is equivalent to their CO_2 emissions for that year.

Section 7: Specific recommendations to consider at the national and regional levels

1. The first recommendation to consider, at the national level, is to provide technical assistance in the establishment of a sustainable and responsible business 'Council' in various Asia Pacific countries, intended to: i) develop a national strategy for the promotion of sustainable and responsible business, based on informed diagnostic research and stakeholder consultation; ii) coordinate the various efforts of relevant government agencies in the design and implementation of that strategy, likely to take the form of a time-bound action plan; iii) serve as a permanent platform for stakeholder inputs in the pursuit of that strategy, from conceptualization through to enactment; iv) monitor and evaluate progress being made, and provide strategic oversight of what is likely to require a flexible and evolving set of foci; and v) generally serve as a resource in the pursuit of sustainable and responsible business activity in the relevant host economy.

Such a Council would likely comprise a very senior government official as chairperson, with the relevant government agencies also represented (e.g. securities market watchdog, ministries for labour and environment, etc.), along with pertinent members of civil society, employers' groupings (e.g. directors' institutes, business associations, federations, etc.) and employee unions, etc. In addition to a (permanent) Council plenum, specific (impermanent) working groups would be formed to focus on key issues and/or business sectors, in conformity with the foci of the strategy agreed. The Council would have legal status and a written constitution, and be served by a small secretariat of experts, and possibly a standing committee.

2. The second recommendation to consider at the national level, and what might be a topic that some sustainable and responsible business Councils would wish to emphasize in their strategies, is the promotion of CSR within the SME sector. As noted earlier, government interventions should only be made where some degree of 'market failure' is identified, and there is some justification to say that many larger, listed companies are making significant strides forward in the broad field of sustainable and responsible business, driven in large part by their retail customers and institutional shareholders. And that such large corporates have the resources to pursue such activities. But most SMEs are less well-resourced and less driven to make advances in sustainable and responsible business, for a host of reasons. They therefore run the risk of being left behind, and this in turn could constrain their future business prospects, as retail customers and corporate clients alike shift away from SMEs that cannot meet their CSR needs and expectations. This is not just about raising awareness, but also providing the necessary instruments and mechanisms that would allow SMEs to become 'CSR compliant', as it were, and at a price that does not render their products or services uncompetitive. Such instruments might include a 'tool kit' and other training materials, provided by the relevant ministry or government agency responsible for SME development, possibly in conjunction with chambers of commerce and relevant business associations.[44]

3. The third recommendation to consider at the national level, follow on from the earlier recommendation on providing the kinds of tools and mechanisms that companies, and especially smaller ones, could utilize to improve their sustainable and responsible business

[44] The toolkit produced by the Vietnam Chamber of Commerce & Industry in Vietnam, as part of the Global Compact Network in Vietnam, is a good example.

capacities. There is need to ensure that there is an adequate pool of experts in various CSR-related fields to assist the corporate community to make strides forward in sustainable and responsible business, along the lines of business development service (BDS) providers. A network of such providers could be developed and maintained, if diagnostic studies indicated that such a resource were deemed useful in select countries, to mentor companies in introducing and attaining SA 8000, ISO 26000, ISO 14000, the ILO conventions, etc. Wherever possible, this should be provided on a commercially viable (and therefore sustainable) basis, although there might be a need to catalyze the process at the outset with some sort of partial subsidy mechanism. Governments with sufficient public funds might therefore consider developing a matching grant facility that would provide financial assistance to eligible companies wishing to pursue this option, so as to stimulate initial demand. As the benefits become better recognized by the wider business community, then demand should be sufficient for BDS providers to charge commercially viable fees for this service, and the need for government subsidies can be phased out.

4. The fourth recommendation to consider at the national level would be for stock market regulators to examine the viability of introducing additional IPO and listing criteria that oblige companies to report regularly on their CSR activities (e.g. a devoted section in their annual report as a mandatory requirement), and in conjunction with stock market operators and investment banking institutions, assess the utility of introducing PRI-related indices for all listed firms. For the more developed economies of the Asia Pacific region with relatively advanced capital markets, the concept of a secondary market trading platform for social ventures to attract impact investors might also be worth exploring.

5. The fifth recommendation to consider, this time at the regional level, would be to target some very specific initiatives that come under the broad CSR umbrella, where only a multi-country approach would be viable and/or of real utility. Following on from the progress made in recent years to develop an Asian bond market, an attempt to introduce an Asian market for carbon credits could be considered, perhaps with the New Zealand and/or Japan government(s) playing a leading role. An emissions trading scheme (ETS) for all or part of the Asia Pacific would be a very significant step for the region's policy-makers to take. There might also be other kinds of carbon finance instruments that could be developed, specifically designed to encourage and incentivize companies to significantly reduce their greenhouse gas emissions. Given Asia's considerable industrial profile, it is somewhat surprising that all the carbon trading exchanges operating at present are located in either Europe or the US (particularly as some pundits predict that carbon emissions trading is destined to become the single largest commodity to be traded in the world). And yet, 81% of all CDM-approved projects – on which the ETS trading is based – are located in the Asia Pacific region.[45]

A more modest alternative would be to collaborate with one or more private carbon offsetting companies to promote and deliver carbon offsetting services to select businesses in the Asia Pacific region, and ideally also help these companies to further develop their portfolio of CDM-approved projects (from which the offset credits are then derived). Alternatively, developing a regional initiative that obliges all (or most) Asia Pacific-based

[45] Of the 3,351 CDM projects registered by the UNFCCC, China has the largest number (1,520, or 45% of the global total) and could justifiably claim to have been the most adept at harnessing this financing vehicle. The record for other Asia Pacific countries is less impressive: 2 projects in Bangladesh, 2 in Bhutan, 5 in Cambodia, 2 in Fiji, 707 in India, 70 in Indonesia, 1 in Lao PDR, 96 in Malaysia, 3 in Mongolia, 4 in Nepal, 61 in South Korea, 55 in the Philippines, 1 in Papua New Guinea, 12 in Pakistan, 2 in Singapore, 7 in Sri Lanka, 54 in Thailand, 11 in Uzbekistan, and 69 in Vietnam.

airlines, along with some other specific business sectors that have a high carbon footprint, can offset their carbon emissions. This might even include a regional initiative that obliges all airlines to provide a carbon offsetting service to its passengers, and even gradually move to a means by which the cost of carbon offsetting is integrated into airline tickets. On the other hand, a government-to-government (G2G) network could be established to permit CSR laggard countries to learn from more CSR advanced countries in the Asia Pacific region, as well as globally, about how they have approached the issue of sustainable business and CSR promotion. Learning what has worked well, and also what has not worked so well, could prove useful, and there may also be some cost and efficiency gains to be derived through mentoring, 'twinning' and other kinds of applied and policy-oriented support.

6. The sixth recommendation to consider, also at the regional level, would be to conceive, design and implement some kind of financial support instrument intended to help promote sustainable and responsible business activities, albeit in a way that does not negatively distort the commercial market for business finance - a catalytic financing mechanism. One such financial instrument would be a regional (or multiple country) challenge fund(s) focused exclusively on one or more components of the CSR 'space'.[46] The challenge fund would pose specific challenges to businesses in the host country's or region's corporate sector to stimulate the growth of innovation and entrepreneurial activities that seek to address basic infrastructure and services needs of local communities. Those chosen would then receive grant funding support for the project, up to a maximum of 49% of project costs, provided incrementally, according to an agreed set of milestones (which serve as payment triggers), in conformity with classic challenge fund modalities and best practices.

The challenges posed would have to be quite specific in nature, and be selected on: i) the likelihood of being implemented successfully; ii) having a degree of risk that justifies the provision of grant funding, as opposed to commercial financing; iii) being highly innovative in some aspect; iv) the scale of anticipated direct impact (output); and v) the potential for up-scaling and/or replication across other countries (outcome). For example, one challenge could pertain to low carbon growth, or supporting business projects that relate to mitigating the effects of climate change.

In tandem with the main challenge fund instrument, it might also be of value to allocate a much smaller funding pool to finance policy-oriented 'action research' on specific areas of

[46]The Challenge Fund instrument originated in the UK, where it was designed as a tool to develop new approaches to the delivery of public services and used for inner city regeneration. More recently, the instrument has been adapted for international development as a way of engaging with the private sector. This is in recognition of the key role this sector plays in generating sustainable economic growth. There are numerous kinds of Challenge Funds. But they all typically work by offering incentives to the private sector to test innovative approaches to business that would not be pursued on a purely commercial basis. Within firms, a risk-return hurdle typically exists that can prevent innovative projects, with potentially high social impacts and potential commercial viability, from going ahead. Such projects are likely to be passed over by a firm's investment committee when compared with projects offering less risky or greater financial returns. Given that the process of business innovation is unpredictable, the challenge fund instrument does not attempt to pick winners. Rather, it selects project proposals that meet specified criteria, using an Independent Appraisal Panel. Projects selected should be able to display some degree of innovation and full commercial viability, so as to be sustainable. Challenge funds have traditionally used a portfolio approach, similar to that used by venture capital. While it is expected that a relatively high proportion of projects supported by a challenge fund will ultimately fail, there should be successes where the 'payback', through replication and/or systemic change, is far higher than the return on the specific project that was funded.

CSR, to be conducted by eligible bodies within civil society, including research establishments, NGOs and INGOs, chambers of commerce, etc.[47] The selection mechanism would be through a public and transparent 'call' process, with the chosen recipients receiving 100 per cent funding support for the studies undertaken. At the risk of sounding too philosophical, there does appear to be a pronounced disconnect between the sustainable economic development plans that country governments typically design and promulgate, on the one hand, and the sustainable business projects that increasing numbers of companies aspire to enact, on the other. The role and expert inputs of the corporate sector in national development plans arguably gets forgotten (or at least significantly discounted) by both policy-makers and the development community alike, and this is unfortunate, as an energetic and capable resource is going untapped.

Another (more ambitious) financial mechanism, probably only feasible on a national level, and in one or more of the most developed economies within the Asia Pacific region, would be the formation of a national or regional social enterprise (SE) capital market or stock exchange. The concept behind such a market would be to provide for-profit, social-purpose businesses with access to equity risk capital from ethical investors seeking such instruments, as well as a means for investors to value, trade and exit those investments over time. It might also serve as a means for large companies to 'spin off' some of their larger and more sustainable CSR activities. As Linda Rottenberg has noted, there is "… a lot of seed capital available, angel-equivalent, for social entrepreneurs. But there is not a lot of later-stage funding available to take social entrepreneurs to scale. There a huge gap in the social capital market that's preventing many of the best models from replicating and fulfilling their potential."[48] Some of the benefits of having such a market in operation include: i) improved visibility for such ESG businesses; ii) reduced costs of research and due diligence for those interested in investing; iii) reduced investor risk, as the market would be regulated like a conventional stock market; iv) supporting 'impact investing' by foundations and high net worth individuals; v) reduce the transaction costs entailed in investing; and vi) open up the universe of investors to include not just the extremely affluent and specialist private equity investors. More indirectly, such a market would also likely help catalyze: i) the introduction of 'social investment banks' and advisors; ii) the establishment of specialist social equity research and ratings agencies; and iii) the formation of various service providers to help such businesses become investor-ready.[49]But to launch and operate such a market successfully would probably need the support of a fairly large and well-established stock market and the relevant securities regulator.

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[47] A possible platform for such an initiative could be an expanded ARTNeT, or modify the ARTNeT model in order to develop a devoted platform for action research pertaining to sustainable business.ARTNeT aims at increasing the amount of quality and relevant trade research in the region by harnessing the research capacity already available and developing additional capacity through regional team research projects, enhanced research dissemination mechanisms, increased interactions between policymakers and researchers, and specific capacity building activities catering to researchers and research institutions from least developed countries. See: <(www.unescap.org/tid/artnet/about.asp)>.

[48]MsRottenburg is CEO and co-founder of Endeavor, which pioneered the field of high-impact entrepreneurship. Endeavor's mission is to "lead the global movement to catalyze long-term economic growth by selecting, mentoring, and accelerating the best high-impact entrepreneurs around the world."

[49] Much of this paragraph stems from concepts provided by Campanale (2011).

Impact Investment Exchange Asia

The 'Impact Investment Exchange Asia' (www.asiaiix.com) was established in 2009 in Singapore. It currently runs a form of on-line OTC market ('impact partners'), and a more conventional exchange ('impact exchange') is expected to be launched in 2012. "Like a traditional stock exchange, Impact Exchange will provide liquidity to investors by supporting listing, trading, clearing and settlement of securities, issued by social enterprises. IIX anticipates launching Impact Exchange in early 2012. Once operational, Impact Exchange will allow investors to purchase and trade shares issued by for-profit Social Enterprises and bonds issued by either for-profit or not-for-profit Social Enterprises." In South Africa, Sasix (www.sasix.co.za) offers a similar service.

At the national level, again in a relatively developed country, would be to investigate the utility and feasibility of a 'green bank'. The green bank's role would be to provide debt financing support for companies seeking to make substantive changes to their businesses in order to become more 'clean' and environmentally friendly, possibly in conjunction with the imposition of new regulations by the host country government on GHG emissions. The bank could also provide innovative financing mechanisms to support investment in various alternative and renewable energy sources, such as wind and solar power, for example, or water management and waste treatment. Specially tailored financial products and services could be offered by the bank at, or close to, commercial rates of interest, so as to be sustainable. The ultimate aim being to help accelerate and extend private sector investment in clean technology and an economy-wide shift towards a more green and sustainable means of conducting business. In short, the bank would serve as the main financing arm of a government's attempt to attain low-carbon economic growth.

But for such a bank to have a meaningful impact, the size would probably necessitate the direct support of, and initial capitalization by, one or more sovereign governments, and/or contributions from multilateral and/or bilateral donor agencies. A more modest banking instrument would be similar to that of 'MYC4' in Denmark. MYC4 is an internet marketplace where retail and institutional members can lend money direct to entrepreneurs in Africa. An Asian equivalent might prove successful, possibly linking more affluent individuals and established companies in the developed economies of the Asia Pacific with entrepreneurs in the regions less developed and developing economies.[50]

Staying with the financial theme, a scheme to assist governments to promote PRI mainstreaming in their own pension and sovereign wealth funds would likely be an impactful initiative, as would the promotion of CSR practices through government holding companies, such as Temasek in Singapore, SCIC in Vietnam and SASAC in China. Given their very considerable equity holding 'footprint' in their respective countries, they have significant leverage to promote improved CSR practices in their investee companies, which account for a substantial proportion of the aggregate corporate sector – and even beyond, in the specific case of Temasek. Similarly, Asian sovereign wealth funds (SWFs) could also seek to mainstream PRI and similar investment practices into their activities.[51] This could be seen as an extension of the so-called 'Santiago Principles' – drawn up by the International Monetary Fund and the International Working Group on SWFs in 2008 – that identifies 24 voluntary

[50] The US equivalent is San Francisco-based KIVA.

[51] Details of the United Nations' six Principles of Responsible Investment can be found at: <www.unpri.org/principles/>.

working practice standards.[52] And for those Asia Pacific countries with active State-owned export credit and other policy-oriented banking operations, a similar approach could be taken to guiding their activities in a way that encourages a sustainable business approach, both with regard to their own operations, and more importantly to their clients' operations. The Japan Bank for International Cooperation (JBIC), for example, has clear environmental guidelines for all its lending activities.[53] In Sweden, EKN (the country's trade guarantee body, has explicit corporate responsibility guidelines for the issuance of its guarantees.[54] There may also be some scope for host country governments' investment promotion agencies to stimulate and promote greater PRI activity, among the foreign investor community in particular, although considerable care needs to be taken in this regard, so as to ensure that any such initiatives are not perceived by existing and potential new investors as an additional set of burdens and costs to be carried, or navigated round.

A final, and much more modest recommendation to consider, implementation in one or more developing and/or less developed economies in the Asia Pacific region, would be to conduct a i) detailed diagnostic of the current laws and regulations pertaining to CSR, and ii) a baseline survey of the practices of domestic companies in the field of sustainable and responsible business, possibly benchmarked against ISO 26000 (2010) guidelines. This could then serve as a useful policy-oriented blueprint on which to then develop a national strategy, and then a time-bound action plan to promote sustainable and responsible business in that host economy. By clearly mapping out what the regulatory framework relating to CSR looks like, it will be easier for policy-makers to identify what should and could be done, what already has been done, and what needs improving on. In tandem, it is also important to get at least some qualitative sense of what the resident corporate sector is actually doing in the field of sustainable and responsible business, given the extent to which actual practices (and enforcement) often diverge from – often more lofty – legal and regulatory prescriptions, but also to help identify areas or greatest priority and corporate sector interest.[55] One tangible output from conducting a region-wide diagnostic appraisal would be to develop an annual survey instrument along the lines of the World Bank's 'Doing Business' research product, with specific and aggregate rankings of countries for their enabling environments in the field of sustainable and responsible business. Such a publication could serve as an intellectual 'spine' on to which numerous applied initiatives in the field of CSR could then be derived,

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[52] Details of the 24 principles can be found at: <www.iwg-swf.org/pubs/gapplist.htm>.Asia Pacific members of the International Working Group on SWFs include: Australia, New Zealand, China, Singapore, South Korea and Timor-Leste. These principles are not unlike the policies that numerous commercial banks, investment institutions and other financial bodies have already introduced to guide their activities, along with various multilateral agencies, such as the Asian Development Bank (eg. the Safeguard Policy Statement) and the World Bank (through its Operational Policies), among others. The 'Equator Principles' were created in 2003 by the International Finance Corporation and ten commercial banks, with the aim of providing a social and environmental screening tool for major project finance deals, and now spans financial institutions from over 20 countries around the world.

[53] JBIC also launched in 2010 a new financial product designed specifically to assist projects intended to combat global warming.

[54] See: <www.ekn.se/Global/Policydokument/engelska/Policy%20CSR%20i%20garantigivningen%2014sept2010%20ENG.pdf>.

[55] In the specific field of corporate governance, for example, one can find companies 'ticking all the boxes' from a regulatory point of view, so as to be compliant, but doing little to inculcate the principles of corporate governance into their operations.

and it would also serve to galvanize interest within the region on improving the legal and regulatory frameworks governing sustainable and responsible business.

With specific regard to UNESCAP, it would clearly be an attractive proposition if any intervention it pursued in the field of sustainable and responsible business promotion sought to leverage in some way the related activities of other UN organizations. This would include the Global Compact initiative[56] and the UNFCCC's Clean Development Mechanism, among others.[57] In the case of the former, an optimal approach might be to focus on just one or two of the Global Compact's ten principles, in an area where UNESCAP believes it has some core competence, and provide concerted assistance across multiple countries. Other UN agencies that have mandates that inter-relate with the promotion of sustainable and responsible business include: UN Women, UNEP, UN Habitat, ILO, UNDP and UNIDO.

There is one common denominator across all the recommendations provided above; while government(s) can play an important role in most of the above recommended interventions, virtually none can be enacted by government(s) alone. Any initiative to promote sustainable and responsible business needs to be sustainable in itself, and that necessitates the active interest and tangible inputs of other stakeholders, and especially the business community that is 'Asia Inc.'. Without them fully on board, the journey will likely be a short and relatively meaningless one.

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[56] Within the Asia Pacific, national networks under the Global Compact have already been established in Bangladesh, China, India, Indonesia, Japan, Democratic People's Republic of Korea, Nepal, Malaysia, Pakistan, Sri Lanka, Singapore and Viet Nam. In addition, new networks are under development in Kazakhstan, Mongolia, the Maldives and Thailand.

57 The CDM allows emission-reduction projects in developing countries to earn certified emission reduction (CER) credits, each equivalent to one metric ton of CO2. These CERs can then be traded and sold, and used by industrialized countries to a meet a part of their emission reduction targets under the Kyoto Protocol. The CDM is the main source of income for the UNFCCC Adaptation Fund, which was established to finance adaptation projects and programmes in developing countries that are party to the Kyoto Protocol and are particularly vulnerable to the adverse effects of climate change. The Adaptation Fund is financed by a 2% levy on CERs issued by the CDM.

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Additional website resources:

Global Exchange for Social Investment <www.gexsi.org>

Global Reporting Initiative <www.globalreporting.org>

Impact Investment Exchange Asia <www.asiaiix.com >

KIVA <www.kiva.org>

MYC4 <www.myc4.com>

UNEP Finance Initiative <www.unepfi.org>

UN Global Compact <www.unglobalcompact.org>

UNPRI <www.unpri.org>

World Business Council for Sustainable Business<www.wbcsd.org>