



EMERGING ECONOMY COMPANIES IN THE 21ST CENTURY

A REPORT PREPARED BY INCITE SUSTAINABILITY
FOR WWF'S TRADE AND INVESTMENT PROGRAMME
JUNE 2009

EMERGING ECONOMY COMPANIES IN THE 21ST CENTURY

DEVELOPING APPROACHES TO CORPORATE SOCIAL RESPONSIBILITY

A report prepared by Incite Sustainability
for WWF's Trade and Investment Programme
Jonathan Hanks, Nicola Robins, Cathryn Treasure - Incite Sustainability
With contributions by Alistair Schorn - WWF
June 2009

Disclaimer: The professional advice of Incite Sustainability contained in this report is prepared for the exclusive use of WWF South Africa and for the purposes specified in the report. The report is supplied in good faith and reflects the knowledge, expertise and experience of the consultants involved. In conducting the analysis in the report Incite Sustainability has endeavoured to use the best information available at the date of publication. Unless stated otherwise, Incite Sustainability does not warrant the accuracy of any forecast or prediction in the report. Although Incite Sustainability exercises reasonable care when making forecasts and predictions, factors such as future market behaviour are uncertain and cannot be forecast or predicted reliably.

CONTENTS

1. INTRODUCTION	1
1.1 LEADERSHIP IN EMERGING ECONOMIES? THE WWF SURVEYS	3
1.2 A CONCEPTUAL FRAMEWORK FOR CSR AND SUSTAINABLE DEVELOPMENT	3
2. RECENT TRENDS IN SELECTED EMERGING ECONOMIES	9
2.1 UNDERSTANDING KEY TRENDS IN EMERGING ECONOMIES	10
2.2 IMPLICATIONS OF CURRENT TRENDS FOR THE CSR AGENDA	15
3. CSR IN SELECTED EMERGING ECONOMIES	19
3.1 COUNTRY APPROACHES TO CSR	20
3.2 NATIONAL FACTORS INFORMING APPROACH TO CSR	23
4. ANALYSIS OF WWF SURVEY RESULTS	25
4.1 REVIEWING THE NATURE AND DRIVERS OF CSR ACTIVITIES	27
4.2 SUSTAINABILITY LEADERSHIP IN EMERGING ECONOMIES: SWOT ANALYSIS	29
5. POLICY RECOMMENDATIONS	33
5.1 PROVIDING AN ENABLING ENVIRONMENT FOR CSR AND INNOVATION	35
6. CONCLUSION	45
APPENDIX 1	
THE WWF REPORTS AT A GLANCE	47



BOXES

Box 1	Defining Corporate Social Responsibility	4
Box 2	Five Capitals and Emerging Economies	7
Box 3	The WWF surveys: Methodology and limitations	26
Box 4	Identifying and addressing potential policy constraints	37
Box 5	Levels of innovation in social responsibility and sustainability	38

TABLES

Table 1	Country performance on selected stocks of manufactured and financial capital	10
Table 2	Country performance on selected stocks of human and social capital	11
Table 3	Country performance on selected stocks of natural capital	13
Table 4	Consolidated country status review in terms of selected capital stocks	16
Table 5	Potential for sustainability leadership in emerging economies: SWOT Analysis	30
Table 6	WWF Report at a Glance: China	48
Table 7	WWF Report at a Glance: India	50
Table 8	WWF Report at a Glance: Russia	52
Table 9	WWF Report at a Glance: South Africa	54
Table 10	WWF Report at a Glance: United Arab Emirates	56

EXECUTIVE SUMMARY

Growing turbulence in the twenty-first century is prompting the world to seek new sources of leadership. As this turbulence intensifies, there is increasing onus on emerging economies to provide such leadership.

Politically and demographically, these emerging economies form a bridge between developed countries and the rapidly expanding populations of the developing world; while on a practical level, a leadership void looms as the response of developed countries to sustainability challenges, particularly those associated with climate change, has been slow and markedly lacking in ambition.

The question, therefore, is whether emerging economies are stepping up to this challenge of leadership. Is there evidence of the bold and informed approach needed to face up to the social and environmental realities presently rocking global society? Are we seeing the emergence of clear, new thinking and action on these issues? With these questions in mind, WWF has over the past three years conducted a series of surveys into corporate attitudes towards sustainability and social responsibility in China, India, Russia, South Africa and the United Arab Emirates. The results of these surveys were presented separately for each country and are consolidated in this report.

Trends in emerging economies

Introducing a systems-based framework for assessing national trends, the consolidated report presents a brief analysis of the selected emerging economies in relation to each of five forms of capital: namely financial, manufacturing, social, human and natural capital. Sustainable development proceeds only to the extent that capital stocks are maintained and, where possible, increased, enabling humanity to live off the income associated with their value. Importantly, all other forms of capital stock are ultimately dependent upon maintaining a critical minimum stock of natural capital.

The analysis suggests that emerging economies are developing at a cost. A trade-off is occurring between capital stocks, with financial and manufactured capital increasing, mixed results for social and human capital, and clear evidence of deteriorating natural capital stocks. Based on these trends, sustainable development requires emerging economies to question deeply the assumptions underlying the growth paths of developed countries, which have looked increasingly to developing countries to replace depleted natural capital stocks. This raises a further question; regarding the extent to which companies in emerging economies are encouraging this critical perspective, upon which their longer-term business viability depends?

Corporate Social Responsibility in emerging economies

The way in which companies express their Corporate Social Responsibility (CSR) provides an indication of how business is responding to the unsustainable trends reflected in the analysis above.

- As China faces up to resource constraints and intensifying environmental degradation, the business response reflects a combination of denial (“Don’t disturb us with questions like this”) and calls for increased legislation around environmental reporting, transparency and monitoring.
- India appears to be building on its historical social conscience, with a strong focus on philanthropy.
- In South Africa, the business response to the country’s apartheid legacy is reflected in a predominant focus on Black Economic Empowerment, as well as in efforts to deal with socio-economic challenges, including the HIV/AIDS epidemic.
- In Russia, transformation from state-owned dependency is increasing companies’ awareness of international best practice, although the focus remains on social investment in local communities.
- Secure in the assumption that social issues will be addressed by the ‘welfare state’, companies in the UAE tend to delegate CSR to a network of business organisations or address it from a philanthropic standpoint.

These findings are somewhat disquieting. It would seem the CSR response in emerging economies has resulted less from a systematic and informed analysis of natural capital constraints and business opportunity, than it has from political legacy and philanthropic concern. Social and human capital concerns have elicited a singular focus on increasing economic growth, even at the expense of long term viability of natural capital stocks.

Lack of leadership in CSR approaches

While evidence exists of increasing compliance with social and environmental regulations, as well as some efforts to improve process efficiency and a clear commitment to engage with stakeholders, the CSR response in these countries appears in general to be reticent and uninspired. It is not the response of leading thinkers; neither is it characterised by high levels of innovation. CSR in emerging economies seeks to protect value (through compliance, efficiency improvements or greater engagement) rather than finding less destructive ways to create it.

This reticence and inconsistency is further reflected in government policy-making:

- The Russian government calls for companies to be good corporate citizens, while entrenching the country as a global leader in extractive and non-renewable industries.
- South African companies have made significant contributions to Black Economic Empowerment, yet it took rolling blackouts to force a policy re-evaluation of investment incentives based on cheap, coal-based electricity.
- China is making significant progress in the development of eco-cities, but its growth is still largely fuelled by a seemingly rapacious appetite for natural resources (sourced primarily from developing countries).

This approach to CSR is reminiscent of the watered-down commitments emanating from the majority of developed countries, and their ongoing inability to provide firm and direct leadership in addressing the issue of climate change. It also falls far short of the innovative and inspired leadership currently required in the sustainability arena.

A window of opportunity

It appears that to a large extent, CSR in emerging economies is influenced by the story of the past, rather than the future; the story of compliance, not of innovation; the notion of protecting value, rather than creating it. At the same time, it is clear that there exists a window of opportunity for leadership in this area on the part of emerging economies. This window will however over the next decade shrink and eventually close, and once closed, emerging economies will have consolidated an infrastructure dependent on massive inputs of (non-renewable) natural resources, thereby leading to conflicts over these resources, and/or the collapse of major ecosystems.

With this trend already underway, there exists significant urgency regarding the implementation by these countries of policy recommendations that in essence require a redefinition of the concept of CSR in emerging countries.

These include:

- integrating sustainability issues into core business strategy rather than seeing it as a discrete set of separate initiatives, as is currently often the case;
- distinguishing between initiatives that protect value (for example through compliance, philanthropy, or cost-saving measures) and those that create value, based on a full understanding of the systemic change required;
- shifting the focus to innovation in response to the leadership challenge;
- extending the focus of innovation well beyond the environmental goods and services sector to include consideration of the full suite of products and services that companies provide; and
- integrating corporate CSR agendas into a change platform, thereby embedding the concept into the core strategies and underlying corporate cultures of companies.

Conclusion

Outlining a framework of “smart policy”, the report sets out specific recommendations for governments, investment promotion agencies and businesses, which seek to elicit the innovation necessary to meet the challenge of change. As to whether emerging economies are rising to the challenge of leadership on sustainable development, the report concludes that this potential has not yet been fully realised. Although social and environmental investment has increased in certain areas, for the most part emerging economies are adopting traditional, flawed assumptions regarding limitless growth, endless substitutability of natural capital for other capital stocks, and the supremacy of short term gains.

There is no place more fitting to develop solutions that challenge these assumptions – and that provide the blueprint for a new socially responsible, post-carbon economy – than in the world’s emerging economies. That these economies possess the capacity, the global reach and, increasingly, the motivation to do so, is beyond dispute. It remains to be seen how, and when, this potential is fulfilled.

1. INTRODUCTION

In the context of rapid demographic, environmental and economic changes across the globe – characterised in particular by the challenges associated with persistent poverty, high population growth, natural resource constraints and climate change – there is an evident need for new international leadership. With emerging economies such as China and India becoming dominant forces in international markets and having a profound impact on global sustainability, it is to these countries that the world must look for new models of leadership.

Government leadership on sustainability, it seems, is rather thin on the ground across all countries. This is particularly evident, for example, in the slow pace of progress – and the low levels of ambition – that characterise the intergovernmental negotiations on climate change, despite the overwhelming scientific evidence that urgent action is needed.

Finding solutions to the current global challenges will require the active engagement and contribution of all sectors of society. It will require changes in the way we produce and consume goods and services, changes in the way we value natural and social assets, and changes in what we define as success. It will require us to challenge many of the current assumptions that underlie a global economy that has seen high levels of economic growth, and undoubted human and social progress, largely on the back of the exploitation of natural resources, in particular cheap fossil fuels.

Challenging such assumptions will not be easy; it will require bold leadership, especially from government and business. Leadership in innovation will have to come from business, fuelled by its entrepreneurial dynamism; but this leadership will not be possible without an enabling policy environment, both domestically and internationally.

With the emerging economies exercising increasing economic and political influence – and in light of their role both as a bridge between the developed and developing world, and as greenfield economies in which new approaches to industrial development can be implemented – it is natural that we should be looking to these countries for leadership in both the public and private sectors. But is there evidence of such leadership? Or are there signs that this is imminent?

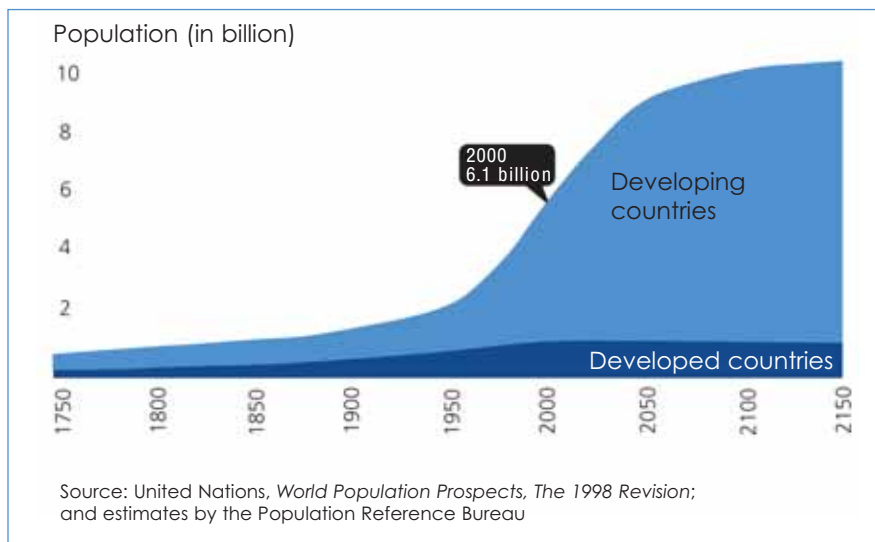


Figure 1 - World Population Growth, 1750 - 2150

“There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things”.

Niccolo Machiavelli
(The Prince 1532)

“The painful truth is that the present is a relatively comfortable place for those who have reached positions of mainstream political or business leadership.

This is the crux of the problem of sustainable development, and perhaps the main reason why there has been great acceptance of it in principle, but less concrete actions to put it into practice: many of those with the power to effect the necessary changes have the least motivation to alter the status quo that gave them power.”

Stephan Schmidheiny,
Swiss industrialist

In seeking to answer these questions, this report provides an analysis of the findings of a series of surveys conducted by WWF over the past three years in China, India, Russia, South Africa and the United Arab Emiratesⁱ. These surveys were undertaken by WWF's Trade and Investment Programme (TIP), which focuses on promoting sustainable international trade and investment in the BRICS group of emerging economies (Brazil, Russia, India, China, and South Africa)ⁱⁱ. The aim of the Programme is to promote sustainable development as the guiding principle for economic policy. It seeks to achieve this by examining the scope for the BRICS countries to become leading exporters of, and investors in, sustainable goods and services, whilst emerging as key actors in promoting a proactive international sustainable development agenda.

The country-specific surveys paint a vivid picture of the challenges facing emerging economies in promoting and supporting sustainable development. It is evident that each of these countries faces similar developmental challenges, yet each is shaped by its own unique historical factors and growth trajectories. From these challenges, opportunities arise for organisations such as WWF to engage as partners in promoting and supporting sustainable development.

Based on an in-depth analysis of the findings of these country surveys, the conclusions and recommendations of this report are intended to provide groundwork for the WWF TIP team to formulate policy options regarding the promotion of corporate social responsibility (CSR) and sustainable development, for both the private and public sectors in the BRICS economies. The review and analysis of regional CSR practices in this document is expressly limited to a consideration of the findings of the WWF survey reports, and explicitly does not reflect on other literature or studies relating to CSR and/or foreign direct investment in these emerging economies.

In seeking to identify policy options for promoting corporate social responsibility and sustainable development, it is necessary to have a common understanding of the nature and scope of these notoriously elusive and often misunderstood concepts. This section provides a framework for understanding each of these concepts and informs the analysis throughout this report.

Corporate Social Responsibility – An international definition

For the purposes of this report, it is suggested that a valuable basis for understanding CSR is provided in the recently approved working draft of the ISO 26000 standard applicable to Social Responsibilityⁱⁱⁱ. While ISO 26000 is intended to apply to all organisations, not just corporates, its proposed definition of social responsibility nevertheless has direct application in the context of “corporate” social responsibility.

This definition (see Box 1) is the product of an international multi-stakeholder process that has involved the participation of more than 400 experts in 80 countries, drawn from industry, government, consumers, labour, NGOs, academia and others sectors. The fact that this definition has been developed as part of the largest multi-stakeholder process ever undertaken by the International Organisation for Standardisation (ISO), arguably provides it with some legitimacy.

The increasingly prominent role of the private sector in the global economic arena, raises the question of how the focus can be shifted from mitigation of environmental impacts through implementation of minimum standards, to the promotion of leadership and solutions that deliver the sustainable goods and services the world requires.

WWF India Survey
pg 17

Box 1 – Defining (Corporate) Social Responsibility

Social responsibility: the responsibility of an organisation for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that:

- contributes to sustainable development, including health and the welfare of society;
- takes into account the expectations of stakeholders;
- is in compliance with applicable law and consistent with international norms of behaviour; and
- is integrated throughout the organisation and practiced in its relationships.

NOTE 1 Activities include products, services and processes

NOTE 2 Relationships refer to an organisation's activities within its sphere of influence

There are some important implications arising from this definition:

- In stating that an organisation's social responsibility behaviour must "contribute to" sustainable development, a clear and unambiguous link is established between (C)SR and sustainable development.

Related to this point, it is evident that the scope of social responsibility is not limited to purely "social" issues, but also specifically includes environmental issues.

- Significantly, social responsibility relates to the core activities of an organisation and thus goes beyond purely philanthropic activities (which is how many commentators and practitioners have traditionally viewed the concept); the definition makes explicit provision for both the decisions and activities of an organisation – including its products, services and processes – and also requires that (C)SR is integrated throughout the organisation and practiced within its sphere of influence, which includes, for example, its supply chain.
- Emphasis is placed on the need to be responsive to the expectations of stakeholders, a core element of most current applications of CSR.
- Interestingly, the definition also highlights the need for behaviour that is consistent with "international norms of behaviour", defined as "expectations of socially responsible organisational behaviour derived from customary international law, generally accepted principles of international law, or intergovernmental agreements (such as treaties and conventions) that are universally or nearly universally recognised." This has significant implications for application of the concept, particularly in countries whose governments themselves fail to respect these international norms.

While many of these implications might appear self-evident – and broadly reflect the understanding of CSR adopted by WWF in their survey – these characteristics of CSR are by no means universally appreciated within the business and CSR community. This is demonstrated in many of the corporate responses to the WWF survey, where a much narrower scope of the concept is often evident. The broader definition that is applied here has important implications for the development of policy responses aimed at promoting CSR within emerging economies (reviewed in Section 5).

Sustainable development: The five capitals model

A useful way to conceptualise the practical and policy implications of sustainable development, is to view it in terms of the economic concepts of capital and income. Maximum income (or the level of “sustainable consumption”) for a given society, is the level of consumption that can occur without depleting that society’s capital. It is suggested that the goods and services needed to improve the quality of our lives are derived from five types of capital assets:

- **Natural Capital** – renewable resources (such as freshwater, fisheries and wood), non-renewable resources (such as mineral deposits), sinks (that absorb, neutralise or recycle wastes) and ecological processes such as climate and disease regulation.
- **Human Capital** – people’s health, knowledge, skills, motivation and capacity for relationships, all essential for productive work and the creation of a better quality of life (includes what is also often referred to as “intellectual capital”).
- **Social Capital** – the institutions that help individuals maintain and develop human capital in partnership with others, such as families, communities, businesses, trade unions, schools and voluntary organisations.
- **Manufactured Capital** – material goods or fixed assets that contribute to the production process or the provision of services rather than the output itself; for example tools, machinery, buildings and infrastructure.
- **Financial Capital** – enables the other types of capital to be owned and traded, but has no intrinsic value itself; it is representative of natural, human, social or manufactured capital, and includes shares, bonds and banknotes.

An underlying principle of sustainable development is the recognition of the relationship and dependencies between these capital stocks (graphically illustrated in Figure 2). Manufactured and financial capital stocks are products of, and dependent on, human and social capital, which in turn are products of and dependent on natural capital.

Sustainable development depends upon maintaining and, where possible, increasing the stocks of these capital assets so that society can succeed in living off the income without depleting the capital. Crucially, all capital stocks are ultimately dependent upon maintaining a critical minimum stock of natural capital. This has significant policy implications for current economic development patterns, which are generally characterised by a transformation of natural capital – through the institutions, networks and efforts of social and human capital – into financial and manufactured capital. This is particularly significant in the context of the emerging economies included in the WWF survey, each of which is highly dependent on natural resources for its economic growth. The present crisis of sustainability arises from the fact that our current production and consumption patterns are depleting stocks of natural capital – as well as some aspects of human and social capital – largely because we fail to assign sufficient value (or to “internalise”) these capital stocks in our decision-making processes.

The fact that rapid economic growth is the only realistic means to lift the poor out of extreme poverty and the fact that most economic activities depend on product and services provided by ecosystems, necessitates the ushering of a new paradigm that enables rapid economic growth without compromising the capacity of the ecosystem to sustain, nurture and fuel economic development and human well-being.

WWF India Survey;
pg 9

Understanding sustainable development

The current paradigm of rapid economic growth along with the need of conserving the natural and ecological resources, challenges the very foundation of the manner in which business is done today. It challenges the traditional business management theory, which echoes Milton Friedman's famous statement that there is 'only one responsibility of business: to use its resources and engage in activities designed to increase its profits.'

WWF India Survey;
pg 9

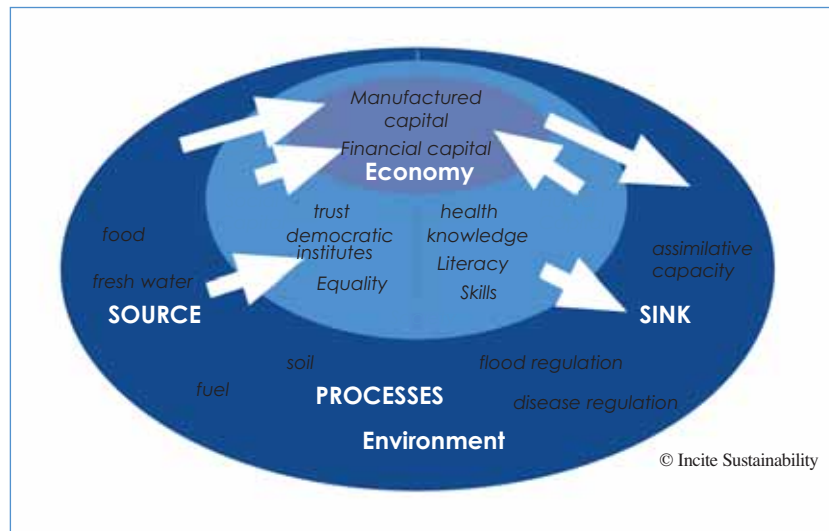


Figure 2 - Sustainable development: The Five Capitals Model

This approach to understanding sustainable development – which underlines the need, ultimately, to maintain a “critical stock” of natural capital – has profound implications for policy-makers striving to achieve sustainability. Applying this approach, it can be argued that:^{IV}

- population growth and/or growth in resource consumption rates cannot be sustained;
- the use of renewable resources must proceed at a rate that is less than or equal to the rate of natural replenishment; and
- the sustainable rate of using non-renewable resources can be no greater than the rate at which a renewable resource can be substituted for it.

This in turn suggests that efforts to promote economic growth, address social inequality, and maintain human wellbeing, should be informed by the following principles:

- dramatically increasing resource productivity;
- adopting biologically inspired production models (for example using current solar income, adopting cyclical rather than linear processes, celebrating diversity, and developing mutually beneficial relationships); and
- restoring (or at least not systematically degrading) natural capital.

Box 2 – The Five Capitals and Emerging Economies

The growth in emerging economies clearly illustrates the trade-offs between capital stocks:

- The growth of financial and manufactured capital is manifested in the positive growth of GDP and per capita incomes in each of the surveyed countries.
- Positive developments in human capital are reflected, for example, in increased life expectancy, literacy, educational attainment and GDP per capita for countries worldwide, mitigated by the prevalence of poverty on one hand and increasing diseases of affluence (obesity, heart disease and depression) on the other.
- Social capital reflects a mixed picture with positive developments, such as the increase in the number of democratic governments and the end of apartheid in South Africa, for example, being offset by persistent high levels of inequality and unemployment .
- With many emerging economies being highly resource dependent and energy-intensive, there is not surprisingly general evidence of deteriorating natural capital stocks. In many instances renewable and non-renewable resources are being exported at increasing rates from less developed to more developed countries (including, in particular, “resource-seeking” China). Natural capital constraints are increasingly becoming a limiting factor for the provision of goods and services, and for the development of human and social capital. The nature of these relationships is reviewed in more depth in Chapter 2.

2. RECENT TRENDS IN SELECTED EMERGING ECONOMIES

2.1
UNDERSTANDING
KEY TRENDS IN
EMERGING
ECONOMIES

The leading emerging economies are an increasingly powerful force in global economic, social and environmental affairs. They present the world's largest potential markets, and are the source of much of the world's natural and human capital. These economies each share features and challenges of both the developed and the developing world, and in this respect are in an ideal position to explore various options for addressing some of challenges and imbalances confronting humanity at a global level.

An important objective of this WWF study is to assess the extent to which emerging economies can play a leadership role in promoting a proactive international sustainable development agenda. This chapter reviews some of the current sustainability challenges facing each of these countries, with a view to understanding how this influences each country's current policy response to sustainability, and informing an assessment of their potential to demonstrate global policy leadership in this area.

Using the five capitals model as a framework, this section provides a brief overview of some of the trends in each country that are either informing the nature of CSR activity, or that are relevant to the development of CSR policy in that country. While this brief review is based on the content of the WWF surveys, a more current data set has been provided to provide additional context. This data set is provided in a consolidated table on page 26, with a brief accompanying explanation and source information.

Manufactured and Financial capital

Positive growth of financial and manufactured capital (measured for example by GDP, per capita incomes and market capitalisation), is perhaps most vividly displayed in the economies of China and India, where massive domestic markets and a low-cost high-skills employment base has proved particularly attractive to investors. China is viewed as the predominant emerging market in the world, although some experts suggest India might surpass China in economic terms by 2040 due, amongst other things, to a better innovation climate. Through sheer economic clout, these two emerging economic powerhouses will have a profound influence on the shape and success of development at a global level.

Manufactured and Financial Capital	China	India	Russia	South Africa	UAE
GDP growth rate (% annual)	11.6	9.7	7.4	5	8.5 (2005)
GDP per capita (US\$)	1713	736	5336	5109	28612
Market capitalisation of listed companies (% of GDP)	91.3	89.4	106.7	280.4	173.9 (2005)

Table 1 - Country performance on selected stocks of manufactured and financial capital

Note: references and explanations are provided in the consolidated Table 4 on page 26

This window of opportunity (in China) exists mainly due to two converging factors: Firstly, much investment in China involves green-field programmes, including the building of new infrastructure. This creates an opportunity to think beyond the simple industrial pattern western countries are now trying to get away from. The second factor is that Chinese investments are happening just as new sustainable solutions are becoming commercially competitive.

WWF China Survey; pg 21

“No effort to promote global sustainability can ignore the oil exporting Arab countries.

These countries are significant in several ways, but two areas in particular make them potential global leaders in the provision of solutions...

The first of these relates to the decisions being made by these countries in terms of investing the enormous sums of money that high oil prices have delivered...

Secondly, these countries are transforming extremely rapidly in terms of urbanisation and diversification of their economies.

As a result, they are well-placed to assume global leadership in a transition towards sustainable urban solutions”

WWF UAE Survey; pg 8

Emerging economies seek to build their economic strength by enhancing trade connections between them. China is Russia’s most influential trading partner. For Rosneft (Russia’s largest oil company) to rival ExxonMobil and BP by 2010, it needs to establish production bases in other parts of the world, and it has already done so in China. Bilateral trade between China and the Arab states went up from US\$2.42b in 1991 to US\$36.71b in 2004, increasing by 14 times in as many years. South Africa is Russia’s primary foreign investment destination, with Russian involvement in the mining sector and collaboration on numerous energy projects. South Africa was also China’s first African trade partner.

These connections do not come without a price. In South Africa, for example, the influx of cheap imported goods threatens a range of local labour-intensive industries. The clothing and textile industry cannot compete with China’s cheap and non-unionised labour. South Africa’s trade deficit with China has risen from US\$24m in 1992 to more than US\$3.3bn in 2005, with non-renewables (mining) providing half of all South African exports to China.

Social and Human capital

Growth in financial and manufactured capital has had both positive and negative impacts on the development of social and human capital. The general increases in life expectancy, educational attainment, GDP per capita and in the number of democracies has been accompanied by persistent high levels of poverty, inequality and unemployment, and an increase in HIV/Aids and related ailments.

Social and Human Capital	China	India	Russia	South Africa	UAE
Population growth (% annual)	0.6	1.4	-0.5	1.1	3.5
Human Development Index	0.777	0.619	0.802	0.674	0.868
Inequality: Gini Coefficient)	46.9	38.8	39.9	57.8	-
Unemployment rate: % of total labour force	4.2	4.3	7.8	26.6	2.3
% of total population urban	40.4	28.7	73	59.3	76.7

Table 2 – Country performance on selected stocks of human and social capital

Note: references and explanations are provided in the consolidated Table 4 on page 26

Apart from Russia, population growth in each of the surveyed emerging economies is positive. Although policies in China have significantly decreased population growth rates, the increase in consumption nevertheless remains staggering. By 2020, for example, 140 million automobiles are expected to be on Chinese roads, a sevenfold increase on current numbers. Population growth in the UAE is amongst the highest in the world – in a region where the natural capital base of renewable resources (rainfall, soil fertility, ambient temperatures) does not encourage abundant human habitation.

Although most of the countries have shown some improvements in their Human Development Index, several of them display high levels of inequality. In India, for example, a large proportion of the population lives in poverty, a fact which, together with a rapidly growing middle class and influential group of industrialists, make India's domestic challenges representative of global sustainability challenges.

In post-Soviet Russia, high oil prices have grown the wealth of a small proportion of the population, creating a significant disparity of income within the Russian population. Since 1998, however, poverty rates have halved and regional disparities declined to some degree. The number of people living below subsistence level has decreased, unemployment has decreased to 7.8 percent and the real disposable income of the population has increased.

The early days of the oil industry in the UAE were only marginally better than the decades of poverty that preceded them. Locals were only allowed to participate in the 'black gold' as hired hands. Today, oil revenues in the Arab Gulf states have effectively led to the creation of welfare states.

Although South Africa has a higher GDP per capita than some other emerging economies, its human development index languishes below that of the other BRICS countries and its Gini coefficient (showing levels of inequality) puts it amongst the most unequal societies worldwide, reflecting (at least in part) the country's colonial and apartheid past. This inequality has been further compounded by persistently high levels of unemployment and the impact of HIV/AIDS, which affects as many as one in nine South Africans and which presents a major threat to economic growth. While race-based inequalities fuelled by the apartheid political legacy have undoubtedly had the most profound impact on human and social capital in the country, in the 21st century, the distinction of 'wealthy' and 'poor' is increasingly replacing that of 'black' and 'white' as a more relevant measure of social development.^v

One of the most damaging long-term legacies of the past – and one of South Africa's foremost constraints on economic growth – is a shortage of skilled labour, together with huge surpluses of unskilled or semi-skilled labour. High levels of poverty remain despite government investment in social services and manufactured capital, and initiatives to address poverty through equitable growth. Black economic empowerment (BEE) policies have selectively enriched a newly-created, politically-connected black elite; at the same time, however, black ownership on the Johannesburg Stock Exchange (JSE) remained as low as 9.4 percent in 2002 – almost ten years after the democratic transition.

The problem with most scenarios is that they take for granted that China will pursue a model of economic growth analogous to that of today's industrialised countries, with corresponding intensification of environmental impacts.

If we are to reach sustainable development it is however obvious that we need to find another path.

WWF China Survey;
pg 16

Urbanisation rates present another key trend in emerging countries' social capital. Cities consume 75 percent of the world's resources, produce 75 percent of its waste and generate 80 percent of all CO₂. The urbanisation rate in China increased from 17.4 percent in 1978 to 41.9 percent in 2005, with almost ten million people moving from rural areas to the cities each year. African cities are expected to double in size by 2030. In South Africa, separate living areas (a legacy of apartheid urban planning) has resulted in fragmented and sprawling cities, placing severe pressure on transport infrastructure.

As many countries in the Gulf region undergo a rapid transition to highly urbanised societies, the opportunity to create sustainable urban solutions from the outset is significant. These are being explored in large-scale projects such as the Masdar Initiative, due to open in Abu Dhabi (UAE) in 2009, which aims to create a city that is both zero carbon-producing and zero waste-producing. This is also the case in China, where Shanghai and Baoding have become the first cities to take part in the WWF Low Carbon City Initiative.

Natural capital

All of the emerging economies that formed part of this study demonstrate a significant degree of economic dependence on non-renewable resources, and are generally characterised by energy-intensive economic profiles, deteriorating stocks of natural capital and notable vulnerability to the physical and policy impacts of climate change.

Natural Capital	China	India	Russia	South Africa	UAE
Environmental Sustainability Index (ESI) Score	38.6	45.2	56.1	46.2	44.6
CO ₂ emissions (metric tons per capital)	2.6	1.1	10.0	9.0	49.1
Energy use (kg of oil equivalent per capital)	1316	491	4517	2722	11436
Water withdrawals per capita (m ³ per person)	494	635	527	348	818
Total ecological footprint	1.6	0.8	4.4	2.3	11.9

Table 3 – Country performance on selected stocks of natural capital

Note: references and explanations are provided in the consolidated Table 4 on page 26

“I believe that the United Arab Emirates, with the highest carbon emission per capita in the world, can play a key role in utilizing and supplying the world with clean energy, such as hydrogen and solar. We have a huge opportunity and potential to achieve a lower environmental pollution and maintain the country’s high economic growth rate as suppliers for a global clean energy demand and energy efficient solutions.”

Dr. Ayoub Kazim,
Executive Director
of Dubai Academic
City

UAE WWF Survey
pg 54

Global energy use is increasingly rapidly, with demand expected to increase by more than 50 percent by 2030, according to current trends. Intense competition for limited oil supplies is set to exacerbate many existing global tensions and has consequences for security policy around the world. Reduction of oil dependency and investigating alternate means to provide welfare to their citizens is becoming an increasingly important priority for emerging economies.

The surveyed countries are amongst the largest producers of greenhouse gas (GHG) emissions in the world. The UAE, Russia and South Africa all produce significantly more CO₂ than the world average of three tonnes per capita per annum. The energy source for 90 percent of South Africa’s electricity is coal; 80 percent of emissions are attributable to the energy sector. Reliance on oil imports, coupled with price rises, raises the spectre of higher inflation and input costs. Only 5.5 percent of primary energy supply is from renewable sources. Regular electricity blackouts in major urban centres during the first half of 2008 served to highlight the massive investment required in energy infrastructure after years of under-investment.

China is the world’s second largest user of energy after the United States. In 2005, more than half the world’s increase in energy consumption occurred in China. This consumption is set to double in the next 20 years. By 2020, if it follows a traditional growth path, China’s carbon emissions will exceed those of the United States, mainly as a result of coal burning and rapid motorisation. Approximately 77 percent of Chinese energy is provided by coal.

Russia risks turning into a ‘petrostate’ and becoming ‘addicted to oil’ as current economic growth, fuelled by high oil prices, is derived primarily from non-renewable sources of natural capital. The country’s current fuel and energy balance raises serious concerns regarding the future state of the environment – this sector alone accounts for 25 percent of GDP. Russia boasts some of the world’s largest reserves of mineral resources (17.3 percent of coal reserves, 6.2 percent of oil, 26.6 percent of natural gas). Having lost its former status as a nuclear superpower, Russia is in the process of establishing itself as an energy superpower and guarantor of global energy security. In 2004, President Vladimir Putin formulated an ambitious goal of doubling GDP by 2012, based largely on mineral extraction and heavy industries. The energy sector accounts for 90 percent of the country’s emissions, which are expected to exceed their 1990 level by 2020.

India possesses significant renewable and non-renewable energy reserves with coal constituting 51 percent of primary energy resources. Despite this resource potential and a significant growth in energy supply over the past decade, serious energy shortages have led to a reliance on increased imports to meet growing oil, coal and natural gas demand. Like South Africa, India’s power sector has experienced severe supply shortages. The oil and gas sector remains one of the largest contributors to state funds, with four Indian oil companies currently on the Fortune 500 list of companies.

The UAE has the highest carbon emission per capita in the world. The doubling of oil revenues from 2002 to 2006 has created significant wealth in the Gulf region and is rapidly accelerating economic development in the Arab world. Holding more than half the world's proven oil and gas reserves, the Arab world's geopolitical status, based on these resources, is significant. Cognisant of the non-renewable nature of their resource base, a number of countries in the Gulf region have implemented policies aimed at diversifying their economies away from oil dependence. Increases in oil prices have enabled the Gulf Cooperation Council (GCC) economies to develop new economic sectors such as construction, tourism and finance.

Inextricably linked to energy policy and dependence on fossil fuels, emerging economies will be required to play a significant role in the global response to climate change. The impacts are likely to be significant. In South Africa, for example, changing climatic patterns are likely to have particularly detrimental effects on agriculture and water-intense industries. Similarly – due to the country's high emissions on a per capita and GDP basis – the country is particularly exposed to the international policy implications of climate change.

2.2
IMPLICATIONS
OF CURRENT
TRENDS FOR
THE CSR
AGENDA

The above overview indicates that emerging economies are developing at a cost. This cost is expressed in the present – for example through persistent levels of poverty, inequality and unemployment – and is likely to mount significantly in the future, as pressure on fossil fuel reserves and climate change impacts tighten their grip.

This suggests strongly that emerging economies should be exploring different growth trajectories to those followed by the developed nations of today, taking careful account of social capital impacts and the deteriorating natural capital base in their business and economic growth models.

Indicator	China	India	Russia	South Africa	UAE	Indicator Set (Source of Data)	Year
Manufactured / Financial Capital							
GDP Growth	11.6	9.7	7.4	5	8.5 (2005)	The World Bank	2006
GDP per capita (US\$)	1713	736	5336	5109	28612	UNDP Human Development Reports	2005
Market capitalisation of listed companies (% of GDP)	91.3	89.4	106.7	280.4	173.9 (2005)	The World Bank	2006
Social Capital							
Gini Index (Gini Coefficient expressed as a %) ¹	46.9	36.8	39.9	57.8	/	UNDP Human Development Reports	2007
Human Poverty Index for developing countries value ²	11.7	31.3	/	23.5	8.4	UNDP Human Development Reports	2007/08
Undevelopment rate total (% of labour force) ³	4.2	4.3	7.8	26.6	2.3	UNDP Human Development Reports	2005
Population Urban (% of total population) ⁴	40.4	28.7	73	59.3	76.7	UNDP Human Development Reports	2005
Percent of urban population living in slums (%) ⁵	37.8	55.5	5.6	33.2	2	World Resource Institute (WRI)	2001
Human Capital							
Population Growth (% annual)	0.6	1.4	-0.5	1.1	3.5	The World Bank	2006
Population annual growth rate (% 2005 -15) ⁶	0.6	1.4	-0.5	0.5	2.5	UNDP Human Development Reports	2005 - 2015
Human Development Index (HDI) value ⁷	0.777	0.619	0.802	0.674	0.868	UNDP Human Development Reports	2005
Life expectancy at birth (years)	72.5	63.7	65	50.8	78.3	UNDP Human Development Reports	2005
Adult literacy rate (% aged 15 and older)	90.9	61	99.4	82.4	88.7	UNDP Human Development Reports	1995 - 2005
Natural Capital							
Environmental Sustainability Index (ESI) Score ⁸	38.6	45.2	56.1	46.2	44.6	Yale University	2005
CO ₂ emissions (metric tons per capita)	2.6	1.1	10.0	9.0	49.1	The World Bank	2000
Energy use (kg of oil equivalent per capita)	1316	491	4517	2722	11436	The World Bank	2005
Water withdrawals per capita (m ³ per person)	494	635	527	348	818	World Resources Institute (WRI)	2000
Total Ecological Footprint ⁹	1.6	0.8	4.4	2.3	11.9	Worldwide Fund for Nature (WWF)	2006

Table 4 – Consolidated country status review in terms of selected capital stocks

Definitions and notes (from source data):

- ¹ The Gini coefficient is a measure of statistical dispersion most prominently used as a measure of inequality of income distribution or inequality of wealth distribution. It is defined as a ratio with values between 0 and 1 - whereby 0 represents absolute equality, and 1 represents absolute inequality.
- ² The Human Poverty Index for developing countries (HPI-1) measures human deprivation in the same aspects of human development that the HDI (see 6 below) measures capabilities: vulnerability to death as measured by the probability at birth of not surviving to age 40; exclusion from the world of knowledge - as measured by the adult illiteracy rate; lack of access to overall economic provisioning - as measured by the percentage of the population not using an improved water source and the percentage of children under weight for their age. The higher the value, the more a country is 'deprived'.
- ³ Data are not strictly comparable across countries as they were compiled using different sources. As a result data may differ from the standard definitions of unemployment and the informal sector.
- ⁴ Because data are based on national definitions of what constitutes a city or metropolitan area, cross-country comparisons should be made with caution.
- ⁵ The actual proportion of people living in slums is measured by a proxy, represented by the urban population living in households with at least one of the four characteristics: (a) lack of access to improved water supply; (b) lack of access to improved sanitation; (c) overcrowding (3 or more persons per room); and (d) dwellings made of non-durable material.
- ⁶ Data refer to medium-variant projections. Population estimates for China include Taiwan Province of China.
- ⁷ The Human Development Index (HDI) is an index combining normalized measures of life expectancy, literacy, educational attainment, and GDP per capita for countries worldwide, to measure human development. Performance in each dimension is expressed as a value between 0 and 1. The HDI is then calculated as a simple average of the dimension indices: $HDI = 1/3 (\text{life expectancy index}) + 1/3 (\text{education index}) + 1/3 (\text{GDP index})$. A higher value indicates a higher level of development.
- ⁸ The Environmental Sustainability Index (ESI) is a composite index tracking 21 elements of environmental sustainability covering natural resource endowments, past and present pollution levels, environmental management efforts, contributions to protection of the global commons, and a society's capacity to improve its environmental performance over time. A higher value indicates a better environmental performance.
- ⁹ Total Ecological Footprint is a measure of human demand on the Earth's ecosystems. It represents the amount of biologically productive land and sea area needed to regenerate the resources a human population consumes and to absorb and render harmless the corresponding waste. To be ecologically sustainable, each person living on the planet should consume no more than 1.8 hectares of land for their total ecological footprint.

3. CSR IN SELECTED EMERGING ECONOMIES

The manner in which social responsibility is expressed varies widely between a given set of individuals, companies or countries. The WWF surveys of CSR in emerging economies suggest that the general approach to CSR is strongly linked to local political and economic factors; this holds important implications for the nature of a possible policy response to CSR in these economies.

3.1 COUNTRY APPROACHES TO CSR

This section provides a brief review of the status of CSR in the emerging economies studied by WWF, with the aim of identifying the core drivers behind the emergence of CSR, and to understanding how CSR is being expressed and understood in each of these countries. This analysis is limited to a consideration of the findings of the WWF surveys.

China – Facing up to resource constraints

The WWF surveys suggest that CSR is a relatively ‘recent issue’ to emerge in China. Where in the past, companies were highly reliant on government production quotas, economic reform has led to fundamental change with drivers towards increased efficiency in an open market. This has had both positive and negative impacts on CSR; while efficiency improvements bode well for reduced resource use, there have also been concerns regarding a ‘race to the bottom’, in which environmental and social standards are lowered due to competitive pressures.

Natural resources are increasingly recognised as a limitation on Chinese economic growth. The per capita water supply, for example, is less than a third of the world’s average. Responding to this challenge, the government has introduced various legislative developments such as the Law of the Circular Economy,^{vi} leading amongst other developments to a focus on eco-cities.

Various specific CSR initiatives have been undertaken:

- The China Enterprise Confederation (CEC) and the China Business Council for Sustainable Development (CBCSD) have launched initiatives to promote CSR in China, including several important events
- Several universities have also engaged with CSR issues
- CSR is becoming of ever greater interest to the Chinese media
- The programme of Leadership for Environment and Development International (LEAD) has conducted a series of CSR research projects in China, with assistance from the UK Department for International Development (DFID).
- Intensifying environmental problems in China have encouraged Chinese companies to take part in environmental actions, as well as encouraging policy initiatives such as demonstration projects illustrating the “circular economy”.

Notwithstanding these developments, some of the corporate responses to the WWF survey showed a distinct lack of interest in sustainability issues (see quotes alongside), as well as limited evidence of the belief that there may be a “business case” associated with improved environmental performance. Perhaps surprisingly, many of the companies favoured stronger rules for environmental reporting, transparency and monitoring for larger companies. Together these elements suggest the predominance of a compliance mindset to sustainability issues.

By 2020, China will not be able to supply itself with oil, iron, steel, aluminium, sulphur, and other minerals. Within the coming year, China looks likely to overtake the US as the world’s single biggest consumer of aluminium. The country has more aluminium smelters than the rest of the world put together. More than 200 major cities lack adequate water, and some 50 of them face acute shortages

WWF China Survey; pg 25

“Don’t disturb us with questions like this. We don’t care about these issues and we don’t want to answer the questionnaire.”
“We don’t like these questions, we don’t want to talk to you and we don’t care if you publish our name.”
Company responses to WWF China survey

WWF China Survey; pg 25

India – Building on historical social conscience

Although formal usage of the term ‘CSR’ is relatively new in India, the WWF report maintains that “social conscience has been a part of business activities since long before the industrial revolution in India.” Arguing that it has deep roots in the Indian business community, the report suggests that major business houses – such as the Tatas, Birlas and Ambanis – have sought ways in which to address social needs, beyond the pursuit of short-term profits, for as long as they have existed.

Notwithstanding these deep roots, it is widely agreed that the focus of CSR in India is still primarily on philanthropic activities^{vii}. More recently there have been signs of a broadening of the understanding and take-up of CSR within the Indian business sector:

- Some of the larger companies are beginning to produce sustainability reports, and several companies participate in global certification initiatives.
- A recent CSR survey found that 76 percent of Indian corporations have defined environmental requirements in their corporate policies.
- The Confederation of Indian Industry, the country’s largest industry body, has played a significant role in promoting CSR amongst its members; it has for example adopted a set of Social Principles, established a Centre of Excellence for Sustainable Development, and hosted numerous seminars on social responsibility issues.

Interestingly, the survey found that few companies cited increased market share or consumer demand as reasons for assigning importance to environmental considerations in their critical business decisions. This mirrors the findings which suggest that there are currently insufficient drivers for CSR in India.

South Africa – Predominant focus on Black Economic Empowerment

The apartheid and colonial legacy has significantly influenced the context of CSR in South Africa. Although many of the challenges the country faces – such as poverty, inequality, skills development, HIV/AIDS and water scarcity – are not unique to the country, its history has given these challenges a particular character, informing the nature of the business response to addressing them. In addition, certain challenges – most notably black economic empowerment and ethnic and gender transformation – are specific to the country and have had a strong impact on local CSR activities.

An important consequence of South Africa’s history is that big business in particular is often faced with significant distrust from civil society organisations, arising from questions relating to the extent of the business sector’s support for the apartheid system. In addition to responding to these low levels of trust, some of South Africa’s socio-economic challenges affect companies directly, with a result that enlightened self-interest (or even business survival) plays a prominent role in informing companies’ responses. The most prominent example of this trend is corporate responses to HIV/AIDS, with many large companies implementing targeted programmes to mitigate the effect of the epidemic on their workforce.

The historically dominant conception of CSR in South Africa has been in terms of philanthropic initiatives. Since the mid-1990s, however, a

In a situation where the world requires innovative companies to address the serious global challenges faced by humanity, including high resource consumption, pollution, population growth, demographic and geopolitical changes, India, with its rapidly changing business environment, may indeed prove to be one of the most important countries on the planet over the next several decades

WWF India Survey; pg 8

Very few (South African companies) identified the goods or services they produced as having an actual environmental benefit. Not one ICT company, for example, mentioned its role in reducing the environmental impact of transportation and logistics through dematerialisation or substitution of transport by tele-services. Only one financial company recognised the impact of its lending practices

WWF South Africa Survey; pg 32

broader view of CSR has begun to emerge. This was informed by various developments, including reinvestment in the country by certain multinationals, and decisions by several large South African companies to move their primary stock exchange listings to London, where they faced more stringent listing requirements and greater scrutiny by large institutional investors and international NGOs. The role of investors in promoting CSR has in general become more prominent, following the emergence of dedicated CSR indices on major stock exchanges, such as the Dow Jones Sustainability Index (USA), the FTSE4Good (United Kingdom) and the Johannesburg Stock Exchange Social Responsibility Index (South Africa).

Some South African companies have also seen market benefits in adopting a growing range of social and environmental standards, such as the ISO 14000 series, the Ethical Trade Initiative and the Forest Stewardship Council certification. These pressures – together with increasing regulatory and corporate governance requirements (such as the local King II code), and the recent emphasis on black economic empowerment (BEE) Charters and Scorecards – have tended to result in a corporate response focused primarily on risk avoidance and compliance, rather than on the adoption of innovative approaches. Interestingly, the WWF survey found for example that very few respondents identified the goods or services they produced as having an actual environmental benefit, with fewer still identifying ‘environmental sustainability’ as being something that improved export possibilities.

Russia – From Soviet-era dependency to petro-state oligarchy?

“Russia’s companies are becoming more sophisticated and modern. Resolutely moving away from their Soviet-era dependence on the state in all strategic matters, the most progressive and successful corporations are exhibiting a true entrepreneurial spirit and becoming global trendsetters in certain corporate activities.”

WWF Russia Survey; pg 26

The Russian corporate response to social responsibility has been significantly informed by its recent past, and in particular the collapse of the Soviet Union. Over the past several years, Russian companies have undergone a rapid transformation from state-owned enterprises, which possessed very little independence and autonomy in strategic decision-making, into corporate entities. This transformation was launched in the early 1990s with the broad-scale privatisation of state-owned corporations, and as a result, the contribution of private companies to GDP grew from 5 percent in 1991 to 70 percent in 2000. Russia’s larger companies are becoming increasingly sophisticated and more integrated into the global economy. By becoming global players, they are being exposed to international best practices, including those in the sphere of environment protection, CSR and sustainable development.

According to the WWF survey, the nature of CSR in the Russian corporate sector differs significantly from that of its peers in the BRICS group of emerging markets. Under the previous political dispensation, many companies, particularly those operating in remote areas, were often the single largest employer in a particular region, and as a result were compelled to take on significant social functions, often being responsible for managing assets such as schools, hospitals, public roads, farms, and theatres. Following the economic transition in Russia during the 1990s, when privatised companies were undergoing significant restructuring to streamline operations, they largely divested themselves of these non-core social assets, transferring them to local municipalities.

Due to this heritage, CSR with a local slant is high on the corporate agenda in Russia, with companies often being expected to focus on social investment in the regions where they operate. In his second term of office, and in line with his key objective of combating poverty, President Putin urged companies to become 'better corporate citizens' with the aim of shifting some social functions from the state back onto the private sector.

UAE – Philanthropic family run businesses?

The findings of the WWF survey suggest that there is limited evidence within UAE companies of innovation, or of a commitment to addressing and improving long-term social and environmental welfare. Secure in the assumption that social issues will be addressed by the 'welfare state', the report quotes a self-characterisation of Arab companies as being family-run businesses where 'secrecy, individualism, bad decision-making and poor management practices are the rule rather than the exception.'

CSR appears to be the preserve of a network of business-oriented non-governmental organisations (such as the Dubai Centre for Corporate Values, the Dubai Ethics and Resource Centre, and the Emirates Centre for Entrepreneurship). These organisations run initiatives, programmes and events, in order to promote the awareness and practice of social responsibility and foster corporate integrity. They also develop programmes that focus on entrepreneurship, youth education and leadership development, and protect the environment through education, action programmes and community involvement.

Notwithstanding these various initiatives, the WWF survey suggests that many UAE companies continue to view CSR largely in terms of philanthropic activities such as sponsoring conferences or contributing to worthy causes.

“So what are Arab companies doing to position themselves to survive in the global economy? It seems nothing. Arab business houses tend to be family run businesses where secrecy, individualism, bad decision-making and poor management practices are the rule rather than the exception”

Chairman of the Al Habtoor group

WWF UAE Survey; pg 54

The brief review of the status of CSR in these emerging economies – as informed by the findings of the WWF survey – has highlighted the significance of local political, cultural and socio-economic contexts on the manner in which businesses express their social responsibilities and respond to the challenges of sustainable development.

The importance of local context is evident in various forms:

- **Political legacy:** Political developments in Russia and South Africa have arguably resulted in both countries reflecting a compliance-oriented focus, with efforts directed mainly towards building social and human capital. This is expressed in President Putin's desire for Russian companies to be 'better corporate citizens' that build on their tradition of being significant providers of social services, and South Africa's transition from its apartheid legacy, with businesses expected to play a leading role in effecting social and economic transformation.

3.2 NATIONAL FACTORS INFORMING APPROACH TO CSR

- **Cultural:** Arising from their specific spiritual and cultural contexts, the CSR practices of businesses in India and the UAE tend to have a predominant focus on making philanthropic contributions aimed at addressing primarily social concerns.
- **Natural capital constraints:** Resource constraints are most pressing in China, where water and raw material shortages, limited arable land and increasing pollution levels are resulting in increasing legislative responses from government, as well as forcing resource-based companies to look abroad for sources of supply of these resources. The surveys suggest that with few exceptions, there is a predominantly compliance-oriented focus to environmental and CSR issues.
- **Economic and trade:** As markets in all emerging economies become more open, local companies increasingly engage with foreign competitors, resulting in greater exposure to CSR practices, and in many instances, an increased expectation to secure environmental and social certification as a condition of market access. Surprisingly, however, most of the companies surveyed did not identify improved environmental or social performance as an area that in itself improves competitiveness and export possibilities; this suggests that compliance-oriented considerations, rather than product and process innovation, continue to be the primary driver of such performance improvements.

In general, the WWF surveys suggest that, notwithstanding the evident resource constraints and high levels of resource-dependency of these emerging economies, the response to CSR has typically not resulted from a systematic and informed analysis of natural capital constraints. With social and human capital concerns – such as unemployment, poverty, and HIV/AIDS – continuing to be a more visible and immediate priority, the primary response has tended to be a singular focus on increasing economic growth, even though this may occur at the expense of long-term viability of natural capital stocks. Perhaps a classic irony of emerging economies can be seen in the fact that just as China increasingly recognises the serious limitations of its natural capital stocks, government involvement in regulating production quotas and methods for Chinese companies has been dismissed.

4. ANALYSIS OF WWF SURVEY RESULTS

The full range of companies surveyed by WWF indicated that they regard CSR as being primarily concerned with “core values”. Further analysis of the survey responses, however, suggests that in fact CSR is seen to be rather distinct from the core of the business. Its expression in emerging countries certainly does not appear to challenge many of the assumptions upon which their core business rests (energy and resource dependency, for example). When analysing the reports, it was difficult to ascertain what respondents actually understood by the term CSR.

Generally speaking, CSR in emerging economies tends to be about corporate social investment, philanthropy or a check-box exercise for legal or foreign export requirements. This reflects a view of CSR as essentially a non-core activity – more concerned with how a company decides to direct a minor percentage of pre-tax profits, than with how it makes those profits in the first place; in other words, companies are generally more concerned with meeting compliance regimes, than with directing their resources to find innovative solutions to social and environmental challenges.

Box 3 – The WWF surveys: Methodology and limitations

In assessing the outcomes of the WWF surveys, and seeking to draw broad conclusions and develop policy responses, it is important to appreciate the methodology that was used in the surveys and to acknowledge some of the associated limitations.

- **Sample size:** While the response rate was broadly similar (and relatively low) the sample size varied significantly amongst the surveyed companies.
 - China: 182 companies approached (50 companies from the Top 100 and between 20 and 30 companies from each of five key sectors); 61 responded (34 percent response rate)
 - India: 192 companies contacted; response rate of 27 percent and 31 percent for each phase
 - Russia: 310 companies approached; 67 responded (21 percent response rate)
 - South Africa: 210 companies approached; 50 responded (23 percent response rate)
 - UAE: 130 companies approached, 23 responded (17 percent response rate)
- **Sectoral representation:** the nature of the sectors represented varied between countries, and was not always characteristic of the most predominant sectors (in terms of economic size or sustainability impact).
- **Questionnaires:** The actual questions asked varied across the country surveys. Some of the surveys included questions relevant to the country or specific market conditions. Thus the data was not uniform and an accurate comparative analysis was in some instances not possible.

Based on the CSR definition discussed in Chapter 1, companies might seek to behave responsibly in various ways:

- Firstly, on a most basic level and affording them the right to operate, is compliance with social and environmental legislation.
- Secondly, companies have a clear and growing incentive to reduce costs by improving their operational efficiency with respect to materials, energy and water use.
- Thirdly, seeking to move beyond compliance, more forward-looking companies might engage a range of stakeholders to inform their thinking and strategies regarding sustainability issues.
- Finally, companies currently defining the cutting edge of CSR would tend to use the challenge as an incentive for innovation.

Within this simple framework, how do companies in emerging countries fare?

Ensuring compliance

In terms of compliance, the majority of companies surveyed (more than 95 percent) claim to follow national laws on environmental issues. With the exception of South Africa, however, few companies appear to be moving beyond legally required environmental protection standards, and even fewer claim to be lobbying for increased legislation. While this is understandable for a business-as-usual scenario (in which the focus is on externalising costs as much as possible), in the context of increasingly evident resource constraints and climate change impacts, it suggests a predominantly short-term mindset.

The survey reports that 45 percent of South African companies consider themselves to go beyond standards, with 10 percent suggesting tougher environmental standards. This is an unexpected result; it may reflect the fact that a number of companies participate in the process of legislative review in South Africa (which includes, but is not specifically aimed at, environmental and social legislation).

In general, the surveys across all countries reflect calls for strengthening the rules on reporting, transparency and monitoring of CSR and related activities. The results suggest that South African companies are at the forefront of disclosure, with companies in the UAE generally indicating low levels of disclosure.

Interestingly, there appears to be general support for greater use of environmental and social certifications, with a preference that these should be at the international, rather than national, level. The Russian survey, for example, found that 73 percent of companies preferred international standards, while being divided on the effectiveness of state environmental policies, with a full 80 percent of Russian companies considering eco-labels and certification to be “very important”.

Improving efficiency

Efficiency initiatives reflect on material, energy and water intensity of products and processes. Where these are integrated into production systems, they tend to reduce costs by optimising resource use. As might be expected, the idea of improved efficiency received great support from surveyed companies. In practical terms, however, short of “tele-work” and some retrofit improvements, survey responses were short on detail and there did not appear to be an overwhelming commitment to implementation of specific initiatives. It was also evident that while companies generally supported the idea, they were quite clearly not willing to take the lead in promoting efficiency and were looking to government for support. This was particularly evident in the UAE.

Engaging stakeholders

Virtually all companies surveyed expressed a strong commitment to engage with stakeholders. Engagements and potential partnerships are being facilitated by a number of business-oriented organisations (such as the China Business Council for Sustainable Development, the National Business Initiative in South Africa, or the Dubai Centre for Corporate Values in the UAE). Actual results, in performance terms, of such engagements or partnerships were not reported. There is also fairly limited evidence of business networks being used to take CSR and sustainability issues more seriously, for example by lobbying for proactive legal reform or by integrating sustainability issues throughout supply chains.

Value creation and innovation through CSR

Compliance, efficiency and stakeholder initiatives are useful. They all contribute to **protecting value** by ensuring the right to operate, reducing costs and promoting good corporate citizenship. However, they are limited in that none of these approaches lead companies to **create value** by encouraging innovative responses to social and environmental challenges. They are not about innovation; they tacitly maintain the status quo (albeit an improved version). None of these approaches sufficiently challenge existing assumptions about doing business; they simply do not provide the “new thinking and leadership” that is anticipated from emerging economies. They may buy time and can function as learning platforms, but it is not evident that this learning is taking place in a systematic or conscious way.

Glimmers of hope are evident in the dialogue sphere; in 2006, the United Nations organised a World Summit on Innovation and Entrepreneurship in Oman in the Gulf Region. The links between economic performance and a knowledge-based economy were widely discussed, providing an opportunity to consider sustainability as a driver for innovation and the potential for the Arab States to play a leading role in this regard. Whether UAE companies take the opportunity to turn this talk into action remains to be seen.

Although the surveys offer little encouragement in respect of innovative responses, this does not necessarily imply that new thinking is not happening. It is quite possible that many new and exciting developments are taking place, but that these were not reported in the surveys because companies effectively equate CSR with social investment and environmental compliance. In other words, the more innovative initiatives may be overlooked as

“What innovation is there really? We in Dubai have done a basic cut-and-paste job with very few exceptions. What was the last innovation you heard of from the Arab world?”
Mishal Hamed Kanoo, deputy Chairman of the Kanoo group

WWF UAE Survey; pg 41

respondents explicitly regard CSR as a non-core activity. Truly innovative approaches earn that distinction precisely because they are central to the core activities of businesses.

Is this leadership?

In personal terms, the term “leadership” tends to be associated with individuals who display high levels of inspiration, a clear sense of purpose, optimism, co-operation, self-awareness and integrity. In a similar vein, and in keeping with the definitions offered in Chapter 1, leadership in CSR would presumably be vested in a country (or company) that possesses a well-informed understanding of stocks and flows of natural, social and human capital in relation to GDP or income; has clearly defined a vision and basis for a sustainable future; is developing networks to increase the consideration of sustainability; and continually seeks to inspire innovative change in relation to a sustainable future.

In contrast, emerging countries appear to exhibit a degree of schizophrenia with regard to CSR. Although initiatives may be in place to increase social investment, Russia is effectively establishing itself as a global leader in extractive and non-renewable industries; while in South Africa, companies have made significant contributions regarding black economic empowerment and HIV/AIDS policy, yet until recent rolling blackouts forced a policy rethink, development trajectories were firmly tied to cheap coal-based electricity.

This self-sabotaging tendency is similarly apparent with regard to efficiency improvements or the environmental goods and services (EGS) arena. Expecting government to take the lead in facilitating efficiency would appear to defeat the purpose. A report indicated that 88 percent of UAE companies supported regional cooperation enabling them to become leaders in EGS. They were equally clear that government should take the lead in facilitating this cooperation. In the highly competitive EGS market, where innovation and inspiration are key, this attitude does not reflect the level of responsibility and commitment necessary for inspired corporate leadership.

The analysis of the survey results suggests that most of the responding companies are ‘stuck’ in a compliance mode, with a limited focus on innovation for sustainability. Assuming the companies that responded represent the more proactive ones – and bearing in mind the comparatively low response rate in each country – it could be argued that this initial indication would be even more prevalent in a larger survey response. As mentioned, however, it is equally possible that some of the existing innovative initiatives being pursued in the surveyed countries are not sufficiently reflected in the survey responses, as they may have been considered by the respondents to fall outside the ambit of what is traditionally regarded as CSR.

An underlying objective of this report is to provide WWF with a basis for developing policy options to promote CSR and sustainable development in the BRICS economies; this is informed by the belief that these countries present a particularly exciting opportunity for providing sustainability leadership at a global level. Informed by the outcomes of the WWF surveys, Table 5 presents a SWOT analysis of this potential.

<p>Strengths</p> <ul style="list-style-type: none"> • Emerging economies are becoming the dominant force in global markets, both in terms of economic size and their growing consumer base. • Ongoing change is a reality in emerging economies, forcing all players to think in new ways. • The relationship between business and government is changing, providing the basis for more constructive partnerships. • The companies surveyed indicated a clear interest in the issue, particularly in respect of financial savings and access to markets. • Most companies surveyed indicated that social responsibility was a core value. 	<p>Opportunities</p> <ul style="list-style-type: none"> • There is huge scope for developing a creative response and identifying technology and policy approaches that leapfrog those of developed countries. • In many respects these are green-field economies that provide the opportunity to build new infrastructure based on a new paradigm of industrial development. • New sustainability solutions are becoming commercially competitive, and there is an increasing focus globally on further developing these in the context of acute resource limitations. • The Middle East has significant wealth that can be invested in making the transition to a post-carbon, low-resource economy, and there is increasingly a good business case for such investment.
<p>Weaknesses</p> <ul style="list-style-type: none"> • There is a tendency for many emerging economies to follow the compliance-based CSR model of developed countries and at the same time to argue for less stringent application of requirements. • Many companies continue to see CSR as being non-core (compliance, social investment, philanthropy) • The survey results suggest that emerging economies regard themselves as doing rather well on CSR, possibly indicating a lack of knowledge and perspective regarding the challenges to be faced. 	<p>Threats</p> <ul style="list-style-type: none"> • Many of the economies are currently highly dependent on energy and fossil fuels – changing this would initially be highly disruptive • In some of the countries, current levels of poverty and inequality constitute a more immediate priority, that is seen as best addressed through short-term economic growth (even if based on traditional models) • The current financial crisis and growing resource constraints may promote a bunker mentality and lead to a general retreat from identifying opportunities for innovation and transformational change

“Business has twice the opportunity to change during tough economic spell than in good times... The reason is that the economic climate is already under stress from disturbance creating the conditions under which change becomes effective.”

Kevin Coyn,
Harvard Business
Review

Table 5 – Potential for sustainability leadership in emerging economies: SWOT Analysis

Window of opportunity

More than ever before, there exists a window of opportunity for value-creating strategies to address social and ecological challenges in emerging economies:

- Much investment in China involves green-field programmes and is taking place as new sustainable solutions are becoming more commercially competitive.
- More than 74 percent of Chinese respondents were interested in purchasing green electricity, representing a significant opportunity for innovative companies to provide it.
- Both India and South Africa profile the global divide between rich and poor in one diverse and potentially innovative country
- South Africa, China and India have access to holistic indigenous cultural legacies, which may be used to inspire innovation and change.

If we are to effect the necessary changes in the way we produce and consume goods and services, we will need government policy that understands and accurately values the true contribution of natural and social assets, that encourages responsible business and consumer behaviour, and that facilitates the active participation of all sectors of society in the identification and implementation of new approaches to current problems.

WWF CSR Survey
Incite Sustainability

Despite this window of opportunity, surveyed companies in emerging countries appear to regard CSR predominantly as an opportunity for possible cost-saving, marketing and government support. The surveys suggest that there is a growing awareness (about half of surveyed companies have heard of various CSR-related initiatives), a large expectation for government action (for example, 93 percent of respondents said government should support investment in renewables and energy efficiency), and fairly low levels of initiative with regard to innovation and CSR.

Based on the surveys, it may be argued that companies in emerging countries are looking to the developed world and to their governments in an attempt to understand what CSR is about – and thus to a large extent they are being informed by the story of the past, rather than the future; the story of compliance, not of innovation; the story of protecting value, rather than creating it. This is of concern to countries and organisations across the globe – and in the remainder of the developing world in particular – that are looking to these emerging economies for new thinking and leadership.

There also exists consensus regarding the fact that, for many of the challenges, solutions are already available, but the incentives required for their implementation are not in place. In fact, in certain instances, innovative sustainability solutions do not imply higher costs, but are inhibited by the fact that current institutional structures and decision-making processes do not support their implementation.

As mentioned, there exists a finite window of opportunity for the implementation of such innovative solutions, if they are to be effective in shaping the path of development in regions where they are most urgently required, such as China and India, both of which are already constrained by a scarcity of resources. Over the next two decades, this window of opportunity will shrink and eventually close. Once the window is closed, emerging economies will have consolidated an infrastructure dependent on large amounts of (generally non-renewable) natural resources, leading in turn to conflicts over these resources and/or the collapse of major ecosystems. A number of indications exist that this trend is already beginning.

5. POLICY

RECOMMENDATIONS

The analysis of the WWF surveys suggests that finding solutions to the challenges of sustainability will require leadership and engagement across all sectors of society. A crucial catalyst to this leadership will be the establishment by governments of a policy framework that fosters mavericks and innovators who are prepared to question existing business models, and who are able to develop solutions that challenge and disrupt conventional wisdom.

A central element of this policy reform process will be the need to redefine much of the current understanding relating to CSR and the corporate response to sustainability:

- There is a need in particular for companies in emerging economies to integrate sustainability issues into core business strategy, rather than seeing it as a discrete set of separate initiatives, as is currently often the case.
- In doing so, it will be important to clarify the difference between initiatives that protect value (for example through compliance, philanthropy, risk management and cost-saving measures) and those that create value, based on a full understanding of the nature of the systemic change that sustainability requires.
- In responding to the leadership challenge, it will be critical to shift the focus very clearly onto innovation; judging by the outcome of the surveys, it would seem that shift is still some way away.
- It is also vital that the focus of innovation is not limited to a specific set of environmental goods and services (as appears to be suggested by some of the survey questions); these form only one relatively small element of the broader innovation agenda, which should include consideration of the full suite of products and services that each company provides.
- To be meaningful, it is essential that a company's CSR agenda is integrated into a change platform; it needs to be embedded into the company's core strategy and its underlying corporate culture.

The nature of the current sustainability challenges facing most emerging economies highlights both the urgency and scale of the required response. The required leadership needs to be informed by the appreciation that sustainability presents a huge opportunity, which will be lost unless it is realised in the short term. The sooner this opportunity is seized, the greater is the potential for emerging countries to provide guidance and leadership at a global level. This will require bold leadership and vision, based on audacious creativity and a commitment to promoting "disruptive innovation." This approach is quite distinct from one that seeks to find small entry points in the burgeoning market for environmental goods and services. What requires disruption is no less than the short-term, over-consumptive mindset that underpins virtually all commercial activity on a global basis.

The findings of the surveys reaffirm what might have been anticipated, namely that there are significant opportunities for governments in emerging economies to engage more actively with business and civil society in promoting CSR, both domestically and as part of a broader trade and investment policy agenda. Interestingly, the surveys highlight the fact that in many instances, larger companies are very supportive of new legislation being introduced.

An important element of the CSR discourse is the role of government in framing the agenda, particularly through legislative intervention; many in the CSR field see the concept as being primarily concerned with voluntary initiatives, and thus separate from government intervention, prompting the concern amongst certain stakeholder groups that governments are becoming far too willing to abdicate their responsibilities in this area, by placing undue faith in the response of voluntary corporate CSR programmes.

The WWF surveys make it clear that there is a critical and specific role for governments in creating the correct policy framework that catalyses innovation in the business sector. Significantly, the importance of this role is recognised by many of the responding companies.

The following classification provides a useful framework for conceptualising the range of initiatives that governments in emerging economies could adopt to promote CSR and create the enabling environment for innovation:

- **Mandating** – In this role, governments at different levels define and enforce the minimum legal standards and regulations for business performance. Examples include establishing specific emissions levels, requiring the deployment of best available technologies, or safeguarding conditions of employment.
- **Facilitation** – As facilitators, government agencies play a catalytic role in encouraging CSR activities, for example through the provision of tax incentives for responsible business behaviour (including philanthropic donations), investing in awareness raising and research; facilitating stakeholder dialogue, mandating transparency or disclosure on various issues, or encouraging the development and adoption of industry codes of practice and product labelling schemes.
- **Partnership** – Effective partnerships (a central tool of CSR) seek to leverage complementary skills and resources within government, business and other sectors, to address issues related to the responsible business agenda.
- **Endorsement** – Government endorsement of CSR practices can take various forms including: supporting specific indicators, guidelines and initiatives; administering public award schemes; lending support to demonstration projects and programmes; and leading by example, for example through sustainable procurement practices.

Public sector engagement on CSR: Drivers and Challenges

In seeking to engage emerging economy governments on CSR policy issues, it is important that WWF has a clear understanding of the potential benefits for these governments of developing such policies. Often there exists a perception within governments that CSR-related requirements are an added cost to business, and thus a possible deterrent to foreign investment or a potential cause of reduced domestic competitiveness. Furthermore, many governments appear to share the view that CSR issues consist primarily of voluntary initiatives and are therefore not the domain of government.

There are various possible drivers for governments to engage on CSR issues:

- Firstly – and perhaps rather obviously – the promotion of responsible business practices should form a key element of any government’s objectives in terms of improving the welfare of its citizens; governments should recognise that effective CSR strategies by business can play an important role in addressing existing delivery gaps by the public sector, and (as will be argued in more detail below) can assist in stimulating the innovation necessary for sustainability.
- It is important secondly to recognise and highlight the potential that CSR holds in stimulating national competitiveness and domestic enterprise development, for example by:
 - enabling domestic enterprises to meet new (and growing) markets for more responsible products, particularly in response to the growing application of standards and codes of practice related to environmental, labour and related issues; and
 - aligning national investment promotion strategies with the interests of “responsible” foreign investors.
- Finally, effective government policy on CSR issues is valuable in improving the alignment of businesses’ strategic goals with public policy societal goals.

In addition to recognising and highlighting these potential business drivers, the WWF TIP programme recognises some of the specific policy challenges faced by emerging economy governments. In addition to the policy constraints found in most countries – which are often more pronounced in emerging economies (see Box 5) – there are a number of CSR-related policy challenges that are of particular relevance to emerging economies.

An important example of such challenges concerns the fact that international CSR business-to-business codes of practice are often designed without sufficient input from developing country governments or businesses, and often result in inequitable distribution of costs along the value chain; producers (most often in developing countries) typically incur the majority of these costs, while retailers (frequently in the developed world) secure the benefits. In this context, there appears to be scope for emerging economy governments to explore collaborative opportunities – for example between suppliers, consumers and employees – to localise the development and implementation of appropriate codes of conduct.

Recognising that emerging economy governments often face resource constraints that can impede policy implementation, it is important that opportunities are identified for enhancing the contribution of supporting actors (such as employees, customers, socially responsible investors, and NGOs) in promoting more responsible behaviour. This can be achieved for example by:

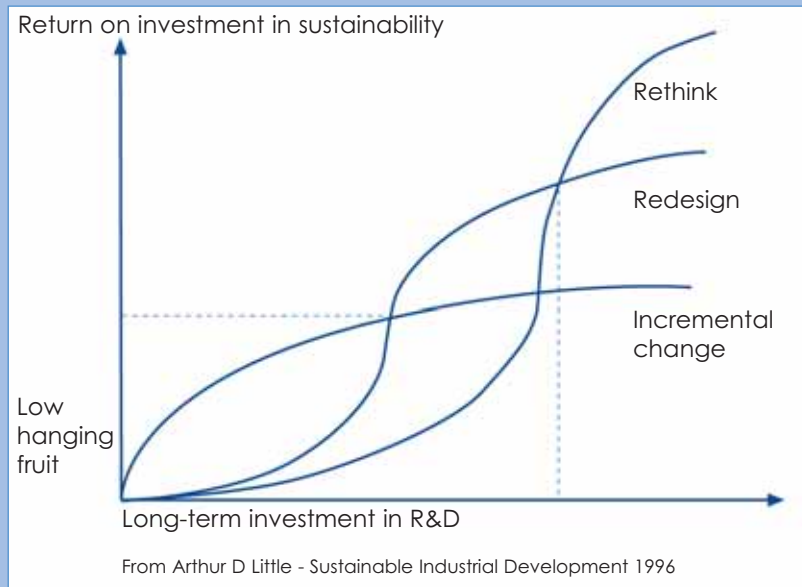
- providing facilities and protection to corporate whistle-blowers;
- encouraging the adoption by consumers of environmental and social labels;
- encouraging corporate benchmarking initiatives (for example through CSR indices);
- requiring pension funds to take cognisance of social and environmental issues in investment decisions; and
- implementing corporate governance and sustainability reporting requirements.

Box 4 – Identifying and addressing potential policy constraints

In seeking to align policy drivers with sustainability challenges, it is important to recognise a range of constraints that typically hinder the effective development and implementation of policy. While these constraints are evident in varying degrees across all countries, they are particularly pronounced in developing countries. These constraints include:

- a lack of appropriate policy incentives and the continuing existence of disincentives, including perverse subsidies (for example, South Africa's tendency to market itself as a low-cost electricity investment destination has long been opposed by environmental groups and has only recently been questioned by the government and the national electricity provider);
- insufficient enforcement of environmental and social legislation, often associated with limited technical, human and financial resources and a lack of political will;
- limited availability and/or quality of quantified data;
- insufficient policy integration and co-ordination (at times compounded by directly conflicting policy objectives);
- limited application of full cost accounting practices;
- insufficient focus on product life cycles and supply chains; and
- under-utilised potential for consumer activism on preferred products.

Box 5 - Levels of innovation in social responsibility and sustainability



There are typically three ways in which companies choose to engage with the challenges of social responsibility; each requiring different ways of thinking and different levels of innovation, and each giving rise to differing rates of return over time.

- The first relates to **incremental change**. A pulp and paper factory, for example, might improve its effluent quality by installing filters, recycling or adding chemicals that balance pH levels. These “end-of-pipe” treatments are usually easy to install and tend to save money by reducing effluent charges and possible fines, and are consequently often referred to as “low hanging fruit”. Over time, however, adding chemicals or operating filtration systems lead to diminishing returns.
- Once the returns from incremental change have diminished sufficiently, the paper mill’s owners might be inspired to **redesign** their operational processes in order to eliminate the elements that contribute most to water pollution. As a result, they are able to offer new products that differentiate their company in the marketplace; chlorine-free paper, for example. Such redesign requires some investment in research and development, and consequently has a longer lead-time.
- If the owners of the paper mill view their operation from a life-cycle perspective – and in the context of the larger social and natural systems on which they depend – they create the opportunity to entirely **re-think** their processes and business model. This process will obviously take longer, but may lead to radical changes in the materials utilised and the products manufactured by the company (for example, plastic books or reusable crates from infinitely recyclable polymer rather than wood pulp), or indeed a complete transformation of their business model. Such re-think strategies take companies into the realm of disruptive innovation, either replacing old business models (such as in the case of cellular phones or downloadable digital media) or beginning to serve customers who were previously ignored by established models (for example through bottom-of-the-pyramid business). To the extent that these changes enable a company to remain at the cutting edge of their business, the returns on such innovation can be significant, and they may also enable the company to be more resilient in the increasingly turbulent marketplace of the 21st century. This represents the holy grail of sustainability thinking, in which businesses are able to enhance social and human capital profitably, while reducing or even reversing negative impacts on

natural capital. For companies to engage in the development of re-think strategies, they need to operate in a policy environment that is conducive to innovation and that encourages and facilitates long-term thinking.

On the whole, companies in emerging economies have recognised the value of incremental approaches (such as pollution prevention and control). This has come about largely as a result of national laws, international trading requirements or a desire to reduce costs in the face of increasing resource prices. The commitment to redesign has however been less enthusiastic. One reason for this lethargy might be the steady stream of outdated equipment emanating from developed countries as they move up the redesign curve; another may be the ongoing pressure on emerging countries to compete in terms of cost, with consequent reduction in R&D investment; or quite simply the fact that the return on investment of such redesign is beyond the traditional focus on the short term. However, in cases where companies are already competing on the basis of product differentiation or innovative technologies, design-oriented thinking is often already part of their business plan.

The disruptive innovation of re-think strategies enables emerging or developing countries to leapfrog previous development trajectories. Although not widespread, a few examples have emerged in developing countries, including Grameen's mobile phone and microfinance banking network, which provides connectivity and finance to millions of Bangladeshi women; or the South African wind-up radio project aimed at empowering disabled workers, providing connectivity in rural areas, and using recycled raw materials. Other initiatives are being pioneered in developing and emerging countries, often on a small scale (for example, coffee growers in Manizales, Colombia, who seek to create sustainable livelihoods in an industry dependent on international commodity prices) or by governments (for example, the Baoding Low Carbon City Initiative or Dongtan eco-city near Shanghai in China). The challenge for companies seeking a powerful expression of CSR in emerging countries, is to draw inspiration from such initiatives in order to re-think current assumptions and entrenched yet increasingly outdated business models.

Developing “smart policy” for disruptive innovation

A predominant theme in this report is the argument that achieving sustainability is dependent upon significant innovation taking place. With this understanding, a key objective of government policy-makers should be to provide a regulatory and policy framework that is conducive to stimulating technological and management innovation in business, with the aim of prompting “re-think” strategies (Box 5).

Experience in different countries suggests various characteristics of “smart policy” that foster innovation:

- A critical element of promoting innovation is regulatory certainty, without which there is less incentive, for example, to invest in research and development programmes that have a long lead time for delivery.
- Regulatory certainty and the promotion of responsible business innovation is facilitated when governments set clear priorities that are reflected in long-term goals.
- Ideally the process of setting these goals should involve dialogue between government, business and civil society actors, with the aim of developing a common vision of the preferred long-term development path, and finding agreement on the balance between stated environmental priorities and the requirements (for example) of industrial competitiveness and employment creation.
- Effective dialogue between government and business is dependent on:
 - maintaining the political independence of regulators – by ruling out the possibility of “influence peddling” and “regulatory capture”, and by maintaining a stable political climate based upon mutual trust, industry will be more inclined to devote its resources to environmental innovation; and
 - introducing an effective process of dialogue – a high-quality flow of information between businesses and regulators is particularly conducive to the development of innovative solutions by industry; such dialogue is facilitated by such factors as the technical competence of officials, the prevalence of personal relationships, and industry’s willingness to communicate openly with regulators.
- The long term policy goals should be effected through demanding standards that require significant change:
 - these standards should be results-based rather than technology-specific;
 - provision should be made for a realistic phase-in period; and
 - they should ideally be based a on life-cycle approach that seeks to encourage the consideration of sustainability during the design phase of the product or process.
- A critical obstacle to the attainment of sustainability is the failure to internalise the true value of natural capital stocks. To address this constraint, and to encourage decision-making based on a more accurate understanding of true costs:
 - incentives, taxes and charges (such as a carbon tax) should

- be introduced to fully internalise external costs; and
- appropriate national monitoring and reporting metrics should be developed, to provide meaningful and accurate indicators of national progress for economic, social and environmental welfare, in order to establish how investments may affect 'genuine' savings (the "Green GDP" on which some initial work was done in China is an example of this).
- A final underlying characteristic of "smart policy" for responsible innovation is that the policy process as a whole is based on transparency and trust.

Integrating CSR and sustainability consideration into export and FDI policy

An important feature of the CSR policy debate – and (understandably) a predominant theme of the WWF TIP reports – relates to the link between promoting CSR/sustainable development and the promotion of trade and investment opportunities. In this regard, there is seen to be a particular role for emerging-economy governments to broaden their influence beyond the national level, and to seek to influence the activities of foreign governments, intergovernmental bodies (including the WTO), NGOs, businesses and business sectoral organisations.

Each of the WWF surveys makes the case that companies should work with government and NGOs to develop an overarching investment and export framework that supports sustainable development (although the exact nature and scope of this framework is not fully described). Interestingly, many of the respondent companies express their support in principle for such a framework, although very few of them appear to have currently identified environmental sustainability as being a factor that materially improves trade possibilities.

National investment promotion agencies (IPAs) have a key role to play in creating an enabling environment for foreign direct investment (FDI) to be used to encourage sustainable development and CSR. This is a critical reversal of the assumption often made by developing country governments that flows of FDI would increase if social and environmental standards were lowered. While there are certainly examples of multinational companies taking advantage of lower standards, this so-called "race to the bottom" is not borne out in practice. This is underscored by the fact that foreign investors generally do not demand lower environmental or labour standards, but favour investment environments that offer a fuller spectrum of social and environmental services required for competitive positioning.

In seeking to achieve this, key activities and opportunities for IPAs include:

- identifying specific new investment opportunities associated with sustainability (for example in renewable energy, sustainable mobility and carbon markets);
- developing investment incentives to encourage foreign investments that contribute to sustainability; and
- acting as facilitators, in order to provide guidance to investors on potentially competing policy priorities within the environmental, economic and social spheres.

For IPAs to play this role effectively, they will require an in-depth awareness and understanding of sustainability and CSR, as well as a belief that responsible business practices can make a meaningful contribution to national economic competitiveness. Realising these investment opportunities will require a focused effort on the part of governments and the investment promotion community to:

- reform and enhance the skills of investment promotion agencies;
- develop appropriate performance metrics;
- improve access to appropriate CSR information; and
- enhance the capacity of agencies to review the sustainability impacts of their investment decisions.

Specific initiatives for business responsibility

In addition to the broad policy characteristics outlined above – aimed at providing an appropriate environment for innovation – there are a number of specific initiatives and programmes that governments and other stakeholders can pursue as a means of encouraging responsible business activities. The WWF surveys identified a range of possible initiatives, for consideration as elements of a policy intervention that is aimed at promoting sustainable development as the guiding principle for economic and trade policy. These include:

- facilitating the development of product and service labelling schemes (such as the EU eco-label or the Forest Stewardship Council initiative) and encouraging their uptake through sustainable procurement initiatives;
- encourage corporate reporting schemes that build on global initiatives, such as the Global Reporting Initiative (GRI) and the Carbon Disclosure Project (CDP);
- promoting the use of sustainability indices, including for example linking these to requirements that pension funds take cognisance of social and environmental issues in investment decisions;
- facilitating the adoption of voluntary agreements and charters by businesses (while ensuring that this does not constitute an abdication of responsibility by government, and that measures are in place to manage the potential for regulatory capture);

- undertaking public sector investment in infrastructure programmes aimed at improving the potential for more sustainable approaches, for example through carbon-efficient buildings, renewable energy and public transport initiatives, and eco-cities; and
- stimulating innovation through supporting research and development programmes, and through demonstration and commercialisation initiatives.

6. CONCLUSION

The WWF surveys, and this consolidating report, set out to answer the question of whether the world's emerging economies are rising to the challenge – associated with their growing economic, social and political influence – of demonstrating leadership in promoting a proactive agenda for sustainable development.

Based on the responses to the surveys, and on the accompanying WWF reports, it would seem that the potential for leadership in these economies has not yet been fully realised. As was argued earlier, effective leadership at a personal level suggests high levels of inspiration, a clear sense of purpose, optimism, co-operation, self-awareness and integrity. On the basis of the definitions of CSR and sustainable development proposed above, public leadership in this area would presumably be vested in countries and companies that: possess a well-informed understanding of stocks and flows of natural, social and human capital in relation to GDP and profit; hold a clearly-defined vision of a sustainable future; are proactively developing networks to increase the scale of sustainability thinking; and are continually seeking to inspire innovative and, where necessary, disruptive change to ensure a sustainable future.

If this is a fair characterisation of the type of leadership that is expected and required, it is evident from these surveys that such leadership is not predominant in emerging economies. Although these economies may be increasing their social and environmental investment in certain areas, for the most part they seem to be following the old, flawed assumptions about doing business: Russia is effectively establishing itself as a global leader in extractive (non-renewable) industries; South African companies may have made significant contributions around Black Economic Empowerment and HIV/AIDS policy, yet until rolling blackouts forced a policy rethink, their development trajectories were firmly tied to cheap coal-based electricity; China may be demonstrating innovation in developing eco-cities, but its growth is still largely fuelled by a seemingly rapacious appetite for natural resources (mainly sourced from developing countries); and India has been actively resisting efforts for emerging economies to adopt emissions reduction targets in order to combat climate change.

As Machiavelli has argued, “there is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things”. Providing leadership that will see sustainable development as the guiding principle for economic policy is undoubtedly a significant challenge; collectively, we have grown up with “bad genes”, in the form of wrong signals from the market regarding the true value of natural and social capital and flawed assumptions on how to achieve and measure social development.

There is no place more fitting to develop solutions that challenge these assumptions – and that provide the blueprint for a new socially responsible, post-carbon economy – than in the world's emerging economies. That these economies have the capacity, the global reach and, increasingly, the motivation to do so, is beyond dispute. It remains to be seen how, and when, this potential is fulfilled.

APPENDIX 1 THE WWF REPORTS AT A GLANCE

Table 6 – WWF Report at a Glance: China

COUNTRY	CONTEXT	FINDINGS	WWF POLICY RECOMMENDATIONS
<p>CHINA</p> <ul style="list-style-type: none"> • Recommendations based on survey of 182 companies contacted between August and December 2004. • Fifty companies selected at random from the Top 100 and 20-30 companies selected from each of five sectors: IT, energy, finance, life-sciences and consumer products. • 61 responses received (34 percent response rate). 	<ul style="list-style-type: none"> • One of the world's largest and most rapidly growing economies – the third largest trading nation after the US and Germany and the largest recipient of inward flows of foreign direct investment. • Chinese companies are playing an increasingly important role in the global economy – China's Top 500 is dominated by manufacturing industries (367 companies), while service industries comprise 110 companies, with only four companies from primary sector (agriculture and fisheries). • The country faces rapidly increasing resource demands and growing local resource constraints, highlighting the need for a different path of economic development. • There is evidence of increasing investment and innovation in certain aspects of sustainability, as well as a rapidly developing regulatory environment. • Intensifying environmental problems have encouraged companies to take part in environmental activities, including demonstration projects on the "circular economy." • It is recognised that the opportunity exists to move beyond the Western approach of mitigating environmental impacts, towards developing new systemic solutions that could themselves provide export opportunities. 	<ul style="list-style-type: none"> • The survey found evidence of some "hostility" to environmental issues and to engagement on these issues. • Many respondents reported low levels of legal compliance by competitors, and there seems to be a drive by some of them to lower standards. • There is a generally recognised need for stronger rules on environmental reporting, transparency and monitoring for large companies. • There is evidence of a willingness by at least some companies to engage with NGOs on sustainability issues. • Business forums (such as the BOAO Forum for Asia, the China Beijing International High-Tech Expo/China Economic Summit, the China International Fair for Investment & Trade, China-ASEAN EXPO and the Chinese Export Commodities Fair) are seen to play an important role in communicating new ideas and concrete actions for sustainable development. • There is sense by companies of the benefits to be derived from focused government incentives for sustainable initiatives, and from the promotion of higher levels of disclosure of environmental information, preferably in line with international standards. • The survey identified the potential for a focused green procurement policy, and also sees benefit in building on earlier work relating to the greening of GDP. 	<ul style="list-style-type: none"> • Progressive companies should work with government and NGOs to develop an overarching investment and export framework that supports sustainable development. • Companies with sustainable goods and services for export could collaborate with the government and NGOs to develop export strategies, starting with a limited number of sectors. • Progressive companies should use relevant local business forums to target policy improvements. • A policy focus on incentives to reward positive behaviour and on encouraging reporting of environmental information in accordance with agreed international standards. • A focus on the use of government procurement and partnerships to support the development and export of sustainable goods and services. • Government should identify scope to explore how indigenous or traditional Chinese concepts (such as the Union of Nature and Man or Yin-Yang) can be incorporated into the regulatory framework. • The definition and promotion of sustainable investments must be explored, and linked to work with green GDP.

Table 6 – WWF Report at a Glance: China cont.

COUNTRY	CONTEXT	FINDINGS	WWF POLICY RECOMMENDATIONS
		<ul style="list-style-type: none"> There is recognition of a “window of opportunity” to move beyond the existing industrial paradigm due to two converging factors: much of the investment in China involves green-field programmes, including the construction of new infrastructure; and this investment is taking place at the same time as new sustainable solutions are becoming commercially competitive. 	<ul style="list-style-type: none"> Foreign companies and governments should include social and environmental considerations in their procurement and screen their supply chains in China.

Table 7 – WWF Report at a Glance: India

COUNTRY	CONTEXT	FINDINGS	WWF POLICY RECOMMENDATIONS
<p>INDIA</p> <ul style="list-style-type: none"> • Recommendations based on survey of 192 companies contacted over two phases, each phase targeting different sectors. • The companies were selected on the basis of their annual turnover, export competitiveness and annual growth rate over the past five years. • Of the 192 companies approached, 113 responses were received, 53 during the first phase and 60 companies during the second. 	<ul style="list-style-type: none"> • Currently the world's fourth largest economy in terms of real GDP (PPP) and the tenth largest economy in terms of nominal GDP. Its population is estimated at close to 1.1 billion and is growing at 1.6 percent per year. Nearly two-thirds of the population depends on agriculture for its livelihood. • India has emerged as a leading actor on the international stage – its role in both the WTO and the UN has often been that of bridging the divides between North and South, East and West. • UNCTAD's World Investment Report 2005 ranked India as the second most attractive investment destination, after China, among trans-national corporations. • Outsourcing of services to India has over the past decade redefined the international business environment, and major Indian companies are now moving abroad on a scale never before witnessed. • There is seen to be potential for India to surpass China in economic terms, due in part to its better innovation climate. • India is not endowed with sufficient natural capital to support its population. Though India is home to 18 percent of the world's population, it possesses only 2.4 percent of the planet's landmass, 4 percent of the freshwater resources and about 1 percent of the world's forests. India's ecosystems are already highly degraded. 	<ul style="list-style-type: none"> • This report shows that there exists significant interest within the Indian business sector in sustainable development and in the identification of innovative solutions that can be applied to achieve this goal. • It is argued that leaders in the Indian corporate sector are well ahead of many of their western counterparts - demonstrating "third generation CSR" where companies look to ensure that their core business delivers sustainable development results. • The report argues for greater collaboration between leading companies, as well as with NGOs, and for support from foreign governments and firms, e.g. through public procurement, supply chain management, and changes in intellectual property legislation. • The establishment of an "axis for sustainable development" between India and China is proposed, in the belief that "The direction in which the relationship between these two giants will move in the future, will to a large degree determine the future of global sustainable development." • The survey suggests that there is a perception by many companies that compliance with environmental regulations is costly to them, and that competitors that are non-compliant must be more severely dealt with. 	<ul style="list-style-type: none"> • Leading companies should be encouraged to: work with government on the development of an appropriate investment and export framework that encourages more sustainable practices; develop models that translate sustainability trends into profitable business strategies; and implement and communicate some specific sustainability "demonstration projects". • The government should consider establishing a sustainability index for the stock market. • Indian government and authorities could develop a system to distinguish between sustainable and unsustainable trade, building on existing work in fields such as the "project based approach" for environmental goods and services in the WTO, where the Indian government plays a global leadership role. • Enforcement of the norms and regulations to protect the environment must be improved, in order to ensure compliance. • A policy focus on incentives to reward positive behaviour and on encouraging reporting of environmental information in accordance with agreed international standards (e.g. GRI and CDP). • The development of economic instruments that promote environmental responsibility amongst small and medium enterprises.

Table 7 – WWF Report at a Glance: India cont.

COUNTRY	CONTEXT	FINDINGS	WWF POLICY RECOMMENDATIONS
	<ul style="list-style-type: none"> The report suggests that unlike the majority of countries surveyed, many companies in India exhibit an understanding of the magnitude of the challenges to be faced, as well as a willingness to turn these challenges into business opportunities. 	<ul style="list-style-type: none"> Among the respondents that are directly engaged in the import, manufacturing, sales or service of energy efficiency-related products, 77 percent felt the need for the Indian government, or an industry association, to develop and market an Indian certification scheme. Close to three-quarters (73 percent) of the companies that participated in the survey, expressed a willingness to cooperate with an organisation such as WWF in order to promote sustainable development, both within India and internationally. 	<ul style="list-style-type: none"> Identification of opportunities (specific initiatives), where feasible with other emerging economies, for sustainable urbanisation, green buildings and sustainability as a driver for innovation. Foreign companies and governments should include social and environmental considerations in their procurement and screen their supply chains in India. In addition to the general policy recommendations, three specific initiatives are identified for taking forward: <ol style="list-style-type: none"> exploring ways in which local companies can translate global sustainability challenges into profitable business opportunities; developing a model to inform trade negotiations in support of products and services that contribute to sustainable development; and exploring opportunities for a BRICS axis for sustainability.

Table 8 – WWF Report at a Glance: Russia

COUNTRY	CONTEXT	FINDINGS	WWF POLICY RECOMMENDATIONS
<p>RUSSIA</p> <ul style="list-style-type: none"> • Recommendations based on a survey of 310 of the largest Russian companies. • 67 responded (21 percent), with the oil and gas sector being the most predominant. 	<ul style="list-style-type: none"> • The largest country in the world, with some of the largest mineral reserves. Current economic growth is based primarily on natural resource sectors – concerns have therefore been raised that country risks turning into a ‘petrostate’. • Experiencing a shrinking population, as well as slowing economic growth rates. • In the process of establishing itself as energy superpower and a guarantor of global energy security – currently a very energy intensive economy with huge inefficiencies. • A slowdown in foreign investment has intensified debates over appropriate policy measures to address resource dependency and promote more diversified growth. • The bulk of foreign investment into Russia is channelled into extractive and traditional manufacturing industries, rather than into high-technology sectors, raising concerns regarding the relocation of polluting industries to Russia. • While there have been improvements in living standards and reduced poverty and unemployment rates, Russia does not fare well on intangible issues such as economic freedom, competitiveness and attractiveness to investors. 	<ul style="list-style-type: none"> • Generally it is argued that the corporate sector appears to be an efficient driver of sustainability in Russia. • From the responses received, it appears that a close correlation exists between the environmental responsibility of companies and their level of integration into the international economy. • Generally most companies implement environmental practices prevalent in developed countries some decades ago: primarily reactive, end-of-pipe solutions, focused on mitigation of their environmental impact. • The general reputation of Russian businesses abroad leaves much to be desired, and all too often Russian companies are associated with a lack of environmental awareness, or worse, an uncaring attitude toward the environment. • A handful of companies are making efforts to develop human capital within their organisations, for example through the promotion of an environmental culture and the education of employees, as well as through engagement with local communities and relevant NGOs – but NGO engagement is the exception. 	<ul style="list-style-type: none"> • The government could support environmentally and socially responsible companies, for example through the provision of fiscal benefits and financial incentives, while penalising offenders with meaningful fines. • Streamline existing environmental legislation. • Include environmental aspects in the government’s overall objective of GDP growth, poverty reduction and solution of demographic problems in Russia – although not specifically mentioned in the report, this typically requires a greening of government accounting practices. • Support educational efforts in the environmental sphere, particularly those that are broad-based and target all segments of the Russian population. • Work with financial institutions, in order to involve them in environment protection activities, for example by promoting the Equator Principles or introducing ratings for “the most environmentally responsible bank or mutual fund”. • Cooperate with Russian companies and NGOs to promote the export of sustainable goods and services. • Promote and advertise the environmental and social activities of progressive Russian companies within the framework of a campaign to improve the image of Russia internationally.

Table 8 – WWF Report at a Glance: Russia cont.

COUNTRY	CONTEXT	FINDINGS	WWF POLICY RECOMMENDATIONS
	<ul style="list-style-type: none"> The country faces particular challenges in terms of promoting sustainability, including decoupling growth from environmental degradation, diversifying the economy from fuel and energy sectors, strengthening domestic competitiveness, alleviating poverty, improving governance, and further integrating Russian companies into the international economy. Positive developments include improved living standards, a growing middle class, and increased environmental and civil consciousness. The political objective of doubling GDP by 2012 and sustaining the current high rate of economic growth that is mainly based on natural resources, poses the very real challenge of decoupling this growth from further environmental degradation. 	<ul style="list-style-type: none"> In general, Russian companies seem to be aware of key environmental principles and technologies, and many actively apply tools such as environmental impact assessments, environmental audits and due diligence within their operations. International standards such as the ISO 14001 environmental certification and Forest Stewardship Council (FSC) certification have also become relatively commonplace in Russian business practices. The overwhelming majority of respondents (93 percent) felt that the Russian government should promote investments that reduce CO2 emissions and support companies that export environmentally responsible products and services. In terms of CSR, Russia is seen to differ significantly from its peers in the BRICS group – in the past, many companies, particularly those in remote areas, were often the single largest employer in a particular region, and took on significant social functions. 	<ul style="list-style-type: none"> Relevant government authorities could cooperate more closely with their counterparts from other BRICS countries, in order to implement sustainable development strategies that are most applicable for emerging markets. Strengthen corporate disclosure requirements, preferably in line with international standards such as the GRI. Organise regular forums in which representatives of the legislative and executive authorities, business and NGOs can meet to discuss sustainability issues. Foreign companies and governments should include social and environmental considerations in their procurement and screen their supply chains in Russia.

Table 9 – WWF Report at a Glance: South Africa

COUNTRY	CONTEXT	FINDINGS	WWF POLICY RECOMMENDATIONS
<p>SOUTH AFRICA</p> <ul style="list-style-type: none"> Recommendations based on survey of 210 companies contacted – only 50 responded (44 from JSE Top 300 and six from targeted 'green companies'). 	<ul style="list-style-type: none"> One of the few stable democracies in Africa, and plays a predominant economic role in the region. Internationally, plays a role as an influential representative of developing country interests (e.g. at the WTO, G8, and UN Security Council). Hosted the World Summit on Sustainable Development in 2002, and includes progressive policy commitments on sustainability, e.g. in the Constitution and recent legislative interventions. Has experienced a long period of positive economic growth, with inflation under control and debt largely eliminated; however these significant shifts in the economy have not led to attendant increases in economic growth, employment creation and FDI inflows. South Africa has a higher GDP per capita than the other key emerging economies (Brazil, Russia, India and China), but its human development index languishes below that of the other BRICS and its Gini coefficient (reflecting levels of inequality) puts it amongst the most inequitable societies worldwide. Key sustainability challenges include: poverty and inequality, high unemployment, HIV/Aids, persistent skills shortage, the impact of Chinese imports on local industry, and climate change impacts (both in terms of mitigation and adaptation needs). 	<ul style="list-style-type: none"> The survey reveals a high level of awareness of the challenges of sustainable development amongst the companies surveyed. Respondents recognised need for government intervention to promote the emergence of sustainable businesses that produce and market high-value South African exports. There is evidence of support for government interventions to provide incentive structures and tighter regulatory frameworks (especially on environmental issues) to 'level the playing field' and support more progressive businesses. Many companies (64 percent) supported increased reporting requirements on social and environmental performance. The report identified a need for greater regulatory certainty. Many respondents expressed support for the idea that giving preference to environmentally certified products or services in their procurement, together with green government procurement, would foster the development of a domestic market for environmental goods and services. The report identified the need for an open and transparent process for assessing the sustainability implications of new investments. 	<ul style="list-style-type: none"> Scope exists for clearly articulated industrial policy, and an overarching investment and export framework, that promotes sustainable industrial development. The South African Department of Trade and Industry should utilise sustainable development parameters in characterising export markets, with a view to supporting exports of more sustainable South African products and services. There is scope to initiate a process of defining and promoting sustainable inward investment, building for example on the precedents set by Black Economic Empowerment policy. Potential exists for the South African government to utilise its influence in bilateral, regional and multilateral trade negotiations to establish trading frameworks that support the growth of demand for sustainable goods. Consideration should be given to introducing regulations requiring pension funds to allocate a portion of their investments to Socially Responsible Investment (this could build for example on recent developments in the country regarding adoption of the Principles for Responsible Investment).

Table 9 – WWF Report at a Glance: South Africa cont.

COUNTRY	CONTEXT	FINDINGS	WWF POLICY RECOMMENDATIONS
	<ul style="list-style-type: none"> Government has expressed its intention to address energy sustainability in a number of strategy documents including: a Climate Change Strategy, an Energy Efficiency Strategy, the draft National Strategy on Sustainable Development, and a Renewable Energy White Paper. The government's Micro-Economic Reform Strategy (MERS) calls for a move towards a diversified economy, with a reduction in reliance on natural resource-based industries and an increase in the services sector, which exhibits a different profile in terms of demand for energy and labour. While such a move will serve to improve environmental sustainability, this effect is not a specific objective of the MERS. The government has also been researching the potential for further developing the environmental goods and services sector. 	<ul style="list-style-type: none"> Respondents recognised the benefits of regulations requiring pension funds to allocate a portion of their investments to a Socially Responsible Investment index (but questioned how this might be defined, noting concerns relating to the JSE SRI index). Currently insufficient scope is provided by government to environmental parameters in characterising potential export markets. South Africa is recognised for its high corporate governance standards – and the view exists that lessons can be learnt from the King II Code of Practice that includes reference to sustainability issues. Useful lessons are to be learnt from South Africa's experience with the use of representative forums (such as NEDLAC, a forum in which the interests of government, labour, and business are represented in the process of defining national social and economic policies), and the development of BEE Charters. 	<ul style="list-style-type: none"> Government should work with international NGOs such as WWF, to examine the role that key importing countries such as the EU, USA and Japan can play in developing procurement schemes and other trade policy instruments to support South African companies producing sustainable goods and services.

Table 10 – WWF Report at a Glance: United Arab Emirates

COUNTRY	CONTEXT	FINDINGS	WWF POLICY RECOMMENDATIONS
<p>UNITED ARAB EMIRATES</p> <ul style="list-style-type: none"> Sample comprised 33 random companies selected from 110 major commercial enterprises identified by Dubai Chamber of Commerce and Industry and 50 top companies identified by the Abu Dhabi Chamber of Commerce and Industry, plus 34 companies randomly selected from Abu Dhabi Securities Market and Dubai Financial Market. Of these targeted companies, 23 responded. 	<ul style="list-style-type: none"> Particular opportunities exist for Arab companies to play a key role in the international economy, due to three trends: increasing oil revenues associated with higher oil prices; increasingly rapid urbanisation of the global population; and the emergence of China and India as global super powers. The Arab region is of course highly strategic geopolitically due to its significant oil resources; the region holds more than half the world's proven conventional oil reserves (57 percent), in addition to almost half the proven natural gas reserves (45 percent). The economic situation in the Gulf States is unique; no other region in the world has such a small population in possession of such large hydrocarbon reserves, or a population that relies so heavily on non-national labour. Revenues derived from hydrocarbons have enabled the GCC to build a first class infrastructure, which provides an ideal base for both energy- and non energy-related economic activities. To varying degrees, all GCC nations are seeking to reduce their economic dependence away from oil and gas. Implementing economic policies that create a climate conducive to attracting a greater range of businesses is seen as an imperative. The sharp increase in oil prices over the past two years has enabled the Gulf states to develop a number of new economic sectors such as construction, tourism and finance. 	<ul style="list-style-type: none"> From the surveyed companies, some key trends become apparent: <ol style="list-style-type: none"> in many instances, no clear line of responsibility exist within companies for sustainability leadership; there are seen to be particular opportunities for linking sustainability to core business practices; establishing a network of contacts is vital to achieving meaningful results amongst companies in the UAE. There is a view that a particular opportunity exists for Arab countries (and companies) to play a key role in developing sustainability solutions: firstly in terms of the decisions they make regarding their investment of the enormous sums of money that high oil prices have delivered; and secondly, as these countries are transforming extremely rapidly in terms of urbanisation and diversification, they are well-placed to assume leadership in a transition towards more sustainable urban solutions, and demonstrate solutions associated with diversifying economies away from oil dependence. Almost three quarters (72 percent) of the companies participating in the study expressed a willingness to cooperate with an organisation such as WWF, in order to promote sustainable development both within the UAE and internationally. 	<ul style="list-style-type: none"> Progressive companies should work with government and NGOs to develop an overarching investment and export framework that supports sustainable development. Companies with sustainable goods and services to export could collaborate with the government and NGOs to develop export strategies, starting with a limited number of sectors. Progressive companies should use relevant local business forums to implement specific demonstration projects and innovation centres. Support should be provided for local companies to participate in relevant global events and fora, in which sustainable Arab companies can be promoted. Gulf governments should initiate a sustainable cities dialogue with China and India in which strategies for investments in urban solutions are jointly developed. The possibility exists for the development of a sustainability index for the local stock markets. A policy focus on incentives to reward positive behaviour and on encouraging reporting of environmental information, in accordance with agreed international standards.

Table 10 – WWF Report at a Glance: United Arab Emirates cont.

COUNTRY	CONTEXT	FINDINGS	WWF POLICY RECOMMENDATIONS
	<ul style="list-style-type: none"> The construction boom in the region provides potential for the implementation of sustainable solutions on a massive scale; there is some evidence that the concept of sustainable building design is becoming more widespread. 		<ul style="list-style-type: none"> Investigation into the potential for environmental compliance certification to contribute to the attraction of foreign investment, and support for local companies in obtaining such certification. Investigation into the potential for establishing demonstration projects and innovation centres, with the objective of increased exports of sustainable solutions in areas such as ICT and energy. The promotion of sustainable urbanisation and so-called “green” or “intelligent” buildings, as well as of sustainability as a driver for innovation. Encouragement of partnerships between Arab companies and NGOs such as WWF to support the export of sustainable goods and services. A focus on the use of government procurement and partnerships to support the development and export of sustainable goods and services. Scope exists for foreign companies and governments to include social and environmental considerations in their procurement and to screen their supply chains in the UAE.

Table 10 – WWF Report at a Glance: United Arab Emirates cont.

COUNTRY	CONTEXT	FINDINGS	WWF POLICY RECOMMENDATIONS
			<ul style="list-style-type: none"> • In addition to the general policy recommendations, five specific projects are identified for WWF to support: <ol style="list-style-type: none"> i) developing material for the Arab world regarding global sustainability challenges; ii) promoting Arab leadership in addressing global challenges such as the increasing international energy demand; iii) collaboration with emerging economies, aimed at supporting export opportunities for innovative solutions; iv) fostering a better understanding of the Arab world; and v) exploring the potential of Arab cultural concepts as guiding principles for sustainable business innovation, both within the UAE and internationally.

Endnotes

- ⁱ Available at http://www.panda.org/about_wwf/what_we_do/policy/trade_and_investment/news/index.cfm
- ⁱⁱ See http://www.panda.org/about_wwf/what_we_do/policy/trade_and_investment/about_us/index.cfm. Note: although the TIP programme focuses on the BRIC countries, Brazil was not included within this survey.
- ⁱⁱⁱ See <http://www.iso.org/sr>. Some interesting perspectives on the current status and different views on CSR is provided in International Institute for Environment and Development Corporate Social Responsibility at a Crossroads: Futures for CSR in the UK to 2015 (IIED, London, 2006)
- ^{iv} See further, for example, Richard Heinberg Five Axioms of Sustainability (Global Public Media, 2007)
- ^v See for instance arguments in Centre for Policy Studies (2005) Trajectories for South Africa - Reflections on the ANC's 2nd National General Council's discussion documents; cited in WWF South Africa Survey
- ^{vi} A circular economy is one that balances economic development with environmental and resources protection.
- ^{vii} WWF India report citing http://www.davidgrayson.net/display_article?id=2108
- ^{viii} Disruptive innovation refers to a technological innovation, product, or service that seeks to overturn the existing dominant technologies or status quo products in a market
- ^{ix} International Institute for Environment and Development Corporate Social Responsibility at a Crossroads: Futures for CSR in the UK to 2015 (IIED, London, 2006)
- ^x Derived from Ward H, Fox T, Howard H Public Sector Roles in Strengthening Corporate Social Responsibility: A Baseline Study (World Bank, October 2002)
- ^{xi} See for example Ward H, Fox T, Wilson E and Zarsky L CSR and Developing Countries: What scope for government action? (IIED, 2002), and Ward H, Fox T, Howard H Public Sector Roles in Strengthening Corporate Social Responsibility: A Baseline Study (World Bank, October 2002)
- ^{xii} See Ward H, Fox T, Wilson E and Zarsky L CSR and Developing Countries: What scope for government action? (IIED, 2002)
- ^{xiii} See for example Porter, M. and C. van der Linde (1995), "Green and competitive: Ending the stalemate" in Harvard Business Review, Vol 73, No 5, pp 120-133; Leveque, F. (1996) Environmental Policy in Europe : Industry, Competition and the Policy Process, Edward Elgar, London Wallace, D. (1995), Environmental Policy and Industrial Innovation: Strategies in Europe, the US and Japan, Royal Institute of International Affairs, London; Wallace, D. (1996), Sustainable Industrialisation, Royal Institute of International Affairs, London
- ^{xiv} A useful review of the potential role of investment promotion agencies is provided in International Institute for Environment and Development Responsible enterprise, foreign direct investment and investment promotion: Key issues in attracting investment for sustainable development (IIED, London, 2008)
- ^{xv} There is a growing volume of research work on "responsible competitiveness", for example by the UK NGO AccountAbility and the World Bank.
- ^{xvi} International Institute for Environment and Development Responsible enterprise, foreign direct investment and investment promotion: Key issues in attracting investment for sustainable development (IIED, London, 2008)

PREPARED FOR WWF BY: Incite Sustainability

CONTACT: +27 21 448 0441

Jonathon Hanks: jon@incite.co.za

Nicola Robins: nicola@incite.co.za

Cathryn Treasure: cathryn@incite.co.za

www.incite.co.za

WWF Trade and Investment Programme

CONTACT: +27 11 262 9460

www.panda.org/investment

www.wwf.org.za

WWF's mission is to stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature, by:

- conserving the world's biological diversity
- ensuring that the use of renewable natural resources is sustainable
- promoting the reduction of pollution and wasteful consumption



for a living planet®