



Economic and Social Commission for Asia and the Pacific
Committee on Trade and Investment**Sixth session**

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Promoting sustainable investment and business**Promoting sustainable investment and business****Note by the secretariat***Summary*

The present document provides an overview of international standards, principles and guidelines on responsible business conduct that companies can adopt. It contains an outline of the various actions Governments can take to promote and facilitate the uptake of responsible business conduct by companies, including multinational enterprises. Investment, including foreign direct investment (FDI), can only contribute to sustainable development in as much as the company making the investment is conducted in a sustainable way. The need to push sustainability performance through reporting and monitoring of progress is emphasized, and arguments for the development of comprehensive sets of national level indicators to measure the sustainability of investment, including the impact of FDI on sustainable development across the three dimensions, are provided.

The Committee on Trade and Investment is invited to review the arguments and proposals contained in the present document and to provide guidance on prioritizing national and regional actions in these areas, including with regard to the role of the Economic and Social Commission for Asia and the Pacific.

I. Introduction

1. It is well known that investment is necessary for economic growth. However, as levels of domestic investment are often insufficient to trigger the growth required to address development challenges, Governments of most developed and developing countries have resorted to attracting foreign direct investment (FDI). The main goal of private enterprises, including multinational enterprises which are the agents of FDI, is to maximize profits and the return on their investments. In doing so, they can contribute to economic growth in varying ways. They can boost domestic employment, develop the skills of the local workforce and transfer technology. Multinational enterprises can forge linkages with domestic businesses, often small and medium-sized enterprises, as part of their global supply or value chains. Enterprises in various sectors also often contribute to exports and, hence, foreign exchange earnings, while FDI is the largest external source of financing for developing countries.

* ESCAP/CTI/2019/L.1/Rev.1.

2. In the 2030 Agenda for Sustainable Development, financing for development was identified as one of the means of implementation. The 2030 Agenda identified three dimensions of sustainable development: the economic, social and environmental. While Governments have traditionally pursued investment, in particular FDI, to meet national economic development objectives, the contribution of investment to the other two dimensions is less obvious. In fact, its contribution to development in all three dimensions is not guaranteed and is subject to certain conditions and the availability of supporting policies and regulations.

3. In this context, the concept of sustainable investment applies to both domestic investment and FDI. Sustainable investment refers to investment that contributes to the three dimensions of sustainable development, or – if economic development is the principal goal – investment that at least does not undermine the social and environmental dimensions of sustainable development. Sustainable investment can also be understood as investment that directly contributes to achieving one or more of the 17 Sustainable Development Goals and associated targets.

4. In the present document, it is argued that sustainable investment cannot be achieved if the company making the investment does not apply and practise internationally accepted principles and standards of responsible business conduct or corporate sustainability. Doing so will enhance the probability that a business would contribute to the implementation of the 2030 Agenda. Therefore, the focus of the present document is on how to enhance the uptake of responsible business conduct by domestic and multinational enterprises and what Governments and the Economic and Social Commission for Asia and the Pacific (ESCAP) can do to promote this uptake. The present document also contains a discussion of the need to monitor and assess the level of sustainability of business and investment, including the impact of investment, in particular FDI, on sustainable development.

II. Promoting sustainable and responsible business and investment

A. Defining responsible business conduct and investment

5. While the concept of corporate social responsibility or corporate citizenship may appear to emphasize the social rather than the environmental dimension of development, any related standard or company code of conduct normally focuses on both the social and environmental impacts of company operations. That said, in the Asia-Pacific region, the term “corporate social responsibility” tends to be used for philanthropic or charitable actions of a company to benefit society or the environment but that do not necessarily affect the way a company conducts its core business.

6. The terminology used to describe responsible business behaviour has been changing, and other concepts are often used to describe the responsibilities expected of companies. “Responsible business conduct” is one such term, used by agencies such as the Organization for Economic Cooperation and Development (OECD). Responsible business conduct refers to a firm making profits in a responsible and sustainable manner. It targets the core operations, procedures and management of a business. Adopting and implementing responsible business standards helps company managers to map and understand the impacts business operations have on people, communities and the environment and to identify the negative impacts that need to be minimized or eliminated as well as the positive impacts that can be enhanced

or optimized. Responsible business conduct provides company managers with a tool to work more systematically to improve the sustainability of business operations. While this takes time and money at the start, it has been shown in the long run to be in a business's interest to do so, as it ensures the continuity of business operations.

7. The concept of responsible business conduct is similar to the concept of "corporate sustainability" used by the United Nations Global Compact.¹ Established by the Secretary-General in 2000, the Global Compact initiative has identified five defining features of corporate sustainability. The first is principled business, in which a company operates with integrity and respects fundamental responsibilities in the areas of human rights, labour, environment and anti-corruption. The second is strengthened society, in which sustainable companies look beyond their own walls and take actions to support the societies around them. The third is a clear commitment of the company's leadership and management, including the board of directors, to ensure that sustainability and responsibility are mainstreamed in every aspect of the business. The fourth is reporting progress and measuring sustainability to answer the question: how sustainable or responsible is a particular company? The fifth is local action, as sustainability must be adopted in all localities where a company operates. Sensitivity to the local context is very important.

8. What matters most is that all businesses, while maintaining the profit maximization objective, mainstream concerns for society and the environment in their daily business operations and ensure that profits are generated sustainably, not only in their core business but across the supply chain they dominate.

B. Instruments for promoting responsible business conduct, corporate sustainability and sustainable investment and uptake in the Asia-Pacific region

9. Over the years, many internationally recognized sets of standards and principles have evolved for businesses to be responsible and sustainable and for Governments to promote responsible business conduct, but the uptake in Asia-Pacific developing countries has been rather limited. For instance, companies that join the Global Compact commit to 10 core principles in the areas of human rights, labour, environment and anti-corruption, and agree to integrate them in company operations, to work for continuous improvement and to report on progress. The Principles for Responsible Investment initiative, backed by the Global Compact, lays out six principles that provide a voluntary framework which enables institutional investors to incorporate environmental, social and governance issues into their decision-making and ownership practices. However, of the 13,380 members of the Global Compact initiative, only 2,320 or 17.3 per cent come from ESCAP members and associate members.

10. The Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework are a set of 31 principles for States and companies to prevent, address and remedy human rights abuses committed in business operations. In October 2018, an international working group under the Human Rights Council began

¹ The role of the Global Compact initiative in engaging business for sustainable development is reviewed in document ESCAP/CTI/2019/6.

negotiations on an international treaty on business and human rights.² However, business was generally not very supportive of this initiative.³ In addition, a recent study showed that although some Asian countries are supportive of the treaty, others are not actively engaging in the process and are not responding to the needs and demands of affected people.⁴

11. Another example is the Global Reporting Initiative which provides voluntary standards for uniform reporting on sustainability issues and helps to standardize the reporting methodology of companies, including multinational enterprises, on environmental, social and governance issues (see section III).

12. With specific reference to multinational enterprises, the non-binding OECD Guidelines for Multinational Enterprises may be the most comprehensive set of guidelines for responsible multinational enterprise behaviour. The Guidelines provide recommendations from Governments to multinational enterprises operating in or from adhering countries. They provide non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognized standards. The Guidelines are the only multilaterally agreed and comprehensive code of responsible business conduct that Governments have committed to promoting. The Guidelines are supported by a unique implementation mechanism of national contact points for responsible business conduct and agencies established by adhering Governments to promote and implement the Guidelines. Currently, there are 48 adhering Governments and 47 have a national contact point in place. Only six countries from the Asia-Pacific region adhere to the Guidelines, with Kazakhstan being the most recent and the others being Australia, Japan, New Zealand, the Republic of Korea and Turkey. Due diligence guidance notes from OECD provide practical support to enterprises on how to implement the Guidelines within their supply chains. The guidance notes are available for several sectors, such as minerals, extractives, garments and footwear, and agriculture.

13. The provisions of relevant conventions of the International Labour Organization (ILO) are usually an integral part of most standards related to responsible business conduct. However, while most international standards for responsible business conduct are voluntary, ILO conventions, when ratified, become binding on Governments, and those Governments must adopt legislation to implement them. The two conventions that are particularly relevant are the 1998 ILO Declaration on Fundamental Principles and Rights at Work, which requires Governments of the 187 member States to implement the principles of the ILO core labour standards, and the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, which is a guideline on enterprise behaviour for Governments and enterprises. The fifth edition was issued in 2017.

14. The Trade and Investment Working Group of the Group of 20 issued the G20 Guiding Principles for Global Investment Policymaking. These were endorsed by trade ministers in Shanghai, China, in July 2016 and then by heads

² The fourth session of the open-ended intergovernmental working group on transnational corporations and other business enterprises with respect to human rights, with the mandate of elaborating an international legally binding instrument as per Human Rights Council resolution 26/9, was held in Geneva from 15 to 19 October 2018.

³ European Coalition for Corporate Justice, “UN Treaty on Business and Human Rights ‘Zero Draft’ Negotiations Day 1”, 16 October 2018.

⁴ Friends of the Earth Asia Pacific, “Can Asia (and the UN) hold corporations accountable?”, *The Diplomat*, 17 October 2018.

of State at the Hangzhou Summit in Hangzhou, China, in September 2016, with the following objectives: fostering an open, transparent and conducive global policy environment for investment; promoting coherence in national and international investment policymaking; and promoting inclusive economic growth and sustainable development. Responsible business conduct is one of the nine key principles.

15. In addition, there are various multi-stakeholder initiative standards such as the International Organization for Standardization (ISO) 26000 standard series on social responsibility. It is estimated that 80 of the 162 ISO member States have adopted the ISO 26000 series as a national standard,⁵ including 19 ESCAP member States that have either adopted it or are in process of doing so. Similar standards exist at the sectoral level, such as the Extractive Industries Transparency Initiative and the Equator Principles, a risk management framework, adopted by financial institutions for determining, assessing and managing environmental and social risk in project finance.⁶ The United Nations Conference on Trade and Development (UNCTAD), the Food and Agriculture Organization of the United Nations, the International Fund for Agricultural Development and the World Bank jointly developed a set of principles for responsible agricultural investment that enjoins respect for rights, livelihoods and resources. Finally, there are numerous codes issued by industry associations and individual companies that also apply to the supply chains they dominate.

16. Various stock exchanges around the world have adopted sustainability indices for their listed companies. For instance, the Dow Jones Sustainability indices represent companies and industries that have achieved the best ratings of sustainability and economic, social and environmental integration – according to the social and environmental rating agency, RobecoSAM. The FTSE4Good Index Series helps investors to identify companies that meet globally recognized standards of corporate social responsibility. In the Asia-Pacific region, various stock exchanges demand sustainability reports from listed companies as part of their corporate social responsibility policy and/or have sustainability-related indices. For example, the Shanghai Stock Exchange has 27 sustainability-related indices. The Hong Kong Stock Exchange has the Hang Seng Corporate Sustainability Index. In Thailand, the Stock Exchange of Thailand has announced the Thailand Sustainability Investment list, a list of Thai companies with outstanding performance on environmental, social and governance aspects. The Stock Exchange of Thailand also gives sustainability awards to the most outstanding firms on the list. Others include the Ho Chi Minh, Japan, Korea, Malaysia and Singapore exchanges.

17. As awareness grows, national chambers are increasingly involved in promoting corporate social responsibility and responsible business conduct. For instance, in Kazakhstan, the National Chamber of Entrepreneurs “Atameken” and the corporate fund Eurasia-Central Asia developed the National Concept on Social Corporate Responsibility, a non-binding document covering human rights, environmental protection, consumer interests, responsible business conduct, corporate governance and community development. The Chamber of Commerce and Industry of Viet Nam conducts corporate social responsibility training and highlights corporate engagement

⁵ See <https://iso26000.info/iso26000>.

⁶ The third edition of the Equator Principles was launched in 2013 and the fourth edition is scheduled for release in August 2019.

on a dedicated website (www.csr-vietnam.eu/) in partnership with the United Nations.

18. It follows that the uptake of responsible business conduct by companies in the Asia-Pacific region is growing. However, much remains to be done. While most large companies and multinational enterprises have some form of corporate social responsibility programme, most small and medium-sized enterprises lack such a programme. An additional problem is that there are no data on enterprises in the informal sector where corporate social responsibility and responsible business conduct are expected to be mostly absent. For instance, a 2012 survey found that industry captains and business managers in the Asia-Pacific region place sustainability and corporate social responsibility high on their firm's priority list but many of them cite cost as the biggest obstacle to translating this priority into action.⁷ The India Responsible Business Index of the top 100 companies listed on the Bombay Stock Exchange found that barely half the firms committed to inclusive supply chains. In 2015, only 40 firms extended human rights policies to their supply chain, compared to 54 in 2016. Similarly, there were only 27 firms with a provision for conducting impact assessments in 2015, compared to 31 in 2016.⁸

19. Other challenges remain, such as low awareness of the long-term value of improving management practices, the environment inside and outside the factory and in the community, insufficient stakeholder engagement to define corporate social responsibility for the company, the impact on operational cost when the company implements corporate social responsibility, the lack of support for corporate social responsibility initiatives from Governments and a general lack of knowledge and expertise in the region.⁹ Similarly, with regard to implementing the existing international responsible business conduct instruments, UNCTAD identified the main challenges as follows:

- (a) Gaps, overlaps and inconsistencies among different sets of responsible business conduct;
- (b) Limited involvement of outside stakeholders in formulating standards;
- (c) Responsible business conduct standards may undermine national legislative efforts and cannot be a substitute for legal provisions;
- (d) Reporting continues to lack uniformity, standardization and comparability and the lack of transparency in some standards makes it difficult for stakeholders to evaluate and compare the performance of different initiatives;
- (e) Weak compliance, as compliance is perceived as a high burden by companies;
- (f) Responsible business conduct standards may be interpreted as non-tariff measures affecting international trade and investment.¹⁰

⁷ See Eco-Business, "Corporate attitudes towards corporate sustainability/CSR in Asia Pacific", 30 April 2012.

⁸ See www.business-humanrights.org/en/india-responsible-business-index-measures-100-listed-companies-on-five-criteria-to-measure-socially-inclusivity.

⁹ See www.hrinasia.com/employer-branding/csr-penetration-in-asia-pacific-at-the-roots-or-on-the-surface.

¹⁰ *World Investment Report 2011: Non-equity Modes of International Production and Development* (United Nations publication, Sales No. E.11.II.D.2).

20. It is clear that responsible business conduct plays an essential role in sustainable business and investment and it enhances the likelihood that investment from a responsible business would actually contribute to the country's progress towards the Sustainable Development Goals. The Committee on Trade and Investment may wish to deliberate on the use and practical application of principles of responsible business conduct, the challenges associated with adopting and implementing them and how to address these challenges.

C. The role of Governments to promote the uptake and implementation of responsible business conduct and sustainable investment

21. Over time, investment policies and strategies have evolved from a focus on economic liberalization in the 1980s, to improving the overall business and investment climate in the 1990s and 2000s, to a focus on sustainability today.

22. Governments can promote responsible business conduct through regulation, facilitation, cooperation and partnering, and endorsement and warranting of the codes.¹¹ While most responsible business practices are based on voluntary guidelines, principles and standards, regulation levels the playing field for all enterprises, including foreign companies in a host country. This can come in the form of laws, regulations, penalties and associated measures to control aspects of business investment or operations. Governments at different levels can regulate the behaviour or practice of business by defining minimum standards for business performance embedded within the legal framework; establishing targets for business to achieve; setting up enforcers and inspectorates to oversee business conduct; promulgating codes or laws to constrain undesirable business conduct; mandating corporate contributions to the community; or requiring companies to obtain a licence of operation or requiring the adoption of mandatory environment-friendly industrial systems. Regulation can set minimum wages and maximum greenhouse gas emissions or requirements for all businesses to issue reports on responsible business conduct.

23. Comprehensive policies and regulations on responsible business conduct are not common in Asia and the Pacific and most Governments lack a clear focal point that is responsible for such policies and regulations. In India, the Companies Act, 2013, established the framework for corporate social responsibility laws. The Government imposed a mandatory requirement for companies to spend 2 per cent of their profits on corporate social responsibility. However, such expenditure would not guarantee that businesses actually operate on the basis of responsible business conduct principles. In Kazakhstan, the 2015 Entrepreneurial Code has a special section on social responsibility, which is defined as a voluntary contribution for the development of social, environmental and other spheres. In the Philippines, the 2013 draft corporate social responsibility act currently under consideration in the Congress of the Philippines represents a formal commitment to promote corporate social responsibility in the country. Under the act, the Government would encourage private sector participation in fostering sustainable economic development and environmental protection. The Government of Viet Nam has issued regulations against adverse business practices and to strengthen labour rights, consumer

¹¹ ESCAP, *Creating Business and Social Value: The Asian Way to Integrate CSR into Business Strategies*, Studies in Trade and Investment, No. 68 (ST/ESCAP/2565); and ESCAP, *Handbook on Policies, Promotion and Facilitation of Foreign Direct Investment for Sustainable Development in Asia and the Pacific* (ST/ESCAP/2786).

protection and environmental protection. To the extent that national laws cover or at least make reference to responsible business conduct in selected areas, effective enforcement remains a challenge. Regulation plays an important role in sustainability reporting (see section III), in particular in India, Indonesia, Malaysia and the Republic of Korea.¹²

24. Through facilitation, Governments play a catalytic, secondary, or supporting role to enable or incentivize companies to adopt responsible business practices. Governments may provide tax incentives and penalties to promote responsible business and investment; ensure business can access needed information; facilitate an understanding of the minimum legal requirements for issues relating to responsible business practices; include responsible business conduct elements in related policy areas (such as industrial policy, trade policy, environmental policy and labour policy); offer capacity-building, business advisory services and technical assistance to businesses when needed; or support supply chain initiatives and voluntary certification. In addition, Governments can promote and support the establishment and development of the Global Compact Local Networks. While performance requirements in general are counterproductive and often prohibited in international investment agreements, the requirement for sustainability and responsible business conduct has a clear justification and can be a condition for receiving incentives. Various Governments in the region encourage the uptake of responsible business conduct. For instance, in Thailand, the Department of Industrial Works under the Ministry of Industry has encouraged businesses in the industrial sector to implement their corporate social responsibility standards, which would enable them to meet ISO 26000 standards. In the Republic of Korea, government-supported subsidies and tax reductions for social enterprises have contributed to an increase in the number of enterprises addressing social issues related to unemployment, the environment and low-income populations.

25. With respect to cooperation and partnering, Governments can combine public resources with those of business and other actors to leverage complementary skills and resources to address issues within a responsible business conduct agenda. Governments can pursue partnerships with public sector agencies, businesses, civil society organizations and other stakeholder groups to tackle complex social and environmental challenges. At the global level, the World Business Council for Sustainable Development and the World Green Building Council have active chapters in Asia and the Pacific. At the regional level, Governments can work actively with the Asia Pacific Business Council for Sustainability which advances the Sustainable Development Goals with multi-stakeholders, including Governments and the private sector. Other notable civil society organizations at the subregional and regional levels are the South Asian Network on Sustainability and Responsibility, CSR Asia and the ASEAN CSR Network. There are many non-profit organizations promoting sustainable investment at the national level in addition to national chambers. Therefore, Governments can initiate dialogue in multi-stakeholder processes at the national level; support joint government-industry collaboration in capacity-building and develop sectoral guidelines for responsible business conduct or corporate social responsibility; engage stakeholders in standards-setting processes; promote public-private partnerships for community development; and mobilize resources for these purposes.

¹² KPMG International, *Currents of Change: The KPMG Survey of Corporate Responsibility Reporting 2015* (2015). This regulation stems from financial institutions, such as stock exchanges, rather than the Government.

26. With respect to ensuring and endorsing, Governments can provide political support and public endorsement for the concept of responsible business conduct or corporate social responsibility. In particular, this can be done for specific types of related initiatives in the marketplace. Ensuring and endorsing can take various forms, including commitment to implement international principles; education or awareness-raising programmes; official policy documents; publicity of good practice in responsible business conduct by leading companies; specific award schemes for responsible business conduct (such as a national green business award); or specific pro-responsible business conduct indicators, guidelines, systems and standards. Governments can also lead by example, through modalities such as public procurement or public sector management practices, or direct recognition of the efforts of individual enterprises through responsible business conduct award schemes. Examples of government initiatives in this area are the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business launched by the Ministry of Corporate Affairs of India in 2011, which laid a strong foundation for responsible business. Compliance with the guidelines is discussed at the annual India Responsible Business Forum. Mongolia, Kazakhstan and Kyrgyzstan have signed on to the Extractive Industries Transparency Initiative.

27. Governments can perform many of these roles simultaneously. The key objective is to provide an enabling environment for businesses and foreign investors to adopt and implement responsible business practices and/or engage in social or impact investment. More specifically, policies to establish or strengthen the enabling environment may include (a) creating (consumer) awareness and raising public support for concepts and practices related to responsible business conduct, including the promotion of sustainable production and consumption practices; (b) establishing a unit/agency for responsible business conduct as an overall coordinating unit within the Government, as effective policy implementation involves many ministries and government agencies; (c) reforming regulatory frameworks to meet international standards; (d) fostering interaction, consultation and dialogue with stakeholders, such as businesses, non-governmental organizations and others; and (e) assisting and supporting businesses in the adoption of responsible business practices through human resources development and financial support.

28. While the above-mentioned roles for Governments are at the national level, it would be useful for countries to harmonize their responsible business conduct policies and regulations at the international level, at least within regional integration frameworks. The focus should be on promoting the uptake of internationally recognized responsible business conduct principles and standards rather than developing new ones. This would help reduce overlaps and make it easier for businesses to conform and comply. This is particularly important as multinational enterprises are sometimes bigger and more powerful than national Governments and have operations in many countries, which may enable them to circumvent national laws and regulations.¹³

29. Governments can also negotiate more sustainable international investment agreements. The international investment agreement reform led by UNCTAD is entering its third phase where linkages are promoted between international investment agreements and national legal frameworks for FDI.

¹³ At the same time, multinational enterprises are more likely to have a sustainability or corporate social responsibility programme, the implementation of which should be duly reported (see section III).

The UNCTAD action menu for international investment agreement reform¹⁴ provides overall guidance on making international investment agreements more sustainable. One of the recommendations is to include clear provisions that encourage or require foreign investors to implement internationally recognized responsible business conduct principles and standards. The definition of investment can include sustainability characteristics to ensure that all provisions in an international investment agreement apply to sustainable investment. Ideally, such provisions should apply equally to domestic and foreign investors.

30. Some Governments have taken active measures to reform the international investment agreements they are party to, most of which are bilateral investment treaties. They have either withdrawn from certain international investment agreements (as Indonesia and South Africa have done) or adopted model bilateral investment treaties for the negotiation of new agreements with an emphasis on sustainability (India) or investment facilitation (Brazil) while reducing or clarifying traditional investor protection clauses. While there is merit in these efforts, the principal objective of these agreements is to protect investors and investments, a fact that should not be overlooked. In this context, international investment agreements are not the most useful tool to promote sustainable development, but a rebalancing of the rights and obligations of the investor and the host country is certainly important. Ideally, a global agreement on investment would set international standards and avoid overlap among thousands of individual international investment agreements. At the moment, the only attempts at consolidation are made within the context of the World Trade Organization (WTO), which has launched consultations on global standards of investment facilitation that may one day result in a global treaty on investment facilitation. So far, the consultations have not focused on promoting sustainability.

III. Monitoring and evaluation of compliance with standards of responsible business conduct and assessing the impact of foreign direct investment on sustainable development

31. It is easy to call for more sustainability and responsibility of companies but how can compliance be measured? In other words, what determines whether a company is deemed to be sustainable or responsible? This is important for Governments to formulate informed policies and for consumers to make informed purchasing decisions. There are two sets of indicators that measure sustainability performance. The first set relates to the extent a company practices responsible business conduct in its operations and supply chain. The second set refers to the economic, social and environmental impact of a company's operations. The first set poses the biggest challenges as performance can only be measured to the extent that a company or organization is willing to report on it, in the absence of a legal requirement to do so. Even if it were a legal requirement, performance measurement would depend on truthful reporting, for instance through the Global Compact Communication on Progress. An associated problem is that there are no common definitions of corporate social responsibility, responsible or sustainable business, business ethics, socially responsible business and so on. If it is agreed that it refers to the impact on stakeholders, both internal and external, who exactly are the stakeholders? The second set of indicators is somewhat easier as it does not involve the company's behaviour but rather its impact on sustainability, which

¹⁴ See *World Investment Report 2015: Reforming International Investment Governance*, (United Nations publication, Sales No. E.15.II.D.5).

can be defined by the Government by adopting a comprehensive set of indicators.

32. The measurement of the actual impact of FDI on sustainable development along the three dimensions – the economic, social and environmental – also poses challenges. This is different from measuring the sustainability of the investing company itself, though a company would probably have a greater impact on sustainability by being sustainable itself. While the impact of FDI on economic variables such as growth, exports and employment are fairly straightforward, it becomes more complicated when social and environmental dimensions are considered. In fact, it is not always possible to clearly distinguish among the three dimensions. For instance, is the creation of employment for women an economic or social contribution? Given that each country has different priorities for sustainable development, as identified in national sustainable development plans or strategies, it follows that it would be difficult to develop a global set of common sustainability indicators for investment, though such a set could still provide guidance to national Governments. Each Government could weight individual indicators, preferably by sector, although this would make comparability among countries impossible. Finally, it must be emphasized that the sustainability of the product or service itself has not been discussed, as this is very subjective and very difficult to ascertain. It can be argued, however, that companies that produce products that are commonly known to be harmful to health or the environment would automatically score low on the relevant sustainability indicators.

33. With the proliferation of various sustainability reporting tools, sustainability reporting in the region has certainly improved. In fact, Asia and the Pacific was the region with the strongest growth in sustainability reporting in recent years. This growth was driven by the surge in reporting policies and regulations, particularly those implemented by financial market regulators. Seventy-nine per cent of the 100 largest companies per country in the Asia-Pacific region report on their sustainability impacts, surpassing even Europe and North America.¹⁵ Globally, the adoption of sustainability reporting by companies listed on the S&P 500 Index increased by 62 per cent between 2011 and 2016.¹⁶ The Global Reporting Initiative offers the most comprehensive set of standards which help organizations to report on their impact on sustainable development (and also cover standards related to their own responsible business conduct). Approximately two thirds of the reports analysed in the KPMG 2017 Survey on Corporate Sustainability Reporting applied the guidelines of the Global Reporting Initiative.¹⁷

34. In addition, the SDG Compass, developed by the Global Reporting Initiative, the Global Compact and the World Business Council for Sustainable Development, provides guidance for companies, mainly multinational enterprises, on how they can align their strategies with as well as measure and manage their contribution to the realization of the Sustainable Development Goals.¹⁸ As a follow up, the Global Compact initiative issued a guide for businesses that outlined a three-step process to integrate the Sustainable

¹⁵ KPMG and others, *Carrots and Sticks: Global Trends in Sustainability Reporting Regulation and Policy*, 2016 edition (2016).

¹⁶ See World Economic Forum, “Sustainability. We know it matters, but how do we measure it?”, 6 September 2017.

¹⁷ KPMG International, *The Road Ahead: The KPMG Survey of Corporate Responsibility Reporting 2017* (2017).

¹⁸ <https://sdgcompass.org>.

Development Goals into corporate reporting.¹⁹ It helps businesses to better report their impact with regard to the Goals and to address the information needs of relevant stakeholders. The guide is aligned with the Guiding Principles on Business and Human Rights of the United Nations and the Global Reporting Initiative standards.

35. There are many reporting standards in specific areas as well. For instance, the Climate Change Reporting Framework of the Climate Disclosure Standards Board is a voluntary reporting framework for climate change-related information. Standards and codes also differ by country; for instance, most countries have their own standards for green buildings.²⁰ In addition, many companies use their own code of conduct.

36. There is, therefore, no lack of sustainability reporting standards and instruments. In fact, there may be too many, which may cause confusion and undermine compliance. Research conducted in 2016 identified almost 400 sustainability reporting instruments in 64 countries compared to 180 instruments identified in 44 countries in 2013. The growth in the number of reporting instruments has been particularly strong in the Asia-Pacific region alongside Europe and Latin America, mostly as a result of requirements imposed by financial regulators. Approximately 68 per cent of reporting requirements in the region are mandatory compared to 32 per cent that are voluntary.²¹ However, the effectiveness of sustainability reporting is difficult to measure. The reporting styles and extent of coverage in corporate social responsibility and responsible business conduct reporting varies greatly across companies within the region.

37. Despite the noted progress and proliferation of responsible business conduct instruments and reporting tools, monitoring and evaluation of responsible business conduct and measuring the impact of investment on sustainable development is still a work in progress. For instance, the KPMG 2017 Corporate Responsibility Reporting Survey showed that 84 per cent of the largest companies in Singapore are fulfilling their reporting responsibilities, which is higher than the global average of 72 per cent. However, climate and environment risks are not adequately recognized or addressed by Singapore companies, as only 17 per cent have set carbon-reduction targets, lower than the global rate of 50 per cent.²²

38. According to a paper prepared by the Columbia Centre on Sustainable Investment, the contributions that Governments expect FDI to make to sustainable development differ from what multinational enterprises claim they make. The interaction between host countries and multinational enterprises are impacted by international investment agreements, voluntary intergovernmental instruments, host country laws, home country policies, intergovernmental organization standards, voluntary business and industry codes, private institutional investor standards and company codes.²³ Further, an international consensus is emerging on what constitutes sustainable investment and on common indicators to measure it.

¹⁹ See www.unglobalcompact.org/library.

²⁰ Ibid.

²¹ KPMG and others, *Carrots and Sticks*.

²² KPMG International, *The Road Ahead*.

²³ Karl P. Sauvant and Howard Mann, "Sustainable FDI for sustainable development", *Columbia FDI Perspectives*, No. 221 (March 2018).

39. Governments have an important role in promoting sustainability reporting and building consensus on indicators to measure sustainable investment. Ideally, such reporting could be a legal requirement even though many businesses may see such a requirement as an additional burden undermining profits (and therefore perhaps their contribution to economic variables). Sustainability reporting could be an important performance requirement for both domestic and foreign investors, either as a requirement to establish a company, or at least as a requirement to receive incentives. Governments could mandate a so-called sustainability audit which would complement a financial audit as part of promoting business transparency in this area. With regard to measuring the impact of FDI on sustainable development, Governments should strive to develop comprehensive sets of national, subnational and sectoral indicators using established international frameworks and reflecting development priorities through weighted indicators. This would help them identify which forms, kinds or types of FDI make the greatest contributions to sustainable development. This, in turn, would help investment promotion agencies to develop better investor targeting strategies and streamline their incentive regimes. It would also help investors to submit sustainability reports against such indicators.

40. To address some of the challenges mentioned above, ESCAP is partnering with the Colombia Centre on Sustainable Investment in the development of national-level sets of sustainability indicators for FDI under the eleventh tranche of the Development Account project on fostering inclusive and sustainable development through increased participation of small and medium-sized enterprises in global value chains in Asian least developed and landlocked developing countries. While the project targets four pilot countries in four different subregions, namely Cambodia in South-East Asia, Fiji in the Pacific, Kyrgyzstan in Central Asia and Nepal in South Asia, joint work is currently focusing on Cambodia. National experts have been identified or are being identified to develop comprehensive sets of sustainability indicators that are weighted depending on the importance of a particular sector or indicator. The studies also identify obstacles to using the indicators.

IV. Issues for consideration by the Committee

41. The secretariat has emphasized the need for responsible business conduct for many years and implemented the project on investors for development to strengthen the Global Compact Local Networks as mechanisms to promote responsible business conduct from 2007 to 2012. However, since then the secretariat was unable to mobilize resources for follow-up because traditional donors believed that responsible business conduct was an issue for business rather than Government. The secretariat is currently exploring private sector funding for responsible business conduct-related projects, including through the ESCAP Sustainable Business Network.²⁴ With the adoption of the 2030 Agenda, Governments increasingly realize that they have a role in providing an enabling environment for businesses to adopt and implement responsible business conduct. In fact, the aim of target 6 of Sustainable Development Goal 12 (Ensure sustainable consumption and production patterns) is to encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle. For this purpose, indicator 12.6.1 refers to the number of companies publishing sustainability reports. Clearly, to achieve this target, government intervention is required, but it should not duplicate existing efforts nor formulate new guidelines or

²⁴ This is further discussed in document ESCAP/CTI/2019/6.

standards. As the present document has demonstrated, there are many available instruments and tools already. There is a need for Governments to either force or at least encourage the uptake of some of these instruments.

42. In this regard, the Committee is invited to consider the following issues:

(a) The role of Governments in promoting responsible business conduct and which ministry or government entity would be the focal point for formulating and coordinating government policy and regulations on responsible business conduct;

(b) Whether Governments should resort to mandatory standards through regulation or voluntary standards through encouragement, endorsement and other promotion measures as outlined in the present document;

(c) The extent to which a subregional or regional approach towards responsible business conduct can be forced based on internationally recognized standards, and the role of ESCAP in this regard;

(d) The desirability and feasibility of developing indicators that measure compliance with internationally recognized responsible business conduct standards and that assess the impact of investment, in particular FDI, on sustainable development and the role of ESCAP in this area;

(e) The willingness of individual member States to provide funding for extrabudgetary ESCAP projects in the area of promoting responsible business conduct and sustainable investment, either by Governments or in partnership with the private sector, and to identify priorities for such projects.

43. The Committee may wish to consider the adoption of appropriate decisions and the drafting of appropriate resolutions in the above-mentioned areas for adoption by the Commission at its seventy-fifth session.
