

# MAKING PROFITS, PROTECTING OUR PLANET

## CORPORATE RESPONSIBILITY FOR ENVIRONMENTAL PERFORMANCE IN ASIA AND THE PACIFIC

ASIAN **2005** ENVIRONMENT OUTLOOK

### EXECUTIVE SUMMARY

**S**ustained economic growth in Asia and the Pacific—especially in the People’s Republic of China (PRC), India, and parts of Southeast Asia—has led to a rapid decline in income-based poverty. Unfortunately, this has been accompanied by a corresponding rise in pollution and the degradation of natural resources.

Many of these negative impacts on the environment are of such magnitude that they are of global concern. Air and water pollution continue to rise, and solid waste management—especially in the region’s rapidly expanding urban areas—is becoming an enormous problem. Deforestation continues alongside coastal and marine degradation. And the region is rapidly becoming the world’s largest source of greenhouse gas emissions. This has undermined some of the impressive development gains achieved because of increasing health care costs associated with the effects of pollution as well as heightened vulnerability of the mostly rural poor who depend upon productive natural resource systems for their livelihoods.

With these growing environmental problems, easier access to information sweeping across the region, and a rising middle class giving greater consideration to their quality of life, both the public and private sectors are increasingly being forced to pay much greater attention to environmental management.

*Making Profits, Protecting Our Planet: Corporate Responsibility for Environmental Performance in Asia and the Pacific* is the second *Asian Environment Outlook* (AEO) series published by Asian Development Bank. It builds on work initiated through AEO 2001,

which reviewed environmental policies and institutions employed across the region and found most countries relying on weakly enforced and largely ineffective environmental regulations based on top-down approaches. AEO 2001’s conclusions focused on the need to explore a much wider range of more market-based and flexible policy instruments to complement stronger enforcement of existing policies and standards. It also encouraged better mainstreaming of environmental considerations into economic and sectoral policies and programs. While there has been some progress in these areas—and nearly all countries now have cabinet-level environment ministries—AEO 2005 argues that there is still a critical missing ingredient in the pursuit of a sustainable future for Asia and the Pacific: a fully engaged corporate sector.

#### Changing Expectations

There are mounting legislative, social, and market pressures on the corporate world to exercise greater responsibility for its environmental performance. These may serve as positive forces to help reshape the public-private compact concerning accountability for protection against pollution and resource degradation during economic development, and accelerate the movement toward more sustainable production.

Responses to new pressures may be found in the private sector’s widening interest in globally recognized environmental management certification programs such as ISO-14001 and growing acceptance of the principles and practices behind the United Nation’s Global Compact for Corporate Citizenship in the World Economy, the Global Reporting Initiative, and the Equator Principles applied to large private investments.

ISO-14001 certification has grown rapidly in Asia and the Pacific, now accounting for over 40% of the world's total. The number of certified firms in the PRC alone grew by more than 200% to 8,865 in 2005 from 2,802 in 2002. More than 700 corporations—many of whom operate in Asia and the Pacific—have adopted the GRI Sustainability Reporting Guidelines. And 30 of the world's largest banking groups—with the majority active in this region—have signed on to the Equator Principles, accounting for about 75% of global project financing and amounting to \$55.1 billion in loans in 2003.

Those who respond early to these global pressures can expect some competitive advantage through a mix of efficiency improvements, product differentiation, and risk reduction. There is evidence that, for many types of production processes, greater attention to waste minimization and other environmental management measures can result in productivity gains. In Thailand, more than 600 firms participating in an eco-efficiency improvement program achieved an aggregate 47% return on such investments.

There also are growing opportunities for increased revenues through product differentiation to meet the requirements of importers and the expanding “green product” demands of both consumers and shareholders. In India, textile and handicrafts firms have benefited from marketing their products to environmentally conscious consumers in Europe. Threats to brand reputation and environmental liability risks also are creating incentives for companies to pay greater attention to their environmental practices. The regional and global press is giving ever greater coverage to stories about firms at odds with local communities over their environmental or social policies.

### **New Policy Thinking**

While the credible threat of punitive government action must remain, there is tremendous scope for the expanded use of market-based incentive and a new set of promising policy measures centered on capturing growing corporate willingness to work in partnership with government and other stakeholders to see that public environmental (and social) expectations are met. Such voluntary agreements offer attractive supplements to command-and-control and

market-based policy measures. These reflexive regulatory systems—already being tested in the tanneries and textile sectors in Indonesia, Pakistan, and Sri Lanka—can provide freedom for firms to find cost-effective methods of compliance, combining with other policy instruments to induce innovation and the private sector's adoption of a new set of “sustainability tools,” such as ISO-14001 and improved corporate environmental metrics using life cycle analysis and other measures.

### **Encouraging Innovation**

Though technological innovation alone cannot solve the serious environmental problems facing the Asia and Pacific region, some recent trends—especially toward energy efficiency in transport and manufacturing, alternatives to fossil fuels, and reduced end-product waste—provide encouraging evidence that rapid economic growth and sound environmental management can go hand-in-hand. Greater attention to establishing economic and environmental policy regimes that encourage such innovation is vital if the negative environmental by-products of economic expansion are to be kept within nature's assimilative capacities.

New and greener products—together with an anticipated massive investment in environmental infrastructure throughout the region—also show that environmental cleanup and protection offer strong business and employment creation opportunities. The global market for environmental goods and services is estimated to be about \$607 billion in 2005, and is projected to grow to over \$836 billion by 2015. The Asia-Pacific market accounted for \$37 billion of this total, but its growth rate is the fastest in the world, with the market expected to triple by 2015.

### **A Collaborative Future**

More direct interaction between government and the business community holds an important key to getting the region's development pattern onto an environmentally sustainable path. The public and private sectors in the region—as well as its citizens—must make these adjustments to define new production and consumption patterns that can satisfy human desires within environmental bounds. Now is the time to make these changes in the way Asia and the Pacific goes about the business of economic development. ■