Lessons Learned:

The Emerging Markets Disclosure Project, 2008 – 2012

US SIF FOUNDATION
The Forum for Sustainable and Responsible Investment

Calvert INVESTMENTS®

BOSTON COMMON ASSET MANAGEMENT, LLC

PRI Principles for Responsible Investment

ACKNOWLEDGMENTS

The Emerging Markets Disclosure Project (EMDP), an initiative of the **US SIF Foundation**, brought together partners from around the globe in a collaboration aimed at improving sustainability disclosure in emerging markets. Over the five years of the project, the participants published four original research reports, created country teams in Brazil, Indonesia, South Africa and South Korea, engaged 72 companies, and achieved their goal of advancing sustainability reporting in the emerging markets.

The majority of the EMDP's work was done through voluntary efforts of the participating organizations. All are mentioned in the report, but two individuals stand out for their leadership on this project: **Boston Common Asset Management** Managing Director Lauren Compere and **Calvert Investments** Senior Sustainability Analyst and Manager, Index, Mike Lombardo. The two co-chaired the EMDP's steering committee; Compere also co-chaired the South Korea team and Lombardo the South Africa team.

Recognition also needs to be given to UN-backed **Principles for Responsible Investment (PRI) Secretariat** Head of Investor Engagement Valeria Piani, who participated on the steering committee too and helped coordinate the Brazil and Indonesia teams. **HSBC** SRI Analyst Cinthia Gaban, **PREVI** Strategic Planning Manager Rafael Castro, PRI Secretariat staff Marcela Zonis, Camila Yamahaki and Arleta Majoch, **IndonesiaWise** CEO Amol Titus, Korea **CSR Research Service (KOCSR)** Executive Director Joowon Park, and **MN Services** Responsible Investment Advisor Faryda Lindeman took leading roles on country teams as well and with Compere, Lombardo and Piani made significant contributions to this report.

Assistant Director of Operations & Development Sylvia Panek with other US SIF staff provided administrative, research and technical support to the project, including editorial input for this report. PRI Secretariat staff lent technical and coordinative assistance, as did the **Global Reporting Initiative (GRI)** and the **International Finance Corporation (IFC)**. Finally, the EMDP thanks the individual country teams in Brazil, Indonesia, South Africa and South Korea for their tremendous contributions.

The EMDP project partners hope that this retrospective will help encourage others to pursue greater corporate transparency and sustainability disclosure in emerging markets.

Sustainable Investments Institute (Si2) Cofounder and Deputy Director Peter DeSimone authored this report, which was produced with financial support from the following sponsors:

About the Publisher

The US SIF Foundation, a non-profit 501(c)(3) organization, supports the educational and research activities of US SIF: The Forum for Sustainable and Responsible Investment (US SIF). US SIF is the US membership association for professionals, firms, institutions and organizations engaged in sustainable and responsible investing (SRI). US SIF and its members advance investment practices that consider environmental, social and corporate governance criteria to generate long-term competitive financial returns and positive societal impact. US SIF's members include investment management and advisory firms, mutual fund companies, research firms, financial planners and advisors, broker-dealers, banks, credit unions, community development organizations, non-profit associations, and pension funds, foundations and other asset owners.

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EXECUTIVE SUMMARY

In 2008, members of the International Working Group (IWG) of the US SIF Foundation identified a need for more comparable environmental, social and governance (ESG) data from emerging market companies. The lack of information was inhibiting the ability of sustainable and responsible investors (SRI) to assess emerging market firms and offer SRI products.

To achieve this aim, the IWG created the Emerging Markets Disclosure Project (EMDP). The project's participants would work toward increasing sustainability reporting among emerging market companies and improving the quality and usefulness of the metrics, data and information offered by these companies through research and engagement activities. The project also sought to increase sustainable investment activities and ESG research products covering these markets, as well as to bolster transparency and corporate performance on key sustainability factors.

Building on expertise from sustainable and responsible investment (SRI) funds and research organizations within IWG, the group reached out to the United Nations (UN)-backed Principles for Responsible Investment (PRI) Secretariat, the Global Reporting Initiative (GRI) and the International Finance Corporation (IFC) for additional coordination and technical assistance. Over five years, the EMDP launched three work streams: baseline research, investor support, and corporate engagement. Each had a critical function in supporting the project's success. Research guided the EMDP in assessing needs and selecting countries, and the EMDP produced four original research reports to support the group's activities. Investor support demonstrated broad market endorsement of the project's aims and was instrumental in helping to get attention from companies. By 2012, 55 investors with more than $1 trillion in assets under management, including a sizeable emerging markets contingent, signed onto a statement supporting the project's objectives, along with 26 research and civil society organizations. Finally, this project's corporate engagement activities yielded positive changes that will continue to have an impact in Brazil, Indonesia, South Africa and South

EMDP MILESTONES

2008

- Project inception
- Debut of *Sustainability Reporting in Emerging Markets: An analysis of the sustainability reporting in selected sectors of seven emerging market countries*
- Launch of investor statement

2009

- Publication of *A Review of ESG Practices in Large Emerging Market Companies; Corporate Sustainability Disclosure in Emerging Markets and Emerging Markets Investor Survey Report: An analysis of responsible investment in emerging markets*
- Creation of country teams in Brazil, Indonesia, South Africa and South Korea
- Unveiling of EMDP Scorecard

2010

- Renewal of investor support
- Start of engagement activities by country teams
- Posting of public reports from Indonesia and South Korea teams

2011

- Continuation of engagement efforts and quarterly progress reports by country teams
- Issuing of second Indonesia public report

2012

- Conclusion of engagement efforts
- Project close

Korea. To date, the EMDP has engaged 72 companies in these four markets. Overall, more than 51 organizations from both developed and emerging market countries participated in the EMDP, and this collaboration was one of the keys to the project's success.

SUMMARY OF FINDINGS: In reflecting on their experiences, the EMDP country teams noted the following common themes:

- Collaboration between international partners, local investors and organizations with knowledge of, language expertise in, and strong contacts in the target markets proved to be effective model for engagement.
- Knowledge of sustainability reporting practices and international norms varied widely in the markets, as did awareness of how investors use ESG data in constructing portfolios and choosing investments. It is critical to continue education about these issues.
- While many emerging market companies report some kind of ESG information, few use international standards such as the Global Reporting Initiative's guidelines, issue comparable, year-on-year metrics, or offer in-depth, useful information on sustainability risks such as climate change, water use and human rights. Of the markets studied, Brazil and South Africa are clear leaders in these areas.
- Local exchange listing and regulatory requirements were the most important drivers of sustainability reporting.
- The use of scorecards and comparable peer data on companies was effective in bringing lagging performers to the negotiating table, and the information proved extremely useful to team members in hosting productive meetings with companies.
- As in developed markets, investor relations departments and senior management at times appeared detached from internal sustainability efforts and need to be brought into the process to yield meaningful, long-term results.

ORGANIZATION OF THIS REPORT: This report is organized into five sections, including this executive summary. The following four chapters provide more in-depth information on each of the country teams and their activities and findings. An appendix contains key documents and reference materials.

Comments from EMDP Partners

Lisa Woll, CEO, US SIF Foundation
US SIF Foundation was pleased to be the secretariat for the EMDP for the past five years. Corporate sustainability disclosure is one of US SIF's top issues, so this project was a natural fit for us. Additionally, our members saw tremendous value in the project, and many participated actively in the EMDP. As our members' product offerings expand into emerging market equities, the type of transparency the EMDP sought to promote will become even more critical. The gains the project made in persuading companies in emerging markets to report according to internationally recognized standards, including the GRI, will likely have ripple effects for years to come.

Ernst Ligteringen, Chief Executive, Global Reporting Initiative (GRI)
Transparency in emerging markets is key to a sustainable global economy. GRI congratulates the EMDP and its partners on their groundbreaking work over the past five years. The continuing growth and success of sustainability reporting, and use of the GRI Guidelines, depends on an increasing number of companies and organizations around the world realizing the value of sustainability disclosure. The EMDP's efforts to promote the GRI Reporting Framework in emerging markets contributes to this increase, supporting GRI's mission to make sustainability reporting standard practice. Through the education efforts and many corporate engagements conducted by the EMDP partners, the project paves the way for improved transparency and a sustainable economy in the years to come.

Dr. James Gifford, Executive Director, Principles for Responsible Investment (PRI) Secretariat
The PRI Initiative was created to help investors adopt and implement the six Principles for responsible investment, and Principle three states that signatories should seek appropriate disclosure on ESG issues by the entities in which they invest. Responsible long-term investors cannot make prudent investment decisions unless they have high-quality information on companies' exposure to these issues and the quality of their responses to them. Therefore, the activities of the EMDP were directly aligned with our signatories' aspirations, and we were happy to support this project and help raise awareness about its goals, achievements and findings. Many PRI signatories participated in the project and many more will continue the mission of the EMDP in emerging markets in future as they seek greater transparency from the companies in which they invest in and gather the information they need to integrate sustainability factors into the investment process. With much better information on ESG issues now being disclosed by Brazilian companies in particular as a result of the project, the PRI's Brazilian network can now undertake new engagements with local companies around how they are managing these issues.

GLOBAL OVERVIEW

Sparked by demands from the sustainable and responsible investment (SRI) community for research and products covering emerging markets, the Emerging Markets Disclosure Project (EMDP) was launched in 2008. EMDP, a project of the International Working Group (IWG), was based at the US SIF Foundation and led by US SIF members Boston Common Asset Management and Calvert Investments. The United Nations (UN)-backed Principles of Responsible Investment (PRI) Secretariat and the International Finance Corporation (IFC) provided coordinative and technical support for the project.

EMDP BY NUMBERS

51 **Participants**

72 **Companies Engaged**

81 **Investor Statement Signatories**

When the project started, global providers of ESG data largely did not offer information about companies listed in emerging markets, and research organizations generally did not have the capacity to deliver these types of services to investors, at least not on a global scale that offered comparability between markets. Yet, investors were beginning to offer SRI funds with emerging markets equities, and many more were exploring the creation of these investment vehicles.

The EMDP sought to address these challenges through three types of activities or work streams: market research, investor support and corporate engagement. The participants researched companies in a broad array of sectors in 11 emerging markets widely held by global investors to ascertain general trends, gather data for selecting markets for engagement activities, and offer country teams a baseline for evaluating and selecting companies for dialogues, as well as for measuring progress. In the area of investor support, the project partners crafted an investor sign-on letter and launched a campaign to attract signatories that was later leveraged in engagement with companies once the country teams were formed. The three strategies are described below.

MARKET RESEARCH: EMDP participants collected benchmark data on sustainability reporting in the emerging markets that later helped the project select markets and guide country teams in developing strategies for further research, corporate outreach and engagement. The baseline research for the project was conducted in coordination with US SIF members KLD (now part of MSCI) and EIRIS, as well as the United Nations Conference on Trade and Development (UNCTAD), which led to the publication of three reports, one in 2008 and two in 2009. All three concluded that while a significant number of emerging market companies had begun to report on ESG issues, the practice was not yet widespread, and most reports did not conform to a global standard, such as the GRI reporting guidelines. However, Brazil and South Africa performed well in all three assessments with high rates of reporting companies using GRI and offering data on key ESG issues.

The 2008 KLD report, *Sustainability Reporting in Emerging Markets: An analysis of the sustainability reporting in selected sectors of seven emerging market countries,* examined the levels of sustainability reporting at 75 emerging market companies in seven countries—Brazil, China, India, Russia, South Africa, South Korea and Taiwan—across three industries—energy (21 companies), materials, metals and mining (28 companies); and telecommunications (26 companies). Researchers reviewed

SUMMARY OF 2008 REPORT FINDINGS

Disclosure Question	Overall	Brazil	China	India	Russia	South Africa	South Korea	Taiwan	Sector Leader
General CSR Disclosure	87%	92%	75%	92%	83%	100%	82%	88%	Energy (90%)
Separate CSR Section	81%	92%	75%	92%	75%	100%	82%	50%	Energy (86%)
CSR Report	51%	67%	42%	33%	67%	100%	36%	13%	Energy (67%)
GRI Reference	27%	17%	17%	17%	25%	88%	36%	0%	Materials (32%)
Benchmarks and Goals	39%	25%	33%	17%	58%	88%	36%	25%	Energy (52%)

Key: = Best = Above Average = Below Average = Worst

disclosure in five areas: general public disclosure of sustainability issues; a dedicated sustainability area within the website or annual report; existence of a stand-alone sustainability report; reference to the Global Reporting Initiative (GRI) framework in reporting sustainability data; and the existence of sustainability goals and benchmarks.

The report found that 87 percent offered at least some sustainability disclosure, and 81 percent had separate sections of their website or annual report dedicated to sustainability issues—positive signs for engaging companies. (See table above). At the same time, only 27 percent of the surveyed firms made use of GRI, an area for improvement targeted by the EMDP because the use of GRI facilitates data gathering by SRI research providers and funds, as well as comparability of data and benchmarking. By country, South Africa emerged as the clear leader in all categories with China and Taiwan exhibiting some of the lowest levels of disclosure. By industry, the energy sector led with high marks in four of the five categories, followed by materials in one. The report also found that the telecommunications sector trailed with no best showings in any of the criteria.

The 2009 EIRIS report, *A Review of ESG Practices in Large Emerging Market Companies,* analyzed 40 leading emerging market companies—the top four by market capitalization—in 10 emerging markets—Brazil, China, India, Indonesia, Israel, Malaysia, Mexico, Russia, South Africa and South Korea. EIRIS staff, with assistance from employees at Ecodes, Greeneye and KOCSR, assessed companies' publicly available information, including annual reports, sustainability reports and websites, to see the extent of their disclosure on:

- **Environment**—general environmental issues, climate change and biodiversity.
- **Social**—human rights, supply chain issues, and employee health and safety.
- **Governance**—board practices and ethics.

The report found that:

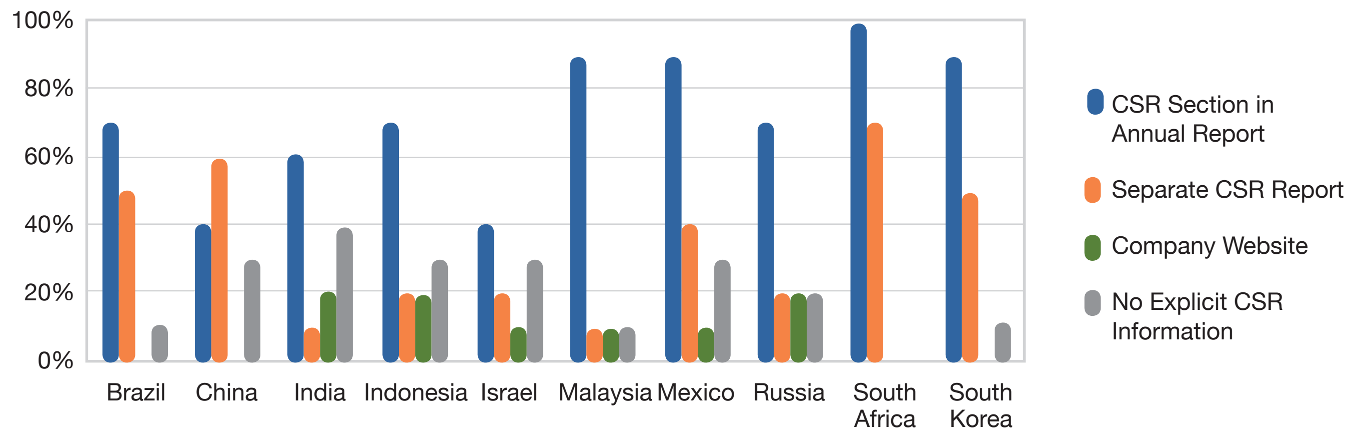
- Companies scored much better in environmental areas than in social or governance, with some reaching transparency on a par with environmental leaders in developed countries with regards to environmental performance and systems. Wide adoption of environmental management systems such as ISO 14001, especially in Asian countries, buoyed results.

- Companies in the extractives and other sectors with higher sustainability impacts outperformed others on issues such as health and safety and environment. Nevertheless, the emerging market companies overall lagged on climate change and other critical environmental disclosures.
- Public disclosure of key governance issues was high, including director remuneration (33 out of 40 companies) and the separation of the roles of chair and CEO (28 out of 40 companies).
- The selected South African and Brazilian companies stood out overall as consistently having the highest assessments among the companies sampled. These countries also developed some of the first responsible investment indices in emerging markets, acknowledging investor interest in ESG performance.

The 2009 UNCTAD-US SIF Foundation report, *Corporate Sustainability Disclosure in Emerging Markets,* the third in the series of baseline studies, covered the top 10 companies by market capitalization in 10 of the world's largest emerging markets—Brazil, China, India, Indonesia, Israel, Malaysia, Mexico, Russia, South Africa and South Korea—for a total universe of 100 companies. The report analyzed reporting practices on five environmental, five social and 10 corporate governance indicators for a total of 20. In line with the other studies, the report found that 96 percent of the companies reported on at least one ESG factor analyzed in the report, but only 14 of the 100 declared reporting in accordance with the GRI's guidelines, with a mere 20 making reference to the GRI. In addition, of the 28 companies listed as signatories to the United Nations Global Compact, only 18 (64 percent) produced a Communication on Progress (COP) and/or a GRI report in compliance with the Compact's reporting requirements. Other key findings of the report include:

- Descriptions of **governance** structures and board committees was the most commonly reported indicator (96 percent) followed by data on employee wages and benefits (90 percent).
- Of the three categories (environmental, social and governance), **environmental** data was the least likely to be reported (30.6 percent on average), in contrast with the EIRIS report.
- Of the **environmental** issues assessed, energy use was the most disclosed item (39 percent) and ranked 13 out of the 20 indicators, followed by water use (34 percent). Climate-related data placed a distant third (30 percent) among environmental issues and 15th overall.

NUMBER OF FIRMS REPORTING ESG INFORMATION BY DOCUMENT TYPE



The report's major country-specific findings included:

- Companies from **South Africa** exhibited the best overall transparency practices, while firms from China, India, Indonesia and Mexico lagged.
- **South Africa** was the only country with all of its companies in the study's universe reporting some form of ESG data, while India had the highest rate (40 percent) of companies disclosing no form of ESG information.
- Companies from **Brazil** and **South Africa** were among the most likely to issue reports using the GRI's guidelines; both countries had five firms issuing reports.
- Companies from **Malaysia, Mexico** and **South Korea** demonstrated high rates of at least some form of sustainability reporting, albeit more shallow than counterparts in Brazil and South Africa. (See page 5.)

INVESTOR SUPPORT: As part of the second work stream, EMDP participants created a sign-on statement for investors to declare support for the EMDP's activities, including encouraging emerging market companies to issue sustainability reports using the Global Reporting Initiative's guidelines. The EMDP investment statement affirmed that corporate disclosure of ESG data helps investors mitigate portfolio risk and determine which companies are best positioned to deliver strong long-term investment performance. The statement also linked sustainability performance with the quality of overall corporate management, as well as the best hedge against increasing regulatory challenges on ESG issues. In particular, the signatories to the statement encouraged companies to enhance transparency by:

- Providing regularly updated ESG data in financial reports or in specialized sustainability reports, focusing on material business risks and opportunities.
- Setting clear sustainability goals and disclosing progress towards meeting targets.
- Using the Global Reporting Initiative (GRI) framework in preparing reports.
- Continually improving reporting based on feedback from key stakeholders, such as investors, employees, customers, and relevant community and civil society groups.

Background on the Global Reporting Initiative (GRI)

The GRI, an international organization with headquarters in Amsterdam, is the most commonly used framework by companies and other organizations to produce sustainability reports. GRI started as a project of the Ceres coalition in Boston in 1997; after the United Nations Environmental Program (UNEP) joined the initiative as a partner in 1999, GRI released its first set of reporting guidelines. The organization then began a global outreach program to recruit additional supporters and established itself as an independent institution in 2001; it moved to Amsterdam in 2002 and released a new set of reporting guidelines that year. Two years later, GRI undertook a comprehensive two-year consultation process about revisions, involving about 4,000 stakeholders around the world. The resulting third-generation framework, the current "G3" Guidelines, was launched in 2006.

The central touchstone for the latest "G3" iteration of GRI reporting guidance is its set of 49 "core" and 30 "additional" indicators—a total which has been cut down from 110 indicators in the 2002 version. The indicators cover three broad areas—economic, environmental and social, but the latter category is divided into four subcategories—labor practices, human rights, society and product responsibility. Each indicator has associated protocols that provide advice on how to make disclosures.

An interim update to the "G3" guidelines, version 3.1, was released on March 23, 2011, alongside a new technical protocol designed to help organizations produce reports more easily. The update includes expanded guidance for reporting organizations on human rights, gender issues and local community performance. Since the release of the "G3" Guidelines, GRI also has been working on specialized sector supplements to help tailor the guidelines for companies operating in specific industries and make the reporting more robust and relevant. The GRI is working on a fourth iteration, the "G4," which it plans to unveil in 2013 after a broad consultation process.

The EMDP launched the sign-on statement in June 2008 and conducted a follow-up campaign to gain additional signatories in March 2010. By the close of the project, 55 investors with more than $1 trillion in assets under management, including a large contingent from emerging markets, signed onto the statement. The world's largest ESG research providers, as well as a long list of trade associations and civil society organizations (an additional 26 signatories) also endorsed the statement. This helped country teams get the attention of companies. (See Appendix A for the full statement and list of signatories.)

INVESTOR SURVEY: The EMDP also distributed a survey to PRI signatories, US SIF members and other global partners in 2009 to measure the level of investment in emerging markets by sustainable and responsible investors and the ESG issues that most interested them. Lead author EIRIS and other EMDP partners debuted the resulting report, *Emerging Markets Investor Survey Report: An analysis of responsible investment in emerging markets*, that same year. It found that seven out of 10 major asset managers and institutional investors representing $130 billion of assets cited lack of ESG disclosure as the key challenge to investing in emerging markets, affirming the EMDP's assumptions. Survey respondents, however, commended two emerging market countries—Brazil and South Africa—for having made the most progress towards greater ESG disclosure. And, Brazil was the top country allocation for SRI investors followed by China, India, Mexico and South Korea. The investors cited national ESG disclosure regulations and local exchange listing requirements as best practices that should be encouraged in all markets, a finding supported by the experiences of the EMDP country teams described later in this report.

ENGAGEMENT: The project assessed many factors in deciding on focus countries:

- Holdings of project participants.
- The availability of local organizations with international investor and ESG research partners willing to engage companies.
- The prevalence of sustainability reporting in the market.
- Geographic diversity.

While other countries including China, India, Russia and Vietnam were evaluated as potential areas of interest—with some limited exploratory activities in each—the EMDP decided to set up country teams in Brazil, Indonesia, South Africa and South Korea. The mix included markets of varying size and geographic location—spanning three continents, as well as maturation in adopting sustainability reporting practices. Both Brazil and South Africa had widespread reporting. Additionally, Brazil had regulatory requirements on sustainability disclosure, and South Africa had exchange listing requirements for ESG reporting. At the same time, companies in Indonesia and South Korea were on the cusp of more robust sustainability reporting. The diversity of reporting offered the EMDP valuable lessons and opportunities for cross-fertilization of good practices and strategies.

The EMDP set up country teams in the four markets, each with investor leads and a mix of local and international representatives, and the teams created project plans for the three work streams: company research, investor outreach and corporate engagement. To aid the teams in evaluating companies, as well as to measure improvements and the effectiveness of engagement efforts, the EMDP created a scorecard. (See Appendix B.) The scorecard allocated a maximum of 100 points to companies in five areas: the environment, social issues, corporate governance, general disclosure, and country-specific metrics, which local teams could tailor to include specific indicators critical to sustainability in their local market, such as HIV/Aids policies in South Africa. Each of the five pillars received 20 points. In the end, the teams took different approaches on scoring and engaging companies based on the strengths of team members and local market dynamics:

- **Brazil** cast the widest net, leveraging extensive in-country and global partner support to write to more than 102 companies and engage in depth with a smaller group of those not adopting the GRI standard.
- **Indonesia** concentrated on building institutional and broad market support for sustainability reporting.
- **South Africa**, given the widespread adoption of GRI reporting already in the country, focused on the poorest performers in the market in order to maximize the potential gains of the project.
- **South Korea** chose a hybrid approach, regularly scoring a core set of companies, engaging as many of them as possible, and measuring progress closely.

SUCCESSES: All of the teams can point to major achievements as a result of their engagement efforts. For example:

- The **Brazil** country team contacted 102 companies and engaged 17 directly to encourage them to improve their sustainability reporting. During the engagement meetings, two companies informed investors that they had just published a GRI report, while seven confirmed that they had plans to issue one in 2012 or 2013. Eight others are still committed to discussing the prospects of sustainability reporting using GRI guidelines.
- The team in **Indonesia** convinced a listed polyester and petrochemicals company, **Indorama Synthetics,** to learn more about ESG best practices and helped the firm identify and focus on several key sustainability issues: energy efficiency, waste treatment and corporate governance.
- The **South Africa** team won reforms from **Aspen Pharmacare Holdings¸ Naspers, Sasol, Shoprite Holdings, Steinhoff International** and **Tiger Brands**, including improvements in sustainability reporting and policies.
- In **South Korea**, the local EMDP team made steady progress on reporting with all 15 companies it engaged, including **Hynix, LG Electronics, Samsung** and **Shinhan Financial Group.**

MAJOR FINDINGS: The EMDP participants shared several common themes and conclusions.

- ***Cooperation between international and local partners played significant roles in shaping the country team's activities and results.*** It was effective for international investors and organizations with larger asset pools to work with local partners that had knowledge of and contacts in the target market, as well as language expertise. This was born out in each of the countries and was most pronounced in Brazil and South Korea, where international investors joined participants in signing onto engagement letters sent to companies encouraging them to improve sustainability disclosure practices.

- ***Knowledge of sustainability reporting practices and international norms varied widely in the markets, as did awareness of how investors use ESG data in constructing portfolios and choosing investments.*** At the same time, companies responded positively to suggestions from EMDP participants once they had a better understanding of how sustainability information could drive corporate performance and attract investors. This finding also validated the many education activities the EMDP participants conducted during the project and the need for more. The Brazil and Indonesia teams spent considerable time and resources organizing local events that proved popular and yielded dividends in engagement activities. Both teams reported positive feedback from participating companies and a greater success rate in persuading companies to enter dialogues on ESG disclosure and performance issues as a result.

- ***While many emerging market companies report some ESG information, few use international standards such as the Global Reporting Initiative's guidelines, issue comparable, year-on-year metrics, or offer in-depth, relevant information on sustainability risks such as climate change, water use and human rights.*** While about 90 percent of emerging market companies reported some kind of information on their ESG policies and activities, few (around one in 10) used the GRI standard or another international norm. Nonetheless, of the markets studied, Brazil and South Africa are distinct leaders, and GRI was gaining the most traction of all of the reporting standards in the markets studied.

- ***Local exchange listing and regulatory requirements were the most important drivers of sustainability reporting, highlighting the necessity for advocates of sustainability reporting to work with governments and exchanges in developing standards.*** Brazil and South Africa had the highest rates of corporate sustainability reports out of the four markets studied by the EMDP and regulations or local exchange listing requirements for sustainability reporting. This allowed the country teams to focus on report quality, scope, ESG performance and GRI conformance.

- ***The use of scorecards offering comparable data to companies proved effective in getting lagging performers to the negotiating table and helped team members host productive meetings with companies.*** All of the teams reported that companies, initially skeptical about engaging the teams on sustainability disclosure topics, were more willing to do so once they saw their competitors were reporting and undertaking sustainability activities. At the same time, it was easier for teams to pinpoint areas for improvement for companies and for firms to see a clear path toward better sustainability reporting with this benchmark data readily available.

- ***As in developed markets, investor relations departments and senior management at times appeared detached from internal sustainability efforts and need to be brought into the process to yield meaningful, long-term results.*** Many of the teams found that sustainability reporting from companies in the local markets served more as public relations or "green washing" than as meaningful disclosure and sustainability efforts. The teams noted that buy-in from senior management led to an engagement process with more meaningful results.

Further information on the country teams is found in the subsequent chapters.

BRAZIL

Brazil hosted the Rio+20 United Nations Conference on Sustainable Development in 2012—marking the 20th anniversary of the United Nations Conference on Environment and Development, which was also held in Rio de Janeiro in 1992. In step with the country's popular sustainability movement, Brazilian companies have been making tremendous strides towards ESG disclosure. In 2010, 144 Brazilian companies adopted the GRI framework, a 71 percent increase from 2009.

EMDP BRAZIL TEAM BY NUMBERS

24

PARTICIPANTS

Country Team Leads

- **HSBC**: Cinthia Gaban, SRI Analyst (no longer with the organization)
- **PREVI**: Rafael Castro, Strategic Planning Manager; Marta Xavier, Corporate Governance Manager; Renata Dias, Analyst; and Regina Pereira, Analyst

Coordinator

- **Principles for Responsible Investment (PRI) Secretariat**: Valeria Piani, Head of Investor Engagements; Marcela Zonis, Brazil Network Manager; and Camila Yamahaki, former consultant

Local Participants

- **Ático Asset Management:** Joana Salgado, Analyst
- **Astra Investimentos:** Andrew Jenner, Executive Director
- **Banco Fator Corretora:** Bianca Gandra, Sustainability Coordinator; and Iago Whately, Research Analyst
- **BB DTVM:** Andrea Marinho, Head of Equity Research; Cristina Fraga, Senior Assessor; and Luiz Galvão, Assessor
- **BM&FBOVESPA**: Sonia Favaretto, Director of Sustainability; and Sonia Bruck, Sustainability Manager
- **Centrus:** Adriana dos Reis, Investment Manager
- **FIM:** Mikko Linnanvuori, Fund Manager
- **FIR Capital:** FIR Capital: Monica Toscano, Gabriela Souza, Tatiana Alvisi (no longer with the organization) and Marcella Gadbem (no longer with the organization), Corporate Governance Team
- **Finanças Sustentáveis:** Cassio Trunckl, Partner-Director and Victoria Mattarozzi, Partner
- **Funcef:** Decio Guimarães, Special Advisor to the President
- **Vontobel:** Sabine Doebeli, Head of Sustainability Management
- **Fundação Brasileira para o Desenvolvmento Sustentável (FBDS)**: Clarissa Lins, Executive Director
- **Infraprev:** Carlos Frederico Aires Dutra, Director Superintendent
- **Itaú Unibanco:** Cristina Spehoff, Product Specialist; and Alexandre Gazzotti, Analyst
- **Petros:** Alcinei Rodrigues, Investment Manager (no longer with the organization)
- **Real Grandeza:** Raquel Castelpoggi, Coordinator of the Socio-environmental Responsibility Program and Marcia di Luca Micheli, Investment Analyst
- **Santa Fé:** Paulo Bueno, Partner and Portfolio Manager and Eline Galláfrio, Analyst
- **Santander Brasil Asset Management:** Hugo Penteado, Chief Economist and Head of SRI; Fabio Guido, Research Analyst & SRI; and Maria Eugenia Buosi, Research Analyst & SRI (no longer with the organization)
- **Solaris Investment Management:** Katherine Youhanna, Marketing & Client Services Consultant
- **Sul América:** Leopoldo Barretto, COO; and Luis Alves de Lima, Analyst
- **Valia:** Milena Miranda, Strategic Planning Analyst

102

Companies Contacted

- The team contacted companies through letter-writing campaigns and outreach by team members.

17

Companies Engaged

- The team decided to keep the names and content of the dialogue with companies confidential to maximize trust and increase the willingness of companies to engage with the team.

Investor Signatories Supporting the EMDP Brazil Team

1. Astra Investimentos
2. Ático Asset Management
3. Banco Fator Corretora
4. BB DTVM
5. BM&FBOVESPA
6. Boston Common Asset Management
7. British Columbia Investment Management Corporation
8. Calvert Investments
9. Centrus
10. Charlemagne Capital
11. Comgest
12. Cyrte Investments
13. F&C Asset Management
14. FIM
15. Finanças Sustentáveis
16. FIR Capital
17. Funcef
18. Fundação Brasileira para o Desenvolvimento Sustentável (FBDS)
19. HSBC Asset Management
20. Infraprev
21. Itaú Unibanco
22. Norges Bank Investment Management
23. Petros
24. PREVI
25. Real Grandeza
26. Santa Fé Portfolios
27. Santander Asset Management
28. Solaris Investment Management
29. Sul América Investimentos DTVM S.A.
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31. Tripod Investments
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35. VIPeV
36. Vontobel

In addition, 53 publicly-traded Brazilian companies responded to the Carbon Disclosure Project (CDP) questionnaire in 2010. The Brazilian Stock Exchange, BM&FBOVESPA played a key role by:

- Creating governance-themed listing segments;
- Launching a Corporate Sustainability Index (ISE); and
- Adopting a 'comply or explain' approach to sustainability reporting.

To bolster competition on governance performance in the market, BM&FBOVESPA launched governance listing segments in 2001 with three listing levels, demonstrating clear levels of corporate achievement in this area. All Brazilian companies listed at BM&FBOVESPA are required to publish governance metrics annually, including the responsibilities of the board and its committees, profiles of directors, and information on remuneration policies and practices. (These requirements are tied to regulations promulgated by the financial regulatory authority in Brazil, the Comissão de Valores Mobiliários.)

Additionally, in 2005 BM&FBOVESPA launched the first Brazilian sustainability index, the Corporate Sustainability Index (ISE), composed of equities selected according to sustainability criteria. From 2012, BM&FBOVESPA has made the companies' questionnaires available to the public when authorized by the companies, which has improved the overall level of ESG disclosure to investors, and also has added a "report or explain" component asking companies not issuing a sustainability report to detail their rationale.

Brazil's advances in sustainability reporting presented a unique opportunity to the EMDP Brazil team for promoting greater transparency among companies on ESG issues, and the diversity of participants—investors, research firms, multilateral institutions and civil society organizations—on the EMDP Brazil team helped it achieve the distinctions of attracting the highest number of supporters, as well as contacting and engaging the most companies.

THE TEAM: Brazil was the largest of the EMDP country teams with 24 participants. The PRI Secretariat coordinated the activities of the group, while HSBC, Itaú Unibanco, Caixa de Previdência dos Funcionários do Banco do Brasil (PREVI), Santander Brasil Asset Management and Valia led dialogues with companies and signed letters of inquiry to target firms. Several other team members also signed letters and took part in dialogues with companies, including BB DTVM, Infraprev, Real Grandeza, Sul América and Valia. Other organizations not participating directly in the EMDP backed the team by co-signing letters to companies—36 in all—including several international signatories. (See box.)

APPROACH: Like the other teams, the EMDP participants in Brazil sought to leverage the influence of local and international investors to maximize outcomes. This was critical as language presented a barrier to foreign investors engaging local companies, something local partners were able to help facilitate. The Brazil team tackled engagement in two stages. As part of the first phase, investors endorsed letters to companies in the IBrX-100 to congratulate those that had used the Global Reporting Initiative (GRI) framework to report in 2010—45 in all—and to encourage the 50 companies who had not used it to produce a GRI-based report. In the second phase, spanning 2011 and 2012, the investor signatories engaged with 22 companies through letter writing and meetings to encourage them to adopt the GRI framework.

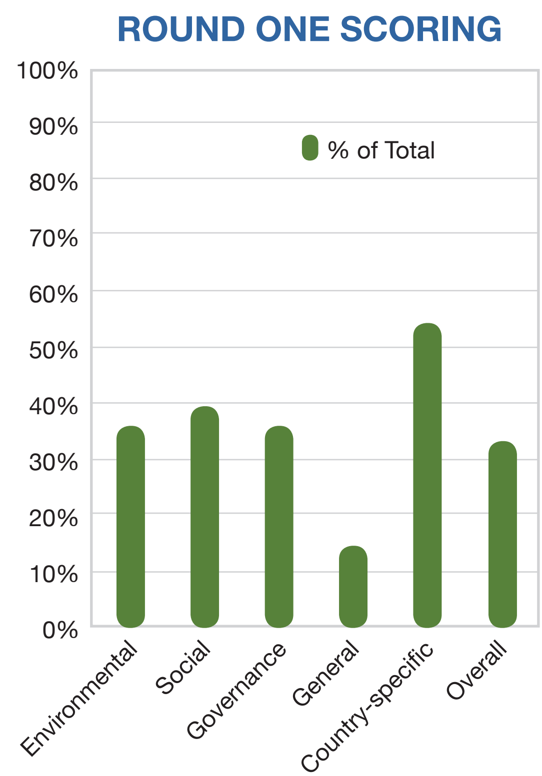
The second phase of engagement activities was supported by the use of two different scorecards to evaluate the level of the targeted companies' disclosure and to support the dialogue between companies and investors. In the first round, the participating investors used the scorecard developed by the EMDP. (This scorecard is reviewed in the introduction to this report.) However, in the second round, the team chose to analyze the companies' level of disclosure using the GRI core indicators—those used for the basis of the GRI Application Level C—representing an expanded indicator set.

ROUND ONE SCORING: The team opted to keep confidential the names of the companies, but it has shared the results of its two rounds of scorecard evaluation. For the first round, using a tailored version of the EMDP scorecard, the Brazil team found that out of 10 companies:

- **Environment**—the average company's score was 35 percent of the available points in the environmental criteria. Seven companies reported their activities on energy and water use, but only three companies published policies on energy use. Two disclosed policies on water use and recycling, but none of the companies reported environmental targets. In addition, six companies responded to the Carbon Disclosure Project (CDP) questionnaire in 2010, four of which made their responses public.

- **Social**—companies earned on average 40 percent of the points available under social criteria in the scorecard, the second highest percentage under the five pillars. Nine companies disclosed their policies on child and forced labor, six companies on discrimination, four on freedom of association, and three on collective bargaining. In addition, six companies reported their health and safety activities. However, only three reported health and safety data, and none had set targets.

- **Governance**—on par with the environment, the companies scored 36 percent on average of the available governance criteria points. Eight companies



offered information related to the independence of board members, but only two disclosed the independence of board committee members. Four had a board-level sustainability committee. On ethical considerations, nine companies disclosed their policies on bribery and seven on anti-competitive practices.

- **General**—the lowest scoring pillar of the five, the average company received only 15 percent of the points available under this pillar. Only two companies had published a sustainability report, and none had a report audited by an independent organization. Six disclosed their ESG policies for selecting suppliers, but only one reported how it monitored suppliers' performance.

- **Country-specific**—a flexible portion of the EMDP scorecard intended to give teams an opportunity to choose indicators pertinent to the local market, the Brazil team opted to include metrics on social investment programs. These programs are mostly philanthropic activities involving investments in training, social services and environmental initiatives in local communities where the companies operate, and they are common and valued highly in Brazil. Nine companies (90 percent) reported their social investment programs, three of which (30 percent) provided an evaluation of the effectiveness of these programs. This was the highest scoring pillar of the five with companies on average earning 53 percent of the points available.

THE SECOND ROUND—a GRI scorecard was developed and employed to assess the 12 targeted companies. The GRI framework is distinct from the EMDP scorecard in the following ways:

- GRI has four pillars, and they differ slightly from the EMDP scorecard's five categories.

- GRI emphasizes disclosure and does not have performance-based criteria, such as whether the chairman and CEO positions at a company are separate.

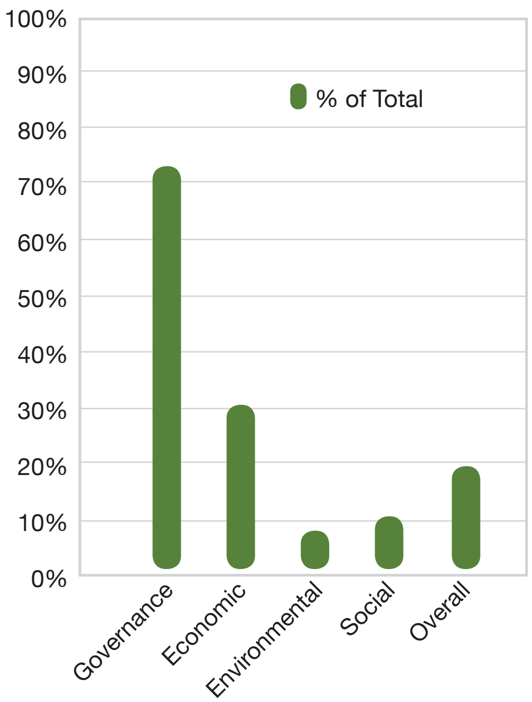
- GRI has an economic indicator absent from the EMDP scorecard, which captures data on a company's economic impacts.

Overall, the EMDP Brazil team found:

- **Governance**—the highest scoring pillar of the four, earned companies 72 percent of the points available on average. All of the targeted companies reported information on the responsibilities of the board and board committees and offered profiles of their board members, and most companies had a mechanism for shareholders and employees to provide recommendations to the board.

- **Economic**—companies received on average 29 percent of the points available under economic criteria. All of the targeted companies reported information on distributed added value, and seven reported information on private pension plans. Five companies reported information on tax benefits, and 11 disclosed information on their social investment programs, a country-specific element under the EMDP scorecard.

ROUND TWO SCORING



Research firm Sustainalytics assisted the EMDP Brazil team with this evaluation.

- **Environment**—the weakest area for the companies in scoring, companies on average earned 6 percent of the total points. Most companies did not disclose, or only offered a very limited amount of information, on their environmental performance. Only two companies responded to the CDP questionnaire in 2012.
- **Social**—another poor showing for the companies; they earned on average 9 percent of the points available on social issues. As required by the local exchange, all of the targeted companies published the total number of employees broken down by region. In addition, 11 out of the 12 offered data on employee turnover rates, and eight companies reported their public policy position in their codes of ethics. However, none of the companies reported information on human rights performance and product responsibility.

ENGAGEMENT: In the first stage, the team sent letters to all of the companies and exchanged information, but it did not hold meetings with any of the companies. Company meetings were undertaken, however, during the second stage of the group's activities.

In the second stage, 10 targeted companies received letters in round one, and the response level was very positive, with eight of the companies replying and agreeing to meet with the EMDP team. A representative of the PRI Secretariat was present in all meetings, and the GRI representative in Brazil joined the investors in five of the eight meetings. In the second round, all 12 targeted companies

Lessons Learned in Brazil

By Team Coordinators Valeria Piani, Marcela Zonis and Camila Yamahaki, Principles for Responsible Investment (PRI) Secretariat

The EMDP Brazil team accomplished much over the three years of the project and offered the following thoughts about their work:

- Although setting up direct meetings with companies was difficult at times, it was the most useful form of dialogue and yielded the largest gains in ESG disclosure from the companies. Even when direct talks did not produce a tangible concession or victory, they were instrumental in raising awareness among targeted companies and the market about the importance of ESG disclosure. The team also learned a great deal about barriers the company executives faced in trying to implement ESG disclosure programs, which helped the team develop solutions to present to companies going forward.
- The participation of a significant number of PRI signatories beyond the core EMDP team clearly demonstrated the importance that the investors give to the subject and the Brazilian market, and was extremely valuable in getting the attention of corporate executives.
- The use of scorecards, especially the one that analyzed the companies' level of disclosure according to GRI's framework, proved to be a very useful tool for the investors in meetings with companies, especially in offering a benchmark for good corporate performance.
- The EMDP collaboration brought together many disparate efforts which proved effective in advancing ESG disclosure. In total, 36 PRI signatories, including eight asset owners, 22 investment managers and 6 service providers, as well as the Global Reporting Initiative (GRI), supported the team's engagement efforts, a remarkable show of strength and support for sustainability reporting.

These dynamics, the team believes, contributed to its success. PREVI, an EMDP team leader since the project's inception, said it drew tremendous value from the collaboration. Before its involvement in the project, PREVI had been promoting the value of sustainability reporting to companies in its invested universe. However, PREVI says the EMDP helped greatly to amplify its effectiveness.

Having gleaned valuable lessons from the EMDP experience, the EMDP Brazil team has the following advice to lend to local and foreign investors engaging Brazilian companies:

- Engage with companies in collaboration with other investors.
- Evaluate the companies' level of disclosure and practices before the meetings.
- Persist, as scheduling meetings with companies is not always easy.
- Engage in a constructive dialogue so that companies' views are also heard and always try to learn from the companies' experiences in trying to implement ESG disclosure programs.
- Demonstrate to the targeted companies how investors use ESG information.
- Contact both the company's investor relations team and the sustainability department to underscore the link between ESG risks and opportunities and shareholder value.

received letters. The group met nine companies. Once again, a representative of the PRI was present in all meetings, and the GRI representative in Brazil joined the investors in 3 meetings.

Results—In the first round of the second stage, the EMDP Brazil team learned from four of the eight companies that they had already decided to publish, or had already issued, sustainability reports, and the group agreed to monitor their progress. Another two of the eight said that they had been discussing the possibility of adopting the GRI framework, and the team offered them information on the benefits of GRI and have kept dialogues open with the companies. Two other firms did not reply to the investors' letters. In the second round, the investors met with nine of the 12 companies. Three of these companies plan to adopt the GRI framework in 2012, while two pledged to publish a report in 2013. Another four said that they would agree to discuss the possibility of using GRI internally.

OTHER ACTIVITIES: The EMDP Brazil team held workshops in 2010 and 2011 to discuss with listed companies the importance of reporting ESG information and adopting the GRI framework. In 2010, Santander Asset Management Brazil hosted the first event, which attracted approximately 120 participants. The workshop was organized in two panels. The first, composed of investors—pension fund PREVI, asset manager Santander Asset Management and the local stock market BM&FBOVESPA—discussed how various types of investors use ESG information in their investment processes. The second, comprised of two GRI reporting companies—**Vale** and **Energias do Brasil**—and the Brazilian GRI representative, talked about how the experience of GRI reporting benefited the reporting companies. In 2011, the second workshop, held at BM&FBOVESPA, attracted more than 140 participants. The same structure from the previous event was adopted. In the first panel, the investors—HSBC, Valia and Itaú Unibanco Asset Management—discussed the importance of sustainability reporting from the investors' perspective and how ESG information is used in their investment decisions, while the second panel focused on the corporate perspective on sustainability reporting and included representatives from Itaú Unibanco, Natura, Cemig and GRI.

LOOKING AHEAD: The EMDP Brazil team plans to continue to work together to follow up on engagement efforts and to coordinate events and other activities. Team members will organize another disclosure workshop in June 2013 to evaluate progress in the industry overall, and all of the companies engaged during the EMDP project will be encouraged to attend. The PRI engagement working group, which led the EMDP in Brazil, also intends to undertake new engagement activities with Brazilian companies that are focused on management of ESG issues. The group will organize the dialogue with companies by sectors, starting with utilities.

INDONESIA

The archipelago nation of the Republic of Indonesia was the least advanced country selected by the EMDP in terms of having a regulatory framework, a critical mass of companies practicing sustainability disclosure and financial institutions implementing ESG investing strategies. This situation was challenging, but also presented opportunities for educational and outreach efforts. The EMDP Indonesia team spent extensive time hosting online and in-person meetings to raise awareness of global sustainable investing trends and local possibilities. The team also conducted research on local and international financial institutions' approaches to using ESG information in assessing investments in Indonesia, a unique facet of the team's activities.

EMDP INDONESIA TEAM BY NUMBERS

11

PARTICIPANTS

Country Team Leads

- **IndonesiaWISE:** Amol Titus, CEO

Coordinator

- **Principles of Responsible Investment (PRI) Secretariat:** Valeria Piani, Head of Investor Engagement; and Arleta Majoch, Assistant

Local Participants

- **Bank Negara Indonesia (BNI):** Sakariza Qori Hemawan, Group Head of Corporate Responsibility
- **Jamsostek:** Karsanto, Compliance and Risk Management Director
- **Minaca Selaras:** David Finneren, Director

International Partners

- **BNP Paribas Investment Partners:** Tino Moorrees, President Director,
- **Comgest:** William Holmberg, Investment Specialist
- **Nordea:** Ylva Hannestad, Analyst
- **Threadneedle Asset Management:** Cathrine de Coninck-Smith, Governance and Responsible Investment Analyst
- **VIP eV:** Hans-Martin Buhlmann, CEO

30

Companies Engaged

- PT. Adaro Energy
- PT. ANTAM
- PT. Astra Agro Lestari
- PT. Astra International
- PT. Bank Mandiri
- PT. Bank Negara Indonesia
- PT. Berlian Laju Tanker
- PT. Chandra Asri Petrochemical
- PT. Ciputra Development
- PT. Citra Tubindo
- PT. Gajah Tunggal
- PT. Holcim Indonesia
- PT. Indika Energy
- PT. Indocement Tunggal Prakarsa
- PT. Indofood Sukses Makmur
- PT. Indorama Synthetics
- PT. Indosat
- PT. International Nickel Indonesia/Vale
- PT. Medco Energi Internasional
- PT. Mitra Adiperkasa
- PT. PAN Brothers
- PT. Perusahaan Gas Negara
- PT. PP London Sumatra Indonesia
- PT. Riau Andalan Pulp & Paper
- PT. Telekomunikasi Indonesia
- PT. Timah
- PT. Ultrajaya Milk Industry
- PT. Unilever Indonesia
- PT. United Tractors
- PT. XL Axiata

**The reference to "PT" in all Indonesian company names is an abbreviation for Perseroan Terbatas, which translates to "limited liability company."*

THE TEAM: The CEO of IndonesiaWISE, Amol Titus, led the EMDP Indonesia team, with the support of the PRI Secretariat. The team benefited from a diversity of local companies—Bank Negara Indonesia, Jamsostek and Minaca Selaras—and international institutions—BNP Paribas Investment Partners, Comgest, Nordea, Threadneedle Asset Management and VIP eV—which lent the team greater credibility and opened access to corporations and other institutions in the market.

IndonesiaWISE conducted the research, analysis and corporate engagement, and was supported in these activities by Minaca Selaras in 2010 and PRI in 2011. In addition, IndonesiaWISE raised the profile of the project with listed companies, financial institutions, regulatory bodies and civil society organizations, through meetings, webinars, workshops and other events. An example of these activities were well-attended seminars hosted in Jakarta in 2010 and 2011, where the team brought together a broad coalition of stakeholders to discuss the implementation of corporate best practices in sustainability performance and reporting. Several leading institutions participated: Bank Mandiri, CBUS, IFC, Indonesia Biodiversity Foundation, Indonesia Capital Markets Advisory Body Roundtable for Sustainable Palm Oil, Indonesia Stock Exchange, PRI, Standard Chartered Bank and the U.S. Agency for International Development (USAID).

Jamsostek, BNI and BNP Paribas brought their institutional perspectives and best practices to the project. In particular, Jamsostek, Indonesia's leading social security provider and a key local institutional investor, lent its experience in ESG integration and participated in local seminars to share its experiences with other investors. Meanwhile, BNI, one of Indonesia's largest banks, offered its unique views from using sustainability parameters from the banking world. In addition, as a global securities and asset management house with a strong presence in Indonesia, BNP Paribas Investment Partners helped the team to gauge how foreign institutions were implementing sustainable investment strategies locally.

The team leader also volunteered capacity building support to companies and institutions and conducted half and full day workshops. The project partners viewed these activities as vital for companies to understand fully the value of ESG concept, leading to adopting longer-term sustainability objectives in the future.

APPROACH: The EMDP Indonesia team took a novel approach to its research efforts in assessing ESG practices of both a sample of publicly-traded companies and financial institutions, as well as other key stakeholders. The team had noticed that while some Indonesian firms, especially those with a multinational reach, had embraced at least some degree of sustainability disclosure, the appetite for such information among local and global asset owners and fund managers was weak. The team's strategy was to advance broader sustainability reporting among companies by using two pressure points—through their own engagement efforts and by growing the number of financial institutions demanding this type of information. This approach also helped bolster support for local regulatory moves to encourage greater corporate transparency on ESG issues.

Local capital markets dynamics—The Indonesia Stock Exchange (IDX) has been one of the fastest growing capital markets since 2008 and an outperformer during a period when financial turmoil has impeded growth elsewhere. While the IDX is dominated by foreign institutional investors, local mutual fund firms and asset owners are increasingly present. Local regulators have focused on fighting corruption, insider trading and other forms of market manipulation and increasing transparency, including corporate sustainability disclosures, through corporate disclosure mandates and exchange listing requirements.

In addition, the IDX worked with a local biodiversity foundation Kehati to develop an SRI index that has been tracking the IDX performance closely (although uptake from investors has been limited). Launched in 2009, the index has 25 equities that are subject to review every six months. Apart from some financial criteria, the index reviews corporate performance on environmental, community, corporate governance, human rights, ethics, and labor practices. It also screens for use of certain pesticides, nuclear power, weapons, tobacco, alcohol, pornography and gambling.

The team found that very few companies had received inquiries about their ESG performance from investors, and, when they did, the information requests varied. Furthermore, during the engagement process, the companies noted that their sustainability metrics did not seem to affect investors' decisions about holdings or pricing of their stock. The involvement of Jamsostek—a company that had incorporated ESG information into its investment processes, spurred many Indonesian companies to take notice of the project.

Multilateral institutions, including the Asian Development Bank (ADB), European Development Finance institution DEG, and International Finance Corporation (IFC) indirectly supported the EMDP Indonesia team's efforts through their own due diligence on ESG performance, which helped to reinforce the team's message with companies and other stakeholders.

The EMDP Indonesia team sought to open a dialogue with all of these parties and other key stakeholders—asset owners, fund managers, development banks, multilateral institutions, business associations and civil society organizations—to raise awareness of the project and its activities and to prompt some of them to become proponents of greater sustainability reporting. (See box for a list of the organizations.)

Company research—In selecting companies to research, the team decided to include broad industry representation, as well as a mix of companies by size and geographic scope of activities. However, a challenge was finding companies willing to cooperate with the group's research efforts. The team found that only 30 out of 400 publicly-traded companies in Indonesia were disclosing any sort of ESG information. After completing preliminary research, the team utilized the EMDP scorecard for a subset of 16 companies in 2010 and 14 in 2011. The scorecard used by the EMDP Indonesia team added elements on HIV-Aids, corporate social investment and compliance with local regulatory requirements under its country-specific criteria. It also expanded indicators in the categories of climate change, waste management, water use, human rights, employee health and safety, stakeholder engagement, anti-bribery safeguards, board, board committee and auditor independence, and overall transparency and quality of financial and sustainability reporting.

EMDP Indonesia Team's Target Stakeholders for Dialogue

2011 Target Stakeholders

1. Indonesia Stock Exchange
2. Indonesia Biodiversity Foundation-Kehati
3. DEG
4. First State-Colonial First State Investments
5. PT. BNP Paribas Investment Partners
6. Indonesia Chamber of Commerce and Industry-KADIN
7. National Center for Sustainability

2010 Target Stakeholders

1. Indonesia Stock Exchange
2. Bank Indonesia
3. Bapepam-LK
4. International Finance Corp.
5. Asian Development Bank
6. PT. Jamsostek
7. PT. BNP Paribas Investment Partners
8. PT. Schroder Investment Management
9. Conservation International
10. WWF Indonesia

The EMDP Indonesia team found that the 30 firms were strongest in the social criteria as compared to the environmental and governance factors. This is in part due to a local market regulation requiring companies to undertake corporate social responsibility activities as well as a cultural preference to be perceived as helping society through philanthropy and charitable activities. Disclosure of employee related benefits, training, and health and safety practices also were common among the 30 companies, although detailed health and safety metrics and targets were rare (about a fifth of the companies had these). The analysis also showed disclosure of the impact of companies' operations on local communities was lacking—a significant sustainability risk for resource extraction firms in Indonesia, which often impact indigenous peoples and their communities. Human rights were only discussed among about a quarter of the companies, as was the issue of discrimination.

The analysis also showed that the 30 companies made limited inroads into environmental disclosures, especially regarding disclosure of company policies, results from government audits of facilities, waste management practices, and certification of management systems, such as ISO. Approximately 60 percent of the 30 firms made these types of data available. However, few companies were looking at energy use (about a third), greenhouse gas emissions (fewer than a fifth), or other major environmental risks such as water use and toxic emissions.

Governance disclosure was another weak area for the 30 companies, especially on board independence. While there appeared to be some awareness of this issue among the companies in the wake of the 1997–1998 Asian financial crisis, there was much room for improvement. The companies did not reveal how their boards were evaluating and taking action on key issues for investors or how codes of ethics were implemented. Director independence and the key roles independent directors play also were not publicly disclosed. While the majority of companies studied had audit, remuneration and nomination committees, risk functions tended to be relegated to management. In addition, while most companies had ethics and related anti-bribery codes, few were made public.

While the team's evaluation demonstrated that disclosure is improving and in some instances it was in line with GRI, there remained a tendency for descriptiveness rather than

Investor Views of ESG Disclosure in Indonesia

The PRI Initiative's 2011 survey of six key global investors in Indonesia— BNP Paribas, Colonial First State Asset Management, Comgest, DEG (part of KfW Group), Nordea and Threadneedle—found that ESG information is important to investors in assessing the viability of investments. One firm said that: "When companies in Indonesia suddenly decided to switch from processing noodles to palm oil plantations, which require a great depth of knowledge and skills to be run sustainably, we decided not to invest in those companies on the basis of our qualms about their sustainability approach and we would choose more credited producers."

The research also found that investors thought that quantitative data is usually missing in reports from Indonesian companies. Nevertheless, investors acknowledged increasing levels of ESG disclosure in Indonesia. One investor commented on Indonesian companies with exposure to European investors: "They have all of their sustainability data, and we tried to encourage them to just incorporate it in their annual report. There are quite a few Indonesian companies that could very quickly have very good sustainability reporting because they're capturing all of that information."

Investors interviewed by PRI Secretariat also expressed that a lack of information on corporate governance is a constraint to investing in Indonesian firms. Investors perceived that many companies had opaque practices, making them unattractive to long-term investors. Many companies also are controlled by families instead of majority shareholders, and this holding structure often prevents non-majority shareholders from executing their ownership rights and engaging with the management.

At the same time, investors viewed the general corporate culture of Indonesian companies towards shareholders as positive when major governance faults do not exist. Investors cited several examples where companies had been receptive to interactions with investors. An investor confirmed that: "Companies are open to dialogue and suggestions." Another interviewee elaborated further, stating: "Indonesian companies are rather open to engagement; they are nothing like Chinese companies who are not interested at all in what you say. In Indonesia, one of the reasons is that many companies nearly went bankrupt during the Asian crisis. A lot of these companies understand that good, strong shareholders are crucial to them and are willing to dialogue."

specific, verifiable, time series data. Also, since several companies were at initial stages of implementing ESG initiatives, the overall reporting remained weak. With room for improvement, the EMDP team decided to focus on broader trends instead of specific company scores in shaping engagement efforts.

INVESTOR RESEARCH: In support of corporate engagement activities and to demonstrate investor needs for sustainability information, the PRI Secretariat shared information from a survey it had undertaken in 2011 with: BNP Paribas, Colonial First State Asset Management, Comgest, DEG (part of KfW Group), Nordea and Threadneedle. The study found that investors generally see Indonesia as a market with significant growth opportunities. Interviewed investors confirmed that good ESG performance is relevant for Indonesian companies and mentioned several examples in the country that can serve as good models for sustainability. (See page 19.)

ENGAGEMENT: In talks with companies, the EMDP Indonesia team encouraged an integrated approach to reporting by including quality sustainability information in annual financial reports. Given the nascent state of sustainability disclosure in Indonesia, the team advocated for adoption of the Global Reporting Initiative (GRI) guidelines only at companies with existing ESG disclosure and at larger companies with more resources. Many of the companies were not aware of GRI or other structured frameworks for ESG reporting. The team was able to speak with staff at most of the 30 targeted companies.

Indonesia in Perspective

By Team Leader Amol Titus, President Director, IndonesiaWISE

The bullish trends in the wider Indonesian economy, the likelihood of an upgrade of Indonesia's sovereign debt, local regulatory reforms and the ASEAN capital markets initiatives brought renewed investor interest in Indonesia and with it increased scrutiny of Indonesian companies' environmental, social and governance practices. The Indonesia EMDP team witnessed positive developments in corporate sustainability disclosure in the market in terms of both the numbers of companies reporting and quality of the data. Nonetheless, much more progress is needed.

The team's dialogues with companies revealed much work behind the scenes on sustainability initiatives. Many already had energy and water management programs, product development cycles incorporating sustainability factors, as well as progressive human resources policies, including codes of conduct and anti-bias policies. In addition, Indonesia companies, when they do disclose sustainability information, demonstrated a greater willingness to do so in their annual reports than peers in more development markets, perhaps a harbinger of Indonesian firms leapfrogging from stand-alone sustainability reports to fully integrated reports in the years ahead.

Still, corporate managements must be made more aware of investors' concerns about these issues and the link between ESG risks and corporate performance. Many firms still are not reporting consistent metrics between years or comparing themselves to competitors. Fewer are using international standards, such as the Global Reporting Initiative's guidelines. The process starts with awareness, builds with policy development and implementation, and ends in good stewardship. Investors and other key stakeholders need to work together in Indonesia to encourage more companies to head down this critical path toward sustainability, which will not only benefit the companies and their shareholders in the long-term, but also society at large.

Financial institutions can and need to play a vital role in accelerating corporate adoption of ESG reporting. The EMDP spent much of its time in 2010 and 2011 researching, benchmarking and reaching out to investors on how they assess sustainability risks. More involvement from asset owners and fund managers, as well as research analysts, government regulators and civil society organizations, will be needed if Indonesia is to catch up to other emerging markets in this field. The EMDP Indonesia team has submitted its progress reports to the Indonesian President's Advisory Office, which has supported the project's efforts. Hopefully regulatory changes in this area in Indonesia are in the not-so-distant future.

This project was a unique collaboration among a diverse group of research firms, local and foreign investors, and multilateral institutions. The team is grateful for the experience and hopes this project will continue to add value to Indonesian capital market and its constituents at a crucial in the country's development.

Companies gave three reasons for not issuing sustainability reports:

1. A lack of internal expertise and resources to compile information requested.

2. The high costs associated with engaging external consultants or auditors to author a report.

3. Absence of regulation mandating such a requirement.

In general, the companies expressed a preference for augmenting annual reports with commentary and data on ESG issues rather than issuing separate sustainability reports, possibly a positive sign that many may leapfrog to more integrated reporting formats. However, the companies' feedback also points to the need for more education on the links between ESG and financial performance in the market.

During the project, the team was successful in securing concrete policy changes and actions by companies and institutions. For example, a polyester and petrochemicals company, **Indorama Synthetics**, expressed an interest in learning more about ESG based on best practices. The company sought assistance from a consultant on understanding components of ESG, managerial competencies and reporting requirements and identified some key focus areas: energy efficiency, waste treatment and developing a corporate responsibility code.

On the institutional front, Indonesia's leading social security provider, Jamsostek, sent a powerful signal by incorporating ESG screens into its due diligence criteria for investments. This was a key development because it emphasized to other institutions the importance of ESG and the need to ask companies for greater disclosure and facts based on projects and practices.

At the policy level the team spoke with the President's Advisory Unit, called UKP, which oversees implementation of critical policies. Senior representatives from this office encouraged the EMDP's efforts and were keen to learn about the progress of listed companies and institutions engaged in ESG.

LOOKING AHEAD: Although EMDP is coming to a close in 2012, several participants, including IndonesiaWISE, Jamsostek and BNI, remain committed to supporting ESG disclosure in the market and promoting greater use of sustainability metrics in the investment process. The EMDP Indonesia team believes that ESG issues will play a critical role in the development of financial and capital markets in Indonesia.

SOUTH AFRICA

Today, South Africa is a very different country than the one that sparked the divestment campaigns of the 1970s and 80s. By 2009, South Africa's Johannesburg Stock Exchange (JSE) had implemented a Socially Responsible Investment (SRI) Index—the first of its kind in an emerging market. Furthermore, the JSE recently added a mandate on integrated financial and sustainability reporting, another pioneering step in listing requirements for an exchange. Therefore, South Africa posed a unique opportunity for the EMDP team.

THE TEAM: Led by Faryda Lindeman from MN Services and Mike Lombardo of Calvert Investments, the 10-member South Africa team relied on a diverse group of people and organizations to draw from in researching and engaging companies. The team included a longstanding South African financial services firm, Old Mutual; local asset owners—the Government Employees Pension Fund (GEPF) and the Public Investment Corporation (PIC); a South African sustainable investments firm, Element Investment Managers; plus two Dutch SRI outfits, MN Services and Robeco; and an American sustainable investment firm, Calvert Investments. In addition, a PRI representative, initially Adrian Bertrand and then Narina Mnatsakanian helped coordinate the group's activities. Having local asset owners and fund managers on the team helped the group tremendously in navigating the local context of sustainability reporting

EMDP SOUTH AFRICA TEAM BY NUMBERS

10

PARTICIPANTS

Country Team Leads

- **Calvert Investments:** Mike Lombardo, Senior Sustainability Analyst and Manager, Index
- **MN Services:** Faryda Lindeman, Responsible Investment Advisor

Coordinator

- **Principles of Responsible Investment (PRI) Secretariat:** Narina Mnatsakanian, Head of Global Networks, Recruitment and Emerging Markets Work Streams (currently works for MN Services)

Local Participants

- **Element Investment Managers:** David Couldridge, Investment Analyst
- **Government Employees Pension Fund (GEPF):** Adrian Bertrand, Environmental, Social & Governance (ESG) Manager; and John Oliphant, Head of Investment and Actuarial
- **Old Mutual Investment Group:** Jon Duncan, ESG Research Analyst
- **Public Investment Corporation (PIC):** Deon Botha, Senior Corporate Governance Specialist

International Partner

- **Robeco:** Peter van der Werf, Responsible Investment Advisor; and Carola van Lamoen, Responsible Investment Advisor

10

Companies Engaged

- Aspen Pharmacare Holdings
- Compagnie Financiere Richemont
- Naspers
- Netcare
- Reinet Investments
- RMB Holdings
- Sasol
- Shoprite Holdings
- Steinhoff International
- Tiger Brands

The JSE SRI Index, an Emerging Markets Pioneer

The Johannesburg Stock Exchange (JSE) Socially Responsible Investment (SRI) Index debuted in May 2004, making it the first of its kind in an emerging market and the first SRI index to be launched by an exchange. The JSE launched the index in response to growing investor demands for sustainability information globally and particularly in the South African context. At the time, the Second King Report on Corporate Governance had urged companies to embrace the triple bottom line—incorporating environmental, social and governance considerations—in balance with the need to generate returns for shareholders. (The King reports are named for retired Supreme Court of South Africa judge Mervyn E. King, who was tapped by the Institute of Directors in South Africa in 1993 to reform corporate governance and improve transparency of publicly traded South African companies. There have been three King reports to date, and their tenets have been implemented through listed requirements on the JSE. Several also have been legislated through changes to South Africa's Companies Act.)

The JSE SRI index assesses the top 40 companies in the JSE-FTSE all share index, as well as all mid-cap companies, on three broad criteria—environmental, society and governance. (Small-cap companies can apply to be included in the index too.)

The assessment, conducted by UK-based research firm EIRIS, reviews whether companies are improving environmental performance by:

- Reducing and controlling direct negative environmental impacts;
- Promoting awareness of its significant direct and indirect impacts;
- Working to use natural resources in a sustainable manner; and
- Committing to risk reduction, reporting and auditing.

On society, the JSE and EIRIS review whether companies are:

- Treating all stakeholders with dignity, fairness and respect, recognizing the rights to life, security and free association, as well as to freedom from discrimination;
- Actively promoting the development and empowerment of employees and the community;
- Ensuring that core labor standards are met and good employee relations maintained; and
- Working to promote the health and safety of employees.

The index also weighs performance on issues critical to South Africa, including policies and programs to address HIV/Aids, as well as progress on black economic empowerment (BEE).

To qualify for the index, companies also must demonstrate on governance that they are:

- Upholding and supporting internationally recognized good governance and ethical practices;
- Working toward long-term, sustainable growth by assessing, managing and mitigating ESG risks;
- Managing broader ESG impacts within their sphere of influence.

Within each of the ESG pillars, the index reviews policy and strategy, management and performance, and overall disclosure. In 2011, 74 out of 109 companies reviewed made the index. For more information, see http://www.jse.co.za/Products/SRI.aspx.

issues and in opening doors at South African companies.

APPROACH: To select companies for engagement, the South Africa team started with the FTSE-JSE All Share Index companies that did not qualify for inclusion in the JSE SRI Index. The JSE SRI Index measures the triple bottom line—the environmental, social and governance or "ESG"—performance of companies in the FTSE-JSE All Share Index and selects a subset of the highest scoring companies based on ESG factors aligned with the UN Global Compact and other internationally recognized standards for responsible corporate conduct. As noted in the box below, the JSE automatically evaluates the top 40 companies in the JSE-FTSE All Share index each year for possible inclusion in the SRI index. The EMDP South Africa team selected 10 companies from that top 40 pool that did not qualify for the JSE SRI Index to begin their engagement efforts. This method was novel among the EMDP teams, in that it included many more factors related to sustainability performance—not only reporting—and was a product of the unique circumstances in South Africa, primarily the wide adoption of corporate sustainability reporting and the existence of an SRI index with public data.

By leveraging existing research in line with the EMDP's GRI focus and scorecard, the South Africa team was able to spend more time researching individual companies in more depth and engaging companies on issues. And, as a result, the team's benchmarks for measuring its own success in company dialogue also were unique and went beyond disclosure to include:

- Inclusion in the JSE SRI Index in a subsequent year.
- A company accepting responsibility for any significant ESG shortcoming, establishing a corrective action plan and implementing appropriate measures to prevent similar problems from occurring again. An example, which was a focus for the group's dialogues with several companies, was convincing companies to establish greenhouse gas emission reduction targets.

After developing its strategy and conducting preliminary research in 2009, the South Africa team conducted three rounds of engagement activities spanning the 2009, 2010 and 2011 calendar years, including multi-year dialogues with several companies.

South Africa's Sustainability Sensibilities

By Mike Lombardo, Senior Sustainability Analyst and Manager, Index, Calvert Investments

South Africa has a strong environmental, social, and governance (ESG) reporting environment and is a leader among emerging markets and even on par or superior to more developed markets in this regard. There are several factors contributing to South Africa's success in promoting corporate sustainability disclosure, including the King Report on Corporate Governance (King III), the JSE listing requirements and the JSE's Socially Responsible Investment (SRI) Index.

King III includes an entire chapter on integrated financial and sustainability reporting—an objective being pursued globally by a wide range of stakeholders through the International Integrated Reporting Council (IIRC). Influenced by King III, JSE-listed companies have been required to adopt world class ESG reporting practices, and South Africa's new integrated reporting requirement set an even higher standard when it went into effect in March 2011. Furthermore, many of South Africa's leading companies report on their ESG efforts using the Global Reporting Initiative (GRI) framework, which is internationally recognized to increase the credibility, comparability, and utility of ESG metrics. Finally, the JSE SRI Index provides an added incentive for companies to compete and excel in these areas.

Enhanced corporate sustainability disclosure has raised the bar for investors in South Africa too, and a separate set of initiatives have sought to urge investors to incorporate ESG factors into portfolio management, including the Code for Responsible Investing in SA (CRISA) and the UN-backed Principles for Responsible Investment (PRI). CRISA came into effect in February 2012 and requires institutional investors to incorporate sustainability considerations into investment analyses and by following an active ownership approach. In addition, Regulation 28 of the Pension Funds Act now requires pension fund trustees in South Africa to give appropriate consideration to any factor which may materially affect the sustainable long-term performance of a fund's assets, including ESG characteristics. Also, the Principal Officers Association and IFC have partnered to initiate Sustainable Returns for Pensions and Society, an industry-led initiative to integrate ESG considerations into the mainstream of retirement industry investment practices in southern Africa. Launched in December 2011, the project is developing a consistent framework and set of tools to help retirement funds and their service providers comply with the new Regulation 28 and CRISA. This project will undoubtedly serve to further drive ESG disclosure and reporting demands from asset owners.

Although South Africa is a leader in ESG reporting among emerging markets, there is room for improvement. Greater use of GRI indicators and reporting principles, wider employment of third-party auditing and attestation and, of course, overall better ESG performance are just a few of the areas and some that were explored in dialogues with companies by the EMDP South Africa team.

Overall, the team had a range of successful dialogues with companies. For example, **Aspen Pharmacare** and **Tiger Brands** demonstrated a strong willingness to engage and eventually their disclosure improved, as evidenced by their inclusion in the JSE SRI Index. **Naspers** and **Shoprite**, on the other hand, were at the opposite end of the spectrum. Those two companies remained on the team's target list for the entire three years of the project, and in both cases, members of the South Africa team attended the companies' annual general meetings to publicly voice concerns, which served to raise awareness among the companies' management team and among other investors.

The combination of local and international investors was an important and critical element of our successes. In some cases, the local investor participants had previous relationships with companies, but were also able to attend in-person meetings and AGMs, which proved much more effective than conference calls in establishing trust with companies. Finally, utilizing the JSE SRI Index inclusion as an indicator of performance offered a strong benchmark and tangible goal both investors and companies were interested in obtaining. And, in the end, a strong regulatory environment was a key ingredient in helping us achieve our goals.

ENGAGEMENT: Like the other EMDP country groups, the South Africa team wrote letters to companies and conducted conference calls and in-person meetings with company representatives. However, the team also deployed a step of last resort, when a company was not responding to requests for a dialogue. In some of these cases, a local team member would attend the company's annual general meeting (AGM) to raise the groups' concerns in person and in front of other shareholders. (South African activist investors also often withhold votes for board nominees or other critical ballot items endorsed by management to express dissatisfaction over corporate conduct on ESG issues much in the same way that U.S. shareholder proponents submit resolutions.)

The South African team focused on 10 companies, most on a multi-year track of talks and incremental improvements. The outcomes of these dialogues are described below.

- **Aspen Pharmacare Holdings:** The EMDP team held its first successful dialogue with Aspen, a maker of branded and generic pharmaceuticals, in 2010, and the company committed that same year to improve its sustainability disclosures and performance. As a result, the company was included in the JSE SRI Index for the first time the following year.

- **Compagnie Financiere Richemont:** The luxury brands company was lagging behind its competitors on sustainability reporting and performance, when the EMDP team contacted Richemont in 2010. The company, however, declined to engage the investor group in 2010 and again in 2011 and continued to trail its competitors on ESG issues.

- **Naspers:** After repeated requests for a dialogue were rebuffed by the multinational media company, David Couldridge of Element Investment Mangers attended the Naspers's 2009 AGM to voice concerns, specifically involving Naspers's failure to produce a robust sustainability report and to make the cut for the JSE SRI index. At the meeting, the CEO acknowledged the company's poor record and committed to address the issues before Naspers's 2010 AGM. Naspers continued to make steady improvements in 2010 and 2011, although not dramatic enough reforms to earn a spot in the 2011 JSE SRI Index. Still, it published an integrated financial and sustainability annual report later in 2011.

- **Netcare Group:** The EMDP team requested a dialogue with the hospital and healthcare services group for the first time in 2011 and learned that the company had been excluded from the JSE SRI Index due to a controversy involving illegal kidney transplants that took place in some of its hospitals. Netcare and JSE had discussions, and the JSE was of the opinion that Netcare's board and management had taken sufficient actions to prevent similar problems from ever occurring again. It qualified for the 2012 index, and the South Africa team dropped its inquiry with the firm at that time, as the company already had been issuing regular sustainability reports in line with the JSE disclosure requirements and the GRI reporting guidelines.

- **Reinet Investments:** The team contacted Reinet, a financial holding firm with an interest in British American Tobacco, because of its paltry sustainability reporting in 2010 and 2011. However, the firm's CEO believed that the company's structure as an investment holding company made it unnecessary for it to be concerned about sustainability reporting and no engagement took place.

- **RMB Holdings:** Robust sustainability reporting is common among South African financial services firms, so the group was troubled by RMB Holdings' lackluster disclosure practices. However, RMB Holdings declined a dialogue with the group in 2009, and further action with the company was not taken. Nonetheless, whether due to pressure from the EMDP team or other factors, the firm improved its reporting and was included in the JSE SRI Index in 2011 and 2012.

- **Sasol:** In 2009, EMDP participants opened discussions with Sasol, an energy company that pioneered technologies in the field of coal gasification. Sasol said at the time that it had been excluded from the JSE SRI index because the South Africa's Competition Commission had found it guilty of collusion and price fixing, but that it was working vigorously to resolve its shortcomings. Sasol paid fines and instituted governance reforms to prevent similar issues going forward. Upon follow up in 2010, Sasol had indeed improved its performance and made the index in 2010.

- **Shoprite Holdings:** The EMDP team contacted Africa's largest food retailer in 2009 about its public reporting, but the firm was not responsive. Ahead of the company's 2010 AGM, EMDP team member Deon Botha from PIC expressed to Shoprite's chairman his intention to raise the team's issues at the meeting. Shoprite's chairman requested that the group hold back their concerns for a private meeting at a later date. The group agreed, which began a series of meetings with Shoprite's Chairman, CEO and senior management. The dialogue continued in 2011, and the company began to make incremental improvements in its ESG reporting, although it has still not been included in the JSE SRI Index to date.

- **Steinhoff International:** A retailer and manufacturer of furniture and household goods, Steinhoff was quick to respond to the team and to address concerns surrounding the company's sustainability reporting and performance. Steinhoff's executives assured the EMDP participants that it was in the process of preparing to release an updated and much improved sustainability report. In addition, the company noted that it planned to appoint a Sustainability Executive to its management team within the year. The company was included in the 2010 JSE SRI Index, as a result of its efforts.

- **Tiger Brands:** The EMDP participants engaged consumer goods company Tiger Brands in 2009, 2010 and 2011. In 2009, the group held an in-person meeting with the company, during which Tiger Brands' management acknowledged its weaknesses in sustainability reporting. Similar to Sasol, Tiger Brands was fined by South Africa's Competition Commission for price fixing. The group continued to work with Tiger Brands in 2010 on improving its sustainability disclosures, and the company was included in the JSE SRI Index for the first time in 2011.

The South Africa team also held meetings with the Bench Mark Foundation and the African Institute of Corporate Citizenship regarding the productive role investors can play in reforming corporate conduct to raise awareness of the EMDP and its activities.

LOOKING AHEAD: The EMDP South African participants plan to continue their dialogues with several of the targeted companies and have invited other investors to join them.

SOUTH KOREA

While on par with or more advanced than other EMDP project countries on measures of economic development, South Korean companies and the domestic investor community were just beginning to explore global trends in sustainability disclosure and investor responsibility when the EMDP South Korea team began operating there in 2009. However, the local firms' lagging performance offered a tremendous opportunity for the team to raise awareness and boost transparency. Taking into account government support for environmental initiatives, using information on companies' competitors in other markets, and galvanizing the voices of international and local investors, the team was able to push all of the companies it engaged toward better sustainability reporting practices and hopes to build on its successes in the years ahead.

EMDP SOUTH KOREA TEAM BY NUMBERS

8

PARTICIPANTS

Country Team Leads

- **Boston Common Asset Management:** Lauren Compere, Managing Director*
- **Korea CSR Research Service (KOCSR):** Joowon Park, Executive Director*

Local Participants

- **Eco-frontier:** Ji-Won Shin, Team Head Sustainable Finance Center*
- **Korea Corporate Governance Service (CGS):** Seonmin Kim, Analyst*
- **Korea Sustainability Investment Forum (KoSIF):** Jongo Lee, General Manager,
- **NH-CA Asset Management:** Hyungeong Oh, SRI Fund Manager
- **Solability:** Sungwon Koo, Head of Sustainable Research*
- **Sustinvest:** Jungmin Han, Research Analyst*

**2012 Company Scorecard Committee*

15

Companies Engaged

- Hynix
- Hyundai Motor
- Industrial Bank of Korea
- KEPCO
- Korea Telecom
- Korea Zinc
- LG Chemical
- LG Display
- LG Electronics
- NHN
- POSCO
- Samsung Electronics
- Samsung Life Insurance
- Shinhan Financial Group
- SK Telecom

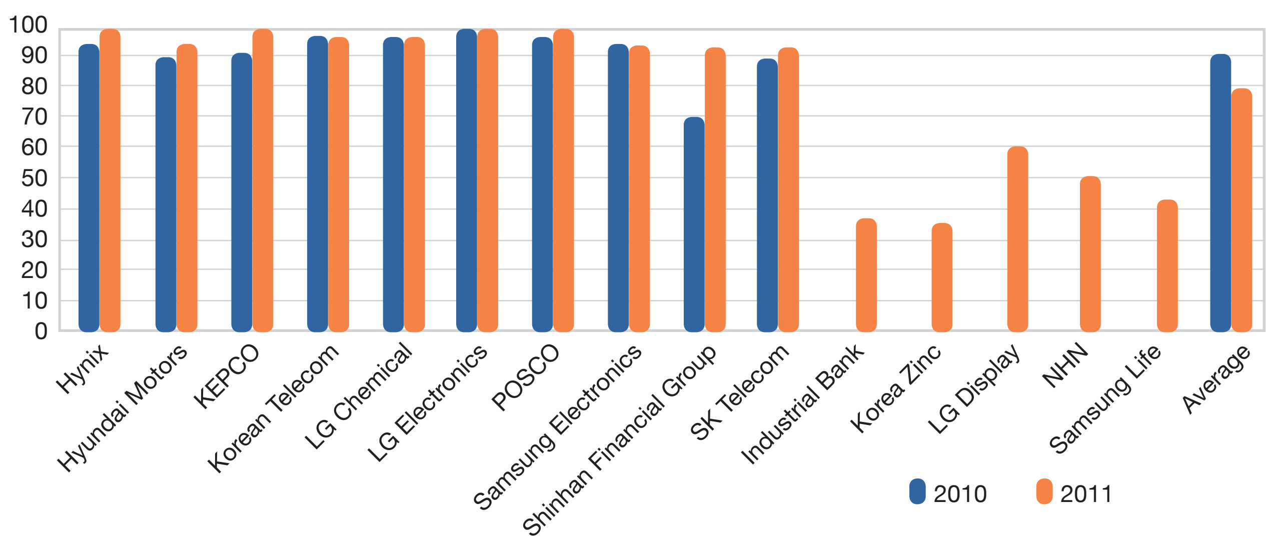
THE TEAM: With stewardship from co-chairs Lauren Compere, managing director at Boston Common Asset Management, and Joowon Park, executive director at Korea CSR Research Service (KOCSR), the EMDP South Korea team had support from two global research firms, EIRIS (United Kingdom) and Responsible Research (Singapore), and four local research firms—Korea Corporate Governance Service (CGS), Eco-Frontier, Solability and Sustinvest. The group also benefited from the involvement of KoSIF, as well as SRI Fund Manager NH-CA Asset Management. With extensive expertise on board, the South Korea was well resourced for undertaking company research.

APPROACH: The EMDP South Korea Team began in 2009 by completing a baseline study of 10 major, publicly-traded Korean companies—**Hynix, Hyundai Motor, KEPCO, Korea Telecom, LG Chemical, LG Electronics, POSCO, Samsung Electronics, Shinhan Financial Group** and **SK Telecom**—and their sustainability disclosure practices. KOCSR, with significant support from EIRIS and Responsible Research, authored the 2010 report—*Unlocking Investment Potential: ESG Disclosure in Korean Companies.* The report found that the number of Korean companies publishing sustainability reports had increased rapidly, with some even using the Global Reporting Initiative (GRI) reporting framework for guidance. However, the report also warned that many of the reports lacked quality and discussion of material sustainability risks, and said that only a tiny fraction of the reports delivered greater transparency on ESG risk to investors. The report's other major findings were:

- **Many South Korean companies, even larger listed ones, do not publish CSR reports,** and it is hard to find any reporting within the financial service sector and among holding companies.
- **However, for those reporting, environmental disclosure is strong.** All of the companies analyzed covered environmental issues in some depth and some displayed excellent reporting on the following: environmental policies and management systems, board-level responsibility for environmental issues, and quantitative emission data and quantitative reduction targets.
- **Reporting on human rights is mostly ignored,** with disclosure on the issue being non-existent or superficial. Many commentators also found a worrying imbalance between the treatment of workers in South Korea and the treatment of the company's employees in overseas subsidiaries.
- **Most companies disclosed on at least three indicators relevant to corporate governance.** However, on the issue of separation of chairman and CEO, only five companies met this challenge, a pattern similar to that found at other large Korean companies.
- **South Korean companies exhibited poor reporting of policies on political donations, which is a corruption issue very specific to South Korea.** 'Facilitation payments' to bureaucrats have emerged as a new form of bribery in South Korea. Each of the 10 companies analyzed disclosed some information on their anti-bribery activities, but few disclosed political donations.

SCORECARD: The South Korea team also scored 10 companies in 2010 and 15 companies in 2011 to aid their engagement efforts, and the team established a Scorecard Committee in 2011 led by KOCSR and comprised of CGS, Eco-Frontier, Solability and Sustinvest to share the workload, to collaborate on research methodology and to raise the quality of the overall analysis. This was a unique research partnership not duplicated by other EMDP country teams. The scores for the original 10 firms improved incrementally, with **Shinhan Financial Group** demonstrating the largest gains, and the new firms added to the study proved to be among the lowest scoring of the lot. (See table.) In fact,

SOUTH KOREA SCORECARD, 2010 – 2011



while all of the other 10 firms had published a sustainability report using GRI guidelines in 2010 and 2011, none of the newest five firms had published any sort of sustainability report in the past two years, adding urgency in engaging these companies. **Samsung Life Insurance** was in the process of publishing its first sustainability report when approached by the team for engagement in early 2012.

ENGAGEMENT: Following the release of the report, the EMDP wrote letters to all 10 companies profiled in May 2010 and invited them to provide specific feedback, as well as to meet with the EMDP team members. This effort was supported by international investors in 2010, including Comgest, LAPFF, New Zealand Superannuation Fund and Robeco, who were signatories to the company letters. The EMDP South Korea team met with five out of the 10 companies in person in May and June 2010 in Seoul—**Hyundai Motor, LG Chemical, POSCO, Samsung Electronics** and **Shinhan Financial Group.** Boston Common Asset Management as lead for the engagement phase of this initiative attended all company meetings with EIRIS attending most and at least one local Korean partner present as well. While the timing did not work out for in-person meetings, Hynix, LG Electronics and SK Telecom also responded to the group's inquiries and agreed to offer feedback on the report's findings. In general, the team recommended that each of the companies incorporate more systematic stakeholder involvement into their ESG strategies, to monitor, audit, and report on social and environmental performance, and to disclose political contributions. A distinctive focus of all the engagements was a discussion of anti-bribery and corruption policies and a recommendation to provide more substantial disclosure on how policies were being implemented, including training provided to vendors and suppliers.

Boston Common had met with three of the companies before—**Hyundai Motors, POSCO** and **Samsung Electronics**—and these companies demonstrated marked improvement compared to the end of 2007. (The three also were among the highest scoring companies in the group's assessment.) These companies had started to assess systematically material issues for inclusion in sustainability reports and had started to include third-party commentary from a variety of stakeholders in reports as well. Also, the three companies had begun responding to the Carbon Disclosure Project's annual questionnaire. Enhancements in the companies' practices offered a springboard for the group to discuss more advanced sustainability topics, including the mapping of key risks and opportunities, such as greenhouse gas emissions, water use, and the tracking of conflict minerals and human rights concerns in supply chains. Missing from the engagement line-up was KEPCO, the only firm of the 10 not to have responded to the CDP questionnaire, and Korea Telecom, among the higher scoring firms.

Round two—The EMDP South Korea team began the process again in 2011, but this time added five firms—**Industrial Bank of Korea, Korea Zinc, LG Display, NHN** and **Samsung Life Insurance**, which were chosen because they had little or no sustainability disclosure. This brought the total number of target companies to 15. As in 2010, the group sent letters to all companies; however, in this round the letters were endorsed by 12 global and two Korean investors—EMDP team member NH-CA Asset Management and newcomer Daesung Capital Management. The global signatories were The Church Commissioners for England (UK), The Church of England Pensions Board (UK), Comgest Far East (Hong Kong), Dignity Health (US), Etica SGR SpA – Gruppo Banca Popolare (Italy), Friends Fiduciary Corporation (US), GES (Sweden), Mercy Investment Services, Inc. (US), MN (Netherlands), New Zealand Superannuation Fund (New Zealand), Christopher Reynolds Foundation (US) and VIP Association of Institutional Investors (Germany).

In 2012, Boston Common Asset Management and KOCSR met with seven out of the 15 companies—**Hyundai Motors, Hynix, Korea Telecom, LG Electronics, Samsung Life, Samsung Electronics** and **SK Telecom**—in Seoul in March to discuss the findings and to encourage companies to take sustainability disclosure to the next level. In 2012, the EMDP team took the opportunity to raise questions about each company's plans for upcoming sustainability reports and to provide very specific input on improvements each could make. Overall, the group found:

- The original 10 target companies made good progress, especially **Shinhan Financial Group,** which published its first group-wide sustainability report in 2011. Most were making greater strides to include materiality assessments, third-party verification and GRI indicator mappings.
- The five firms added to the research and engagement efforts, especially the financial and non-manufacturing companies, had the worst disclosure.

South Korea on the Cusp of Change

By Lauren Compere, Managing Director, Boston Common Asset Management

Investor voices in South Korea—from both local and foreign sources—as well as urging from government for companies to adopt low carbon and other green strategies have placed South Korea at the precipice of a sustainability transformation. But global sustainable investment fund managers and asset owners should take this good news with a word of caution. Increased coordination and pressure in the market is much needed, and good examples drawn from the EMDP's experiences and other markets should be leveraged to propel South Korea toward greater transparency. It was this very multifaceted approach and use of several pressure points that the EMDP South Korea team used in engagement efforts over the past three years. Given the positive changes the South Korea team won, its activities serve as a roadmap for similar efforts in the market going forward. In particular, the Korea team learned that:

- **Global and Korean partners collaborating together on ESG disclosure, along with supportive messaging from the government, helped win minds in corporate offices.** The EMDP team was able to draw from the strong 'low carbon, green growth' message from the South Korean government and its National Pension Service's decision to sign onto the PRI to have corporate executives take notice that concerns about sustainability risks are shared by a wide range of actors and investors. More of this type of messaging is needed given the early days of the sustainable investing movement in South Korea, and it is most effective when local investor partners, with their contacts at local companies, are used in coordination with the influence of foreign investors, as well as partners from government agencies and multilateral institutions.
- **More Korean investment managers and asset owners should join PRI and global engagement initiatives.** This will help build networks and pressure points on companies in South Korea and help unify a message surrounding the types of ESG reporting, including GRI, that are most useful to investors. A small number of Korean asset managers and owners are signatories to PRI, and two worked with the EMDP. More are needed.
- **Many Korean companies still do not issue a sustainability report, so the substance of engagements for now still needs to be focused on this basic first step.** In 2012, the EMDP Korea Team reached out to five Korean companies with no history of publishing ESG information; only one responded—Samsung Life Insurance. As many large Korean companies still do not publish a sustainability report, this process will need to be repeated many more times before a critical mass of good actors prompts their competitors to change their practices.
- **As some of the best ESG reporting practices come from countries with regulations, listing requirements and exchange-sponsored SRI indices, investors should also use their leverage with the Korean governments and principal listing authority to promote reforms.** Unlike Brazil and South Africa, South Korea does not have a strong regulatory framework for sustainability reporting, but this also means that the market could learn much from its peers. Given the support from the South Korean government for companies to adopt more environmentally friendly business strategies, this influence could be used with examples from other emerging markets to urge the local exchange and regulatory authorities to consider the role corporate ESG disclosure and investor responsibility can play to improve results for investors and other stakeholders. Considering the South Korean government's influence on companies as well as the cultural context of regulation and listing requirements, these are the fastest ways for investors to achieve universal sustainability reporting.
- **Even though many Korean companies have yet to issue sustainability reports, responsible investors can still raise key issues surrounding sustainability risks with them.** While the EMDP South Korea team was focused on ESG disclosure in its engagement meetings with companies, these meetings also provided a platform for engaging on key ESG issues already in front of these companies. In 2012, the South Korea team held talks with Korean companies on exposure to conflict minerals and other global supply chain risks.

- The quality of the original 10 firms' disclosures to the CDP had improved, and the companies were disclosing more environmental metrics in comparison to 2010, as well as implementing and talking more about their environmental management systems. However, there continued to be a disconnect in the consistency of data points offered between years and related targets and goals, as well as the geographic scope of each metric. For some data, the companies only offered information on Korea operations, not facilities located elsewhere.
- The original 10 firms had improved the most on social issues, especially related to supply chains.
- On governance, separation of CEO and chair was still not widely adopted by the companies. Some made progress in disclosing anti-bribery and corruption policies, although many fell short of discussing how those policies were implemented and if employees had been trained on them.

The team encouraged the firms to address the shortcomings identified in their upcoming sustainability reports and to benchmark disclosure and performance to global peers. An interesting finding that came to light during the 2012 engagement cycle was that inclusion in sustainable indices such as the FTSE4Good and the Dow Jones Sustainability Index held a lot of weight with companies. It also proved to be a useful example to companies of how sustainable investors use ESG data in the investment process.

In addition, the group discussed the potential implications for South Korean companies of the conflict minerals disclosure requirements related to the Democratic Republic of the Congo included in the *U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act* and the *California Transparency in Supply Chain Act.* Specifically, the team learned that **LG Electronics** and **Samsung** were both active members of the joint Electronic Industry Citizenship (EICC) and Global e-Sustainability Initiative (GeSI) Extractive Working Group and involved in encouraging the Korea Electronics Association and the Korean government to more pro-actively address conflict minerals. The team suggested that Hynix join its peers in the EICC-GeSI initiative, and it recommended to **Hyundai Motors**, as well as the two telecoms, to begin to assess their own exposure to conflict minerals and to benchmark to peers. **LG Electronics** had already taken these steps.

In addition, in talks with **Samsung**, the team encouraged the company to adopt the UN Global Compact and to expand its human rights policy to include specific language on freedom of association, a core International Labor Organization (ILO) convention, as well as human trafficking and modern day slavery. Notably, Samsung was taking its first steps to disclose more on how it was addressing human trafficking and subsequently published a statement on its website in May 2012.

In dialogues with **Korea Telecom** and **SK Telecom**, the team also requested both to provide more disclosure on how they were protecting customer data given the increasing material risk associated with privacy and freedom of expression following the Arab Spring and the backlash endured by global competitors such as Vodafone. The group also encouraged the two telecom firms to join an industry initiative lead by the European telecommunications companies to learn more about this issue.

Additionally, the EMDP South Korea team held meetings with the local PRI network and the National Pension Service of Korea to provide updates on the project and to discuss how each group might work together to further support sustainability reporting in South Korea. In addition, representatives from the team spoke at TBLI Asia, the Korea PRI Network Meeting, ESG Asia 2012 and other events to raise awareness of the project and its activities.

LOOKING AHEAD: The team hopes to build on the connections it made during these meetings to continue research and bolster engagement efforts.

APPENDICES

A. Investor Statement on Sustainability Reporting in Emerging Markets (August 2011)

Introduction

The signatories to this statement recognize the important role corporate environmental, social and governance "ESG or sustainability" reporting plays in helping investors to determine which companies are best positioned to deliver strong, long-term investment performance. At the same time, companies increasingly understand that effective management of sustainability challenges and opportunities can contribute directly to financial success by:

- Allowing companies to reach a broader range of investors.
- Achieving greater operational efficiency.
- Improving enterprise-wide risk management.
- Making more strategic capital expenditures decisions.
- Enhancing customer loyalty and developing new customers.
- Improving brand positioning and value.
- Developing and maintaining market leadership.

However, for such actions to be properly valued by financial markets, companies must disclose information about their ESG programs and the progress made toward meeting specific ESG business objectives. For this reason, more than 2,300 global companies, including more than two-thirds of the constituents in the Global FT 500, issued sustainability reports in 2008.[1]

Why Sustainability Reporting

Disclosing environmental and social performance data is critical to investors for evaluating:

- Financial health and risk management, as this information augments financial analysis by indicating material risks and potential liabilities that are often overlooked by general accounting standards.
- Management quality, as ESG issues management can be used as a proxy for strong corporate governance and serve as an indicator of a company's overall management quality.
- Competitive positioning, as firms in emerging markets are increasingly competing globally and will be assessed according to their ability to comply with evolving international standards such as the European Union's Restriction of Use of certain Hazardous Substances Directive (RoHS) and the Waste Electrical and Electronic Equipment Directive (WEEE) regulations. In addition, home country standards are changing quickly and creating opportunities for companies with forward looking environmental and labor policies and programs to distinguish themselves.
- Growth potential, as there is a large and growing body of evidence indicating that companies that are pro-active environmental stewards, responsible corporate citizens and strong employers are more likely to create long-term shareholder value.

Sustainability Disclosure in Emerging Markets

As emerging market companies continue to grow in significance in the global economy, so do investor expectations for these companies. Emerging markets represent important investment areas, but a

1. CorporateRegister.com. (March 2009). CRReportingAwards '08, Global Winners & Reporting Trends. Retrieved Feb. 16, 2010, from http://www.corporateregister.com/pdf/CRRA08.pdf.

lack of transparency can hamper potential investment. Specifically, investors often do not have enough information on the manner in which companies in emerging markets have assessed and responded to risks and opportunities related to sustainability issues—and how these risks and opportunities might affect future financial performance and valuation.

In particular, the signatories to this statement encourage all companies to enhance transparency by working toward:

- Providing regularly updated ESG disclosure in financial reports or in specialized sustainability reports, focusing on the most material business risks and opportunities.
- Setting clear sustainability goals and disclosing progress towards meeting targets.
- Using the Global Reporting Initiative (GRI) framework in preparing their reports. At a minimum, we recommend that companies list exactly which GRI indicators are addressed in their reports as part of a "GRI Index."
- Continually improving their reporting based on feedback from key stakeholder groups, including both financial stakeholders and non-financial stakeholders, such as employees, customers, and relevant community and civil society groups.

The EMDP's most recent baseline study underscores the need for improved reporting in emerging markets.[2] It found that while 96 percent of the 100 largest emerging market companies reported on at least one ESG factor, only 14 of the 100 declared reporting in accordance with the GRI's guidelines, with a mere 20 making reference to the GRI. Furthermore, of the 28 companies in the study listed as signatories to the United Nations Global Compact, only 18 (64 percent) produced a Communication on Progress (COP) and/or a GRI report in compliance with the Compact's reporting requirements. In addition, only 30 percent of the companies offered any climate-related information.

Why the GRI

We urge companies to use the GRI's third generation, G3 Sustainability Reporting Guidelines ("Guidelines") to inform company reporting, and in so doing, increase the credibility, comparability, and utility of their reporting efforts. A GRI-based report also serves as a strong "Communication on Progress" for corporate signatories of the Global Compact.

The Global Reporting Initiative (www.globalreporting.org) is an international organization developed by businesses working with a broad base of global organizations. The GRI provides guidance on sustainability reporting process and content through the GRI Guidelines, a flexible reporting system that allows companies to focus on the issues most relevant to company operations.

More than 1,000 organizations globally currently use the GRI Guidelines in developing their sustainability reports. In fact, of the 3,100 companies issuing sustainability reports in 2008 tracked by CorporateRegister.com, approximately one third followed the GRI's guidelines in issuing reports, making it the most widely used standard worldwide.[3] Similarly, KPMG found that 60 percent of the Global Fortune 250 and more than 30 percent of the 100 biggest companies worldwide by revenue used the GRI guidelines in their reporting in 2008.[4]

Conclusion

The signatories to this statement believe that the next generation of leading companies will distinguish themselves through their commitment to sustainability, as demonstrated through robust sustainability reporting, and will be correspondingly rewarded by the market.

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2. Emerging Markets Disclosure Project. (December 2009). Corporate Sustainability Disclosure in Emerging Markets. Retrieved Feb. 16, 2009, from http://socialinvest.org/projects/iwg/documents/EMDP_UNCTAD_REPORT.pdf.
3. CorporateRegister.com. (March 2009). CRReportingAwards '08, Global Winners & Reporting Trends. Retrieved Feb. 16, 2010, from http://www.corporateregister.com/pdf/CRRA08.pdf.
4. KPMG. (October 2008). KPMG International Survey of Corporate Responsibility Reporting 2008. Retrieved Feb. 16, 2010, from http://www.kpmg.com/SiteCollectionDocuments/International-corporate-responsibility-survey-2008_v2.pdf.

2011 Signatories

1. Allianz Global Investors Korea Limited
2. AMP Capital Responsible Investment Leaders International Share Fund
3. Bank Sarasin & Cie AG
4. Bâtirente
5. Blue Summit Financial Group, Inc.
6. Boston Common Asset Management, LLC
7. British Columbia Teachers' Federation Salary Indemnity Fund
8. Calvert Investments
9. Canadian Labour Congress Staff Pension Fund
10. Christian Brothers Investment Services, Inc.
11. The Christopher Reynolds Foundation
12. Church of the Brethren Benefit Trust, Inc.
13. Comgest
14. The Co-operative Asset Management
15. Dexia Asset Management
16. DnB NOR Asset Management
17. Domini Social Investments, LLC
18. Element Investment Managers
19. EM Capital Management, LLC
20. Environmental Investment Services Asia Limited (EISAL)
21. Ethos Foundation
22. F&C Management Limited
23. FIM Asset Management
24. General Board of Global Ministries United Methodist Church
25. GES Investment Services
26. Government Employees Pension Fund of South Africa
27. Henderson Global Investors, Sustainable and Responsible Investment
28. Investec Asset Management
29. Local Government Super
30. Local Authority Pension Fund Forum (LAPFF)
31. Macif Gestion
32. Mercy Investment Services
33. Meritas Mutual Funds
34. Merseyside Pension Fund
35. MMA Praxis Mutual Funds
36. Mn Services N.V.
37. Natural Investments LLC
38. Neuberger Berman Socially Responsive Fund
39. NH-CA Asset Management
40. Northwest & Ethical Investments L.P.
41. Oikocredit USA
42. Pax World Investments
43. PGGM Vermogensbeheer B.V.
44. PREV—Caixa de Previdência dos Funcionários do Banco do Brasil
45. Progressive Asset Management
46. PT BNP Paribas Investment Partners
47. Robeco
48. The Seventh Swedish National Pension Fund (AP7)
49. SNS Asset Management N.V.
50. Trillium Asset Management Corporation
51. United Methodist Church General Board of Pension and Health Benefits
52. Vancity Investment Management
53. Veris Wealth Partners
54. Winslow Management Company, A Brown Advisory Investment Group
55. Women's Division, General Board of Global Ministries United Methodist Church

2011 Affiliated Supporters

1. As You Sow Foundation
2. Association for Sustainable and Responsible Investment in Asia (AsrIA)
3. Bloomberg
4. CAER—Corporate Analysis. Enhanced Responsibility
5. Ceres
6. Ecoeye Co., Ltd.
7. Eco-Frontier
8. EIRIS
9. Eurosif (European Sustainable Investment Forum)
10. FBDS—Brazilian Foundation for Sustainable Development
11. IndonesiaWISE
12. Inrate Ltd.
13. Korea Corporate Governance Service
14. Korea CSR Research Service (KOCSR)
15. Korea Sustainability Investing Forum (KOSIF)
16. MSCI
17. P.T. Minaca Selaras
18. Responsible Research
19. Shareholder Association for Research and Education (SHARE)
20. SinCo
21. SolAbility
22. Solaron Sustainability Services, Ltd
23. Sustainable Investments Institute (Si2)
24. Sustainalytics
25. SUSTINVEST Co., Ltd.
26. VIP (Vereinigung Institutionelle Privatanleger): Association of Institutional Shareholders

B. EMDP Scorecard

CRITERIA	POINTS
Environment	**20**
Greenhouse gas (GHG) emissions—publishes statement supporting scientific consensus on climate change (1 point); discloses business analysis of risks and opportunities climate change presents to the company (1 point); reports scope one (1 point), scope two (1 point) and/or scope three (1 point) emissions; publishes quantitative targets (1 point)	6
Carbon Disclosure Project (CDP) reporting—responded to current or previous year questionnaire (1 point); made response public (1 point)	2
Energy consumption—discloses policies (1 point); renewable energy purchases/capacity building or green building strategies or certifications (1 point); and quantitative targets (1 point)	3
Water use—publishes policies (1 point); and quantitative targets (1 point)	2
Toxic spills—reports policies (1 point); and quantitative targets (1 point)	2
Recycling—discloses policies g (1 point); and quantitative targets (1 point)	2
Environmental management—describes environmental management system, such as ISO 14001, and any associated certifications and progress on implementation (3 points)	3
Social	**20**
Human rights standards—discloses policies on fundamental human rights enshrined in the UN Universal Declaration of Human Rights, including bans on child (1 point) and forced labor (1 point); and discrimination based on the following race, color, sex, language, religion, political or other opinion, national or social origin (including indigenous status), property, birth and/or other status (list to be customized by country, up to 3 points)	5
Labor rights standards—publishes policies guaranteeing freedom of association (2 points) and the right to organize or otherwise guaranteeing these rights within the four walls of the factory in countries where such activities are prohibited (2 points)	4
Stakeholder engagement—reports framework to identify stakeholders and manage relationships (2 points); and developments from dialogues with groups (2 points)	4
Health and safety—discloses policies (1 point); reports data on work-related illnesses, injuries and fatalities (1 year = 1 point, 3 years = 1 point and/or five years = 1 point; 3 points total); publishes targets (1 point)	5
Health and safety management—discloses information on health and safety management systems such as OHSAS 18001, including associated certifications and progress on implementation (2 points)	2
Governance	**20**
Board independence—publishes director conflicts, including business dealings with the company	1
Sustainability oversight—discloses description of the board's role in overseeing the company's stewardship of environmental (3 points) and social (3 points) issues	6
Separate chairman and CEO—publishes policy separating chairman and CEO positions or offers investors a rationale for keeping the positions unified with a schedule for regular review and reassessment (2 points)	2
Board committees—discloses independence of nominations (1 point); audit (1 point) and remuneration (1 point) committees	3
Executive pay—publishes pay links to environmental (2 points) and social (2 points) criteria	4
Ethics/anti-corruption—discloses policy that bans bribery (1 point), coercion/extortion (1 point), fraud (1 point), and bid rigging, collusion, price fixing and other anti-competitive activities (1 point)	4
General	**20**
Sustainability report—published in the past year (2 points) and audited by a third party (2 points)	4
GRI G3 alignment—issued a GRI report of level A+ (6 points), A (5 points), B+ (4 points), B (3 points), C+(2 points) or C/pre-G-3 (1 point)	6
UN Global Compact—listed as a signatory (1 point)	1
Supply chain compliance discloses policies on supplier compliance with social (1 point), and environmental criteria (1 point); monitoring procedures (1 point); findings from monitoring, audit and enforcement efforts (2 points)	5
Product development—publishes guidelines on product formulations and toxicity or otherwise describes business plans to develop products and/or services that address sustainability challenges (2 points)	2
Management oversight—reports on executives' roles in managing environmental (1 point) and social (1 point) issues	2
Country-specific Indicators (determined by each country team)	**20**
Total	**100**

C. Resources

- *Corporate Sustainability Disclosure in Emerging Markets (2009):* http://www.ussif.org/projects/iwg/documents/EMDP_UNCTAD_REPORT.pdf
- *EMDP Indonesia Country Report 2010, Environment, Social and Governance in Indonesia, Positive Trends in a Challenging Environment (2010):* http://ussif.org/projects/iwg/documents/IndonesiaCountryReport2010EMDP.pdf
- *EMDP Indonesia Country Report 2011, Improving trends towards better ESG practices and disclosure (2011):* http://ussif.org/projects/iwg/documents/IndonesiaCountryReport2011EMDP.pdf
- *Emerging Markets Investor Survey Report: An analysis of responsible investment in emerging markets (2009):* http://www.ussif.org/resources/research/documents/EMDPpaper062609.pdf
- The EMDP Home Page: http://www.ussif.org/projects/iwg/emdp.cfm
- The Global Reporting Initiative's G3 Guidelines: https://www.globalreporting.org/reporting/latest-guidelines/g3-guidelines/Pages/default.aspx
- The Global Reporting Initiative's G3.1 Guidelines: https://www.globalreporting.org/reporting/latest-guidelines/g3-1-guidelines/Pages/default.aspx
- The Global Reporting Initiative's G4 Draft Guidelines: https://www.globalreporting.org/reporting/latest-guidelines/g4-developments/Pages/default.aspx
- *A Review of ESG Practices in Large Emerging Market Companies (2009)*: http://www.ussif.org/resources/research/documents/EmergingMarketsPaper_FINAL.pdf
- *Sustainability Reporting in Emerging Markets: An analysis of the sustainability reporting in selected sectors of seven emerging market countries (2008):* http://www.ussif.org/resources/research/documents/SIF-SIRAN-KLDReportforEMTransparency2008.pdf

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US SIF Foundation, a 501c3 organization that undertakes educational, research and programmatic activities to advance the mission of US SIF. Formerly the Social Investment Forum (SIF), US SIF is the U.S. membership association for professionals, firms, institutions and organizations engaged in sustainable and responsible investing. US SIF and its members advance investment practices that consider environmental, social and corporate governance criteria to generate long-term competitive financial returns and positive societal impact. Our vision is a world in which investment capital helps build a sustainable and equitable economy.