Corporate Governance for Sustainability Program (CG4SP) for Development Banks in Asia and the Pacific: A Training Guide

Published by:
The Association of Development Financing Institutions in Asia and the Pacific

With support from:
The Center for International Private Enterprise
The Association of Development Financing Institutions in Asia & the Pacific (ADFIAP) is the focal point of all development banks and other financial institutions engaged in the financing of development in the Asia-Pacific region. Its mission is to advance sustainable development through its members. Founded in 1976, ADFIAP has currently 82 member-institutions in 37 countries. The Asian Development Bank is a Special Member of the Association. ADFIAP is also a founding member of the World Federation of Development Financing Institutions composed of regional associations in Africa, Asia-Pacific, Latin America and the Middle East. ADFIAP is an NGO in consultative status with the United Nations’ Economic and Social Council. The permanent Secretariat of ADFIAP is based in Makati City, Metro Manila, Philippines.

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OREWORD

This CG4SP booklet was prepared with two objectives in mind. First, it is meant to be a reference tool to provide information and argumentation on the clear link between corporate governance and sustainable development. Second, it is configured as a training guide to encourage ADFIAP member-banks to use it in their own context to further develop the governance-sustainability “framework” that this project aims to achieve.

The first part of this guidebook covers the rationale for the corporate governance-sustainability linkage – why corporate governance is a crucial to sustainability and how it can generate policies and strategies for sustainability. It also features the case study of the Business Development Bank of Canada, an ADFIAP member, that shows how good corporate governance policies and structures matter on the fulfillment of its mandate – that of assisting small businesses in the country.

The succeeding parts contain the proposed training program outline and agenda as well as readings, objectives and lessons for each of the training session, complete with suggested Powerpoint slides, case study materials, and practical projects for use of the training resource person in implementing the program. These materials are provided in the accompanying CD for easy reference.

ADFIAP hopes that members and other institutions that are interested in the subject will find this guidebook relevant and useful.

ADFIAP takes this opportunity to gratefully acknowledge the Center for International Private Enterprise (CIPE) for providing the grant money in making the project and the production of this booklet possible. Special thanks are due to John D. Sullivan and John Callebaut, CIPE Executive Officer and Senior Program Officer for Asia, respectively, who have given their trust and support to the project. Our appreciation also goes to Ms. Elizabeth Hallinan and Ms. Katie Creel, CIPE Program Assistants.

ADFIAP also wishes to thank all its member-banks, particularly those that have provided resources, both human and financial, for the conduct of the training events under the project. Their continuous support has enabled ADFIAP to carry out its developmental mission forward.

This handbook was prepared by the ADFIAP Secretariat in Manila, Philippines. The team consists of Sandra Honrado, Sandy Lim, Susan Bajar, Lorina Cervantes, Robert Juan, Liza Olvina, Rey Lazo, Tinette Arenas, Jordan Isidro, Jayson Pancho and Ricky Blanca. The team is headed by the ADFIAP Secretary General, Octavio B. Peralta.

Finally, ADFIAP is grateful for the efforts and wisdom of Dr. Cesar Saldaña, Founding Fellow of the Institute of Corporate Directors in the Philippines and Dr. Theta Ponce, who provided ADFIAP with the conceptual framework in developing the program and worked with ADFIAP staff as well as its member-banks in all the training events conducted under the project.
BACKGROUND INFORMATION

ADFIAP’s sustainable development mission is anchored on its belief that sustainable development cannot be achieved without good governance. The CIPE-funded project entitled, “Corporate Governance for Sustainability Program (CG4SP) for Development Banks in Asia and the Pacific”, is thus a manifestation of the Association’s desire to provide a clear link between sustainable development and corporate governance.

This CG4SP project is the fourth of a series of programs under ADFIAP’s “DFIs for Corporate Governance” agenda which is the Association’s response to the growing need of its member-development finance institutions (DFIs) in the Asia-Pacific region for the implementation of good corporate governance policies and practices in their respective institutions by learning from experiences of co-members as well as from those in other parts of the world. The project is being supported by the Washington D. C.-based Center for International Private Enterprise (CIPE). More information on the project is at www.governance-asia.com

The CG4SP project is a capacity-building program for member-development banks of ADFIAP that aim to institutionalize good corporate governance for sustainability practices in their respective organizations.

The objectives of the CG4SP are to: (a) enrich corporate governance reforms in the development finance sector in the region by achieving a better understanding of governance policies and structures as they interface with sustainable development issues; (b) improve the institutional framework of corporate governance reforms by ensuring that they enhance economic development in a more transparent and accountable fashion; (c) support research that has the potential to drive sustainable development forward; and (d) disseminate CG4SP materials in member-DFIs and their stakeholders.

The activities under the project consisted of the following:

1. A research study on corporate governance, finance and sustainability in Asia and the Pacific. The research study provided a review of corporate governance reforms in the development finance sector as they interface with sustainable development initiatives.

2. A regional workshop held in Manila, Philippines for current Bank Corporate Governance Officers (CGOs) to equip them with new tools and best practices on the subject and to allow for an exchange of experiences among participating member-banks.

3. Four (4) national workshops held in Hanoi, Vietnam for Vietnamese financial institutions and the Pacific Islands group, ADFIP; Mumbai, India for Indian banks; and Kuala Lumpur, Malaysia for Malaysian institutions – to adapt the above regional experience into a more homogenous and ‘local’ context.

4. Publication of this training guidebook.

The one-year project started on July 1, 2006 and was completed on July 31, 2007.
Corporate Governance and Sustainability: A Rationale

Good corporate governance matters for a company’s sustainability. The world sees the importance of governance in pursuing sustainable development (SD) as shown in the Global Vision of Governance, whereby¹:

- Good governance is increasingly recognized as a cornerstone for sustainable economic growth, poverty eradication and development;
- The Millennium Declaration adopted by the UN General Assembly puts special emphasis on the importance of good governance for development and poverty eradication and achievement of the Millennium Development Goals;
- Heads of state reiterated this commitment in the Monterey Consensus, 2002. The Monterey Consensus commits the international community to sound policies, good governance at all levels, and the rule of law to mobilize financial resources for development goals in health, education, gender equality and environmental sustainability.

Why Corporate Governance is Crucial for Sustainability

There are three ways to show that corporate governance is crucial for sustainability:

1. The definition of corporate governance (CG) shows its importance in the pursuit of sustainability. Corporate governance is defined as the system and tools for governing — business principles, mission, vision, mandate and values — with which a company directs itself towards the successful achievement of its goals. It is through good governance that the company will achieve sustainability. If the phrase: “in an environmentally, socially and economically responsible manner” is added after the word “goals”, then sustainability gets embedded in the definition good governance.

2. Sustainable development principles and strategies are generated by companies and institutions that have good governance. A company should not set strategies that create value in the short-term but are detrimental to the shareholders, stakeholders, society and the environment over the long-run. Only sustainable development is considered real development. Unbridled maximization of shareholder value, i.e., without regard to its long-term impact on the environment, human resources and society, is not a sustainable goal.

3. Experiences of companies successfully pursuing SD show the major role of CG. The experiences of the Business Development Bank of Canada (BDC) as explained

¹ As articulated by the Canadian International Development Agency (CIDA). Source: www.acdi-cida.gc.ca
Corporate Governance Generates Policies and Strategies that Are Crucial for Sustainability

The pursuit of sustainability is a constant source of improvement that leads to greater profitability, faster growth and enhanced competitiveness while preserving environmental and social resources. It is a long-term endeavor that requires the involvement of the entire company. To motivate and organize towards sustainability, the company’s leadership, in consultation with stakeholders, formulates its business principles — what the company wants to do and the beliefs and values that will guide its decision-making. Then it sets policies and strategies that are focused on the basics of the company and yet adaptive and innovative. Immediately, one sees that governance’s role is crucial in the pursuit of sustainability because the governors selected by the process formulate the policies and strategies towards the desired goals. Governance rules include a review of performance to determine how well it the institution is moving towards its goals.

A closer look at the qualities of these policies and strategies follows:

a) “Being focused on the basics” means:
   • always keeping the business principles (including mission, vision, mandate to be profitable) and values in mind in decision-making and operations,
   • having a sound capital base and seeing to it that it grows (i.e., the company must be profitable),
   • having a competent management,
• establishing an efficient and sustainable organizational structure with the right combination of human resources and technologies,
• managing risks, reputation and assets,
• being service-oriented and ensuring efficient procedures and processes that are necessary to maximize revenues, reduce costs, offer a competitive price, quality and efficient delivery service for one’s products, etc.

b) “Being adaptive” means engaging stakeholders, continuing dialogues to know their needs and interests, and helping them achieve these through advisory services and products the company can offer. Such dialogues with stakeholders also lead to creative ideas that can help the company innovate.

c) “Being innovative” means adopting new technologies and making new investments into products and services that can lead to new businesses and markets. Internal innovations can make work more efficient or improve the business environment.

Corporate governance allocates the company’s resources that are necessary to pursue the strategic goal of sustainability. Under the corporate governance process, the company gets to choose strong, mission-oriented leaders who will initiate, inspire and maintain the drive, motivation and determination of the company to pursue SD. Good governance provides long-range vision to contribute to the common good rather than to generate short-term savings from non-compliance with environmental conservation and social development requirements. It is part of good governance to review the performance of the company in order to determine whether it has moved towards sustainability. With good CG, a company can integrate sustainability into its corporate culture, i.e., the inherited knowledge, skills, beliefs, practices, etc that can serve as basis for shared action by the company. It is also through sustainability-oriented CG that the opportunities and challenges brought about by globalization are better addressed.

Thus, many of the pre-requisites of sustainability could be supplied by good corporate governance. Indeed, not only does corporate governance matters—it is so crucial for sustainability.

**How Good Governance Matters for Sustainable Development — the Case of Business Development Bank of Canada (BDC)**

BDC, a crown corporation, was created by the Canadian government through an act of Parliament to promote entrepreneurship by providing financing, consulting and venture capital services to small and medium sized enterprises (SMEs) in Canada. Entrepreneurs are their only clients. BDC’s governance starts with its mission and mandate.
1) Its mission — to be an intermediary between the international financial market and Canadian SMEs. Their success in this new role is determined by their efficiency and effectiveness in reaching out to their SME stakeholders.

2) Its mandate — to earn a Return on Investment of between 3% to 8% or equivalent to the Government of Canada’s cost of long-term cost

The governance of BDC was designed to be efficient and effective in fulfilling its mission and mandate. For BDC to achieve its mission and mandate, Parliament recognized that the governance structure of BDC should balance Parliament’s oversight role (BDC is accountable to Parliament) with BDC’s need for autonomy to compete commercially (i.e., to be able to make fast decisions in order to compete, BDC needed to have autonomy).

Hence, BDC’s governance rested on two pillars: autonomy and accountability which are simply freedom and responsibility, each described as follows:

1. Autonomy means independence of BDC from the government other than oversight role of the Parliament. In short, Parliament created BDC then wisely placed it at arm’s length from itself and government. Independence enables BDC:
   a) to remain non-partisan and non-political provider of services. It frees them from being subjected to political pressures for inappropriate requests for services by those in government, corruption and political interference
   b) to act autonomously in their day to day operations including completely independent management of financial, human and physical assets
   c) to stay focused on the long term goal (i.e., the mission)

2. Autonomy requires accountability. At BDC, there are four levels of accountability.
   a) The CEO of BDC reports to the Board of Directors
   b) The Board of Directors of BDC reports to the Minister of Industry
   c) The Minister of Industry reports to the Canadian Parliament
   d) The BDC Annual Report is tabled in Parliament and is a public document, a form of transparency advocated for good governance
CORPORATE GOVERNANCE
FOR SUSTAINABILITY PROGRAM

Suggested National Seminar for DFIs

OBJECTIVES

To raise awareness of expanding corporate governance (CG) as an initiating agent and support for sustainable development (SD). The seminar will discuss the role of good corporate governance in pursuing sustainable development.

1. To present the country’s national policy on SD and key programs and projects to implement the policy. At the start of the seminar, the country’s officials will briefly present the government policy on SD (Agenda 21) and its leading programs. Government will specify the support expected by government from development finance institutions in the government’s SD programs.

2. To help build institutional capacity for integrating SD in their current business activities. The seminar will identify improvements, especially in CG that institutions could adopt to help sustain the economic, social, human resource and environmental development aspects of their activities.

3. To understand and apply basic concepts, processes and indicators of sustainable development. The seminar will present best practices in CG and SD, case studies and discussions by resource persons and participants regarding their experiences and concerns about conducting SD projects.

4. To participate in a network of ADFIAP members involved in sustainable development programs. The seminar will encourage member institutions to be aware of SD initiatives and programs that are supported by members of ADFIAP and to communicate with those institutions.

Duration of the seminar:

2 Days

Resource persons:

To be identified and appointed by the DFI sponsor
### DAY 1

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<td>Team discussions about proposed SR or SSD projects that could be undertaken by a DFI</td>
<td>Presentations by Teams of their Proposed CSR or SD Projects for Support by the DFI</td>
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Session 1:
SD and Corporate Social Responsibility (CSR) Policy Cycle

Summary

A policy is a tool for governing. It is a plan, a strategy or a statement of intentions about a course of action or inaction intended to accomplish an end. It can be a personal policy, a corporate policy or a national policy. A CSR policy is a tool formulated and implemented by a company’s governors to make everyone in the company fight for its sustainability.

The formulation of a CSR policy starts with an intention of a company to solve a complex problem, achieve a vision, resolve an issue – for the betterment and sustainability of the company. After an initial study of the nature of the issue and identification of possible solutions to address it, the various stakeholders are consulted to elicit their thoughts and ideas on the matter to further explore its other facets (e.g., how it affects them) and formulate other versions of a policy to address the issue and build a broad base of support for whichever policy is finally approved. The policy once enacted is implemented and monitored for its effectiveness.

Reporting on the development and implementation of a policy enables the people involved/affected to spot its weak and strong points, make the corresponding changes, and motivate them to continue doing CSR.
Objectives:
1. to study the nature and purpose of a policy
2. to determine how a CSR policy gets formulated and leads to the betterment of the company
3. to understand the importance of stakeholder engagement in CSR policy-making
4. to be aware of the benefit of monitoring and reporting the implementation of a CSR policy.

Lessons
1. A policy is a tool for governing. It is a plan, a strategy or a statement of intentions—written or orally stated—about a course of action or inaction intended to accomplish an end.
2. The formulation of a CSR policy starts with a company’s intent to solve a problem, achieve a vision, resolve an issue for the betterment and sustainability of the company. The company’s own study of the matter in combination with consideration of the views of other stakeholders affected by the policy improves the quality of the policy and its acceptability. The policy once enacted is implemented and monitored for its effectiveness.
3. Reporting on the development and implementation of a policy helps the people involved and affected to spot its weak and strong points, to make the corresponding changes and motivate them to continue doing CSR.
Session 2: 
The Three Dimensions of Sustainable Development

Summary

A key definition: “Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own need.” The three dimensions of sustainable development are:

- Environment: Environmental resources provide services not only for immediate human consumption but also for use in connection with production and consumption processes.
- Economic: The growth of economies and their structural transformation have always been recognized as being at the core of development.
- Social: Development encompasses the strengthening of the material income base as well as the enhancement of capabilities and the enlargement of choices.

The economic/financial, social and environmental separately define the sustainable development efforts of a DFI, like legs of a chair. This view can also show the important role of corporate governance in sustainability. This is done by adding three horizontal bars to bind the chair’s three legs together. Good governance provides direction and stability to a company’s drive towards sustainability.
Learning Objectives
1. To define sustainable development and its three dimensions.
2. To understand the role of good governance in sustainable development

Lessons Learned
1. One cannot consider as sustainable development any initiative that causes damage to any of the three dimensions. The only true development is sustainable development.
2. Corporate governance initiates projects that impact the three dimensions. It should evaluate projects along the three dimensions.

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<tr>
<th>Three Dimensions</th>
<th>Defining Sustainable Development</th>
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<tr>
<td><strong>Environmental Dimension</strong></td>
<td>The economic processes of production and consumption draw to a greater or lesser extent on services provided by resources of the natural-physical environment.</td>
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<td>Natural resources of the conventional type – include non-renewable resources such as:</td>
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<td>• minerals</td>
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<td></td>
<td>• forests</td>
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<td>• all forms of energy</td>
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<td>Environmental resources provide services not only for immediate human consumption but also for use in connection with production as well as consumption processes.</td>
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<td><strong>Economic Dimension</strong></td>
<td>The growth of economies and their structural transformation have always been recognized as being at the core of development.</td>
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<td>The most important preconditions for the fulfillment of human needs and improvements in living conditions.</td>
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<td><strong>Social Dimension</strong></td>
<td>Development encompasses the strengthening of the material income base as well as the enhancement of capabilities and the enlargement of choices.</td>
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<td>Importance of social development in the context of sustainable development.</td>
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Session 3:  How to Ensure the Sustainability of DFIs

Summary

We review the nature and operations of a Development Finance Institution (DFI) to have a common ground for discussing DFIs in relation to sustainability and to find out which aspects of its operations have economic, social and environmental impact.

A DFI is a catalyst for the socio-economic development of a country by giving long-term loans to enterprises and by providing technical assistance for the efficient and effective management of the funds it has lent. The internal operations (i.e., procedures) of the DFI normally have little impact on the environment but the projects (such as the building of roads, dams, reforestation, etc.) it finances can heavily impact the environment. Thus it is important for a DFI to include environmental criteria in screening loan applications as well as to offer more environment-friendly services (such as being an intermediary for carbon trading, etc.) so that its operations can be said to be truly sustainable. To address the competition in sourcing financial capital, a DFI must strive to be profitable in its operations and must make itself attractive to investors and other stakeholders.

Objectives:
1. to review the nature of a DFI and its operations
2. to find out how a DFI can have a more positive environmental impact in its operations and thus become more sustainable
3. to determine how a DFI can compete for capital
Lessons:

1. A DFI is a catalyst for the socio-economic development of a country by giving long-term loans and by providing technical assistance for the efficient and effective management of loan funds.

2. The internal operations of the DFI normally have little impact on the environment but the projects (such as the building of roads, dams, reforestation, etc.) it finances can heavily impact on the environment.

3. A DFI must include environmental criteria in screening loan applications as well as offer more environment-friendly services or products (such as being an intermediary for carbon trading, financing reforestation projects, etc.) so that its operations can be said to be sustainable.

4. A DFI’s operations should be profitable so that it can preserve and enhance its capital and make itself attractive to investors and other stakeholders.
Session 4: Sustainable Development and Corporate Social Responsibility

Summary

CSR is the way companies integrate economic, social, and environmental concerns into their values, culture, decision-making, strategy, and operations in a transparent and accountable manner. CSR is the contribution of business to sustainable economic development. It is based on compliance with laws and regulations and typically includes commitments beyond legal requirements like good corporate governance and ethics, better health and safety, environmental stewardship, promotion of human rights (including core labor rights) and better HRM (human rights management).

The business case for CSR revolves around the fact that firms that fail to engage stakeholders can jeopardize their ability to create wealth for themselves and society. The CSR approach of a firm can vary from being strategic & incremental on certain issues to becoming a mission-oriented CSR leader. Businesses now recognize that their corporate reputation is closely linked to how well they consider the effects of their business on those with whom they interact. Reputation is important. Although a largely intangible corporate asset, it must be managed as carefully as any other asset with the help of CSR.

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**CSR Firms: Better Long-term Investments**

- Firms with good social citizenship records and a real commitment to CSR are arguably more sustainable, better managed and therefore, better long term investments.

- Tony Fell, Chair of RBC Capital Markets, says: “the ongoing vitality of our communities is both in our long term business interest & in the interests of a healthy, vibrant country. No enterprise operates in a vacuum.”

- Recent progress of the socially responsible investment (SRI) movement provides evidence that the marketplace is using both social and environmental criteria to supplement traditional financial criteria used to make investment decisions.
CSR activities of firms are a proactive method of addressing potentially problematic conduct before it attracts legal attention. There is an increase in scrutiny from the Investment Community in the sense that companies are under more legal pressure to disclose activities and issues that may have a material impact on the companies & their investors’ decisions.

**Learning Objectives**
1. To understand the definitions and scope of SD and CSR
2. To build up the business case for CSR and why companies should be aware of CSR
3. To show an increasing trend for Socially Responsible Investing (SRI)
4. To understand the benefits of implementing and communicating CSR activities

**Lessons Learned**
1. CSR brings companies a step closer to sustainable development because these activities deal with the social and environment concerns of stakeholders.
2. There is an increasingly favorable business case for CSR.
3. SRI is an effective way of mobilizing financial resources to make a statement and participate in movements to align corporate practices with socially accepted norms of behaviour.
4. CSR remains oriented to the self-interest of the company but is a welcome step in the march to sustainable development.
The case comes in two parts: SPFL (A) and SPFL (B). The two cases should be discussed in sequence. SPFL (B) should be distributed and discussed only after completing discussion of SPFL (A).

LEARNING OBJECTIVES
These sequeled case studies aim to achieve the following learning objectives:
1. To know the role of directors in ensuring sustainability of the company.
2. To understand why directors might accept policies that make the company not sustainable
3. To find courses of action to preserve the investment of shareholders.

SPFL (A)

Key Facts
The following are the key facts of the case:
1. The cost of fertilizer has gone up due to global factors, not internal to SPFL.
2. SPFL could not raise its price without applying for a price increase to the Prices and Incomes Board.
3. The other directors of the Board representing government owners are not willing to apply for a price increase.
4. You are Chairman of the Board and nominated by the Sugar Cane Growers Fund, a private investment fund.

Points for Discussion
The following are points that the Trainer should bring out from the discussions:
1. Not applying for price increase will cause losses to SPFL, to the detriment of all shareholders, including the Sugar Cane Growers’ Fund.
2. You will have to explain the decision of the Board to your shareholders.
3. Looking forward, this policy will impair shareholders’ funds.
4. It is the role of a director to ensure that steps are taken to prevent erosion of shareholder funds and assure the sustainability of SPFL.
5. Your role as Chairman is to explain their duties as directors on the issue of who should absorb the increase in the cost of imported fertilizer.
6. The economically correct solution – therefore sustainable – is to let the users of fertilizer to absorb the cost through a price increase.
7. It is your duty as Chairman to explain and convince the Board about the economic solution. The farmers (users) should be the ones to make the adjustments to the new realities of the prices of fertilizer. Shielding them from price increases will give them a wrong signal that fertilizers are still cheap when the correct response is to produce less of those crops that require a lot of fertilizers.

**SPFL (B)**

**Key Facts**

The following are the facts of the case, Part B:
1. The Board voted by majority to budget for a loss and not to request for an increase in price before the Incomes and Prices Board.
2. The Chairman resigned without resolving the issue.
3. The Sugar Cane Growers Fund holds 20% of the shareholdings and $8 million loan to SPFL.

**Points for Discussion**

The following are points that the Trainer should bring out from the discussions:
1. The decision of the Board is tantamount to making SPFL subsidize the users of fertilizers.
2. Only the government has the power to give subsidies. If that power is exercised via SPFL, which is not 100% owned by government, it may hurt the private shareholders of SPFL, the Sugar Cane Growers Fund.
3. To protect itself, Sugar Cane Growers Fund could collect its loan at maturity and request SPFL to buy out its shareholdings.
4. In the end, wrong policies could make SPFL not sustainable and cause damage to funds of SPFL. To protect itself, Sugar Cane Growers could walk out by selling its shares to government thereby making SPFL a 100% government-owned Limited.
5. By resigning, the Chairman lost a chance to take a stand on the issue facing SPFL.

**What Happened After**

The Trainer should know the present status of SPFL. The events described in the case happened in late 2006. The new director who replaced the Chairman, as representative of the Sugar Cane Growers Fund demanded full payment of the loan. He also asked that SPFL either:
- purchase its 20% shareholdings, or
- sell its 80% shareholdings to the Sugar Cane Grower’s Fund.

As of today (May 2007), the government has not taken action on either of the offers.
Session 5:
Sustainable Social Development and DFIs

Summary

Social sustainability means enhancing the quality and quantity of human resources. It implies respecting the rights proper to the nature and dignity of every human being: the right to life, the right to a good education, the right to have a decent job, etc. Many important international documents and conferences affirmed the existence of these rights and demand that they be respected. The United Nations Declaration of Universal Human Rights and the 1995 UN World Social Summit called on all nations to ensure the basic needs proper to every human being by addressing the following goals: universal primary education, elimination of severe malnutrition and hunger, provision of self-employment opportunities, etc.

The natural family is the place where human beings are born and nurtured. The family, being the basic cell of society, has to be protected and enhanced to assure a sustainable world. The family renews the human race and supplies the necessary physical, intellectual and will power that make development possible. Many countries that tried to control the growth of their populations through erroneous population policies could face the specter of declining population caused by an aging citizenry and a very low fertility rate.

DFIs contribute to social sustainability by giving long-term loans to enterprises that promote socio-economic development and generate new jobs. They can increase their contribution to social sustainability by expanding the range of their financial loan products to include other family needs such as decent, durable, low-cost housing, accessible schools,
etc. DFIs also foster their internal social sustainability by taking care of the needs and continuing professional training of their human constituents.

**Objectives**

1. to determine what social sustainability means and implies.
2. to identify important international documents and conferences that declare the universality of human rights.
3. to study the significance of the family in relation to social sustainability.
4. to discover how DFIs can contribute to social sustainability.

**Lessons**

1. Social sustainability means enhancing the quality and quantity of human resources and implies respecting human rights.
2. Many important international documents and conferences that affirm human dignity and the need to respect human rights by fulfilling certain goals.
3. Since the natural family is the source of the workforce and development depends on work, protecting and enhancing the family assures the sustainable development of the world. DFIs increase their contributions to social sustainability by offering more products that address other family needs as well.
Summary

Environmental sustainability is presently being threatened by the depletion, degradation, and pollution of natural resources such as the atmosphere, bodies of water, forests, etc. A lot of these problems are anthropogenic (i.e., linked with human activities). A good example of an environmental problem with its adverse effects on business, human life and biodiversity is the build-up of greenhouse gases in the atmosphere.

To protect and conserve the environment, it is necessary to appreciate its importance to human well-being and economic production, understand its components, mechanisms and processes, know how to use it while respecting its capacity to regenerate, increase efficiency in using natural resources to minimize wastes that are returned to it, and to search for cleaner and renewable energy sources.

To achieve these goals, there should be a holistic approach to environment that calls for contributions of various disciplines. Various national laws and international agreements like the Clean Air Act, Clean Water Act, Montreal Protocol and Kyoto Protocol have also been formulated to encourage the use of the strategies to maintain a sustainable environment. The creative implementation of these laws or agreements have given rise to interesting
business opportunities like the carbon credits scheme, green technologies and green products e.g., hydrogen fuel cells, bio-fuels, carbon and ozone-depleting substance recovery technologies, etc.

Governance in a DFI has an important role to play in environmental sustainability by seeing to it that its employees and other stakeholders are adequately educated about the environment, that products and services that promote environmental health through biodiversity conservation projects, reforestation, etc. are offered and that the appraisal of loan application for projects include provisions for reducing probable adverse environmental impact.

**Objectives**

1. to understand the necessity of a holistic and multidisciplinary approach to environmental sustainability.
2. to know the importance of the environment to sustainability and how to protect it.
3. to determine some of the opportunities and technologies that environmental concern has given rise to.
4. to identify the role of governance in a DFIs promoting environmental sustainability.

**Lessons**

1. The complexity of the environment with its many components and complex mechanisms and structures demands a holistic approach to its understanding and sustainability.
2. The environment is a source of material resources for economic production, affects human well-being and an important source of ideas for universities and industries.
3. The drive to protect the environment has given rise to various green laws, green agreements, green technologies and green products.
4. The DFI’s governance must see to it that its people are adequately educated on environment, and that the DFI offers green products and uses a “green screening” criteria for assessing project applications.
Session 7:
Practical CSR and SSD Projects for DFIs

Summary

This session looks at a list of CSR practices and initiatives implemented by various businesses to encourage DFIs that are daunted with the idea of setting up a CSR program to jumpstart it with a simple project.

The project aims at protecting the environment through the wise and efficient use of material resources, enhancing human welfare and creativity, protecting human rights, etc. Monitoring the implementation of the CSR project is expected to lead to other CSR projects – contributing to the eventual development of a sophisticated company CSR.

Although the practice of CSR, defined as business’ contribution to sustainability, is a long-term process since it aims for the long-term quality (survival of the company in order to continue serving society that offers endless opportunities for improvement, learning, integration, growth) it can be started with simple projects related to, for example, cost cutting by making procedures efficient and effective, making a new product/service that will generate added income, a regular review of things to find out how they can be better done, setting up an inexpensive library to improve staff productivity, etc.

With the support of the CEO and Board of Directors, the CSR program can be made more stable, more company-wide and more effective.

Jump-Starting Your DFI-CSR Program:

- It's easy for a DFI to embark on a CSR Program.
- Start simple with a few practices that promote wise use of or enhance human, economic and financial, environmental resources and DFI procedures.
- With a simple memo regarding the above sent by e-mail, notify everyone in the DFI of management's CSR intentions.
Objectives

1. To identify examples of CSR projects, practices and initiatives that DFIs can adopt to start or strengthen their CSR programs.
2. To appreciate the benefits of having a CSR program.

Lessons

1. Examples of CSR projects that DFIs can adopt to start or augment their CSR programs are: practices that increase their efficiency in the use of electricity, paper, water, ink, gasoline, etc., programs that enhance the health, happiness, and productivity of their employees, promote diversity and human rights, innovations that lead to new services and products that are environment-friendly and so on.
2. Having a CSR program offers the company many opportunities for improvement, learning, integration and growth and, more importantly, assures its continued survival and ability to serve society.
3. To require the CEO and Board of Directors to initiate and support the company’s CSR program.
Session 8:
GRI Economic Performance Indicators: Measuring Impacts One Stakeholder at a Time

Summary:

The economic aspect of sustainable development is about the impact of the institution on the economy. They are to be evaluated along with social and environmental impact. Measurement of the sustainability of economic impact is what Global Reporting Initiative (GRI) is proposing to measure. Based in The Netherlands, GRI would like to be the forerunner in the standardization of economic impact measurement.

Economics is the process through which humans create social and environmental outcomes. Financial indicators focus primarily on the profitability of an organization about the impact on the welfare of the shareholders. The focus of economic performance is on the economic status of stakeholders as a consequence of the institution’s actions. It measures the welfare of the people.

<table>
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<th>Financial vs. Economic Indicators</th>
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<td>Financial indicators focus primarily on the profitability of an organization for the purpose of informing its management and shareholders. It measures the welfare of the firm.</td>
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<tr>
<td>The focus of economic performance measurement is on how the economic status of the stakeholder changes as a consequence of the organization’s activities, rather than on changes in the financial condition of the organization itself. It measures the welfare of people.</td>
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There are two useful approaches to framing the set of Economic Indicator:

- By nature of economic impact (such as profit, investments and labor productivity)
• Or, by major stakeholder groups that are impacted by an organization's processes, products, and services.

The stakeholder approach best captures performance measures that would be most material for reporting organizations and stakeholders. Five major stakeholder groups were identified for the purpose of constructing direct impact indicators:

• customers
• suppliers
• employees
• providers of capital
• public sector

Objectives

1. to know the function of an indicator in relation to sustainability
2. to differentiate traditional indicators from sustainability indicators (SDI)
3. to learn GRI economic indicators
4. to identify qualities of good indicators and develop indicators that are more appropriate to the country

Lessons

1. An indicator enables the DFI to monitor and report its progress towards sustainability. There is a need for universal indicators to enable the DFI to benchmark to global standards. The GRI is moving in this direction.
2. GRI indicators focus on 5 stakeholder groups, measuring the monetary flows between the DFI and those stakeholders to determine sustainable economic impact of the DFI.
3. The GRI indicators are designed to be stakeholder-oriented and to help the DFI to tell a multi-dimensional story about its contributions to sustainability.
Session 9
Role of Good Governance in Transforming Financial Institutions into Sustainable Institutions

Summary
Sustainable company strategies, policies and principles follow global, not national or regional, trends and rules. Global capital markets and other stakeholders demand that corporations embrace sustainable development. How companies respond will determine their performance. The rules have changed toward global responsibilities of companies. Companies that do not change will not succeed.

Governance roles are to initiates the company’s orientation towards SD, keep the company focused on pursuing SD, allocate the necessary resources, determine the company’s policies and strategies needed to achieve SD, build up and safeguard the reputation of the company to attract suppliers and encourage other stakeholders to participate and cooperate in the company’s SD program, determine the company’s strategic values and thrusts and policies necessary to pursue SD, prevent corruption and graft because they erode resources for SD and share the wealth of knowledge and experience of the Board of Directors.

Objectives
1. To emphasize and summarize the important role of corporate governance in the pursuit of sustainable development.
2. To project the urgency and global nature of the challenge to sustainable development.

Adopting Sustainable Development Policies

- The advantages of adopting sustainable company strategies, policies and principles are becoming clear.
- These advantages are following global, not national and regional, trends and rules.
- The demands of the global capital markets and other stakeholders for corporations to embrace sustainable development will determine the performance of companies.
- Companies that do not change will not succeed.
Lessons Learned
1. The Board of Directors should initiate the adoption of sustainable development policies of a company and provide the resources for their implementation.
2. The rules for sustainable development are global, not national or regional.
3. Adoption of sustainable development is a matter of survival for companies.