Towards Sustainable and Responsible Investment in Emerging Markets

A Review and Inventory of the Social Investment Industry's Activities and Potential in Emerging Markets

IFC
International Finance Corporation
World Bank Group

Enterprising Solutions
Global Consulting

Towards Sustainable and Responsible Investment

Towards Sustainable and Responsible Investment in Emerging Markets

A Review and Inventory of the Social Investment Industry's Activities and Potential in Emerging Markets

October 2003

Prepared for
International Finance Corporation
A Member of the World Bank Group

Prepared by
Enterprising Solutions Global Consulting

Printed on Recycled Paper

Printed with soy-based inks

Towards Sustainable and Responsible Investment in Emerging Markets
A Review and Inventory of the Social Investment Industry's Activities and Potential in Emerging Markets

Prepared for
International Finance Corporation
A Member of the World Bank Group
IFC Task Manager, Dan Siddy

Prepared by
Enterprising Solutions Global Consulting

For their input, critical insight, and thoughts much thanks to Avinash Persaud, Candace Smith, Dan Siddy, Eileen Miamidian, Frank Coleman, Michael Lent, Mark Campanale, Maria Gallegos, Madeleine Klinkhamer, Rebecca Xu, Sean de Cleene, Tonia de Sousa-Shields, Tillman Bruett, and members of the Morelos Forum.

Edited by
Marc de Sousa-Shields

Written by
Ricardo Bayón, Julie Cheng, and Marc de Sousa-Shields

International Finance Corporation
2121 Pennsylvania Avenue, NW
Washington, DC 20433 U.S.A.
Telephone: 202-473-3800
Facsimile: 202-974-4384
www.ifc.org

Manufactured in the United States of America
First printing October 2003

Enterprising Solutions Global Consulting
Mexico – United States – Canada
Head Office
Calle Rio Florido 101, Jardines de Tlaltenango
Cuernavaca, Morelos, Mexico

Tel./Fax: (52) 777-313-0438
E-mail: infomex@esglobal.com
www.esglobal.com

Cover photo: Klaus Merckens

The International Finance Corporation (IFC), an affiliate of the World Bank, promotes the economic development of its member countries through investment in the private sector. It is the world's largest multilateral organization providing financial assistance directly in the form of loans and equity to private enterprises in developing countries.

This report was commissioned by IFC through its Sustainable Financial Markets Facility (SFMF), a multi-donor technical assistance facility established in 2002 to promote environmentally and socially responsible business practices in the financial sector in emerging markets. The SFMF is currently funded by IFC and the governments of the Netherlands, Switzerland and Norway.

Enterprising Solutions is a private sector international development firm specializing in enterprising solutions for social, environmental and economically sustainable development. With offices in the United States and Mexico, Enterprising Solutions provides management consulting and knowledge generation services focusing on microfinance, small business, and social investment in developing countries.

Table of Contents

Acronyms and Abbreviations

ASrIA	Association for Sustainable & Responsible Investment in Asia
BEEC	Black Economic Empowerment Commission
BOVESPA	Bolsa de Valores de São Paulo
CERES	Coalition for Environmentally Responsible Economies
CalPERS	California Public Employees Retirement System
CSR	Corporate social responsibility
DSI	Domini Social Index
Dow	Dow Jones Industrial Index
EITI	Statement of Principles and Actions for the Extractive Industries Transparency Initiative
FTSE/JSE	Financial Times and London Stock Exchange/Johannesburg Stock Exchange
IFC	International Finance Corporation
ILO	International Labour Organization
ICCR	Interfaith Center on Corporate Responsibility
IRRC	Investor Responsibility Research Center
IWG	International Working Group of the Social Investment Forum
JSE	Johannesburg Stock Exchange
JSI	Jantzi Social Index
KLD	Kinder Lydenberg Domini
MJRA	Michael Jantzi Research Associates
NASDAQ	National Association of Securities Dealers Automatic Quotation System
NGO	Nongovernmental organization
S&P 500	Standard and Poor’s 500
S&P/TSX 60	Standard and Poor’s/Toronto Stock Exchange 60
S&P/TSX Composite	Standard and Poor’s/Toronto Stock Exchange Composite
SAM	Sustainable Asset Management
SFMF	Sustainable Financial Market Facility of the IFC
SiRi	Sustainable Investment Research International
SME	Small and medium enterprise
SRI	Socially responsible investment
SR&I	Sustainability, Research and Intelligence
TIAA-CREF	Teachers Insurance and Annuity Association College Retirement Equities Fund
UK SIF	United Kingdom Social Investment Forum
UNEP FI	United Nations Environment Program Finance Initiatives
USS	University Superannuation Scheme
US SIF	United States Social Investment Forum

Executive Summary

Introduction: The Scope of This Report

This report provides the first comprehensive overview of *socially responsible investment* (SRI) in emerging markets. Its findings show that the social investment industry, having already achieved striking, ongoing growth in developed countries, could ultimately play an expanded role in emerging markets as well. The evidence suggests there is untapped potential for SRI entry into such markets, which could greatly increase the flow of private capital to socially and environmentally sustainable business activity in the developing world.[1]

Commissioned by the International Finance Corporation, the report is intended primarily for development finance professionals but is also of interest to social investors. It surveys the current status of SRI in emerging markets, assesses its growth potential, and recommends steps that could help catalyze that potential.

JIM PICKERELL/WORLD BANK

SRI Industry Growth

SRI has expanded so dramatically in developed countries over the past three decades that it now accounts for a significant part of overall market capitalization. In the U.S., the U.K. and several other developed countries, the pace of expansion has accelerated in recent years and there is evidence suggesting the trend is likely to continue.

In emerging markets, in contrast, growth in SRI has not yet occurred on the same scale. But this could soon change.

Social investors increasingly are turning their attention to global sustainability issues that, by definition, include emerging markets, home to two-thirds of the world's population and one-third of the world's resource use. In the medium to long term, the solid prospects for expansion of SRI in emerging markets could make it a major force influencing how corporations contribute to sustainable development.

From its modern beginnings more than 30 years ago, SRI has grown into a $2.7 trillion worldwide industry consisting of more than 760 retail funds and many institutional investors. In the U.S. alone, assets held in the *screened* portfolio form of SRI – in portfolios that filter investments according to a range of social or environmental criteria – amount to more than $2 trillion. U.S. assets controlled by *shareholder advocates*, a second form of SRI – in which share ownership is used to advocate socially or environmentally responsible business practice – amount to almost $900 billion.[2] Through the first half of 2003, investors filed a record 237 social or environmental shareholder proposals with U.S.-listed companies. SRI growth has also been sizable in Australia, Canada and some countries in Europe. In the U.K., SRI assets grew tenfold from 1997 to 2001, reaching $354 billion.

However, SRI remains predominantly concentrated in developed countries. SRI held in emerging market assets, primarily in large capital stocks, currently stands at an estimated $2.7 billion, or only about 0.1% of all SRI worldwide. Of this, about $1.5 billion is held by developed-country investors and about $1.2 billion by emerging-market investors. As discussed further below in this summary, there are some barriers that have inhibited greater SRI expansion in emerging markets, but there are also identifiable opportunities for overcoming these barriers – and there is evidence of significant untapped demand for growth in emerging-market SRI.

SRI Performance

SRI growth has been driven by its consistently competitive financial performance, overturning the uninformed notion that attention to social and environmental issues detracts from performance: the reality is that the majority of SRI funds outperform their relevant benchmark indices. This superior SRI performance, or "SRI premium," is believed to be derived from the inclusion of positive and negative social and environmental externalities in SRI decision-making analysis. SRI performance has led some of the world's largest institutional investors, such as the California Public Employees Retirement System and ABP Investments, to employ some social and environmental criteria in their investment guidelines. In the process, they are broadening the range of factors that institutional investors typically consider. Perhaps most significantly, this challenges the practice of interpreting the *"prudent man rule"* of fiduciary responsibility in a narrow way, wherein all non-financial considerations are deemed irresponsible. Given the evidence that social and environmental factors often have long-term financial impact, it becomes a matter of financial prudence to consider them.

MARK FALLANDER

Despite a growing body of statistically rigorous empirical research and analysis finding that SRI outperforms conventional approaches, there remain some skeptics. They point to research suggesting alternative explanations for the positive performance. This research is briefly reviewed in Part One, along with further studies supporting the existence of an "SRI premium."

SRI Sustainability Impact

SRI has influenced corporate behavior on a range of social and environmental issues bearing on the sustainability of business practices. Although the evidence is abundant, it is largely anecdotal due to the unavailability of broad, rigorous data. This stems in part from the analytical difficulty in separating SRI influence from the effects of concomitant factors like regulatory changes, government actions and the work of advocacy groups. In any case, different types of SRI have different kinds of impacts. Results, often achieved by multiple forces working together, have included the establishment of low-income housing and community credit unions; the adoption by companies like Wal-Mart, Nike and Gap of supplier codes of conduct; and the spread of divestment campaigns such as those targeting the U.S. tobacco industry or, earlier, South African apartheid.

Significantly, social investors also have caused companies to produce an incredible volume of corporate disclosure on social and environmental performance. This in turn has helped social investors and others to pressure companies on a range of issues, from improving human resource policies toward minorities and women, to agreeing on the importance of global climate change and its material impact on business, to accepting responsibility for the working conditions of subcontractors.

Demand for Emerging-Markets SRI

Demand for emerging-market SRI is difficult to estimate due to a lack of rigorous market studies. A poll of U.S. social investment professionals, conducted by Enterprising Solutions, suggests there is potential demand among U.S. social investors for as much as $4.5 billion in high-risk emerging-market investment.

Separately, in a set of interviews conducted for this report, 12 U.S. social investment professionals (some institutional, some retail) estimated total demand for all emerging-market asset types from among their clients of between $500 million and $700 million.

There is less data available for estimating demand from within emerging markets themselves – that is, among investors who are in emerging markets. The information that is available is mixed. The rapid growth of SRI in South Africa and, to a lesser extent, Asia may indicate the potential for SRI in relatively large, financially sophisticated emerging markets. This contrasts, however, with the slower advance of SRI in other markets such as Brazil, which has one relatively small fund. Growth of Islamic funds based predominantly in the MIddle East, meanwhile, have stagnated.

Barriers to SRI in Emerging Markets

In developed countries, social investors are not unlike other investors in that those who lack experience or technical expertise in emerging markets often have a homogeneous view of such markets, believing them to be highly risky and volatile, with unfavorable securities regulations, few investment worthy stocks, and poor liquidity.

In developed countries, social investors are not unlike other investors in that those who lack experience or technical expertise in emerging markets. Investors also express practical concerns about the “salability” and profitability of emerging market investments. Meanwhile, for emerging-market investors, barriers to SRI in their own markets include competing traditional investment in land or fixed-income instruments, as well as the relative novelty of securities investments in general and SRI products specifically.

Aside from direct financial obstacles, there are also analytical challenges impeding the assessment of the social and environmental performance of companies in emerging markets. Foremost is the dearth of credible, standardized data on business practices related to social and environmental concerns. A second challenge is more complex, pertaining to the very role of SRI in emerging markets as a tool for sustainable development: the sometimes uncertain question of what objectives are appropriate for SRI to attempt to achieve, given the varying priorities of sustainable development in differing countries.

Underlying all these challenges is the inadequate, fragmented and uncoordinated infrastructure for supporting knowledge development and information networking in emerging markets. A healthy infrastructure not only is vital for the generation, pooling and distribution of SRI-related information but also is needed to facilitate critical SRI-sector development activities such as conferences, training workshops and sector promotion and advocacy.

The Case for More SRI in Emerging Markets

From an investment perspective, there are a number of sound traditional investment reasons for making emerging-market investments. There are also indications that the “SRI premium” is at work in emerging markets. The view that corporate social and environmental responsibility adds financial value to businesses operating in emerging markets is supported by studies such as *Developing Value: The Business Case for Sustainability in Emerging Markets* by the IFC and the

U.K.-based firm SustainAbility Ltd. and *Saints and Sinners: Who's Got Religion*, by CLSA, the Hong Kong-based investment bank.[3]

From a sustainable development perspective, the positive impact that SRI can have in emerging markets is clear. Its past contributions to sustainable development around the world range from divestment in South Africa and sweatshop reform in Central America and Asia to human and labor rights in Myanmar (Burma), China and Mexico, to name a few examples. And modest investments can achieve significant results, as exemplified by Green Cay Asset Management's investment in Vestel, a Turkish electronics manufacturer and once chronic polluter: the SRI fund helped turn the company into a model environmental performer, recognized internationally.

Greater SRI in emerging markets can also bring the weight and credibility of private sector finance to an area of national development that is often left largely to government and NGOs. Social investors, as relatively large investors within the context of emerging markets, may also have a favorable impact on sustainable development in those countries that is orders of magnitude larger than it has been in developed countries.

Opportunities

Growing public awareness of international and developing-country issues – from war and security concerns to a host of global environmental issues – is having a profound impact on social investors. Increasingly, many feel it is morally imperative to work for a sustainable global economy. This trend, combined with flat prospects in developed-country markets and improving regulatory standards in emerging markets, makes heightened interest in emerging markets more likely among developed-country social investors.

Among investors based in emerging markets, meanwhile, several factors are combining to suggest the likelihood of rising demand for SRI, including: the increasing attractiveness of securities in general (due to increased access to securities, negative interest rates and growing asset bases); positive regulatory changes; declining data management costs; rising availability of mutual fund access for a greater number of savers; unprecedented accumulation of institutionally managed domestic capital; and the tendency for emerging-market institutional investors to confront increasing exposure, as their portfolios become ever more diversified, to the risks and rewards related to social and environmental performance.

Our research suggests a number of general areas where action could be taken most fruitfully to promote SRI in emerging markets. One channel of action is to build on established SRI strength by engaging multinationals – particularly through shareholder advocates – on sustainability issues related to emerging markets. Another entry point is to actively encouraging institutional investors to make their emerging-market investments more visible: greater discussion and promotion of emerging-market holdings will lead to more shareholder engagements, stronger sustainable development impact and, quite likely, more investment. Yet another focus could be to tap into the existing, latent demand, both in emerging and developed-country markets, for more emerging-market retail fund investment.

Recommendations

We do not see rapid, "organic" growth of SRI in emerging markets over the short term. In the medium and long term, however, growth prospects appear solid, particularly among institutional investors (both in developed countries and emerging markets), fueled by promising SRI fund performance, improving regulatory standards, growing demand for SRI and increasing acceptance by institutional investors of SRI as a financially worthy and even desirable approach.

To spur this growth, the creation of a strong, emerging-market SRI infrastructure should be a top priority for the SRI sector and for other interested parties. With this goal in mind, a set of recommendations are offered in Part Five on how IFC's Sustainable Financial Markets Facility could help catalyze emerging-market SRI.

The set of recommended steps falls into three categories:

- Steps to support a stronger knowledge and networking infrastructure: the people, organizations and companies that will drive emerging-market SRI in the future.
- Steps to support the creation of corporate social and environmental performance data services focused on emerging markets.
- Steps to motivate more institutional and retail SRI, including engaging institutional investors on the subject and supporting the launch of high-profile emerging-markets funds.

Overall, we conclude that IFC has a wealth of financial and non-financial resources that place it in a unique position to support the future development of emerging market SRI, and recommend that IFC continues to work with SRI and conventional investment communities in both developed and emerging markets to lead this advance.

ERIC MILLER/WORLD BANK

Introduction: Defining SRI and the Scope of This Report

RICHARD ENGLISH/IFC

Socially responsible investment (SRI) has pioneered the use of private capital to influence sustainable business practices for over thirty years. It has evolved from an initially limited movement advocating morally informed investment decisions into an international industry with over $2.7 trillion in assets. But to date, it remains largely a developed-country phenomenon having yet to make significant inroads into emerging markets where, potentially, it could guide and greatly boost the flow of private capital to sustainable development.

Towards Sustainable and Responsible Investment in Emerging Markets is the first comprehensive assessment of SRI as a tool for sustainable development in emerging markets. Commissioned by the International Finance Corporation, it employs a range of secondary data and some primary data to provide an inventory of SRI investment in emerging-market securities – identifying barriers to SRI growth and opportunities for overcoming them.

Defining SRI

While definitions of SRI vary, it can be described broadly as "an investment process that considers the social and environmental consequences of investments, both positive and negative, within the context of rigorous financial analysis."[4] Thus, it is essentially the bridge connecting private-sector investors with *sustainability,* defined as "long-term business success while contributing toward economic and social development and a healthy environment and stable society."[5]

SRI functions in two ways: it can encourage better social and environmental performance by corporations, but it can also function to improve actual financial performance. This second role stems from the extra analysis that is part of SRI, increasingly recognized as able to reveal hidden risks and opportunities often undetected by investors' traditional decision-making methods.

The three most common approaches to socially responsible investment are shown in Figure 1. This report focuses only on portfolio screening and shareholder advocacy/engagement; the third form of SRI, community investment, is an important but smaller part of SRI worldwide and is treated elsewhere.[6]

SRI in Emerging Markets

Despite its sophistication and rapid growth in developed countries, a host of barriers, both real and imagined, have combined to keep emerging markets off the mainstream SRI agenda. The result: only an estimated $2.7 billion, or 0.1% of all SRI fund assets worldwide, are currently held in emerging-market securities.

But it is important to recognize that this lack of emerging-market SRI does not stem from any lack of social investor interest in developing countries. On the contrary, social investors have long engaged in developing-country issues, from apartheid in South Africa some thirty years ago to more recent issues related to sweatshop labor, human rights and climate change. It is just that their focus has been on changing the behavior of developed-country firms

Figure 1
SRI – Definitions and Tools

Portfolio Screening – The process of using social or environmental criteria to include or exclude securities from an investment portfolio.

Common screens and example measures include:

- Environment: emissions, recycling programs, toxic materials
- Human Rights: minority and gender treatment
- Labor Rights: working conditions, pay and benefits
- Sin Stocks: alcohol, tobacco, pornography, gaming
- Community: local development, charitable activities

Shareholder Advocacy / Engagement – The use of a shareholder's voice and voting rights to influence corporate behavior. Specific actions can include:

- Dialogue with corporations on social issues
- Filing resolutions at corporations' annual general meetings
- Joining or leading initiatives to encourage better corporate behavior

Community Investment – The use of financing to support economically disadvantaged people or environmental businesses underserved by traditional financial institutions. This often means investment in microenterprise institutions or businesses serving poor communities.

For more information on SRI definitions, screens, and approaches see the U.S. Social Investment Forum website at: www.socialinvest.org.

operating in developing countries, rather than on the local companies operating there.

Scope of the Report

This report focuses primarily on socially responsible investment in publicly traded securities. Although community investment, venture capital, and commercial banking can make critical contributions to sustainability in emerging markets, particularly in lesser-developed markets with little or no real primary capital markets, in-depth discussion of these financing mechanisms is not within the scope of this report.[7]

The report's geographic scope includes all emerging-market countries as defined by the World Bank and the IFC. These include countries with per capita incomes of less than $9,265.[8] However, the focus is primarily on middle- and upper-tier emerging-market countries, such as South Korea, South Africa, Mexico, Brazil and Russia, as they have larger, better-developed primary capital markets. With regard to developed countries, meanwhile, an attempt is made to survey SRI across all developed-country markets although this is limited to some extent by access to information.[9]

The goal is to provide a "lay-of-the-land" view of current SRI in emerging markets and to assess its potential to grow and contribute more to sustainable development. Toward this end, the report:

- presents an inventory of current SRI activities and trends;
- offers a preliminary assessment of demand for SRI in emerging markets; and
- identifies barriers to emerging-market SRI growth and opportunities for overcoming those barriers.

Structure of the Report

Part One begins with a review of SRI as it has evolved in developed countries. The focus is on providing an understanding of SRI and its growth trends, financial performance and sustainability impacts. Special attention is paid to the ongoing evolution in the way fiduciary responsibility is interpreted, an evolution that has propelled SRI growth and acceptance among some traditional institutional investors.

Part Two examines SRI in emerging markets. In addition to reviewing current SRI activity, emerging-market demand for SRI is estimated and the actors, companies and initiatives constituting the SRI emerging-market "infrastructure" are examined. The analysis finds limited investment and a fragmented, uncoordinated infrastructure, providing context for **Part Three**, which examines the barriers inhibiting increased SRI in emerging markets. They are found to be numerous but surmountable, ranging from fairly common misperceptions of market risk to insufficient awareness of how SRI can contribute to sustainable development.

Part Four outlines the substantial financial benefits and advantages of emerging-market SRI from a business investment perspective. Specific market-entry opportunities are discussed. Separately, SRI's significant potential for sustainable-development impact is reviewed.

Part Five concludes that while SRI currently lacks a strong foundation in emerging markets, it has the potential to be a force for sustainable development over the long term. Strategic recommendations are offered on how the IFC's Sustainable Financial Markets Facility can help SRI growth in emerging markets.

JOSE ZEVALLOS/IFC

Part One – The Evolution of SRI

The origins of the modern SRI movement cannot be traced to any single defining moment or watershed event, because it took shape and drew momentum from a variety of different historic developments. Clearly the Vietnam War and the anti-apartheid and environmental movements of the 1970s and 1980s were catalytic forces, but the basic premise of SRI is much older.

Most major religions make mention of the right and wrong uses of money. Jews, Buddhists, Muslims and Quakers, among others, have doctrines against profiting from alcohol, tobacco, gaming, weaponry and other "sinful" activities. The first recorded, SRI fund was the "Pioneer Fund," religiously inspired in 1928 as a means to avoid investment in alcohol and tobacco stocks. Methodists in the U.S. and U.K. have long applied investment screens that today would be considered "social" or "environmental."[10] But it was indeed with the social and political upheavals wrought in the mid-1960s and beyond by the Vietnam War and later the rise of the modern environmental movement that SRI really came of age. Disturbed by images of deforested jungles and millions of homeless refugees, Americans, in particular, began to question the involvement of large corporations in the destruction of rainforests and the hugely profitable mass manufacture of modern weaponry.

These three social undercurrents – religious faith, environmentalism and anti-war activism – forged the beginnings of the modern SRI movement.

The first recorded social investor shareholder resolution was brought against Dow Chemical in 1969 for its manufacturing of Agent Orange. In the early 1970s, two Methodist ministers came together to create the first "modern" socially responsible mutual fund, the Pax World Fund, which today is part of a $1 billion family of SRI funds.

Table 1
SRI Retail Mutual Funds

Region	Number of Funds
Europe	280
Canada	50
U.S.	230
Asia	20
Australia	80
South Africa	5
Brazil	1
Islamic	100
Total	**766**

However, it took the political unrest of one emerging market, South Africa, to truly thrust SRI onto center stage. Once again, religious investors set the tone. In 1976, Reverend Leon Sullivan, a member of the Board of General Motors, then the largest American employer in South Africa, drafted a code of conduct for companies doing business in South Africa. The "Sullivan Principles," as they are now known, called on companies to encourage non-segregation of races, equal and fair employment practices and a steady increase of blacks in supervisory positions. Most importantly, the Sullivan Principles required companies active in South Africa to audit their social performance.

By the early 1980s, the Sullivan Principles had become a rallying point for U.S. anti-apartheid activism. In 1982, the State of Connecticut adopted the Sullivan Principles and other social criteria to guide its investment decision-making. By 1984, two of the largest U.S. public pension funds, the California Public Employees Retirement System (CalPERS) and the New York City Employee Retirement System, followed suit and issued investment guidelines concerning South Africa.

Until that time, Wall Street had paid little attention to SRI, if anything deriding it as a fringe movement within the investment world. But with large public pension funds entering the game, Wall Street could no longer afford to ignore the phenomenon.

SRI Industry Growth

Today, the global SRI industry is comprised of more than 760 retail funds and many institutional investors using some form of social or environmental analysis in their investment decision-making. The SRI "toolbox" has grown to incorporate a number of strategies, three of which are used most often: portfolio screening, shareholder action or engagement and community investment.

Screened Portfolio Growth

The U.S. Social Investment Forum (U.S. SIF), estimates that about $2.3 trillion – or nearly one of every eight dollars under professional management in the U.S. in 2001 – has been invested according to a socially responsible investment strategy. Of this, about $2.0 trillion was held in screened portfolios and $900 billion was controlled by shareholder advocates. Some $600 billion was held in funds using both strategies. (Because these categories overlap, their sum total is $2.3 trillion.)[11]

Portfolio screening, which includes or excludes stocks based partly on evaluation of companies' social or environmental performance, is the most complex and commonly used SRI practice. Companies are evaluated on criteria ranging from environmental impact to community impact, human rights, labor rights and "sinful" activities. Each criterion, in turn, is measured by specific indicators; for example, a company's environmental performance may be measured by its toxic emissions, recycling programs and/or energy usage. The choice of criteria and indicators defines a fund or a firm's approach to SRI and its competitive advantage in the marketplace.

The use of such screening methods to augment and enhance standard investment analysis has led to SRI financial performance that is at least comparable to traditional investment approaches, and sometimes superior (See SRI Performance). This performance has fueled continued growth in demand for SRI products and services, not only among investors motivated by social and environmental values, SRI's traditional consumer base, but increasingly among institutional investors. The latter increasingly recognize the role of social and environmental analysis in their fiduciary responsibility to investors.

As a result, the 230 U.S. SRI mutual funds, with combined assets of $153 billion, are not only experiencing growth but are doing so even as the majority of traditional funds have contracted in the current market downturn. According to the U.S. SIF, "during the first nine months of 2001, the traditional mutual fund market experienced a 94% decrease in new money to mutual funds, compared with only a 54% drop for SRI funds."[12] U.S. SIF data showed an even more pronounced difference between January and June 2002, when there was a net inflow of 3%, or $47 million, to SRI funds, compared with a net outflow of 9.5%, or about $13 billion, from U.S. mutual funds overall.[13]

In the U.K., SRI has experienced double-digit growth over the past five years, with SRI assets increasing from $35.8 billion in 1997 to $82.4 billion in 1999, then growing further to $353.5 billion, or 19% of U.K. market capitalization, in 2001: a tenfold expansion over four years.[14] Of this, only $6.6 billion, was held in 61 retail mutual funds (the majority being held by institutional investors).[15]

Table 2
Developed Country Social Investment

	SRI All Investments ($US billions) Assets 1999	2002	SRI as % Total Market Capital
U.S.	2,160	2,300	12%
U.K.	2	354	19%
Canada	32	30	3.2%
Europe	N/A	17.6	1%
Australia	6.3	8.3	<5%
Asia	NA	1.0	Negligible
Total	**2,280**	**2,710**	**--**

Many attribute this remarkable growth to a new pension fund law passed in 2000 requiring U.K. private sector pension schemes to disclose "social, environmental, and/or ethical investment activities."[16] Though the law does not mandate that pension funds engage in SRI, it signals that it is permissible and encouraged, overturning traditionally narrow interpretations of the "prudent man rule" of fiduciary responsibility (Interpreted narrowly, the "prudent man rule" precludes as irresponsible any nonfinancial considerations in investment decision-making. See Appendix A). Similar laws are now being considered or have been passed in other nations, including Japan, Australia, Germany and France.[17] This is expected not only to spur the expansion of SRI in these countries but also to dramatically alter the profile of the social investment market. In 1997, U.K.- based SRI, for example, was led mostly by church group and charity organization investors. By 1999, the majority of SRI assets were held by pension funds. Since then, insurance companies have rapidly entered the market and now control the largest share of SRI in the U.K.[18]

Even without legislative impetus, SRI has seen significant growth in many other developed countries. The retail market for screened investments in Canada, for example, grew more than 75% between 1998 and 2000, almost twice the growth rate of the mutual fund industry as a whole. By 2002, Canadian SRI had total assets of $33 billion.[19] In Germany, the SRI movement is younger and controls approximately $1.0 billion in assets. In France, the SRI assets of institutional investors and 40 retail funds together total just over $1 billion.[20]

The growth of SRI in Japan has also been significant and now totals an estimated $600 million. The Nikko Eco-fund, Japan's first SRI fund, was expected to be a relatively small, niche fund when it was launched in 1999. Within six months, however, the fund raised over $1.6 billion and had become the country's 17th largest mutual fund; moreover, it prompted the creation of six "copycat" funds.[21] In all of Asia, SRI assets now total over $600 million (not including Islamic funds).[22] In Australia, assets of SRI-managed funds grew by 86% between 2000 and 2001, twelve times faster than managed funds as a whole. Since 1996, Australian SRI-managed funds have grown 500%, and today total over $8 billion.[23]

Shareholder Action and Engagement

There are two main forms of shareholder action. The first is dialogue or engagement, which has the objective of engaging company management in discussions on environmental or social issues. The second form, usually the result of an unsatisfactory initial engagement, is to file a resolution at a company's annual meeting, putting an issue to vote among shareholders. This step is taken more often in the U.S., where shareholder rights are more accommodating to non-financial resolutions than they are in other countries.

Active shareholders in the U.S. control approximately $900 billion.[24] The number of social or environmental shareholder resolutions filed has grown annually since the mid-1990s: in 2000, 108 SRI related resolutions were filed. By 2001, there were 138 filings, almost doubling in 2002 to 261. Less than half way through 2003, over 237 SRI shareholder proposals have been filed with U.S. listed companies.[25]

Investment laws in the U.K. and other developed countries do not permit the kinds of shareholder actions possible in the U.S. This had led to the adoption of other strategies to influence changes in corporate behavior. For example, institutional investors from the U.S., Europe and Asia, with combined assets of over $4.5 trillion, formed a consortium calling on the companies listed on the FTSE 500 Global Index to disclose information about their greenhouse gas policies.[26] In another initiative, a coalition of U.K. institutional investors, representing over $900 million, established reporting guidelines for the pharmaceutical industry on disclosure of information regarding patented-medicine policies in emerging markets.[27] Similar pressure has been placed on international mining companies, leading to the Statement of Principles and Actions for the Extractive Industries Transparency Initiative, recently supported by British Prime Minister Tony Blair.[28]

SRI Performance

A common misconception among traditional investment professionals is that SRI requires investors to forgo financial return to achieve a desired social or environmental benefit or public good. While it may be true that early social investors focused on the social side of the equation, nearly two decades of performance data show that SRI has provided returns competitive with or even superior to traditional investment approaches.

Lipper Analytical Services, for example, has consistently rated SRI funds higher than nonscreened funds. In 2000, 14 out of 16, or 88% of all SRI funds over $100 million, earned top marks from both Morningstar and Lipper, compared with only 32.5% for all funds.[29]

The Domini Social Index 400 (DSI 400), an index of 400 primarily large-capital U.S. corporations selected based on a wide range of social and environmental criteria, has consistently outperformed its peer, the S&P 500, sometimes by as much as 180 basis points. (See Figure 3).[30]

Figure 2
Shareholder Actions and Engagement Support

Shareholder activity in the U.S. is supported by a network of institutions, most prominent among these include the Interfaith Center on Corporate Responsibility (ICCR), the Investor Responsibility Research Center (IRRC), and The Coalition for for Environmentally Responsible Economies (CERES). The ICCR is an association of 275 faith-based investors with combined assets of $110 billion who sponsor over 100 social and environmental shareholder resolutions annually. IRRC is an independent research firm providing research on corporate governance and social responsibility on over 1700 firms worldwide. CERES is an 80 member coalition of environmental advocates, companies, and investors with assets totaling $300 billion.

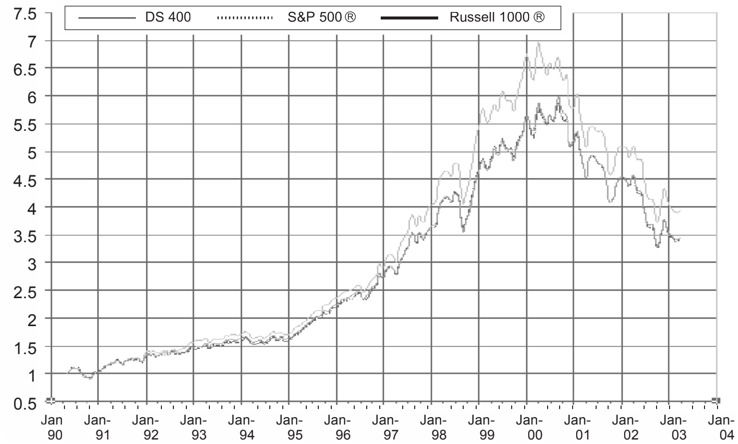
Similarly, between January 2000 and May 2003, the Canadian Jantzi Social Index, a 60-company index screened for a broad range of social and environmental criteria, lost 11.2% compared to a 17.9% loss for its peers, the S&P/TSX 60, and 14.5% for the S&P/TSX Composite.[31]

As for retail funds, 14 of 16, or 88% of all U.S. SRI funds over $100 million earned top marks from both Morningstar and Lipper Analytical Services, compared to only 32.5% for funds overall. In both the U.K. and Canada, SRI funds, as a group, have also outperformed their traditional peers since the mid-1990s.[32]

The SRI Difference

The most common explanation of strong SRI performance is that SRI takes into account positive and negative social and environmental externalities affecting stock price that are often overlooked by traditional investment analysis.

Figure 3
Domini Social Index Performance 1990 - 2003



DS = Domini Social Index, S&P = Standards & Poor 500
Source: Kinder Lydenberg and Domini, Domini Social Investments

Companies continually being fined for excess pollution, for example, face real risks which traditional analysts might miss. In the 1970s, SRI stayed away from nuclear power even as traditional investors were sold on its potential. Three decades later, SRI has been proven correct and nuclear power investors have suffered considerable losses. Similarly, the boycott of a company for social or environmental reasons can pose a serious business risk, one that socially responsible investors are much more likely to consider long before non-SRI-oriented investors.

The same is true of new investment opportunities. Social investors have been quick to embrace organic foods and renewable energy, both of which have yet to be fully understood by traditional investors despite annual growth rates of over 20%.[33]

The idea that assessing corporate social and environmental performance helps to uncover "hidden value" is nothing new. As far back as 1972, a series of studies using data from the Council on Economic Priorities found that lower pollution measures were strongly correlated with better financial performance.[34] More recently, a study by the IFC and the U.K. consulting firm SustainAbility, assessed the corporate sustainability of hundreds of businesses and concluded that "overall, corporate sustainable development performance has a positive impact on business success."[35]

Matthew Kiernan, CEO and founder of Innovest Strategic Advisors, believes that superior social and environmental corporate performance leads to superior financial performance. He suggests that in the future, the confluence of a number of macro forces shows every indication of creating an even larger "SRI premium," or incremental return over traditional investment assessments (See Figure 4).[36]

These arguments, along with the strong, long-term performance of SRI, have brought the discipline to the attention of large institutional investors. The California Public Employees Retirement System, for example, recently announced it would revise its investment policy in emerging markets to include corporate governance and social criteria. Although CalPERS does not refer to its approach as "socially responsible investment," its elaborate screening methodologies would, by most definitions, qualify as SRI (See Case Study One).

In 2000, ABP Investments, manager of the Dutch public employees pension fund, the largest public pension fund in the world, enhanced the mainstream credibility of SRI further when it teamed with Innovest to create a $250-million

Figure 4
Global Macro Trends Favoring SRI

- Globalization of industry where social and environmental performance becomes a source of differentiation and competitive advantage.
- Tightening global, regional, and domestic regulatory pressures such as the Kyoto Protocol (on global warming), European Union directives, and U.S. clean air regulations.
- Changing consumer/investor demographics, with many younger, "greener" consumers and investors.
- Growing institutional shareholder activism.
- Growing CEO/CFO awareness of the competitive and financial benefits of superior environmental performance.
- Global population/resource consumption pressures.
- Increased transparency and velocity of company information.
- Pressure from nongovernmental organizations armed with better information and growing credibility.

SRI fund. In early 2003, ABP decided to became a minority shareholder in Innovest. ABP CEO Jean Frijns announced the partnership by stating:

> For us, this represents a strategic investment in knowledge capital in an area which we believe to be one of the most critical factors driving the future of fiduciary investment. There is a growing body of evidence that companies which manage environmental, social, and governance risks most effectively tend to deliver better risk-adjusted financial performance than their industry peers. Moreover, all three of these sets of issues are likely to have an even greater impact on companies' competitiveness and financial performance in the future. As prudent fiduciaries, therefore, we want to have a "window" on leading-edge expertise in this area.[37]

The actions of ABP and CalPERS are particularly significant because they go against decades of fiduciary practice that precludes the use of social and environmental criteria in investment decision-making as "irresponsible."

According to Hawley and Williams, authors of "Fiduciary Capitalism," this traditional interpretation is now under assault, as professional investment managers and corporate board members alike increasingly recognize the convergence between the aims of socially responsible investing and the imperatives of large institutional investors.[38] Large institutional investors, due to their large asset bases, inevitably own most available, quality stocks in any "universe" of stocks (e.g., New York Stock Exchange). Therefore, unlike smaller funds, they cannot simply buy and sell specific stocks to avoid systemic social and environmental risks that affect stock prices across the board. The only option available to these "universal" owners is to change corporate behavior. Large institutional investors are thus "natural" social investors.

If Hawley and Williams are right (and judging by the new U.K. pensions law and the recent activity of CalPERS and ABP, they may well be), then the "universal owner" theory combined with the growing body of research documenting stronger-than-average SRI performance could dramatically alter the notion of fiduciary responsibility. In the future, a fiduciary may be considered irresponsible for failing to take social and environmental issues into consideration. If this happens, SRI will be seen in an entirely new light by the world's largest and most influential investors, including multilateral institutions, which may be the most important investors in some emerging-market countries.

Skeptics Still

Despite these trends, many on Wall Street remain deeply skeptical about SRI. For years it has been seen as a misguided attempt to bring ethics and morals into decisions that should remain purely financial. This notion has been slow to change, even in the face of strong data recommending SRI financial performance as competitive or even superior.

According to Peter Camejo in his recent book *The SRI Advantage,* disregard for SRI has its origins in Milton Friedman's early description of SRI as "un-American" and "subversive" for, allegedly, detracting from the singular investment goal of profit maximization.[39] In today's world, with corporate malfeasance by companies like Enron and WorldCom capturing headlines, Friedman's arguments carry less weight than they once did. As Philip Angelides, treasurer for the State of California and board member of CalPERS, put it: "Post-Enron, the notion that we can divorce investor decisions from a critical look at how companies conduct themselves in society needs to be discarded." Institutional investors, he suggests, have an obligation to tear down the "false wall" between social and financial performance.[40]

That wall exists in investment circles that still accept the Bloomberg L.P. financial news company definition of SRI as a strategy "that carries a lower rate of return, but that provides society with many benefits."[41] More sophisticated detractors recognize SRI's competitive performance but attribute it to other factors. Foremost among them is Michael Lipper, of Lipper Analytical Services and Morningstar, who attributes SRI's often superior financial performance to "sector bias," dismissing any positive contribution stemming from SRI analysis. He argues that socially responsible investments are underweighted in basic manufacturing industries and energy sectors, favoring instead sectors such as technology and services that are generally cleaner and less likely to have complex social impacts. In other words, those sectors which led the bull market of the late 1990s.[42]

The sector-performance argument has stimulated a host of empirical studies, several of them concurring that the appearance of superior SRI performance can be explained by other, "nonsocial" factors. For example, DiBartolomeo (1996) found that market capitalization, PE, and P/BV fully explained the performance of the Domini Social Index. Kurtz (1999) and Wilk (1992) have shown that industry weightings were important contributors to the Boston South Africa Free Index in the 1980s and the Domini social funds in the 1990s.[43]

Other studies have undercut the sector-bias argument. For example, a study of the DSI by Camejo found that SRI outperformed the S&P 500 both during and after the recent bull market.[44] For example, Luck found that the DSI had a stock-specific performance advantage of 77 basis points per year, after the influence of sector had been factored out.[45] Abramson and Chung similarly controlled for SRI sector biases when they compared DSI value stocks against value stock benchmarks and found the DSI to outperform its peers by two percentage points.[46] A recent study by Bauer, et al., reviewed the performance of 103 SRI funds from Germany, the U.K., and the U.S., and similarly concluded that, after controlling for investment bias, the performance of SRI funds was not statistically different from that of conventional funds.[47]

What most of these empirical studies do not address, however, is the fact that, at the firm level, since the degree to which “sustainability pays” is different across differing issues, countries and sectors, the critical question for many firms and investors is not whether sustainability pays, but when it does: that is, what are the relevant issues for a particular company, in a particular industry and given a particular set of circumstances, that will lead to financial outperformance?[48] Strong and cost-effective sustainability analysis is therefore of undeniable value.

SRI Sustainability Impact

SRI has clearly influenced corporate behavior on a range of social and environmental issues bearing on the sustainability of business practices. But while the evidence is abundant, it is largely anecdotal, due to the unavailability of broad, rigorous data.

What is known with some certainty is that different approaches to SRI vary in the degree to which their impacts are direct and easily demonstrable. Community development investments, such as low-income housing or community-based credit unions, may have the most direct impact.

Although shareholder action and engagement often take effect in combination with other forces and pressures working at the same time, it is clear that this form of SRI has played a powerful role in changing company practices in a wide variety of contexts. Clothing firms and retailers, including marquee names like Wal-Mart, Reebok, Nike and Gap, have adopted codes of conduct for their suppliers as a result of consumer and shareholder pressure. Also in response to shareholder advocates, Federated Department Stores recently contacted rug makers in India, Nepal and Pakistan to join an independent monitoring organization to evaluate and report on the carpet manufacturing industry.[49] In the U.K., a group of investors, including ISIS and Oxfam, held talks with pharmaceutical companies, including GlaxoSmithKline, to influence their policies on affordable medicine in developing countries.

Rarely, however, are shareholders the sole influence. Corporate attitudes toward global warming, for example, are changing in part because of pressure from shareholder engagements but also as a result of NGO advocacy, changing regulatory requirements, rising insurance premiums and increasingly aware management. With so many factors, it is difficult to isolate and measure the impact of social investors.

Shareholder advocates implicitly recognize this and typically their goal is not to “win” a resolution vote but to influence desired corporate behavior. Given this yardstick, a simple tally of the number of shareholder resolutions or votes does not adequately measure the influence of shareholder advocacy. Numerous resolutions are withdrawn prior to formal shareholder voting, when company executives opt for negotiation over a vote. Management can also be influenced by the voting results at other companies facing similar resolutions. Figure 6 documents several recent shareholder advocate victories, as identified by the Shareholder Action Network.

Viewed by some as the least potent form of social investment, screened portfolios are sometimes deemed to be of limited effectiveness since they seldom control large enough blocks of a given company's shares to wield much influence. According to this argument, most companies, when faced with the decision to change behavior or suffer a divestment in their stock by an SRI portfolio, will choose to suffer the divestment. Due to the relatively small block of shares that social investors typically bring to the table, their divestment may have limited consequence on stock price.

However, when social investors come together, as they often do, or when large institutional investors object to corporate behavior, the effect can be very influential.[50] Social investors and their divestment actions have been recognized for their contributions to a number of successful divestment campaigns, from South African apartheid to the U.S. tobacco industry.

The potential for negative publicity related to divestment has proven a strong lever for social investors, manifested in the numerous, nonpublicized changes to corporate practices that have been negotiated between social investors and companies. Moreover, the “threat of publicity may give funds leverage with target management, as well as the potential to motivate other companies in their portfolios…without explicitly targeting them.”[51] The opposite is also true as companies rarely fail to promote public recognition for good social or environmental performance.

CURT CARNEMARK/WORLD BANK

Part Two – SRI In Emerging Markets

Despite the growth of SRI in developed countries, it has yet to make significant inroads in emerging markets. In fact, emerging-market assets held by social investors in developed countries total less than $1.5 billion, or about 0.06% of all SRI assets worldwide. And emerging-market assets held by social investors who are themselves based in emerging markets total about $1.2 billion, or nearly 0.04% of all SRI worldwide. Thus, the sum total of SRI assets in emerging markets is approximately $2.7 billion, or 0.1% of the $2.7 trillion in SRI globally.

SRI examined within the scope of this report focuses on shareholder activism and screened portfolios related to traded securities. For discussion purposes, SRI in emerging markets can be divided into four categories, as shown in Table 3: that held by developed-country retail mutual funds; that held by developed-country institutional investors; that held by emerging-market retail mutual funds; and that held by emerging-market institutional investors.

Screened Portfolios

The majority of SRI emerging-market assets are held by institutional investors. CalPERS, currently with an estimated $1.4 billion[52] in emerging-market stocks, is the most prominent institutional investor applying social and environmental criteria to its emerging-market portfolio.[53] Altogether, fifteen

Table 3
SRI Emerging-Markets Assets*

	Number of Funds	Emerging Markets Assets ($US millions)
Developed Country Retail Mutual Funds with Emerging-Markets Assets		
United States	2	21.5
United Kingdom	6	3.6
Canada	9	13.6
Europe	0	0.0
Australia	1	0.6
Asia**	5	.41
Subtotal	23	39.7
Institutional SRI***	15	1,440
Total	**38**	**1,479.7**
Emerging Market Retail Mutual Funds		
Brazil	1	4.7
Korea	2	18.8
Malaysia	1	39.0
South Africa	5	228.2
Subtotal	9	290.7
Institutional SRI****	8	956.0
Total	**17**	**1,246.7**
Total Emerging Market SRI	**55**	**2,726.4**

* Does not include Islamic funds. See Appendix B for more details.

** Assets for Singapore only. Data not available for Hong Kong funds.

*** Includes only CalPERS

**** Includes only South African institutional funds.

institutional investors in the U.K., U.S., and Europe also apply SRI criteria to their portfolios and hold emerging-market positions.[54]

Among the four categories, developed-country retail mutual funds accounted for the smallest share of emerging-market SRI, with just $40 million held in 23 funds.[55] (See Appendix B.)

SRI funds in emerging markets, by contrast, control over $1.25 billion. In South Africa alone, five multiple screen funds and eight institutional funds have assets of $228 million and $956 million, respectively.[56] Malaysia's first SRI fund, the $39 million Mayban Ethical Trust Fund, debuted in the spring of 2003. Korea currently has two SRI funds, managed by Samsung, with combined assets of over $18 million. Brazil has one $4.7 million ethical fund, ABN AMRO's Fundo Ethical, a multiple social and environmental screen fund launched in 2000.

Of the developed-country emerging-market funds, only the Emerging Economies Fund based in Hong Kong invests exclusively in emerging markets. Australia's $3 million Glebe Pan Asian Growth Trust has the next highest percentage (20.3%) invested in emerging markets. Calvert's World Equity Fund has the largest emerging-market position, $16.4 million, invested across 14 countries.

Additionally, there are 100 Islamic funds managed in accordance with Sharia guidelines, of which 20 are based in emerging markets and 12 are dedicated emerging-market funds. These funds exclude investment in companies

Figure 5

Total SRI Mutual Fund Emerging-Markets Investment per Country (not including South Africa)

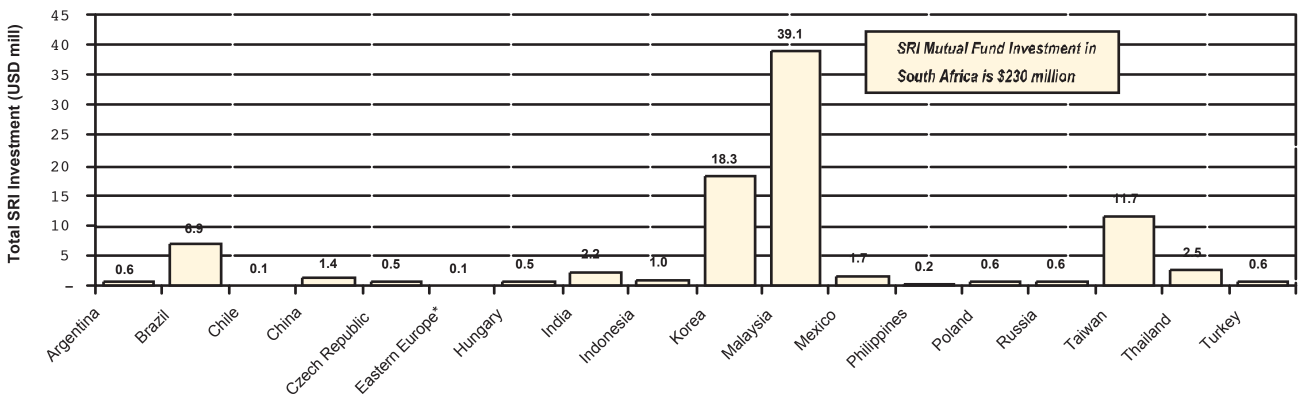
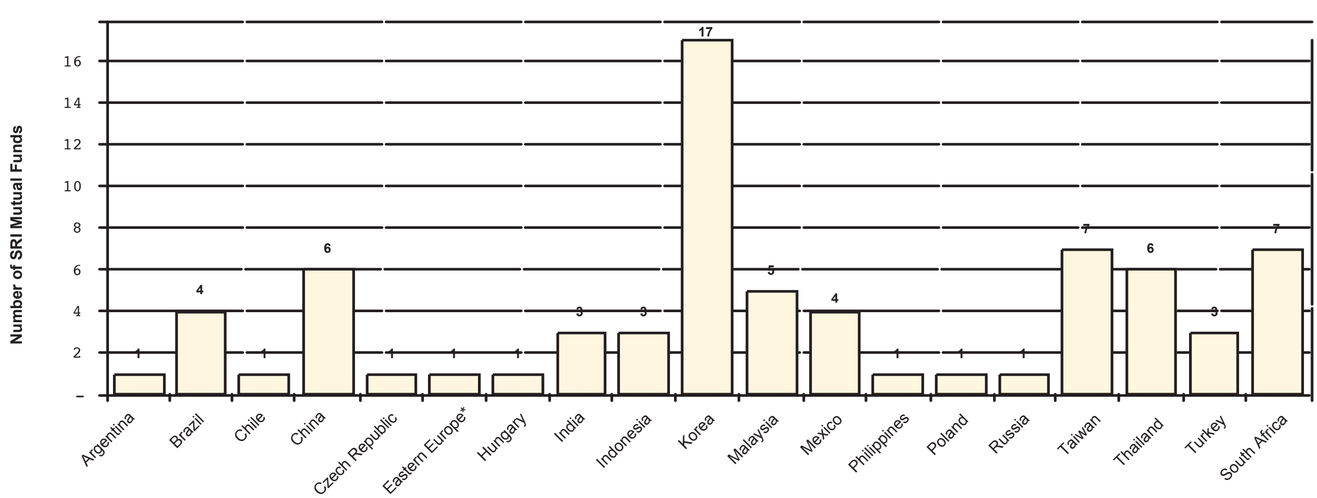


Figure 6

Number of SRI Mutual Funds Invested per Country



* All Eastern European countries not otherwise listed.

Table 4
Sample Emerging-Market SRI Fund Performance

Fund	**Period** (%)		
	3 Months	1 Year	3 Years
South African Equity Funds			
African Harvest Women's Initiative Fund	-9.4	1.9	9.3
Community Gilt Fund	7.4	24.3	19.3
Community Growth Fund	11.7	-4.9	7.0
Fraters Earth Equity Fund	10.8	9.7	NA
Futuregrowth Albaraka Equity Fund	7.7	4.0	26.2
South African Equity Fund Benchmarks			
FTSE/JSE Free Float All Share Index	9.7	-8.30	6.8
MSCI World (Equity) Index	11.9	-42.40	-9.6
JP Morgan Global Bond Index	6.7	-14.6	20.3
Asian Equity Funds			
Kingsway China Fund	NA	-9.0	-24.0
Kingsway Emerging Economies Fund*	NA	-26.0	-49.0
Kingsway Pacific Fund	NA	-31.0	60.0
Asian Equity Fund Benchmarks			
MSCI China		-1.0	-51.0
MSCI Indonesia*	--	38.1	-23.1
MSCI Pacific	--	-11.0	-45.0
Brazilian Equity Funds			
ABN AMRO Fondo Ethical	NA	1.57	NA
Brazilian Equity Funds Benchmark			
Ibovapex	--	-17.8	--

Data for South African funds from Alexander Forbes "TDI Vehicle Survey" June 2003.
Data for Kingsway funds from July 2003 except where noted.
Data for ABN AMRO fund from December 31, 2002.
Three year returns are annualized unless otherwise noted.

* Data from March 2003.
**Nearest appropriate benchmarks relative to asset content.

Sources: From company materials found on websites. See Appendix B.

involved in activities such as pork, alcohol, and gaming services. With over $3 billion in assets, Islamic funds invest throughout the world. Detailed geographic distribution for Islamic fund holdings is not available, but a sample of five funds found over $80 million in emerging-market assets.[57]

Emerging-market SRI retail fund assets are held in 18 different countries. South Africa has the single largest amount, with over $230 million, or nearly 70% of all SRI mutual fund emerging-market investments. Asia receives the largest proportion (86%) of remaining funds, with South Korea garnering the most single-country attention, in terms of fund and dollar volume. (See Figures 5 and 6 and Appendix C.) South Africa is the sole African country represented.

The majority of both developed-country retail and institutional funds in emerging markets are held in large capital stocks with a concentration in industrial conglomerates, high-tech, telecommunication and finance. Emerging-market-based funds have more diversified holdings. The United Global UNIFEM Singapore fund, for example, holds large and mid capital stocks in a variety of sectors, including Petro China (China), Hyundai Motor (Korea), Far Eastern Textiles (Taiwan), and Siam Commercial Bank.

Shareholder Actions

In the U.S., thus far in 2003, public pension funds, union funds, SRI mutual funds and religious investors combined to support a record number of emerging-market-related shareholder proposals this year, with most focused on global labor standards. All resolutions were filed with developed-country multinational corporations. One notable success was a Long View Fund-sponsored resolution asking Unocal to comply with ILO conventions in Burma, which received almost 33.0% of the vote.[58]

SRI Emerging-Market Fund Performance

The quantity of research assessing developed-country SRI performance has not been matched for SRI in emerging markets. In developed countries, emerging markets represent a tiny fraction of SRI portfolios while most emerging-market SRI funds have less than a three-year track record. The limited available data indicate mixed emerging-market SRI fund performance.

Over one and three years, South African retail SRI equity funds outperformed the FTSE/JSE free float index as well as the MSCI World Index.[59] Similarly, the Brazilian equity fund, ABN AMRO Ethical Fund, outperformed the Ibovapex (a Brazilian domestic equity index) during 2002 with an annual return of 1.57% compared to -17.8%.[60]

The Hong Kong funds have fared less well: the three Kingsway Funds for which data was available all fared poorly compared to relevant benchmarks over a one-year horizon. Only the China Fund outperformed its benchmark, the MSCI China Index, over the three-year horizon.[61]

In Brazil, the BOVESPA recently created a special corporate governance index, the IGC, weighted to favor three increasingly stronger levels of commitment to corporate governance. In March 2003, the IGC not only outperformed the BOVESPA index and other Latin American stock market indices, it even beat the Dow, the S&P 500, and the NASDAQ. In the first quarter of 2003, the IGC also outperformed most other regional indexes.[62] A study by Gledson de Carvalho also showed that Brazilian companies with stronger commitment to corporate governance experienced not only rapid stock value increases, but also greater negotiating volumes and increased liquidity.[63]

Finally, a 2001 CLSA study found that over a five-year period publicly listed Asian and Latin American companies with strong corporate governance performance (including measures of social and environmental performance), outperformed those with poorer records by 147 and 111 basis points, respectively.[64]

Table 5
Social Investment in Emerging-Markets Stakeholder Market Estimates *

Interviewees	Believe Market Exists	Estimated Demand ($US millions)
Retail Fund Management Companies	19	195
Institutional Fund Companies	10	495
Support Organizations	4	NA
Total	**33**	**690**

* Total interviewed 35. Not all interviewed provided an estimate.

Volume and Nature of Demand

Despite modest SRI investments in emerging markets by developed-country investors, evidence suggests that there is significant, if latent, demand for emerging-market investment among both individual and institutional social investors.

An Enterprising Solutions poll in 2002 of approximately 6% of U.S. social investment professionals found that up to 0.75% of client assets could be available for emerging-market "high social impact" investments (i.e., socially responsible small business and microfinance institutions).[65] Based on the approximately $600 billion actively managed SRI funds in the U.S. (retail mutual funds and funds available to institutional investors), this poll suggests existing demand of $4.5 billion.[66] And while demand for high-impact investments may not translate directly into demand for publicly traded securities, it does suggest an appetite for high-risk assets in emerging-market investments.

The Enterprising Solutions poll also indicated that demand was fragmented into two distinct markets: 1) individual investors who would consider placing up to 5%, or typically between $5,000 and $10,000, of their portfolios in emerging-market investments; and 2) institutional investors who would likely put proportionally much less of their portfolios, between 0.1% to 1.5%, into emerging-markets securities.

There were two specific types of institutional investors: large institutional investors who are interested primarily in financial return and smaller institutions, such as churches, foundations, and private trusts, that have strong social motivations directing investment decision making. Among all investor types, the most attractive investment vehicle was a retail mutual fund followed by private money management.

Separate from the poll, interviews with SRI fund professionals conducted for this report indicated total demand from among their clientele stands at between $500 million and $700 million for emerging-market investments. Among these interviewees, an in-house fund was most often noted as the preferred vehicle, followed by a third-party institutional fund. Retail mutual funds were mentioned next.[67]

Both the Enterprising Solutions poll and the interviews of SRI professionals indicated interest in a number of specific sustainability issues including sovereign debt, poverty reduction, human rights, and child labor. Latin America was the most often noted geographic area of interest (contrary to the current distribution of SRI, which favors Asia). Africa and the Middle East were also seen as potential targets. Professionals polled also thought that the direct development effects associated with high-impact investments resonated strongly with individual investors and smaller institutional investors such as religious organizations.

There is much less guidance for estimating demand within emerging markets for emerging-market SRI, and the information that is available is mixed. The rapid growth of SRI in South Africa and to a lesser extent in Asia may indicate the potential for SRI in relatively large, financially sophisticated emerging markets. This contrasts, however, with the slower advance of SRI in other markets such as Brazil and Korea, which each have one relatively small fund.

South Africa, already the largest emerging-market SRI country, also represents the most dynamic market. South Africa's SRI experience is unique in many respects, not the least of which has been its development as a government-supported initiative aimed at redressing the legacies of apartheid. Currently in discussion is a Black Economic Empowerment Commission (BEEC) recommendation that 10% of all pension fund assets be allocated to targeted investment vehicles.[68] While not welcomed by all social investors, given the mixed social and financial performance of BEEC investment vehicles (as distinct from more broadly defined SRI funds), if passed, this proposal would clearly propel social investment into South Africa's investment mainstream.

While Islamic funds are active in emerging markets, overall, the funds have not grown in number or in terms of assets since the late 1990s. Contracting from a high of $5 billion in 2000 to $3 billion in 2002, Islamic funds account for virtually all the SRI funds based in the Middle East and Malaysia.[69]

The type of social and environmental screens used varies by country. Islamic funds predominate in the Middle East, funds in South Africa screen primarily for economic justice and opportunity, while South Korea's two SRI funds are environment-focused. The Brazilian ABN AMRO Fundo Ethical, Malaysia's Mayban Ethical Trust Fund, and the Kingsway SRI funds of Hong Kong use multiple screens, although the ABN AMRO fund reports a strong focus on education.

Table 6
Emerging-Markets SRI Infrastructure

	Main Geographic Focus			Issue Focus		
	Developed Country	Emerging Market	Global	SRI	CSR*	SRI & CSR*
Research Organizations						
Primary	7	2	0	9	0	1
Secondary	10	1	2	2	4	2
Business Leaders	0	3	0	3	NA	NA
Independent Issues Leaders/Initiatives	0	2	6	0	1	5
Support Organizations	NA	NA	4	--	--	4
Total	**17**	**8**	**12**	**14**	**5**	**12**

* Corporate social responsibility (CSR)
See Appendix D for the complete list of institutions included in the this report.

Emerging-Market SRI Sector Infrastructure

A critical element in the growth of SRI in developed countries has been a strong knowledge and network "infrastructure" for developing, pooling, and distributing SRI information. This infrastructure is composed of groups and activities that vary by country and sector, but typically include fund companies, trade associations, issue leaders, and a variety of organizations working either directly or indirectly on SRI issues. Individually, and in association with one another, these actors bring the sector together through formal and informal activities such as conferences, publications, public relations coordination, and information sharing.

Well-developed SRI markets, particularly the U.S., U.K., and Canada, enjoy a reasonably strong support infrastructure. The U.S. Social Investment Forum was established in 1985, its U.K. counterpart in 1991, and the Canadian Social Investment Organization in 1990. Private research companies such as KLD, MJRA, ICCR and EIRIS also play a key role in the SRI infrastructure.

Independent leaders focusing on specific issues, such as Verité, the Ethos Institute, CERES, Shareholder Action Network, Just Pensions, and 1% for Community Investment Campaign, among others, also provide communication

Figure 7
Illustrative Emerging-Market Shareholder Actions, Engagements, and Initiatives

Shareholder Actions

- In 2003, U.S. religious investors filed resolutions with **Chevron, Texaco, Caterpillar, ExxonMobil, Ford Motor** and **Pepsico,** all-companies with significant operations in Sub-Saharan Africa, to report on the effect of HIV/AIDS on company operations and company response. A similar resolution was withdrawn from Colgate-Palmolive after the company reported that its sustainability report would address this issue.[1]

- In 2003, religious investors also filed resolutions with **Bristol-Myers Squibb, Johnson & Johnson, Eli Lilly, Merck, Pfizer** and **Wyeth** seeking "standards of response" to HIV/AIDS, tuberculosis, and malaria in developing countries.[2]

- In 2002, the Long View Fund filed a resolution with **Unocal** requesting that the company comply with ILO conventions regarding operations in Burma. The proposal received support from 32.8% of the voting shares, a significant increase from the 23.0% percent received the previous year.[3]

- In 2002, Meritas Mutual Funds and Real Assets Investment Management filed a shareholder resolution with **Enbridge, Inc.** concerning the company's operations in Colombia. In response to the resolution, Enbridge adopted the U.S.-U.K. Voluntary Initiative on Security and Human Rights and agreed to a dialogue with investors and human rights groups. The resolution was withdrawn following the positive response from Enbridge.[4]

- In 2001, shareholder resolutions were instrumental in drawing attention to human rights issues at **Talisman Energy's** operations in Sudan and **Occidental Petroleum's** operations in Colombia.[5]

Shareholder Engagements and Initiatives

- **Equator Principles:** In April 2003, four of the largest European and U.S. banks agreed to adopt the IFC's social and environmental guidelines for project finance in emerging markets. In 2001, ABN AMRO, Barclay's, Citibank and WestLB financed 18% of all project finance deals worldwide.[6]

- **Carbon Disclosure Project:** In May 2002, 35 institutional investors with combined assets of over $4.5 trillion, wrote to the companies of the FTSE 500 Global Index requesting information on greenhouse gas policies. Signatories included pension funds, fund managers, and insurance companies from the U.S., Europe and Asia. Over 80% of the companies that responded "acknowledged the importance of climate change as a business risk."[7]

(1) "2003 Shareholder Proxy Season Overview: Social and Corporate Governance Resolution Trends", IRRC, ICCR, SIF, CERES, 12 February 2003.
(2) Ibid.
(3) "Shareholder Activists Garner Record Support in 2002, Corporate Governance Advocates Boost Social Resolutions," SIF, SIN June 26, 2002.
(4) William Baue, "SRI NEWS: Top Five Social Investing News Stories of 2002," www.socialfunds.com, 2002.
(5) "Canadian Social Investment Review 2002," SIO, March 2003
(6) Demetri Sevastopulos, "Four Banks Adopt IFC Agreement," Financial Times, 9 April 2003.
(7) Carbon Finance and the Global Equity Markets, Innovest Strategic Value Advisors, February 2003.

channels through which social investors can better understand their field and serve their clients.[70]

This relatively well-developed infrastructure stands in contrast to the rather skeletal, fragmented and uncoordinated emerging-market SRI infrastructure. (See Table 6.) Asia, in fact, is the only region with an established SRI association (ASrIA) with significant emerging-market country coverage. Many emerging-market countries have informal SRI networks, but in most, social investors find their issues raised by organizations such as Empresa or the African Institute for Corporate Citizenship, which work indirectly and or non-exclusively on SRI issues.

Corporate Social Performance Data

One critical deficiency in the emerging-market infrastructure is the lack of emerging-market SRI research. Firms such as KLD, SAM, ERIS and Innovest have undertaken limited emerging-market research, but have yet to develop comprehensive and systematic databases. A small number of organizations such as Verité (labor conditions) and Amnesty International (human rights) provide excellent and useful research, but their coverage tends to be issue specific and suffers from geographic limitations.

Although there is a scarcity of SRI research services in emerging markets, there are notable exceptions. Sustainability, Research and Intelligence (SR&I) of South Africa was recently selected by the JSE to be the data provider for the upcoming FTSE/JSE Sustainability Index. SR&I will be responsible for researching and analyzing firm eligibility for inclusion in the index.[71] Another provider of systematic, multiple issue emerging-market SRI research is ABN AMRO's in-house fund team which covers Brazilian equities.

SRI Leadership

Leadership on SRI issues is better developed in emerging markets. Several important global initiatives offer key SRI guidance on a range of issues. Examples include the London Principles for Sustainable Financial Industries, the Equator Principles for Sustainable Banking, the Global Reporting Initiative, the pharmaceuticals principles being developed by a group of U.K. institutional investors, Just Pensions, and the Forum for the Future. Several NGOs, including the Sierra Club, Friends of the Earth, and Oxfam, have coordinated important initiatives involving emerging-market issues and countries. The International Labour Organization continues to set work standards internationally. From within emerging markets, issue leaders include the African Institute for Corporate Citizenship, the Ethos Institute, and Empresa.

A limited number of organizations also support emerging-market SRI development. Several developed-country SRI firms have sponsored ASrIA and ASrIA events. A number of multilateral and bilateral institutions have also been active supporters, albeit to a modest extent, including the Inter-American Development Bank, the International Finance Corporation, and the international development departments of the U.K. and Canadian governments. Another support organization is the Ford Foundation which has funded research into social investment and microfinance.

SRI Funds

Although there are a handful of emerging-market SRI funds, there is a lack of "high-profile" funds. While the South African funds are of significant size, they have had little promotion outside of South Africa. Similarly, there is limited comprehensive coverage of the many Islamic funds, and, with exceptions, these funds have yet to be recognized or to recognize themselves as part of the social investment industry. The Brazilian ABN AMRO fund, by contrast, is marketed as a SRI fund, but with its relatively small asset base has not had much impact outside of Brazil (with the possible exception of within ABN AMRO itself). Other emerging-market SRI funds are still very young, relatively small and have yet to have much impact.

High-profile funds advance the development and growth of the sector not just through the "street" credibility their assets generate, but also by virtue of the resources they bring to SRI events and associations and the media attention they attract. Such funds also typically provide strong SRI community leadership, bringing resources to bear on important public positions the sector may want to take.

Channels of communication between actors and initiatives are probably as important as the actors and initiatives themselves. At present, there is no formal interaction, and only limited informal interaction, between developed-country and emerging-market SRI professionals. The same is true of professionals in different emerging markets. There are few common activities focusing on emerging-market SRI, save periodic conferences, workshops, and a very limited amount of research material related to emerging markets.

Part Three – Barriers to SRI in Emerging Markets

CURT CARNEMARK/WORLD BANK

As SRI becomes an increasingly important part of the developed world's financial markets, we must ask why it has left emerging markets largely untouched.

Again, the factors at play are quite different in the two contexts: on one hand, social investors based in developed countries (developed-country social investors), whose well-established and fast-growing SRI industry has yet to expand significantly into emerging markets; and on the other, the social investors based in emerging markets (emerging-market social investors), whose own SRI sector within those markets is still quite small, if not nonexistent.

For the developed-country SRI sector, the question "Why so little investment in emerging markets?" has a superficial answer: more time is still needed. It simply takes considerable time for any sector that is initially focused domestically to reach out to foreign markets, and even longer to move between the vastly different worlds of developed versus emerging markets. However, deeper examination suggests more is missing than merely a sufficient passage of time. Though some developed-country social investors do understand emerging markets and have significant interest in sustainability-related issues faced by developing countries, only a handful are actually inclined to invest there directly. Few have any emerging-market investment experience, and almost none have managed significant emerging-market portfolios. This experience deficit is an important factor, but is only part of the story. A host of other specific financial and nonfinancial barriers are acting to inhibit developed-country SRI growth into emerging markets.

Meanwhile, for social investors based in emerging markets, or "emerging-market social investors," the challenges standing in the way of more robust SRI growth within their own markets are numerous but not insurmountable. As is the case for their developed-country SRI counterparts, the barriers to overcome are both financial and nonfinancial.

Financial Challenges
Developed Countries

Focusing so much on only developed-country stocks, few SRI companies have fully weighed the possible risks and rewards, both financial and social, of emerging markets. To a great extent, the factors keeping developed-country social investors from investing in emerging markets are not so different from those inhibiting any investor (socially oriented or not) who is inexperienced with emerging-market investment. For relatively underinformed investors, including many social investors, emerging-market investment is associated with perceived problems of corruption, absence of reporting transparency, lack of access to relevant corporate management information, ineffective legal regimes, inadequate investor protections, illiquid stock markets, market volatility and general political risk. These perceptions of risk are influenced by memories of the emerging-market financial crisis of the late 1990s as well as current scandals including Russia's oil imbroglio.

Indeed, it is true that emerging markets do show significant levels of observed volatility and risk, but, particularly over the past two to three years, their volatility has been no worse (and sometimes has been better) than that observed risk in developed-country markets such as the NASDAQ. Moreover, while investments in emerging markets can be risky, most well-informed investment professionals recognize that volatility can create opportunity and that the implied volatility of emerging markets is often not that different from the implied volatility of some developed-country markets.[72]

Still, the prevalence of weak corporate governance in emerging markets is a legitimate concern. In particular, the rights of minority shareholders in emerging markets do not exist or are not enforced as they are in developed countries. For example, Johnson et al. cite the lack of legal mechanisms to stop management from extending equal ownership rights to minority shareholders as a factor that contributed to the Asian stock market collapse of the late 1990s.[73] Reviewing data from 2,658 companies from nine Asian countries including the emerging markets of Indonesia, Korea, Malaysia, the Philippines, Taiwan and Thailand, Claessans et al. conclude that "the risk of expropriation is indeed the major principal-agent problem for large publicly-traded corporations."[74] In some emerging markets, such as Brazil, significant numbers of shareholders may not have voting rights attached to their shares. (See Case Study Four for more detailed information on regulatory reform of securities markets in emerging markets.)

In 1999, the OECD introduced the OECD Principles, which have come to represent the "minimum standard [of corporate governance] that countries with different traditions can agree upon."[75] A 2002 World Bank assessment of Brazil, Croatia, Egypt, Georgia, India, Latvia, Lithuania, Malaysia, Morocco, Philippines, Poland, Rumania, South Africa, Turkey and Zimbabwe revealed that although these countries were bringing their legal and regulatory frameworks in line with OECD Principles, no country had met all criteria. The report does indicate, however, that in some regards, the codes of India, South Africa and Brazil surpass the OECD Principles.[76]

Finally, though there are substantial differences in corporate governance regulation and legislation across countries and many have already begun to institute reforms, one commonality is unmistakable – the gap between policy and enforcement, intent and actuality. In some Asian countries, while accounting standards on paper are on par with those of developed countries, regulatory bodies lacking in expertise and influence have led to poor de facto standards. In general, the judicial enforcement of corporate governance laws is weaker in most of Asia and Latin America than in developed markets like the U.S., U.K., Japan and Germany.[77]

Given weak regulatory environments, or weak judicial enforcement, or both, socially responsible investors are severely restricted in the use of shareholder action and engagement, one of the most effective tools in the SRI toolbox. Moreover, a long adversarial history between corporations and antibusiness NGOs (and sometimes antibusiness governments) in some developing countries on social and environmental issues further diminishes the perceived effectiveness and attractiveness, for developed-country social investors, of what has been a very successful tool in their own countries.

Developed-Country Sales Considerations

In addition to these general financial issues, SRI advancement in emerging markets is also impeded by several practical business concerns. Achieving scale sufficient to cover the fixed costs of operating a fund is critical. Most managers estimate $50 million to $75 million is needed to run a profitable fund, though the figures may be lower for institutional funds. Given the fragmented nature of emerging-market demand (that is, most investors are willing to put only a small fraction of their total assets into emerging-market investment), few SRI retail mutual fund companies have distribution networks with the scale required to break even.

The lack of an established track record compounds the scale challenge, particularly for retail mutual funds. Only after three years will major rating agencies begin to rate fund performance. Until then, few financial advisors or brokers will recommend a fund, and fewer still an SRI emerging-market fund. Similarly, a track record is important for institutional funds, but less so, since their performance is evaluated through methods different from those used to assess mutual funds.

Retail fund "salability" is another challenge. Emerging-market funds are one of the most difficult asset classes to explain and market. This is particularly true in light of the losses suffered by two fairly high-profile and now discontinued emerging-market SRI funds, one which invested in El Salvadorian commodities and the other in African securities. Sales incentives can compensate for sales complexity, but conservative asset allocation models conspire to limit most emerging-market positions to less than 5 percent of an investor's portfolio. The result is a very small commission incentive to push a relatively complex product in spite of the potential demand.

Competing investment opportunities are another important barrier. Developed-country social investors often see emerging-market investment as being in the same category as community investment in their own country, lumping the two together as high-impact investments. This makes some sense as they share similar risk and return profiles, as well as similar sustainability impacts. Similarities aside, however, domestic community investment ends up having a competitive advantage over emerging-market investment, since many social investors feel greater motivation to invest in their own backyard rather than in countries half a world away. With increased exposure to global and emerging-market issues among social investors, this sentiment is changing but still affords emerging-market SRI a real "branding" challenge.

Finally, and importantly, the current weak financial market has almost entirely curbed the SRI community's appetite for new products. Many firms, in fact, have put all new product initiatives on hold until a stronger market prevails. The same is true for most corporate social performance information suppliers.

Emerging-Market Countries

The concept of SRI is still quite novel in emerging markets and will, as it did in developed-country markets, take some time to prove its case.

At the retail level, few investors see securities as an obvious place to invest. According to Pedro Villani, the Portfolio Manager for ABN AMRO's Fundo Ethical, "In our market, the percentage of money in equities is very small. And as long as … interest rates remain high, fixed income will remain a much more attractive investment option. I do think, however, that there is a growing space for a fund such as ours in the institutional market." [78] So even as emerging-market stock exchanges are growing in size and stability, limited savings capacities and competing traditional investments (e.g., fixed-income instruments, land and small businesses) mitigate the potential market for securities, let alone a novel product like an SRI.

Social and Environmental Analysis Challenges to Emerging Market SRI

Information is the sine qua non of SRI. It is essential for screening companies and for conducting shareholder activism. Social and environmental information is what drives SRI performance, and what distinguishes it from traditional investment analysis. The lack of SRI-relevant information is, as a result, one of the largest single challenges to the creation and expansion of SRI activities in emerging markets.

As discussed previously, given the focus of most SRI funds, few SRI professionals have the capacity to judge emerging-market corporate social and environmental performance at the same standards as they do developed-country companies. For those investors seeking more in-depth emerging-market research, there is little readily available SRI information. Investors cannot check existing online databases or request corporate profiles from a number of research companies, as they can with domestic stocks. Rather, researchers must resort to unreliable or imprecise secondary information sources such newspapers, informal networks of expatriates, and typically not altogether unbiased local NGOs. Data gathering also requires a case-by-case understanding of the specific regulatory regimes and business practices within a given emerging market as well as its particular social and environmental context – and the data gathering must be done in a manner consistent with an investment firm's overall approach and screening philosophy.

Within this "data needs" framework, there are two primary challenges.

Simply gaining access to usable data is the first challenge. Typically, businesses in emerging markets publish little about their social or environmental practices or impacts. They also tend not to have sophisticated investor relations programs like those offered by their developed-country peers. As a result, social investors cannot verify what a company says nor easily communicate with them either directly or via surveys. Barriers ranging from language to understanding local legal systems are magnified by regulatory systems with weak incentives for companies to report on sustainability issues. With a few notable exceptions, general business antipathy towards social and environmental concerns also contributes to weak shareholder-company communication and access to data.

When corporate social performance data is available from outside sources, it invariably lacks detail and is often difficult to verify. NGOs and government sources, which often provide original data in developed countries, have proven less than reliable in developed countries. Their information is often incomplete, out of date, or biased by strong institutional objectives.

When quality emerging-market data is available, it is seldom harmonized with the codes and standards commonly accepted by developed countries, making performance benchmarking difficult. A degree of standardization is critical for social investment funds to maintain consistent approaches to screening and simple, understandable marketing of a fund, or, more critically, a family of funds.

The second challenge is more complex and pertains to the very question of what goals, fundamentally, are appropriate for SRI to try to achieve in emerging markets. What sustainability impact information should be assessed and to what end should it be used? Should SRI insist that emerging-market companies meet developed-country standards and priorities, or should SRI instead focus on developing-country standards and needs? A balance must be struck, but finding that balance can be challenging.

Obviously, developed-country "SRI" cannot simply be replicated in emerging markets. Sophisticated approaches to screening, in particular, are currently often defined for developed-country contexts and may not be appropriate for emerging markets. "Sustainable development" itself is also far harder to define than simply "the sum of a series of social and environmental screens." Those in the business of screening developed-country issues rarely have the expertise in international development to address complex sustainable development questions. Is a factory making shoes in a poor part of an underdeveloped country adding positively to employment, income and skills, or is it negatively arbitraging between lower labor standards and wages? [79]

"There are those," says Luiz Maia, CEO of ABN AMRO Asset Management in Brazil, "who believe that SRI doesn't work in emerging markets. I think our fund is showing that this is not true. It works in Brazil, and I think it can work in other places. Clearly there will be differences in approach. For instance, in Brazil the way companies behave towards education [of their employees and the community at large] is a very important SRI issue. This isn't always the case in the U.S. or Europe. But despite these differences, maybe even because of them, SRI makes sense in emerging markets." [80]

Needless to say, few SRI professionals would argue that SRI should become a force for the globalization of developed country sustainability priorities. How SRI deals with sustainable development priorities will be a major element in its success in emerging markets. Social investment professionals admit as much, and believe that entering emerging markets will require new ways of looking at the tightly defined developed country SRI priorities and models.

SRI Infrastructure

As noted, emerging-market SRI currently relies on the energy of a small number of professionals working in disparate, mostly underresourced institutions, or working indirectly on SRI issues, with little interorganizational communication. The result is a weak, fragmented and uncoordinated SRI emerging-market infrastructure, unable to pool and distribute important sector-building information or support critical networking functions effectively (See Table 6.)

At its broadest, the infrastructure challenge is to synchronize SRI activities, information and priorities within and between emerging- and developed-country markets. There are two equally important components to this challenge. The first is to identify and develop appropriate focal points within developed-country markets for the generation, pooling and distribution of emerging-market SRI activities and information. The second is to do the same in emerging markets, although this is made more complicated by their breadth and diversity.

More narrowly, the challenge is to identify and foster “market focal points” with growth and leadership potential within emerging markets.

COURTESY OF EXXON-MOBIL

Part Four – The Dual Cases for Mobilizing More SRI in Emerging Markets

The Business Case

The dearth of SRI in emerging markets and the various barriers to its entry should not be construed as evidence of a business case against it. On the contrary, the growing volume of case studies and research strongly supports the view that corporate social responsibility adds financial value to businesses in emerging markets. SRI in emerging markets makes business sense.

Developing Value, published by SustainAbility is perhaps the most comprehensive study on the subject.[81] Assessing 240 businesses in over 60 countries, the study found that good corporate governance and environmental and social responsibility resulted in financial benefits to businesses in emerging markets. Benefits included significant cost savings (e.g., minimizing energy use and limiting pollution), increased revenues (e.g., the creation of new environmental business lines), reduced business risk, enhanced market reputation, stronger human capital, and improved access to capital (particularly foreign capital).

According to *Developing Value,* sustainability in emerging markets produces better business results largely through cost savings and higher revenue generation. This contrasts with the result in developed markets where sustainability leads to more intangible business values such as stronger branding and a better reputation. The report also concludes that sustainability enhancements make strong business sense in emerging markets, albeit in different ways for different types of firms in different markets. If this is true, then “sustainable” companies stand to perform better, which, in turn, suggests that investors should look at sustainability favorably.

Developing Value is not the only study linking social responsibility and financial performance in emerging markets. There are several others, including two CLSA reports on emerging-market corporate governance.[82] (See Figure 8.) *Saints and Sinners: Who's Got Religion* looked at 57 corporate governance, social and environmental performance indicators and found that stocks of companies with high corporate governance performance out-performed those with lower ratings. *Make Me Holly...But Not Yet* found the same to be true for stock markets as a whole: those with strong corporate governance regimes outperformed those with weaker regimes.[83]

Another study by Hart, Dowell and Yeung assessed multinational companies with significant emerging-market activities for environmental and stock performance.[84] The study found that companies adopting a single, stringent global environmental standard have much higher market values than those complying only with typically less stringent or poorly enforced emerging-market standards.[85] However, as Persaud notes, it may be harder for the relatively smaller listed companies of the developing world to meet the same environmental, social and corporate governance performance levels as those of larger, developed-country companies.[86]

Thus, although the evidence is not voluminous and more rigorous studies are still needed, there are strong indications that SRI makes sense in emerging markets for the same reasons it makes sense in developed markets. Responsible companies are better managed, have access to new markets, face fewer risks, have better branding and reputations and have more loyal and better-trained workforces.

There are also other, more traditional reasons why emerging-market investments make sense for SRI. There is typically a low correlation between emerging-market securities and developed-market securities. Investors can effectively reduce the beta, or risk, of their overall portfolio

Figure 8

Corporate Governance and Social Performance in Emerging Markets

In 2001, CLSA Emerging Markets, the HongKong-based emerging-market investment bank, released a report on corporate governance in emerging markets entitled *Saints and Sinners: Who's Got Religion*. In essence, it tried to do for emerging markets what CalPERS had done on corporate governance in the U.S. (see Case Study One). The hypothesis was that emerging market companies with strong corporate governance would have stocks that outperformed their weak corporate governance counterparts. This theory was strongly supported by performance data for one, three and five years through 2000. In 2002 CLSA, updated the report in a new paper, entitled *Make me Holy… But not Yet* and largely had the same results. Their findings:

In Asia, companies in the top quartile based on corporate governance, outperformed their respective country indexes in nine out of ten markets under CLSA coverage in 2001. Over the past five years, the average outperformance of the top quartile in each Asian market was 147 basis points. Likewise in Latin America, top corporate governance companies outperformed their peers by 111 basis points in 2001 and by 102 basis points over the past five years. This outperformance appears to apply not just at the company level, but also at the market level: CLSA found that over the past five years the markets in the bottom half of their corporate governance rankings fell by 37.8%, double the average 19.2% decline of the markets in the top half.

CLSA's corporate governance rankings are based on company ratings on 57 issues that are grouped into seven main categories: (i) financial discipline, (ii) transparency, (iii) board independence, (iv) Board and Director accountability, (v) management responsibility, (vi) fairness and treatment of minorities; and (vii) social awareness, including labor and environmental issues.

by including emerging-market investments.[87] There are also indications that investment performance in developed markets is inversely correlated with that of emerging markets. Although this theory is still debated, over the past two years, the major emerging-market indices have outperformed, not only the NASDAQ, but also the S&P 500, the FTSE 100, and in some cases, the Dow Jones Industrial Index.

More broadly, emerging markets are often among the world's fastest growing economies. Whereas developed markets appear to be reaching saturation points in terms of markets, products, and consumers, there is still room for growth in emerging markets.

Certainly there are risks and difficulties associated with emerging markets, but the extra layers of misperception and preconception about emerging-market investment deserve investigation and clarification, particularly for socially responsible investors. The rewards will include not only social and environmental impact but also profit.

The Development Case

SRI in emerging markets may also make good sense from the perspective of sustainable development.

One key and immediate impact of SRI is its effect on the production and disclosure of corporate social and environmental information, which can lead to significant changes in corporate behavior. For example, the South Africa divestment campaign and the influence of the Sullivan Principles created vast amounts of information on companies doing business in South Africa, their employment policies, and their approach to the apartheid regime. Likewise, the recent anti-sweatshop campaigns launched by socially responsible investors against companies such as Nike and Disney have forced large clothing manufacturers to pay closer attention to their manufacturing processes in places such as Vietnam and El Salvador. In the case of both Nike and Disney, the pressure has been so intense that the companies are now closely monitoring where and how products are made. SRI participation in global climate debates may also result in significant changes to companies' greenhouse gas emissions monitoring and reporting.

Socially responsible investors have also had an impact on shareholder rights, corporate governance, and securities regulation. For example, despite being relatively small players in the investment industry, SRI firms have weighed in significantly on several important regulatory matters in the U.S. and Canada (shareholder rights), in the U.K. (pension funds and SRI), and in France and Australia (pension funds). In emerging markets, the same social investors may be relatively larger investors, and as such, should have good access to regulators and corporations anxious to court foreign investors.

The potential effect on emerging-market regulations, particularly with regard to minority shareholder rights and information disclosure, can already be seen in the case of Brazil's Novo Mercado, a new exchange for companies with superior corporate governance (See Figure 9.) This recently established market is viewed by many as having stronger corporate governance standards than even many developed-country markets. Merrill Lynch, in fact, put the Novo Mercado at the top of its ranking based on its protection of minority shareholder rights.[88] Not coincidentally, the Novo Mercado was instigated, in part, by Brazilian pension funds, as well as large non-Brazilian shareholders such as TIAA-CREF and Templeton Asset Management.[89]

The securities exchange of South Africa has also been influential in shaping the local corporate governance environment. The JSE requires listed companies to disclose their compliance with the country's King Code of Corporate Practices and Conduct.[90] In 2002, the JSE announced the launch of South Africa's first sustainability index. The FTSE/JSE Sustainability Index will be composed of companies that "reflect sustainability practices accepted internationally and locally." Companies will be evaluated on their contributions to environmental, social, and economic sustainability.[91] Although still in draft proposal, it is expected that the following issues will be included in the index: protection of the resource base and environment, affirmative action, and black economic empowerment. The index is scheduled to launch in early 2004.[92]

Figure 9
Corporate Governance in Brazil: The Case of the Novo Mercado

Partly as a result of pressure from concerned foreign investors, Brazil's main stock market, the São Paulo Stock Exchange (BOVESPA) recently created a series of new trading segments and a new market (Novo Mercado) designed to emphasize issues of corporate governance.

The Novo Mercado has three levels of corporate governance practice ratings. Companies with good to strong corporate governance ratings are listed on the BOVESPA. Those with the strongest commitments are included on the Novo Mercado.

A company's corporate governance is demonstrated when it signs a voluntary contract with the BOVESPA compelling it to provide increased financial information (including preparing statements in accordance with U.S. Generally Agreed Accounting Practice or International Accounting Standards), as well as detailed information related to the activities of its major shareholders. The contract also forces companies to treat minority shareholders and controlling shareholders the same, and to submit to arbitration panels in the case of legal disputes.

According to BOVESPA, "A company's decision to list on Novo Mercado is beneficial not only for investors, but for the company itself, and eventually strengthens the stock market as an alternative means of investment." BOVESPA argues that there are many benefits to better corporate governance including greater accuracy in stock pricing, improvement in follow-up and monitoring procedures, greater protection of corporate rights, and risk reduction. For companies, it leads to an improvement in institutional image, greater demand for their shares, appreciation in the value of their shares, and a reduction in funding costs. For the stock market, it can promote increased liquidity, more stock issuance, and an increased use of equity markets as vehicles for savings. Finally, for the country itself, the new approach can lead to stronger and more competitive firms, as well as improved economic dynamism.

Sources: BOVESPA, "Novo Mercado", see www.bovespa.com.br (for Portuguese). The English version is available at http://www.bovespa.com.br/indexi.htm.

The decision by CalPERS to forego investment in Thailand for reasons related to social, environmental and corporate governance issues prompted the Thai stock exchange to amend its listing guidelines. It began requiring companies to adopt better disclosure practices and meet higher environmental standards.[93] Other countries are following suit. In Malaysia, shareholder rights were enhanced with the formation of the Minority Shareholders Watchdog Group, founded by five of the country's leading institutional investors. A similar group has been created in Hong Kong. In 2000, the Malaysian Finance Committee on Corporate Governance formulated a code for corporate governance which was subsequently incorporated into the new listing standards of the Kuala Lumpur Stock Exchange. The emergence of grassroots shareholder rights groups in Korea and Russia and stock market reform in India, Singapore, Taiwan, Thailand, Jordan, and Chile also bode well for shareholder rights, particularly those of minority shareholders.[94]

The relative size advantage of socially responsible investors may also translate into greater influence on corporate behavior. A modest Green Cay Asset Management investment in Vestel, a Turkish electronic manufacturer, provides a telling example. Green Cay sold short Vestel because of its high pollution emissions and poor employee relations. In response, crediting Green Cay's influence, Vestel turned itself around and within two years was receiving accolades from environmental organizations. Green Cay CEO Jane Siebels-Kilnes says that her company has more social and environmental impact in emerging markets, where their investments are relatively large, noting that, "In the U.S., our investments are small compared to the market as a whole. The response we get is much more muted."[95]

While anecdotal examples are abundant, the case for sustainable development impact is hard to quantify. What can be said with some certainty, however, is that greater SRI in emerging markets, particularly if the social and environmental issues confronted by funds resonates with nationally recognized sustainability priorities, will bring the weight and credibility of private finance to areas of development that are too often left largely to governments and NGOs. This will focus attention on corporate disclosure and create shareholder engagement/actions similar to those influencing developed-country corporate social and environmental performance. Says Pedro Villani, of ABN AMRO Fundo Ethical, "Both small and large investors respond well to the idea that companies should behave responsibly toward society. The companies we include in our fund, for example, use that fact in their advertising…."[96]

Opportunities

Although prevailing market conditions do not favor the level of new financial product development seen in the mid-to late-1990s, there appears to be both a strong business case and a compelling development case for the expansion of SRI in emerging markets. That said, it is also clear that the current SRI emerging-market infrastructure is limited and too small to support much immediate growth.

Opportunities in Developed Markets

Many SRI managers understand the arguments for emerging-market diversification, despite their relative unfamiliarity with these markets. A few are also aware of the ongoing improvement in reporting and governance standards that has been spreading across emerging markets. Growing public awareness of international and developing country issues – regional wars, ongoing religiously or racially motivated violence, the spread of HIV/AIDS in Africa and a host of global environmental issues – has also had a profound impact on SRI professionals and their clients, many of whom feel a growing moral imperative to support a sustainable global economy.

Still, most developed-country SRI professionals feel they do not have the capacity or resources to capitalize on emerging-market opportunities, preferring to take on global sustainability via investments in developed-country multinational corporations.

While the immediate business case for more SRI in emerging markets is not overpowering, the outlook for increased medium- to long-term emerging-market engagement is positive. Shareholder actions, screening of multinational corporations, and emerging-market stock purchase offer three immediate entry points for socially responsible investors.

First, because social investors are already active shareholder advocates on many global issues and some specific emerging-market issues, encouraging them to engage multinationals more on emerging-market sustainability issues is likely to bear fruit relatively quickly. SRI shareholder activists will find common ground with many larger and more influential traditional investors concerned about corporate governance in emerging markets. The relative size of a single holding typically gives social investors even greater leverage to do, in emerging markets, what they have already been doing in developed-country markets: namely, pushing regulators to broaden the interpretation of corporate disclosure and responsibility to include social and environmental impacts. CalPERS' emerging-market screening practice, Brazil's Novo Mercado, and actions taken by other stock exchanges to improve reporting standards provide ample positive and replicable models of how these reforms can impact emerging markets.

Second, there is significant opportunity for institutional investors currently holding emerging-market positions to become more visible. More than just being responsible shareholders, institutional investors can be encouraged to disclose, discuss, and promote their emerging-market holdings more actively. This will lead to more shareholder engagements, stronger sustainable development impacts, and quite likely, more emerging-market investments.

Taking advantage of these first two opportunities will not necessarily increase emerging-market SRI directly, but it would have significant impact on emerging-market financial sectors and corporate sustainability performance. The strength of such impact over the long term, however, will depend on the growth of SRI financial positions in emerging markets, and this makes the third opportunity – direct action to tap existing, latent demand for greater emerging-market investment – all the more important.

Thus, third, direct efforts to exploit latent emerging-market SRI demand represent a major area of opportunity. This report has presented some evidence of that latent demand, indicating there is room for expansion of both developed-country retail (mutual fund) and developed-country institutional SRI in emerging markets. Recommendations on how this demand can be tapped and catalyzed are given in Part Five.

Given current market conditions and the real and perceived barriers to entry, mobilizing more SRI emerging-market investment is not a simple undertaking. But social investors have rarely shrunk from challenges, particularly, if strong moral imperatives are involved. The confluence of current events, growing concern for global sustainability, and flat returns on the horizon for developed-country market investments, only strengthen interest in emerging-market SRI funds. On balance though, few SRI firms have the resources to risk on new fund start-ups, particularly one as technically challenging as an emerging-market fund. In the absence of market interventions, it is unlikely that SRI firms will soon create new emerging-market funds or make significant new emerging-market investments.

Opportunities in Emerging Markets

In emerging markets, anecdotal evidence also suggests moderate demand for SRI funds. This is likely truer in the larger and financially more developed countries, such as Chile, South Korea, Brazil and South Africa, where regulatory changes have encouraged greater stock market participation.[97]

In some emerging-market economies, the negative real interest rates on savings now offered by most financial institutions increases the attractiveness of securities investment products. A convergence of positive regulatory change and declining data management costs has also increased the potential market share of securities in the savings market. Deregulation in many markets (Mexico is a prime example) now permits insurance companies and banks to offer securities to client bases that can number in the millions. Mutual funds are increasingly accessible to a larger and growing number of individual savers. In Brazil, the ABN AMRO fund requires a minimum investment of just \$30; funds in some retail banks in Mexico have minimums as low as \$20. The Malaysian Mayban Ethical Trust has a minimum investment of just \$130.[98]

There is also significant opportunity to increase the number of institutional investors active in emerging-market SRI. This stems from the fact that, in many emerging markets, deregulation and growing private sector fund management are contributing to a previously unseen accumulation of domestic capital. In Chile and South Africa, for example, the combined assets of private pension funds are equal to the countries' GDP. Rapid asset growth is also being seen in other markets such as Peru and Mexico. As assets increase, managers are looking to diversify investments. Some, such as the Latin American Association of Pension Fund Managers, have even quietly investigated the potential for SME venture capital investments as a means to support national economic development.[99]

While it would be a stretch to say that emerging-market institutional managers will soon adopt social and environmental criteria to the extent that this is currently done in developed-country markets, the growing portfolios of institutional investors could quickly make them "universal" owners, similar to CalPERS in this respect. The high and often very visible external costs of poor social, environmental and corporate performance in emerging markets will only fuel demand for improvement in these areas.


TOMAS SENNETT/WORLD BANK

Part Five – Mobilizing More Emerging-Market SRI

There is no question that SRI can contribute positively to socially and environmentally sustainable development in emerging markets – what needs more widespread attention is the fact that this can also be done profitably.

Demand for emerging-market SRI both within emerging markets themselves and among developed countries appears to be moderate to good. Trends toward better corporate governance and access to corporate information are encouraging, particularly in light of the evolution in the understanding of fiduciary responsibility. But the sector is young. Among developed-country investors, carving out an emerging-market niche within the relatively well-established SRI industry is a challenging proposition. The barriers to emerging-market SRI may give pause even to the greatest of emerging-market enthusiasts.

Thus, on balance we do not see rapid "organic" growth of SRI in emerging markets over the short term. Increasing SRI activities will require overcoming both real and perceived market risks and an almost complete lack of screening information. It will also require better, more widespread understanding of emerging-market sustainable development issues. These challenges notwithstanding, we believe there are solid medium to long-term growth prospects.

Recommendations

In anticipation of stronger future growth, creation of a solid emerging-market SRI infrastructure should be a priority for the sector and other interested parties, such as the IFC. The following recommendations reflect this view while avoiding the myriad, potentially negative consequences of market interventions. The following recommendations are designed to respect the sustainable development priorities of both developed and emerging-market countries.

Recommendation 1 - Support Network and Knowledge Infrastructure

The need for effective and efficient knowledge generation and dissemination is crucial to the growth of emerging-market SRI. It is therefore recommended that incentives be established to support networks of professionals actively involved in emerging-market SRI.

1.1 National or Regional Networks

Given the resource demands of supporting SRI networks in each emerging market, a "beachhead" strategy is recommended, whereby networks are established first in exemplar markets (by country or region). To achieve this objective the following steps are recommended:

1) Identify potential exemplar markets (e.g., Asia, South Africa, or Brazil);

2) Select market areas and define support objectives with existing local groups;

3) In association with local actors, design appropriate sector-development support programs based on an evaluation of existing SRI infrastructure and SRI sector needs (e.g., a trade association approach, a strengthening of informal SRI professionals networks, etc).

1.2 Support a Global Network

There is merit in establishing an informal global network of emerging-market SRI professionals who could bring together and share their disparate but rich emerging-market experience and knowledge. The network could build on current international and domestic initiatives such as, for example, the United Nations Environment Program Finance Initiatives and SiRi.[100] Such a network could act as a temporary focus for the sector until national and regional networks develop. It is therefore recommended that the initial focus be on sponsoring concrete activities rather than a permanent organization. Such activities would include:

1) Supporting the creation of a multinational SRI emerging-market working group;

2) Supporting activities promoting the growth of SRI in emerging markets (e.g., workshops, training sessions, conferences, sustainability research, networking etc.);

3) Investigating and supporting the establishment of best practice SRI financial regulatory frameworks and enforcement.

Recommendation 2 - SRI Corporate Performance Data

To address the corporate social and environmental performance data barrier, two categories of steps are recommended.

2.1 Support Corporate Social and Environmental Performance Data Suppliers

Given the great diversity among emerging markets, multiple sources of corporate social and environmental data will be required to support greater SRI in emerging markets. To increase creation of and access to sources of such data, it is recommended that private sector emerging markets corporate social and environmental performance data supplier be supported. To ensure broad market access to data, it should be made available at low or no cost to SRI professionals for an amount of time proportional to any subsidy.

Stakeholders estimated the cost of providing a database of 400 to 500 emerging market companies at between $300,000 and $500,000. This cost could be considerably less but with some probable access limitations, if done in-house by a retail mutual fund or institutional investment company.

2.2 Inventory of Information Sources

Establishment of an inventory of potential sources of raw data is recommended, particularly data sources in emerging markets. Support should be made available to key SRI performance data providers (as identified in cooperation with corporate social performance data suppliers).

Recommendation 3 - Motivating More Investment

3.1 Motivating More Institutional Investment

Clearly, institutional investors, given their size and need for diversification, are prime candidates to become SRI investors in emerging markets. To increase institutional investment in emerging-market SRI, the following steps are recommended:

1) Identify all institutional investors investing in emerging markets that already apply or potentially are interested in applying SRI criteria to their portfolios;

2) Work with networks, as described in Recommendation 1, and data suppliers, as described in Recommendation 2, to encourage institutional investors to adopt SRI screening and shareholder advocacy/engagement methods;

3) Encourage institutional investors to promote their emerging-market SRI methods, experiences and accomplishments.

3.2 Retail and Institutional Funds

In light of the current investment climate and the reluctance of some SRI firms to consider new products (for such reasons as cost, scale and sales concerns), support for the creation of a high-profile emerging-market fund(s) is warranted. Such a fund would have a leadership role in promoting SRI in emerging market investment. It is recommended that support be focused only on funds able to attract significant institutional investor participation.

Figure 10 sets out three possible forms that SRI emerging-market funds could take, given the opportunities identified in Part Four. The given market should determine what is the most appropriate type of fund, depending on such factors as strategic importance, the size of potential investments and the degree to which sustainability impact is demonstrable. Ideally, support should be made available on a competitive basis.

Figure 10

The Right Kind of Funds

Seed Capital

Seed capital is required to attract a good fund manager and to provide operating income. Seed capital of between $5 million and $10 million was most often noted in interviews as a minimum amount required. Figures for funds based in emerging markets were lower, around $3 million to $6 million, varying by country. Seed capital could be withdrawn in proportion to net inflows of capital.

Start-up Capital

Conversely, support can come in the form of start-up subsidies. Such costs have been variously estimated at $500,000 to $1 million in developed markets and $300,000 to $600,000 in emerging markets, over three years (costs could be lower if seed capital were available). Start-up subsidies would support initial legal, organizational, and marketing costs.

Demand Incentives

Incentives may be offered directly to investors to attract them to funds. Incentives can include a guarantee fund to ensure minimum returns to investors or some form of currency insurance or liquidity-risk insurance.

Recommendation 4 - SRI within the IFC
The IFC has a wealth of financial and non-financial resources it could use to support the advance of emerging-market SRI. Distinct approaches to sustainable development investment, however, will require the IFC and social investors to better understand each others' business practices. Thus, it is recommended that the IFC review its investment policies and practices from an SRI perspective to ensure effective communication and to create appropriate expectations as a player in the SRI community.

Recommendation 5 - First Step
The first step to test the validity of these recommendations is to bring together the key emerging-market SRI actors, both current and potential, to discuss the findings of the present report and its recommendations. Given its unique and global involvement in emerging country financial markets, it is recommend that the IFC continue to work with SRI and conventional investment communities in both developed and emerging-market countries to lead the advance of emerging-market SRI.

YOSEF HADAR/WORLD BANK

Case Study One - CalPERS in Emerging Markets

In February of 2002, the largest public pension fund in the U.S., the California Public Employees Retirement System (CalPERS) decided to adopt a new approach to its investments in emerging markets. The approach was radical in that it based its decisions regarding which countries were "permissible" not only on broad financial factors (such as market liquidity, volatility, openness, settlement proficiency and investor protections), but also on a series of "non-financial" factors ranging from political stability to labor standards. It was the first time a pension fund in the U.S. (and possibly in the world) took so-called "non-financial" factors into account in its emerging markets investments. And, because of CalPERS' size, the decision mattered: the fund invests approximately $1.4 billion in emerging markets.

As a result of this decision (which followed an exhaustive review that took almost two years) CalPERS announced that it would begin taking public equity positions in Poland and Hungary and eliminate investment positions in Indonesia, Malaysia, and Thailand. At the same time, a decision to not permit investment in the Philippines was put under review.

When the public learned that CalPERS was screening out entire countries from its emerging markets positions, the criticism was deafening. Even SRI practitioners, who might have been expected to approve of CalPERS' stance, argued that screening should take place at the company, not country level, and that the CalPERS approach was discouraging good companies in "bad" countries.

But CalPERS stood by its position. The company stated that although the country screening had received the most media coverage, its approach had two distinct tracks. At the country level, CalPERS began considering factors such as human rights violations, support for ILO standards, the existence of a free press, and the strength of a country's democratic institutions in its investment decisions. But at the company level, CalPERS noted that it has also begun to move from being a passive investor to an active one, asking its managers to consider social issues when making investments.

California's State Treasurer and member of the CalPERS Board, Philip Angelides defends these decisions on economic grounds. "I wouldn't characterize what we are doing as 'socially responsible' investing," he says. "I would characterize it as 'smart investing'. We are trying to improve our long-term performance, period." [101]

According to Angelides, there is an extensive body of literature showing a strong correlation between openness, democracy, political stability, workplace protections, labor rights, freedom of the press, and sustainable environmental practices on the one hand and a country's long-term economic growth. "Besides," he adds, "given the abysmal returns in foreign emerging markets, I just thought it was time for CalPERS to re-look at the standards and criteria used to judge investments in those markets."

In Angelides view, "…People have been pouring money [into emerging markets] without looking at the fundamentals of these societies. They weren't looking at, for example, a country such as Indonesia and asking: is this a place of long-term stability? Is it a place of transparency? Is it a place of democracy? The very things that have made the U.S. economy, and Western Europe, the strongest economies on the globe. These are [investment] fundamentals."

Despite the criticism, CalPERS has maintained its system, and in 2003 it instituted a "cure period" whereby countries dropped from its permissible list have one year to better their status or change CalPERS' mind about its decision. After the "cure period," CalPERS begins divestment from the country.

In a sense, CalPERS appears to be doing in emerging markets what it has done for years in the U.S. on corporate governance. Since the late 1980s CalPERS has had in place a series of corporate governance principles guiding its investments. Since 1987 the fund has signaled out "Focus Companies" which are the poorest relative performers on corporate governance. These companies receive the brunt of CalPERS corporate governance activism. The effects of this campaigning – now known as the "CalPERS Effect" – have been extensively documented. A Wilshire Associates study of the "CalPERS Effect" of corporate governance examined the performance of 95 companies targeted by CalPERS between 1987 to 1999. Results indicate that, while the stock of these companies trailed the Standard & Poor's 500 Index by 96 percent in the 5-year period before CalPERS acted, the same stocks outperformed the index by 14 percent in the following five years, adding approximately $150 million annually in additional returns to CalPERS.[102]


EDWIN HUFFMAN/WORLD BANK

Case Study Two - SRI in Brazil

Not long ago, socially responsible investment did not exist in Brazil. Today, the country has emerged as one of the emerging-market leaders on SRI. Some say it began in the 1990s, triggered by the UN Conference on Environment and Development (also known as the Earth Summit) which was held in Rio de Janeiro in 1992. Others say it dates even further back to the 1980s, when Brazil emerged from a troubling period of military dictatorships with a democratically elected president and a newly written constitution.

But most agree that a key figure in the process was a Brazilian thinker and campaigner known as Betinho who became known because of his work on issues such as hunger, AIDS, poverty, corruption, and business responsibility. A major part of Betinho's legacy was his emphasis on the role of businesses in addressing these issues.

Because of the social ferment in Brazil at the end of the 20th century, a series of institutions concerned with corporate social responsibility began to emerge (one of the most notable is the Ethos Institute). Also within this environment, a few financial leaders began exploring the whole idea of SRI. In the late '90s, early 2000, Unibanco, one of Brazil's largest banks, began preparing SRI analyzes of Brazilian businesses. The effort, headed up by analyst Christopher Wells, was not only the first such undertaking in Latin America, it was actually the first time anywhere in the world that a major bank had begun providing SRI information to its traditional investment clients.

"At first," says Wells, "we thought our clients would be exclusively foreign SRI investors interested in Brazil. We later found out we had a budding market among Brazilian investors." Wells believes that getting SRI information on local companies is not the main problem SRI faces in Brazil. He says a far bigger problem is the fact that people in countries like Brazil have an inherent distrust of stock markets and of concepts – like SRI – that are imported from abroad. "Brazil just doesn't have the same Anglo-Saxon approach to stock markets that you see in the U.K. or the U.S.," he explains.[103]

Following the lead of Unibanco and Betinho, in the mid-2000, the Brazilian office of the Dutch Bank, ABN-AMRO, began studying the possibility of launching an SRI fund for Brazil. At around the same time, the Novo Mercado was established. After a year of preliminary studies and discussions, ABN-AMRO launched its Fundo Ethical.

Luiz Maia, the CEO of ABN AMRO Asset Management in Brazil, says the fund is the first of its kind in Latin America. He points out that it is also unique in that it has an external board composed of nonprofits and others whose job is to ensure the "social responsibility" of the fund's investments. This board, he adds, has veto power over all of the fund's investments.

"There are those," says Maia, "who believe that SRI doesn't work in emerging markets. I think our fund is showing that this is not true. It works in Brazil, and I think it can work in other places. Clearly there will be differences in approach. For instance, in Brazil the way companies behave towards education [of their employees and the community at large] is a very important SRI issue. This isn't always the case in the U.S. or Europe. But despite these differences – maybe even because of them – SRI makes sense in emerging markets." [104]

"In Brazil," he continues, "we are going through a moment when our large companies are very concerned with social/environmental issues, as are our people. We also have a new President who is putting a lot of focus on these subjects, so we are now in the midst of a very interesting three-way debate between government, society, and businesses on social responsibility. Our fund is but another vehicle for that debate."

Pedro Villani, the Portfolio Manager for Fundo Ethical agrees. "The whole idea of SRI," he explains, "is actually very well accepted in Brazil. Both small and large investors respond well to the idea that companies should behave responsibly toward society. And this means that the companies themselves use their social responsibility as marketing. The companies we include in our fund, for example, use that fact in their advertising. So, paradoxically, the whole idea of SRI may resonate better in a place like Brazil than in some developed markets."

The main problems facing Fundo Ethical, according to Villani, are macroeconomic. "In our market," he explains, "the percentage of money in equities is very small. And as long as our interest rates remain high, fixed income will remain a much more attractive investment option. I do think, however, that there is a growing space for a fund such as ours in the institutional market." [105]

Indeed, according to Wells, who is now Social and Environmental Risk Manager for Banco Real ABN AMRO, some Brazilian pension funds, such as that of oil giant, Petrobras, have already begun experimenting with SRI investment. "Not long ago," he points out, "the President of this fund came out in favor of SRI for all its investments. And the fact that they are considering SRI is no secret, they were among the first to buy our SRI research when I was at Unibanco." Remarkably, this is despite the fact that the Fundo Ethical screens out Petrobras stocks from its investments. "I think this will change in the medium-term," says Wells. "Petrobras is bending over backwards to improve its SRI performance. I have heard that their strategy is to be able to be included in any major SRI fund by 2010. They are looking to become one of the leading environmental energy companies in the world." [106]

Together with the creation of the Novo Mercado, the Fundo Ethical, and Unibanco's SRI research, Brazil is fast becoming an emerging-market leader on issues of SRI.

Case Study Three - Green Cay Asset Management

CURT CARNEMARK/WORLD BANK

Green Cay is a Bahamas-based SRI asset management company with more than $200 million in assets under management in three funds: $30 million in an emerging-markets hedge fund that has been operating since 1997, $138 million in a global technology hedge fund created in 1999, and $45 million in a U.S. equity relative-value hedge fund created in 2001.[107]

The Green Cay investment approach involves both assessing the economic fundamentals of the companies in which it is interested and analyzing a number of less tangible factors, such as the quality of a company's management, its environmental record and its approach to employee relations.

Based on this information, the funds use a "relative-value" strategy to exploit the differing performances of "good" and "bad" stocks. They buy equity in the companies that promise strong economic performance and a socially responsible approach, while selling borrowed shares (selling "short") in the companies they deem to be financially, environmentally or socially irresponsible. The funds are often 50% long and 50% short.

One example of how SRI has worked for Green Cay in emerging markets is the story of Indofoods, an Indonesian food products company that specializes in making noodles. Jane Siebels-Kilnes, founder and CEO of Green Cay, explains that Indofoods had always had trouble breaking into the Indonesian market because the country's traditional diet is based mostly on rice. Its big break came during the Asian economic crisis when Indofoods decided to sell its noodles below cost in order to help struggling Indonesians.

While other emerging-market investors thought the Indofoods strategy was risky, Green Cay believed that this approach would help the company's relationship with its customers and help the company in the long run. "In fact," says Siebels-Kilnes, "when we went to visit the company before buying their stock, the managers were ashamed and didn't want to talk about their decision to sell noodles below cost. Too many traditional investors had told them it was the wrong thing to do." Sure enough, when the crisis ended, people had acquired a taste for Indofoods' noodles and the company had increased its market share.

"In many ways," says Siebels-Kilnes, "our approach to SRI is different from that of others. We are not looking for absolutes. We look for relative value, for companies where the values are good or improving. You have to do that in emerging markets." Siebels also believes the use of short-selling is a powerful and often overlooked tool for SRI investors, especially in emerging markets. She finds that, in efforts to change company behavior in emerging markets, shorting a company is many times more effective than not buying its stock (screening it out).

Figure 11

The Green Cay SRI Effect in Turkey

Jane Siebels-Kilnes of Green Cay Asset Management tells the story of Turkish electronic manufacturer, Vestel, which is in the business of manufacturing flat-panel TV screens for European and North American markets. In 2000, the company was emitting large volumes of pollutants, had very poor employee relations, and was the target of criticism from various nonprofits in Europe and the U.S. As a result, Green Cay shorted the company and informed it of its decision. Two years later, the company had turned itself around and was receiving accolades from European and other environmental organizations. "When that happened," says Siebels-Kilnes, "we went long (buying shares) in the company."

Siebels-Kilnes believes that the turnaround at Vestel was, in no small measure, brought about by Green Cay's involvement. "I think that," she says, "because they basically told us so." She further notes that, in her experience, Green Cay has more social and environmental impact "in emerging markets where our investments are relatively big" than in developed markets. "In the U.S," she notes, "where our investments are small compared to the market as a whole, the response we get is much more muted."

CURT CARNEMARK/WORLD BANK

Case Study Four - Emerging-Market Reform and Social Investment

Reform is borne from crisis. At least, that is what one might surmise reviewing the aftermath of the 1997-1998 emerging market financial crisis which augured many of the reforms present today. While early analysis focused on the role of speculative investors and foreign exchange mechanisms, subsequent research has also addressed the role of weak corporate governance structures in contributing to the crises' economy wide impact.

Johnson et al. cite the lack of legal mechanisms to prevent management from expropriating minority shareholders as contributing to the Asian stock market collapse.[108] In another study reviewing data from 2,658 companies from nine Asian countries including the emerging markets of Indonesia, Korea, Malaysia, the Phillipines, Taiwan, and Thailand, Claessans et al. conclude that "the risk of expropriation is indeed the major principal-agent problem for large publicly-traded corporations."[109]

With weak corporate governance revealed as a potential Achilles heel, many countries have begun instituting corporate governance reforms. In 1999, the OECD issued the OECD Principles, which represent the "minimum standard [of corporate governance] that countries with different traditions can agree upon,"[110] and which have become the global standard for corporate governance. A 2002 World Bank assessment of Brazil, Croatia, Egypt, Georgia, India, Latvia, Lithuania, Malaysia, Morocco, Philippines, Poland, Rumania, South Africa, Turkey and Zimbabwe revealed that while none of the countries had met all OECD criteria, they were bringing their legal and regulatory frameworks in line with OECD Principles. As would be expected, there are significant differences across countries in terms of codes of best practice, rights of shareholders, and corporate disclosure and transparency.[111]

In China, with the government as the controlling shareholder in a majority of public companies, weak corporate governance is characterized by a conflict of interest between profit maximization and political favor. Still, the Chinese Securities Regulatory Commission has promised reforms. Perhaps more importantly, China has announced that it will open its exchange to large foreign institutional investors, a clear signal to companies and investors that Chinese companies will be competing for international capital. Meanwhile, 67 million people in China are shareholders. Although this represents only 5% of the population, public accountability will only increase as does the shareholder base.[112]

As in Asia, Russia's 1998 financial crisis was exacerbated by weak corporate governance regimes that allowed controlling stakeholders to benefit at the expense of minority shareholders.[113] The country has since tried to reform the market. The Russian Federal Securities Commission introduced its Code of Corporate Governance in 2002 and as of this year, firms will be required to disclose their corporate governance practices. In 2004, companies will be required to use International Accounting Standards.[114] Individuals, institutional investors and NGOs have also been instrumental in pushing reform, acting as independent monitors of corporate governance practice. Although these activities are expected to result in greater transparency and disclosure by Russian companies, as in other countries, enforcement and implementation have lagged policy.

For other Central and Eastern Europe (CEE) countries, another influence on corporate governance reform has been European Union accession rules. Many CEE countries have adjusted their regulations to conform with existing EU regulations as well as anticipated regulations. However, practice, as in other regions, often falls short of policy.[115]

South Africa has been one of the most progressive emerging market countries in its SRI market as well as its corporate governance regime, introducing the King Code of corporate governance in 1994, five years before introduction of the OECD Principles. South Africa is also unique in the size of its institutional investor class. The portfolios of private pension funds is just less than South Africa's GDP while that of insurance companies and banks is about even with GDP. Mutual funds, are one-fifth the size of pension funds, but are growing rapidly. South Africa has also strengthened corporate accountability legislation for health, safety and environment matters, including the Mine Health and Safety Act of 1996 and National Environmental Management Act of 1998, which criminalize certain offenses. In theory, shareholders pay the price when corporations or their employees face criminal liability.[116]

Although there are substantial differences in corporate governance regulation, legislation, share ownership, and shareholder concentration across countries, one commonality is unmistakable – the gap between policy and enforcement, intent and actuality. For example, in some Asian countries, although accounting standards on paper are on par with those of developed countries, regulatory bodies lacking in expertise and influence have led to poor de facto standards. In general, the judicial enforcement of corporate governance laws is weaker in most of Asia and Latin America than in developed markets like the U.S., U.K., Japan and Germany.[117]

Still, while statutory regulations and weak enforcement mechanisms clearly play a role, this does not obviate the role of the firm itself in weak legislative or enforcement countries. In fact, firms in weak legal systems, may have a greater incentive to institute stronger internal corporate governance mechanisms. While these policies cannot override weak legal and judicial environments, they may improve a company's value relative to its peers.[118]

In many countries, another influence will be a growing domestic investor base. Insufficient state financing mechanisms and aging populations are causing some governments to rethink their domestic pension systems, in turn creating an impetus for more efficient and competitive markets. The regulatory authorities in Korea, Chile, and Brazil have already relaxed investment restrictions for pension funds allowing them to invest in other asset classes.[119] In Brazil, pension funds, caught in Brazil's nonvoting share structure, have also been instrumental in promoting change in the country's corporate governance legislation.[120] Emerging market countries with pension fund assets greater than $500 million include Brazil, Chile, Mexico, Argentina, Colombia, Peru, Uruguay, Bolivia, El Salvador, Poland, Hungary, Kazakhstan and Russia.[121]

In some developing countries, individuals and shareholder organizations have taken up the mantle of corporate monitor. In Korea, PSPD (People's Solidarity for Participatory Democracy), a local organization, has been campaigning for minority shareholder rights and corporate governance reforms since 1997. PSPD first targeted Korea First Bank as it headed for bankruptcy and left its minority shareholders in the lurch. Subsequent targets have been chaebols including Samsung Electronics, Hyundai Heavy Industry, SK Telecom, LG Semiconductor and Daewoo Auto.[122]

Despite the many differences in legal systems, regulatory regimes and shareholder rights across countries, one thing has become abundantly clear to private equity investors, pension funds, mutual funds or hedge funds investing in emerging markets: effective corporate governance is not possible without enforcement, and to date, most, if not all emerging markets, lack effective enforcement mechanisms.

Interviews and Resources

Interviews

Angelides, Phil, Treasurer for the State of California and member of the Board of Directors of CalPERS, interviews on December 7, 2001 and June 10, 2002, Sacramento, CA., U.S.

Coleman, Francis, Senior Vice President, Christian Brothers Investment Services, member of the Board of Directors Social Investment Forum, interview, March 19, 2002, New York, NY., U.S.

Campanale, Mark, Associate Director, SRI Business Development, Henderson Global Investors Limited, interview, April 14, 2003, London, England.

Compere, Lauren Chief Administrative Officer, Boston Common Asset Management, interview, March 20, 2003, Boston, MA., U.S.

de Cleene, Sean, Executive Director, African Institute of Corporate Citizenship, interview, May 1, 2003, South Africa.

Domini, Amy, CEO, Domini Social Investments, interview, April 1, 2003, Boston, MA., U.S.

Elliott McGeveran, Elizabeth, Vice President, Governance & Socially Responsible Investment, ISIS Asset Management, interview, April 9, 2002, Boston, MA., U.S.

Hiem, Steven, Director of Social Research, Boston Common Asset Management, interview, March 20, 2003, Boston, MA., U.S.

Howard Boyes, Emma, Head of Socially Responsible Investment, Jupiter Asset Management Limited, interview, April 16, 2003, London England.

Gamble, Melissa, Company Analyst, Morley Fund Management, interview, April 14, 2003, London, England.

Gravitz, Alisa, Executive Director, CoopAmerica, member of Board of Directors of Social Investment Forum, interview, March 12, 2002, Washington, DC., U.S.

Green, Anita, Director of Social Research, PAX Funds, Member, Steering Committee International Working Group of the Social Investment Forum (U.S.), interview, April 29, 2003, Kansas City, KA., U.S.

Hunt, Emma, Forum for the Future, formerly with ISIS, interview, May 1, 2003, London, England.

Jones, Samuel, Senior Vice President and Chief Investment Officer, Trillium Asset Management, interview, March 19, 2003, Boston, MA., U.S.

Kayal, Alya, Senior International Human Rights Analyst, Calvert, interview, March 11, 2002, Washington, DC., U.S.

Kiernan, Matthew, CEO, Innovest, interview, April 1, 2003, Toronto, Ontario, Canada.

Kinder, Peter, CEO, Kinder, Lydenberg, Domini, interview, March 20, 2003, Boston, MA., U.S.

Kruse, Claudia, Analyst, Governance and Socially Responsible Investment, ISIS Asset Management, interview, April 16, 2003, London, England.

Leeson, Eric, CEO, Progressive Asset Management, interview, April 1, 2003, San Franciso, CA., U.S.

Leighton, Stephanie, Portofolio Manager, Director of Equity Research, Trillium Asset Management, interview, March 19, 2003, Boston, MA., U.S.

Lent, Michael, Principle, Progressive Asset Management, interview, March 19, 2003, New York, NY., U.S.

Litvack, Karina A., Director, Head of Governance and Socially Responsible Investment, ISIS Asset Management, interview, April 16, 2003, London, England.

Maia, Luiz, CEO ABN AMRO Asset Management Brazil, interview, March 2003, Sao Paolo, Sao Paolo, Brazil.

McLean, Linnie, Senior Vice President, Trillium Asset Management, interview, March 19, 2003, Boston, MA., U.S.

McVeigh, Patrick, Vice President/Investment Research, Lowell, Blake, and Associates, interview, March 19, 2003, Boston., MA, U.S.

Merme, Mira, Just Pensions, interview, April 15, 2003, London, England.

Morrow, David, Social Marketing Manager, Calvert, interview, March 11, 2002, Washington, DC., U.S.

Murray, Julian, Fund Manager – Socially Responsible Investment, Morley Fund Management, interview, April 14, 2003, London, England.

Natour, Faris, Social Research Analyst, Calvert, interview, March 11, 2002, Washington, DC., U.S.

Nichols, John P., Vice President, Equities, Calvert, interview, March 11, 2002, Washington, DC., U.S.

Paul, Niall, Head of Emerging Markets, Morley Fund Management, interview, April 14, 2003, London, England

Reynders III, Charleton Vice President, Lowell, Blake, and Associates, interview, March 19, 2003, Boston, MA., U.S.

Rich, Eddie, Corporate Social Responsibility Unit, DFID (Department for International Development), Government of England, interview, April 15, 2003, London, England.

Robins, Nick, Head of SRI Research, Henderson Global Investors Limited, interview, April 14, London, England.

Schueth, Steve, President First Affirmative Financial, interview, April 29, 2003, Colorado Springs, CO., U.S.

Siebels-Kilnes, Jane, CEO and President, Green Cay Asset Management, interview, April 18, 2003, Bahamas.

Smith, Cheryl, Vice President, Trillium Asset Management, interview, March 19, 2003, Boston, MA., U.S.

Thamotheram, Raj, Senior Advisor, Responsible Shareholding, Universities Superannuating Scheme, interview, May 4, 2003, London, England.

Tosini, Suzanne, Vice President, Market Development, Calvert, interview, March 11, 2002, Washington, DC., U.S.

Wilson, John, Senior Social Researcher, Christian Brothers Investment Services, interview, March 19, 2002, New York, NY., U.S.

Wells, Christopher, Social & Environmental Risk Manager, Banco Real ABN AMRO, interview, April 23, 2003, Sao Paulo, Sao Paulo, Brazil

Resources

Abramson, Lorne and Dan Chung, “Socially Responsible Investing: Viable for Value Investors,” The Journal of Investing, Fall, 2000.

African Institute of Corporate Citizenship “Socially Responsible Investment in South Africa,” January 2002.

Alexander Forbes Financial Services, “Targeted Development Investment Vehicles Survey Investment Returns,” September, 2002. Available at: www.alexanderforbes.com/Africa/FinancialServices/Surveys.

Alexander Forbes Financial Services, “Targeted Development Investment Vehicles Survey Investment Returns,” June, 2003. Available at: www.alexanderforbes.com/Africa/FinancialServices/Surveys.

Association for Social Responsibility in Asia www.asria.org.

Atta, Hajara, “Ethical Rewards An Examination Of The Effect Of Islamic Ethical Screens On Financial Performance and Of Conditioning Information On Performance measures", MSc Dissertation, University of Durham, Department of Economics and Science, September 2000.

Bauer, Rob, Kees Koedijk, and Roger Otten, “International Evidence on Ethical Mutual Fund Performance and Investment Style”, Maastricht University, Limburg Institute of Financial Economics, November 2002.

Becker, Eric, and Patrick McVeigh, “Social Funds in the United States: Their History, Financial Performance and Social Impacts”, presented at The Second National Heartland Labor-Capital Conference, April 29-30, 1999.

Bayon, Ricardo, “Pay Attention to Activists or Pay in Money and Grief,” American Banker, June 15, 2001.

Bayon, Ricardo, “Pension Fund Giant Takes SRI Flyer,” Environmental Finance, September, 2001.

Bayon, Ricardo, “SRI Investors Hedge their Bets,” Environmental Finance, February, 2002.

Bayon, Ricardo, “U.S. Investors Enter Climate Change Fray,” Environmental Finance, June 2002.

Bayon, Ricardo, “California Leading, ” Environmental Finance, September, 2002.

Bayon, Ricardo, “Institutional Investors Go Green,” Milken Institute Review, Vol. 5 no. 1, First Quarter, 2003.

Berglof, E. and A. Pajuste, “Emerging Owners, Eclipsing Markets?,”. Available at: www.worldbank.org/html/pddtrans/april-mayjun03.

BOVESPA, “Novo Mercado.” Available at: www.bovespa.com.br (Portuguese) or http://www.bovespa.com.br/indexi.htm (English).

Bragdon J.H., and J. Marlin, “Is pollution profitable?,” Risk Management 19: No. 4, 1972.

Baue, William, “SRI NEWS: Top Five Social Investing News Stories of 2002,” www.socialfunds.com, 2002.

CalPERS, “CalPERS Adopts New Model for Investing in Emerging Markets,” press release issued February 20, 2002, www.calpers.com.

Camejo, Peter, The SRI Advantage: Why Socially Responsible Investing Has Outperformed Financially, New Society Publishers, Canada, 2002.

Chen, Larry, “Sustainability Investment,” UBS Warburg Global Equity Research, August 2001.

Claessens, Stijn, Simeon Djankov, Joseph P.H. Fan, and Larry H.P. Lang, “Expropriation of Minority Shareholders: Evidence from East Asia,” World Bank Policy Research Working Paper 2088, March 1999.

CLSA Emerging Markets, “Make Me Holy… But Not Yet,” February, 2002. Available at: www.clsa.com.

CLSA Emerging Markets, “Saints and Sinners: Who’s Got Religion.” Available at: www.clsa.com.

Corporate Monitor, “Building SRI Portfolios Coming of Age at an Industry Crossroads,” 2003. Available at: http://www.corporate-monitor.com.au/index.htm.

Del Guercio, Diane and Jennifer Hawkins, “The Motivation and Impact of Pension Fund Activism,” Draft paper for Journal of Financial Economics, May 1998.

DiBartolomeo, Dan, “Explaining and Controlling the Returns on Socially Screened U.S. Equity Portfolios,” presented at New York Society of Security Analysts, September 10, 1996.

Domini, Amy, Socially Responsible Investing: Making a Difference and Making Money, Dearborn Trade, U.S., 2001.

Enterprising Solutions, “Intermediating Capital To MFIs: A Survey of Financial Intermediation to Microfinance Institutions,” Enterprising Solutions Brief No. 2. Available at: www.esglobal.com.

Enterprising Solutions Global Consulting, “Social Investment, Microfinance & SMEs, The Potential for Social Investment in MFIs and SMEs in Developing Countries,” Enterprising Solutions Brief No. 3. Available at: www.esglobal.com.

Ethical Investment Association, “Socially Responsible Investment in Australia Benchmark Survey,” 2002.

Ewing, R., “Corporate Governance Can Drive China’s Reform,” The Asian Wall Street Journal, November 22, 2002.

Failaka International, “Failaka Islamic Fund Review Year End 2001,” 2002. Available at: http://www.failaka.com/Failaka%20Research.html.

Failaka International, “Islamic Equity Funds:

Analysis and Observations on the Current State of the Industry," March 5, 2002. Available at: http://www.failaka.com/Failaka%20Research.html.

"Five Years of Victory for the Social Responsibility Movement". Available at: www.iccr.org.

Fremond, Olivier, and Mierta Capital, "The State of Corporate Governance," World Bank Policy Research Working Paper 2858, June 2002, pg.6.

Gledson de Carvalho, Antonio, "Efeitos da Migracao para os Niveis de Governanca da BOVESPA," 2003. Available at: www.bovespa.com.br.

Goodman, Susannah B, Jonas Kron, and Tim Little, The Environmental Fiduciary: The Case for Incorporating Environmental Factors into Investment Management Policies, The Rose Foundation for Communities and the Environment, U.S., 2002.

Guerard Jr., John B., "Is There a Cost to Being Socially Responsible in Investing?," The Journal of Investing, Volume 6, Number 2, Summer 1997.

Hamilton, S., Jo Hoje, and Meir Statman, "Doing Well While Doing Good? The Investment Performance of Socially Responsible Mutual Funds," Financial Analysts Journal, November/December 1993.

Hale, Jon F., "Seeing Stars: SRI Mutual Fund Performance" in Camejo, Peter, The SRI Advantage: Why Socially Responsible Investing Has Outperformed Financially, New Society Publishers, Canada, 2002.

Hart, Stuart, Glen Dowell, and Bernard Yeung, "Do Corporate Global Environmental Standards Create or Destroy Market Value?," Management Science vol. 46 no. 8, Aug. 2000.

Hawley, James P. and Andrew T. Williams, The Rise of Fiduciary Capitalism: How Institutional Investors can Make Corporate America More Democratic, University of Pennsylvania Press, U.S., 2000.

Hawley, James P and Andrew T. Williams, "Can Universal Owners Be Socially Responsible Investors?" in Camejo, Peter, The SRI Advantage: Why Socially Responsible Investing Has Outperformed Financially, New Society Publishers, Canada, 2002.

Innovest Strategic Value Advisors, "Value at Risk: Climate Change and the Future of Governance," 2002.

Innovest Strategic Value Advisors, "Innovest Attracts New Equity from Europe's Largest Pension Fund," Press release, January 27, 2003. Available at: www.innovestgroup.com.

International Financial Services, London (IFSL), "Financial Services' Liberalisation," February 2003.

Investment Company Institute, "Mutual Fund Fact Book," 2003.

Johnson, Simon, Peter Boone, Alasdair Breach, and Eric Friedman, "Corporate Governance in the Asian Financial Crisis," William Davidson Institute Working Papers Series, 1999.

Kiernan, Matthew, "Socially Responsible Investing: From the Margins to the Mainstream" in Camejo, Peter, The SRI Advantage: Why Socially Responsible Investing Has Outperformed Financially, New Society Publishers, Canada, 2002.

Kiernan, Matthew, "Making SRI Mainstream," Financial Times, March 3,2003.

Klapper, Leora F. and Inessa Love, "Corporate Governance, Investor Protection, and Performance in Emerging Markets," World Bank Policy Research Working Paper 2818, April 2002.

Kurtz, Lloyd and Dan DiBartolomeo, "Socially Screened Portfolios: An Attribution Analysis of Relative Performance," Journal of Investing, Fall, 1996.

Kurtz, Lloyd, "Mr. Markowitz, Meet Mr. Moskowitz: A Review of Studies on Socially Responsible Investing" in Bruce, Brian R. ed., The Investment Research Guide to Socially Responsible Investing, Investment Research Forums, U.S., 1998.

Leeds, Roger, and Julie Sunderland, "Private Equity Investing in Emerging Markets," Journal of Applied Corporate Finance, Vol. 15, No.4, Spring 2003.
Luck, Christopher, "Factoring Out Sector Bets" in Camejo, Peter, The SRI Advantage: Why Socially Responsible Investing Has Outperformed Financially, New Society Publishers, Canada, 2002.

Lydenberg, Steven D., "Envisioning Socially Responsible Investing: A Model for 2006." Available at: http://www.domini.com/common/pdf/SL_SRI_Vision.pdf.

Malherbe, Stephan and Nick Segal, "Corporate Governance in South Africa," discussed at the Policy Dialogue Meeting on Corporate Governance in Developing Countries and Emerging Markets, OECD Headquarters, April 23-24, 2001.

Monks, Robert A.G., The New Global Investors: How Shareowners Can Unlock Sustainable Prosperity Worldwide, Capstone Publishing Ltd. U.K., 2001.

Nesbitt, Stephen L., "The CalPERS Effect on Targeted Company Share Prices," Wilshire Associates, 1997.

Pava, Moses L. and Joshua Krausz, Corporate Responsibility and Financial Performance: The Paradox of Social Cost, Quorum/Greenwood, U.S., 1995.

Prowse, Stephen, "Corporate Governance: Emerging Issues and Lessons from East Asia," Working Paper, Federal Reserve Bank of Dallas, Research Department, 1998.

Rea, John, "U.S. Emerging Market Funds: Hot Money or Stable Source of Investment Capital?," ICI Perspective, Volume 2, No.6, December 1996.

Repetto, Robert and Duncan Austin, Pure Profit: The Financial Implications of Environmental Performance, World Resources Institute, U.S., 2000.

Repetto, Robert and Duncan Austin, Coming Clean: Corporate Disclosure of Financially Significant Environmental Risks, World Resources Institute, U.S., 2001.

Schueth, Steven J., "Socially Responsible Investing in the U.S." in Camejo, Peter, The SRI Advantage: Why Socially Responsible Investing Has Outperformed Financially, New Society Publishers, Canada, 2002.

Sevastopulos, Demetri, "Four Banks adopt IFC Agreement," Financial Times, 9 April 2003.

Silva Junior, Altamiro, "Transparencia Gera Ganhos na Bovespa," Gazeta Mercantil, February 4, 2003.

Simpson, Anne, "The Shareholder Activist Role in Emerging Markets," remarks at International Corporate Governance Network Annual Conference, July 14, 2000.

SiRi Group, "Green, social and ethical funds in Europe 2002," October 15, 2002. Available at: www.sirigroup.org.

Social Investment Forum, "Shareholder Activists Garner Record Support in 2002, Corporate Governance Advocates Boost Social Resolutions," June 26, 2002. Available at: www.socialinvest.org..

Social Investment Forum, "Socially Responsible Funds Earning Top Marks Edged even Higher in 2002," Press Release, January 29, 2003. Available at: www.socialinvest.org.

Social Investment Forum, "2001 Report on Socially Responsible Investing Trends in the United States, 2001". Available at: www.socialinvest.org.

Social Investment Organization of Canada, "Canadian Social Investment Review 2002: A Comprehensive Survey of Socially Responsible Investment in Canada," March 2003. Available at: www.socialinvestment.ca.

Sparkes, Russell, Socially Responsible Investment: A Global Revolution, John Wiley & Sons, U.K., 2002.

SRI Compass at www.sricompass.

Statman, Meir, "Socially Responsible Mutual Funds," Financial Analysts Journal, 2000.

Statman, Meir, "Socially Responsible Mutual Funds," Association for Investment Management and Research, 2000.

Stone, Bernell K., John B. Guerard Jr., Mustafa N. Gultekin, and Greg Adams "Socially Responsible Investment Screening: Strong Evidence of No Significant Cost for Actively Managed Portfolios," expanded version of paper presented at Making a Profit While Making a Difference, Third Annual Conference, June 1999.

SustainAbility and International Finance Corporation, Developing Value: The Business Case for Sustainability in Emerging Markets, SustainAbility Ltd., U.K., 2002.
SustainAbility and United Nations Environment Programme, Buried Treasure: Uncovering the Business Case for Corporate Sustainability, SustainAbility Ltd. U.K., 2001.

Transition Newsletter, "Corporate Governance in Russia: Regime Change Required." Available at: www.worldbank.org/transitionnewsletter.

UBS Warburg, "Sustainability Investment: The Merits of Socially Responsible Investing," Alternative Investment Strategies, Global Equity Research, 2001. Available at: www.ubswarburg.com.

Wolper, Greg, "A 2002 Survival Story." Available at: www.morningstar.com.


COURTESY OF NBD BANK

Appendix A – Prudent Man Rule

For years, one of the greatest legal and psychological barriers to the use of SRI by institutional investors in developed countries was the perception that screening investments along SRI lines violated the so-called "prudent man rule." Narrowly interpreted, the rule could be understood to forbid consideration of any non-financial effects caused by investment or business activity. However, interpretations of the rule have been broadening, particularly in light of the abundant and growing evidence that "nonfinancial" effects can, in turn, affect the long-term financial performance of a company or industry.

The rule, which is now followed by most institutional investors around the world, was first set forth by a Massachusetts judge, Samuel Putnam, in 1830. It states: "All that can be required of a trustee to invest, is, that he shall conduct himself faithfully and exercise a sound discretion. He is to observe how men of prudence, discretion, and intelligence manage their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income, as well as the probable safety of the capital to be invested." In the late 1800s, this rule was interpreted to mean that trustees could not speculate and they could not invest in stocks, property, or any investment that might depreciate in value. Indeed by the 1850s most U.S. states had lists of permissible and nonpermissible investments.

Beginning in the 1950s, however, the concept of prudence began to evolve to take into consideration the overall risk and return of a portfolio and the need to diversify investments instead of focusing solely on the risk and return of each particular investment. With the overwhelming acceptance of portfolio theory in economics, the late 1970s saw severe criticism of the prudent man rule throughout the U.S. Shortly thereafter, the Department of Labor included portfolio theory into the Employee Retirement Income Security Act which, to this day, is still considered the gold standard against which trustees measure their duties and obligations. This action forced most state legislatures to revise the standards against which trustees were judged.

The process finally culminated in 1994 with the publication of the Uniform Prudent Investor Act. As commonly understood, the new act requires trustees (1) to be prudent and act as other careful investment professionals would; (2) to diversify and thereby minimize risk; (3) to monitor their investments and make necessary changes; and (4) to be loyal and act solely in the best interests of their beneficiaries. As such, the new rule allows institutional investors to consider the overall portfolio, and, some argue, to pay closer attention to the social responsibility of their investments.

Appendix B – SRI Retail Mutual Funds' Emerging-Market Holdings

SRI Retail Mutual Funds' with Emerging-Market Holdings
(see page 52 for Fund website addresses)

Country	Fund Name	Fund Type	Total Assets ($US millions)	Total Assets (Local currency millions)	Percentage in Emerging Markets (%)	Emerging Market Assets ($US millions)	Fund Performance (%)					Geographic Distribution of Emerging Market Investments				
							1 month	3 month	1 year	3 year	5 year	EE*	Asia	LA*	ME*	Afr*
Canada	Ethical Balanced Fund [1]	Balanced	278.8	442.5	0.6	1.6	NA	NA	-7.8	-2.6	-0.8		x	x		
	Ethical Global Equity Fund [1]	Equity	17.3	27.4	3.3	0.60	NA	NA	-20.6	NA	NA	x		x		
	Ethical Global Growth Fund [1]	Equity	0.70	1.1	3.9	0.0	NA	NA	NA	NA	NA		x			
	Ethical International Equity Fund [1]	Equity	0.90	1.4	5.5	0.0	NA	NA	NA	NA	NA		x	x		x
	Ethical North American Fund [1]	Equity	106.0	168.3	.6	0.7	NA	NA	-33.7	-23.4	-3.2		x			
	Ethical Pacific Rim Fund [1]	Equity	10.7	17.0	16.4	1.8	NA	NA	-12.3	-25.4	-13.0		x			
	Investors Group Summa [1]	Equity	1,217.3	1,902.0	0.7	8.5	-3.6	-4.8	-24.0	-8.4	2.0		x			
	Mackenzie Universal Global Ethics Cap Class [1]	Equity	5.7	8.9	4.6	0.3	-4.5	1.1	NA	NA	NA		x			
	Meritas International Equity Fund	Equity	1,7	2.7	5.9	0.1	2.8	4.4	-20.6	NA	NA		x		x	
U.S.	Calvert World Values International Equity [6]	Equity	156.0	156.0	9.9	15.4	NA	NA	-4.6	-14.0	-5.3	x	x	x		x
	MMA Praxis International [1]	Balanced	86.9	86.9	5.9	5.1	NA	NA	-19.3	-21.7	-3.2		x			
U.K.	Aberdeen World Ethical Fund [2]	Equity	32.3	20.2	3.6	1.2	NA	NA	-27.5	-49.6	NA		x	x		
	Friends Provident Stewardship International Inc [3]	Equity	67.5	43.0	0.0	-	-6.1	NA	NA	NA	NA		x			
	Henderson Ethical Fund [1]	Balanced	72.3	45.2	2.7	2.0	NA	NA	-35.4	-53.3	-31.8		x			
	Henderson Global Sustainable Investment Fund [4]	Equity	7.3	-	4.3	0.3	-3.2	NA	-26.4	NA	NA		x			
	NPI Global Care Growth (OEIC, ISA) [5]	Equity	172.2	107.6	0.0	-	NA	NA	-34.7	-56.6	-37.6		x			
	Jupiter Ecology Fund [3]	Balanced	145.8	92.3	0.1	0.1	NA	NA	-44.9	-53.0	-33.2	x	x			
Australia	Glebe Pan Asian Growth Trust [3]	Equity	3.0	5.0	20.3	0.6	NA	NA	-16.6	-10.1	-15.8		x			
Brazil	ABN AMRO Ethical Fund [1]	Equity	4.1	14.4	100.0	4.1	NA	NA	1.6	NA	NA			x		

SRI Retail Mutual Funds' with Emerging-Market Holdings

(see page 52 for Fund website addresses)

Country	Fund Name	Fund Type	Total Assets ($US millions)	Total Assets (Local currency millions)	Percentage in Emerging Markets (%)	Emerging Market Assets ($US millions)	Fund Performance (%)					Geographic Distribution of Emerging Market Investments				
							1 month	3 month	1 year	3 year	5 year	EE*	Asia	LA*	ME*	Afr*
Hong Kong	Kingsway China Fund [7]	Equity	-	-	7.0	-	4.0	NA	-9.0	-24.0	NA		x			
	Kingsway Emerging [7] Economies Fund	Equity	-	-	98.0	-	7.0	NA	-17.0	-39.0	NA		x			
	Kingsway Pacific Fund [7]	Equity	-		72.0	-	4.0	NA	-31.0	-60.0	NA		x			
	Kingsway SRI Asia Fund [7]	Equity	-		NA	-	NA	NA	NA	NA	NA		x			
Korea	Samsung Eco Equity Fund [8]	Equity	7.7	-	NA	7.7	5.6	NA	10.1	NA	NA		x			
	Samsung Eco Mixed Fund [8]	Balanced	11.0	-	100.0	11.0	1.6	NA	5.0	NA	NA		x			
Malaysia	Mayban Ethical Trust Fund [6]	Equity	39.0	150.0	9.0	39.0	NA	NA	NA	NA	NA		x			
Singapore	United Global UNIFEM Singapore Fund [6]	Equity	4.5	8.10	100.0	0.4	NA	NA	-17.1	NA	NA		x			
	African Harvest Women's Initiative Fund [6]	Balanced	6.4	47.0	100.0	6.4	NA	9.4	-1.9	9.3	NA					x
	Community Gilt Fund [6]	Bond	75.9	558.0	100.0	75.9	NA	7.4	24.3	19.3	NA					x
	Community Growth Fund [6]	Equity	128.8	947.0	100.0	128.8	NA	11.7	-4.9	7.0	2.4					x
South Africa	Fraters Earth Equity Fund [6]	Equity	4.5	33.0	100.0	4.5	NA	10.8	9.7	NA	NA					x
	The Futuregrowth Albaraka Equity Fund [6]	Equity	12.7	93.0	100.0	12.7	NA	7.7	4.0	-39.0	14.1					x
Total						330.0										

Notes:
(1) Data as of December 2002
(2) Data as of April 2003
(3) Data as of March 2003
(4) Data as of February 2003
(5) Data as of January 2003
(6) Data as of June 2003
(7) Data as of July 2003
(8) Data as of August 2003

* EE = Eastern Europe
LA = Latin America
ME = Middle East
Afr = Africa

SRI Retail Mutual Funds: Website Addresses

Country	Fund Name	Website
Canada	Ethical Balanced Fund	www.ethicalfunds.com
	Ethical Global Equity Fund	www.ethicalfunds.com
	Ethical Pacific Rim Fund	www.ethicalfunds.com
	Investors Group Summa	www.investorsgroup.com
	Mackenzie Universal Global Ethics Cap Class	www.mackenziefinancial.com
	Meritas International Equity Fund	www.meritas.ca
U.S.	Calvert World Values International Equity	www.calvertrgroup.com
	MMA Praxis International	www.mmapraxis.com
U.K.	Aberdeen World Ethical Fund	www.aberdeen-asset.co.uk
	Friends Provident Stewardship International Inc.	www.friendsprovident.co.uk
	Henderson Ethical Fund	www.henderson.com
	Henderson Global Sustainable Investment Fund	www.henderson.com
	NPI Global Care Growth (OEIC, ISA)	www.npi.co.uk
	Jupiter Ecology Fund	www.jupiteronline.co.uk
Australia	Glebe Pan Asian Growth Trust	www.glebeaust.com.au
Brazil	ABN AMRO Ethical Fund	www.fundoethical.com.br
Hong Kong	Kingsway Pacific Fund	www.kingswayfm.com
	Kingsway SRI Asia Fund	www.kingswayfm.com
	Kingsway Emerging Economies Fund	www.kingswayfm.com
	Kingsway China Fund	www.kingswayfm.com
Korea	Samsung Eco Equity Fund	
	Samsung Eco Mixed Fund	
Malaysia	Mayban Ethical Trust Fund	www.maybank2u.com.my
Singapore	United Global UNIFEM Singapore Fund	www.uobam.com.sg
South Africa	African Harvest Women's Initiative Fund	www.africanharvest.co.za
	Community Gilt Fund	www.ftnibi.com
	Community Growth Fund	www.ftnibi.com
	Fraters Earth Equity Fund	www.fraters.co.za
	The Futuregrowth Albaraka Equity Fund	www.futuregrowth.co.za

Appendix C – Sample SRI Emerging-Market Holdings

SRI Mutual Funds: Emerging-Market Holdings

Country	Company	Fund
Barbados	Everest Re Group	Ethical Balanced Fund
Brazil	Aracruz Celulose	Aberdeen World Ethical Fund, Ethical Global Equity Fund
	Copel Paranaense de Energia	Aberdeen World Ethical Fund
	Tele Norte	Calvert World Values International Equity Fund
	Unibanco	Aberdeen World Ethical Fund, Calvert World Values International Equity
China	Beijing Datang Power	Glebe Pan Asian Growth Trust
	CITIC	Glebe Pan Asian Growth Trust
	CNOOC	Kingsway China Fund
	Cosco Pacific	Kingsway China Fund
	China Insurance International	Glebe Pan Asian Growth Trust
	China Mobile	Glebe Pan Asian Growth Trust
	China Resources	Kingsway China Fund, Kingsway Pacific Fund
	Global Green Tech Group	United Global UNIFEM Singapore Fund
	Hopewell	Kingsway China Fund
	Huaneng Power	Glebe Pan Asian Growth Trust, Kingsway China Fund
	Hutchison	Kingsway China Fund
	PetroChina	United Global UNIFEM Singapore Fund, Glebe Pan Asian Growth Trust
	Qingling Motor	Kingsway China Fund
	Shandong Intl Power	Kingsway China Fund, United Global UNIFEM Singapore Fund
	Shenzhen Investment	Kingsway China Fund
	TCL	United Global UNIFEM Singapore Fund
	Travelsky Tech	Kingsway China Fund, Glebe Pan Asian Growth Trust
	Zhejiang Expressway	Glebe Pan Asian Growth Trust
Czech Republic	Cesky Radiocommunikase	Calvert World Values International Equity Fund
	Cesky Telecom	Calvert World Values International Equity Fund
Eastern Europe	East European Food Fund	Jupiter Ecology Fund
India	Bajaj	Ethical Pacific Rim Fund
	Dr. Reddy's Laboratories	Ethical Pacific Rim Fund
	HDFC Bank	Ethical Pacific Rim Fund
	Mahanagar Telephone	Ethical Pacific Rim Fund
	Dr. Reddy's Laboratories	Glebe Pan Asian Growth Trust
Indonesia	Unilever	Calvert World Values International Equity Fund
Korea	Hyundai Department Store	United Global UNIFEM Singapore Fund
	Hyundai Motor	Ethical Global Equity Fund, United Global UNIFEM Singapore Fund
	Kookmin Bank	Aberdeen World Ethical Fund, Ethical Balanced Fund, Kingsway Emerging Economies Fund,
		Kingsway Paciifc Fund,
	Kookmin Bank	United Global UNIFEM Singapore Fund
	KT Corp	Ethical Balanced Fund, Kingsway Paciifc Fund
	LG Electronics	Kingsway Emerging Economies Fund
	Samsung Electronics	United Global UNIFEM Singapore Fund
	Samsung Electronics	Aberdeen World Ethical Fund, Ethical Balanced Fund, Kingsway Emerging Economies Fund,
		Kingsway Paciifc Fund
Malaysia	AKN Technology	United Global UNIFEM Singapore Fund
	APM Automotive	United Global UNIFEM Singapore Fund
	George Kent	Glebe Pan Asian Growth Trust
	Plus Expressways	United Global UNIFEM Singapore Fund
	Ranhill Berhad	United Global UNIFEM Singapore Fund
	Renong	United Global UNIFEM Singapore Fund
	Wong Engineering	United Global UNIFEM Singapore Fund

SRI Mutual Funds: Emerging-Market Holdings

Country	Company	Fund
Mexico	Telefonos Mexicanos	Aberdeen World Ethical Fund
	Empresas ESM	Calvert World Values International Equity Fund
South Africa	African Bank	Community Gilt Fund
	African Oxygen	The Futuregrowth Albaraka Equity Fund
	Afrox Healthcare	The Futuregrowth Albaraka Equity Fund
	Alexander Forbes	Calvert World Values International Equity Fund
	Altech	Fraters Earth Equity Fund
	Allan Gray Property Trust	The Futuregrowth Albaraka Equity Fund
	AngloAmerican	Calvert World Values International Equity Fund, Fraters Earth Equity Fund
	AngloGold	Calvert World Values International Equity Fund
	Anglovaal	The Futuregrowth Albaraka Equity Fund
	BHT	Calvert World Values International Equity Fund
	BIDVest	Calvert World Values International Equity Fund
	Billiton	Calvert World Values International Equity Fund, Community Growth Fund
	Community Growth Fund	Calvert World Values International Equity Fund
	Delta Electrical	Community Growth Fund
	Devbank	Community Gilt Fund
	Eskom	Community Gilt Fund
	Gencor	Calvert World Values International Equity Fund
	Group Five	The Futuregrowth Albaraka Equity Fund
	Harmony	Community Gilt Fund
	Impala Platinum	Community Growth Fund, The Futuregrowth Albaraka Equity Fund
	Imperial	Community Growth Fund
	Investec	Calvert World Values International Equity Fund, Fraters Earth Equity Fund
	Iscor	The Futuregrowth Albaraka Equity Fund
	MTN Group	Community Growth Fund
	Nampak	Calvert World Values International Equity Fund, Fraters Earth Equity Fund, The Futuregrowth Albaraka Equity Fund
	Naspers	Fraters Earth Equity Fund
	Nedbank	Community Gilt Fund
	Nedcor	Calvert World Values International Equity Fund
	Old Mutual	Calvert World Values International Equity Fund
	Pik n Pay	Calvert World Values International Equity Fund
	Real Africa	Community Growth Fund
	Remgro	Fraters Earth Equity Fund
	RMBH	Fraters Earth Equity Fund
	SABMiller	Calvert World Values International Equity Fund
	Sanlam	Calvert World Values International Equity Fund
	Sapol	Calvert World Values International Equity Fund, Community Growth Fund, Fraters Earth Equity Fund, The Futuregrowth Albaraka Equity Fund
	Sassi	Calvert World Values International Equity Fund
	South African Breweries	Community Growth Fund
	Standard Bank Investment Corp	Calvert World Values International Equity Fund
	Steinhoff International	Calvert World Values International Equity Fund, Community Growth Fund
	Tongaat-Hulett	Fraters Earth Equity Fund, The Futuregrowth Albaraka Equity Fund
	Transnet	Community Gilt Fund
	Umgeni	Community Gilt Fund
	United Service Technologies	Community Growth Fund, Calvert World Values International Equity Fund
	Venfin	Calvert World Values International Equity Fund
	Woolworths	Fraters Earth Equity Fund
Taiwan	Taiwan Semiconductor	Calvert World Values International Equity Fund
	United Microelectronics	Calvert World Values International Equity Fund
	Advanced Semiconductor	United Global UNIFEM Singapore Fund
	Benq Corporation	United Global UNIFEM Singapore Fund
	Far Eastern Textile	United Global UNIFEM Singapore Fund
	Lite-on It Corporation	United Global UNIFEM Singapore Fund
	Realtek Semiconductor	United Global UNIFEM Singapore Fund
	Sinopac Holdings	United Global UNIFEM Singapore Fund
	Taipei Bank	United Global UNIFEM Singapore Fund
	Taiwan Semiconductor	United Global UNIFEM Singapore Fund
	Taiwan Semiconductor	Investors Group Summa
	Ishares MSCI Taiwan Index	Glebe Pan Asian Growth Trust

SRI Mutual Funds: Emerging-Market Holdings

Country	Company	Fund
Thailand	Land & Houses Public	Calvert World Values International Equity Fund
	National Finance Public	Kingsway Emerging Economies Fund
	Siam Comm. Bank	Kingsway Emerging Economies Fund
	Bangkok Bank	Kingsway Emerging Economies Fund
	Thai Union Frozen	Kingsway Emerging Economies Fund
	Siam Cement Corp	Kingsway Emerging Economies Fund
	Siam Cement Corp.	Kingsway Emerging Economies Fund
	Quality House	United Global UNIFEM Singapore Fund
	Siam Commercial Bank	United Global UNIFEM Singapore Fund
	Thai Farmers Bank	Glebe Pan Asian Growth Trust
Vietnam	Beta Vietnam Fund	Jupiter Ecology Fund

Data for Calvert World Values International Equity Fund from Septmber 2002.
Data for Ethical Funds from June 2002
Data for Aberdeen World Ethical Fund from September 2002
Data for Glebe Pen Asian Growth Trust Fund from March 2003
Data for Kingsway Funds from March 2003
Data for United Global UNISEM Singapore Fund from January 2003
Data for South African funds from 2002
Data for Investors Group Summa from December 2002

Appendix D – SRI and CSR Associations and Research Organizations

SRI and CSR Associations and Research Organizations	
Organization	**Web Address**
Acción Empresarial	www.accionempresarial.cl
Alexander Forbes	www.alexanderforbes.co.za
Arese	www.arese-sa.com
As You Sow	www.asyousow.org
Avanzi	www.avanzi.org
Association for Sustainable & Responsible Investment in Asia	www.asria.org
Business Council for Sustainable Development	www.wbcsd.ch
Business for Social Responsibility	www.bsr.org
Canadian Business for Social Responsibility	www.cbsr.ca
Centre Info	www.philias.org or www.centreinfo.ch
CERES	www.ceres.org
Corporate Monitor	www.corporatemonitor.com.au
CSR Europe	www.csreurope.org
Caring Company	www.caringcompany.se
Dutch Association of Investors for Sustainable Development	www.vbdo.nl
Ecodes	www.ecodes.org
EMPRESA	www.empresa.org
Ethibel/ Stockatstake	www.ethibel.org
Ethical Investment Association	www.eia.org.au
Ethical Investment Research Service	www.eiris.org
EthicScan	www.ethicscan.ca
Ethos Swiss Investment Foundation	www.ethosfund.ch
European Social Investment Forum	www.eurosif.org
Failaka International Inc	www.failaka.com
General Council for Islamic Banks and Financial Institutions	www.islamicbankingonline.com
Good Bankers	www.goodbankers.co.jp
Innovest Strategic Value Advisors	www.innovestgroup.com
Institutional Shareholder Services (ISS)	www.issproxy.com
Institute for the Development of Social Investment	www.idis.org.br
Institute for Market, Environment and Society – IMUG	www.imug.de
Interfaith Center on Corporate Responsibility	www.iccr.org
International Association of Investors in the Social Economy	www.inaise.or
International Working Group of the Social Investment Forum	iwg.1793@talk.coopamerica.org
Investor Responsibility Research Center	www.irrc.org
Just Pensions	www.justpension.org
KLD Research & Analytics	www.kld.com
Michael Jantzi Research Associates	www.mjra-jsi.com
National Business Initiative	www.nbi.org.za
Pensions & Investment Research Consultants Limited	www.pirc.co.uk
Share	www.share.ca
Shareholder Action Network	www.shareholderaction.org
SIF France	www.sri-in-progress.com
SIF Germany	www.forum-ng.de
SIF Italy	www.finanzasostenibile.it
SustainAbility	www.sustainability.com
Sustainability, Research and Intelligence (SR&I)	NA
Sustainable Asset Management	www.sam-group.com
Social Investment Organization (Canada)	www.socialinvestment.ca
Social Venture Network	www.svn.org
SRI Compass	www.sricompass.org
SRI World Group, Inc.	www.sriworld.com
Sustainable Investment Research International	www.sirigroup.org
Triple Bottom Line	www.tbli.org
UK Social Investment Forum	www.socialinvest.org
US Social Investment Forum	www.uksif.org
Verite	www.verite.org

CSR & SRI Leadership Organizations

Organization	Web Address
Africa Institute on Corporate Citizenship	www.aiccafrica.com
Avina	www.avina.net
CEBDS	www.cebds.com
Ethos Institute of Brazil	www.ethos.org.br
IBASE	www.ibase.org.br
Socioambiental	www.socioambiental.org

Leadership Initiatives

Organization	Web Address
Carbon Disclosure Project	www.cdproject.net
Forum for the Future	www.forumforthefuture.org.uk
Global Compact	www.unglobalcompact.org
Global Reporting Initiative	www.globalreporting.org
The London Principles of Sustainable Finance	NA
UNEP Finance Initiatives	www.unepfi.net

Notes

1 For social investors, sustainable development is "ensuring long-term business success while contributing towards economic and social development, a healthy environment and a stable society" as found in "Developing Value: The Business Case for Sustainability in Emerging Markets," SustainAbility Ltd., U.K. and is used interchangeably with the concept of socially responsible investment.

2 Note: screened funds only total $1.4 trillion; shareholder advocacy funds only, total $300 billion; and funds with screening and shareholder advocacy total $600 billion. For more detail, see Social Investment Forum, "2001 Report on Socially Responsible Investing Trends in the United States," 2001. Available at: www.socialinvest.org.

3 CLSA Emerging Markets, "Make Me Holy… But Not Yet," February, 2002. Available at: www.clsa.com.

4 Social Investment Forum, "2001 Report on Socially Responsible Investing Trends in the United States," 2001. Available at: www.socialinvest.org.

5 See SustainAbility and International Finance Corporation, "Developing Value: The Business Case for Sustainability in Emerging Markets."

6 While community investment is an important part of SRI and has many direct and significant sustainability impacts, the focus of this report is publicly traded securities. Community investment constitutes a small fraction of SRI worldwide (likely less than $8 billion). There are many different approaches to community investment, including social venture capital, community investment funds, and low- income housing funds, the great majority of which target developed-country activities. There are, however, as many as 200 emerging-market "community investment funds," controlling approximately $2 billion. These include 34 organizations (private and NGO) supplying capital to microfinance organizations and some 150 to 160 private equity SME funds, such as the Small Enterprise Assistance Fund. For more information see Enterprising Solutions Global Consulting, "Social Investment, Microfinance, & SME: The Potential for Social Investment in Developing Countries", Enterprising Solutions Brief No. 3. Available at: www.esglobal.com.

7 This report also recommends (1) an investigation of commercial banks as a potential lever for sustainable development and (2) an assessment of the conventional SRI practice of investing in banks without adequate assessment of sustainable impacts of portfolio lending.

8 "Global Economic Prospects and the Developing Countries," World Bank, 2002.

9 Data sources and types vary by country and have been standardized where possible. Differences in data collection methodologies have also been standardized where possible and noted where divergences are material or notable. As a result, figures for the U.S., Canada, Australia, the U.K., Japan, France, and Germany are reported separately, while Asia and the rest of Europe are combined.

10 Domini, Amy, Socially Responsible Investing: Making a Difference and Making Money, Dearborn Trade, U.S., 2001.

11 See Social Investment Forum, "2001 Report on Socially Responsible Investing Trends in the United States."

12 Social Investment Forum, Press Release, July 30, 2002. Available at: http://www.socialinvest.org/Areas/News/020730.htm.

13 Ibid.

14 Sparkes, Russell, Socially Responsible Investment: A Global Revolution, John Wiley & Sons, U.K., 2002.

15 Ibid

16 The complete U.K. pension fund law amendment is available at: http://www.legislation.hmso.gov.uk/si/si1999/19991849.htm. The precise wording of the 2000 U.K. pension law is that pension funds must disclose: "(1) the extent (if at all) to which social, environmental or ethical considerations are taken into account by trustees in the selection, retention, and realization of investments; and (2) the policy (if any) directing the exercise of the rights (including voting rights) attaching to investments."

17 Social Investment in Europe news brief available at: http://www.mjrajsi.com/whatis_sri.asp?section=5&level_2=17&level_3=0.

18 Information on institutional SRI available at: www.uksif.org/Z/Z/Z/sri/data/index.shtml#inst.

19 Social Investment Organization of Canada, "Canadian Social Investment Review 2002: A Comprehensive Survey of Socially Responsible Investment in Canada," 2002, www.socialinvestment.ca.

20 Data from www.sricompass.com as of March 2003.

21 See Sparkes, Socially Responsible Investment: A Global Revolution.

22 Includes Japan (Sho Ikeda, GoodBankers, email, March 31, 2003), Korea (Won Jae Lee, email, August 26, 2003) and Singapore, Malaysia, and Hong Kong (company fund information). Note on Japan: the value of the Japanese stock market has fallen 60% since Japan's first eco-fund was launched in 1999 and individual investors have made sizeable redemptions in their holdings. Over the same time period, the yen has depreciated against the dollar by roughly 20%. As a result, the dollar value of Japanese eco funds has declined considerably since 1999. (Sho Ikeda, GoodBankers, email, September 19, 2003).

23 Ethical Investment Association, "Socially Responsible Investment in Australia Benchmark Survey," 2002. Available at: http://www.eia.org.au/pdf/eia-benchmarking-200survey.pdf.

24 See Social Investment Forum, "2001 Report on Socially Responsible Investing Trends in the United States." Available at:

www.socialinvest.org. Note that accounting for the assets of shareholder resolution sponsors differs from country to country. In the U.S., the total assets held by a sponsor or cosponsor of a resolution are counted as a socially responsible investment. In other countries, only the asset value of the voting shares is counted.

[25] 2003 Shareholder Proxy Season Overview available at: http://www.iccr.org/news/03seasonoverview.PDF.

[26] Innovest Strategic Value Advisors, “Carbon Finance and the Global Equity Markets," February 2003.

[27] European Social Investment Forum, online newsletter, March 30, 2003. Available at: http://www.eurosif.org/newsl-2003-03.shtml.

[28] See Draft Report of the Extractive Industries Transparency Initiative (EITI), London Conference, 17 June 2003. http://www.dfid.gov.uk/News/News/files/eiti_draft_report.htm.

[29] See Hale, Jon F., “Seeing Stars: SRI Mutual Fund Performance” in Camejo, Peter, The SRI Advantage: Why Socially Responsible Investing Has Outperformed Financially, New Society Publishers, Canada, 2002. For a fuller treatment of SRI performance and rebuttals to Lipper’s arguments, see literature reviews by Camejo, Peter, The SRI Advantage: Why Socially Responsible Investing Has Outperformed Financially, New Society Publishers, Canada, 2002. Kurtz (1998), and Camejo (2002); Kurtz, Lloyd, “Mr. Markowitz, Meet Mr. Moskowitz: A Review of Studies on Socially Responsible Investing” in Bruce, Brian R. ed., The Investment Research Guide to Socially Responsible Investing, Investment Research Forums, U.S., 1998. Pava, Moses L. and Joshua Krausz, Corporate Responsibility and Financial Performance: The Paradox of Social Cost, Quorum/Greenwood, U.S., 1995.

[30] Domini 400 Sources It should be noted that a modified Sharpe ratio assessment of Domini by Statman (2000) found the risk-adjusted returns for the DSI from 1990 to 1998 to be higher than those of the S&P 500. More information on the DSI available at: www.kld.com.

[31] Current Jantzi Social Index performance data available at: http://www.mjrasi.com/current_issues.asp?section=4&level_2=13&level_3=0.

[32] Social Investment Forum, New Release, July 30, 2002. Available at: http://www.socialinvest.org/Areas/News/020730.htm.

[33] European Photovoltaic Industry Association and Greenpeace, “Solar Generation”, 2001. Available at: http://www.greenpeace.org/reports/exsummary?item_id=14945&archived=&campaign_id=4012. Green, Catherine and Amy Kemen, “US Organic Farming in 2000 and 200: Adpotion of Certified Systems,” U.S. Department of Agriculture, 2003. Available at: http://organicconsumers.org/organic/organicstats2002.pdf.

[34] Bragdon J.H., and J. Marlin, “Is pollution profitable?,” Risk Management 19: No. 4, 1972.

[35] SustainAbility and United Nations Environment Programme, “Buried Treasure: Uncovering the Business Case for Corporate Sustainability,” SustainAbility Ltd. U.K., 2001.

[36] Kiernan, Matthew, “Socially Responible Investing: From the Margins to the Mainstream” in Camejo, Peter, The SRI Advantage: Why Socially Responsible Investing Has Outperformed Financially, New Society Publishers, Canada, 2002.

[37] Innovest Strategic Value Advisors, “Innovest Attracts New Equity from Europe’s Largest Pension Fund,” Press release, January 27, 2003. Available at: www.innovestgroup.com.

[38] Hawley, James P and Andrew T. Williams, “Can Universal Owners Be Socially Responsible Investors?” in Camejo, Peter, The SRI Advantage: Why Socially Responsible Investing Has Outperformed Financially, New Society Publishers, Canada, 2002.

[39] Camejo, Peter, The SRI Advantage: Why Socially Responsible Investing Has Outperformed Financially, New Society Publishers, Canada, 2002.

[40] Angelides, Phil, Treasurer for the State of California and member of the Board of Directors of CalPERS, interviews on December 7, 2001 and June 10, 2002.

[41] Bloomberg definition sourced from Camejo, Peter, The SRI Advantage: Why Socially Responsible Investing Has Outperformed Financially, New Society Publishers, Canada, 2002.

[42] See Camejo, Peter, The SRI Advantage: Why Socially Responsible Investing Has Outperformed Financially. Michael Lipper is the founder and Chairman of Lipper Analytical Services, a leading Wall Street provider of fund information and analysis.

[43] Chen, Larry, “Sustainability Investment”, Global Equity Research, UBS Warburg, August 2001, pg.13.

[44] See Camejo, Peter, The SRI Advantage: Why Socially Responsible Investing Has Outperformed Financially.

[45] Luck, Christopher, “Factoring Out Sector Bets” in Camejo, Peter, The SRI Advantage: Why Socially Responsible Investing Has Outperformed Financially, New Society Publishers, Canada, 2002.

[46] Abramson, Lorne and Dan Chung, “Socially Responsible Investing: Viable for Value Investors,” The Journal of Investing, Fall, 2000.

[47] Bauer, Rob, Kees Koedijk, and Roger Otten, “International Evidence on Ethical Mutual Fund Performance and Investment Style,” Maastricht University, Limburg Institute of Financial Economics, November 2002.

[48] de Cleene, Sean, Executive Director, African Institute for Corporate Citizenship.

[49] Becker, Eric, and Patrick McVeigh, “Social Funds in the United States: Their History, Financial Performance and Social Impacts,” presented at The Second National Heartland Labor-Capital Conference, April 29-30, 1999, page 27.

[50] For an informative review of the effect of institutional activism on a firm's corporate governance, see Karpoff, Jonathan, "The Impact of Shareholder Activism on Target Companies: A Survey of Empirical Findings," Working Paper, University of Washington, August 2001 which compares the results of 20 empirical studies including: Opler, Tim and Jonathan Slobokin, "Does Coordinated Institutional Activism Work? An Analysis of the Activities of the Council of Institutional Investors," October 1995; Del Guercio, Diane and Jennifer Hawkins, "The Motivation and Impact of Pension Fund Activism," Draft paper for Journal of Financial Economics, May 1998; Wahal, Sunil, "Pension Fund Activism and Firm Performance," Journal of Quantitative Analysis, Vol.31, No.1, March 1996.

[51] Del Guercio, Diane and Jennifer Hawkins, "The Motivation and Impact of Pension Fund Activism," Draft paper for Journal of Financial Economics, May 1998. page 6.

[52] Pacheco, Brad, CalPERS, email, August 19, 2003.

[53] California Public Employees' Retirement System, "Annual Investment Report," June 30, 2001. Note: while CalPERS screening process would qualify by any test as SRI, the institution does not define their investments as socially responsible.

[54] Pensions & Investments, "Top 200 Defined Benefit Plans with Assets in Emerging Markets," January 21, 2002. Available at www.pisurvey.com/02sp200.doc. Research could not confirm emerging market assets held by these fifteen institutional investors were screened for social and or environmental considerations, though they were recognized by the Social Investment Forum as engaging in some form of social investment.

[55] All fund data including performance figures are taken from company materials found on websites, except where noted otherwise. For website addresses see Appendix B.

[56] Alexander Forbes Asset Consultants, "Survey of Targeted Development Investment Vehicles," June 2003. Note: two Islamic funds included in the Forbes survey are included in our report under Islamic funds. There are also an estimated 7 to 17 social investment funds in South Africa not included in this report. According to the African Institute of Corporate Citizenship, these funds focus almost exclusively on empowerment and infrastructure provision to previously disadvantaged communities.

[57] Failaka International, "Failaka Islamic Fund Review Year End 2001," 2002. Geographically disaggregated asset holding data was not available.

[58] Long View Fund sponsored resolution asking Unocal to comply with ILO conventions in Burma which received over 32% of the vote, see ICCR website for details of shareholder actions against Unocal at: http://search.atomz.com/search/?sp-q=Unocal&sp-a=000830f4-sp00000001.

[59] Alexander Forbes Asset Consultants, "Surcey of Targeted Development Investment Vehicles," June 2003.

[60] Chris Wells, Social & Environmental Risk Manager, Banco Real ABN AMRO, interview, April 23, 2003.

[61] Fund fact sheets available at www.kingswayfm.com.

[62] "IGC e o melhor indice de bolsa em Latam, USA e Espanha," Economatica, April, 2003. Available by request at: www.economatica.com.

[63] Gledson de Carvalho, Antonio, "Efeitos da Migracao para os Niveis de Governanca da BOVESPA," 2003. Available at: www.bovespa.com.br.

[64] CLSA Emerging Markets, "Make Me Holy… But Not Yet," February, 2002. Available at: www.clsa.com.

[65] The Enterprising Solutions poll took place during September 2001 and the late winter/spring of 2002. Of the 72 professionals contacted, a total of 34 were polled, for a 47% response rate. The poll represents approximately 6% of the estimated 600 SRI professionals (self-identified) in the United States. Demand is defined as total demand from among interviewees' client base. It includes existing and potential future investments. See Enterprising Solutions Global Consulting, "Social Investment Microfinance & SMEs: The Potential for Social Investment in MFIs and SMEs in Developing Countries," Enterprising Solutions Brief No. 3. Available at www.esglobal.com.

[66] Enterprising Solutions Global Consulting, "Social Investment Microfinance & SMEs: The Potential for Social Investment in MFIs and SMEs in Developing Countries," Enterprising Solutions Brief No. 3. Available at: www.esglobal.com. The poll demand estimate calculation:

> (Estimated Interviewees' Client Demand for Emerging Market High Impact SRI / Total Interviewee Portfolio) x Total Actively managed SRI funds (or 0.8% x $600 billion).

Demand is defined as total demand from among interviewees' client base. It includes existing and future potential investments.

[67] The Enterprising Solutions poll interviewed representatives of 34 SRI firms compared to only 12 for this report. Some professionals interviewed for this report were also interviewed for the Enterprising Solutions poll.

[68] African Institute of Corporate Citizenship, "Socially Responsible Investment in South Africa,"January 2002.

[69] See Fallaka International, "Failaka Islamic Fund Review Year End 2001."

[70] It is important to note that activities are not discrete among organizations listed. For example, issue leadership can come from any of the listed organizations with different levels of credibility.

[71] Reuters, "JSE picks research firm for new index," July 25, 2003. Available at: www.business.iafrica.com/news/257273.htm.

[72] Siebels-Kilnes, Jane, CEO and President, Green Cay Asset Management, interview, April 18, 2003.

[73] Johnson, Simon, Peter Boone, Alasdair Breach, and Eric Friedman, "Corporate Governance in the Asian Financial Crisis," William Davidson Institute Working Papers Series, 1999.

[74] Claessens, Stijn, Simeon Djankov, Joseph P.H. Fan, and Larry

H.P. Lang, "Expropriation of Minority Shareholders: Evidence from East Asia," World Bank Policy Research Working Paper 2088, March 1999.

75 Fremond, Olivier, and Mierta Capital, "The State of Corporate Governance," World Bank Policy Research Working Paper 2858, June 2002, pg.6.

76 See Fremond, Olivier, and Mierta Capital, "The State of Corporate Governance."

77 Prowse, Stephen, "Corporate Governance: Emerging Issues and Lessons from East Asia," Working Paper, Federal Reserve Bank of Dallas, Research Department, 1998.

78 Villani, Pedro, Portfolio Manager, ABN AMRO Asset Management (Brasil) Fundo Ethical, interview, March, 2003.

79 Persaud, Avinash quoted from draft review of this report.

80 Maia, Luiz, CEO, ABN AMRO Asset Management (Brasil), interview, March, 2003.

81 See SustainAbility and International Finance Corporation, "Developing Value: The Business Case for Sustainability in Emerging Markets."

82 CLSA Emerging Markets, "Make Me Holy… But Not Yet," February, 2002, and CLSA Emerging Markets, "Saints and Sinners: Who's Got Religion," 2001. Both available at: www.clsa.com.

83 Ibid.

84 This study is particularly interesting as it took one variable – corporate environmental standards – and correlated it to stock value. See Hart, Stuart, Glen Dowell and Bernard Yeung, "Do Corporate Global Environmental Standards Create or Destroy Market Value?," Management Science, vol. 46 no. 8, August 2000.

85 The ratio of the value of a firm (or the weighted average firm in the financial markets) to the net replacement cost of firm assets. A measure of valuation.

86 Persaud, Avinash, "Globally Responsible Investment."2003. Available at: www.gresham.ac.uk.

87 See Persaud, Avinash, (2003).

88 Karmin, Craig and Jonathan Karp, "Brazilian Market Tries Friendly Approach," Wall Street Journal, May 10, 2001.

89 Ibid.

90 Malherbe, Stephan and Nick Segal, "Corporate Governance in South Africa," discussed at the Policy Dialogue Meeting on Corporate Governance in Developing Countries and Emerging Markets, OECD Headquarters, April 23-24, 2001.

91 More information available at: www. ftse.jse.co.za/new_indices/sri.

92 Reuters, "JSE picks research firm for new index," July 25, 2003. Available at: www.business.iafrica.com/news/257273.htm.

93 CalPERS, "CalPERS Adopts New Model for Investing in Emerging Markets," Press release, February 20, 2002. Available at: www.calpers.com.

94 See CLSA Emerging Markets, "Make Me Holy… But Not Yet," and "Saints and Sinners: Who's Got Religion."

95 Siebels-Kilnes, Jane, CEO and President, Green Cay Asset Management, interview April 18, 2003.

96 Villani, Pedro, Portfolio Manager, ABN AMRO Asset Management (Brasil) Fundo Ethical, interview, March, 2003.

97 Leeds, Roger, and Julie Sunderland, "Private Equity Investing in Emerging Markets," Journal of Applied Corporate Finance, Vol. 15, No.4, Spring 2003. Malherbe, Stephan and Nick Segal, "Corporate Governance in South Africa," discussed at the Policy Dialogue Meeting on Corporate Governance in Developing Countries and Emerging Markets, OECD Headquarters, April 23-24, 2001.

98 Data on minimum fund investments at Mayban available at: http://www.maybank2u.com.my/consumer/investments/invest-ment_prod_mayban_ethical_trust_fund.shtml. In Mexico, see for example V2 Investment Product from Banco Bital, http://dsrefw02.bital.com.mx/aptrix/bitalinternetpub.nsf/Content/Bital V2_A. Data for the ABN AMBRO Fundo Ethical provided by Chris Wells, interview, April 27, 2002.

99 Personal communications with a member of the Board of Directors, Latin American Pension Fund Managers Association.

100 UNEP Finance Initiatives (UNEP FI) is an alliance between the United Nations Environment Program (UNEP) and over 275 financial institutions including commercial banks, investment banks, insurance companies, fund managers, multilateral development banks and venture capital funds created to "develop and promote the linkages between the environment and financial performance." UNEP FI focuses on getting firms in the financial services sector to commit to environmental sustainability in three areas of their operations: (i) internal culture and environmental practices; (ii) inclusion of environmental risk in the institution's normal risk assessment process and (iii) development of financial products and services that promote environmental sustainability.

101 Angelides, Phil , Treasurer for the State of California and member of the Board of Directors of CalPERS, interviews on December 7, 2001 and June 10, 2002. Nesbitt, Stephen L. "The CalPERS Effect on Targeted Company Share Prices," Wilshire Associates, 1997.

102 More corporate governance facts and statistics available at: http://www.calpers.com/about/factglan/corpgov/corpgov.pdf.

103 Chris Wells, Social & Environmental Risk Manager, Banco Real ABN AMRO, interview, March 2003.

104 Luiz Maia, CEO, ABN AMRO Asset Management (Brasil), interview, March, 2003.

105 Villani, Pedro, Portfolio Manager, ABN AMRO Asset Management (Brasil) Fundo Ethical, invterview, March, 2003.

[106] Chris Wells, Social & Environmental Risk Manager, Banco Real ABN AMRO, interview, March 2003.

[107] Information provided by Green Cay Asset Management available at: www.greencayasset.com.

[108] See Johnson et al. "Corporate Governance in the Asian Financial Crisis."

[109] See Claessens et al. "Expropriation of Minority Shareholders: Evidence from East Asia."

[110] Fremond, Olivier, and Mierta Capital, "The State of Corporate Governance," World Bank Policy Research Working Paper 2858, June 2002, pg. 6.

[111] See Fremond et al., "The State of Corporate Governance."

[112] Ewing,R. "Corporate Governance Can Drive China's Reform," The Asian Wall Street Journal, November 22, 2002.

[113] See Johnson et al., "Corporate Governance in the Asian Financial Crisis."

[114] Transition Newsletter, "Corporate Governance in Russia: Regime Change Required." Available at: www.worldbank.org/transitionnewsletter.

[115] Berglof, E., and A. Pajuste, "Emerging Owners, Eclipsing Markets?" Available at: www.worldbank.org/html/pddrtrans/aprmayjun03.

[116] See Malherbe et al., "Corporate Governance in South Africa."

[117] See Prowse "Corporate Governance: Emerging Issues and Lessons from East Asia."

[118] Klapper, Leora F. and Inessa Love, "Corporate Governance, Investor Protection, and Performance in Emerging Markets," World Bank Policy Research Working Paper 2818, April 2002.

[119] See Leeds et al., "Private Equity Investing in Emerging Markets."

[120] Simpson, Anne, "The Shareholder Activist Role in Emerging Markets," remarks at International Corporate Governance Network Annual Conference, July 14, 2000.

[121] International Financial Services, London (IFSL), "Financial Services' Liberalisation," February 2003.

[122] More information available at www.pspd.org.

INTERNATIONAL FINANCE CORPORATION
World Bank Group

International Finance Corporation
2121 Pennsylvania Avenue, NW
Washington, DC 20433 U.S.A.

Telephone: 202-473-3800
Facsimile: 202-974-4384

www.ifc.org