

Consultation on the World Benchmarking Alliance

Kuala Lumpur – World Capital Markets Symposium – 5 February 2018
Summary document

About the consultation



The second regional consultation of the World Benchmarking Alliance was held in Kuala Lumpur on 5 February 2018 on the margins of the World Capital Markets Symposium. It brought together 36 participants representing companies, financial institutions, civil society, international organisations, industry associations, research institutions, and financial regulators.

The consultation aimed to lay out the general rationale and concept for the WBA, as well as explore the following strategic questions:

- What kind of global and regional institutions need to be part of the alliance to help ensure the WBA is credible and legitimate? And what value does the WBA need to create in return for these institutions?
- What are the important intersections between SDGs and industries for Southeast Asia?
- How can corporate SDG benchmarks be designed to ensure they create value for stakeholders as well as the companies being assessed?

To build relationships and promote open dialogue between different stakeholder groups, the above issues were explored in two ways. The first consisted of discussions in small groups, enabling participants to have in-depth conversations with peers in their areas of primary interest as well as meet and share views with participants from other sectors. The second consisted of large group engagement, which sought to leverage the collective insights, energy and commitment of individuals focused on delivering the SDGs.

Below is a summary of the main themes and insights that emerged from these discussions.

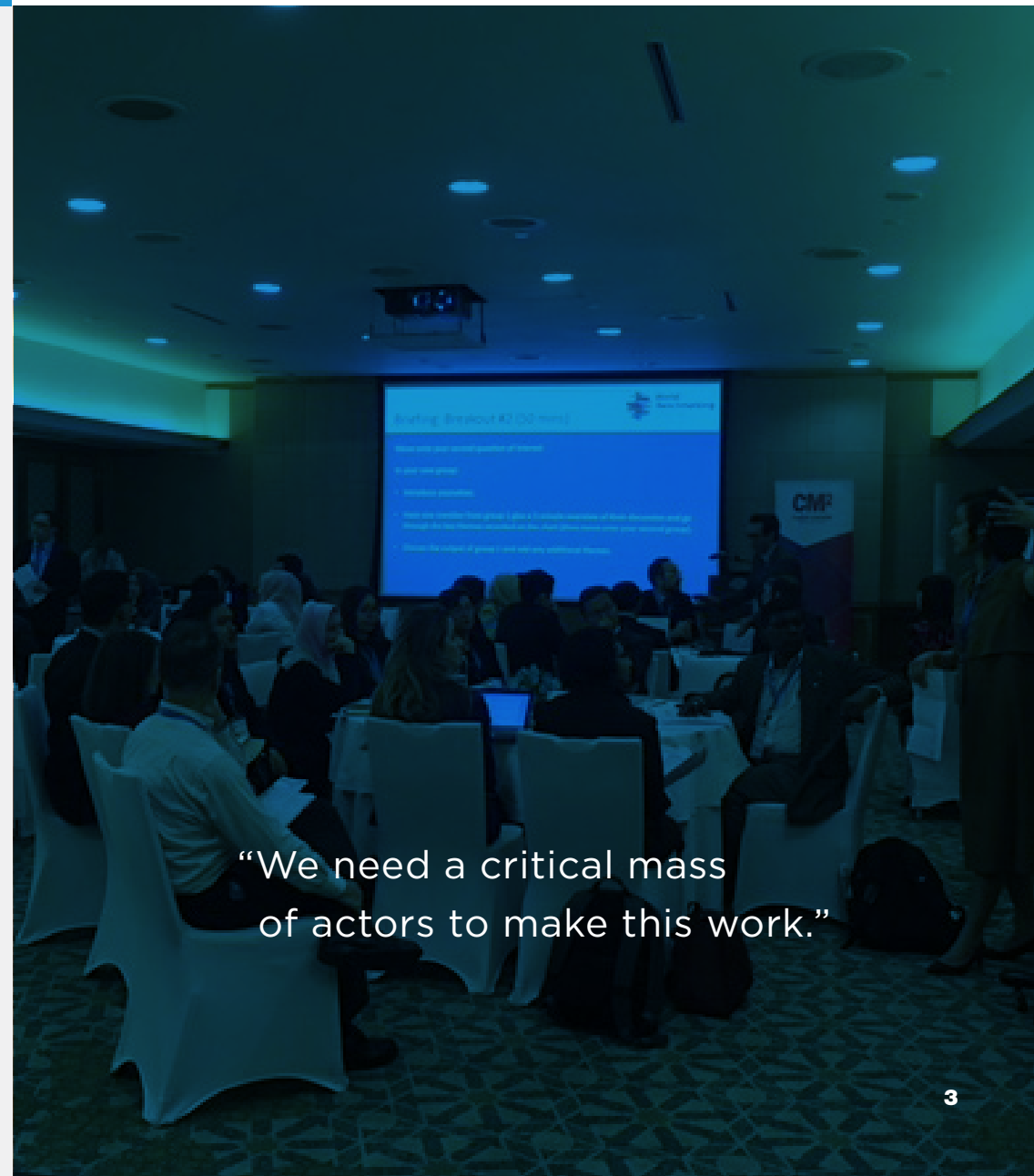
Building the alliance – the need for scale and inclusiveness



All participants agreed that achieving scale and inclusiveness was essential to the success of the WBA. “We need a critical mass of actors to make this work,” said one participant. Many agreed that working with global actors such as the UN, PRI, ILO or Global Compact to deliver the WBA vision would help make the institution legitimate.

One way to achieve scale is to engage at the regional level. “You cannot run away from engaging regional agencies. It’s a ‘must-do’ for the WBA to be effective,” said one participant. While it might be easier for the WBA to engage with regional partners, grass-roots engagement will also be essential from a civil society point of view. This is particularly true of the ASEAN region, where member countries are at very different levels of development and where participants thought many local NGOs, youth groups and communities still don’t necessarily understand the SDG agenda and/or how to connect it to their priorities.

A suggested solution to this conundrum was to engage at the association or network level. In the case of NGOs, for example, this level of engagement would provide a useful platform for the WBA to tap into when developing its benchmarks – and a good interface for the WBA to connect with and disseminate the benchmarks to smaller organisations working on the ground.



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Building the alliance – the need for scale and inclusiveness



As many participants noted, bringing associations into the alliance does not preclude the WBA from engaging individual actors when developing benchmarks. Regional champions with global presence could be particularly pertinent in that regard, as they can help provide insights in a way that ensures relevance for both the global and regional level. Among the actors identified by participants during the conversation were CIMB, Maybank, the Axiata group, and DBS.

The success of the WBA will also require the alliance to be inclusive. An alliance that reflects the diversity of the sustainability ecosystem would facilitate the use of WBA benchmarks by the broader community. In the finance space, some participants agreed this would require the involvement of investors but also potentially intermediaries, rating agencies, consultants and regulators. The latter are particularly important in the ASEAN region, as some – such as the Malaysian financial regulators – have been important actors of change in the area of sustainable finance.

Engaging governments is also important on the corporate side of the picture. “In ASEAN, many companies are state owned,” noted one participant, adding that, “if you don’t involve the government, it might be difficult to get these companies to move.” An inclusive WBA would also help address some of the

shortcoming of past national dialogues, in which some public institutions were reticent to meet with multi-stakeholder groups. “Governments should not shy away from meeting constituents,” noted one participant.

Many participants noted that scale and inclusiveness should be pursued in a way that ensures credibility, and some participants suggested it might be therefore useful for the WBA to develop exclusion mechanisms to ensure it remains credible. As one participant noted, “If some company breaches the terms of a stock index, it’s out.” Clear rules are thus necessary to ensure the WBA is seen as credible and legitimate.

The need for harmonisation; and its added value




Many participants noted that while there is already a lot of information available in corporate sustainability reports, it is often hard to extract the valuable insights from them. “The problem with reporting is that you have a lot of nice reports that don’t actually lead to anything,” said one participant.

The WBA’s ability to harmonise benchmarks with sustainability reporting standards was identified as a powerful opportunity in that regard. Working with GRI and other standards setting bodies would be important in that context, and participants saw the WBA as a great platform through which standards and certification bodies could meet to harmonise efforts. Similarly, at the benchmark level, participants noted that the WBA could help identify

whether particular standards clashed and/or where they could be combined to meet the needs of the particular WBA benchmark being developed. This approach, reflected in the WBA methodological framework, would help ensure the WBA builds on existing work while complementing it where necessary to deliver impact.

Some participants pointed out that it would not always be easy or straightforward to harmonise at the global level. In the case of palm oil, for instance, they noted that different countries apply different standards for their imports from Malaysia – the EU requires RSPO while China requires MSPO, for example. Nevertheless, harmonisation was seen as providing an important added value for both companies and investors, since it would help reduce the reporting burden for companies and reduce cost for the investors.

Participants agreed on the importance of distinguishing between harmonisation and a uniformity of benchmarks. The former enables comparison and scale, the latter leads to ‘group think’. “I would not want to rely on a single benchmark,” noted one participant. “The reason you have more than one benchmark is because investors want different points of view,” said another. The diversity of benchmarks the WBA intends to create was therefore seen as a valuable contribution in that regard.



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The need for harmonisation; and its added value



Some participants were of the view that the widespread use of a given WBA benchmark would increase the chances of investors using it in their decision making. Others questioned this assumption, noting that a benchmark doesn't necessarily have to be widely used to provide added value. "Value-add needs to come from the fact that it has different information from the benchmarks that are already available in the market," noted one participant.


A few participants expressed concerns about some WBA benchmarks potentially reinventing the wheel, given there are already a number of sustainable corporate benchmarks on the market, including those developed by MSCI and FTSE. Some participants pointed out that the underlying analysis and methodologies of these benchmarks are rarely freely available to third parties, however, whereas this would be the case for the WBA benchmarks. Others noted that most commercial benchmarks are often too technical to be understood by the average citizen. The 'public good' aspect of WBA benchmarks was viewed as being extremely valuable in that regard, given that WBA benchmarks would be free, accessible, easy-to-use and easy-to-understand by all.

Participants also reflected on whether the free and publicly available nature of the benchmark might create a difficulty for the WBA business model. While all agreed the WBA benchmarks would have value, "Whether investors want to pay for it is another issue," noted one participant. When and how to create a benchmark should thus be essential considerations. "Look at what benchmarks are out-there. Then think about how you can improve the existing benchmark before you think about creating a new one. For example, if the issue is cost, you might want to look into how to make it more available," suggested one participant. Another participant pointed out that while WBA benchmarks would be free and publicly available, those who use them with a commercial purpose in mind could be reasonably expected to contribute financially to the cost of developing the WBA public good.

A spectrum of impact opportunities and value creation

An important point raised by participants during the discussion was the need to differentiate the impact opportunities and value creation of benchmarks along a number of different dimensions. The main distinction discussed was the difference between multinational corporations (MNCs) and small and medium-sized enterprises (SMEs). A number of participants felt that small companies do a lot to deliver the SDGs and that this progress should be recognised, particularly considering their resource constraints relative to MNCs.

Most participants agreed that the value SMEs would derive from WBA benchmarks will differ from that derived by MNCs. For SMEs, much of the value would be through identifying the sector or industry leaders that could offer mentorship or lead by example on sustainable business practices. For MNCs, a number of participants believed that the value would mostly be in the form of reputation management and harnessing of external support for the companies' efforts to advance the SDGs. Being seen as a leader in this space was viewed by participants as being extremely valuable to MNCs with regards to accessing capital and appealing to consumers, although it was noted that the extent of that value was very industry and sector specific.



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A spectrum of impact opportunities and value creation



Another distinction participants were keen to highlight was the difference between global and regional contexts. Participants, notably, saw the regulatory environment companies operate in as key to expanding or limiting opportunities for impact. Participants also discussed the need for benchmarks to be aligned with international norms and standards in order to reduce reporting burdens, while also accounting for national and regional differences between economies.

A lot of importance was placed on the need for benchmarking to reward incremental change and sustained improvements over a period of time so companies do not feel discouraged to engage. Accounting for different stages of development at a company, national and regional level was viewed as being useful to reward companies that might start from a low position but steadily make improvements. “It’s not just about meeting a standard, it’s about the improvement that you make year to year. That is the most important thing,” said one participant.

Overall, participants agreed that the size of the company, the regulatory context in which it operates, its industry and its region would be important points of consideration when designing benchmarks. This, they noted, would help ensure WBA

benchmarks are relevant, drive engagement and, ultimately, add value to the ecosystem.

Going beyond listed companies



All participants acknowledged the essential role SMEs play in delivering inclusive growth and positive impact on the SDGs, notably in the Asia-Pacific region. Similarly, state-owned enterprises (SOEs) play an important regional role. Most SOEs and SMEs are non-listed however, and most existing benchmarks do not deal with them as a result. “Listed companies have lots of benchmarks. The gap is on the non-listed side,” noted one participant. All participants agreed that including non-listed companies would help WBA benchmarks to focus on impact while also adding value to the benchmarking ecosystem.

By providing clear, transparent and robust information on the sustainability performance of non-listed companies, WBA benchmarks would enable SMEs and SOEs to improve their contribution to the SDGs while helping the best performing ones get easier access to capital. In fact, as participants pointed out, while banks looking to provide capital to companies based on SDG preferences often have information on listed companies, they don’t necessarily have comparable information on large, non-listed companies. A WBA benchmark considering both (listed and non-listed) would therefore provide these banks with a better understanding both of how non-listed companies align with the SDGs and how this performance compares to that of listed ones.

While data availability can be a challenge for non-listed companies, participants saw their inclusion in the WBA benchmarks as important. They also explored ways in which data availability could be addressed by involving regulators in the WBA. National company registries could help provide information on non-listed companies, for example, while capital market regulators and stock exchanges could be on the listed companies side.

Given the potential of WBA benchmarks in driving capital towards the best performing companies, some participants suggested it would be important to involve banks in the benchmarking design process. This, some participants argued, would help increase the chances of banks using the benchmark to inform their capital allocation decisions. For similar reasons, some participants suggested engagement should also include multilateral development banks such as the IADB, AIIB and World Bank, as these play an important role in leveraging private capital to finance SDGs.

Empowering all stakeholders – from investors to consumers



Participants were excited by the opportunity WBA benchmarks provide to inspire a grass-roots, consumer-driven change on corporate sustainability. One participant noted that while current benchmarking initiatives are relevant for the thousands of investors that companies and industries currently interact with, millions of consumers are still left disengaged. Similarly, other participants noted that the current focus of benchmarks for listed companies left companies that do not rely on external capital out of scope despite their importance on delivering the SDGs at the local level.

Most participants therefore agreed that empowering consumers would be a crucial way through which the WBA can add value to the current benchmarking environment. Many participants also saw social media as a powerful tool for facilitating meaningful dialogue between consumers, companies and investors. Participants concluded from this discussion that if the idea is to change corporate behaviour, the needs of stakeholders should be addressed across multiple dimensions – from the engagement of shareholders with a stake in the companies being benchmarked to the consumers buying or relying on the products and services provided by these companies.

From an investor perspective, a key point of discussion for participants was how to overcome challenges raised by different investment practices. A number of participants raised the issue that fund management is often outsourced and while some institutional investors maintain some degree of direction through their investment mandates, many have very little say on individual investment decisions made by their asset managers. This can lead to a disconnect between asset owners who want to further a sustainable corporate agenda and asset managers who might have different priorities and incentives.

Overall, many participants believed an important value of WBA benchmarks lay in their potential to create a culture shift in investment practices by making investors more aware of the impact their investments could have on sustainability as a whole rather than just strictly material aspects. Benchmarks, one participant pointed out, could, for instance, provide an incentive for companies and investors to rely on a 'true-cost accounting' model that incorporates positive and negative externalities so that companies focus more on sustainability. Some participants felt that a shift to this form of accounting was inherently useful and benchmarking would be extremely valuable if it could act as a catalyst to normalising this practice.

Important intersections between industries and the SDGs in Southeast Asia



Participants had an in-depth discussion on the extent to which the private sector can impact the different SDGs. Although all participants agreed that every SDG could be impacted by the private sector, there were intense debates around how to best approach the intersection between industries and SDGs. Some felt that the focus should be on the biggest industries, while others suggested the focus should be on what matters most in terms of SDG risks and needs in the region. Others suggested looking at the industries and SDGs that could have the most transformative impact if sustainability was achieved. A few participants saw a lower potential for private impact for SDG 1 (no poverty), SDG 3 (good health and well-being) and SDG 16 (peace, justice and strong institutions). They considered governments to be the main drivers of change, with the private sector as an implementing partner.

Participants noted that Southeast Asian countries are at different stages of development, which translates to different needs and priorities at the national level. This is in part the result of a shift in some nations from a focus on agricultural sectors to industrialisation and services. Examples mentioned by participants included Malaysia's strong focus on modern services, as well as industrialisation efforts in Thailand and Indonesia. Participants

Important intersections between industries and the SDGs in Southeast Asia



therefore saw manufacturing as an increasingly important sector. Participants also noted the increasing importance of electronics manufacturing for the region.

Participants identified several industries with a substantial impact on achieving the SDGs in the region.

Many participants highlighted agriculture as a crucial sector for advancing the SDGs in the region. Plantations were seen as particularly important in this regard. “If companies are not behaving responsibly, there is very limited opportunity for governments to improve on SDG 2.” As smallholder farmers make up a significant proportion of the total production in the region, participants stressed that it is important for larger companies to engage with smallholders.

The energy sector was also discussed, with one of the participants noting that while Europe is rapidly shifting away from coal, new coal developments are still underway in Southeast Asia. Examples highlighted included the construction of coal-fired power plants in Vietnam and coal mining projects in Indonesia. Participants also pointed out that some economies in the region are still quite dependent on fossil fuels, notably oil and gas. Finding a way

to provide clean and affordable energy access in a way that is compatible with climate goals is therefore essential if Southeast Asia is to deliver on SDG 7 (affordable and clean energy) and SDG 13 (climate action).

Participants saw an important role for banking, given its role as a financial intermediary. The sector was also seen as a good example of the fact that while an industry’s direct impact on a particular SDG can be limited, indirect impacts can sometimes be significant. For example, participants pointed out that the banking sector’s direct impact on SDG 13 is low, but nevertheless the sector has a substantial impact on climate change through its investment in sectors such as energy, mining, agriculture, forestry or palm oil.

By embracing the SDGs in lending activities, they argued, the banking industry can thus have a significant indirect impact across sectors and SDGs. This raised the question of how far down in the supply chain one should go and where responsibility stops. One participant emphasised the importance of financial institutions as a whole for the SDGs as “Money can influence everything.” Another participant noted that SMEs are vital to the region’s economy but need capital to align their business and operations with the SDGs. Providing this capital

Important intersections between industries and the SDGs in Southeast Asia

to SMEs was thus another way through which the financial sector could contribute to the advancement of the SDGs across sectors. Similar arguments were made for the promotion of access to financial services although, as some participants pointed out, these services do not always reach the poorest of the poor.

Some participants highlighted construction as an important industry to consider, noting that “Everybody is building something” in the region. Participants agreed that some construction in the region is not driven by need, but rather by debt – which creates the risk of a bubble. Affordable housing was raised as an important challenge in this regard, and participants did not believe this could be solved by the private sector alone.

Tourism was seen as another key sector for the region since it is a major employer and an important contributor to the GDP of many countries in the region. However, tourism can also create negative impacts. One of these, mentioned by one participant, is the impact on rising property prices, which can price millennials out of the market.

Another important sector mentioned by roundtable participants was transportation – a sector most participants saw as the back



“Everybody is building something”

Important intersections between industries and the SDGs in Southeast Asia



bone of the mobility of goods and people, and a key 'energiser' both of other industries and of national development.

The ICT and telecommunications sectors were also identified as impactful in terms of potential SDG impact. Countries in the region have been able to leapfrog and accelerate development

due to new technologies such as mobile telecommunications and mobile money services. As these industries can have an impact across sectors (e.g. easy access to information on crop prices for farmers, mobile money services, etc), participants considered their importance to be high.



“We should harness the tools of Islamic finance in order to pursue the fulfilment of the UN’s Sustainable Development Goals.”

Regional SDG observations



When discussing the role of the private sector in achieving the different SDGs, participants made some important regional observations. For example, with regards to SDG 14, one of the participants highlighted the fact that Southeast Asia is one of the most biodiverse marine regions in the world. Despite that, it was noted that sustainable seafood is not on the agenda in the region, whereas it is in many other parts of the world.

Another participant emphasised the high dependence on migrant labour in the region. This was seen as particularly important in plantations and in construction, where migrant workers make up a significant proportion of the labour force. Participants also saw the shift towards a more industrialised economic model as putting pressure on water resources and resulting in increased incidences of water pollution by industry.

Participants also discussed the important role that Islamic finance could play in helping capital flow towards the SDGs in the region. As His Royal Highness Sultan of Perak Sultan Nazrin Muizzuddin Shah points out in his seminal speech *Realising the SDGs through Islamic finance*, “We should harness the tools of Islamic finance in order to pursue the fulfilment of the UN’s Sustainable Development Goals.” These include *zakat* (compulsory almsgiving), *sadaqah* (charitable

giving), *waqf* (charitable endowments), *sukuk* (bonds) and *takaful* (a system of cooperative insurance).

By making information on corporate sustainability performance freely available to both investors and citizens, the WBA benchmarks would help deliver on this vision of aligning Islamic finance with the SDGs. They could also help get a better understanding of how Shariah-compliant companies perform with respect to the sustainable development goals. Malaysia being one of the largest markets for Islamic finance, this potential was seen as particularly attractive by some participants.

Next steps



The Kuala Lumpur consultation – the second formal regional consultation held – provided key initial inputs and ideas on the WBA concept, including its added value, institutional and governance considerations and priorities in terms of SDG benchmarks.

Key considerations arising from this roundtable included:

- > The WBA will need to build a critical mass of support to succeed. The more inclusive the alliance, the higher the ability of WBA benchmarks to add value to the different stakeholder groups.
- > WBA benchmarks provide a unique opportunity to generate a grassroots, consumer-driven change on corporate sustainability. Engaging with networks and associations will be particularly important in that regard.
- > Engaging government will be important for the ASEAN region, since many companies are state-owned and financial regulators play an important role in driving sustainability and sustainable investment in the region.

- > The size of the company, the regulatory context in which it operates, its industry and its region would be important points of consideration when designing benchmarks. For WBA benchmarks to deliver meaningful impact, it will be essential to consider both listed and non-listed companies.
- > Agriculture is a critical industry for meeting the SDGs in the region, but the heterogeneity of the ASEAN economies and their move towards more industrialised and service-oriented economies also mean that sectors such as energy, financial services, tourism, construction, transportation and ICT will be important.

Over the course of the coming months, the WBA will build on the insights generated from the Kuala Lumpur consultation as it continues to convene regional and global consultations with key stakeholders around the world.

Continued feedback is welcome. We look forward to comments, questions and suggestions to ensure that the World Benchmarking Alliance consultation is inclusive and builds on stakeholder inputs.

List of participants



Amanah Mutual Berhad

Asia Research and Engagement (ARE)

Bursa Malaysia Bhd

BNP Paribas Asset Management Malaysia

Capital Markets Malaysia

CIMB Islamic Bank Berhad

Eastspring Investment Berhad

Eco-Business

EcoKnights

Economic Planning Unit

Energy Commission (Suruhanjaya Tenaga)

Global Shapers Kuala Lumpur Hub

Institutional Investor Council Malaysia (IIC)

Khazanah Nasional Berhad

Malaysian Trades Union Congress

MyHarapan

Nomura AM Malaysia Sdn Bhd

Petronas

Securities Commission Malaysia

Scope Group

Sime Darby Group

Social Groove Solutions

United Nations Global Compact

University Malaya

WWF Malaysia