

# INVnet Biweekly Update, January 14, 2002

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### LATEST REPORT

January 14, 2002

Volume 2, #01

Ethical Governance Of Investment Network Bulletin

1. [Review: "Pollution and capital markets in developing countries"](#)
2. [Global Reporting Initiative: new sectoral report released](#)
3. [Bush Calls for Review of Disclosure Rules Amid Concerns Over Enron Collapse](#)
4. [International Corporate Environmental Reporting Site](#)

### **Review: "Pollution and capital markets in developing countries"**

By Leif Brottem, Nautilus Institute Program Officer

Not long after the Chilean electrical company Chilgener released a toxic cloud over Santiago, it lost 5% of its market value in April 1992. Five months later, the company announced an investment of \$115 million to control air pollution. According to a recent study in the Journal of Environmental Economics and Management, capital markets in developing countries appear to respond-and respond quickly--to the environmental performance of firms. The importance of this discovery is that it offers a way for developing countries to improve environmental protection without the costly burden of command and control regulation and enforcement. The key is to harness the power of the market with information disclosure

Undertaken by Susmita Dasgupta and Benoit Laplante, the study focused on cases in Argentina, Chile, Mexico, and the Philippines. The first of its kind conducted in developing countries, the study applied its methodology to positive and negative environmental events to measure how these impact stock performance during a given time window. Events ranged from the release of an NGO polluter blacklist to investments in recyclable products and new pollution abatement technologies. Firms who received official recognition for superior environmental performance saw market values increase by more than 20% over the event window. This points to a potential disclosure framework that could further enable community organizations to protect their local environment from firms seeking to take advantage of weak official oversight. It also provides a strong incentive for

environmental leadership in the private sector.

Information itself, however, is not a silver bullet. The study emphasizes the continued importance of strong government regulation. Information must be subject to credible third-party verification. Moreover, to be effective in changing market and company behavior, information must be put in the hands of a strong civil society. Without NGOs and other civil society groups who are capable of mobilizing public reaction and engaging with companies, information is tossed to the wind. The study also points out that not all firms are necessarily responsive to public pressure concerning their environmental performance. In addition, improvements in firm performance will not be sufficient to address many of the highly complex environmental problems that communities face in developing countries.

There is a role for international civil society in framework as well. Institutional investors in the U.S. and elsewhere that are seeking to shift to more socially responsible investments would benefit greatly from greater information disclosure in emerging markets. Activists will gain considerable leverage vis-à-vis companies with emerging market investments that may be environmentally damaging. NGOs around the world are seeking to level the playing field with stronger disclosure laws. The California Global Corporate Accountability Project is exploring a campaign in the state to extend U.S. right-to-know laws to include the international operations of US multinational companies. As the Dasgupta and Laplante study reveals, the increase of credible information will help communities around the world who are seeking a cleaner environment.

This feature was a summary and analysis of: Susmita Dasgupta and Benoit Laplante Nlandu Mamingi "Pollution and capital markets in developing countries" *Journal of Environmental Economics and Management* 42 (3, 2001) : 310-335

### **Global Reporting Initiative News**

The first sector-specific report based on the Global Reporting Initiative (GRI) guidelines was recently released by the UK Society of Motor Manufacturers and Traders. GRI has created the first globally applicable guidelines for reporting on economic, environmental, and social performance. Initially designed for corporations, the guidelines are applicable for any business, governmental, or non-governmental organization.

### **President Bush Call for a Complete Review of Disclosure Laws**

In the wake of the Enron collapse, President Bush stated, "There needs to be a full review of disclosure rules to make sure that the American stockholder or any stockholder is protected." The January 14 edition of the Securities Regulation & Law Report stated that the announcement came shortly after a criminal investigation over the events leading up to Enron's bankruptcy was revealed by the Justice Department. The review will involve the Treasury Department, the SEC, the Federal Reserve Board, and the Commodity Futures Trading Commission.

### **Recommended Website: The International Corporate Environmental Reporting Site**

The [International Corporate Environmental Reporting Site](http://www.internationalcorporateenvironmentalreporting.org) is a portal that covers subjects ranging from environmental performance measuring and accounting to the relationship between environmental performance and shareholder value.

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Nautilus Institute

608 San Miguel Ave., Berkeley, CA 94707-1535 | Phone: (510) 423-0372 | Email:

[nautilus@nautilus.org](mailto:nautilus@nautilus.org)