

Top 10 CSR Trends in China (2020)

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Trend 1 New Starting Point | The year of concluding the Three Critical Battles and preparing next 5-Year-Plan



2020

A Year of Succession

a key year

- to achieve the goal of building a moderately prosperous society in all respects
- to fulfil the first hundred-year goal of the two-hundred-year goals of the great rejuvenation of the Chinese nation



\$ 10276

China's GNI per capita in 2019

According to preliminary calculations, China's GDP in 2019 was 99.0865 trillion yuan, an increase of 6.1% over the previous year. Based on the annual average exchange rate, per capita GDP exceeded the US \$ 10,000 mark and reached US \$ 10,276.

(Data source: People's Daily)

The final sprint of the 13th Five-Year Plan and the Three Critical Battles.

Risk prevention

At the end of 2018, the overall level of China 's macro leverage was 249.4%, a decrease of 1.5 % from the end of 2017; in the past two and a half years, the growth rate of banking assets has fallen from 15% to 8%. In 2019, China 's macro leverage ratio stable, and micro leverage ratio steadily decreased. At the end of November, the national government debt was 21.3 trillion yuan, which was controlled within the limit approved by the National People's Congress. Positive results were achieved in preventing and resolving major risks.

Fight against poverty

In the past 6 years, a total of 82.39 million people have been lifted out of poverty nationwide, equivalent to an average of nearly 30 people per minute; by the end of 2019, about 95% of the nation's current poor population and more than 90% of poor counties will be lifted out of poverty,.

Tackling pollution

Since the 18th National Congress of CCP, 9 environmental laws and more than 20 administrative regulations have been formulated and revised. The "toughest " new environmental protection law has been implemented since 2015. The first round of central ecological environmental protection inspections have resolved more than 150,000 ecological and environmental issues.

(Data Source: Xinhua Net)

Trend 1 New Starting Point | The year of concluding the Three Critical Battles and preparing next 5-Year-Plan



2020 New Beginning



46 cities in the mainland will have new waste sorting programs; country requires an indicator system for construction of zero-waste cities



HKEX ESG reporting guide will be implemented after July 1; domestic capital market is expected to begin to force A-share companies to disclose environmental information



Internationally, the Paris Agreement has reached a critical point, where the contracting parties must set the 2030 emission reduction target by the end of this year.

2020 the first five-year plan after China's per capita GDP exceeds \$10,000

High-quality Development

Rural Rejuvenation

Social Justice

Trend 1 New Starting Point | The year of concluding the Three Critical Battles and preparing next 5-Year-Plan



Recommendations for CSR Managers

Recommendation 1

Classify and summarize corporate CSR projects according to policy issues, statistically summarize project results, and issue special reports

Recommendation 2

Using quantitative assessment methods such as SROI to quantify the project results and impact with numbers

Recommendation 3

Embrace policies with an open mind and a forward-looking vision, grasp the policy direction, and adjust the direction of CSR activities in a timely manner



- The United Nations Sustainable Development Goals (SDGs) has entered the fifth year, and the focus will shift from awareness-raising to implementation and experience sharing.
- Chinese government supports SDGs. Sino-US trade frictions will not weaken China's standing but stimulate China to play a more active role through UN platform.

Implementing SDGs: China's Progress



From the end of 2015 to the end of 2018, the rural poor decreased from 55.75 million to 16.6 million



In 2018, energy consumption per unit of GDP dropped by 3.1% year-on-year



In 2018, domestic CO₂ emissions per unit decreased by 4.0% year-on-year

(Data source: Ministry of Foreign Affairs
"Progress Report on China's
Implementation of the 2030 Agenda for
Sustainable Development (2019)"

Belt-and Road: Chinese Stories

If implemented fully, the BRI initiative could lift 32 million people out of moderate poverty—those who live on less than \$3.20 a day. It could boost global trade by up to 6.2 percent, and up to 9.7 percent for corridor economies. Global income could increase by as much 2.9 percent. For low-income corridor economies, foreign direct investment could rise by as much as 7.6 percent.

(Data Source : World Bank, Belt and Road Economics)



Chinese companies have risen to the largest group of the Fortune 500 in 2019. There is a strong need for these companies to learn to tell Chinese stories in international languages such as SDGs. This will create mutual benefits to business development and international relations.

New elemnet



Recommendations for CSR Managers

- **Recommendation 1**

Use SDGs and other international languages to explain corporate sustainable development strategies, implement SDGs at the enterprise level, and issue progress reports on SDGs in corporate practice

- **Recommendation 2**

Pay attention to hot topics such as biodiversity and the Winter Olympics, and take timely actions to include these elements in the design of corporate CSR projects

- **Recommendation 3**

Companies investing overseas should pay attention to community engagement, improve their ability to deal with non-traditional risks caused by environmental, social and corporate governance, and improve the sustainable performance

Trend 3 New Rural Areas eliminating relative poverty

Building a sustainable model for



| From absolute poverty to relative poverty

1978	2018
770 million rural poor	16.6 million rural poor
Rural poverty incidence 97.5%	Rural poverty incidence 1.7%

| What does rural poverty alleviation mean for businesses?

- More rural labour to gain employment, especially local employment opportunities
- Gradually establish and develop rural related industries
- More returning youth and more entrepreneurship
- Rural population consumption upgrades, releasing huge market potential

2018-2022 Strategic Planning for Revitalization of Rural Areas

Overall requirements

industrial prosperity, ecological livability, rural customs and civilization, effective governance, affluent life

Comprehensive rural revitalization

industrial revitalization, talent revitalization, cultural revitalization, ecological revitalization, organizational revitalization

Building an industrial value chain is the key to make business sustainable

- Focusing on accelerating the construction of a modern agricultural industrial system, production system, and operating system, companies could purchase products and services from poor areas in their production, distribution, consumption
- Focusing on issues such as infrastructure construction, supply chain services and production base construction, companies could open up and optimize their supply chains.

Trend 3 New Rural Areas | Building a sustainable model for eliminating relative poverty



Recommendations for CSR Managers

Recommendation 1

Follow national policy trends, switch CSR strategies in a timely manner, and gradually transition from the original targeted poverty alleviation to rural revitalization

Recommendation 2

Transforming project design thinking, analysing the role that enterprises should play in the context of rural revitalization from the viewpoint of creating shared value

Recommendation 3

Pay attention to the training of returning youth, cultivate young talents, use new ideas and technologies to help poverty alleviation and rural revitalization

Waste sorting and zero-waste cities construction

Shanghai took the lead in implementing mandatory waste sorting. Over the past 6 months, the compliance rate in residential areas has increased from 15% to 90%, and the proportion of waste landfill has decreased from 41.4% to 20%.

1st July 2019

April 2019

The state has selected 11 cities and 5 special cases as pilots for the construction of waste-free cities (11 + 5 pilot: Shenzhen, Baotou, Tongling, Weihai, Chongqing, Shaoxing, Sanya, Xuchang, Xuzhou, Panjin, Xining, Xiong'an New District,, Beijing Economic and Technological Development Zone, Sino-Singapore Tianjin Eco-City, Guangze County, Fujian Province, and Ruijin City, Jiangxi Province)

27th December, 2019

members of the Standing Committee of the National People's Congress conducted a group review of the second draft of the Law on the Prevention and Control of Environmental Pollution by Solid Wastes and suggested that waste sorting will be further standardized

2020

19th January, 2020

The NDRC and the Ministry of Ecology and Environment issued the "Opinions on Further Strengthening the Control of Plastic Pollution", planning to ban non-degradable plastic bags in all major cities by the end of this year, and all cities and towns by 2022. Restaurants will have to stop providing plastic straws by the end of this year and reduce their use of single-use plastic items by 30 percent.

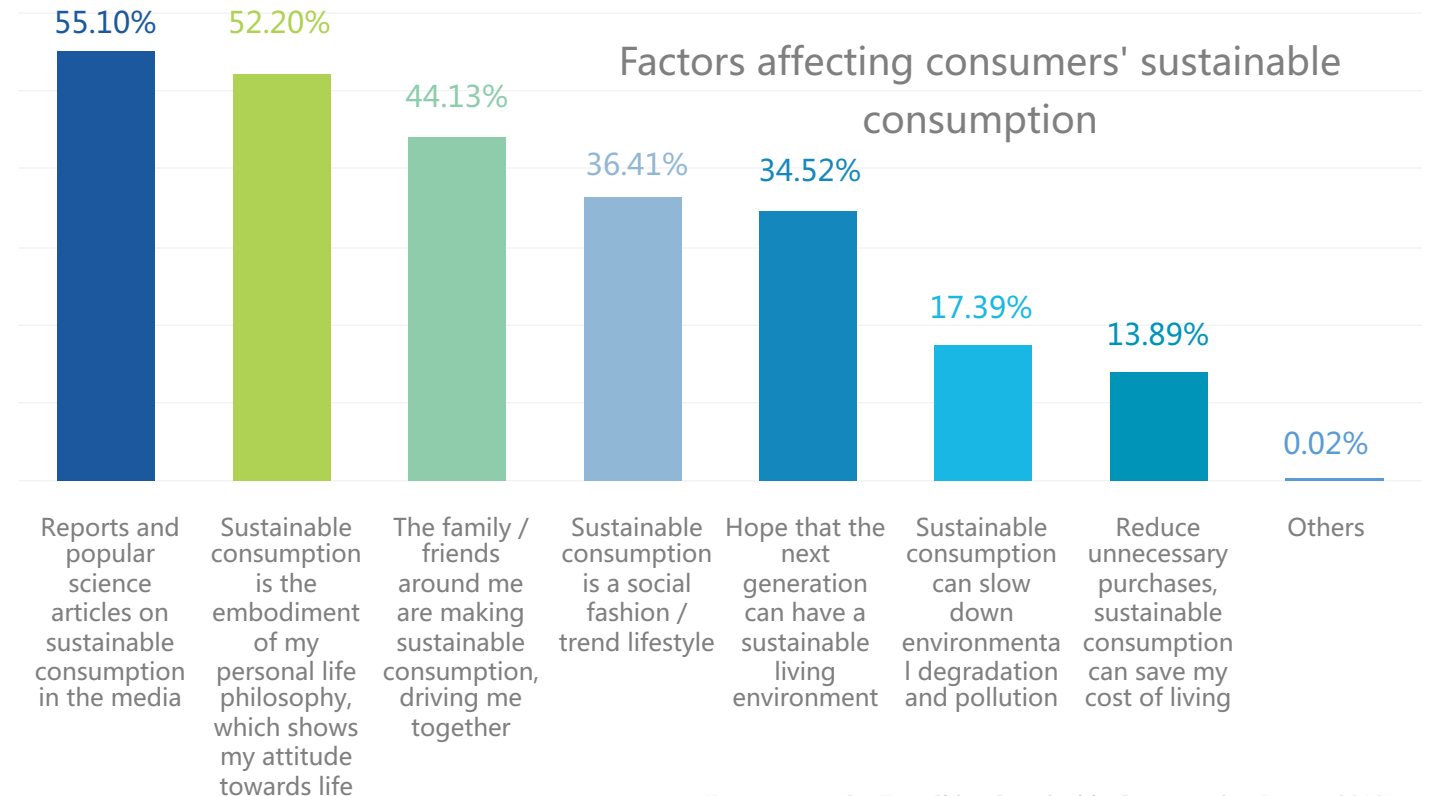
46 cities nationwide (Beijing, Tianjin, Shanghai, Chongqing, Shijiazhuang, Handan, Taiyuan, Hohhot, Shenyang, Dalian, Changchun, Harbin, Nanjing, Suzhou, Hangzhou, Ningbo, Hefei, Tongling, Fuzhou, Xiamen, Nanchang, Yichun, Zhengzhou, Jinan, Taian, Qingdao, Wuhan, Yichang, Changsha, Guangzhou, Shenzhen, Nanning, Haikou, Chengdu, Guangyuan, Deyang, Guiyang, Kunming, Lhasa, Shigatse, Xi 'an, Xianyang, Lanzhou, Xining, Yinchuan, Urumqi) will begin waste sorting

Sustainable consumption becomes new fashion

- Over 80% of consumers practice sustainable consumption in their daily lives



Waste sorting and recycling are high-frequency vocabulary



Recommendations for CSR Managers



- **Recommendation 1**

Achieve waste sorting in production, operation and office space, especially in industries with a large amount of waste, such as hotels, restaurants, and real estate

- **Recommendation 2**

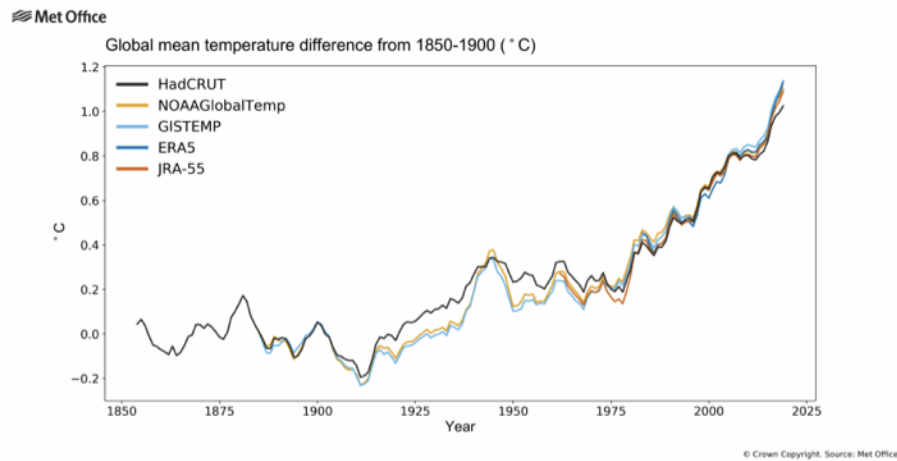
For CSR managers in industries that produce a lot of packaging such as food and beverage, cosmetics, e-commerce, and takeaway, they should pay attention to the reduction and recycling of packaging

- **Recommendation 3**

Pay attention to hot topics that consumers care about, understand consumer psychology, start from consumers' value demands, and respond to green consumption from products, marketing and other aspects

Climate change has become an important global issue

- 2015 Paris Agreement sets out the goal to limit global temperature rise to well below 2 degrees Celsius



Five-year running average of global temperature anomalies (relative to pre-industrial) from 1854 to 2019 for five data sets: HadCRUT.4.6.0.0, NOAA GlobalTemp v5, GISTEMP v4, ERA5, and JRA-55. Data for 2019 to June

- Global average temperature has increased by 1.1°C since the pre-industrial period, and by 0.2°C compared to 2011-2015

(Data source: WMO, The Global Climate in 2015-2019)

China has nationally determined its actions by 2030 as follows:

- To achieve the peaking of CO₂ emissions around 2030 and making best efforts to peak early;
- To lower CO₂ per unit of GDP by 60% to 65% from the 2005 level;
- To increase the share of non-fossil fuels in primary energy consumption to around 20%; and
- To increase the forest stock volume by around 4.5 billion cubic meters on the 2005 level.



A New wave tackling climate change

- More well-known companies are expected to take action against climate change in 2020
- Use the financial market to discover carbon prices and reflect carbon costs into financing costs through the capital market system and bank credit system
- Asset owners and asset management companies calculate carbon intensity of asset portfolios
- Commercial banks reduce or withdraw from business cooperation with high-carbon companies

Bosch

Carbon neutrality by 2020

L'Oreal

25% reduction by 2030

Exxon Mobil

Net zero carbon growth in 2025

Volkswagen

Achieving zero emissions from cars by 2050

Unilever

Carbon neutrality by 2030

Nestle

Net zero carbon Emissions by 2050

IKEA

Carbon neutrality by 2030

Shell

50% carbon reduction by 2050

Recommendations for CSR Managers

Recommendation 1

Scientific and reasonable carbon emissions accounting is the basis for enterprises to determine carbon emission reduction targets and carry out emission reduction work. Enterprises should start carbon accounting as early as possible to grasp their carbon footprint

Recommendation 2

Formulate corporate greenhouse gas emission inventories, formulate scientific, long-term, ambitious emission reduction targets in accordance with the latest climate science theory, and carry out emission reduction work

Recommendation 3

Communicate with internal and external stakeholders such as government, NGOs, customers, consumers, investors, and employees on climate change issues



Strengthening quantitative and carbon



HKEX 3rd edition ESG Guide

- The board should oversee ESG issues and review progress made against ESG-related goals and targets
- social key performance indicators have been upgraded from recommended disclosure to Comply or Explain
- Disclosure of significant climate-related issues

stricter ESG disclosure and increases market expectations of A-share ESG reporting guide.

	Proposed amendment	Final amendment	Approval Rate
1	Shortening the deadline for publication of ESG reports to align with the publication timeframe of annual reports (i.e. within four months (Main Board issuers) or three months (GEM issuers) after the financial year-end)	Proceed with shortening the deadline for publication of ESG reports, with a revised timeframe of within five months after the financial year-end	83%
2	Printed ESG report not required (unless responding to shareholders' specific request), with a notification of online publication	Adopt	99%
3	Introducing mandatory disclosure requirements in the ESG Guide to include: <ul style="list-style-type: none"> a board statement setting out the board's consideration of ESG issues application of relevant Reporting Principles (namely, materiality; quantitative; consistency; and balance) in ESG reports explanation of the reporting boundary and identification process for including specific entities or operations in ESG reports 	<ul style="list-style-type: none"> Proceed with requiring disclosure of board statement, with revised wordings to provide greater clarity Clarify that issuers should follow all four Reporting Principles in preparing ESG reports. Regarding disclosure, issuers are required to disclose the application of the Reporting Principles "materiality", "quantitative" and "consistency" Proceed with requiring explanation of the reporting boundary 	<p>88%</p> <p>85-86%</p> <p>89%</p>
4	Introducing a new Aspect to require disclosure of significant climate-related issues which have impacted and may impact the issuer	Adopt	86%

Trend 6 New Disclosure disclosure in ESG Reports

Strengthening quantitative and carbon



HKEX 3rd edition ESG Guide



New guide will be implemented after July 1, 2020

	Proposed amendment	Final amendment	Approval Rate
5	Amending key performance indicators ("KPIs") regarding emissions, energy use and water efficiency, waste reduction etc. to require disclosure of relevant targets	Adopt	83%
6	Revising a KPI to require disclosure of Scope 1 and Scope 2 greenhouse gas ("GHG") emissions	Adopt	90%
7	Upgrading the disclosure obligation of all Social KPIs to "comply or explain"	Adopt	88%
8	Revising the relevant KPIs to: <ul style="list-style-type: none"> clarify that "employment types" should include "full- and part-time staff" require disclosure of the number and rate of work-related fatalities occurred in each of the past three year require disclosure of (i) practices used to identify environmental and social risks along the supply chain, and (ii) practices used to promote environmentally preferable products and services when selecting suppliers, and how these practices are implemented and monitored require disclosure of anti-corruption training provided to directors and staff 	<ul style="list-style-type: none"> Proceed to clarify that "full- and part- time staff" are non-exhaustive examples of employment types Adopt Adopt Adopt 	90% 86% 84% 94%
9	Encouraging issuers to seek independent assurance to strengthen the credibility of ESG information disclosed	Adopt	86%

Trend 6 New Disclosure disclosure in ESG Reports

Strengthening quantitative and carbon



TCFD: Carbon
information is closely
related to financial risks
and indicators



- Task Force on Climate-related Financial Disclosures (TCFD)



Governance

The organization's governance and climate-related risks and opportunities

Strategy

The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy and financial planning.

Risk Management

The processes used by the organization to identify, assess and manage climate-related risks

Metrics & Targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Trend 6 New Disclosure disclosure in ESG Reports

Strengthening quantitative and carbon



Recommendations for CSR Managers

• Recommendation 1

Facing a more segmented target audience, listed companies must provide more accurate and targeted information; listed companies can issue ESG reports separately, and those who have issued CSR reports can list ESG chapters separately .

• Recommendation 2

The requirements for normativeness, completeness, and quantitiveness for disclosure are higher. Companies can refer to the MQI guidelines to select the most substantive indicators, use the HiESG system to manage ESG data, and formulate quantitative ESG goals.

• Recommendation 3

Pay attention to the impact of climate risks on the company's finances and use scenario analysis and stress testing to manage climate change risks in accordance with TCFD recommendations.

Trend 7 New Benchmark through ESG rating

Improving governance of companies



ESG Rating : A new benchmark for measuring company value

- For listed companies, ESG rating provides a new benchmark that is different from financial indicators. It measures the value of a company based on non-financial indicators such as corporate governance, pollution, energy efficiency, labor relations, and community relations.



A more comprehensive assessment of future growth
potential of companies

More frequent communication between CSR department and investor relations department



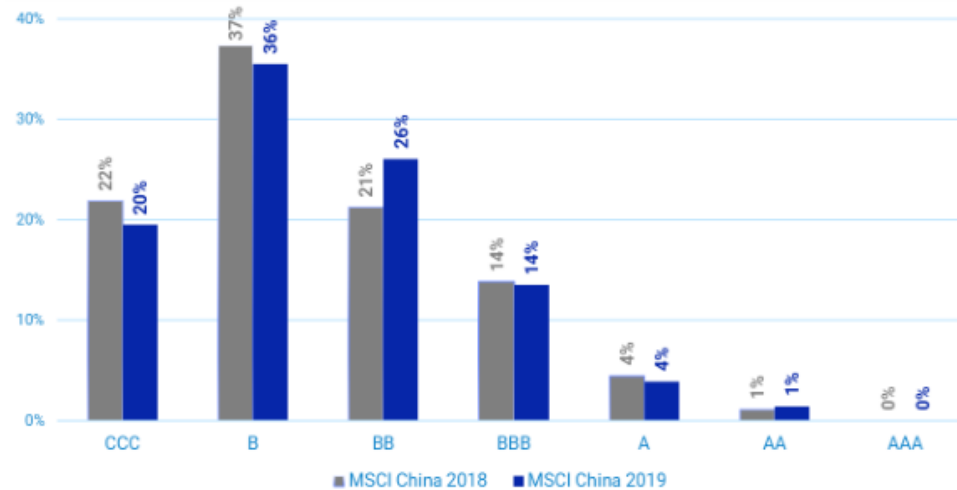
Trend 7 New Benchmark through ESG rating

Improving governance of companies



ESG ratings have become mainstream

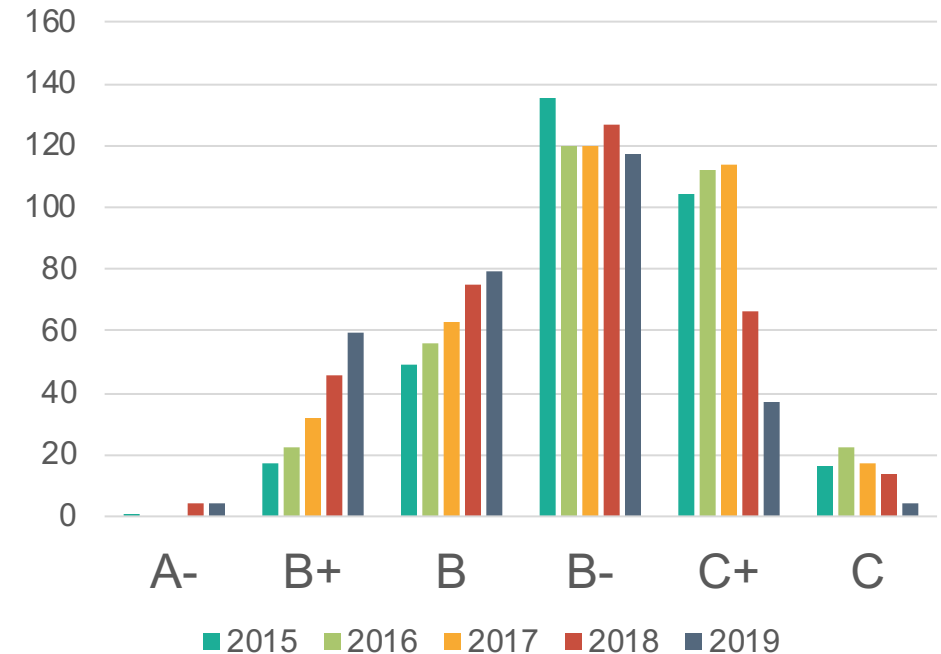
The ESG rating objectively promotes the governance of listed companies, especially the governance of environmental and social issues. Judging from SynTao Green Finance and MSCI ratings over the years, the ESG ratings of A-share companies have improved year by year.



Note: n. MSCI China Index Constituents with ESG rating data as of Aug. 1, 2018=447,
n. MSCI China Index Constituents with ESG Rating data as of Aug. 1, 2019 = 487

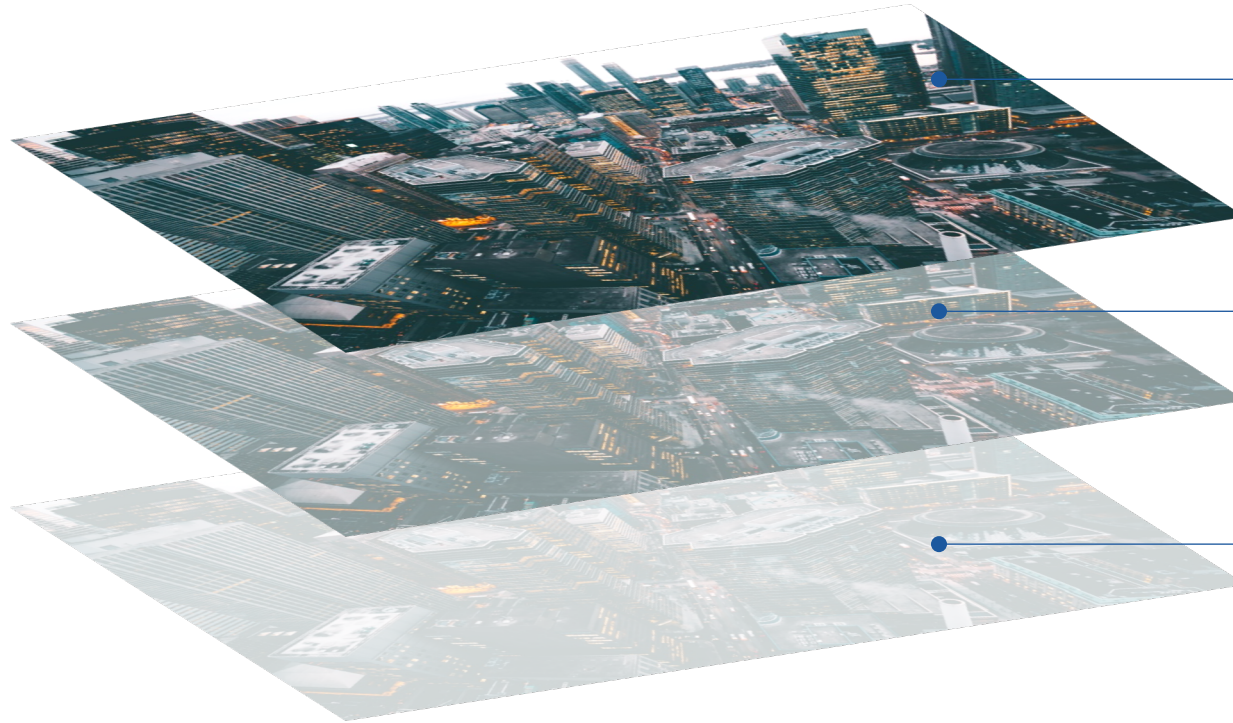
Source: MSCI ESG Research as of Aug.1, 2018 and Aug. 1, 2019

MSCI China Index ESG Rating: Comparison Between
2018 and 2019



SynTao Green Finance ESG Ratings: Overall
Distribution from 2015 to 2019

Recommendations for CSR Managers



- **Recommendation 1**

Obtain rating results, make targeted diagnosis, and analyse its position in the industry and weak points

- **Recommendation 2**

Benchmark management practices of peer companies with excellent ESG ratings, and develop strategies to improve ratings

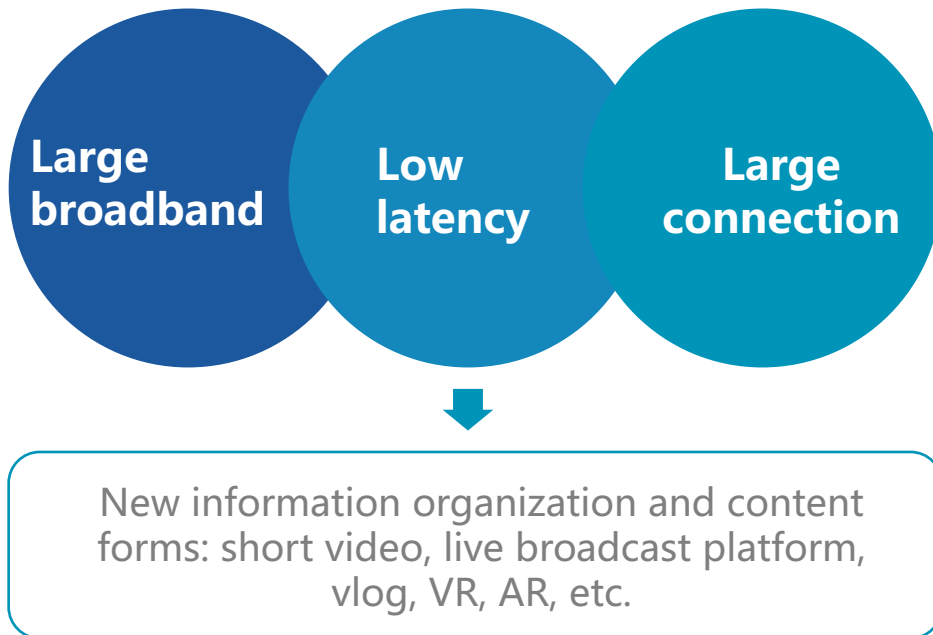
- **Recommendation 3**

CSR managers should understand and report the relationship between ESG and CSR to the company's board, promote the improvement of the internal ESG governance, and improve ESG rating improvement

5G innovates communication

Innovative stakeholder communication

5G advantages



Internet of Things



More detailed stakeholder portraits

AI data analysis capabilities, etc.



Stakeholder communication innovation



Opportunities (CSR events will get exponential diffusion) and challenges (increasing difficulty of tracing information)

Trend 8 New Communication communication in the 5G era

Innovating stakeholder



Recommendations for CSR Managers

Recommendation 1

Utilize new opportunities brought by 5G technology to innovate CSR communication, present corporate CSR activities in a diversified manner, and expand social influence

Recommendation 2

Analyse stakeholder portraits through big data analysis, improve effective interaction with stakeholders, and optimize stakeholder management

Recommendation 3

Listening carefully, responding to concerns, and building trust is still the essence of stakeholder communication.

Trend 9 New Boundary

Extending responsibility along value chain and value network



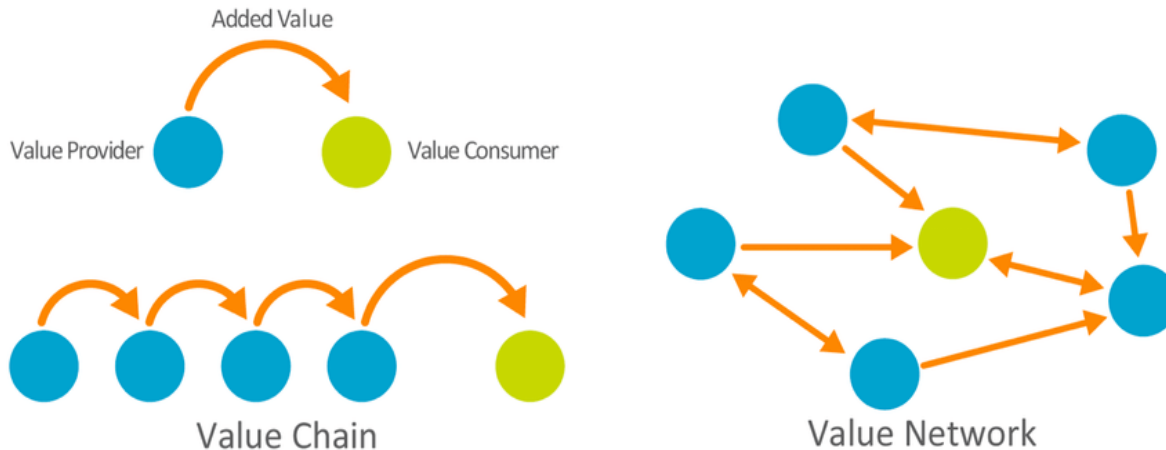
| Responsibility of a company is extending along the supply chain and value chain. Its boundary is not set by law, but by the expectations of key stakeholders

- The 2016 Implementation Plan for Extended Producer Responsibility System applied extended producer responsibility to four types of business: electrical appliances, automobiles, lead-acid batteries, and packaging materials. It is expected that an initial policy system will be formed in 2020
- waste sorting and construction of zero waste cities also require companies to close the loop of production-consumption-recycling-regeneration



- in the context of increased trade frictions, some countries have extended CSR to more areas and a wider range of commodity value chains, especially some important raw materials. CSR compliance risks for Chinese companies will be increased.

From competition to synergy



Value chain and value network (Laya et al., 2015)

Individual companies need to be in a value chain in order to obtain growth opportunities; the competition between enterprises and enterprises is converted into value chain and value chain competition, which has led to the erosion of industrial value.

Past

Present

Digital technology provides a solution, turning the value chain into the value network, allowing enterprises to become a connection point on the value network, and data collaboration allows partners on the original value chain to coexist, expanding the value of the original value chain

(Data Source Chen Chunhua)

Recommendations for CSR Managers

Recommendation 1

Electrical and electronic, automotive, fast-moving and other industries should pay attention to the extension of producer responsibility, and explore the recovery, disposal and reuse of products and packaging products.

Recommendation 2

Chinese enterprises operating overseas, especially those involving key raw materials, should pay attention to compliance risks under “long-arm jurisdiction” and make contingency plans.

Recommendation 3

Perform CSR analysis based on the value network model, re-examine the company's position and responsibility in the value network, manage partnerships, and exert synergies.

The two sides of technology application

Positive

Example:
Blockchain helps
food traceability

Negative

Example:
Genetically
Edited Babies

2019 Shanghai Stock Exchange "Listing Rules for Science and Technology Innovation Board"

- Listed companies shall strictly abide by scientific ethics norms, respect the scientific spirit, abide by due values, social responsibilities and behavior norms, and exert the positive effects of science and technology. Listed companies shall avoid research, development and use of science and technology that endanger the natural environment, life and health, public safety, ethics and morals, and shall not engage in R & D and business activities that violate the basic rights of individuals or damage public interests.
- If a listed company develops or uses innovative technologies in fields as life sciences, artificial intelligence, information technology, ecological environment, and new materials, it shall follow the principles of prudence and stability, and fully evaluate its potential impact and reliability.

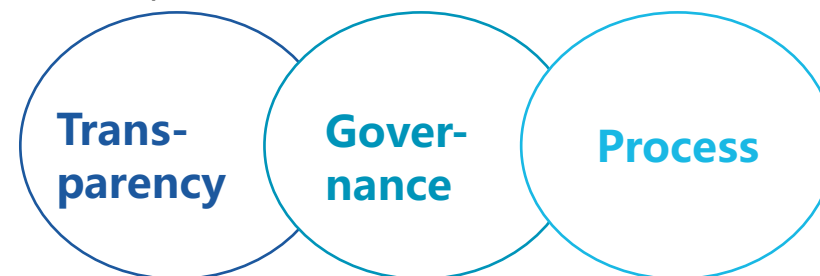
Focus on new risks posed by new technologies

| Data security and privacy protection

Regulators are expected to continue to crack down the black market of selling personal data and information. Software with improper collection of personal information, lack of user privacy agreements, or lack of a clear description of information collection, will face extremely high legal risks

| Boundary Issues on the Integration of Business and Public Welfare

In the field of internet philanthropy, the *Shuidichou* (a crowd funding platform for philanthropy purpose) scandal has prompted the industry to rethink the risks of internet philanthropy, and the boundary between business and philanthropy. Three bottom-lines of transparency, governance, and process should not be crossed.



Trend 10 New Risk | Dealing with ethical risks in new technologies



Recommendations for CSR Managers

Recommendation 1

- Explore the positive value of new technologies to solve social and environmental challenges and lead social responsibility in the high-tech era

Recommendation 2

- Technology companies fully assess the environmental and social impacts of new technology applications, self-assess risks, and develop countermeasures

Recommendation 3

- Perform risk assessments for internet philanthropy projects and charity marketing projects



Policy trends

National-International-Rural-Urban

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Market transformation

Climate change, responsible investment

New Wave

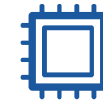
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Technological change

5G, digitalization, internet

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New Risk

Dealing with ethical risks in new technologies



Beijing • Shanghai • Guangzhou • Chengdu • Washington DC



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