

Briefing



Finance Initiatives for Sustainable Development

Introduction

Private finance has always been associated with ‘profit driven’ development with little regard for the social and environmental consequences. Since the Earth Summit in Rio there have been a number of initiatives to encourage financial institutions to finance sustainable development. Unfortunately there has been little progress on translating the good intentions of these initiatives into significant action on financing sustainable development.

As the influence of private finance has grown through privatisation and global financial deregulation NGOs are now targeting private financial institutions more and more over their role in funding companies who are involved in environmentally damaging activities and human rights abuses. In response, financial institutions have had to look at developing policies and practices to deal with these demands. This has led to the creation of a number of initiatives between various financial sectors designed to address sustainable development. But are they really working ?

Private Finance and sustainability initiatives

Below are a number of finance initiatives intended to promote sustainable development that are either UK initiatives or that have substantial UK financial institutional support.

The UNEP Financial Initiative

The UNEP Financial Initiative (www.unepfi.net) was established following the Rio Earth Summit in 1992 initially between the banking sector and UNEP and subsequently incorporating the insurance and asset management sectors in 1995. It is essentially a partnership between UNEP and private financial

institutions to promote sustainable development via joint working groups and conferences.

Signatories are required to uphold a commitment to sustainable development however there is no process to report on member's progress or verify their commitment to these principles. In recent years there has been an attempt to engage with civil society and make signatories more accountable for their commitment to the Financial Initiative however reform has only recently begun.

UK Members of the UNEP Financial Institutions Initiative.
Abbey National Plc.
Barclays Group Plc.
AVIVA Plc.
Cooperative Bank.
Co-operative Insurance Society Ltd.
Friends Provident Life Office
HSBC Holdings Plc.
Legal and General Group Plc.
Lloyds TSB Bank
NatWest Group
NPI (part of the AMP Group)
Prudential Plc.
Royal Bank of Scotland Plc.
Standard Chartered Plc.
Sumitomo Marine & Fire Insurance Co. (Europe)
Woolwich Plc.
Aon Group (Associate)
Barlow Lyde & Gilbert (Associate)

London Principles for Sustainable Finance

The London Principles is a joint initiative between the Corporation of London and the UK Government to promote best practice in financing sustainable development by encouraging financial institutions to adopt seven core principles based on economic prosperity, environmental protection and social development. The Principles have been developed by Forum for the Future and will be unveiled at the World Sustainable Development Conference in Johannesburg in September 2002.

Signatories to the London Principles (include a number of representative bodies).
Association of British Insurers
Apax Partners
Co-operative Insurance Society
Co-operative Bank
Friends Ivory Sime
Friends Provident
SG Asset Management
Storebrand
University Superannuation Scheme
UK Social Investment Forum

FORGE II -Corporate Social Responsibility Guidelines for Financial Institutions

Forge II is joint UK finance industry and Government initiative designed to develop guidelines on corporate social responsibility for the financial services sector. The guidelines are intended to provide a practical toolkit for financial institutions who wish to incorporate corporate social responsibility values and issues into their products and services.

The guidelines which will be finalised by the end of 2002 and are intended to build on FORGE I –

Guidelines on Environmental Management and Reporting for financial institutions - launched in November 2000. An announcement on the progress of the development of the FORGE guidelines will be made in World Summit on Sustainable Development (WSSD) in Johannesburg in August 2002.

Are UK Financial institutions delivering on their claims?

A number of UK financial institutions make claims about their commitment to sustainable development. But do their actions match their words?

Barclays

Claim – *“We are conscious of the increasing demand for information about our social, ethical and environmental policies from concerned investors and customers, community organisations, pressure groups, government agencies and media. These groups are all important to the success of our business and their concerns and opinions help to shape or approach to corporate social responsibility”* – (Barclays Social and Environmental report 2001)

What we found – When Friends of the Earth (FOE) meet Barclays regarding their financing of pulp and paper companies involved in clearing rainforest in Indonesia they refused to discuss the issue claiming commercial confidence. Barclays even refused to discuss the merits of a forest policy prepared by FOE as this would mean disclosing their own policies on environmental risk assessment.

HSBC

Claim – *“We all have a responsibility for the stewardship of this planet, which we hold in trust for the future. We hope that by approaching some of these problems in an innovative way, others will follow our lead and make a difference.”* - (Sir John Bond, HSBC Group Chairman)

What we found – Investigations by FOE and other environmental NGOs have revealed that HSBC is involved in financing a number of controversial projects including the enormous Three Gorges Dam in China and palm oil and pulp & paper mills involved in clearing rainforests in Indonesia.

Abbey National

Claim – *“Being a good corporate citizen is fundamental to us at Abbey National because, as one of the largest providers of financial services in the UK, our business activities impact on society and the environment in many different ways, and it is our sincere desire to ensure that the overall result is a positive one”* – (Abbey National Corporate Citizenship report 2001)

What we found – Abbey National has been heavily criticised for their involvement in helping finance the controversial motorway bypass the Birmingham Northern Relief Road despite the significant environmental impact, long standing community opposition and the fact that it will not achieve its original aim of significantly reducing traffic congestion on the M6 motorway.

Royal Bank of Scotland

Claim – *“As a financial services group we impact on the environment in two ways – through our own operations and through our core business, the lending of money to customers. A robust environmental management system has been developed to oversee our internal operations, and environmental considerations are an important part of our decision making process when lending to customers”* –

(The Royal Bank of Scotland Group Environmental Report 2000/01)

What we found – When FOE contacted Royal Bank of Scotland about the financing of pulp and paper companies involved in clearing rainforest in Indonesia they refused to discuss it citing commercial confidence. HSBC even claimed we had been misinformed about their involvement in such projects but failed to clarify where or when this had happened.

UK Asset Managers

UK Asset Managers who are responsible for managing many of the UK's pension funds have been among some of the strongest advocates for financial institutions to incorporate sustainable development principles in their investment decision making. Socially responsible investment has grown rapidly over the last few years in the UK leading to incredible growth in the number of different ethical products available and the value of socially responsible funds under management has grown to £3.8 billion.

But these institutions, which include **Friends Ivory Sime, Hendersons Global Investors, Morleys Asset Management** and **Jupiter Asset Management**, also manage substantial funds that contain companies that are not seen as socially responsible. Indeed the majority of the funds managed by these financial institutions are not managed under socially responsible guidelines at all although some are moving to incorporate these principles across all their funds.

UK financed corporate scandals

Many of the UK signatories to the above initiatives promoting sustainability are themselves involved in financing controversial projects that involve major environmental and social impacts. The credibility gap between what these financial institutions are saying on sustainable development and what they are financing still appears as wide as ever. Private financial institutions need to do much more to ensure that key principles of sustainable development are applied across all these business.

Birmingham Northern Relief Road

Abbey National have arranged finance for the UK's first privatised motorway, the Birmingham Northern Relief Road. The bypass which will be up to 18 lanes wide in some places will destroy 27 miles of Green Belt and damage two nationally important wildlife sites (SSSIs). Despite years of community opposition including, High Court challenges, public rallies and even shareholders raising concerns at Abbey National AGM, they have continued to support the bypass.

Asia Pulp and Paper and the destruction of Indonesian Rainforests

Barclays, HSBC, Lloyds TSB and Nat West have all helped finance Asia Pulp and Paper (APP), one of the largest pulp and paper companies, who have cleared more 280,000 hectares of Indonesian rainforest in the past 10 years. APP are based in Sumatra whose rainforests contain some of the world's most endangered wildlife including the Asian elephant, Sumatran tiger and the orang-utan. APP is also involved in land disputes with indigenous people in Sumatra and Sarawak.

Three Gorges Dam

HSBC have helped finance construction one of the world's biggest dams in China, the Three Gorges Dam, which will displace over 1 million people and flood 13 cities, 140 towns, 1350 villages and over 75,000 hectares of farmland. The building of the Dam also threatens one of the world's most endangered marine mammals, the baiji or white dolphin, which is unique to the Yangtze river.

Debt, poverty and currency speculation

Barclays, HSBC, Lloyds TSB and Royal Bank of Scotland are all involved in currency speculation which involves gambling on exchange rates to gain a profit. This speculative trade creates volatility in

stock markets and helped contribute to the severity of currency collapses in South East Asia in 1997 which resulted in the loss of millions of jobs and forced many people into poverty.

Failure of the voluntary approach

The flaws of corporate social responsibility

One of the more perverse developments in terms of corporate power has been the positioning by corporations as 'socially responsible' corporate citizens. By assuming the status of citizen this then implies corporations have similar rights as civil society and consequently should not be treated fundamentally differently. Significantly the idea that corporations are 'socially responsible' citizens has now been used successfully by corporations to argue against any regulation and binding rules on corporations.

The degree to which Governments have been captured by this argument is evident in the UK Governments approach to company law where most areas concerning environmental and social accountability have been left to the discretion of the company rather than providing binding regulations. Hence the Governments enthusiastic support for self regulation approaches such as corporate social responsibility.

Clearly it is a gross misrepresentation of corporations to compare them to citizens as their impact economically, socially and environmentally is many magnitudes greater. Despite these obvious flaws Governments are rushing to embrace corporate social responsibility while backing off much needed reforms of company law and the world trade system. As a consequence corporations are able to maintain a 'business as usual' approach behind a thin veneer of public relations initiatives and corporate philanthropy.

Enforcement and verification

Companies argue that codes of conduct and voluntary initiatives are better than regulation as they allow companies flexibility in how they meet the objectives of voluntary commitments. However this is only plausible as long as all other companies are supporting the code and properly implementing its objectives. The reality is that most corporate codes of conduct have no enforcement mechanisms and little independent verification.

For many NGO's voluntary initiatives such as corporate codes of conduct primary function is to protect the company's reputation and brand value. Their true function is to prevent legally binding regulations on those particular companies or industry sector. In essence they are a crucial part of corporate social responsibility approach. Unless such initiatives have an enforcement mechanism and a credible independent verification process, they will not be taken seriously.

All the financial initiatives above suffer from the absence of any enforcement mechanisms or independent verification processes. As a result those who are genuinely committed to sustainable development will embrace the principles while those who are not will simply ignore them. This stifles any attempts to raise the overall industry approach to sustainable development.

Niche marketing or genuine reform?

UK financial institutions, in particular those institutions involved in socially responsible investment (SRI), have been very active in supporting initiatives such as the UNEP Financial Initiative that support sustainable development and this is to be welcomed. However despite their enthusiastic commitment to these principles there is a danger that they will become marginalised with SRI departments and not incorporated into the mainstream aspects of the companies business. In essence they become another niche marketing exercise.

There is a clear challenge to those financial institutions to fully embrace these principles of sustainable development across all their investment policies and products or else their commitment will be questioned. In this regard the MOU signed between the Corporation of London and UNEP for the establishment of a London based secretariat to promote sustainable development in the UK finance sector is a start. However without any capacity to measure (ie environmental and social reports) and verify (ie independent audit) their progress these initiatives could quickly lose credibility. This is why it is essential that these initiatives are accompanied by appropriate reform of company law and the world trade system.

What about some transparency and accountability

Social and environmental policies and practices

Many private financial institutions have their own environmental and social policies but with few exceptions they only apply to their own offices and buildings and not to the companies they finance. Ethical pension funds do apply their own environmental and social criteria but the majority of pension and investment funds do not have any environmental or social policies guiding their investments and nor do they disclose their voting policy for company AGM's on these issues.

Similarly although many banks have an environmental risk assessment processes they will not disclose it or acknowledge if any projects they have assessed have been stopped because of significant environmental risks. Private banks, with a few exceptions, do not have policies to guide their investments in terms of key environmental and social issues such as climate change, rainforest conservation, genetic modification and child labour.

Company law reform

Clearly for any initiative to succeed it must be transparent in what it does and accountable to its stakeholders. In this regard the environmental and social impacts of corporations who are supported by these financial institutions need to be reported on and verified. Further those companies need to be made accountable for such impacts to their stakeholders by given them the right to challenge what companies claim and making company directors accountable for such claims.

Currently there is no legislation requiring companies to report on their environmental and social impacts although a limited number of corporations including financial institutions do. The current standard of reporting however is mixed and in the case of financial institutions restricted to their own offices rather than of those companies they may invest in, lend to or insure.

Financial institutions in particular appear to have little dialogue directly with their principle stakeholders (e.g. pension fund members, bank account holders) with most of it done indirectly through various intermediaries such as fund managers and financial advisors. Their engagement with other key stakeholders is mixed with NGO pressure forcing some institutions to engage on issues of sustainable development and poverty alleviation.

Finally there is a need to tackle the issue of accountability by corporations and particularly director's responsibility. This requires a widening of directors' duties to incorporate environmental, social and ethical considerations as well as financial. Only with such a legal framework in place can we determine whether these initiatives are delivering on their objectives.

Corporate accountability

Friends of the Earth has developed a proposal for an international corporate accountability mechanism (www.foei.org/) that would incorporate these key elements of mandatory social and environmental reporting, stakeholder rights and a duty on directors to be accountable for such impacts. This would provide a global framework for ensuring companies are held accountable for such impacts to their stakeholders where ever they operate in the world

Similarly FOE is part of a UK network of environment, human rights and development NGOs lobbying UK parliament to adopt a corporate responsibility bill (www.corporate-responsibility.org) that would incorporate mandatory social and environmental reporting, stakeholder rights and a duty on directors to be accountable for such impacts.

Conclusion

What we need are for

(1) Private Financial Institutions to

- adopt policies and practices to guide their investments in terms of sustainable development
- publish these policies and processes (ie risk assessment) so they can be judged against them by stakeholders
- Ensure that any commitments made on sustainable development are independently verified.

(2) UK Government to

- support the key principles of the Corporate Responsibility Bill including mandatory social and environmental reporting, stakeholder rights and a duty on directors to be accountable for such impacts.
- Support FOEI's push for an international corporate accountability mechanism to ensure companies' social and environmental impacts can be measured and it can be made accountable for such impacts.

Friends of the Earth inspires solutions to environmental problems which make life better for people

Friends of the Earth is:

- the UK's most influential, national, environmental campaigning organisation
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- a unique network of campaigning local groups, working in over 200 communities throughout England, Wales and Northern Ireland
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