Better returns in a better world

Responsible investment: overcoming the barriers and seeing the returns.

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The authors gratefully acknowledge the help and support of Penny Fowler, Oxfam GB
Foreword by Jeremy Hobbs, Executive Director, Oxfam International

Some readers may be surprised to learn that Oxfam has been working with institutional investors (pension funds, insurance companies, investment managers) in the City of London and other financial centres over the past two years. We have done so as part of our broader engagement with the private sector, and because we recognize the potential role of the financial sector in mobilizing resources and investing in ways that reduce poverty.

Of particular importance in determining whether, and the extent to which, private investment delivers positive development impacts are the decisions that investors make about where to invest, what activities or sectors to invest in, and the extent to which investment decisions take account of social and environmental, as well as financial returns. Investors can also play a very important role in encouraging the companies in which they invest to take a proactive approach to the management of their social and environmental impacts.

Our dialogue with investors has taken on even greater importance with the increased interest being shown by institutional investors in developing country markets. These investors are looking to invest directly in companies that rely on these markets for inputs, workers, knowledge and sales, and in natural resources such as farmland on which the livelihoods of millions of poor people depend. Investors are increasingly aware that their success is critically dependent on their ability to demonstrate that they can contribute to reducing, rather than exacerbating, the major challenges facing these countries, including poverty and increasing competition for scarce natural resources.

In this context, Oxfam welcomes the growing number of development-related initiatives in which investors are involved. These include the UN Principles for Responsible Investment (UN PRI), which aim to develop and promote best practice on responsible investment, the European Institutional Investors Group on Climate Change (IIGCC), which has been in the forefront of calls for a strong global climate change treaty, and investor support for the Extractive Industries Transparency Initiative (EITI). Yet in spite of these and other positive examples, much more can and should be done. Our view is that the majority of investors have yet to integrate social and development issues in their investment decisions or their dialogue with companies in a systematic way.

That said, we recognize that investors can only do so much on their own. Governments have a critical role to play in establishing appropriate regulatory frameworks to encourage or require investors to be accountable for the development impacts of their investment decisions. Governments have an equally critical role in ensuring that natural resources are managed in the best interests of society as a whole, that the development benefits of investment are maximized, and that human rights are protected. The UN Protect, Respect and Remedy Framework for Business and Human Rights aims to provide guidance and support at the international level to help states achieve greater policy coherence in this area.

Oxfam has greatly appreciated the high level of interest and active participation of investors in the Better Returns in a Better World project. We will continue to engage with the investment community as it is our belief that, not only do investors face a moral obligation to take action on poverty, but there is also a compelling long-term commercial case for them to do so. We will also continue to engage with governments on these issues given their critical role in regulating financial markets in the public interest.

Jeremy Hobbs
Executive Director, Oxfam International
1. Introduction

“We can’t afford not to invest in the developing world. We all know that’s where the greatest need is; but that is also where some of the greatest dynamism is.” Ban Ki Moon, UN Secretary-General speaking at the UN Global Compact Leaders Summit, June 2010.
1.1. Background

The 2008 financial crisis raised a series of fundamental questions about the role of investors in society, both in terms of the investments they make, and the manner in which they use their influence to ensure that the positive poverty reduction and development impacts of their activities are maximized and the negative impacts minimized.

Some investors have played a leading and progressive role in the climate change debate, and have made valuable contributions in areas such as labour standards, access to essential medicines and bribery and corruption. However, many other issues related to poverty reduction and sustainable development have received little attention, or have been undermined by the actions of other investors. Oxfam launched the Better Returns in a Better World project (BRBW) in November 2008 to understand the barriers to greater investor engagement with this agenda, and to identify how these may be addressed or overcome.

The project had three specific aims:

- To analyse the role that institutional investors can play (and have played) in addressing poverty reduction and development issues;
- To encourage investors to take account of these issues in their investment practices and processes; and
- To identify the barriers to long-term investment that supports sustainable and equitable development in developing countries, and to provide practical proposals on how these may be addressed.

The project was structured as a research partnership with the investment industry. During 2009 and 2010, we held a series of seven workshops (see Box 1) that were attended by a range of investment firms and investment and development experts. In addition, towards the end of the project, we conducted 12 in-depth, one-to-one interviews with investment sector representatives, at which we discussed the key findings of the research and sought their views and feedback. In total, the project engaged with over 80 different investors across Europe and the United States. This is the first time that so large a number of investors has been actively involved in a project focused specifically on how investors can contribute to poverty reduction.

Working closely with investors provided us with three other benefits. First, it allowed us to identify good and best practices within the investment industry, and to test our ideas on the roles that regulatory and voluntary approaches can play in encouraging investors to take greater account of development issues. Second, it provided us with extremely valuable insights into the practical challenges and dilemmas investors face when trying to take a proactive approach to these issues. In fact, investors themselves provided many of the proposals made in this report on how best to address the institutional and technical obstacles to investors taking greater account of development issues. Third, the process enabled us to establish an open and fruitful dialogue with the investment industry. While this report makes some criticisms of current investment practice, we recognize that many in the investment industry are genuinely seeking to address these issues and make progress.

This is the first time that such a large a number of investors has been actively involved in a project focused specifically on how investors can contribute to poverty reduction.
This report summarizes the lessons learned during the course of the BRBW project, and makes a series of recommendations to the investment community, policy makers and more broadly to civil society. It is divided into four chapters. Chapter 2 sets out the broad investment arguments around why investors should be concerned about poverty alleviation and development issues. This is important as it helps understand the limits to the ‘business case’ for action. Chapter 3 explains the specific actions that investors can reasonably be expected to take to contribute to poverty reduction. Chapter 4 discusses the major structural and technical barriers to investor action identified in the course of the project. Finally, Chapter 5 sets out our proposals on how these structural and technical barriers may be addressed.

1.2. Project scope and limitations

The project focused on a specific part of the finance sector, namely European and North American institutional investors (in particular, pension funds, insurance companies and investment managers). It concentrated primarily on investments in the shares of publicly listed companies (equity investment) and, to a limited extent, on alternative investments, namely private equity.4

OUR AIM WAS TO DISCOVER WHAT COULD BE DONE TO MAXIMISE THE POSITIVE CONTRIBUTION INSTITUTIONAL INVESTORS CAN MAKE TOWARDS POVERTY REDUCTION.

We chose this focus because it is in these geographic areas and in this asset class (i.e. listed equities) that the debate around responsible investment is at its most advanced. Our aim was to identify and understand good and best practices with the aim of discovering what more can be done to maximize the positive contribution that institutional investors can make towards poverty reduction.

**Box 1: Better Returns in a Better World roundtables**


**Arms Trade**, 2 June 2009, Stockholm, hosted by Ethix SRI Advisors.


The fact that the project was carried out against a backdrop of unprecedented turmoil in the world’s financial markets lent a particular urgency and focus to our work. The World Bank estimates that 64 million more people will fall into extreme poverty in 2010 due to the economic crisis.5

Finally, we recognize that some of the recommendations made in this report about how to overcome the structural and technical obstacles faced by investors (when trying to build poverty reduction and development issues into their investment processes) will be familiar to investors involved in responsible investment debates. We also recognize that a number of our recommendations reflect proposals that have been made for improving the financial system more generally in the wake of the financial crisis, which, if agreed, could produce broader development benefits across the finance sector. The important point is that the proposals must emerge as priorities if we are to make real progress towards building poverty alleviation and development into the mainstream of investment practice.

QUESTIONS HAVE BEEN RAISED ABOUT THE PROPER ROLE OF INVESTORS IN SOCIETY, BOTH IN TERMS OF THE SPECIFIC INVESTMENTS THEY MAKE AND THE EXTENT TO WHICH THEY TAKE INTO ACCOUNT WIDER SOCIETAL CONSIDERATIONS.

The financial crisis has undermined trust in the global financial system; financial institutions, and the market as a whole, have been criticized for short-termism, excessive speculation, poor transparency, and a lack of accountability to regulators or to wider society. Questions have also been raised about the proper role of investors in society, both in terms of the specific investments they make and the extent to which they take into account wider societal considerations when making those investment decisions. While our discussions with investors were inevitably informed by the more general debates around the causes of the financial crisis and the way in which trade and investment policies affect progress on poverty reduction, this report is not intended to provide a systematic analysis of the global financial system.6
2. Why investors should seek to contribute to poverty reduction

“As a long time fund manager I recognize the opportunities for investment that emerging markets offer. However, a failure to effectively address poverty-related issues such as access to medicines can be a critical risk to future profitability and so to investment returns.” John Schaetzl, Chair, SustainAbility, adviser of two global funds, former funds manager for General Electric, and health care analyst.
Oxfam is a rights-based organization. We believe that investors have an ethical duty to take proper account of environmental and social issues in their investment processes and practices. This position is informed both by the practical recognition that investors are a major influence in and of themselves, and by the premise that underpins international human rights law and conventions – that ‘all organs of society’, including companies and investors, have obligations to protect and promote human rights. Within this context, Oxfam sees poverty reduction as integral to the delivery of the most basic human rights.

Beyond the moral arguments, we recognize that there are also compelling financial and business reasons for investors to be concerned about poverty and development issues. These include the potential opportunities presented by emerging markets, the financial risks associated with operating or investing in these markets, and the growing social and regulatory pressures for investors to take a proactive approach to managing these issues. We review these business drivers in more detail here because, in practice, the level of attention paid by investors to poverty and development issues (and the actions taken on these issues) is critically dependent on the nature and intensity of these pressures.

Opportunities versus risks

These challenges are particularly well illustrated in the case of the growing investor interest in farmland, where water and land rights are frequently integral to the investment case. In the BRBW roundtables on access to water and agricultural land (see Box 2), the changing debate around water – particularly the emergence of access to water as a human rights issue – was seen as an issue that could result in institutional investors themselves being explicitly challenged on their approaches to water management or lack of consultation with local communities. Even among those investors that proactively engage with companies on these types of issues, it was recognized that the standard investor expectation that companies use water efficiently is unlikely to be sufficient to address the risks associated with conflict over water resources. It was noted that companies in sectors that rely heavily on water for their production processes (including utilities,
beverages, metals and mining, food, pulp and paper, textiles and chemicals) are particularly exposed. It was agreed that companies and their investors would be required to pay much closer attention to the social dimensions of water than they have done in the past. Moreover, their decisions (including whether to proceed with projects, and the amount of water to be used) will need to be based not only on an assessment of the direct financial costs and benefits, but also by issues such as the human rights and needs of local communities, the carrying capacity of the local/ regional environment, the views of stakeholders (including international NGOs and local communities) and the manner in which water resources are likely to change over time as a consequence of climate change.

Box 2: Farmland Funds

The interest of institutional investors in land-based investments is a relatively new phenomenon, driven both by the expectation of rising returns from agriculture linked to changing agricultural commodity prices (driven by increasing demand for food and bio fuels and, potentially, the economic value associated with carbon sinks) and land appreciation, as well as portfolio diversification. According to the World Bank, ‘compared to an average annual expansion of global agricultural land of less than 4 million hectares before 2008, 45 million hectares worth of large scale farmland deals were announced even before the end of 2009. More than 70 per cent of such demand has been in Africa, and countries such as Ethiopia, Mozambique and Sudan have transferred millions of hectares to investors in recent years.’10 While agriculture and particularly farmland as an asset class is still in its infancy, it is expected that investors will continue to increase their investments in agriculture globally.

The participants in the Better Returns in a Better World workshop on land-based investments11 raised a series of concerns about the manner in which investors are approaching these investments, including:

• There is a wide variation in investors’ knowledge and understanding of emerging markets in general and of individual countries or communities in particular.

• There is a shortage of good farm management skills and/or knowledge of the sector among institutional investors. This means that investors may not be able to ensure that environmental and social risks are identified and properly managed.

• There is a general lack of transparency on the investments that are being made, the social and environmental impacts that result and the measures being adopted to manage risks and maximize the development benefits.

• There is frequently a tension between investors’ timeframes (which are generally very short) and expectations on investment returns, and the returns that can be reasonably expected from such investments.

• Key risks like food and water security and the wider consequences of land sales are not generally considered by investors in their investment decisions.

• The interests and rights of local communities are frequently not taken into account. In many cases, local communities have no involvement in the sale process.
While the debates around access to water and agricultural land offer the clearest examples of the risks faced by investors, a similar picture emerges in other areas. For example, emerging economies are expected to provide 50 per cent of the future pharmaceutical market growth by 2020.\(^\text{12}\) This has forced pharmaceutical companies to consider how they can adapt their business models to address the pricing, research and development, and intellectual property issues that impact on access to medicines in order to protect their long-term share value.\(^\text{13}\)

Perhaps the most high profile example in recent years has been the campaign for the international prohibition of cluster munitions, which has seen investors being explicitly targeted. These campaigns have been particularly successful in the Netherlands and Scandinavia where pension funds were directly targeted. An increasing number of investors now have explicit prohibitions on investing in companies involved in the production of cluster munitions: for example, UBS Global Asset Management,\(^\text{16}\) Norway Pension Fund and the New Zealand Superannuation Fund, Belgian bank KBC, Dutch bank ING, Dutch Pension funds PGGM and ABP.

Beyond specific NGO campaigns, there is more general pressure for institutional investors to take a more responsible approach to the manner in which they conduct their investment activities, and these pressures are likely to grow over time. Pension funds and fund managers themselves, as well as the companies in which they invest, have started to become the target of civil society campaigns. For example, FairPensions\(^\text{17}\) in the UK and VBDO\(^\text{18}\) in the Netherlands both benchmark pension funds and fund managers on their performance in managing environmental, social and governance issues, and publish the names of

**PENSION FUNDS AND FUND MANAGERS THEMSELVES, AS WELL AS THE COMPANIES IN WHICH THEY INVEST, HAVE STARTED TO BECOME THE TARGET OF CIVIL SOCIETY CAMPAIGNS.**

Bribery and corruption is another major issue for investors, which potentially affect all sectors of the economy. In the BRBW workshop on bribery and corruption,\(^\text{14}\) participants expressed concern about the mounting hidden cost of corruption investigations. The direct financial cost of one case study presented in the workshop was calculated at $293 million; this was in addition to the unquantifiable costs associated with reputation damage and management distraction.\(^\text{15}\)

Growing social and regulatory pressure

Apart from the financial case for action, investors are facing increasing scrutiny and pressure from governments, media and civil society as a result of the growing expectations of investors to be transparent and accountable for their social and environmental impacts.

“What has changed is that straightforward legal compliance is no longer sufficient. Societal, market and investor expectations are much higher and are continuing to rise. The companies that will be the winners of the future will be those that can anticipate and exceed these expectations”. Nick Robins, Head of Climate Change Centre, HSBC
3. How investors can influence poverty reduction and sustainable development

“Sustainable development is about ensuring quality of life through balancing a range of social, environmental and economic challenges. In recent years, much of the focus has been on the environmental dimension. However, the issue of poverty is critical and closely linked to achievement of environmental and economic objectives. This project is important as it reminds us to promote the role of capital markets as a force for good in alleviating poverty, through active company and public policy engagement, as well as directing investments into these areas.” My-Linh Ngo, Associate Director SRI Research, Henderson Global Investors.
Within the specific scope of the BRBW research project, we identified four main ways in which institutional investors (with a particular focus on equity investments) can contribute to poverty reduction and development. These are:

1. The allocation of capital to different asset classes, regions or countries.
2. The allocation of capital to specific companies.
3. Engagement with companies to influence their policies and practices.
4. Engagement with public policy makers on poverty and development issues.

3.1 Investors’ roles

**Role 1: Investing in Different Asset Classes and Different Regions**

Investors tend to spread their investments across a range of regions to diversify risk. Among European institutional investors, a common way of dividing investments is by the following geographic categories: the investor’s home country, Europe (possibly excluding the investor’s home country), Global Developed Markets (which generally includes North America, Australia, New Zealand, Japan) and Emerging Markets. Most investors have traditionally allocated a small proportion of funds to emerging markets. In such cases, they have tended to direct funding to the more developed (and larger) countries, such as China, South Korea, Russia, Chile and Brazil.

While the investment opportunities are recognized, many BRBW participants also pointed out that there are important barriers to allocating more capital to those markets. A number of them highlighted the fact that the region in greatest need of patient long-term responsible capital – Africa – remains the least attractive investment destination.

When we investigated these views further, two distinct sets of issues emerged. First, there are some real investment issues that should not be underestimated. These include the limited range of investment opportunities in the listed equity markets, the relatively small size of many of these companies, the poor standards of governance, the generally poor infrastructure that can increase costs for companies operating there, and general concerns about developing countries’ poor records on governance.

The second set of issues relates to investors’ own knowledge and understanding. Many of the investors we spoke to in the course of this project acknowledged their own lack of understanding of the markets and social realities in these countries, their tendency to prefer the security (or at least the ‘known risks’) of developed countries versus emerging markets, and a general lack of investment managers with experience in these markets.

These factors have led to investors taking quite a risk-averse approach to investing in emerging markets and, even more so, in low-income countries. Where investors have committed capital to emerging markets, they have tended to look for significantly higher returns than in the developed markets. The consequence is – as they themselves acknowledge – that they may miss out on attractive investment opportunities.

For companies in emerging markets, the consequence is that they are frequently starved of the capital they need to grow and develop.

**OUR RESEARCH SHOWS THAT THE CAPITAL ALLOCATED TOEmerging MARKETS WILL INCREASE SIGNIFICANTLY.**

One of the central messages from our research is that the capital allocated to emerging markets will increase significantly – both through investments in companies that expand into those markets as well as through direct investments in companies and other assets in emerging markets.
Societies become more attractive places to invest

Societies attract more responsible investment

Investors invest in companies that take account of and manage their development impacts well

Those companies are more profitable and sustainable; their investors make higher returns in the long run

Economic growth is more sustainable and equitable

Development issues are fully integrated into investment processes and engagement with companies
Role 2: Stock selection

Investors can take development issues into account in their stock selection in a variety of ways.20

- Negative screening, where companies are excluded from investment on the basis of defined ethical criteria. These criteria may refer to products (e.g. alcohol, tobacco), activities (e.g. gambling), business sectors (e.g. oil, mining, banking), countries (e.g. Sudan, Burma) or international norms (e.g. international standards such as those derived from UN or other international conventions).

- Positive screening, where companies are selected for investment because of their environmental or social benefits (e.g. companies that produce energy from renewable sources, companies involved in the provision of healthcare).

- Best in class, where companies with better governance and management processes, and/or with better performance on specific environmental and/or social issues, are preferentially selected for investment.

- Integrated analysis, which involves the explicit consideration of environmental and social impacts in their investment research.

These strategies differ in terms of the importance assigned to social and environmental performance versus investment (financial) performance. In negatively screened approaches, companies, generally, must meet minimum performance standards before they can be invested in; in other strategies, the trade off between social and environmental performance and investment performance is not clear-cut. Apart from funds with specific exclusionary criteria, investment managers tend to see divestment very much as a last resort.

Role 3: Influencing corporate practice through engagement and voting21

Investors have an important role to play in encouraging the companies in which they are invested to set and maintain high standards on a wide range of corporate responsibility and corporate governance issues. They have a range of strategies they can use to deliver these outcomes: both the formal rights granted to them as shareholders (e.g. voting on shareholdings, the ability to call emergency general meetings) and, equally importantly, the informal influence that they have – individually and collectively – as the providers of capital to these companies. The views that investors express in meetings and other communications with company management about social and environmental performance can have an important influence on the weight assigned by company management to these issues and the actions they decide to take.

There is a growing body of evidence that investment engagement – individually and collectively – can have a positive influence on company performance. Over the past decade, investor engagement has led to improvements in companies’ corporate governance, in the systems and processes that companies follow for the identification and management of environmental and social issues, and in the quality of the information that companies provide to their investors and the wider society.22
Investor engagement has also led to changes in company performance, with particularly noteworthy examples relating to access to medicines (where investors lent strong support to Oxfam’s Cut the Cost and Novartis campaigns), labour standards (where investors encouraged companies to improve their monitoring and management of labour standards in their supply chains) and climate change (where investors have encouraged companies to reduce their greenhouse gas emissions).23

While, in the main, investors have tended to focus most of their attention on issues where there is a clear business case for action, there have also been examples of investors willing to move beyond those situations where the business benefits clearly outweigh the costs. For example, Boston Common Asset Management (US) and Storebrand (Norway) supported Intermón Oxfam in their call for Spanish oil company, Repsol to commit to disclosing its payments to governments, and supported the inclusion of binding country-by-country disclosure in a potential new accounting standard to be adopted by the International Accounting Standards Board (IASB) for the extractive sector in 2010.24 In June 2010, Chevron investors, representing $10 billion in shares, supported a shareholder proposal filed by Oxfam America, calling on the company to disclose its payments to governments.25

Some investors have – individually or collectively – done benchmarking to assess companies’ relative performance as part of their engagement strategies. Examples include the climate change, biodiversity and labour standards benchmarks developed by Insight Investment,26 the Carbon Leaders Disclosure Index produced by the Carbon Disclosure Project,27 the ICCR benchmark28 and the Access to Medicine Index.29 The key feature of these indices is that they create additional incentives (i.e. beyond those in conventional cost-benefit assessments) to improve companies’ performance, with the potential for enhanced brand and reputation benefits to the leaders in these benchmarks. The other important feature is that they provide a structured basis for a dialogue between companies and their investors around how specific issues are being managed.30

TO DATE, FEW SHAREHOLDER RESOLUTIONS RELATING TO COMPANIES’ ENVIRONMENTAL AND SOCIAL PERFORMANCE OR REPORTING HAVE BEEN FILED.

It is interesting to note that, particularly among European investors, relatively little use (in relation to social and environmental performance) has been made of formal shareholder rights. To date, few shareholder resolutions relating to companies’ environmental and social performance or reporting have been filed. In contrast, in the United States, the use of formal voting rights is much more widespread. For example, in 2008 alone, over 50 climate change-related shareholder resolutions were filed. Almost half of these resolutions were subsequently withdrawn when the companies made commitments to set targets to reduce their greenhouse gas emissions.31 It appears that the major reason for the difference is that European investors, generally, seem to have better access to and relationships with company boards and so are more willing to engage in dialogue with company management. Lodging a resolution or voting against management is generally seen as an action of last resort.
Role 4: Influencing public policy

Many of the most significant poverty reduction and development challenges result from weaknesses in public policy frameworks. While investor engagement can do much to encourage companies to take a more proactive approach to these issues, the reality is that effective action is in many cases constrained by limitations in public policy. Investors have recognized this problem and a number have sought to work with policy makers to address these gaps. Two good examples are investors’ support of the Extractive Industries Transparency Initiative (EITI) and the public policy work of the Institutional Investors Group on Climate Change (IIGCC).

EITI is a multi-stakeholder initiative involving oil and mining companies, governments, civil society organisations and institutional investors. It seeks to promote fiscal transparency and good public governance in countries with a history of misusing extractive revenues. It does this by enlisting both the extractive companies that operate there to declare their tax, bonus and royalty payments, and the recipient governments to declare what payments they receive. By mid-2009, 76 investors with some $13 trillion of assets under management had explicitly backed the EITI by signing an ‘investor statement’.

The Institutional Investors Group on Climate Change (IIGCC) is a forum where more than 50 European pension funds and asset managers representing around €50 trillion act collectively to use their ‘significant collective influence to engage in dialogues with policy makers, investors and companies to accelerate the shift to a low carbon economy.’ Among other activities, the IIGCC has sought to make a constructive contribution to international climate change negotiation processes, calling for a strong global climate change treaty with ambitious emission reduction targets.

These kinds of voluntary initiatives can have significant benefits both by encouraging positive action and by helping to establish the need for effective regulation and enforcement by governments of coherent public policies that protect human rights and promote poverty reduction. In Oxfam’s view, responsible investors have a clear interest in supporting state regulation on these issues as it creates a level playing field for all companies and establishes clear company performance standards while encouraging good practice and innovation.

3.2 Responsible investment entering the mainstream of the investment industry

The argument that investors have social and environmental responsibilities is increasingly accepted in the investment industry. This is most clearly seen by the number of signatories to the UN-backed Principles for Responsible Investment (PRI). As of the end of October 2010, 827 investors, with the responsibility for more than $25 trillion of assets, and representing 15 per cent of total global markets, had become signatories to the PRI.
The Principles, are intended to develop and promote best practice in the area of responsible investment: (a) by facilitating the integration of environmental, social and governance (ESG) issues into mainstream investment practice, and (b) by encouraging investors both to incorporate these issues into their investment analysis and decision-making, and to engage with the companies in which they are invested to implement high standards of corporate responsibility and corporate governance.

The Principles signal a step change in the attitude of the investment community towards ESG issues in general. The annual progress reports produced by PRI indicate that investors are increasing their capacity to address ESG issues in their investment processes – by adopting responsible investment policies, hiring dedicated staff, working with others and building some consideration of ESG issues into their investment decisions. These are all important developments. There have been a number of collaborative engagement programmes (facilitated by the PRI’s Engagement Clearinghouse) focusing on social issues. Between April 2009 and March 2010, 17 per cent of engagements covered poverty and development issues such as indigenous peoples’ rights, revenue transparency or human rights. For example, a group of UN PRI signatories have started engaging with 14 North American, European and Japanese consumer electronic companies to ensure that the tin, tantalum and other minerals sourced from the Democratic Republic of Congo are not linked to armed groups responsible for serious and persistent human rights’ abuses. Every year, the PRI runs an annual Reporting and Assessment survey mandatory for all investor signatories to evaluate and encourage progress. The PRI encourages investors to disclose publicly their responses, and some investors do. From 2012 onwards it will be made fully transparent.

RESPONSIBLE INVESTORS HAVE A CLEAR INTEREST IN SUPPORTING STATE REGULATION ON POVERTY AND DEVELOPMENT ISSUES AS IT CREATES A LEVEL PLAYING FIELD FOR ALL COMPANIES AND ESTABLISHES CLEAR COMPANY PERFORMANCE STANDARDS WHILE ENCOURAGING GOOD PRACTICE AND INNOVATION.

Such initiatives represent significant and welcome steps in the right direction. However, it is too early to say whether the Principles will produce lasting positive impacts for poor and vulnerable communities in developing countries. To date, the focus has been on encouraging investors to sign up to the PRI, which includes no minimum entry requirements or absolute performance requirements for signatories. The fact that the obligations are qualified by noting that actions should be ‘consistent with our fiduciary responsibilities’ means that less-committed signatories can hide behind this clause if they decide not to take action.
Box 3: The UN Principles for Responsible Investment

The Principles for Responsible Investment (PRI), launched in 2006, were developed by institutional investors, and are supported by the UN Global Compact and the UN Environment Programme, with the direct support of the UN Secretary-General. They are intended to develop and promote best practice in the area of responsible investment, by facilitating the integration of environmental, social, and governance issues into mainstream investment practice. As such, they pledge to adopt the following principles:

“As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes, and through time). We also recognize that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.”
4. Barriers to greater consideration of development issues in investment

“We need much greater demand and interest from clients. To make the step change that we need on implementation, we need clients to demand information, to critically scrutinize implementation and to hold investors to account for the delivery of their responsible investment commitments.” Nick Anderson, Research Analyst, Morgan Stanley.
4.1 Introduction

Despite the growing number of investors making commitments to responsible investment, and the integration of social and environmental issues in their investment processes, one of the central conclusions of our research is that poverty reduction and development are not, at present, seen as integral parts of the responsible investment debate. While investors have done work on topics such as revenue transparency, labour standards and bribery and corruption, this work seems in the main to have been carried out in a relatively ad hoc manner, triggered by media reports or civil society campaigns rather than starting from a structured analysis of development issues as a whole.

4.2 Structural barriers

The project identified three critical structural barriers in the investment sector that prevent the greater consideration of development issues in investment practice. These are:

- The lack of demand from, and oversight by, asset owners
- Short-termism: Mismatched time frames between investment horizons and development issues
- The general lack of transparency in the investment industry

**Lack of demand from, and oversight by, asset owners**

There was strong consensus among BRBW project participants that a fundamental reason for the failure to consider development issues within the investment industry is the systemic lack of demand from asset owners (e.g. pension funds, foundations), insurance companies, and individual investors (retail investors, high-net worth investors). This lack of demand or interest extends much wider than poverty reduction and development. Our research suggests that there is a systematic absence of demand for responsible investment in the round. Many of the BRBW participants expressed frustration that their efforts on responsible investment did not seem to be a factor in the decisions made by clients in their fund manager appointment or reappointment processes. A number also highlighted the almost complete absence of oversight as to how investment managers actually implement their clients’ responsible investment commitments and policies.
These findings – on the lack of client demand and oversight – may seem surprising, given that the UN PRI had 210 asset owner signatories as of the end of September 2010. Moreover, 10 countries have introduced regulations that – in broad terms – require asset owners to adopt policies that set out their views on the relevance of ESG issues to their investments and explain how these are to be implemented.

Participants identified several reasons why asset owners are not paying particular attention to responsible investment issues in general, and poverty reduction in particular. The most common reason identified was the overwhelming focus on short-term investment performance (discussed further below) to the virtual exclusion of wider responsible investment issues. A number of other factors were also identified:

- A general scepticism about the investment benefits – in particular over the short term – of responsible investment.
- A general lack of understanding of how and why poverty reduction and development could be relevant to investment, and a general view that these issues are simply not relevant to investment performance.
- A reluctance to be seen as a ‘social activist’ or ‘campaigning NGO’.
- A lack of pressure from clients, stakeholders or industry peers to take action on these issues, and an unwillingness to take a leadership position.
- A perception that focusing on these issues would entail incurring additional costs or risk damaging investment performance.

Short-termism: mismatched timeframes

A critical point highlighted by BRBW participants is the short-term focus of most investment contracts (or mandates). The stereotype is that these mandates are typically for a three-year period, with one-year performance targets and quarterly reviews. Inevitably, this drives a focus on short-term financial performance, with decisions to buy and sell shares based on likely short-term movements in share prices rather than on a view of the companies’ longer-term strategy and prospects.

The most common reason identified was the overwhelming focus on short-term investment to the virtual exclusion of wider responsible investment issues. This has two perverse consequences. First, it provides incentives for companies to focus on activities that yield returns in the short-term (i.e. boosting their quarterly financial results), rather than on activities that will lead to success over 10 or 20 years (such as investing in strategies to maximize their development impact in emerging markets). Second, it reduces the incentives for investors to engage with the companies in which they invest on issues that may provide longer-term benefits to the company. As shares are likely to be sold long before these benefits emerge, investment managers are unlikely to see this engagement as being of benefit to them or their clients.
Box 4: The role of investors in access to medicines

The Better Returns in a Better World roundtable on access to medicines highlighted the potential tensions between investors’ short-term and long-term interests, and the contradictory messages that investors can send companies.

On the one hand, investors’ demands for short-term returns have helped perpetuate the ‘blockbuster model’ (based on a handful of multi-billion dollar selling drugs) in which the industry is trapped. This focus has encouraged short-term tactics such as hiking up prices for the remaining period of a drug’s monopoly, ‘ever-greening’,40 mergers and acquisitions to boost research and development pipelines, and inappropriate marketing and drug promotion tactics. Some companies have embarked on legal and/or trade battles over patent protection41 against the governments of emerging markets, in an attempt to protect their short- and medium-term margins.

While these actions may produce higher returns in the short-term, they damage these companies’ long-term prospects. Not only have pharmaceutical companies invested less money in research and development (which means that the industry is not generating the pipeline of new drugs that it needs), these actions also risk damaging the companies’ relationships with developing country governments.42

The Pharmaceutical Shareowners Group43 and Pharma Futures44 (two investor-led initiatives) have been pressing the pharmaceutical industry to take a longer-term and more holistic view of the sustainability of its business model, particularly in emerging markets. While these initiatives have proved valuable in setting out a long-term vision for the sector, pharmaceutical companies have pointed out that most of the investment industry remains fixated on short-term financial performance.
The lack of transparency in the investment sector

The third major structural issue is the general lack of transparency in the investment industry. The vast majority of asset owners and asset managers provide little or no information on their approaches to responsible investment; in most cases, disclosure is confined to a relatively general high-level policy. While there has been some progress (e.g., 40 per cent of PRI signatories now publish the responses they provide to the annual PRI implementation survey), very few institutional investors provide a coherent and complete account of: (a) how they give effect to their policies; (b) what resources they allocate to responsible investment; (c) what engagement they conduct, and what outcomes result from this engagement; (d) how they take account of ESG issues in their investment processes and the investment results that such a focus has provided, and (e) whether and under what conditions they collaborate with other investors. The consequence is that it is simply not possible to assess whether an investor’s responsible investment commitments have had any impact on investment performance or social or environmental outcomes.

Lack of transparency presents two important challenges to the investment industry. First, given that transparency is one of the core principles of the PRI, there is a real risk that companies will push back on investor demands for more disclosure on the grounds that investors themselves are not transparent about how they use this information. Second, the systemic lack of transparency runs the risk of undermining the credibility of initiatives such as the PRI. If the PRI is not seen as a credible initiative, this will, in turn, limit the value of the PRI to investors. A similar argument can be applied to individual investors. Without transparency on implementation, their rhetoric and policy commitments will simply not be seen as credible.

“Transparency is crucial. Both asset owners and managers should have a publicly available strategy that underpins their principles and ESG approach. They should be publicly transparent on their values and performance so that people can differentiate between them.”
Giuseppe van der Helm, Executive director of VBDO and President of EUROSIF

4.3 Technical barriers

The Better Returns in a Better World project identified a number of technical barriers that limit the ability of investment managers to account fully for poverty reduction and development issues in their investment processes. These fall into two categories:

- Practical difficulties in valuing these issues and, even in situations where they can be valued, ensuring: (a) they are given appropriate weight in investment decisions, and (b) they have desirable social outcomes.

- The general absence of clear normative frameworks (whether defined in regulation or in widely supported codes and standards) against which company performance can be assessed and which can form the basis for dialogue between companies and their investors.

MOST ASSET OWNERS AND MANAGERS PROVIDE LITTLE OR NO INFORMATION ON THEIR APPROACHES TO RESPONSIBLE INVESTMENT. THIS MAKES IT VERY DIFFICULT TO ASSESS WHETHER THEIR RESPONSIBLE INVESTMENT STRATEGIES HAVE HAD ANY IMPACT ON PERFORMANCE OR SOCIAL OR ENVIRONMENTAL OUTCOMES.
Practical Challenges in Valuing and Integrating Poverty Reduction and Development Issues

Investors face some very real practical challenges in integrating poverty reduction and development issues into their investment decisions.

There is a general absence of investment-relevant research and financial tools that can be used by investors to assess the financial significance of these issues. While there is now an extensive and robust literature on the investment implications of climate change and other environmental issues, social issues (human rights, poverty, development) have received nothing like the same level of attention within the investment community. The consequence has been that many investment managers are simply not aware of the nature, scale and risks associated with development issues. The general absence of such research presents another problem as it suggests to investment managers that these issues are not relevant to their investments; put another way, the absence of research reinforces investment managers’ prejudices about the lack of financial relevance of these issues.

However, the answer is not simply to argue that investment banks should produce more research on these issues. A number of practical hurdles would need to be overcome before high quality and credible research can be produced. These hurdles include:

- The general weaknesses in corporate disclosures on social issues.
- The lack of clear – and accepted – correlations between commonly used measures of corporate social performance (e.g. the existence of human rights policies, supply chain auditing) and measures of financial or investment performance.
- The difficulties in predicting the social consequences of environmental issues (see, for example, the water example in Box 6).
- The difficulties in assigning a financial value to particular social impacts, (see the example of living wage in global supply chains in Box 5).
Box 5. Integrating living wage in global supply chains into investment analysis

The integration of company performance on environmental and social issues into investment practices is important for two reasons: (a) it signals to company management that these issues are important to investors, and (b) the findings can be used as a basis for dialogue between companies and their investors.

On September 2009, in partnership with Aviva Investors, we held a workshop where participants – a mix of investors and labour and supply chain experts – reviewed a piece of investment research that tried to analyse whether it was possible, based on an analysis of sales prices and knowledge of margin within the supply chain, to determine what wages companies were paying to workers in their supply chains. The aim was to establish whether such research could identify companies not paying a living wage to workers in their supply chain, with investors then engaging with these companies to encourage them to address this issue. The discussions highlighted the challenges inherent in assessments of this type, with participants identifying a series of technical challenges as well as the risk of perverse or undesired outcomes.

A number of technical obstacles were identified. First companies might be reluctant to provide information on salaries/wages due to perceived commercial sensitivities, or because they have not calculated them (e.g. companies with long supply chains, those purchasing through intermediaries, those using sub-contractors). Second, the analysis was based on a series of assumptions around productivity (items/hour), hourly pay and the length of the working week. The analysis did not take account of the potentially wide variation in the wages received by individual workers, the significant variance in productivity even across workers in the same factory (e.g. individual productivity rates often vary by from 0.5 units per sewer per hour to 1.75 pieces per sewer per hour) or the wide range of working hours per employee (which is typically over 60 hours per week but for individuals could average from 65 to 90 hours per week). Third, multiple employees tend to be involved in the production of individual items and there is extensive subcontracting. These factors were not considered in the calculation methodology.

Beyond the technical issues, the workshop participants noted the risks of perverse outcomes if such research is used by investors to push companies to reduce labour costs to the level of those paid by their peers (i.e. creating a race to the bottom). Even if investors engaged in constructive dialogue to encourage companies to increase wage rates, there is a risk that companies might weaken other contractual benefits, thereby increasing the downward pressure on real wages. That is, simply raising the rate of pay per piece may not deliver better social outcomes, if higher payment comes at the expense of losing other benefits.

Participants concluded that, despite the difficulties, there were considerable benefits in such models and quantification when and if:

- They are used as a basis for informed engagement between investors and companies on wage issues.
- The scope of engagement is confined not only to wages, but also covers wider employment issues.

A wider conclusion was that there are, potentially, very real benefits for investors to engage closely with civil society organisations, as these organizations can not only help verify assumptions and data, but can also help improve the engagement investors have with companies.
While the absence of financial tools and credible research on investment implications is a widely acknowledged problem, it is important to recognize that this is an area where there is a significant level of activity. A number of research providers have started to develop risk exposure and assessment tools; examples include researching and identifying high risk countries from a human rights or conflict perspective, identifying critical or sensitive natural resources, and developing benchmarks and frameworks for assessing corporate performance on issues such as labour standards and bribery and corruption. It is likely that, over time, these will address some of the major technical challenges listed above.

Even if we overcome the technical issues around the quantification of social issues in financial terms, it is important to recognize that there are a number of factors that make it clear that this is not necessarily the panacea that might be expected. That is, it is likely that poverty reduction and development issues will continue to be underplayed in investment analysis and decision-making. First, valuation models generally only project forward three, or sometimes five years. Impacts that occur outside such timeframes are generally ignored.

Longer-term consequences, even those with a high probability of occurrence (e.g. climate change-related impacts) are generally not considered in investment models. Second, impacts that occur in the future are assigned a lower importance than similar impacts today. Third, as many significant social and environmental impacts are simply not financially material (i.e. they have a modest effect on companies’ earnings or profits), they tend to be excluded from investment analysis. Finally, because social and environmental issues interact in complex ways, it is often not possible to capture all of these issues in a single (financial) metric.

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**Box 6: Taking into account the multiple dimensions of water risks**

The BRBW roundtable focused on water risks in water-scarce environments. The investors participating in this workshop reported that they do look at water-related risks in their investment analysis, and that – where financially significant - they consider likely changes in water and waste water volumes and costs as an integral part of their investment research. These investors also noted that they evaluate companies’ quality of management using eco-efficiency metrics (e.g. volume of water used per volume of production).

The workshop concluded that this focus on eco-efficiency, while an important dimension of the debate, would not be sufficient to capture the social dimensions of water (e.g. the risk of conflict, legal disputes or disruption to production as a result of factors such as disputes with communities’ over their legal and customary access to water, human rights to water, competition for water resources from other uses (e.g. industry, agriculture) or changes in rainfall patterns as a consequence of climate change.) While the need for a more holistic approach was recognized; investors noted that it is difficult to assess companies’ approach to these issues objectively (e.g. companies’ approach to community relations) and to integrate such information into assessments of companies’ ‘quality of management’.
Consensus around performance expectations

A recurring message across the workshops and interviews was that investors are more likely to take specific social issues into account in their investment decisions and engagement when there is a clear consensus around what the expectations of companies are. From an investment perspective, the argument is that the risks to companies (in terms of damage to their reputation and consequent impacts on cash flows and profits) are greatest where they violate or risk violating: (a) existing legislation (particularly when there is risk of lack of enforcement and implementation); (b) agreed societal norms, that is, where their behaviour can be characterized as ‘unacceptable’ or ‘immoral’. In practice, this means that investors will look out for those areas where companies breach agreed norms of good practice (or international standards) and are more likely to avoid those companies whose behaviour is or could be seen as unacceptable and so at greatest risk. From an engagement perspective, the most effective engagement that has been carried out by investors has been in those situations where the expectations of companies are clearly defined (i.e., it is possible to assess compliance/non-compliance in objective terms) and where there is a consensus around the standards of behaviour or performance that are expected.

In the Better Returns workshops and meetings, investors stressed that internationally agreed frameworks on issues such as labour standards, bribery and corruption, cluster bombs and controversial weapons have helped them to overcome some of the barriers discussed. They help investors to simplify the process of integrating development issues into their investment analysis by providing clarity and certainty about the societal expectations of companies, and by establishing benchmarks against which to compare companies. Internationally agreed frameworks also help provide a basis for engagement, where company performance can be assessed in a structured and objective manner, thereby enabling investors to compare companies’ against each other and allowing them to encourage laggards to improve while also rewarding leaders.

The question of whether such norms and frameworks should be codified in legally binding instruments was also discussed. While this represents an ideal situation, the reality is that such instruments take a long time to negotiate and even longer to implement. There was a general consensus that, in the absence of regulation, credible multi-stakeholder processes (e.g., the Roundtable on Sustainable Palm Oil) have the potential to play an important bridging role in developing the soft law and normative frameworks from which – as required – stronger implementation mechanisms could emerge.
Of course, multi-stakeholder initiatives are not a panacea. They can take a long time to negotiate, there is a risk that they may settle on lowest common denominator approaches, and they do not necessarily reach the correct answers. In relation to this latter point, a good example is the use of donation programmes as a positive indicator of pharmaceutical companies’ corporate responsibility performance in frameworks such as the Access to Medicine Index. While donation programmes have a valid and necessary role to play in some circumstances – such as in the context of specific disease-eradication programmes – most evidence on donation programmes suggests that they tend to be counter-productive. Thus, by rewarding donation programmes, investors’ might encourage companies to pursue policies that have a negative impact on poor people’s access to medicines.

**Box 7: Investors and the arms trade, calling for a UN ATT**

To date, relatively little attention has been paid by mainstream investors to the human rights and corporate responsibility issues associated with the defence sector. This is because of the perceived closed relationship of major defence contractors with governments and the lack of a clear international normative framework to enable company performance to be assessed on corporate responsibility issues. Investors with concerns about the sector have tended to exclude companies from their portfolio. However, as the sector has become increasingly more integrated with civilian sectors (e.g. IT), and as investors face increasing pressure from civil society organizations to address human rights and corruption issues in the sector, investors have realized that they need to develop a more nuanced approach than simply excluding companies from their portfolios.

The negotiations around an internationally binding Arms Trade Treaty (ATT) are seen by many as enabling the normative expectations of the sector to be defined. At the BRBW workshop in Stockholm, participants agreed that mainstream investors have a strong interest in supporting the Treaty as this would provide a broad framework to enable them to build corporate responsibility issues into their research on the sector, and also provide a basis for engagement with companies in the sector.
5. Conclusions and recommendations

“Active ownership is critical. Asset owners should first identify good standards of active ownership as a criterion in the selection process, then ask fund managers for their active ownership policies and practices as part of this process; once selected, the asset owner should monitor these activities and ensure that the fund manager delivers on its commitments.” Emma Hunt, Senior Investment Consultant, Towers Watson
5.1 Introduction

The scale of the challenge we face in fully integrating poverty reduction and development issues into investment practice is immense. The reality is that fully addressing many of the structural and technical obstacles identified in the course of the Better Returns in a Better World project will take many years and require huge levels of political and institutional support.

That said, there is much that can – and must – be done within the prevailing structure of the investment industry. We believe that the proposals and recommendations set out here provide investors with the framework for the next five years’ work on responsible investment. They are challenging but achievable, and should enable us to move much closer to placing poverty reduction and development at the heart of investment practice.

We see both as important. Voluntary approaches: (a) allow progress to be made in the absence of regulatory requirements; (b) enable good and best practices to emerge and lessons to be learned; (c) help create momentum and progress, and (d) are a recognized starting point for the development of norms (both around investment practice and around the outcomes that should be sought from responsible investment) that may, over time, emerge as hard law requirements. That said, we do not believe voluntary approaches will deliver all of the outcomes required. If we look at the progress that has been made in the investment industry over the past five years, there is much that is encouraging, most notably the huge increase in the number of institutional investors that have made commitments to responsible investment. However, it is also clear that progress (in particular on poverty and development issues) has not been as fast as we need if we are to make significant progress towards the goal of poverty reduction. We therefore see regulation at the national and international levels as critical to defining and enforcing standards of performance (and dealing with free riders), to institutionalising good practices and addressing the market failures that are at the root of many of the most pressing social and environmental challenges we face.

5.2 Addressing the structural barriers

In Section 4.2, we identified three major structural barriers to the fuller integration of poverty reduction and development issues into investment practice, namely: (a) the lack of demand from and oversight by asset owners, (b) short-termism, and (c) the general lack of transparency in the investment industry. The solutions we propose to the first and third of these are quite similar and so these barriers are considered together.
TO CREATE DEMAND AND IMPROVE TRANSPARENCY:
We have two recommendations for investors

1. That all institutional investors (asset owners, insurance companies, asset managers, etc.) develop, implement and report on their responsible investment strategies, with a particular focus on how they will address poverty and development issues within their overall approaches to responsible investment.

2. That asset owners explicitly demand and reward investment managers that take particularly proactive approaches to responsible investment.

TO CREATE DEMAND AND IMPROVE TRANSPARENCY:
We have two recommendations for governments

3. That governments introduce regulations that require pension funds and other asset owners not only to have a policy on responsible investment, but also to publish details of how they intend implementing their policy, and report regularly on the social, environmental and financial outcomes that result from the implementation of their policy.

4. That governments make responsible investment an integral part of how the financial assets they control (e.g. state pension funds, sovereign wealth funds) are run.
Institutional investors’ approach to responsible investment

All asset owners and asset managers should adopt and implement a responsible investment policy that sets out their views on the relevance of environmental, social and governance issues to their investments and details how they propose to implement this policy. This requires that they:

• Define the outcomes (both financial, and social and environmental) they expect to achieve. This may require the development of supporting policies on specific corporate governance, environmental and social (including poverty reduction and development) issues.

• Commit themselves to engage and vote actively (as appropriate) on environmental, social and governance issues.

• Commit themselves to integrate consideration of all relevant environmental, social and governance issues in all investment decision-making.

• Assign senior management responsibility for the implementation of their responsible investment policy.

• Allocate resources for the implementation of the policy.

• Implement and monitor the implementation of the policy.

• Report annually on the implementation of the policy and progress made.

There is no standard format for responsible investment reporting but, as a minimum, institutional investors should provide:

• Their responsible investment policies, and the strategies (investment integration, engagement, collaboration, voting) used to implement these policies.

• A description of how environmental, social and governance issues are taken into account in their investment processes, including details of the key areas (topics) that have been researched and how this research has influenced investment decisions.

• A description of the engagement activities that have been carried out, including: (a) a description of engagement process and strategies used; (b) a list of engagement topics and the objectives of the engagement; (c) quantitative and qualitative information on engagement, including the number of companies engaged with, the forms of engagement (letter, face-to-face meeting, group meeting), the outcomes sought and the changes achieved.

• A description of the voting process, including details of the total number of votes cast and the number of votes for, abstained and against management. Reporting should include commentary on the reasons for abstentions, votes against management or otherwise controversial votes, and should also comment on how, if at all, the voting decision influenced company management.

• Details of the collaborative initiatives participated in and the outcomes achieved from these initiatives.
Instituting proper incentives and oversight

A consistent message from the asset managers who participated in the Better Returns in a Better World project is that the attitudes of their clients – in particular, pension funds – are a critical influence on the importance their organizations assign to responsible investment. A recurring theme was that the absence of clear client demand and interest significantly weakened the business case for investing resources in this area. Clients were also seen as important in setting the agenda for asset managers’ research and, in particular, engagement activities.

This picture of the critical importance of pension funds in helping institutionalize responsible investment across the investment industry leads to our second conclusion: namely that asset owners need explicitly to reward investment managers who take particularly proactive approaches to responsible investment. Clearly, the specific approaches adopted will depend on the particular assets being managed and the responsible investment strategies that can be applied, but there are three key areas where asset owners should be looking to build responsible investment into their processes: (a) in the asset manager appointment and reappointment processes, (b) in their asset monitoring processes, and (c) in their reporting.

In relation to appointment and reappointment processes, the fund managers’ commitment to, and track record on, responsible investment should be a critical factor in these decisions. This may be implemented by requiring fund managers to meet certain responsible investment performance requirements in order to be appointed (i.e. responsible investment capability is a minimum requirement), or by assigning a specific weighting (of the order of 10 or 20 per cent) to responsible investment capability and track record as part of the fund manager selection process.

Clearly, some work is required to define the criteria against which fund managers could be assessed, but these should include consideration of:

- The fund manager’s resources for responsible investment (number of staff, experience and seniority of staff, other resources such as research).
- The fund manager’s commitment to responsible investment (as set out in policies) and the degree of alignment between these and the client’s policies.
- The fund manager’s commitment to ESG integration and evidence that ESG issues influence the investment decisions made.
- The fund manager’s commitment to engagement and voting, and evidence of the level of activity in these areas (e.g. number of votes cast, number of meetings with companies) and the outcomes achieved from these processes.
- The fund manager’s commitment to collaboration, both in terms of the collaborative initiatives participated in and the specific contribution made to these initiatives.
- The quality of the fund manager’s reporting, both to clients and to wider society.

There are three key areas where asset owners should be building responsible investment into their processes: in the asset manager appointment and reappointment, in asset monitoring, and in reporting.
The second part of the process is to build responsible investment into performance management and monitoring processes. This starts with making compliance with the pension fund’s policies an explicit contractual requirement. It then requires that the pension fund formally review the fund manager’s implementation (e.g. investment research and decision-making, level of engagement and voting) as a standard part of the routine meetings with the fund manager. Pension funds should also use these meetings to raise their own concerns and to highlight issues that they are particularly concerned about. They should ensure that, as appropriate, these are built into the research and engagement activities the investment manager carries out on the pension fund’s behalf.

Disclosure requirements for pension funds and other asset owners

There is a general consensus that the requirements for pension funds to set out their policies on responsible investment that have been introduced in countries such as France, Germany or the UK have played a critical role in putting responsible investment on the agenda of institutional investors. It is also clear that the absence of requirements to report on how these policies have been implemented has limited the effectiveness of these requirements. The absence of disclosure has also meant that it is virtually impossible for beneficiaries or stakeholders to hold pension funds to account for the delivery of their policy commitments.

Therefore, our recommendation is that governments introduce regulation (or modify existing legislation) that not only requires pension funds – and other asset owners – to have a policy on responsible investment, but also to publish details as to how they intend implementing this policy, and to report regularly on the social, environmental and financial outcomes they have achieved as a result.

Creating demand through government-sponsored funds

It is striking that much of the debate around responsible investment has focused on private pension funds, insurance companies and asset managers. Relatively little attention has been paid to government-sponsored retirement funds and other pools of capital. It is clear that, if these pools of capital were to adopt similar responsible investment policies and frameworks to those we propose above for asset managers and owners, the debate around responsible investment would be transformed. There would be a real and immediate need for asset managers to significantly enhance their approaches to responsible investment.
Government leadership of this sort would also, particularly if accompanied by the modest regulatory changes around pension fund disclosure proposed above, have a catalytic effect on the pensions industry. Responsible investment would no longer be seen as an optional extra or a ‘tick the box’ exercise. Rather, through committing their resources and influence to this agenda, governments would create the space for pension funds to take a much more proactive approach than has been the case to date.

We therefore recommend that governments make responsible investment an integral part of how the financial assets they control (e.g. state pension funds, sovereign wealth funds) are run. All such funds should, in a similar manner to the above proposals for asset owners and asset managers, adopt and implement a responsible investment policy, assign senior management responsibility for implementation, allocate resources, and report annually on implementation.

Addressing short-termism

While we are convinced that it is possible to make significant progress in the short to medium-term on the issues around creating more demand for responsible investment and improving transparency, the issue of short-termism within the investment community is much more difficult to address.

There is general consensus that one of the central causes of the 2008 financial crisis was an overly short-term focus in the investment industry and elsewhere, which led to many important risks being underestimated or even excluded from investment decisions.

WE RECOMMEND THAT GOVERNMENTS MAKE RESPONSIBLE INVESTMENT AN INTEGRAL PART OF HOW THE FINANCIAL ASSETS THEY CONTROL ARE RUN. ALL SUCH FUNDS SHOULD ADOPT AND IMPLEMENT A RESPONSIBLE INVESTMENT POLICY.

At the time of writing, September 2010, there are ongoing discussions about the manner in which the financial sector is to be regulated to prevent a recurrence of the financial crisis. A whole series of proposals have been made by experts, regulators, think tanks, investors, civil society organizations and others on this issue. These include: (a) proposals to require institutional investors to play a more active oversight role in the companies in which they are invested (through engagement and, as appropriate, the use of their formal rights as shareholders); (b) proposals to better align the interests of investors and wider society (e.g. by linking the remuneration of investment professionals to some measures of social or environmental, as well as financial, performance); (c) proposals to curb excessive trading (e.g. through a financial transactions tax); (d) proposals to encourage investors to hold shares for longer periods of time; (e) proposals to encourage investments in areas such as renewable energy, and (f) proposals to better integrate social and environmental factors into corporate strategy and reporting.
These are all important and necessary steps. However, it is not clear that, individually or collectively, they will effectively address all the particular challenges presented by poverty. Our research indicates that responsible investment (investment integration, engagement, collaboration, etc.) does have an important role to play in encouraging companies to improve their management of environmental and social issues. They can do so by ensuring that they identify major risks and adopt processes to manage these effectively, and by encouraging them to reduce waste and improve efficiency. These are important building blocks towards a sustainable economy, but they are not enough. The reality is that many of the most serious environmental and social issues we face (climate change, access to resources) reflect failures of government to legislate adequately – or enforce legislation – to protect people’s rights and livelihoods, to protect or conserve resources, to provide equitable access to resources or to ensure that the benefits of resource exploitation and economic development accrue to all.

Even if we were succeed in having investors take a longer-term view and assigning greater weight to factors that fall outside conventional investment timeframes (e.g. the longer-term effects of climate change), these problems would remain. There are clear limits to the extent that investors can and will integrate these factors into their investment decisions in the absence of clear regulatory frameworks or incentives.

Our recommendations are, therefore, twofold. The first is that we – governments, investors, civil society – continue to explore how we can encourage the financial sector as a whole to take a more holistic and longer-term approach to its investments. The second is that we do not lose sight of the critical role of all governments in protecting their citizens, particularly the most vulnerable, their natural resources and the environment, and in contributing towards the reduction of poverty.

5.3 Addressing the technical barriers

Section 4.3 considered the technical challenges faced by investors seeking to integrate poverty and development issues into their investment practices. Two major issues were identified: (a) the difficulties of translating information on companies’ exposure to and performance on development issues into information that could be used in investment research, and (b) the absence of normative frameworks and standards against which company performance can be assessed.

Analytical Tools

The absence of appropriate financial tools and credible research on the investment implications of poverty and development issues is a widely recognized problem, and a key barrier to the integration of these issues into investment practice. However, there was general consensus among BRBW participants that this is not an intractable problem and, in fact, some tools are already being developed to address this gap. At the same time, it was recognized that the rate at which these tools are being developed and, more importantly, deployed is relatively slow and that investors need to do much more to accelerate progress.

THERE ARE CLEAR LIMITS TO THE EXTENT THAT INVESTORS CAN AND WILL INTEGRATE DEVELOPMENT AND POVERTY ISSUES INTO THEIR INVESTMENT DECISIONS IN THE ABSENCE OF CLEAR REGULATORY FRAMEWORKS OR INCENTIVES.
The other issue that was highlighted across the workshops is that investors rely heavily on companies to provide data and information on their exposure to and management of poverty and development issues. Yet, the reality is that corporate reporting is often incomplete; it is also, because of inconsistencies in the indicators used, difficult to directly compare companies’ performance. Investors have, through their support for initiatives such as the Carbon Disclosure Project and the Global Reporting Initiative, tried to address this problem by encouraging companies to report social and environmental information in a standard, consistent form. While these efforts have made an important contribution to, in particular, increasing the number of companies that do produce such reports, it is clear that more is required.

We have four recommendations for institutional investors.

1. To lend their time and resources to relevant projects and initiatives to develop these tools. For example, the BRBW workshop focusing on transparency, bribery and corruption highlighted investors’ need for, and interest in, developing a tool that would enable them to evaluate companies’ potential exposure to bribery and corruption (e.g. as a consequence of operating in particular countries or in specific sectors) and companies’ systems, processes and controls to manage these risks. Participants agreed that this was a project that they, and other investors, should collaborate in, probably in conjunction with an organization such as Transparency International.

2. To encourage the sell-side (investment banks) to focus much more on poverty and development issues than has been the case to date. This will provide further impetus to the development of investment-relevant tools and, perhaps more importantly, will signal to investment managers that these are investment-relevant issues and so need to be explicitly considered in investment decision-making.

3. To engage proactively with relevant civil society organizations when they are developing analytical tools or producing research. The potential value of these organizations was highlighted in the case of the BRBW labour standards workshop (see Box 5), where they were able to challenge some of the central assumptions in what looked like a plausible piece of investment research, and were also able to provide a more nuanced assessment of the issues investors should be considering and the implications of investors’ responsible investment activities.

4. In their dialogue with companies, to move beyond simply encouraging companies to report, and focus much more on the completeness and quality of the data, with a particular focus on encouraging companies to report in a form that enables meaningful comparisons to be made. Investors should ensure that companies conduct, and report on, environmental, social and human rights due diligence of their activities and projects. Equally, all Environmental & Social Impact Assessment (ESIA) reports need to be publicly disclosed and open for independent verification and monitoring.

Governments need to lend their weight to these efforts and require companies to: (a) produce a comprehensive corporate responsibility report, building on the frameworks developed by the Global Reporting Initiative and similar disclosure initiatives; (b) include relevant information about (i.e. financially material or significant from an environmental or social perspective) social and environmental issues in their reports to their shareholders.
ANALYTICAL TOOLS: We have four recommendations for institutional investors

1. To lend their time and resources to relevant projects and initiatives to develop these tools.

2. To encourage the sell-side (investment banks) to focus much more on poverty and development issues than has been the case to date.

3. To engage proactively with relevant civil society organizations when they are developing analytical tools or producing research.

4. In their dialogue with companies, to move beyond simply encouraging companies to report, and focus much more on the completeness and quality of the data, with a particular focus on encouraging companies to report in a form that enables meaningful comparisons to be made.

ANALYTICAL TOOLS: We have two recommendations for governments

1. To require companies to produce a comprehensive corporate responsibility report, building on the frameworks developed by the Global Reporting Initiative and similar disclosure initiatives.

2. To require companies to include relevant information about social and environmental issues in their reports to their shareholders.
As a final reflection on the question of corporate reporting, we would note that reporting to investors is just one part of companies’ wider reporting to society, and that the proposals made here are not meant to preclude other social and environmental reporting directed at the needs and interests of other stakeholders.

For example, Oxfam and many other organizations are calling for transnational corporations to disclose their profits and the taxes they pay on a country-by-country basis. To support this, Oxfam calls for stock exchanges to incorporate country-by-country reporting and ESG disclosure standards into Initial Public Offering (IPO) and ongoing listing rules in the same way that financial reporting is a requirement for all companies.

**Developing norms and consensus around companies’ performance**

As discussed in Section 4, investors are more likely to take specific social issues into account in their investment decisions and engagement when there is a clear consensus around what the expectations of companies are. Internationally agreed frameworks on issues such as labour standards, bribery and corruption, cluster bombs and controversial weapons have enabled these issues to be integrated into their investment analysis and have provided a basis for engagement with companies. One of the central conclusions from the BRBW project is that, if we are expecting investors to play a meaningful role in efforts to alleviate poverty, there is a need for clear normative frameworks that set out the expectations of companies (and of their investors) in relation to the issue(s) in question. A number of priority issues were identified in the course of the workshops:

- Arms transfers (and corporate responsibility expectations of the defence sector in general)
- The management of water in water-stressed and water constrained areas, covering issues such as access to water, human right to water, community engagement and long-term water planning.

- Access to land, specifically the manner in which issues such as food security, right to food, land tenure, water resources, smallholders participation, communities benefits of the investment are addressed when investors purchase land in developing countries.

**OXFAM AND MANY OTHER ORGANIZATIONS ARE CALLING FOR TRANSNATIONAL CORPORATIONS TO DISCLOSE THEIR PROFITS AND THE TAXES THEY PAY ON A COUNTRY-BY-COUNTRY BASIS.**

We recommend that investors:

- Encourage governments and key stakeholders to start the process of developing appropriate frameworks (and improving legislation) in these areas.
- Actively participate and support the development of such normative frameworks. In the specific case of the defence sector, we recommend that investors lend their active support to the proposals for a comprehensive and binding UN Arms Trade Treaty, which are currently under debate.
- Encourage companies to support credible multi-stakeholder (MSI) processes, such as the Roundtable on Palm Oil.
- Monitor and evaluate companies’ performance against appropriate normative frameworks (including existing legislation and frameworks, e.g. the Right to Food), as an integral part of their engagement with companies.
DEVELOPING NORMS AROUND COMPANIES’ PERFORMANCE:
We have four recommendations for investors

1. Encourage governments and key stakeholders to start the process of developing appropriate frameworks (and improving legislation) in these areas.

2. Actively participate and support the development of such normative frameworks. In the specific case of the defence sector, we recommend that investors lend their active support to the proposals for a comprehensive and binding UN Arms Trade Treaty, which are currently under debate.

3. Encourage companies to support credible multi-stakeholder (MSI) processes, such as the Roundtable on Palm Oil.

4. Monitor and evaluate companies’ performance against appropriate normative frameworks (including existing legislation and frameworks, e.g. the Right to Food), as an integral part of their engagement with companies.
Civil society organisations

Although the project focused on investors, it was clear that the views and concerns of civil society organizations have had relatively little direct influence on the issues that investors consider in their research and engagement. Many investors – even those with extensive track records in RI – reported that their dialogue with civil society organizations had been sporadic, and that many of their discussions were frustrating because of these organizations’ lack of understanding of how investors work, how they make decisions or the constraints they face. This lack of understanding and dialogue was seen as having limited the amount of influence civil society organizations would or could exert to promote sustainable and responsible investment.

Yet, the benefits for investors of collaborating and working with civil society became evident in two areas:

• Research on poverty and development-related issues, to bring evidence from the ground, data and the development perspective.
• Development of quantitative and qualitative indicators, as well as standards and norms.

In the round, broadly speaking, civil society does not appear to have developed a deep understanding of how the investment system functions and the limits to the influence that investors can exert, and did not have a clear agenda in terms of what they want from investors. While the responsibility lies first with governments and then on the investment community, we believe civil society could accelerate and verify progress by considering doing one or more of the following activities:

• Raise awareness amongst the general public on responsible investment and development issues, and possibly mobilize action on these issues.
• Provide expertise on poverty-related issues to the investment community, and possibly even work with the industry on specific initiatives.
• Hold investors to account for the delivery of their responsible investment commitments and for the impacts of their investments in developing countries. These activities are likely to require civil society organizations to:
  • Develop their knowledge of the investment industry and understand how institutional investors may help in advancing their campaigning activities.
  • Develop initiatives and campaigns to raise awareness of the relationship between investment and poverty among their supporters and the public. A central message should be that all those who are employed or who have individual pensions should seek to influence how their money is invested.
  • Monitor the performance of asset owners and asset managers on responsible investment and on specific development issues.
  • Lobby governments to adopt responsible investment laws and regulations where they do not exist, and to monitor and enforce compliance more actively where they do exist.
  • Encourage and lobby our organization’s own pension fund (and any investments they may have) to be managed according to responsible investment principles, and work towards aligning them with the organizations’ own advocacy objectives.

‘Charities and foundations should use responsible investment both to further their mission and to foster their funding capacity. However, too few charity investors today use their power as investment customers to pressure their fund managers to deliver responsible ownership. For real change, the quality of asset stewardship needs to drive charities’ decision-making in selecting their fund managers.’

Penny Shepherd, CEO, UKSIF EUROIF
5.4. Concluding Comments

Participants in the BRBW project were united in their view that the centre of gravity of the investment industry is inexorably moving towards emerging markets from which it will derive an increasing proportion of its future returns. Oxfam recognizes the critical need for long-term responsible investment - that takes account of the social, environmental and governance issues that determine whether the investment has a net positive impact on poverty reduction - in developing countries, particularly in long under-invested areas and sectors. We believe that this project has made a contribution to raising awareness among investors and to identifying some of the measures that can help to ensure that those investment flows make a greater contribution to poverty reduction in the future.

THE TIME IS RIPE FOR A BOLD NEW APPROACH TO DIRECT AND INDIRECT INVESTMENT IN DEVELOPING COUNTRIES.

The time is ripe for a bold new approach to direct and indirect investment in developing countries. One that incorporates a social equity bottom line into investors’ analysis and practice, based on transparency and responsible ownership, and that encourages engagement with all relevant stakeholders.
Endnotes

1 See www.business-humanrights.org/Links/Repository/965591

2 Further information on the workshops (including briefing papers, meeting notes and details of attendees) can be found at: www.oxfam.org.uk/resources/issues/privatesector/investment

3 These were: Marcel de Berg, 21C; Nick Anderson, Morgan Stanley; Emma Hunt, Towers Watson; Rob Lake, APG AM; Mark K Eadie, JP Morgan; Alastair Newton, Nomura Investments; Meg Brown, Citi Investment Research; Sagarika Chatterjee, F&C Investments; Nick Robins, HSBC; Giuseppe van der Helm, VDIO and EUROISIF; Hywel Rees-Jones, CDC Group; Will Outton, Mercer.

4 This is not to downplay the importance of other forms of investment (e.g. debt finance, development or project finance, trade finance, currency or commodity trading) in poverty reduction. Oxfam is also working on some of these areas; see, for example: www.oxfam.org.uk/issues/oil-gas-mining and www.oxfam.org.au/explore/infrastructure-people-and-environment

5 Source: http://go.worldbank.org/WWB9YG5QB0


7 See www.oxfam.org/en/about/why for more information on Oxfam’s commitment to human rights.

8 In a Citi-Principal Global Investors May 2010 survey of 237 global investors representing US$29.1 trillion assets under management, 63 per cent of respondents believed that emerging market equities would be the asset class that would experience the highest growth and demand in the coming years. See: www.citigroup.com/transactionservices/home/sal2010q2/create

9 For more information please refer to the paper and the findings from the BRBW roundtable on access to water at www.oxfam.org.uk/resources/issues/privatesector/investment-workshops#water. See also the UN Global Compact CEO Water Mandate: www.unglobalcompact.org/issues/environment/CEO_Water_Mandate


11 For more information, please refer to the paper and the findings from the BRBW roundtable on Food Security: Investing in Farmland available at www.oxfam.org.uk/resources/issues/privatesector/investment-workshops.html#food


13 Ibid.

14 For more information please refer to the paper and the findings from the BRBW roundtable on Transparency, Bribery and Corruption available at www.oxfam.org.uk/resources/issues/privatesector/investment-workshops.html#transparency

15 Source: F&C Investments; all data derived from a real example presented in The role of Institutional Investors in tackling bribery and corruption operating in Developing Countries paper available at www.oxfam.org.uk/resources/issues/privatesector/investment-workshops.html#transparency

16 UBS policy applies to all actively managed Swiss and Luxembourg-domiciled retail and institutional UBS Funds. Other international funds managed by UBS Global Asset Management Alternative and Quantitative Investments are exempt www.ubs.com/1/e/about/corp_responsibility/news.html?newsId=182778

17 www.fairpensions.org.uk


19 US investors have a similar categorisation: the US, Global Developed Markets (which generally includes Europe, Australia, New Zealand, Japan) and Emerging Markets.

20 See, for example, UK Social Investment Forum publications: www.uksf.org/projects/sustainable_pensions/publications

21 It is worth remembering that investors’ level of influence depends not only on the size of their holding, but also on the general ownership structure of the company, the company’s responsiveness to its shareholders and the wider cultural context within which the business operates (e.g. corporate governance norms in the country in question).


24 Transparency in revenue and financial management, through country-by-country reporting of tax and other payments to governments, can be extremely important in holding those in authority to account. Such transparency might also improve the ability of investors to make decisions on capital allocation based on a fuller knowledge of local market conditions and profitability. In the long run, greater transparency could also help companies to build trust and enhance their license to operate, mitigating animosity against foreign investment. On both sides of the Atlantic, political steps have been taken to improve financial transparency through legislation and regulation. For more information, please refer to BRBW paper on ‘The role of Institutional Investors in tackling bribery and corruption in companies operating in Developing Countries’ available at www.oxfam.org.uk/resources/issues/privatesector/investment-workshops.html#transparency


26 http://www.insightinvestment.com/uk/ri_literature_archive/

27 www.cdrproject.net/carbon-disclosure-leadership-index.asp


29 www.accessmedicineindex.org

30 While the potential value of indices and benchmarks is recognized, it is important not to lose sight of the importance of ensuring that they focus on the key development issues in question and do not create perverse incentives for companies. For further explanation and an example please go to page 24 in section 4.3, and page 29. www.oxfam.org.uk/resources/issues/privatesector/investment-workshops.html#medicines
32 www.eiti.org
33 www.igccc.org
35 See: www.igccc.org
36 See www.unpri.org
37 Available to download at www.unpri.org/publications
38 Available at www.unpri.org/report10
39 Australia, Austria, Belgium, Canada, France, Germany, Italy, Norway, Sweden and UK.
40 This is a practice of introducing minor modifications to existing medicines which are then patented so that, upon expiry of the original patent, other manufacturers are prevented from introducing generic versions.
41 Recent examples include Novartis in India, Pfizer in the Philippines, and Abbott and Sanofi-Aventis in Thailand; for more information see Oxam (2007), ‘Investing for Life’, available at www.oxfam.org.uk/resources/policy/health/bp109_pharma.html
43 In 2004, the Pharmaceutical Shareowners Group released a report that outlined the risks stemming from the public-health crisis in emerging markets, and assessed how well the companies were managing the challenge. The report concluded that poor management of the issue would have significant impacts on long-term share value and that the companies needed to improve in areas including pricing, R&D, and intellectual property to mitigate the risks. Pharmaceutical Shareowners Group (2004), The Public Health Crisis in Emerging Markets: An Institutional Investor Perspective on the Implications for the Pharmaceutical Industry (London: Pharmaceutical Shareowners Group).
44 Pharma Futures – whose participants include asset owners, sell and buy-side analysts, senior pharmaceutical executives and global health experts - is exploring the links between sustainable pharmaceutical business models and improved health outcomes in middle-income markets, including China, India and Brazil. See, further: www.pharmafutures.org/
45 PRI Annual Report 2010: PRI year in numbers available at www.unpri.org
47 All information is drawn from the paper and findings of the workshop available at www.oxfam.org.uk/resources/issues/private-sector/investment-workshops.html#supply
48 A Bernstein-developed methodology presented by Aviva. The paper, the model that formed the basis for the discussions, and the findings can be found at http://www.oxfam.org.uk/resources/issues/private-sector/investment-workshops.html#supply
49 It is worth underlining that the participation and proper representation of all stakeholders involved, especially affected local communities, is crucial for stakeholders processes to be credible.
51 This is the case, for instance, of financial disclosure on payments and taxes paid to governments by extractives industry. What started as a civil society call, later institutionalized by the Extractives Industry Transparency Initiative (see page 11 and www.eiti.org) and implemented by a few companies, it has now become law in United States. Public disclosure of payments for the extraction of oil, gas, and minerals on a country-by-country and project basis is now mandatory as part of financial statements that are already required by the US Securities and Exchange Commission (SEC). This was made a legal requirement as part of the Dodd-Frank financial reform legislation passed by the House and Senate. For more information see www.oxfamamerica.org/press/pressreleases/congress-passes-law-to-end-secrecy-in-oil-gas-and-mining-industry
52 For more information see www.oxfam.org.uk/get_involved/campaign/actions/robinhood.html
53 Due diligence is increasing being accepted as an overarching framework of responsible business conduct and accountability. It includes the need for environmental and social impact assessments – including human rights and gender impact assessments, equitable benefit sharing agreements and doing business in conflict, post conflict and weak governance zones – as well as the need to develop steps to prevent negative impacts, and mechanisms to monitor and remedy negative impacts. For more information see www.business-humanrights.org/GettingStarted/UNSpecialRepresentative; and visit the UN Special Representative of the Secretary-General on the issue of human rights and transnational corporation and other business enterprises portal at the Business and Human Rights Resource Centre at www.business-humanrights.org/SpecialRepPortal/Home
54 An interesting model for improving environmental, social and governance standards among listed companies is presented in EIRIS (2010), ‘Sustainable Stock Exchanges: Improving ESG Standards Among Listed Companies’ (London: EIRIS). Available at www.eiris.org/
55 www.oxfam.org.uk/resources/issues/economic_crisis/introduction.html In United States public disclosure of payments for the extraction of oil, gas, and minerals on a country-by-country and project basis is now mandatory as part of financial statements that are already required by the US Securities and Exchange Commission (SEC). This was made a legal requirement as part of the Dodd-Frank financial reform legislation passed by the House and Senate. For more information see www.oxfamamerica.org/press/pressreleases/congress-passes-law-to-end-secrecy-in-oil-gas-and-mining-industry
56 Oxam supports all calls made by EIRIS on the role of Stock Exchanges in ‘Sustainable Stock Exchanges: improving ESG standards among listed companies’ September 2010, available at www.eiris.org/
57 For detailed information on the Arms Trade Treaty negotiations and civil society initiatives, please visit the Control Arms Coalition’s website at: http://www.controlarms.org/en
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*The affiliates listed here were active at the time of participation in the project

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Henderson Global Investors
ICCR
Transparency International-USA
Aviva Investors
Morgan Stanley
HSBC
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