SUSTAINABLE DEVELOPMENT AND THE ROLE OF THE FINANCIAL WORLD

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Abstract. The incapacity to finance sustainable development through philanthropic official assistance turned the Johannesburg Summit to business world and the financial industry.

Pioneering financial institutions – including development banks and private banks – have developed a wide range of innovations that can support sustainable development. This article highlights a few innovative products and markets and focuses on the progress made by financial players on the level of standards, metrics and guidelines to improve sustainability management systems, reporting and accounting practices and the multi-stakeholder dynamic.

The role of the socially responsible investing (SRI) community has been underexposed by the Summit. Through its voice and market success, SRI has moved from a green market niche to the mainstream, however not becoming mainstream. The invaluable levering effect of SRI has just been discovered by authorities and market regulators and is becoming instrumental.

In order to show the business case of Corporate Social Responsibility and to prove the financial viability of the People, Planet, Prosperity investing approach, the SRI community should critically reflect on its own quality assurance systems, sound disclosure and verification practices.

Key words: Codes of conduct for financial institutions, Corporate social responsibility in the financial sector, Financial instruments for sustainable development, Sustainable and Responsible Investing, Sustainable banking.

Abbreviations: 3P (Triple P) – People, Planet, Profit; or: People, Planet, Prosperity; AA1000 – AccountAbility 1000; ABI – Association of British Insurers; AsrIA – SRI in Asia; BASD – Business Action for Sustainable Development; BS7750 – British Standard 7750; CDP – Carbon Disclosure Project; CERCLA – Comprehensive Environmental Response, Compensation and Liability Act; CSR – Corporate Social Responsibility; CSRR – Corporate Sustainability and Responsibility Research; EMAS – The EU Eco-Management and Audit Scheme; EPI – Environmental Performance Indicator; ESI – Ethibel Sustainability Index; FCCC – (United Nations) Framework Convention on Climate Change; FDI – Foreign Direct Investment; GFT250 – Top 250 companies of the Fortune 500; GNP – Gross National Product; GRI – Global Reporting Initiative; GWI – Global Warming Indicator; ICC – International Chamber of Commerce; ISEA – Institute for Social and Ethical Accountability; ISO 14000 – An environmental management standard specification by ISO; ISO – International Organisation for Standardisation; NGO – Non-governmental organisation; ODA – Official development assistance; Rio + 10 – 10 years after Rio = Johannesburg 2002; SEE – Social, Environmental, Ethical; SIF – Social Investment Forum; SiRi – Sustainable Investment Research International Group; SRI – Socially Responsible Investing; Sustainable and Responsible Investing; UN – United Nations; UNCED – United Nations Conference on Environment and Development; UNCSD – United Nations Commission for Sustainable Development; UNEP FI – UNEP Finance Initiatives; UNEP FII – UNEP Financial Institutions Initiative; UNEP III – UNEP Insurance

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Industry Inititative; UNEP – United Nations Environment Programme; VfU – Verein für Umweltmanagement in Banken; VQS – The Voluntary Quality Standard; WBCSD – The World Business Council for Sustainable Development

1. Johannesburg and its means of implementation

The Plan of Implementation of the Johannesburg Summit 2002 is very much a pamphlet with a sustained call for action upon governments, international organisations and other relevant stakeholders (UN, 2002c). It is very much a repetitive appeal for support and efforts, including the provision of financial and technical assistance and capacity building for developing countries.

One of the key outcomes of the 2002 Summit was reported as "the broadening and strengthening of the understanding of sustainable development, particularly the important linkages between poverty, the environment and the use of natural resources" (UN, 2002a). The Summit wants "to take sustainable development to the next level, where it will benefit more people and protect more of our environment" (UN, 2002c).

'The gap between developed and developing countries points to the continued need for a dynamic and enabling international economic environment, supportive of international cooperation, particularly in the areas of finance, technology transfer, debt and trade, and full and effective participation of developing countries in global decision-making' (UN, 2002b).

Agenda 21 (UN CSD, 1992) suggested financial strategies, to fund socially and environmentally responsible development, a key concern of governments, corporations and multilateral development banks. Agenda 21 is a comprehensive plan of action to be taken globally, nationally and locally by organisations of the United Nations (UN) System, Governments, and Major Groups in every area in which human impacts on the environment. Agenda 21, was adopted by more than 178 Governments at the UN Conference on Environment and Development (UNCED) held in Rio de Janeiro, Brazil, 3–14 June 1992. The full implementation of Agenda 21, the Programme for Further Implementation of Agenda 21 and the Commitments to the Rio principles, were strongly reaffirmed at the World Summit on Sustainable Development (WSSD) held in Johannesburg, South Africa from 26 August to 4 September.

To realise the internationally agreed development goals, included in Agenda 21, in the Millennium Declaration (UN, 2000), and in the Johannesburg plan of action, significant increases in the flow of financial resources from developed to developing countries are required. Support was given to establish a world solidarity fund for the eradication of poverty and to promote social and human development in the developing countries.

The original cost of implementing Agenda 21 has been estimated at USD600bn. To reach the Millennium Development Goals estimates indicate that it will take on the order of an additional USD40 to USD60 billion a year.

Thus considerable new funds and the creative utilisation of existing resources are needed. At the Summit, the role of the private sector and the individual citizens relative to governments in funding the endeavours, in order to achieve the implementation targets, a has particularly been stressed.

This paper looks at the material needs and the financial means for implementing Agenda 21 and the Johannesburg Earth Summit objectives. It observes the ever growing impact and the potential role of financial institutions and corporate world regarding social responsibility and sustainable development. It presents a short and incomplete picture of some existing key financial instruments, explaining their successes and shortages and points towards the imbalances in the multilateral trading systems and the insecurities in the global financial systems. It entails a personal commentary on the Johannesburg Summit regarding the role of finance for sustainable development.

The paper compares the initiatives and investments of governments *versus* corporations, Non-governmental organisations (NGOs) and other private bodies. It critically evaluates the role of "sustainable bankers", both in understanding their powerful intermediary role regarding globalization and sustainable development and their own "corporate sustainability". It finally highlights the 'forgotten' role of the sustainable and responsible investment community and encourages the sector of SRI research and rating agencies to critically strive to more convergence on the level of research processes, quality assurance systems.

2. Official development assistance and the development banks

Official development assistance (ODA) and Foreign Direct Investment (FDI) are two important tools for funding international sustainable development.

The amount of ODA has fallen steadily from 1990 to less than 0.3% of the Gross national product (GNP) of OECD member countries, under half of the UN global target of 0.7% of the GNP (Annan, 2002b). Even when this target would be met, this assistance level will never be sufficient to deliver the level of development that is required. The ambitious goal of bringing the levels of ODA from developed countries to USD125bn was never materialised.

Because of this deficiency, the role of development banks as financiers of sustainable development became more manifest. The World Bank has become a main financier and started looking beyond the economic considerations and into broader social issues and impacts of its projects. Vice president of environmentally and socially sustainable development Ian Johnson said: "We have shifted the way we work in support of Agenda 21, we have sharpened the poverty focus of our work, expanded support for social services, equitable broad-based growth, good governance and social inclusion and are integrating gender and environmental considerations into development efforts" (Hahn, 2002). The main themes within the World Bank's sustainable development projects – energy use, population growth

and environmental impact – are affected by the politics of globalisation. Moreover, critics argue that the World Bank is politically captured by the G8 governments and therefore is a big part of the problem, which in turn stimulated the Bank to adapt its modus operandi.

In 1999 the "Comprehensive Development Framework" was launched, a "holistic approach to development that balances macroeconomic with structural, human and physical development needs" (World Bank, 2002a).

Another example is the introduction of a new measure for countries' sustainability in 1998, the "adjusted net savings" (previously "genuine savings") (Bolt et al., 2002). This indicator builds on the concepts of green national accounts. Adjusted net savings measure the true rate of savings in an economy after taking into account investments in human capital, depletion of natural resources and damage caused by pollution. The "adjusted net savings", together with the "green net national product" and "the wealth accounting" are prominent indicators to link the macroeconomy and the environment (World Bank, 2002b). By developing 'greener' national accounts, the World Bank intends to place environmental problems into a framework that key economic ministries in any government will understand.

During the Summit the world's four regional development banks (African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development Bank, Inter-American Development Bank) stressed their continuing commitment to promoting sustainable development and their belief that the principles of sustainability will be implemented best through a partnership of governments, international institutions, sub-regional organisations, private enterprises, local populations and other stakeholders (Kabbaj et al., 2002). The banks intend to leverage their expertise towards sustainable prosperity either by helping countries to build and undertake sustainable development agendas that will reduce poverty and preserve the environment, or by enhancing transparency, or by financing the private sector to invest responsibly towards development. They also pointed out the need to refine systems to monitor effectiveness of their programmes.

3. Open and equitable multilateral trading and financial systems

A number of problems interfere however with the multilateral projects and efforts of the development banks and are faced in the Plan of Implementation.

A first problem is the radical divergence in the North-South view on main themes as industrial development, population growth and the urgency of the environmental agenda. Next to this the trade barriers block many developing countries from access to lucrative markets. Agricultural subsidies in developed countries are still standing at USD350bn a year (seven times what these countries spend in ODA). Furthermore, there are the problems of corruption, market instability, political insecurity and governance risks.

"Globalisation offers opportunities and challenges for sustainable development. Globalisation and interdependence are offering new opportunities to trade, investment and capital flows and advances technology, including information technology,

for the growth of the world economy, development and the improvement of living standards around the world. At the same time, there remain challenges, including serious financial crises, insecurity, poverty, exclusion and inequality within and among societies. Globalisation should be fully inclusive and equitable . . . " (UN, 2002c).

Debt relief or debt cancellation, duty-free and quota-free market access for the least developed countries trade facilitation, technology transfer, education, . . . are just a few other "sustainability investing tools" which the Johannesburg Plan of Implementation mentions.

3.1. Problems regarding short term financial security

In preparation to the Earth Summit 2002, investigations have started up toward enhancing global financial security (Gardiner, 2001). "The current financial system has not attained the objectives of poverty eradication, social equality, environmental sustainability and economic growth. Although financial markets profit from a certain degree of volatility, the markets do not take account of the consequential impacts of crises and financial risk on poor communities and the environment, especially in developing countries".

"Financial security is considered as a global public good: no one is required to maintain it but everybody can benefit from it. A reform of the financial system is needed to prevent further recurrence of financial crises and providing better mechanisms for financial crisis management . . . to support and reinforce sustainable development" (Gardiner, 2001).

Some problems associated with short-term financial volatility include:

(i) Escalating financial uncertainty: highly dangerous speculation; leveraged derivatives or hedge funds; dotcom bubble; . . .
(ii) National economic exposure: huge escalation of global capital flows exposing domestic economies to greater financial volatility; sudden outflow of foreign investment; . . .
(iii) Moral hazard: imprudent financial risk-taking by corporations, incited by government support in financial crises;
(iv) Market saturation: competitiveness is increasingly tough, causing cross-border consolidations of financial institutions to boost profits and dividends, with an increased rate of innovation of new financial products; derivatives markets deal now with 47 000 different kinds of options.

3.2. Problems regarding long term financial security

Other factors impact the long-term financial security:

(i) Misgovernance: both corruption and internal conflicts not only undermine financial institutions but also the international credibility of a national financial system, deterring both domestic and foreign investment;

(ii) Debt: the on-going debt burden continues to undermine the long-term development of many developing and transitional countries;
(iii) Omission of social and environmental factors: financial insecurity studies focus on the financial and macroeconomic conditions related to crashes. There are few integrated assessments of the social and environmental factors underlying and affected by financial insecurity. The environment is a key component of financial security. Environmental degradation and pollution have implications for social welfare and the economic conditions underpinning domestic financial stability. Educated, skilled, healthy and happy people are key drivers of economic growth and financial stability. This again requires broad and long-term investments in social needs.

Table I lists some of the key financial instruments that are currently used to maintain short and long term financial security (Gardiner, 2001). Some of these instruments are commented in this text.

4. Foreign direct investments

Kofi Annan, UN Secretary-General, vented his frustration with the slow government decision-making at the Johannesburg Summit by urging business to press ahead with development initiatives. He told corporate delegates not to wait for governments to make decisions and laws to promote development in the world's poorest countries and environmental protection. "We realise that it is only by mobilising the corporate sector that we can make significant progress" (Annan, 2002a).

4.1. The role of corporations

The corporate community was most visible at the Johannesburg Summit. The presence of corporations was large compared to the Rio Summit. Corporations, showed active participation in partnerships. Business Action for Sustainable Development (BASD) refers to the promotion of corporate responsibility and accountability through "development and implementation" of intergovernmental agreements (BASD, 2002; WBCSD, 2001). BASD is an initiative of the International Chamber of Commerce (ICC) and the World Business Council on Sustainable Development (WBCSD). The concept of partnerships between governments, business and civil society was given a large boost by the Summit and the Plan of Implementation.

Business representatives did advocate a free trade approach to alleviate environmental problems (such as the Kyoto protocol) and did favour voluntary measures. NGOs did favour a regulation-based framework and binding rules, not impressed by voluntary and non-committal initiatives that do not have any monitoring or enforcement mechanisms.

A number of instruments facilitate the corporate financial and non-financial world to take up their role.

TABLE I. Existing financial instruments for maintaining financial security in the short and the long term (Gardiner 2001).

	Target		Scope	
Mechanism	Stakeholder	Aim	Short term	Long term
Supplement reserve facility (IMF)	Government	Capital liquidity	+	
Special drawing rights (IMF)	Government	Capital liquidity	+	
Exchange rate mechanisms	Government	Efficient currency transaction		+
Official Development Assistance	Government	Social, economic, environmental development		+
Contingent credit lines	Government Corporate	Debt relief, capital liquidity, economic growth	+	+
Debt workouts (rescheduling, cancellation, standstills)	Government Corporate	Debt relief	+	
Debt for nature swaps	Government Corporate	Debt relief, environmental protection	+	+
Tradable permits (e.g. carbon credits)	Government Corporate	Environmental efficiency		+
Financial screening	Corporate	Social responsibility, environmental management, risk management	+	+
Credit guarantees (government & international sources)	Corporate	Reduced financial risk, economic growth	+	+
Micro-credit (government, NGO, international sources)	NGO SME	Economic growth, poverty eradication		+
Alternative currencies (e.g. LETS, Time banks)	NGO SME	Domestic economic growth, poverty eradication	+	+
Global Environment Facility (WB, UNEP, UNDP)	Government NGO	Environmental enhancement		+
Foreign private investment (direct; portfolio investments, bonds)	Government Corp., NGO	Economic growth	+	+
Domestic private investment	Government Corp., NGO	Economic growth	+	+

4.2. FDI VERSUS ODA

In the decade since the Rio Summit, commercial credits and FDI indeveloping economies have grown substantially, to the point where the influence of the private sector eclipses that of public institutions such as the development banks and the International Monetary Fund, worrying many that they focus on large-scale industrial projects that do not meet the principles of sustainable development.

In 1990, for every dollar of long-term ODA, less than one dollar in long-term capital did flow from the private sector (Gardiner, 2000). Today, for every dollar ODA there are four dollars FDI.

This is the working field of the International Finance Corporation, the private-sector lending arm of the World Bank. The IFC did examine its own experiences on the level of sustainability sensitisation and produced a "practical guide for

change" in order to prove the business case for its corporate clients in developing countries and to help them to couple profits with sustainability (Anon., 2002b; Armstrong, 2002).

The vast majority of the FDI have gone to just ten middle-income countries and is heavily concentrated in a limited number of industries. The African countries received only about 1% of the global flows. The capital flow was highly volatile, especially during the financial crash in the Asia-Pacific region. Political risksremain as the primary risk for private sector investment. It has been suggested that combining ODA and FDI approaches could lower political risks, which could in turn vitalise FDI (Vitalis, 2002). Generally spoken projects aim to improve institutional infrastructure and governance (Ribbans, 2002) e.g., by capacity building programs to improve the skills of civil servants to attract sustainable investment, by promoting tax incentives for developing countries' investment funds, by providing technical assistance and seed funding for project development, by strengthening managerial skills of micro-credit institutions, . . .

The challenge anyway is to attract more private sector resources to developing countries and to channel it to activities that support sustainable development efforts.

5. Micro-finance

Poor people have a variety of financial needs and the informal sector has been quicker to respond to such needs than traditional banks by providing tailor made remittances, leasing, and insurance services as well. The experience of many countries shows that micro-financing can empower individuals and the informal business sector, thought to be uncreditworthy (Anon., 2002a). Micro-finance therefore can well foster sustainable livelihoods and generate substantial non-financial benefits. This means that micro-finance not only proved that borrowers are able to pay their credit, but also that a dynamic cycle of sustainable livelihoods is created within a community, facilitating the collective ability to pay for clean water, to secure electricity and to significantly save time, benefit education and study during evenings, creating health and enabling better economic opportunities and productivity. Once marginalised communities achieved independence through economic empowerment, resulting in significant socio-economic and environmental benefits. Today micro-credit loans reach nearly 30 million borrowers and are growing rapidly, benefiting of its high repayment rates.

A variety of financing approaches could assist micro-finance institutions: the introduction of public or private equity capital (e.g. Deutsche Bank Microcredit Development Fund) or cost recovery systems compensating the extra costs of making small loans, are just two examples.

6. Generating resources in the public sector

It is often more effective to improve the efficiency of existing resources than to look for additional revenues coming from the private sector. In some cases removing

subsidies that are expensive and often environmentally harmful is one way to do this. Energy subsidies e.g. do encourage wasteful consumption and have a negative impact on the local environment and the global climate. By 2001, the combination of subsided tariffs and subsequent wasteful use of energy, together with high technical losses and widespread non-payment resulted in total losses of more than USD5bn. every year. It was calculated that if losses were reduced by only one-third, the subsequent savings would be sufficient to fill every teacher vacancy in India and to provide every school with running water and toilets (Anon., 2002a). Similar calculations and conclusions apply to reducing the water subsidies, both for irrigation and domestic use, although much more sensitive and complex to handle (Anon., 2002a).

Generating additional resources has a huge potential, depending significantly on the local context. A few mentioned mechanisms are the so-called "capturing of natural resource rents", especially timber rents in a limited number of countries; the "charging for services", e.g. based on tourism.

The potential of environmental taxes and charges to generate revenue for the public sector while simultaneously discouraging environmentally harmful behaviour has been a topic of growing interest. Earmarking the revenues, by using the green levies to provide basic environmental services, is also gaining increasing acceptance. Barriers to introduce environmental taxes, such as the lack of capacity for designing and administering these taxes in developing countries, should not be neglected however.

7. Sustainable bankers and insurers pushing the codes

Although the financial sector responded more slowly than other sectors to the Rio call for action – perhaps considering itself an environmentally friendly industry – quite some achievements exist in the field of environmental legislation, liability, accountancy and reporting, and in the field of socially and environmentally responsible investing.

It seems however that the banking sector, the insurance industry, the capital market, and the stock market have just begun to fully understand their powerful intermediary role regarding globalisation and sustainable development.

7.1. UNEP STATEMENT BY FINANCIAL INSTITUTIONS

Back in 1992, the UN Environment Programme (UNEP) Financial Institutions Initiative on the Environment was founded (originally known as the 'Banks Initiatives') to engage a broad range of financial institutions – from commercial banks to investment banks to venture capitalists to multilateral development banks and agencies – in a constructive dialogue about the nexus between economic development, environmental protection, and sustainable development (UNEPFI, 1997b) (see Box 1). The initiative promotes the integration of environmental considerations into all aspects of the financial sector's operations and services, starting

Box 1. UNEP Statement by Financial Institutions on Environment and Sustainable Development (Revision 1997, abbreviated) (UNEPFI, 1997b).

Commitment to sustainable development

1. We regard sustainable development as a fundamental aspect of sound business management.
2. We believe that sustainable development can best be achieved by allowing markets to work within an appropriate framework of cost-efficient regulations and economic instruments.
3. We regard the financial services sector as an important contributor towards sustainable development, in association with other economic sectors.
4. We recognise that sustainable development is a corporate commitment and an integral part of our pursuit of good corporate citizenship.

Environmental management and financial institutions

1. We support the precautionary approach to environmental management.
2. We are committed to complying with local, national, and international environmental regulations applicable to our operations and business services. We will work towards integrating environmental considerations into our operations, asset management, and other business decisions, in all markets.
3. We recognise that identifying and quantifying environmental risks should be part of the normal process of risk assessment and management, both in domestic and international operations.
4. We will endeavour to pursue the best practice in environmental management, including energy efficiency, recycling and waste reduction. We will seek to form business relations with partners, suppliers, and subcontractors who follow similarly high environmental standards.
5. We intend to update our practices periodically to incorporate relevant developments in environmental management.
6. We recognise the need to conduct internal environmental reviews on a periodic basis, and to measure our activities against our environmental goals.
7. We encourage the financial services sector to develop products and services which will promote environmental protection.
   (...)

from producing a formal environmental policy statement and making this publicly available, to building environmental risk assessments into theircredit decisions and paying close attention to their own corporate ecology. The original six signatories have grown to almost two hundred financial institutions. It is striking however, that some banks are signatories to the UNEP declaration, but do not even report any environmental policy objectives.

7.2. UNEP STATEMENT BY THE INSURANCE INDUSTRY

In collaboration with UNEP FII a group of leading insurance, reinsurance and pension fund companies has developed a Statement ofEnvironmental Commitment for the Insurance Industry (UNEPFI, 1997a) (see Box 2). Ninety-two signatories representing 27 countries did commit to "achieve a balance between economic development, human welfare and the environment".

Box 2. UNEP Statement by the Insurance Industry on Environment and Sustainable Development (abbreviated) (UNEPFI, 1997a).

General principles of sustainable development

(...)

3. We regard a strong, proactive insurance industry as an important contributor to sustainable development, through its interaction with other economic sectors and consumers.
4. We believe that the existing skills and techniques of our industry in understanding uncertainty, identifying and quantifying risk, and responding to risk, are core strengths in managing environmental problems.
5. We recognise the precautionary principle, in that it is not possible to quantify some concerns sufficiently, nor indeed to reconcile all impacts in purely financial terms.

Environmental management

1. We will reinforce the attention given to environmental risks in our core activities. These activities include risk management, loss prevention, product design, claims handling and asset management.
2. We are committed to manage internal operations and physical assets under our control in a manner that reflects environmental considerations.
3. We will periodically review our management practices, to integrate relevant developments of environmental management in our planning, marketing, employee communications and training as well as our other core activities.
4. We encourage research in these and related issues. Responses to environmental issues can vary in effectiveness and cost. We encourage research that identifies creative and effective solutions.
5. We support insurance products and services that promote sound environmental practice through measures such as loss prevention and contract terms and conditions. While satisfying requirements for security and profitability, we will seek to include environmental considerations in our asset management.
6. We will conduct regular internal environmental reviews, and will seek to create measurable environmental goals and standards.

(...)

It is known that the climate change threatens the financial viability of this industry. Especially since 1998 there was an enormous increase in the insured damage. Because of the relationship between these losses and climate change, the insurance industry became involved in the Kyoto debate and is in constant contact with a broad range of stakeholders who share similar concerns, namely environmental groups and climate scientists. The Kyoto Protocol is the global climate treaty that was signed and approved by 159 countries in December 1977 at the UN Framework Convention on Climate Change (FCCC) in Kyoto (UN FCCC, 1997). Today, the total number of ratifications, accessions or acceptances rose to only 97.

The non-binding, voluntary policy of the UNEP Insurance Industry Initiative attracts criticism that it is merely a public relations tool by which signatories can be seen to be doing something without having to commit to change. UNEP III however has been promoting a corporate carbon dioxide indicator for insurers and has initiated the concept of standardised corporate greenhouse gas inventories, which has lead to the development of a Global Warming Indicator (GWI), replacing the wide array of environmental reporting standards across the industry (Dunstan, 2000). A number of initiatives have been taken, including the development of the Greenhouse Gas Indicator (Thomas et al., 2000) and the Carbon Disclosure Project (CDP) (see further).

8. A survey on the state-of-the-art sustainability and banking

Through their lending, investment and insurance practices, and through their intermediary position in the economy, the impact of banks and insurance companies is potentially very high in promoting sustainable economic growth. One of the observers of the changing attitudes of financial world in challenging sustainability is Marcel Jeucken, a senior economist at Rabobank (Jeucken, 2001; Bouma, 2001; Jeucken, 2002; UNEPFI, 2002).

Jeucken explored the current state-of-the-art on the sustainability activities of thirty-four leading banks around the world. He scored them on criteria in five broad categories: communication, information, environmental finance, special products and social issues. The survey did highlight important differences between regions, countries and banks. The majority of the banks adopts a defensive position towards the environment (the prevailing indicator). He observed ten pro-active "front-runners", six 'followers' and eighteen 'stragglers'. In terms of sustainability strategy Jeucken distinguishes between "heavily defensive" (ignorant), "slightly defensive" (starting to act), 'preventive' (reducing costs by environmental care and lowering risks by environmental risk assessment), 'offensive' (preventive banking, designing requested products), 'sustainable' (trans-commercial, holistic objectives). With an environmental report observation period from 1998 to 2000, the overview might be outdated and the geographical spread might be limited, but Jeuckens conclusions seem not to lack validity. "Though the banking sector has been slow to pick

up the challenge if sustainability, change is underway. However, listening to and focussing on the pro-active banks – such as Crédit Suisse, UBS, Rabobank and Deutsche Bank – will gain the wrong impression that the banking sector is well underway. This is a faulty observation: a large group of banks still do not see the role they can play and maybe should play towards a sustainable development. The main herd of banks is largely inactive. The business case still needs to be proven to these banks" (Jeucken, 2002). Jeucken's listing of "pro-active banks" remains arguable however, due to a limited scope of indicators on the sustainability responsibilities of financial institutions and is not in line with the analysis of CSR research groups.

8.1. The London Principles

The London Principles project was presented at the Summit as one of the Type 2 partnerships (Pearce, 2002) (see Box 3). Eleven European companies and investment institutions (have signed a set of seven principles intended to clarify how financial markets can encourage sustainable development. The London Principles on Sustainable Finance, launched by the Corporation of London, commit signatories

Box 3. The London Principles (Pearce, 2002).

The London Principles . . .

. . . for Economic Prosperity:

Principle 1. Provide access to finance and risk management products for investment, innovation and the most efficient use of existing assets.
Principle 2. Promote transparency and high standards of corporate governance in themselves and in the activities being financed.

. . . for Environmental Protection:

Principle 3. Reflect the cost of environmental and social risks in the pricing of financial and risk management products.
Principle 4. Exercise equity ownership to promote efficient and sustainable asset use.
Principle 5. Provide access to finance for the development of environmentally beneficial technologies.

. . . for Social Development:

Principle 6. Exercise equity ownership to promote high standards of corporate social responsibility (CSR) by the activities being financed.
Principle 7. Provide access to market finance and risk management products to businesses in disadvantaged communities and developing economies.

to provide greater access to financial products for the socially excluded and to "use equity ownership to promote CSR".

Aside from the principles themselves, the Corporation of London has also published case studies of best practice in sustainable development by financial firms. Also, a mechanism to ensure signatories demonstrate 'continual progress' against the principles is in development.

Criticisms on the London Principles point to the fact that the seven principles are vague, that, a lot of best practice and another set of voluntary principles are not needed, and that they coincide with a duplication of the UN Environment Programme's Financial Initiative. The UNEP initiative however focuses more on environmental matters, where The London Principles intend to look specifically at the role of the financial services sector in terms of sustainable development.

The London Principles apply to all aspects of finance and not just value-based investments and banking niches. They are aspirational and seek to encourage continuous improvement. Signatories will report annually on progress towards their implementation.

8.2. WBSCD Joint Statement at Johannesburg Summit

At a side event organised by the WBCSD and UNEP, another eleven chairmen of financial companies issued a joint statement urging the sector to become more involved with sustainable development "By taking the environmental and social aspects into account when conducting our business, we can reduce risks, further improve our bottom line and create long-term value" (Smith, 2002). The coherence and relevance of the firm statement broke apart, where the declaration was questioning itself to which extent the financial sector should involve itself in sustainable development. "Is the financial sector merely the intermediary in creating finance and development or is it an agent of change?"

8.3. RIO+10 Finance Commitments

A set of ambitious proposals by Tessa Tennant, the "Rio+10 Finance Commitments", was prepared for the Summit (Baue, 2002) (see Box 4). These guidelines would open SRI – in principle, to every citizen of the planet through responsible lending policies, high impact community investments, micro-finance schemes and a fine blend of government and financial sector commitments regarding sustainability statements, publicly availability of social and environmental data, harmonised disclosure and accounting standards.

8.4. The SiRi Group suggested actions for disseminating SRI-practices

Offstage another action agenda has been proposed by the Sustainable Investment Research International Group (SiRi) and Fundación Ecología y Desarrollo, calling

Box 4. The Rio+10 Finance Commitments (Baue, 2002).

1. A social investment option available to every saver on the planet.
2. Not less than 3% of assets to community investment by every SRI fund.
3. Micro-finance schemes available to every citizen on the planet.
4. The adoption of borrowing principles by lending institutions and their clients.
5. Ambitious investment programmes for renewable energy, mass transit infrastructure and sustainable housing and agriculture.
6. Pensions law in every nation requiring a sustainability impact statement of fund investments.
7. Environmental and social indicators to be disclosed as a legal requirement in company accounts.
8. Universal methodologies for calculating these indicators adopted as international accounting standards.
9. Country ratings for sustainability.

governments, civil society organisations, trade unions and financial institutions to adopt a wide range of policies to encourage SRI and CSR and to effectively decide on the sustainable use of their own financial resources (Peyo, 2002) (see Box 5). The SiRi Group was formed in 2000 and comprises eleven specialised SRI research organisations based in Europe, North America and Australia, a research base of over 100 specialist SRI analysts worldwide. SiRi Group members provide SRI research on corporations based in their own home markets, but with consistent content, in a standardised format and with harmonised quality standards, giving clients the benefits of global coverage based on local knowledge.

9. Environmental care, CSR and accountability

There is a growing awareness in the financial sector that the environment brings risks and opportunities. In the United States, under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), banks can be held directly responsible for environmental pollution of clients, which made them alert for the environmental factor within the credit risks. European banks focused on the issue in terms of designing and marketing of environmental friendly financial products. The UNEP statements reflect these concerns.

9.1. Sustainability Reporting, GRI and AA1000

About 45% of the top 250 companies of the Fortune 500 (GFT250) publish environmental, social or sustainability reports in addition to their financial reports (Molenkamp, 2002). Moreover, the number of reporting companies within the financial sector increased dramatically by around 60% in the period 1999–2002.

Box 5. The SiRi Group suggested actions for disseminating SRI-practices (abbreviated) (Peyo, 2002).

Civil society organisations are encouraged to:

- implement formal SRI policies to their own investments and savings, according to their own values;
- select their financial services suppliers according to the same SRI criteria;
- promote among their sympathisers the socially responsible savings and investments products;
- engage with financial institutions to broaden their supply of sustainable and responsible financial products.

Trade unions are encouraged to:

- implement formal SRI policies to their own investments and savings, according to their own values;
- select their financial services suppliers according to the same SRI criteria;
- promote among their associates the orientation of their savings and investments towards socially responsible business practices;
- engage with financial institutions to broaden their supply of sustainable and responsible financial products;
- play an active role in promoting a SRI approach among pension funds managers.

Financial institutions are encouraged to:

- commit to the integration of environmental considerations into all aspects of their operations, as stated by the UNEP FII commitments;
- include, driven by self interest, social responsibility criteria in all their financial products;
- pay attention to client motivations and concerns about sustainability, in designing and offering saving and investment products;
- complement their financial analysis with social and environmental assessments;
- use their power as institutional investors to engage with companies in order to promote socially responsible business practices.

Regulators are encouraged to:

- condition public subsidies to companies to the adoption of formal CSR policies;
- stimulate companies' adoption of transparency criteria regarding environmental and social practices, so that investors and consumers can take investing or purchasing decisions according to CSR standards;
- include disclosure regulation in the existing legislation, requiring that financial products disclose to which extent social, environmental or ethical considerations are taken into account;
- encourage and support, through multi-stakeholder partnerships, research and education with regard to SRI and CSR.

"The finance sector is increasingly assessing companies on their sustainability risks as part of their decisions", says Molenkamp. "Many companies are eager to be listed on new indices such as the Dow Jones Sustainability Index or the FTSE4Good Index, which in turn raises their profile on the financial markets. The SRI sector has experienced dramatic growth during the past few years. If this trend continues, sustainability will become a major deciding factor for access to equity capital and investments. Corporate sustainability reporting will therefore from a business point of view become increasingly important. Initiatives like the Global Reporting Initiative (GRI) to harmonise corporate sustainability reporting and make performance of companies better comparable will enhance this".

The GRI was established in late 1997 with the mission of developing globally applicable guidelines for reporting on the economic, environmental, and social performance, initially for corporations and eventually for any business, governmental, or NGO (GRI, 2002). The aim of the guidelines is to enable them to prepare comparable "triple bottom line reports". The third version, the new 2002 Sustainability Reporting Guidelines, was formally released on the Johannesburg Summit.

Founded by the Coalition for Environmentally Responsible Economies (CERES), the GRI is an official collaborating centre of the UNEP and works in cooperation with the UN Secretary-General Kofi Annan's Global Compact (UN, 2002b).

The GRI incorporates the active participation of corporations, NGOs, accountancy organisations, business associations, and other stakeholders from around the world. GRI is now established as a permanent, independent, international body with a multi-stakeholder governance structure and located in Amsterdam. Its core mission is the maintenance, enhancement, and dissemination of the GRI Guidelines through a process of ongoing consultation and stakeholder engagement.

Specific GRI-guidelines for the financial sector are being produced.

The Global Compact is a UN-sponsored platform for encouraging and promoting good corporate practices and learning experiences in the areas of human rights, labour and the environment. It is an entry point for the business community to work in partnership with UN organisations in support of the principles and broader goals of the UN, and provides a basis for structured dialogue between the UN, business, labour and civil society on improving corporate practices in the social arena.

AccountAbility 1000 (AA1000) is an accountability standard focused on securing the quality of social and ethical accounting, auditing and reporting. At its launch in Denmark in 1999, AA1000 provided the first systematic stakeholder based approach to accountability. Since then it has been used by businesses, non-profit organisations and public bodies in framing corporate responsibility policies, stakeholder dialogue, auditing and verification of public reports and professional training and research.

In June 2002 AA1000 published a consultation document of the first of the five modules, known as the AA1000S, which form an updating of the entire AA1000 process (ISEA, 2002). This first module, the AA1000 Assurance Standard, Guiding principles, is under discussion, with the final document scheduled for publication in early 2003.

9.2. The frameworks of EMAS, ISO, VFU, EPI, and ABI

Formal environmental management systems, that systematically reduce the environmental impact of the internal processes are generally lacking. No bank has achieved The EU Eco-Management and Audit Scheme (EMAS) or British Standard 7750 (BS7750), a few banks have an International Organisation for Standardisation (ISO) 14000 certification on a local, national or global level, for environmental management systems. The first insights in the new ISO standards on CSR are expected for the year 2003.

VfU (Verein für Umweltmanagement in Banken), initiated by a few German and Swiss banks, developed a standard for internal environmental care (Schmid-Schönbein et al., 2002), later complemented by a standard for external environmental care, the Environmental Performance Indicator (EPI) Finance 2000 (Schmid-Schönbein and Braunschweig, 2000). Additionally, social performance indicators have recently been launched (SPI-Finance, 2002).

Within about the same period of time two British banks were involved in the development of a series of guidelines on environmental management and reporting, together with the FORGE Group (FORGE, 2000). Recently, this FORGE Group has published detailed guidelines on CSR management and reporting for the financial services sector in response to growing demands for financial services companies to demonstrate CSR (FORGE, 2002). The guidance centres provide a practical toolkit to address CSR by identifying priority CSR issues for the sector, providing best practice guidance on developing and implementing a CSR management and a reporting framework. They equally present action plans for incorporating CSR consideration into the design, management and delivery of financial products. The Guidance is often called the Association of British Insurers "(ABI)-Guidelines", referring to the project partner, the ABI.

10. Sustainable and responsible investments

Since Rio, the global asset management industry has been booming due to the IT expansion, has been collapsing due to the Asia crisis and has been imploding due to the dotcom bubble, before loosing a lot of its credibility due to the corporate governance crisis. One of the ever growing market niches however has been SRI. In fact, SRI has been the biggest success story related to sustainability in financial world since the Rio Summit.

Despite its success, SRI has not even been mentioned in the Plan of Implementation of Johannesburg. The potential of SRI had well been emphasised in Rio. Back in 1992, the "Rio Resolution on Social Investment" (Miller et al., 1992) (see Box 6) communicated by the international investment community, described their role in achieving sustainable development.

With a Plan of Implementation, calling for "mobilizing international and domestic financial resources", and "looking for mechanisms that do not distort international trade and investment", and "stressing the role of international financial institutions",

Box 6. The 1992 Rio Resolution on Social Investment (Miller et al., 1992).

We call on individuals to question whether the investment policies of their mortgage, loans, insurance, savings and/or pension plans support the objectives of sustainable development.

We call on companies and NGO to ensure that their policies enable investments to be managed for environmental and social benefit.

We call on financial institutions to begin the process of integrating environmental and social considerations into the investment analysis process and to have particular regard for investments in emerging capital markets.

We call on governments to introduce incentives for private capital to invest in community enterprises that support low-cost housing, small business start-ups, education, sustainable agriculture and other projects, which enhance the common good.

while "employing market-based incentives", this negligence is hard to believe. With its plea for "Changing unsustainable patterns of consumption and production", for "Enhancing corporate environmental and social responsibility and accountability", for "Encouraging dialogue between enterprises and the communities in which they operate and other stakeholders" and for "Encouraging financial institutions to incorporate sustainable development considerations into their decision-making processes", one by one key issues in SRI world, it was a surprise.

What exactly are the achievements of SRI?

10.1. Success in the market

In the United States nearly one out of every eight dollars under professional management is reported to be involved in "social and environmentally responsible investing" (SIF, 2001). This means that nearly 12% of all assets under management reside in a professionally managed portfolio utilizing one or more of the three strategies that define SRI in the United States: screening, shareholder advocacy and community investing. The screening strategy is most often based on negative criteria. It is avoidance investing. According to the biannual Social Investement Forum (SIF) Industry Research Program there were 230 mutual funds incorporating social screening (SIF, 2001). The growth rate for socially screened portfolio assets was more than 1.5 times that of all professionally managed assets.

On December 31st 2001 there were 280 green, social and ethical funds operating in Europe, with a particular high growth rate since two years. SRI in Europe is one of the most dynamic and rapidly growing activities in the funds industry (Avanzi/SiRi Group, 2002). In terms of number of funds four leading countries – the UK, Sweden, France and Belgium – account for 68% of the SRI market. In terms of asset under management five countries – the UK, Sweden, the Netherlands, Italy and Belgium – reach 80% of the total SRI market (Figure 1).

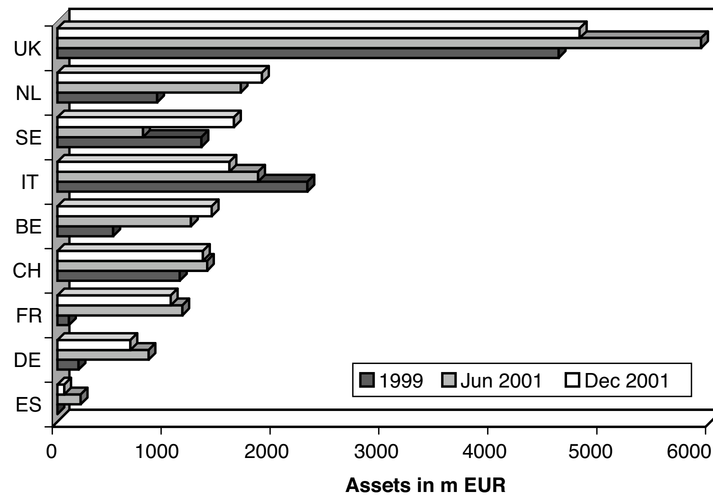

Figure 1. Green, social and ethical funds in Europe: assets under management (m EUR) per country (Avanzi/Siri Group, 2002. In cooperation with CSR Europe).

The relative weight of SRI funds in relation to the total European market of UCITS funds (collective investment funds complying to the EU UCITS Directive) is only 0.40% and this relative weight has decreased sharply during 2001. In Belgium, the leader in this ranking, the relative weight grew from 1.47% to 1.70%, followed by the Netherlands where the weight grew from 1.45% to 1.61% (Avanzi/SiRi Group, 2002).

SRI has a limited impact on FDI. SRI however is rapidly expanding in Latin America and especially through the Asia Pacific, with the launch of SRI in Asia (ASrIA), the Association for Sustainable & Responsible Investment in Asia (ASrIA, 2002). By this growth some influence and the introduction of social criteria in emerging markets may be expected. The growth of the SRI market in itself is not the most important part of the success. The SRI community did have a much larger indirect impact through the fertilisation of the CSR debate by providing terminologies, methodologies and metrics in order to study, analyse, evaluate and rate CSR behaviour, by providing full risks and opportunities assessments to financial analysts, by enriching the discussion concerning reporting guidelines, and the development of self assessment tools, management audit systems . . .

SRI does contribute to the promotion of CSR, through the development by rating agencies of criteria and indicators that identify the factors of competitive advantage and business success of socially responsible practices.

10.2. PERFORMANCE

For most investors a financial underperformance of sustainability investment products is unacceptable. A key issue within the SRI community, for a number of years, is the question if screening companies against social, environmental and

ethical criteria ("SEE screening") helps asset managers to outperform the broader market.

Recent evidence (Pearce et al., 2002) provides a detailed and balanced picture. In theory SEE screened funds are subject to higher risks, because they limit the number of stocks in which they invest. On the other hand they use important information not well understood by the broader market, which may result in out-performance. Evidence shows that the potential "SEE effect" appears to balance for the cost of lower diversification in an SRI portfolio. SRI funds do not show lower returns, as shown by dozens of research reports produced during the last few years. Quite some studies poorly discriminated between different 'generations' and qualities of SRI screening methodologies and most of the research was carried out on passive screened indexes and funds.

The more forward-looking, "new generation" approaches, show that a shareholder-value focus makes out-performance well possible. The question is not does being green and socially pay, but when does it pay? This would be the advantage to investors of 'engaging' with companies to encourage them to behave as responsible corporate citizens. A number of arguments are seen by analysts, which explain the advantages of spending on CSR.

(i) There might be "first-mover" advantage for companies that are proactive in CSR issues. (ii) CSR is considered as an important indicator for good overall management. (iii) CSR can create competitive advantage through reputation and stakeholder management. (iv) CSR can create value by stimulating process and product innovation and better market knowledge.

According to Pearce (Pearce et al., 2002) the majority of studies carried out in the 1970s, 1980s and 1990s found a correlation between CSR performance and financial performance, however, without proving a causal relationship. Recent studies would suggest that the financial out-performance has been caused by non-CSR factors after all. Past research rejects the claim that being green and socially responsible always pays. Recent evidence shows that CSR can create shareholder value for some issues, in some industries, with some firms and for some management strategies. This would suggest that a discretionary approach in engaging with companies to improve their CSR performance could improve financial performance (Pearce et al., 2002).

10.3. Mainstreaming and Convergence

"SRI research puts pressure on companies. Constant requests of information by rating agencies leads to improved data collection and data management within the companies. This in turn strengthens the companies' abilities to identify and tackle social and environmental problems" (Kahlenborn, 2002). The recent examples of abuses of power show the need to expand this role into mandatory driven systems to control corporate governance issues.

Next to this role as corporate watchdog, the SRI community has fertilised the CSR debate by providing terminologies, methodologies and metrics in order to

study, analyse, evaluate and rate CSR behaviour. SRI did contribute to the promotion of CSR, through the development by rating agencies of criteria and indicators that identify the factors of competitive advantage and business success of socially responsible practices.

The coin has two sides. Where investors and SRI rating agencies call companies to improve disclosure and transparency practices . . . companies call for more transparent research and evaluation methodologies.

There is a huge divergence in SRI research standards. Standardisation of SRI rating methodologies however is considered to be desirable to allow users to compare different companies' ratings. CSR practices and instruments will be more effective if they are part of a concerted effort and based on clear and verifiable standards. A few studies have been screening companies and have expressed concern, while defining best practices characteristics (Mistra, 2001). "It is recommended that SRI research should achieve greater independence, standardisation and transparency. SRI research should be independent because SRI analysts should represent all stakeholders. Only truly independent, objective information about corporate social and environmental performance will allow all stakeholders to ascertain the true value of companies" (van den Brink, 2002).

Quality assurance is one of the steps to be taken towards the mainstream. The launch of The Domini Index in 1990, the first social index raised the visibility of SRI considerably and enforced greater confidence by showing good performance. In 1999, Dow Jones and Sustainable Asset Management launched the first series of sustainability indices, the Dow Jones Sustainability Indices. In 2000, the FTSE4Good Series indices, taking CSR as a core investment value was launched. The mentioned indices have often been criticised for their non-transparent and very lightish green approach. Another series of more fundamental sustainability benchmarks, the Ethibel Sustainability Index (ESI), was launched in 2002 and groups the ESI Global, ESI Americas, ESI Europe and ESI Asia Pacific (Box 7). The ESI is building on more than ten years research and experience with the Ethibel label system, a European collective quality label system for sustainable investing (Ethibel, 2002) (Box 7).

"Although SRI has reached the mainstream, it is still not mainstream" (UNEPFI, 2002).

10.4. ENGAGEMENT

A survey on the way in which investors in the UK and US markets engage with companies about their SEE performance showed that this is considered as associated with financial performance and good corporate governance. This is why SEE performance is integrated in the engagement process, both by large investors and their advisors. Protection of the shareholder value is the principal objective. Soft, behind-the-scenes dialogue and collaboration is perceived as the most effective option; public campaigns are avoided. Improving information disclosure is seen as an important aim. The relational investing model (long-term shareholdership to

Box 7. The ESIs, the corresponding label and the financial constituents (Ethibel, 2002).

The Ethibel Sustainability Index

- The ESI provides a comprehensive perspective on the financial performance of the world's leading companies in terms of sustainability for institutional investors, asset managers, banks and retail investors. This set of indexes was first published on June 27, 2002.
- Standard & Poor's is maintaining and calculating the ESIs. The Indexes are designed to approximate the sector weights on the S&P Global 1200, but the selection remains the exclusive responsibility of ETHIBEL.
- They are free-float weighted indexes containing the pioneer and best-in-class companies with respect to sustainability and CSR across sectors and regions.
- The ESI groups four regional indexes: ESI Global, ESI Americas, ESI Europe and ESI Asia Pacific. Each of the ESI indexes is calculated as price and total return indexes in both USD and EUR giving a total of 16 indexes.
- All the constituents in the Index are included in the Ethibel Investment Register, which is a broader list of sustainability leaders around the world that have passed Ethibel's proprietary screening methodology and criteria. As of December 2002 the ESI Global included 162 components.

The Ethibel Label for Sustainable and SRI funds

- The Ethibel Label is only attributed to 4t generation investments funds using investment values out of the Ethibel Investment Register.

(Continued)

Box 7. *Continued*

- Stock selections are conducted following a harmoni-ed but dynamic methodology with 64 fully detailed criteria, 97 indicators and 320 precise benchmarks and ratings (see e.g. Charlier et al., 2001).
- The research processes are under strict quality control. Independent expert advice and evaluations are externally organised.
- All the aspects of the sustainability and the social responsibility of a company, including its social, environmental and economic-ethical policy, are taken into account.
- A permanent dialogue with all the stakeholders is maintained, through the data collecting process, the evaluation process and the periodical reviews of the research methodology.

The ESI 'Financial' Constituents (20/12/02)

- Best of class "Financials – Banks" include: Abbey National (UK); Bank of America (US); Bank of Montreal (CA); Bank of Nova Scotia (CA); Barclays (UK); Commerzbank (DE), Dexia (BE); FleetBoston Financial Corporation (US); HBOS (UK); Lloyds TSB Group (UK); National Australia Bank (AU); Sumitomo Mitsui Bank (JA); Swedbank (FöreningsSparbanken) (UK); Unicredito Italiano Group (IT); Westpac Banking Corporation (AU).
- Best of class "Financials – Diversified Financials" include: Federal National Mortgage Association (US); ING Group (NL).
- Best of class "Financials – Insurance" include: Münchner Rück (Munich Re) (DE); Réassurances (Swiss Re) (De); Rentenanstalt/Swiss Life (CH); Skandia (Forsakrings) (SE); Unumprovident Corp. (US).
- Additional "Financials" in the Ethibel Investment Register include: Hachijuni Bank (JP); Millea Holdings (JP).
- No constituent "Financial" has been awarded a "first class" or 'pioneer' nomination based on CSR performance up till now.

increase influence) is not seen as an important tool for engaging on SEE performance (Pearce and Ganzi, 2002).

10.5. The carbon disclosure project

A potentially powerful engagement initiative has been taken by thirty institutional investors, that drove up the pressure on companies to improve disclosure on their social and environmental impacts. The "Carbon Disclosure Project" (CDP) wrote to 500 largest corporations asking them to quantify their greenhouse gas emissions, to identify the business implications of their exposure to climate-related risks and to communicate their plans for reducing them (CDP, 2002). This, the investors claim, is

needed to allow them to make long-term investment decisions, not only for their SRI portfolios, but also for other investments they manage. According to CDP climate change presents shareholders with a prospective material risk to the value of their investments. Due to fiduciary duty, investment institutions are legally obliged to ensure that everything they can do to maximise shareholder value is being done. Therefore, the institutions must engage on the issue. In this perspective, CDP sees four key climate change related risks: extreme weather events (severe droughts or floods); political and regulatory momentum to constrain emissions; shifts in consumer sentiments; climate change sensitive technologies, products and services superseding those existing today.

Swiss Re reviews the companies. They document what they are doing to manage climate change risk and consider the exclusion of companies that are not addressing the issue (Cortese, 2002).

11. SRI: global objectives, local divergences

Investors can choose among a number of SRI products that include negatively screened, positively screened, best in class, stakeholder activist and engagement based portfolios.

The gap between the various approaches and backgrounds can be documented by examining two (amongst many more!) definitions given to SRI:

"SRI is an investment process that considers the social and environmental consequences of investments, both positive and negative, within the context of rigorous financial analysis" (SIF, 2001).

"The integration of personal values with investments decisions is called SRI" (SIF, 2002).

Where a majority of Anglo-Saxon fund managers take an avoidance approach and a moralistic stance, the European SRI movement is referring to SRI, thus clearly incorporating the broadly discussed, science based and operationally detailed concepts "Sustainable Development" and 'CSR'.

To indicate the ethical depth and the quality of SRI criteria, Ethibel offers a classification in four generations of SRI funds and CSR research methodologies (Peeters, 2001) (Box 8).

(1) Socially responsible funds of "the first generation" are only based on negative criteria. This means that the fund manager when drawing up the portfolio will exclude companies that are involved in specific activities, and/or products or services. The investor gets a guarantee that his/her money is not, for instance, being spent in the arms trade or nuclear energy production but that's as far as it goes. These types of funds offer the investor a chance to protest but this formula is less suited to providing a positive stimulus to the corporate world.

(2) The second generation of SRI funds applies positive criteria and focus on a specific sector or theme. Researchers for this type of funds actively look for

Box 8. Some schematic elements and features of the Ethibel Fund Typology and Research Morphology classification.

Fund typology	1st generation	2nd generation	3rd generation	4th generation
Research morphology				
Research framework				
Criteria system	Negative criteria	Some positive criteria	Full range of positive criteria; possibly some exclusions	Full range of positive criteria; possibly some exclusions
Sustainability scope	Avoiding non-sustainable products or activities	Focus on thematic aspects of sustainability and CSR	Full sustainability and CSR scope, some stakeholder dialogue	Full sustainability and CSR scope, full stakeholder dialogue
Scope of analysis	Issue analysis	Thematic analysis	Corporate Sustainability & Responsibility Research (CSRR)	CSRR + risks & opportunities assessment
Moral dimension	Rather moralistic approach	<	>	Science based and risk rating driven
Framework orientation	Rather client driven	<	>	Referring to broadly discussed concepts of SD and CSR
Cultural context taken into account	No	No	Some	Ideally yes
Data collection process				
Desktop research	Yes	Yes	Yes	Yes
Company consultation	?	?	Yes	Yes
Review right by company	?	?	?	Yes
Monitoring/review	Yes	Yes	Yes	Yes
Stakeholder consultation				
On basic framework	No	No	?	Yes
On sector specific issues	No	No	?	Yes
For data collection	?	?	?	Full range
For conclusions/ratings	No	No	?	Yes
For quality control	No	No	No	Yes
Rating/selection				
Benchmarks or other normative system	Full exclusion based on qualitative or quantitative norms	Some process of positive selection	Miscellaneous systems of best-in-class selection	Misc. systems of positive rating + expert advice
Quality management				
Internal QMS	Yes	Yes	Yes	Yes
External verification				
Output control	?	?	?	?
Process control	?	?	?	?

companies performing well in a specific field, for instance, by implementing a comprehensive social policy or by making considerable efforts to produce ecologically responsible products. For these funds, companies are screened for only one or some aspects of sustainable entrepreneurship.

(3) Third generation investment funds can be called 'sustainable' in the sense that investigations into these funds comprise all areas of sustainable entrepreneurship. Based on this comprehensive approach, companies that are suited to sustainability are selected. Investigations focus on internal staff policy and the relationship with the social environment as well as efforts made in the environmental domain and the ethical aspects of the company's economic policy.

(4) Fourth generation sustainable and responsible investment funds invest in sustainable enterprises in the widest sense of the word. The added value, in this case, is in the quality and the method of evaluation. Vital to fourth generation evaluation is a consistent inclusion of stakeholders' views on the company. Stakeholder communication takes place at three (separate) levels: (a) input into the research methodology, (b) the data collecting process and within the evaluation procedure. Finally, a transparent screening approach must be a guarantee for quality. This means that strong internal procedures must assure the accuracy, completeness and verifiability of sources and data. The various steps of the investigation must be verifiable by external auditors. This approach is considered to be most needed in order to produce full risks and opportunities assessments.

12. The impetus of the European definition on CSR

Two months before Johannesburg, the European Commission (EC) proposed a multi-stakeholder Forum as a means to advance CSR (EC, 2002). The launch of the Forum is the result of a comprehensive consultation process stemming from the Green Paper (EC, 2001). The Forum aims at promoting transparency and convergence of practices and instruments on CSR. The EC will not regulate, noting that by definition CSR is voluntary. A voluntary approach is favoured, as the main proposal is to set up a multi-stakeholder platform to develop commonly agreed guidelines on issues such as reporting, assurance and codes of conduct and to put forward the "business case for CSR" to large and small companies, amongst other targets. The EC will review the Forum's progress in 2004.

Critics consider the proposals in the EC communication not strong enough to tackle the issues of e.g. corporate governance and claim that the EC definition of CSR as a voluntary activity based on a strong business case is not a convincing foundation for policy development.

CSR is considered by the EC as a business contribution to Sustainable Development (EC, 2002) and the Green Paper defines CSR as: "Taking up the triple bottom line approach . . . by going voluntarily beyond legal requirements . . . in offering fair deals to stakeholders . . . while having a dialogue with them" (EC, 2001). Considering this definition as the emanation of the European views on CSR, some indications can be given of the possible implications on CSR research

methodologies. What might be the operational consequences on the future quality standards?

12.1. TRIPLE BOTTOM LINE APPROACH . . .

The triple bottom line refers to the idea that the overall performance of a company should be measured based on its combined contribution to economic prosperity, environmental quality and social capital.

Research processes within the field of CSR and sustainability should address four main areas of analysis: the internal social policy, the external social policy, the environmental policy and the ethical-economic policy. Within these domains a number of themes are 'generally' accepted as being key issues to be addressed. Within the area of internal social policy, themes as strategy, employment, job content, terms of employment, working conditions and industrial relations seem to be recognised by academics, NGOs and other stakeholders as being essential for any social audit of a company. Within the area of environmental policy, issues related to strategy, management, production and products are essential elements for any CSR analysis. Similarly, a minimal scope on the level of external social policy, including labour rights and human rights and the ethical and economic policy can be defined. The detailing into topics, indicators and ratings can be left to the professionalism and skills of the rating agencies.

12.2. . . . VOLUNTARILY BEYOND LEGAL REQUIREMENTS . . .

Any CSR assessment should at a minimum level reflect on the attitude towards legislation and identify the seriousness and absence of infringements. It should present data and interpretations that facilitate the comparison or benchmarking of companies and disclose a best of class principle (whether best in class, best in sector or any other relevant reference) and document it in the assessments. It should be transparent in its output level and on all procedures and methodologies regarding rating, benchmarking or any other comparative analysis.

12.3. . . . OFFERING FAIR DEALS TO STAKEHOLDERS . . .

In describing the external dimension of CSR the Green Paper states: 'CSR extends beyond the doors of the company into local community and involves a wide range of stakeholders in addition to employees and shareholders: business partners and suppliers, customers, public authorities and NGOs representing local communities, as well as the environment. In a world of multinational investment and global supply chains, CSR must also extend beyond the borders of Europe' (EC, 2001). Minimal areas of research should be defined and minimal requirements on stakeholders issues be addressed. Any CSR assessment should include information on the degree to which the company is transparent for its stakeholders about its societal impacts and is engaged in stakeholder dialogue.

12.4. ... HAVING A DIALOGUE WITH STAKEHOLDERS

The "in depth quality" of CSR analysis may differ dramatically, often provoked by different engagements in active and dialogue based screening processes. There is a huge difference in doing "desktop-research" based on questionnaires and electronic information on the one hand and audit-like visits and conversations with management on a variety of levels and responsibilities on the other hand.

Furthermore, the "stakeholder involvement" practices differ dramatically. Relatively few groups do integrate stakeholders opinions in the data collecting process, in refining the methodological framework or in facilitating and improving the assessment process.

Four levels of stakeholder engagement can be seen: (i) passive incorporation of stakeholders view, by desktop research; (ii) active dialogue with stakeholder groups representatives in order to prepare/refine sector or company specific methodologies or audits; (iii) active dialogue with a company's stakeholders or stakeholder groups representatives in order to incorporate – in a balanced and interpreted way – their views into the assessments; (iv) active participation of stakeholder representatives in evaluation/rating processes.

In order to conduct valuable, coherent and honest risks and opportunities assessments, any research quality standard should reflect on minimal requirements concerning the engagement of stakeholders in the data collecting process.

13. A quality standard for CSR/SRI research and rating ... processes

The European Commission calls for "convergence and transparency of SRI rating methodologies" and for "transparency on the level of investment management of SRI funds and pension funds" (EC, 2002). "CSR practices and instruments will be more effective if they are part of a concerted effort and based on clear and verifiable standards".

The CSR and sustainability concepts are not uniform and sometimes limited in scope. It does seem that every bank has a different concept and every investment fund has another view and even every compartment of those funds. Nobody can claim the final concept of CSR and discussion about Sustainable Development should in no way be stopped. However, the great variety of concepts is confusing for consumers and investors.

13.1. HARMONISATION OF THE DATA COLLECTING PROCESS?

There have been quite some efforts to harmonise the data collecting process.

Harmonisation based on the same framework of questions and indicators is very valuable, depending only on the intrinsic quality of the indicators. The comparability, exchangeability and validity of the data will be very much improved

by standardisation. CSR/SRI research however can never be fully harmonised due to the different cultural and socio-political structures and backgrounds. The only solution here is the establishment of networks that are global and local and multidisciplinary and multicultural.

13.2. No harmonisation of the evaluation and rating process

These "collective data collecting processes" however do not lead to uniform evaluations or ratings. They do not necessarily lead to the same conclusions. This has often led to frustration by corporations and analysts. This is because processing data and comparing them with the evaluation criteria are part of a different process, than the data collection process itself.

No standardisation of the criteria seems desirable. No discussions should be killed that way. No evaluation procedures should be harmonised on a European level either. However, in order to be transparent, all methodologies, criteria and evaluation procedures should be disclosed.

13.3. Maximum transparency

Very strict internal as well as external quality control systems are needed, not only as a matter of service guarantee to fund managers, but also as a matter of credibility towards investors and integrity towards the screened companies.

CSR/SRI research and evaluations processes should be clearly defined and fully detailed, including the sustainability standards and research methodology, the data collecting activities, the way these analyses are reported, the evaluation and rating, the disclosure and communication of the output, the integrity assurance and the internal and/or external verification.

13.4. The European VQS

A number of independent CSR research organisations have started to work out a Voluntary Quality Standard for CSRR (VQS, 2002). The purpose of setting this up is to provide a transparent framework for professional quality research. This framework will only focus on undertaking SRI research and will not attempt to define or harmonise criteria.

14. Conclusions

During the decade following the Rio Summit, a substantial gap in funding for sustainable development issues, a lack of implementation, governance and political will

has been observed, although the Rio approach was generally accepted as 'correct' and has been approved in Johannesburg.

The financing of sustainable development is clearly deficient when it would rely on official philanthropic development assistance only. The Johannesburg Summit's Plan of Implementation is highlighting business – including not at the least the financial industry – as a key partner in many aspects to forward sustainable development. Financial institutions are encouraged to further take up their social responsibilities, through their intermediary role in the economic system and through partnerships and product innovation. There is a huge interest in facilitated access to the public and private market finance.

There is a critical need for a more integrated and sustainable financial system, with sound new mechanisms toward enhancing global financial security.

Within the financial sector a limited number of progressive players are raising pressure to move things forward.

Significant progress has been made on standards, metrics, and guidelines to improve sustainability management systems, reporting, accounting and multi-stakeholder dynamic. Numerous voluntary initiatives, effectively monitored codes of conduct and partnerships with governments and civil society show the tendency to grow out of the infancy stage.

The role of the sustainable and responsible investment community has been invaluable and will continue to be crucial by critically rewarding sustainability leaders, assessing corporate sustainability risks and opportunities and by continuously pleading for transparency and good governance practices.

In order to prove the business case of CSR and of the triple bottom line to the mainstream, the sector of SRI research and rating agencies should critically investigate itself and strive to more convergence on the level of research processes, quality assurance systems and sound disclosure and verification practices.

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