Antje Schneeweiss

Investing in Human Development

A guideline for taking development aspects into account when making socially responsible investments

INSTITUT FÜR ÖKONOMIE UND ÖKUMENE südwind

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Lindenstraße 58–60
53721 Siegburg
Telephone: 02241-259734
Fax: 02241-51308
www.suedwind-institut.de
email:schneeweiss@suedwind-institut.de

Author: Antje Schneeweiss
Translation: Christina Desouza
Layout: Frank Zander
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1. Introduction: The project

1.1 The question to be answered

Private savers and institutional investors are increasingly asking nowadays about the social and ecological impacts of their investments. Replies to these questions can be found in studies into the environmental and social compatibility of listed companies and bond issues conducted by sustainability rating agencies.

In the German context ecological problems were the initial focus of such studies, which is reflected in names like *ÖkoLux* or *ÖkoSar*, which were given to the funds established in the 1990s. The screening methods for these funds initially focused on ecological or eco-efficiency criteria, which could be taken over from existing methods for eco-management and auditing (EMAS, ISO 14000).[1]

What is more, the ecological screening of major companies celebrated its first successes in the mid-1990s. For example, in the summer of 1996, the agency oekom screened the deutsche Telekom AG shortly before its IPO and criticised the fact that the company had used PVC to insulate all the cables used in buildings in Germany. Subsequently the company forced through a change to more environmentally friendly materials.

From the middle of the 1990s onwards social and development aspects began to play a more significant role in ethical investment in the Federal Republic of Germany. The agencies developed appropriate methods of analysis. However, even today it is not possible to investigate the social and development impacts of corporate behaviour with the same degree of reliability as ecological matters. Moreover, there is a lack of examples to show that companies have changed their behaviour as a result of pressure from socially responsible investors.

Given this situation, SÜDWIND undertook to investigate in its project »Investing in Human Development« the criteria and research methods that have been developed within the framework of sustainable investment to look at development factors, how they need to be developed further and how they can ultimately serve to get companies to behave in ways that have a positive impact for the people and economies in developing countries and emerging economies.

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[1] EMAS – the Eco-Management and Audit Scheme, is a voluntary initiative designed to improve companies' environmental performance. It was initially established by European Regulation 1836/93, although this has been replaced by Council Regulation 761/01. Its aim is to recognise and reward those organisations that go beyond minimum legal compliance and continuously improve their environmental performance. In addition, it is a requirement of the scheme that participating organisations regularly produce a public environmental statement that reports on their environmental performance. The development of the original EMAS commenced in late 1990. During the development the Regulation was known as the »Eco Audit«, a name that is still commonly used for the Regulation in Germany and France. Organisations wishing to achieve validation of their environmental statement must, among other things, develop and implement a management system that complies with Annex I – ISO 14001:1996. ISO 14000 is a series of international standards on environmental management. It provides a framework for the development of an environmental management system and the supporting audit programme. What is ISO 14001? ISO 14001 is the cornerstone standard of the ISO 14000 series. It specifies a framework of control for an Environmental Management System against which an organisation can be certified by a third party. ISO is a network of the national standards institutes of 148 countries, on the basis of one member per country, with a Central Secretariat in Geneva, Switzerland, that co-ordinates the system. The United Kingdom is represented by the British Standards Institution (http://www.bsi-global.com), the United States by the American National Standards Institute (http://www.ansi.org).

1.2 Concept, course and aim of the project

The starting point for the planning of this project was to involve experts from developing countries directly in the discussion about development policy criteria and how to implement them. This approach corresponded with the wish expressed in preliminary talks with sustainability analysts, who wanted to learn more about the links with development issues and establish contacts with organisations in the South. The project was therefore built around a workshop that took place in Bonn in October 2004, where eight sustainability analysts met together in working groups with eight representatives from non-governmental organisations and trade unions from the South and also representatives from German civil society groups, to talk about the research methods, criteria and impacts of socially responsible investment.

In order to have a common basis for the discussion, SÜDWIND drew up a working paper in preparation for this workshop; the present paper is a continuation of that paper.

The main concerns of the project are:

- to take stock of the development policy criteria that are currently applied for sustainability rating,
- to supplement them on the basis of an overview of problem areas in connection with development,
- to improve communication between sustainability analysts on the one hand and non-governmental organisations and trade unions in developing countries on the other.

1.3 Side question: What are sustainable investments?

The history of socially responsible investment shows that the question of the ethical assessment of an investment has been raised by very different social groups in very different social situations and has repeatedly been handled in new ways.

The starting point for this movement is the sermon preached by John Wesley in 1760 on »The Use of Money«, in which he rejects an indifferent attitude towards money and calls for a use of money »without hurting our neighbour in his substance, nor by hurting our neighbour in his body nor by hurting our neighbour in his soul«.[2]

With the arrival of the modern financial economy and with church money being invested in shares at the end of the 19th and beginning of the 20th centuries, religious groups such as the Methodists and Quakers began to be concerned to ensure that their money was not invested in companies whose methods of doing business were not in tune with the way they themselves led their lives. They interpreted this as: no investments in gambling, alcohol or prostitution.

In the 1950s, this approach based on religious rules for living one's life was given new impetus. The American civil rights movement called for investments to be made only in those companies that did not discriminate against blacks. Ethical investment thus became an instrument of political confrontation. This was how it was then also used in the anti-apartheid movement and in the anti-Vietnam War movement, with money being withdrawn from companies that had links with the apartheid regime or profited from the Vietnam War.

[2] Revd John Wesley, »The Use of Money« 47 Sermons, original edition 1760, Epworth Press edition 1974.

In the wake of the ever more urgent ecological problems at the end of the 1980s and beginning of the 1990s, the idea of investment guided by particular criteria gradually took hold in Europe as well. The angle taken by the first screened fund was no longer just to avoid investments in companies that broke certain ethical rules or were to be brought to mend their ways. The new aim was, in addition, to specifically invest in companies that were innovative in ecological terms, particularly companies operating in the field of regenerative energies, in order to support them. This approach was further refined over the years with the addition of an eco-efficiency and Best in Class approach,[3] whereby not only young, innovative companies are considered for investment guided by certain criteria, but also major concerns that are pioneers within their sector in terms of ecological and social standards.

This approach was supplemented in particular in English-speaking markets at the beginning of the new millennium by »shareholder engagement« and »shareholder activism«. Engagement in this case means that institutional investors in particular meet regularly with the management of the companies in which they have invested to discuss social and ecological issues, express criticism, urge changes and if needs be get their views heard at the annual general meeting.

[3] Eco-efficiency means that companies are specifically selected because they are seeking to make efficient use of natural resources in ecological and economic terms. Best in Class means that companies in one sector are screened on the basis of sustainability factors and those that do better than their competitors are selected.

1.3.1 The volume of sustainable investments

One indicator for the importance of sustainable investments is the amount of money invested in this fashion. In German-speaking markets, i.e. in Germany, Austria and Switzerland, at the beginning of 2005 about 5.3 billion EUR was invested in the 115 or so public funds of this type. Added to this is an amount cautiously estimated at 100 million EUR which is managed according to social and ecological criteria in the special funds of institutional investors such as churches and foundations.

With private capital in the Federal Republic of Germany alone estimated at four trillion EUR, sustainable investments make up a mere 0.1% of the total money assets.

By contrast, in English-speaking countries, where private individuals, churches and foundations invest a far higher percentage of their wealth in shares, socially responsible investment accounts for more than 10% of investments.

Given how low the share of sustainable investments is as a percentage of total money assets in the Federal Republic, its influence appears to be disproportionately high. Companies listed at the stock exchange are taking the questionnaires from sustainability rating agencies increasingly seriously and some of them have employed staff just to answer them. They are particularly keen to be listed in share indexes that are drawn up based also on sustainability factors, such as the Dow Jones Sustainability Index (DJSI).

Moreover, several initiatives have been launched by major investors such as pension funds and insurance companies to try to integrate the criteria for sustainable investment into conventional financial analyses. If they should manage to do this, then the volume of funds invested according to sustainability criteria would multiply without any increases in investments in screened funds.

From the political point of view, sustainable investments and measures for voluntary corporate responsibility are seen as one possibility for reinforcing social and ecological interests and are thus supported as being complementary to official efforts. In the Federal Republic this has happened with regard to sustainable investments in that the retirement income act requires the providers of Riester-compatible pension products to inform their customers if, when and how social and ecological criteria are taken into account when their money is invested.

1.3.2. The impacts of sustainable investment

One question that has so far remained unanswered is how strong the influence of socially responsible investors really is and how it can be used most efficiently. There are hardly any scientific studies on the topic, although a number of case studies are known which show that companies reacted to evaluation by sustainability agencies with concrete improvements (see box on Vestel, a Turkish manufacturer of flat-screen monitors). Besides these case studies, the analysts from sustainability rating agencies are noting that listed companies are striving to meet the demands of socially responsible investors. They publish sustainability reports, answer questionnaires and set up environmental management programmes to help with comparing a company's emissions and consumption figures over the years. Just how much such activities, which are admittedly limited initially to publishing data, actually lead in the medium to long term to substantial changes in company policy, remains to be seen.

The case of Vestel

Vestel is a Turkish manufacturer of flat-screen monitors. In 2000, the company was known for its high levels of pollutant emissions and for violations of workers' rights in its factories and was criticised for this by non-governmental organisations in Europe and the US. Green Cay Asset Management, an SRI fund manager, which also has investments in Vestel in its Global Technology Hedge Fund, decided to sell its shares in the company and informed Vestel. Two years later the company had completely reformed its practices and was receiving commendations from environmental organisations in Europe and the US for its environmentally friendly production. An important reason for this turnaround was Green Cay's decision to remove the company from its portfolio. »I believe it, because they practically told us it was so«, a spokeswoman for Green Cay Asset Management said.

2. Socially responsible investments and development

The example of the company Vestel shows that the influence of socially responsible investors on companies in emergent markets can bring about considerable changes for the better. The role that socially responsible investors have played in the anti-apartheid struggle also shows that this instrument, working together with other social movements, can influence the behaviour of companies in emergent markets.

This influence is of added importance when we bear in mind that, after decades of striving to finance development through public spending and multilateral institutions, such as the World Bank, in the nineties private capital suggested itself as a very promising way of mobilising further funding for development. Private capital, so the argument goes, is often used more efficiently than public funds and can therefore play an important role in countries' development processes. The result of this trend has been that, by 2000, foreign direct investment in developing countries was already ten times as high as official development assistance.[4]

However, just as private capital is credited with playing a crucial role in financing development, so doubts are growing as to whether private investment as such can actually make a positive contribution to development. »Obviously there is no causal link between opening a country for foreign direct investment and economic benefits and development«,[5] is the answer given by the Evangelical Development Service's report to accompany the World Bank's World Development Report 2005. The World Bank report entitled: »A Better Investment Climate for Everyone« argues on the other hand that private investment increasingly means more wealth.

Foreign direct investment (FDI) in developing countries and emerging economies may be only one form of private capital transfer from industrialised countries to the countries of the South, but it is what development experts consider to be the most promising form of capital transfer. The other two main forms, namely loans and portfolio investments, i.e. buying shares that originate in a developing or emergent country, got many countries into great difficulties in the eighties and nineties. Public and private loans led many countries to become over-indebted, something that is seen to this day as a considerable obstacle to development. Portfolio investments in local stock markets played a substantial role in the currency crises in Latin America and Asia, as investors from the industrialised countries withdrew their money from these regions within a brief span of days. FDI, which is used to build up production capacities in a country that cannot be easily dismantled and for which the country in question is not obliged to repay any loans, is therefore seen as the most valuable form of capital transfer to developing countries from a development policy point of view.

However, foreign direct investment also involves a degree of risk and does not automatically lead to smooth development, as the examples of Brazil and Bangladesh in the eed accompanying report show. Production locations must, for example, first be set up and equipped with machines, most of which come from abroad, which is a burden on the developing country's foreign trade balance. If a subsidiary makes a profit, it may be transferred to the head office, which in turn has a negative impact on the balance of payments. It is also questionable whether such

[4] UNCTAD: World Investment Report 2002, page 12.

[5] From: eed: Foreign Direct Investment High Risk, Low Reward for Development, An Accompanying Civil Society Report to the World Development Report 2005 – A Better Investment Climate for Everyone, Bonn 2004, page 30.

production locations are really always a source of positive impulses for the economy of a developing country. To be sure of this, it is crucial, according to Phillip Hersel, the author of the eed accompanying report, to ask the following questions about direct investment before it can be said to have a positive impact on development:

1. Does the foreign direct investment complement or replace local investment?
2. Is the foreign direct investment integrated in the local economy and does it foster such integration in local economic structures?
3. Does the foreign direct investment strengthen or weaken the possibilities of the state to pursue its own industrial policy and raise taxes?
4. Is the long-term flow of money out of the country as a result of the foreign direct investment compensated for by the contribution that it makes to the balance of trade?

The aforementioned conditions are meant initially as recommendations for the governments of developing countries and not requirements to be met by companies. Economists are also still of differing opinions as to whether it really makes sense in terms of development policy to attach conditions to foreign direct investment. However, those who want to attach conditions to foreign direct investment for reasons of development policy agree for the most part on what these conditions should be. The key word here is »embedding«. The activities of foreign companies should be embedded in the local economy, i.e. they should become equal (and not dominant) members of the local economy, buying primary products from local businesses, training local staff, engaging in fair competition with local businesses, re-investing their profits, paying the same taxes, etc.. Apart from all that, it is a good idea if they are export-oriented, in order to improve the balance of trade.

A multinational company is not able to put in place all the elements of this ideal set-up for its foreign direct investments by itself. However, with the growing power that multinationals are able to exercise over entire economies and their governments, particularly in developing countries, they also have a certain responsibility to make sure that their investments benefit the economy as a whole. The training of local staff and the re-investment of profits for example are largely in the power of the companies themselves. In other areas much could be gained if the companies would stick to certain rules as part of their corporate social responsibility, competing fairly with local businesses without building up monopolies, giving preference to local businesses with good social and ecological standards as suppliers, not withholding taxes from the government of the country through transfer pricing,[6] etc..

However, before these expectations are put to multinationals as criteria for sustainable investors, a close look should be taken at the general conditions under which these companies work, since they are a not inconsiderable obstacle to meeting these expectations for sustainable investment.

[6] Literally this only refers to the price charged on goods and services that are traded between subsidiaries of a multinational corporation. However, the term usually connotes the setting of such prices high or low so as to minimise the total taxes paid to different governments, in response to differences in corporate tax rates. Source: Deardorff's Glossary of International Economics.

2.1. General conditions for SRI and development

Socially responsible investment (SRI) is taking place today in an environment in which private enterprise is reaching into more and more areas of life than ever and in which companies are able to exploit previously unknown possibilities for the geographic expansion of their activities. The state, which in previous decades was also one of the economic players, is increasingly being given a purely supervisory role, its task being to ensure the functioning of a society that is oriented towards international commercial competition.

The strongest players in this competition are a few hundred major multinationals, which are mostly owned by a changing, international, far-flung company of investors, whose goal is to get a higher than average level of profit from their investment in the long term.

These MNCs, like smaller companies which are limited to national or regional markets, are competing against each other for customers on the basis of price and quality on the one hand. On the other hand, however, they are also competing for investors on the basis of economic performance or profit.

This competition is the prerequisite and also a symptom for the functioning of the economic system. It serves to guarantee the highly efficient use of resources and raw materials and the development of highly specialised know-how.

The fact that competitiveness is what determines almost all commercial activities has raised two questions in particular:

- What can be done to emphasise activities and behaviours which have nothing to do with being competitive and how can they find a place in this system?
- How can the powerful motivation of competition be countered with courts, incentives and controls so as to stop standards, laws and directives being violated in the battle to beat all competitors?

The problems which arise because of this culture of competition, such as cultural impoverishment, social inequality and environmental destruction, show that ways must be found to reinforce non-competitive, ethical motivations and strengthen the sanction mechanisms for unethical behaviour, if these societies are to survive in the long term and be a home to all.

In practice we are still in the testing stage. Voluntary corporate social responsibility (CSR) and SRI is one of the ideas being tested in the hope of finding a long-term solution to the problems. However, both these solutions have to deal with the problem that as pragmatic approaches – and this is simultaneously their strength – they must operate on the premise of competition. How much of a problem that is for the real goals, e.g. of sustainable investment, can be seen from the »weak stakeholder« example.

Entrance to the Free Export Zone KBN at Jakarta, Indonesia (Photo: I. Wick)

2.2. Swimming against the tide or fair rules for all?

One of the most discussed issues in the SRI community is whether the performance of screened funds is the same, better or worse than that of unscreened funds. Numerous studies have been carried out with the aim of finding a definite answer to this question, with varying results. The general preoccupation with this topic is not accidental. In fact it reflects the enormous pressure the SRI community faces from its investors, especially its institutional investors such as churches and pension funds, to deliver a performance that at least matches conventional investments. There is no talking around the fact that, if it should ever turn out that SRI funds generally perform worse than conventional ones, this whole industry would be jeopardised.

The results of all of these studies, however, are still quite favourable. Experts who have an overview of the literature produced on this topic assure us that the question of whether screened funds perform better, equally or worse than unscreened funds is still unanswered, although it remains safe to say that investors do not, in general, lose money when they invest sustainably and enjoy the added benefit of a clear conscience.

What is the basis for this link between ethical requirements and an acceptable financial return? In which areas do profit and a clear conscience go together and where do they diverge? There are two studies which try to give an answer to this question.

In 1999, the Bank Sarasin published a study[7] which analysed how a company's environmental and social performance relates to the performance of its share value. One of the results is that a good ecological performance supports a good performance on the stock market – a relationship that is strongest in the chemical, pharmaceutical, energy and construction industries, i.e. in industries in which the ecological impacts are strongest and most obvious.

The authors of this study, Christoph Butz and Andreas Platter, attribute this result in part to the fact that in these industries ecological costs are in part internalised by legislation, so that a good ecological performance leads to a reduction in costs and thus to better financial results.

With social criteria it is another story. According to this study there is no significant relationship between the social performance of a company and its share value. The authors explain this by the fact that external social costs are less likely to be transformed into internal costs. Often it even works the opposite way: restructuring programmes that are accompanied by job losses, for example, thereby causing external social costs, are often rewarded with higher share prices on the stock market.

A more recent study, published by Pictet in September 2003,[8] differentiates even further between blocks of social and ecological criteria and their impact on share performance. The results of this study, which surveyed the share values of 288 companies over four and a half years, are puzzling at first, but some of the findings make sense when accorded a second glance.

The most significant result is that the selection of stocks solely on the basis of their social and ecological performance would have been disastrous in the months from January 1999 to July 2003. A portfolio composed according to these guidelines would have lost 11% against its benchmark. This picture changes, however, when the impact of certain blocks of criteria are compared.

[7] Christoph Butz and Andreas Platter: Nachhaltige Aktienanlagen: eine Analyse der Renditen in Abhängigkeit von Umwelt und Sozialkriterien, Sarasin Study, October 1999.

[8] Christoph Butz: Performance nachhaltiger Anlagen, Wertschöpfung durch Faktorzerlegung, Pictet, September 2003.

Those criteria that merely deal with a company's policy, i.e. what the company says in strategy papers, etc. that it intends to do to improve its social and ecological performance, have a negative impact on financial performance. However, companies that do well on criteria that are concerned with what the company is actually doing reap the benefits in the shape of higher share prices. While it is very encouraging initially to hear that, at the stock market, what a company does matters more than what it says it will do, a closer scrutiny of what kind of conduct helps improve the share price tells us more. The study makes it clear that two blocks of criteria – attention to customers' concerns and to the community in which the company is located – are very good for share prices, while a good relationship with suppliers and employees is not. A good relationship with suppliers would even have led to a minus of 9.4% in the company's performance against the benchmark.

This makes sense. A good customer relationship facilitates higher profit margins, while paying suppliers on time and not putting the squeeze on them when margins are reduced is not good for company profits.

So it is only logical that a company which makes an effort to improve its customer relationships, for example by introducing a customer hotline, will do better at the stock market, while costly concessions towards suppliers have the opposite effect.

The fact that some SRI criteria promote good financial results while others have the opposite effect should be considered more closely, especially with regard to the impact of SRI in fostering ecological and social improvements.

In our context we will focus however on the question of what this fact means for promoting development goals via SRI.

2.3. Differentiating between stakeholder groups

The dissimilar impact which different stakeholder groups have on the financial performance of a company shows that it is misleading to talk about »the stakeholder«. There are at least two groups of stakeholders, one group that has strong economic power and one that has little economic power. Rich consumers in the North belong to the first group. It is only in the best interest of a company to establish a good relationship with them because its financial performance is highly dependent on them. On the other hand, suppliers – especially when they come from developing countries – have little economic clout. They can often be easily replaced. The high level of competition that exists between them can be used to put pressure on their prices, often resulting in unacceptable impacts on the small and medium-sized suppliers and on labour conditions.

Economically weak stakeholders can, however, acquire more power by collaborating with non-governmental organisations (NGOs) and the media to bring certain scandalous methods used by companies to public attention. A public scandal will in turn influence the behaviour of more powerful stakeholders, such as consumers or highly qualified personnel, thereby giving the management an economic reason to act. Even though there are numerous examples that show how weak stakeholders can influence corporate behaviour when they have the support of strong stakeholders, this mechanism does not always work and often it does not have the desired results. For example, a scandal usually only induces individual companies to make serious changes in specific areas targeted by the public, while the rest carry on with business as usual.

Companies on the whole will only react seriously when they perceive clear economic threats. Some of them go quite a long way to prevent the threats posed by ecological and social scandals. However, it is possible that highly »ethical companies«, when faced with a financial crisis, will revise their environmental and social programmes. On the other hand, good approaches may be revised because consumers do not support them, like Unilever's attempt to use a different sort of fish in fish fingers to prevent over-fishing. (In this case the strategy was revised because the new fish fingers tasted too strongly of fish!)

In addition, financial analysts usually react badly when a company initiates social measures without offering a convincing explanation of how they will benefit company earnings. A case in point is the following example from the Body Shop: When the Body Shop built a soap factory in one of the poorest parts of Glasgow and pledged to give 25% of the profits to the community, financial analysts accused the management of stealing the profits from the shareholders.

Because it is their job to ensure the financial success of »their« funds, SRI fund managers cannot swim against the tide for long. For socially responsible investors there are three possibilities

Textile factory in the Special Economic Zone Shenzen/China (Photo: M. Kottmeier)

in this situation to advance corporate strategies which also do something positive for weak stakeholder groups.

2.3.1. Three ways in which ethical investments can benefit economically weak stakeholders

There is a close link between development issues and stakeholders with little economic power. The workforce in developing countries is huge and often unskilled, i.e. replaceable. Because of this and because of open or hidden repression it is difficult for employees to organise in unions. Governments are often weak in the face of multinational companies, so that they do not effectively protect consumers, the environment and communities. Existing laws, including tax laws, cannot be enforced. Thus, unethical behaviour rarely or never results in additional costs.

For socially responsible investors, who wish to place particular emphasis on development policy concerns, there are three ways out of their dilemma. The first two solutions are already being implemented today. The third is a proposal for the future:

1

(1) Strong stakeholders make the concerns of weak stakeholders their own

First of all investors have the possibility outlined above of using their economic weight to bring pressure to bear on companies and get fair treatment for weak stakeholders in the developing countries too. They target their investments where development concerns are taken seriously in line with the criteria listed below and make it clear that there can be no question of them investing in companies where this is not the case. If such a strategy is pursued very consistently, however, it will come up against barriers. Certainly there are examples which show that socially responsible action also benefits the companies and their investors in some cases. However, if development concerns are taken into account consistently, additional costs arise for the company, as the Pictet study shows using the example of suppliers, putting it at a disadvantage vis-à-vis its competitors. The strategy of being an advocate for development concerns, as an investor and economically strong stakeholder, will thus become all the more credible if these criteria are consistently applied, even at the risk of achieving a poorer performance.

2

(2) Giving preference to countries that protect weak stakeholders

Another attempt to reflect the concerns of economically weaker stakeholders in developing countries involves favouring countries whose policies attach a high value to development concerns when buying government bonds, e.g. countries that spend relatively high amounts on development assistance, that are advocates for the concerns of the developing countries at the multinational level and which generally have stable and effective legislation and criminal prosecution systems which serve to protect weak stakeholder groups.

SRI fund managers accordingly prefer countries with progressive social and ecological legislation and avoid countries which abuse human rights or emit too much CO_2.

SRI screening of government bonds is a valuable complement to the screening based on purely financial aspects that agencies such as Standard and Poors or Moody carry out. Unlike these agencies, SRI assessments so far have no influence at all on the interest rates for government bonds. What power this instrument will have in future and whether it will be integrated at least partially into existing evaluation systems remains to be seen. Development concerns could also play a greater role.

Both approaches to promoting economically weak stakeholders are very useful. They should be supported by the SRI community and an eye should be kept on their results and impact.

3

(3) Joint lobbying by socially responsible investors and progressive companies for legislation to benefit weak stakeholders

A third approach will now be presented, which also aims to strengthen economically weak stakeholders in developing countries. The Sarasin study showed that companies in ecologically sensitive sectors, such as the chemical industry, perform better on the stock market because they internalised environmental costs long before legislation forced them to do so. If this stricter ecological legislation had not been adopted, however, these companies would have had to accept losses because of their investments in environmental protection. Companies that anticipate ecological or social laws in their business policy thus have a certain interest in this kind of legislation. This is because, if they have implemented social or ecological measures which then become compulsory later, they are one step ahead of their competitors. This interest in stricter laws is shared by the managers of funds for ethical investments and ethically inclined investors. It would therefore make sense to reflect on the possibilities of getting these three parties – managers of ethical investments, investors and progressive companies – to co-operate, in order to push forward measures to protect economically weak stakeholders more effectively than they are protected at present.

Based on this brief outline of the general framework in terms of development topics in the field of socially responsible investment, three possibilities will now be presented for investing money so that it has a development-related impact.

2.4. Three possibilities for investments that have an influence on developing countries

Although the general framework conditions described above limit the possibilities for socially responsible investors to improve the situation of economically weak stakeholders, this does not in any way mean that there is no room for improvements within this framework. It is more correct to say that the pragmatic approach of socially responsible investment actually allows concrete changes in behaviour to be demanded of companies from a position of economic strength. In order to sound out the development-related potential of socially responsible investment, however, first of all a distinction must be made between three different forms of investment with a more or less direct influence on stakeholders in developing countries.

1. Investments in multinational corporations with subsidiaries, suppliers and/or sales in developing countries
2. Investments in stocks – shares or bonds originating in developing countries, i.e. in government bonds or listed companies (portfolio investments)
3. Investments in microfinance organisations

Although all three options will be discussed in this working paper, the emphasis is on investing in multinational corporations, since this is generally the most common way for investors and also for socially responsible investors, be they private or institutional investors, to have an influence on economic development in developing countries.

[9] UNCTAD, World Investment Report 2003, page 164.

[10] Ibid, page xvi.

[11] »A direct investment is established when a resident in one economy owns 10 percent or more of the ordinary shares or voting power of an incorporated enterprise.« UNCTAD: Foreign Portfolio Investment (FPI) and Foreign Direct Investment (FDI): characteristics, similarities, complementarities and differences, policy implications and development impact, Note by the UNCTAD Secretariat, 15 April 1999, page 4.

2.4.1. Investing in multinational corporations

- To what extent do multinational corporations contribute to the development of a country and in what way do they harm development?
- What do we have to know about a company as socially orientated investors to be able to evaluate its impact on development processes?
- What kind of behaviour can and should we demand of such a company?

These are the main questions we need to find an answer for, if we want to integrate development issues into SRI screening.

SRI rating systems do of course already consider the social and environmental impacts of MNCs' operations. (A list of development-related criteria can be found at the end of this paper).

Most of them, however, do not deal with the question of economic development. This lack of economic development criteria is typical for SRI and also for Corporate Social Responsibility (CSR) as a whole, as UNCTAD notes in its World Investment Report 2003: »Moreover, most CSR instruments deal with social and environmental issues, leaving economic development issues out of their scope. Indeed, there has been a notable lack of debate on issues pertaining directly to the economic development of developing countries.«[9]

This lack of development indicators for MNCs is astonishing when we consider the great impact MNCs have on developing economies. In 2002, nearly one third of the GDP of developing countries was generated by FDI.[10]

A lot of research, however, has been carried out into the question of whether FDI[11] can foster development processes in different countries and what governments can do to improve this impact.[12] This research can be used as a starting point for the discussion about what contribution companies can and should make to development.

When operating in a host country companies assume different roles, all of which have an impact on the economy of the country as a whole. They employ local workers, they deal and compete with local companies, borrow from local banks, sell goods on local markets, pay taxes and create backward and forward linkages with local companies.[13]

Not every FDI project plays all of these roles in its host economy. Research into the impact of FDI on local economies, however, seems to indicate that FDI has more potential to benefit a country when it is embedded in the local economy,[14] i.e. when there is intensive, fair interaction with the local economy. Export-orientated FDI that is established within enclaves like export-processing zones has less impact on the local economy, but it does have the advantage of having a positive influence on the balance of payments of a country.

Chinese seamstress working in the Special Economic Zone Shenzen/China (Poto: M. Kottmeier)

[12] A good compilation of literature on this topic can be found in: Blomstrom, Magnus and Kokko, Ari, »The Economics of Foreign Direct Investment Incentives«, Cambridge: National Bureau of Economic Research Working Papers, No.W9489, February 2003. (Available at: http://www.nber.org/papers/W9489).

[13] Forward linkage: The provision by one firm or industry of produced inputs to another firm or industry. Backward linkage:The use by one firm or industry of produced inputs from another firm or industry.

[14] Blomstrom, Magnus and Kokko, Ari, »The Economics of Foreign Direct Investment Incentives«, Cambridge: National Bureau of Economic Research Working Papers, No.W9489, February 2003. (Available at: http://www.nber.org/papers/W9489).

Estimated employment in MNCs[15]

(Millions of employees)

Economy	Total employment in MNCs (incl. parent firms and foreign affiliates)	Employment in affiliates in developed countries	Employment in affiliates in developing countries
All countries			
1985	65	15	7
1995	78	15	15
1998	86	17	19
Employment in MNCs from:			
United States (1996)	26.4	4.9	2.7
Japan (1995)	5.6	0.8	1.4
Germany (1996)	–	2.0	1.0

Source: UNCTAD, 1999, page 265

2.4.1.1 Multinationals as employers of local staff

One of the most important roles of a foreign subsidiary in a developing country is that of an employer of local staff. MNCs have a considerable impact in terms of direct and indirect employment (see above table »Estimated employment in MNCs«). From the development point of view, job creation is one of the most sought after benefits FDI can provide. Apart from generating income for local employees, jobs created by foreign firms have the potential to contribute to an upgrading of the workforce by training and thus contributing to a transfer of knowledge. These benefits are all the higher when training includes comprehensive technical and managerial skills. Establishing research and development activities involving the local workforce is of great value for the host country.

Experience shows, however, that the creation of jobs alone is not enough. There are numerous reports which show that, at foreign subsidiaries and especially at their suppliers, workers are often very badly paid, child labour, forced labour or extremely high levels of overtime may be involved, working conditions are unhealthy or even dangerous and the formation of unions and collective bargaining are repressed. Apart from that, the creation of jobs is often accompanied by pollution and destruction of the local environment. In the face of these drawbacks the value of FDI is more and more questionable, even if it does create jobs.

FDI could play a valuable role in pro-poor economic development, providing jobs, capital and technical know-how, but in reality its positive impact is often limited. Moreover, there is mounting evidence that multinationals registered in the North are actually causing harm in the Third World. Transgressions include: abusing workers' rights and causing bodily harm, destroying local lands and livelihoods, promoting harmful pro-

[15] UNCTAD, »World Investment Report 1999: Foreign Direct Investment and the Challenge of Development.« New York and Geneva: United Nations, 1999, page 265.

ducts to consumers, breaking national laws and undermining local democracy.

It is therefore important for SRI investors to consider that the benefits of job creation depend to a large extent on the quality of the jobs provided by MNCs. Working conditions at MNCs and their suppliers should comply with the ILO core standards.[16] On top of that they should contribute to the development of a country through the continuous training of the local workforce, the employment of locals at high levels in the companies' hierarchy and by establishing Research and Development (R&D) activities in their affiliates.[17] All of these measures have the effect of contributing substantially to technology transfer, which has an overall positive impact on the local economy. On the other hand, MNCs should refrain from headhunting highly qualified employees from local businesses and instead train their own personnel, which offers the perspective for the future that this knowledge will subsequently benefit local firms.

2.4.1.2. Multinationals as the customers of local businesses

Apart from the fact that local business might gain from employing staff trained by foreign subsidiaries, linkages between local firms and foreign companies can be highly beneficial to the local economy by inducing technology transfer.[18] Supplying foreign subsidiaries with raw materials or semi-finished products can trigger a leap in quality within the economy of the developing country, since the resulting competition forces local businesses to improve the quality of their products and use new management methods. And they have the chance, through the MNC, to manufacture goods for the world market, with all the economies of scale that entails.

These potential positive effects from foreign subsidiaries are, however, not automatic but depend very much on the economic conditions for local firms. The potential of quality spillovers is not likely to be realised unless local firms have the opportunity to learn from the foreign MNCs and to invest in new technology.[19] In business sectors with a high demand for unskilled labour these positive effects are often offset by the fact that the MNCs take advantage of existing poor labour conditions. They often use their market power to keep prices for local goods at a very low level, thereby making it difficult or even impossible for local companies to improve the inhuman labour practices described above. Small or medium-sized local suppliers often depend on a few clients, mostly big MNCs. On the other hand these MNCs can choose their suppliers worldwide and influence conditions in their favour. Because of this economic pressure, labour standards in suppliers' factories tend to be worse than in those of the subsidiaries, and may even involve massive use of child labour or informal home working.[20]

SRI should encourage MNCs to refrain from abusing their market power and induce them to consider the level of development in the local economy and look for ways to improve it by engaging in the comprehensive training of suppliers and their staff, including technical and managerial skills as well as labour and environmental standards. MNCs should also be required to give suppliers financial incentives to raise labour and environmental standards.

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[16] The ILO Core Labour Standards are: rights to freedom of association and collective bargaining, prohibition of forced labour and child labour and discrimination, living wage, occupational health and safety, regular hours of work.

[17] UNCTAD, World Investment Report 2003 page 104 »Where both local and foreign firms engage in R&D activity and create new technologies, local firms may exploit the benefits within the host economy more than foreign affiliates!«

[18] Blomstrom, Magnus and Kokko, Ari, »The Economics of Foreign Direct Investment Incentives«, Cambridge: National Bureau of Economic Research Working Papers, No.W9489, February 2003, page 10 (available at: http://www.nber.org/papers/W9489).

[19] Ibid, pages 18–19 (available at: http://www.nber.org/papers/W9489).

[20] Cf. Child Labour and Trans-national Seed Companies in Hybrid Cottonseed Production in Andhra Pradesh, by Davuluri Venkateswarlu, India Committee of Netherlands (ICN), Amsterdam: 2002. (Available at: http://www.indianet.nl/cotseed.html).

2.4.1.3. Multinationals as competitors for local businesses

Foreign affiliates not only establish linkages with local companies, they also compete with them. There has been some research into whether or not this competition is beneficial to the development process in the South, which has produced mixed results.[21] It is possible that crowding-out of local firms does occur, with negative impacts on local employment and on consumers, however, in other cases competition with foreign subsidiaries leads to quality enhancement of local industry that enables businesses to produce higher quality products more efficiently. This positive effect is more likely in countries with highly developed enterprises.

The crowding-out of local businesses has two main causes:

a) foreign-owned companies often have better access to financial resources than local firms; and

b) foreign affiliates abuse their superiority and weak competition laws to establish a dominant position which hurts the local economy overall.

Child labour on Indian cotton seed fields (Source: India commitee of the Netherlands)

This dominant position is often established by large cross-border mergers and acquisitions.[22]

In Latin America, where foreign companies mainly produce for domestic markets, the crowding-out of local companies is stronger than in economies that tend to attract export-oriented FDI. There have been cases in the maize seed business and food industry in Brazil where strong negative influences on the local economy could be observed (see box on page 22 below).

From the point of view of SRI, companies should take care to be fair competitors in the developing countries and refrain from any kind of anti-competitive behaviour, even if it is not effectively ruled out by local law. Special care should be taken when large cross-border mergers and acquisitions take place. If MNCs are engaged in economies with local firms that are severely disadvantaged, they should seek to co-operate rather than compete.

[21] UNCTAD World Investment Report 2003, page 105.

[22] Ibid, page 134.

Child Labour and Trans-national Hybrid Cottonseed Companies in India

by Eduardo Wirthmann Ferreira

The introduction of hybrid cottonseeds in the early 1970s has brought significant changes in the quantity and quality of cotton production in India. It has not only contributed to a rise in productivity and cotton quality, but has also helped to generate substantial amounts of additional employment in the agricultural sector. However, it also gave rise to new forms of labour exploitation which involve large-scale employment of female children as bonded labour. Currently there are about 200 seed companies involved in the production and marketing of hybrid cottonseeds in India, including several multinational companies (MNCs) such as Unilever (England/Netherlands), Monsanto (USA), Syngenta (Switzerland), Bayer (Germany) and Fox Paine (USA). These MNCs operate through their subsidiaries in India or joint ventures and collaborations with local Indian companies. Examples are Syngenta India (for Syngenta AG), Advanta India (for Fox Paine), Hindustan Lever Limited, Monsanto India and Mahyco (for Monsanto) and Proagro (for Bayer).

Since cotton is a self-pollinating crop, large-scale hybrid seed production is done manually, requiring 90% of the total labour days employed and 45% of the capital investment. Each individual flower bud has to be emasculated and pollinated by hand by a large labour force, the majority of it female children. According to a survey carried out by Venkateswarlu (2002) in 22 farms supplying seeds for the aforementioned MNCs, 88% of the total labour force is made up of children (78% girls) in the age group of 6–14 years, working between 11–13 hours per day. Moreover, 90% of the total labour force is hired, that is children are not only farmers' family members as the MNCs have alleged. Roughly 90% of these children are in debt bondage. In other words, they are recruited by the farmers on a long-term contract basis for the entire crop season, as a result of loans/advances being given to their parents. The MNCs usually respond by denying any direct contact with seed farmers and also the use of forced child labour as such in the production of seeds.

MNCs in the cottonseed business generally operate through their local subsidiaries, which hire the so-called »seed organisers«, who are in charge of identifying farmers and co-ordinating production. Although most of the companies are not directly involved in the production process and in making agreements with seed farmers, they exert substantial control over farmers and the production process by supplying foundation seed, fixing the procurement prices, and through quality supervision, etc. It is the companies that fix the prices paid to the farmers. It is the companies that set the quality standards to be followed by the farmers for the cultivation of seed in the fields. In this sense, MNCs involved in the cottonseed business in India are certainly not operating in line with their claimed commitment to socially responsible corporate behaviour. Furthermore, they have contributed to the increase and perpetuation of child-bonded labour.

Source: Venkateswarlu, Davuluri. »Child Labour and Trans-national Seed Companies in Hybrid Cottonseed Production in Andhra Pradesh«, India Committee of Netherlands (ICN), Amsterdam: 2002. (Available at: http://www.indianet.nl/cotseed.html).

2.4.1.4. Foreign companies as suppliers of goods for local markets

Foreign firms can have a positive influence on local markets by enhancing consumer protection. Practices like the introduction of consumer hotlines and the comprehensive informing of consumers such as some responsible companies from developed countries employ in their home countries can be introduced into the markets of the South and may be imitated by local companies.

If they engage in anti-competitive practices, foreign-owned companies can also badly abuse consumers' rights in developing countries by limiting the variety of goods available to them. There is also the possibility of price distortions and the threat to existing firms, producer associations and co-operatives. There are also cases where foreign firms have badly abused consumers' rights in developing economies, like the aggressive marketing of infant formula, drugs and pesticides. On the other hand, MNCs hesitate to develop and provide affordable drugs that are badly needed in developing countries. In addition there has been some concern about the massive influence MNCs and western media have over local societies, encouraging the consumption of foreign imported products rather than local goods.

SRI should consider how far MNCs operating in developing countries adapt their products and marketing to the local conditions. Do they sell specially designed products? Do they develop drugs or other products which are badly needed in these markets at affordable prices; do they respect local ways of life and cultural values when marketing products originally designed for industrialised countries? And above all: Do they inform local consumers in a comprehensive way that is in tune with regional conditions? MNCs that commit themselves to a high standard of consumer protection have a beneficial influence on local markets by spurring fair competition and local consumer orientation, but they can only do that when they are well adapted to the regional economy and to local customer preferences.

Foreign competition in Brazil

»In 1997, there used to be a competitive maize seeds market with over 50 Brazilian seed companies. In 2 years, one multinational company went from 0% to a 66% market share in maize seeds and now has a total monopoly over certain seeds. However, there are other negative impacts from foreign direct investment. Parmalat, an Italian dairy company, recently bought 21 local companies and in just 3–4 years has become the second largest market leader in the [Brazilian] dairy industry. Because of its strong market position, the company has been able to redesign the chain of production and, together with other multinationals such as Nestlé, has squeezed more than 70,000 small-scale farmers out of the market by giving priority and incentives to larger farms that produce more milk.«[23]

[23] In: Soares, A. C. »Foreign Investment, Democracy and Sustainable Trade« (Available at http://www.fairtradeexpo.org/) – Sustainable Trade Symposium«, Cancun, September, 2003.

2.4.1.5. Foreign companies and the local communities

Apart from the aspects of employment, linkages with local companies and consumer protection mentioned above, MNCs operating in developing countries should respect the communities they operate in. Foreign subsidiaries can have positive impacts on communities by providing jobs and promoting training and medical services. Especially in the oil and gas extraction and mining sector, however, communities often suffer badly from MNCs' operations, which result in the destruction of the environment which is the basis for the livelihoods of the local people. The destructive influence Shell has exercised in the past and is still exercising on the communities living in the Niger Delta is one of the best known examples of this.

Developing countries and their communities are also hurt by footloose investment, which only takes transitory advantage of a tax holiday or cheap labour and disappears as soon as these conditions change, leaving behind unemployment and economic depression.

2.4.1.6. Multinationals and governments in developing countries

The most important prerequisite for ensuring that a company really contributes to the development of a country is respectful dealings with the local government and civil society in that country. This also implies that companies must resist the temptation to take advantage of weak legislation and administration through corruption and lobbying.

This applies most particularly to tax legislation in a country. »Domestic sources of public revenue are the main resources for financing development, particularly infrastructure and basic services. Minimising the taxes paid can therefore have a serious impact on the development of the host country. Multinationals should therefore be expected to act in accordance with the tax laws of a country and meet their tax obligations to the best of their knowledge – and not intentionally shift profits by misusing transfer pricing, in order to withhold taxes from the government of the country in which the money has been made.[24] Such behaviour is one of the worst abuses committed by multinationals in developing countries.

[24] UNCTAD: World Investment Report 2003, page 165.

This fish ponds of trout producers in Ecuador were polluted by petrol. Construction of OCP pipeline was most likely the reaqson for the breaking of the SOTE Pipeline. The OCP Pipeline had been constructed by a consortium of North-American and European contractons. (Source: Nathalie Weemaels, Accion Ecologica)

Construction of the coal powerstation »Paiton 2« during the Suharto government in Indonesia was accompanied by strong allegations of corruption. The leading contractor was Siemens. (Source: Hornung TV)

It is also important that the activities of the company are adapted to national development strategies. For example, companies that enjoy preferential treatment or benefit from cheap labour should participate in return in fostering development processes in the host country. In many international investment agreements the development goal is cited in the preambles. These agreements are sometimes linked with a »positive list«, with countries granting multinational corporations concessions which are, however, linked to certain conditions.[25]

Multinationals definitely have major potential for advancing development and they must make every effort to do so. The task of socially responsible investment is to support the companies in seeking to harmonise their financial goals with their obligations to society.

2.4.2. Portfolio investment in developing countries (emerging market funds)

Foreign Portfolio Investments (FPI) include a variety of financial instruments which are traded in organised domestic financial markets, such as bonds and equities. These securities are acquired and sold by retail investors, commercial banks, or mutual funds, for example country, regional or pension funds.

While foreign direct investment constitutes the bulk of capital flows to Asia and Latin America – the largest markets among developing countries – portfolio investment has also increased substantially, accounting for about 40 percent of total capital flows in the 1990s. In absolute terms, bond and equity flows to each region – excluding those counted as FDI – increased from $1 billion in 1990 to $40 billion in 1996, with bond flows exceeding equity flows since 1994 in Latin America. Note, too, that reported equity flows are underestimated: any equity flow meant to acquire more than 10 percent of a company's outstanding shares is recorded as FDI, which accounts for around 50 percent of total capital flows.[26]

Again in the 1990s, as had been the case in the 1980s, booms were followed by a slowdown of capital inflows. The first episode occurred in

[25] Ibid, pages XVII–XVIII.

[26] Kaminsky, G. & Lyons, R. & Schmukler, S. »Mutual Fund Investment in Emerging Markets: An Overview«, World Bank Economic Review, 15:2, pages 315–340, Washington: 2001. page 4–6.

the immediate aftermath of Mexico's currency crisis in December 1994. In this case, capital inflows resumed for most countries within six months and then returned to their peak values. Capital flows to Asian economies were largely unaffected, with the crisis being confined to a small number of Latin American countries. The second, more severe slowdown came in 1997, during the Asian crisis. The Russian default in August 1998 aggravated this crisis. This time, capital flows collapsed to a trickle. The change in inflows was similar in magnitude to the one after the so-called 1980s debt crisis, with total capital inflows to Latin America declining by about 35 percent and capital flows to Asia also falling by about 35 percent. The decline of short-term portfolio flows (bonds, equities and bank lending) was even more brutal, with flows in these categories declining about 60 percent in Latin America in 1998.[27]

Overall, bond and equity flows to Latin America declined between 1996 and 1998 from about $44 billion to about $15 billion. Bond and equity flows to Asia collapsed in 1998 to $9 billion, from their peak in 1996 of $38 billion. To sum up, portfolio flows have become an important form of capital flows to emerging markets.

FPI has the potential to contribute to the capital accumulation of domestic companies. During the period when investing in emerging markets was favoured by northern investors, the cost of borrowing was reduced for firms from emerging markets because capital from international markets was cheaper than borrowing from local markets.[28] During these times firms were encouraged to raise capital by issuing bonds and shares, which attracted foreign investors, which in turn made local financial markets more liquid and less volatile during this time.

Apart from the inflow of private capital during times of soaring markets, which benefits local companies at least temporarily, FPI has the potential to contribute to the further development of capital markets. »Moreover foreign investors could improve the standards of local capital markets, as they would be more demanding as to quality of information and disclosure as well as minority protection, and would also require adequate market and trading regulations.«[29]

However, the financial crisis that started in Thailand in 1995 and spread to almost every emerging market, makes clear the need to reassess the benefits of FPI and future markets.

This sudden outflow of capital invested in FPI was not only harmful to countries with major economic problems such as Thailand, where the Baht was seen as highly overvalued. Negative impacts were also observed in countries with relatively healthy economies such as South Korea and had devastating effects on all of these economies, especially on the poorer part of their population and on women.[30]

Some features of this widespread crisis were: a soaring unemployment rate, lower wages, higher credit costs and credit contingency, which are especially harmful to small and rural enterprises. On top of that, government budgets shrank because of the need to build up foreign reserves to counteract the currency crisis. Therefore, there was no funding available to counteract the effects of the crisis by public spending without an IMF bailout, said to have been the largest in its history. In this situation governments cut expenditure on education and health systems, although both are vital for the promotion of development.

Even long after the crisis had been overcome in the economic sense, its effects were still felt by the poorer population, who had to cope with higher prices for imported goods and high unemployment. The cost of capital also remained

[27] Ibid, pages 4–6.

[28] UNCTAD: Foreign Portfolio Investment and Foreign Direct Investment: characteristics, similarities, complementarities and differences, policy implications and development impact. 19 April 1999, page 9.

[29] Ibid, 19 April 1999, page 11.

[30] Cf. Oxfam America: Global Finance Hurts the Poor, Analysis of the impact of North-South private capital flows on growth, inequality and poverty, 2002, page 29.

high because these countries were perceived as risky and had to pay a risk premium on their credit for a long time after the crisis.

The Oxfam study »Global Finance Hurts the Poor« sums it up thus: »North-South private capital flows have the potential of contributing to poverty alleviation, but that potential will be realised only when they are less volatile, less expensive and more abundant throughout the South, which requires fundamental reforms of the global financial architecture.«[31]

And even the study »Foreign Portfolio Investment, Foreign Bank Lending and Economic Growth« published by the Board of Governors of the US Federal Reserve System comes to the conclusion that: »Most measures suggest that FPI has no effect and some results indicate that other foreign investment has a negative impact on growth that is somewhat mitigated by initial financial and/or legal development.«[32]

Oxfam gives several reasons for the tendency of private capital that is invested in southern economies to be volatile. Private investors who invest their money in emerging market funds do so in times when it is felt appropriate to take risks, not because they have a detailed knowledge of the macroeconomic data of the threshold countries they invest in. When market sentiment changes again in favour of more secure investments, capital is withdrawn regardless of the economic facts in the country concerned. What makes the situation worse for the developing countries is that there are only a few investment houses that specialise in emerging markets and the total amount of capital managed in the North is gigantic in comparison to the stock market capitalisation of threshold countries.

In 2002, Fidelity, America's largest institutional investor had 900 billion dollars of assets under management, about half the combined total stock market capitalisation of the South at that time.[33] So even relatively small capital movements initiated by a few northern investors in southern markets can have relatively strong effects on share prices and currencies and as a consequence on the whole of the economy and society in these countries.

For ethical investors wishing to contribute to development by investing in emerging markets this situation poses a problem. On the one hand, it is valuable for companies in emerging markets to have access to capital from northern investors. On the other hand, no investors not even SRI investors can resist the pull of investors leaving a country in the moment of a crisis without the risk of losing their money. The experiences of the nineties show that this volatility of portfolio capital flows from the North to emerging markets tends to make them more harmful than beneficial to developing economies.

Apart from the problem of the volatility of capital flows, SRI emerging market funds launched in the US and the UK during the nineties had to be wound up later on because of a lack of demand for retail funds of this kind.

[31] Oxfam America: Global Finance Hurts the Poor, An Oxfam America report, 2002, page 3.

[32] Foreign Portfolio Investment, Foreign Bank Lending, and Economic Growth, by J. Benson Durham published by the Board of Governors of the Federal Reserve System in February 2003, page 1.

[33] Oxfam America: Global Finance Hurts the Poor, An Oxfam America Report, 2002, page 22. www.oxfamamerica.org

2.4.3 Microfinance

Microfinance institutions contribute to development and help reduce poverty in many different ways. They enable poor people who are economically active to take out loans at reasonable conditions and thus build up a livelihood. Other positive effects can be added to this effect of microfinance, which is in itself already positive; together they make an important contribution to reducing poverty. They include:

- More than 50% of borrowers are women, whose position in society is thus improved.
- Micro-credits are often linked with savings and insurance products. The result of this is, that money can be put aside for children's education, whilst troubles such as floods, drought or something as simple as the death of the family's milking cow can be coped with more easily.
- Small and micro-enterprises, which are after all the target group for micro-credits, make an essential contribution to the creation of jobs in developing countries.

Microfinance institutions are thus clearly an investment option with which the aim of combining investment with promoting development can best be realised. Money invested in this way gives economically active poor people in developing countries a real chance to improve their living circumstances and those of their children.

On the other hand, current investment opportunities have slightly lower returns and/or a higher risk compared with conventional investments. This is not so much due to the repayment rates for micro-credits, which are very high (90%), the major problem when investing the money of northern investors in micro-credit in developing countries is that the loans are paid out and repaid in the local currency, but the deposits and the interest accrued must be paid back in hard currencies.

Whilst traditional investments in micro-credits cushion this risk with high reserves and offer investors a return around the inflation rate, new schemes are seeking to give northern investors even more by offering returns that are comparable with conventional products. In future, therefore, there will be several competing products on the market, which however will certainly not just be distinguishable from one another by their performance, but also with regard to their potential for alleviating poverty.

An interesting step towards creating new investment opportunities with positive development impacts would be to develop an investment fund which would buy shares from companies which show responsibility for development issues and shares in microfinance institutions.

3. Developmentally responsible investments – the criteria

Development screening only makes sense therefore in one of the three types of investment with a development impact outlined above. Portfolio investments in developing countries are, as explained above, not a suitable way at present of investing with the aim of promoting development, because of the danger that they may increase the vulnerability of the local currencies in these countries. In the case of micro-credits, on the other hand, it can currently be assumed that they generally make a positive contribution to development. What is more, the first of the variations described here – investing in MNCs – in particular offers leeway and the possibility to exert an influence; and so too, to a lesser degree, do investments in fixed interest bonds which originate in the North.
Sets of criteria and with them a screening matrix, to be applied to companies and fixed interest stocks, flesh out the bones of this leeway and possibility to exert an influence. That is why, for this project, the SRI screening systems which are publicly available in German-speaking countries were studied to see how they address development policy topics. The results of this study are given in the box below.

Jaqueline Callisaya, a client of the Bolivian microfinance istitution FIE, which has been refinanced by Oikocredit. (Source: Oikocredit)

At the start of 2005, some 115 screened funds with sustainability criteria were on offer in the Federal Republic of Germany. These funds cite 86 different negative criteria altogether and over 80 positive criteria in their sales brochures. 18 of these negative criteria address issues relating more to developing countries than to industrialised countries, although only one explicitly mentions developing countries. The negative development-related criteria, relate to the following issues:

Criteria for selecting socially responsible investments

- child labour
- forced labour
- discrimination
- human rights abuses
- violation of union rights
- repressive governments
- inhuman working conditions

None of the screened funds take all these criteria into account, although that would be desirable since, taken together, they would ensure that any violation of the ILO's four core labour standards: freedom of organisation and the right to collective bargaining, no forced labour, no discrimination, no child labour, are ruled out. Some funds screen for a selection of these criteria, but some do not screen for any of the development-related criteria.

Positive criteria

The positive criteria of the existing SRI funds pay far less attention to development issues. Only three of the 80 positive criteria address development issues. These are:

- equal working conditions worldwide
- promoting fair trade
- relations with developing countries

While the last of these criteria fails to say what it actually requires a company to do, the other two are rarely put into practice by any company, but at least they show companies what SRI investors want them to do.

All in all, development-related issues cover about 10% of the negative criteria of SRI funds in Germany, while they only play a negligible role in the list of positive criteria.

footnotes page. 30:

[34] The eight ILO core labour standards are: rights to freedom of association and collective bargaining, prohibition of forced labour and child labour and discrimination, living wage, occupational health and safety, regular hours of work.

[35] OECD Guidelines, see annex.

List of development-related criteria used in screening systems

The criteria listed in the sales brochures of SRI funds represent only a tiny part of the research process involved in screening companies for SRI funds. In many cases companies are investigated using complex questionnaires and rating systems. In the following the development-related criteria from screening systems which are used in German markets and to which there is public access are listed under sub-headings.

General

- Does the company use benchmarks and methods to analyse and reduce the potential negative impact of companies operating in non-OECD countries?
- Ratio of products sold which have a recognised label certifying minimum social and environmental standards to total sales
- Percentage share of components sourced in developing countries
- Contributions towards promoting fair trade and towards economic and ecological development
- Development of local markets
- Poverty alleviation programmes

Taxes/bribery/fair competition

- Are guidelines to prevent corruption and bribery applied to contractors, suppliers and service personnel?
- Corruption and abuse of dominant position

Employment

- Working hours in non-OECD countries
- Does the company use indicators for freedom of association, child labour, forced labour?
- Does the company publicly endorse the UN Universal Declaration of Human Rights, the ILO labour standards[34] and the OECD guidelines for Multinational Enterprises?[35]
- Generating local employment
- Uniform employee benefits throughout the whole company
- Staff benefits in non-OECD countries
- Calculation of minimum wages in non-OECD countries
- Acceptable living conditions
- Disciplinary practices
- Use of security forces
- Net job creation and turnover by region and country

Additional criteria for labour standards at contractors

- Working conditions at suppliers
- Code of conduct for contractors that is monitored by a) supplier itself, b) the MNC as the buyer of the goods or c) third party audits/questionnaires, d) written statements,
- Quantitative social data on contractors
- Social/ethical controversies related to subcontractor/supplier activities
- Occupational health and safety at contractors
- Does the board/management level have responsibility for contractors and human rights?
- Does the company have guidelines for the selection and ongoing evaluation of contractors and service providers in relation to labour standards, employment practices and human rights in non-OECD countries?

- Frequency rate of injuries and time lost because of injuries for employees at contractors
- Number of fatalities for employees at contractors
- Transfer of know-how to contractors
- Training of management at contractors by the company
- Training of employees at contractors by the company
- Support for establishing communicative structures between employer and employees
- Support with SA 8000 certification
- Bonus systems for contractors
- Creating possibilities to report abuses (whistle-blowing)
- Integration of social criteria into the information procurement system
- Co-operation with stakeholders like Fair Labour Association, ILO or local NGOs
- Do open procurement practices include environmental and social requirements?

Communities

- Cultural self-determination of communities
- Guidelines that address the needs of indigenous people
- Share of operating revenues from the area of operations that is redistributed to local communities
- Impacts on communities
- Policy on/monitoring of the extraction of precious metals and gemstones
- Exclusion of supplies from conflict regions
- Social and economic development contribution to communities
- Community programmes

Marketing

- Multiple standards in marketing products
- Geographic areas covered by customer satisfaction procedures

Environment

- Biodiversity
- Environmental and safety standards
- Implementation of environmental management systems/certification systems to an international standard in non-OECD countries
- Benchmarks for sustainable extraction of renewable materials (e.g. palm oil)
- Environmental standards for suppliers
- Environmental requirements for subcontractors
- Disregard of international conventions and human rights at contractors

Additional negative criteria

- Uncontrolled mining
- Uncontrolled logging

Human Rights

- Activities in crisis regions and countries with unjust regimes

3.1. Comments on the lists of criteria

The criteria from the screening systems are by and large a good reflection of the criticism levelled at multinationals by non-governmental organisations with regard to development issues. The criteria relating to working conditions in companies which are suppliers are particularly good. For one thing it is good that suppliers are included in the screening, i.e. that a direct responsibility is stated here. What is more, some criteria list concrete ideas for improvements which are used by certain companies in the sense of »best practice«, e.g. educating managers and staff at suppliers about working conditions. However, there is also room for improvement in these lists of criteria, particularly with regard to their systematic organisation and the citing of positive corporate characteristics.

3.1.1. Lack of systematic organisation

The lists show that the criteria in the screening are not really the result of a systematic analysis of the problems relating to multinationals and development. In fact they appear to have been developed as a reaction to attacks made by non-governmental organisations (NGOs) revealing abuses. The anti-apartheid movement and the revelation of collaboration between multinationals and dictators such as the Abacha regime in Nigeria have shown that multinationals can help to support unjust regimes. As a result the criteria »unjust regimes« was developed. Scandals around the illegal logging of tropical timber and the extraction of raw materials in developing countries have led to pertinent selection criteria and to the local communities where the raw materials are extracted being subjected to close scrutiny. Something similar can be seen in connection with the examination of working conditions at foreign subsidiaries and contractors, which the public have been made aware of as a result of protests such as the clean clothes campaign.

Whilst ecological screening is based on a systematic approach, in which the environmental impacts of a company from the input of raw materials to waste disposal are thoroughly taken into account, there is a lack of any such systematic approach towards the problems around multinationals and development.

A blueprint for such systematic screening could be the paper *»Third World« Interests – Criteria for socio-ecological corporate analysis*.[36] It was drawn up in 1992 for the imug institute's consumer guide »Unternehmenstester« and is a systematic analysis of the problems around multinationals and development, from which a questionnaire, which is still relevant today, is then elaborated in a second step. This questionnaire makes a systematic analysis of the influence that a multinational has on developing countries as a whole with regard to taxes, jobs, investments, production, buying and selling of raw materials and the purchasing of semi-finished goods and finished goods. Problem areas raised by NGOs such as tropical timber, mining, pesticides, pharmaceuticals and baby food are also looked at in addition. It is still used by imug today in an amended form for corporate testing.

The problem with the systematic analysis of development aspects and also with the aforementioned questionnaire is the data situation. There are scarcely any companies nowadays willing to provide information about how many employees they have and how much they are paid, and about the investments and profit before and after tax of individual subsidiaries in developing countries, or to answer questions like:

»PLEASE STATE HOW MANY JOBS HAVE BEEN CUT, MOVED OR CREATED IN WHICH COUNTRIES IN THE LAST THREE YEARS«.

[36] Pentzlin: »Third World« Interests – Criteria for socio-ecological corporate analysis, a basis paper for the project Shopping for a Better World, unpublished manuscript, 1992.

Nevertheless it is important to confront companies with these questions. The publication of data on a company's ecological impacts, of which quite a considerable amount is available nowadays, also began initially with questions which companies at first refused to answer.

3.1.2. Too few positive criteria

It is particularly noticeable that the above lists of criteria look particularly at a company's potential for being involved in a scandal. Scandals are to be ruled out first of all by direct selection criteria such as »uncontrolled mining«. However questions are also increasingly being asked about the mechanisms a company has put in place itself in order to reduce the potential for scandals, for example about working conditions in suppliers' factories. However, few questions are asked about how a company uses its opportunities to make a positive contribution to development in a developing country, for example by being actively involved in education and training.

Here too development screening lags behind ecological screening. Positive criteria were consciously introduced in the 1980s, in order to give companies an incentive to be progressive in their ecological behaviour. Whilst in an ecological context companies benefit in the sustainability analysis, if they promote regenerative energy or manufacture products that are particularly environmentally friendly, there are hardly any incentives to do better in the development context.

As a result opportunities are being missed, because even critical development policy literature emphasises again and again that multinationals can indeed make important contributions to development if they match their behaviour to the needs of the country they are operating in. It is a genuine task of socially responsible investors and their rating agencies to put pressure on companies to adjust their operations accordingly.

This lack of positive criteria relating to development issues is all the more tragic because it has been shown that giving companies incentives for better behaviour can sometimes be more efficient than just punishing them for bad behaviour.

The additional criteria listed below under the headings »local markets in developing countries« and »government« show ways to deal with this deficit.

Indonesian femal worker at the press in the sports shoe factory PT. Panarub (Photo: B. Kühl)

3.1.3. Additions to the list of criteria

At the workshop »Investing in Human Development« the aforementioned criteria were discussed intensively. The participants made the following **suggestions for improvements**:

→ Labour

1. It was generally considered important to use the eight ILO core standards[37] as a benchmark for corporate behaviour in developing countries. These criteria should have a greater influence.

2. There should be a block of criteria that deals with »gender in developing countries«; aspects considered here should be:

   - Gender distribution of wages paid
   - Gender and low wage labour
   - Gender training of women by companies/ suppliers of MNCs
   - Empowering women

3. There should be criteria which consider the problems of informal labour like:

   - percentage of workforce with employment contract
   - percentage of informal labour involved in production
   - whether MNCs push/exploit informal labour relationships

4. Other criteria which were also considered crucial are:

   - stakeholder dialogue and involvement of stakeholders in developing countries
   - how a company verifies labour standards at its suppliers

5. SRI criteria should also consider the evaluation and incentives systems of a company

   - whether management staff are evaluated according to social/labour sensitivity
   - whether there are incentives for social progressiveness

6. The impact of criteria concerning trade unions should be increased. Freedom of association should be given particular consideration.

7. What impact do MNCs have on rural workers?

[37] The eight ILO core labour standards (cf. footnote No. 34).

→ Government

1. There should be criteria dealing with the practice of transfer pricing,[38] e.g.:
   - ratio of turnover to tax paid by MNCs compared with ratio of turnover to tax paid by local companies
   - company guidelines should include prohibiting the practice of transfer pricing
2. Lobbying governments is acceptable, however companies should always respect governments and their decisions.

→ Local businesse in developing countries

1. MNCs' activities should be embedded in the local business environment. »Embeddedness« should be measured by a raft of criteria:
   - a high percentage of local supplies
   - no footloose investment[39]
   - good labour practices at suppliers
   - transfer of knowledge to suppliers
2. Transfer of knowledge is most efficient via
   - local R+D activities
   - training of local staff
   - training of local suppliers
   - high management position of local staff

→ Communities

1. Informing communities e.g. by translating social reports and social plans into the local language.

→ Consumers in developing countries

1. Issues like consumer hotlines were not deemed to be of high importance from the development point of view.
2. MNCs that introduce cheap products for low-income groups are a problem because this easily results in unfair competition against local companies.
3. Product safety should be adapted to the special situation in the developing countries.

[38] See footnote No. 6 for more on »transfer pricing«.

[39] Footloose investment is investment which only takes transitory advantage of a tax holiday or cheap labour and disappears as soon as these conditions change, leaving behind unemployment and economic depression.

3.2. Investment criteria for SRI Bond Funds

In the wake of the downturn at the stock markets in 2000–2002, more SRI bond funds were launched. These funds are suitable for private investors who want to avoid the risks of stock markets. However, they are also good for institutional investors who are looking for safe SRI.

SRI Bond Funds in German-speaking markets hold bonds from OECD countries, agencies and supranationals or company bonds. None of them hold bonds from emerging countries. As discussed in section 2.4.2. that is good in development terms because of the high instability of international currency markets. The criteria for share selection are solely concerned with how an OECD country can contribute to development. For company bonds the criteria for multinational companies discussed above apply.

List of development-related criteria for bonds issued by OECD countries:

- The country has ratified the International Covenant on Economic, Social and Cultural Rights
- Net official development assistance (ODA)
- According to the Financial Action Task Force on Money Laundering (FATF), the country has implemented adequate anti-money-laundering measures
- According to Agenda 21 of the UN Commission on Sustainable Development, the country has adopted a national strategy for sustainable development in national decision-making
- Participation in the Kyoto Protocol to the UN Framework Convention on Climate Change
- Emission of greenhouse gases
- Weapons exports as a %-age of GDP
- Percentage of asylum seekers granted asylum

3.2.1. The following criteria should be added:

- Imports from developing countries
- Bribe payers index
- Percentage of Fair Trade coffee in relation to total coffee consumption

4. A problem: The implementation of development-based criteria is inadequate.

The lists of criteria above are just the beginning of corporate screening. They are in a way the tool with which to find out how sustainable a company is. There are many obstacles to applying this tool. The biggest ones are procuring and verifying information. When it is a matter of corporate behaviour in developing countries, both these aspects are difficult and time-consuming. Sustainability analysts get their information on companies in different ways. The most important instrument is a 30–40-page questionnaire specially tailored to the branch in question, which the company answers. In addition to that company reports that are in the public domain are evaluated. What is more, media research is carried out to find external information about the company and, if there is any suggestion that there are problems, non-governmental organisations (NGOs) are contacted. An analyst has between 1.5 and 10 days to research a company. Since the information from the NGOs is difficult to get hold of, particularly when it is a matter of problems in developing countries, only isolated scraps of information from local organisations go into the screening. The only external monitoring of the situation in subsidiaries or suppliers in developing countries therefore comes from research in mainly western media sources. Contact with affected parties is rare.

On the other hand, trade unions and non-governmental organisations in the South which are working on MNCs rarely know that their knowledge is valuable for screening for sustainable investment; and that they can exert an influence over the company in this way.

Trade unions in the South in particular often distrust sustainable investment, because it is seen as an instrument that companies can use to help polish their image in order to look better than they really are. They are also increasingly finding that companies get good or very good marks without their local experiences being taken into account in the equation. Understandably, they expect if they co-operate that their problems will be taken seriously and that sustainable investment will help improve their situation.

One of the few positive examples of North-South communication with regard to sustainable investment is the study on child labour in cotton seed fields in India which is quoted above. This study was a positive experience for both sides. It was positive for sustainability analysts because the study was quickly available (since it was in English), it named concrete companies and pointed out their responsibility. On the other hand, sustainability analysts from Great Britain and the Netherlands offered support for the concerns of the local non-governmental organisation.

If sustainable investment is to have an impact on development, then a process such as that which took place in the case of the child labour in Indian cotton seed fields must become the norm. Sustainability analysts must have fast, uncomplicated access to information from organised stakeholders and include it in their dealings with companies. Likewise, non-governmental organisations in the South must have direct access to sustainability agencies in order to be able to raise their concerns with them.

The development of such information structures is, however, beyond the capacity of research agencies, which are caught between their own need to make a profit, the needs of their customers (investors) and striving to do high-quality, independent research. (See box below.)

The main characteristics of research into socially responsible investment are:

- Research agencies for socially responsible investment are customer-oriented. They supply information that they are paid to look for. This is the basis upon which they do business.
- The research on socially responsible investment means additional costs for the fund managers, which the investors must bear.
- In addition, for technical reasons, rating agencies must provide information on a large range of businesses and geographical regions, on blue chip companies and on small and medium-sized enterprises.
- Under these circumstances the analysts have between 1.5 and 10 days in which to screen a company and up to one day to update a company report.

5. Summary and outlook

»Investing in Human Development«, although the title of this project is easy to grasp, on closer inspection it becomes clear how difficult it is to implement the programme. Private investment is desirable and is vitally important for promoting development, but it is subject to economic exigencies that make it very difficult, if not impossible, to pursue development policy goals. This is shown most clearly by the example of portfolio investments, which are desirable, since they represent capital transfers from the North to the South, but are counterproductive because of the exigencies of the international financial markets.

Ways must be found to deal with these exigencies, so that it is possible to link investment with promoting development. A good example here is private investment in microfinance products. Another, more difficult way, which is however better suited to fitting in with the rules of the financial world and is therefore currently having a broader impact, is sustainable investment.

This kind of investment must be more closely linked to special development policy criteria, which brandmark negative behaviour by companies and offer incentives for actions which particularly help to promote development. These criteria must be discussed and agreed with stakeholders in developing countries and must be jointly monitored.

The best-case scenario is that a positive development will be set in motion, with companies going beyond purely seeking to defend themselves against scandals and integrating development policy goals into their activities.

Whether it is really possible to set such a positive development in motion depends crucially on the investors. Only if they urge that development aspects are researched and assessed with the same emphasis and thoroughness that is applied to ecological aspects, will »Investing in Human Development« really take place.

6. Annex

Important sources

The ILO core labour standards can be found at:

http://www.ilo.org/public/english/standards/norm/whatare/fundam/index.htm

The OECD Guidelines for Multinational Enterprises can be found at:

http://www.oecd.org/department/0,2688,en_2649_34889_1_1_1_1_1,00.html

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Participants in SÜDWIND »SRI and Development« Activities

Rogerio Dardeau de Cavalho, Brazil, **CERIS**, dardeau@ceris.org.br, www.ceris.org.br

Center for Religious Statistics and Social Concern, census and statistics concerning the catholic church (Brazilian Catholic Yearbook), sociological research, among others research on changes in labour and employment and research on CSR in TNC's with reference to standards such as the Green Book of the EU and UN-Standards. CERIS takes part in Red Puentes. Some information in English available.

Robert Edmund Shepherd, Hong Kong, **AMRC**, edmund@amrc.org.hk, www.amrc.org.hk

The Asia Monitor Resource Centre focuses on Asian labour concerns. AMRC provides information, consultation, publications, documentation, and internships, and conducts research, training, advocacy, campaigns, labour networking, and related services to trade unions, pro-labour groups, related NGOs, academics, researchers, and professionals on labour issues. Website in English.

Eckhard Plinke, Switzerland, **Bank Sarasin**, Eckhard.Plinke@sarasin.ch, www.sarasin.ch

Bank Sarasin is a private bank with offices in Europe and Asia. Its core activities include investment advisory and asset management services for private and institutional clients, as well as an investment funds business. Leading in the European market in sustainable asset management. Web-Page available in English.

Jan Mahlangu, South Africa, **Cosatu**, mahlangu@cosatu.org.za, www.cosatu.org.za

Congress of South African Trade Unions, with currently about 2 mio members. Cosatu promotes worker control, non-racism, living wages, etc.. Web page is in English.

Felix Schnella, Germany, **Deutscher Investment Trust (DIT)**, felix.schnella@dit.de, www.dit.de

Part of the Allianz Global Investors, offers SRI fonds management and research. Website only in German.

Paolo Sardi, Manlio De Silvio, Italy, **E. Capital Partners**, p.sardi@e-cpartners, www.e-cpartners.com

E. Capital Partners is an independent advisory company providing Asset Management, Corporate Finance and Grants Advisory services for domestic and international clients. A key principle, on which the company is based, is SRI.

Laetitia Roesems, Belgium, **Ethibel**, laetitia.roesems@ethibel.org, www.ethibel.org

ETHIBEL is an independent consultancy agency for socially responsible investments, that advises banks and brokers offering ethical savings accounts and investment funds. It has its own European quality label. The criteria for the social-ethical company screenings which shape the characteristics of investment funds, accredited with the ETHIBEL label, cover all aspects of social corporate responsibility. Website in English available.

Aiko Bode, Germany, **Gerling Sustainability**, aiko.bode@gerling.de, www.gerling.de

Gerling is a leading group of insurance companies Life and Industry) in Europe with a long tradition in environmental as well as social awareness. Among other things (like an ecological canteen or environmentally sound insurance products) it offers investment funds and pension schemes for the retail and institutional markets. Several products received highest ratings by rating agencies. One of the products on the investment side is Gerling Select 21, which is based on SRI prinicples. Other products are the managed fund future, which is a pension scheme exclusively investing in environmental, ethical and social funds. Information in English is available.

Davuluri Venkateswarlu, India, **Glocal Research and Consultancy Services (GRCS)**, davuluri_v@yahoo.com

Small research institute, linked to the University of Hyderabad, doing research for example on child labour in the Indian hybrid cotton seed production: http://www.indianet.nl/cotseed.html

Joao Sucupira, Brazil, **iBase**, sucupira@ibase.br, www.ibase.org.br

The Brazilian Institute of Social and Economic Analyses. Its targets are promoting democracy, eradicating poverty and fighting against unequal access to goods and resources, demanding transparency from elected representatives and managers of public funds; insisting on ethical behavior and social accountability from business sectors. iBase is part of Red Puentes. Website partly availalbe in English.

Hok An, Indonesia, **IMBAS**, Hokan@t-online.de

Local institute working on human rights, corruption and environmental issues in Indonesia. No homepage available.

Silke Riedel, Germany, **imug**, riedel@imug.de, www.imug.de

Imug provides services on information on SRI management, company audit on SRI, marketing, communication, market research, company assessment and rating as well as investment research. Website only in German.

Pieter Sijbrandij, Brazil, **Observatório Social**, pieter@observatoriosocial.org.br, www.observatoriosocial.org.br

The Observatório Social is an organization that analyzes the behavior of multinational, national and state companies in relation to the fundamental rights of workers. The results are analyzed considering compliance with ILO conventions and with the Social Letters, Social-Labour Declaration, Voluntary Codes of Conduct adopted by the companies, OECD guidelines about multinational companies and social policy, the Global Compact and United Nations and other norms defended by International Professional Organizations and by the International Confederation of Free Union Organizations. English website available.

Isabelle Reinery, Germany, **oekom**, reinery@oekom-research.com, www.oekom-research.com

oekom research has more than ten years experience in sustainable investment consulting and social and environmental rating of companies and countries. The company is considered as one of the leading independent experts on the sustainable investment market. Website is available in English.

Margot Aguilar, Mexico, **Red Puentes**, maralf@laneta.apc.org, www.redpuentes.org

Red Puentes is an association of 22 institutions from six countries. (Mex, Br, Arg, Chi, Uru, Netherl.) The mission of the network is to promote the development of a culture and practices of social responsibility in business in Latin American countries from the perspective, vision, rights, and necessities of those societies. The challenge is to create an approach to and tools for CSR appropriate to the conditions of Latin American countries, and to enable citizen organizations (labor, social work, consumers, human rights, unions, etc.) in each country to contribute to the development of culture and initiatives for social responsibility in business. The network aspires to include, communicate, and collaborate with a large group of stakeholders from diverse countries and organizations. The initial emphasis is on the incorporation of Latin American countries. Webpage partly in English.

Christian Werner, Switzerland, **SAM-Group**, christian.werner@sam-group.com, www.sam-group.com

SAM is an asset management company specialising in sustainability investments. It provides services for banks, insurance companies, pension funds, foundations and private clients. SAM carries out systematic research to identify successful companies, that meet sustainability criteria. Together with Dow Jones Indexes and STOXX, SAM has launched a family of sustainability indexes to track the performance of companies, that are industry leaders in terms of sustainability. Website in English available.

Claudia Mauritz, Germany, **scoris**, mauritz@scoris.de, www.scoris.de

scoris is part of SIRI (Sustainable Investment Research International). Its service includes research on sustainability in companies, ratings of the 600 biggest stock corporations, investment concepts, among others. Some information is in English available.

Fahd Ali, Pakistan, **Sustainable Development Policy Institute**, fahdali@sdpi.org, www.sdpi.org

SDPI's mission is to catalyse the transition towards sustainable development, defined as the enhancement of peace, social justice and well-being, within and across generations.

SDPI serves as a source of expertise for policy analysis and development, policy intervention, and policy and programme advisory services in support of Pakistan's National Conservation Strategy implementation. Website in English.

Shao Loong, Malaysia, **Third World Network Malaysia**, shaoloong@myjaring.net, http://www.twnside.org.sg

The Third World Network, located in Malaysia covers a wide range of developmental issues, such as trade, economics, biotechnology, environment, gender issues, human rights, TNCs, etc.. The network has more of a macro-level focus on labour relations. Website in English.

Agam F. Rochman, Indonesia, **UNDP**, afatchur@yahoo.co.uk, www.undp.org

United Nations Development Programme

René Nicolodi, Switzerland, **Züricher Kantonalbank**, rene.nicolodi@zkb.ch, www.zkb.ch

Zürcher Kantonalbank (ZKB) is the leading universal bank in the Zuerich region, geared to the domestic market and with an international relationship network. ZKB is today one of the largest asset managers in Switzerland, with client assets of CH-F 117.7 billion. ZKB offers a range of products that include SRI standards. Website in English available.