Svenska bankers riktlinjer 2015

&

Fair Finance Guides internationella granskningsmetod

Oktober 2015

Organisationer bakom Fair Finance Guide i Sverige

Initiativet finansierias med stöd från

Granskningsmetoden har utvecklats med hjälp av

Naritaweg 10
1043 BX Amsterdam
The Netherlands
Tel: +31(0)20 820 8320
Website: www.profundo.nl

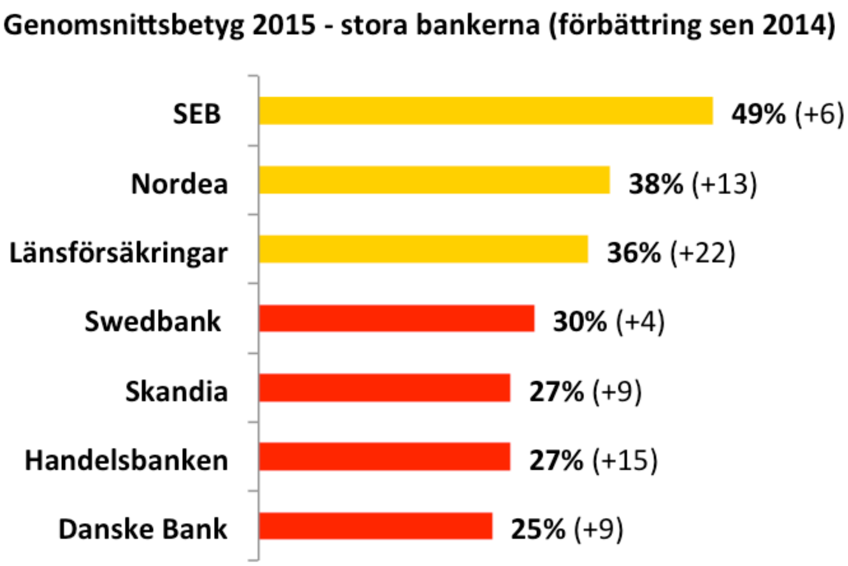
Innehåll

Svenska bankers hållbarhetsriktlinjer 2015

Bankerna gjorde en tydlig uppryckning av sina riktlinjer för hållbarhetsfrågor under 2015. Alla bankerna reagerade på förra årets överlag dåliga resultat och har blivit bättre på att precisera hållbarhetskraven de ställer när de investerar eller lånar ut pengar. Detta återspeglas i 2015 års resultat där genomsnittsbetygen för de sju största bankerna ökat från 22% till 33%.

SEB är den bank som även i år har högst genomsnittsbetyg och uppfyller nästan hälften av kriterierna. Nordea är ny tvåa med 38 procent, en ökning med 13 procentenheter, och Nordea klättrade därmed förbi Swedbank som halkat ner till fjärde plats. Två av bankerna, Länsförsäkringar och Handelsbanken, har mer än fördubblat sina betyg sen förra året, dock från låga nivåer. Förbättringarna beror på att bankerna blivit tydligare med vilka krav de ställer, och när det gäller Länsförsäkringar även vilka branscher som de lånar ut pengar till. Handelsbanken är därmed inte längre på jumboplatsen tagit sig upp en placering från förra årets jumboplats, och Länsförsäkringar klättrade därmed upp från näst sista plats till tredje plats. Handelsbanken har klättrat till tredjeplatsen från att ha varit näst sist förra året.

Danske Bank är ny på jumboplatsen efter att ha halkat ner två placeringar, trots att banken förbättrat sitt genomsnittsbetyg med nio procentenheter. Skandia har också ökat med nio procentenheter, men faller en placering till femte plats.



Bäst policy kring mänskliga rättigheter, sämre för klimatet

När det gäller betygen inom olika temaområden har bankerna fortfarande högst betyg inom *Mänskliga rättigheter*, i genomsnitt 63%. Det är även det tema som förbättrats mest sen förra året, upp hela 19 procentenheter. För att se bankernas detaljerade poäng per princip, se tabellerna på sid 124-138.

Bankernas betyg på temat *Klimatförändringar* är fortfarande bland de lägsta men har klättrat något i år, upp i genomsnitt sju procentenheter till 23%. Ökningen beror bland annat på att två banker (Swedbank och Handelsbanken) har börjat redovisa sina fonders koldioxidutsläpp och flera av de andra bankerna har lovat att börja mäta och redovisa sina finansierade utsläpp. Ytterligare en bank (Länsförsäkringar) har i år satt upp mål för att minska sina direkta utsläpp. Däremot är det fortfarande ingen av bankerna som fullt ut tagit ställning mot de värsta klimatutsläppen, som kolkraft, oljesand eller utvinning av fossila bränslen. Även *Biologisk mångfald* är ett tema där bankerna fortfarande har låga betyg, i genomsnitt 23%.

Betyg per tema 2015
- stora bankerna

	SEB	Nordea	Länsförsäkringar	Swedbank	Skandia	Handelsbanken	Danske Bank	Genomsnitt	Förbättring 2015
Genomsnittsbetyg	**49%**	**38%**	**36%**	**30%**	**27%**	**27%**	**25%**	33%	+11
Förbättring 2015	+6	+13	+22	+4	+9	+14	+9		
Mänskliga rättigheter	69%	72%	65%	58%	62%	56%	58%	63%	+19
Klimatförändringar	32%	29%	16%	33%	20%	17%	12%	23%	+7
Arbetsvillkor	61%	63%	65%	47%	42%	26%	42%	49%	+13
Biologisk mångfald	38%	38%	36%	9%	14%	18%	7%	23%	+11
Skatteflykt & korruption	38%	46%	46%	31%	55%	35%	46%	42%	+7
Öppenhet & ansvar	47%	41%	32%	51%	25%	34%	33%	38%	+8
Vapen	81%	18%	50%	53%	31%	48%	22%	43%	+12
Jordbruk	36%	35%	29%	18%	13%	16%	15%	23%	+11
Skog	57%	30%	25%	13%	13%	13%	13%	23%	+15
Gruvor	63%	36%	27%	18%	20%	19%	20%	29%	+7
Olja & gas	51%	41%	30%	27%	22%	21%	22%	31%	+11
Energi	36%	30%	16%	16%	18%	22%	18%	22%	+16
Bonusar	28%	13%	25%	13%	19%	30%	19%	21%	+3

Precis som förra året är betygen låga inom olika branschteman, framförallt inom *Skog*, *Jordbruk* och *Energiproduktion* (22-23%). Det är bara när det gäller *Vapen* som det ser bättre ut (43%), bland annat har Handelsbanken under året publicerat en ny etikpolicy för investeringar i vapenbranschen, vilket höjde deras betyg från 15% till 48%.

Två ”alternativa” banker

Nytt för 2015 är att de två svenska alternativbankerna Ekobanken och JAK Medlemsbank granskats och betygsatts. Anledningen till att de tagits med i granskningen är att bankerna gör starkast anspråk på att ta hänsyn till hållbarhetsfrågor i sin verksamhet, och därför kan vara relevanta alternativ för konsumenterna. Bankerna har under året förberetts på att bli granskade, precis som storbankerna blev förra året. Eftersom Fair Finance Guides granskningsmetod bäst lämpar sig för att granska stora banker har alternativbankerna fokuserat på att förtydliga sina riktlinjer utifrån de internationella standarder som Fair Finance Guide utgår ifrån, även då de ofta ansett att standarderna inte är så relevanta med hänsyn till vilka typer av företag som bankerna ger lån till.

Genomsnittsbetyg 2015 - alternativbankerna (max 100%)

Resultatet visar att Ekobanken får högst betyg med 92% medan JAK Medlemsbank får 71%. Ekobanken får högre betyg än JAK då banken ställer högre hållbarhetskrav på företag som vill låna pengar. I båda fallen kan dock sägas att bankerna har en lägre riskprofil än de stora bankerna när det gäller hållbarhetsfrågor eftersom utlåningen riktar sig till små företag som är verksamma i Sverige. Ingen av bankerna sysslar med kapitalförvaltning eller placeringar på internationella kapitalmarknader. Bankerna lånar inte heller ut till högriskbranscher som gruva, olja och gas eller vapen. Därmed exponeras inte bankerna för lika stora hållbarhetsrisker som stora banker.

Ekobanken är den enda banken i Sverige som är helt transparent med vilka företag som banken lånar ut pengar till. Årligen publicerar Ekobanken en lista med företagen och korta beskrivningar av verksamheten. Det gör det lättare att granska om bankens investeringar rimmar med de skrivna riktlinjerna. Ekobanken har därmed visat att det går att vara transparent kring sin utlåning till företag trots banksekretesslagen. Trots det får Ekobanken, och även JAK, lägst betyg på temat öppenhet och ansvar. Det beror främst på att bankerna saknar en del rutiner, processer och rapportering som är vanligare hos stora banker.

Betyg per tema 2015 - alternativbanker

	Ekobanken	JAK Medlemsbank
Genomsnittsbetyg	**92%**	**71%**
Förbättring 2015	ny	ny
Klimatförändringar	95%	64%
Mänskliga rättigheter	96%	81%
Arbetsvillkor	100%	90%
Biologisk mångfald	100%	73%
Skatteflykt & korruption	79%	69%
Öppenhet & ansvar	73%	39%
Jordbruk	93%	76%
Skog	90%	50%
Energi	97%	65%
Bonusar	100%	100%
Gruvor	ej aktiv	ej aktiv
Olja & gas	ej aktiv	ej aktiv
Vapen	ej aktiv	ej aktiv

Eftersom alternativbankerna skiljer sig åt både i storlek och utbud av tjänster presenteras bankernas betyg separat från rankingen av de största bankerna i Sverige.

Uppdatering av granskningsmetoden 2015

Vid den årliga uppdateringen av Fair Finance Guides granskningsmetod beslutade organisationerna i det internationella nätverket att göra följande mindre förändringar av metoden:

- **Mänskliga rättigheter**: formuleringen av principerna har uppdaterats för att bättre återspegla FN:s vägledande riktlinjer för företag och mänskliga rättigheter. Det innebär även att en ny princip tillfogats som ställer krav på att bankerna själva (som också är företag) ska följa riktlinjerna (MR:1). Dessutom infördes en ny princip kring humanitärrätten och särskilt kring illegala ockupationer (MR:11).
- **Klimatförändringar**: tillfogades fyra nya principer (CC:13-16) som handlar om att undvika investeringar och finansiering av särskilt klimatpåverkande energislag: kolutvinning, kolkraft, oljesand samt olja och gas. Dessa principer återfanns tidigare i temat Energi, men tas nu även upp i klimattemat då det är mycket relevanta principer.

Fair Finance Guide International

Methodology

Version 2015

Background to Fair Finance Guide

After the collapse of the American investment bank Lehman Brothers in September 2008, a global banking crisis unfolded. All over the world, banks had to be bailed out with taxpayers' money by their governments, to avoid a total collapse of the financial system. As a consequence, people in many countries still bear the brunt of severe austerity measures while economic recovery is still pending.

As this global economic crisis originated from the irresponsible investment and risk-taking behaviour of banks across the globe, there clearly is a strong need for change. Banks should develop products and services tailored to the needs of society as a whole, supporting sustainable economic development and social justice. With their credits, banks can help companies and governments perform their tasks, run their operations and enable the development of innovative products and solutions to tackle the multiple social and environmental crises we are facing. By lending money and stimulating productive investments, banks can play a key role in every segment of human activity.

While international agreements on strengthening bank regulations have taken some steps to prevent massive bailouts of banks in the future, they fall short of addressing the fundamental changes needed in the banking sector. Until now, this task is left mostly to civil society organizations which are increasingly holding banks accountable for the social, environmental and human rights' consequences of their loans and investments.

One of these initiatives was the Dutch Fair Bank Guide, which was launched in January 2009. This is a joint initiative of Dutch organisations Amnesty International Netherlands, Dierenbescherming (Dutch Animal Protection Society), FNV (Dutch Federation of Trade Unions), Milieudefensie (Friends of the Earth Netherlands), Oxfam Novib and PAX (Dutch peace organisation).

In September 2013 the organisations collaborating in the Fair Bank Guide also created the Fair Insurance Guide. The organisations collaborating in the Fair Bank Guide and the Fair Insurance Guide have set up a website, which shows to what extent the major Dutch banks and insurers claim to use sustainability criteria when assessing credit requests and selecting investments. The website ranks and compares the investment and finance policies of banks on a range of issues (from labour rights to climate change) and industries (from agriculture to manufacturing). Also, the Dutch Fair Bank Guide and Fair Insurance Guide regularly publish case studies on specific topics, trying to assess if and how the financial institutions apply sustainability criteria in their daily practices.

As a follow-up to this Dutch project, the Fair Finance Guide International project was launched in January 2014 as a collaborative effort of NGO coalitions, which gradually expanded to include Belgium, Brazil, France, Indonesia, Japan, the Netherlands and Sweden,between December 2014 and April 2014. In each country, NGO coalitions have set up Fair Finance Guide-websites which customers and other interested parties can use to compare the policies and practices of the main banking groups in their country. In the Netherlands the policies and practices of the main insurance groups can also be compared.

This document, prepared for the Fair Finance Guide International network, presents the Fair Finance Guide International methodology which will be used to assess and rank financial institutions' policies. This methodology is developed by Profundo, based on international norms and standards and the views and visions of the NGOs collaborating in the Fair Finance Guide International.

By comparing and ranking investment and finance policies, Fair Finance Guide International will hopefully be successful in stimulating banks and insurers, as well as other financial institutions, to rethink their role in society. Responsible financial institutions are much needed: to face all social and environmental challenges the global community is confronted with, a strong and responsible financial sector is needed to efficiently allocate investment funds and find risk-sharing solutions.

Developing clear and ambitious policies on social, environmental and economic rights, is a necessary first step in that direction. I hope the methodology described in this document will help the present and future NGO coalitions collaborating in Fair Finance Guide International, to stimulate financial institutions across the world to embark upon this road.

We thank all the researchers and experts from the coalitions within the Fair Finance Guide International network for their contribution to developing this methodology.

Jan Willem van Gelder
Director Profundo

Chapter 1 Objective and methodology

1.1 Overview

This methodology is meant to verify which sustainability issues play a role in the policy that financial institutions apply when assessing credit requests and selecting investments. It sets out the elements against which Fair Finance Guide International will measure financial institutions' environmental, social and economic policies. These elements are grouped under tree headings: cross-cutting themes, sector themes and operational themes.

Chapter 1 gives an overview of the objective and methodology of the Fair Finance Guide International. The objective of the Fair Finance Guide International is to encourage Corporate Social Responsibility (CSR) at financial institutions. Paragraph 1.2 describes the principles of CSR and explains the role financial institutions have in promoting CSR amongst companies they invest in. Furthermore, in this paragraph it is explained how the Fair Finance Guide International hopes to stimulate a race to the top by enabling consumers to compare financial institutions' level of social responsibility.

In paragraph 1.3 five types of financial institutions are listed. The role of commercial banks, investments banks, insurance companies, pension funds and asset managers in the financial sector is explained.

The assessment of investment policies is explained in paragraph 1.4. It describes which issues and sectors are taken into account and how certain principles should be applied by a financial institution to be granted a score. The paragraph elaborates on the scope of investment policies, the sectors that are relevant to particular financial institutions, the documents that should be assessed and the collective policies that could be taken into account.

The Chapter is concluded by a paragraph 1.5 on the use of case studies to supplement the Fair Finance Guide International policy review.

1.2 Objective and principles

This methodology has been developed for the Fair Finance Guide International, which is a collaborative effort of NGO coalitions in Belgium, Brazil, France, Indonesia, Japan, the Netherlands and Sweden.

The objective of the Fair Finance Guide International is to encourage Corporate Social Responsibility (CSR) by financial institutions. According to ISO 26000, CSR can be defined as the "responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that contributes to sustainable development, including health and the welfare of society; takes into account the expectations of stakeholders; is in compliance with applicable law and consistent with international norms of behaviour; and is integrated throughout the organization and practised in its relationships."[1] The OECD Guidelines for Multinational Enterprises argue that corporations should "contribute to economic, environmental and social progress with a view to achieving sustainable development."[2]

This means companies (including financial institutions) not only adhere to legislation and regulations in the countries where they operate, but also are expected to comply with widely supported international conventions, standards, and initiatives that recognise sustainability problems and offer solutions for them - even where these standards are not included in local legislation. Companies should comply with these standards in the business operations of their own enterprise and its subsidiaries, but they should also expect their suppliers to comply. (See EU 2014 Compendium of Corporate Social Responsibility National Public Policies for a comprehensive overview of CSR standards).[3]

According to Fair Finance Guide International, financial institutions' CSR efforts should primarily concern their core activity: providing capital. Financial institutions offer their clients a wide range of financial services with which they enable companies, governments, and private clients to acquire capital for all kinds of activities. This can encompass activities that lead to human rights violations or environmental pollution, as well as activities that contribute to ending malnutrition or improving biodiversity.

The question Fair Finance Guide International raises is, therefore, to what extent financial institutions support, through their financial services, activities that contribute to a socially just and sustainable world. According to Fair Finance Guide International, financial institutions should expect companies to whom they provide capital, as well as their suppliers, to comply with widely supported international standards and initiatives.

Financial institutions should record these expectations and make them publicly known in their policies for specific issues and sectors. When assessing these policies, in most cases, legislation and regulations are not explicitly considered, because the Fair Finance Guide assumes that financial institutions expect the companies to whom they provide capital to comply with the law. Due to this focus on financial services, issues related to financial institutions' own business operations, such as their human resources policies and paper, water and energy use, are largely left out of the equation.

In the framework of Fair Finance Guide International, websites are being set up in a number of countries - at present Belgium, Brazil, France, Indonesia, Japan, the Netherlands and Sweden - which customers and other interested parties can use to compare the policies *and* practices of the main banking groups in their country. Fair Finance Guide International primarily focuses - through these websites, publications and the media - on consumers who are customers of one of the financial institutions (by means of a current account or checking account[i], savings account, credit card, mortgage loan, insurance, or an investment account).

The Fair Finance Guide International network enables consumers, the media and other interested parties to compare financial institutions and to encourage them (and their subsidiaries in asset management and insurance) to grant financial services in a responsible way.

By comparing financial institutions both on the contents of their policy as well as on the choices they make in practice when supplying financial services, Fair Finance Guide International stimulates competition between financial institutions with regard to Corporate Social Responsibility. The Fair Finance Guide International network hopes to stimulate a process that leads to increasing tightening of social, environmental and economic policies (*race to the top*) and to enhance the constructive role financial institutions can play in creating a just and sustainable world.

[i] Current Accounts in British English, Checking Accounts in US English.

1.3 Financial sector

1.3.1 Commercial banks

Banks are intermediaries in the money and capital markets: they ensure that the capital of, *inter alia,* private clients and institutions such as pension funds with money to invest, is allocated to (other) private clients and institutions who need money to finance their activities. The banks broadly fulfil this role in two ways:

- Commercial banking: commercial banks use the savings of individuals, organisations, institutions and companies to provide loans and other financial products to other individuals, organisations, institutions and companies. We discuss this role in this section;
- Investment banking: Investment banks do not lend money directly: they are intermediaries between different groups of clients, including companies, governments, wealthy individuals and institutional investors. These clients pay a fee to investment banks for financial services, such as issuing shares or bonds and selling these to investors. We discuss this role in section 1.3.2.

Traditional commercial banks, which usually operate retail banking (for the public) and corporate banking (for businesses and other larger institutions), attract monies from individuals, organisations, institutions and companies in the form of savings or deposits, and invest these monies by providing loans and other financial products to other individuals, organisations, institutions and companies. Banks set out these amounts in their *balance sheets* in two columns: on the right, how the bank has obtained the monies (the *liabilities*), and on the left, how the bank has spent the monies (the *assets*). Below we describe both categories:

- **Liabilities**

  The *liabilities* of the bank – all its incoming capital - can be divided into *debts* and own *capital*. The *own capital* represents the monies of the owners of the bank. These can be its shareholders, other financial institutions or - in case of a *cooperative bank*, its members, who may be its customers, employees or other local banks. Their capital consists of:

  - monies raised by selling shares in the bank;
  - the net profit the bank has made in past years.

  The *debts* of the bank include all other monies it attracts, including:

  - monies that private clients, institutions and companies have deposited in current (checking) and savings accounts;
  - loans from other banks;
  - bonds that the bank has sold to investors;
  - financial derivatives: debts due to swaps[ii], futures[iii], or options.

[ii] A swap is a derived financial product where two parties swap money flows. For example, at an interest swap two banks may swap the interest payments of two loans with one another. The objective of this can be to mitigate the risk of, for example, an interest increase or even to speculate on an interest decrease. So in case of a swap, banks have both a debt as well as an asset.

[iii] A future is a financial contract between two parties who commit themselves to trade a certain amount of a product or financial instrument for a predetermined price at a given point in time.

- **Assets**

  All incoming monies at a bank are invested in various types of *assets*. In other words: the sum of the liabilities is always exactly equal to the sum of the assets. Banks may have invested in the following types of assets:

  - the offices and furnishings of the bank itself;
  - other real estate, such as offices, parking lots and shopping centres;
  - mortgage loans and credit to private clients;
  - loans and other types of credit to companies, governments and investors such as hedge funds;
  - loans to other banks;
  - investments in shares and bonds of companies and in bonds of governments, but also in private equity (see paragraph 1.2.3);
  - investments in financial derivatives: swaps, futures and options.

Not all banks invest in all these types of assets. Savings banks mainly invest in investments in shares and bonds, mortgage banks mainly in mortgage loans and commercial banks mainly in loans to companies and governments. Over the last decades, some commercial banks have started to invest more in financial derivatives.

All monies that have been placed with a bank in current (checking) and savings accounts by private clients, institutions and companies, may in principal be used by the bank for all possible bank investments: from mortgage loans to private clients to investments in international companies and financial derivatives. This means that someone who has placed money in a current or savings account at a bank will not necessarily know what his or her money is used for. Banks are free to invest the monies of savers at their own discretion. Therefore, it is of great importance that banks provide insight into what policy is maintained for its investments.

1.3.2 Investment banks

As well as acting as intermediaries on the money and capital markets in the traditional way discussed in section 1.3.1, some banks are active in *investment banking*[iv]: this means that rather than lending money directly, they act as intermediaries between different groups of clients, including companies, governments, wealthy individuals and institutional investors. These clients pay a fee to investment banks for their financial services.

Broadly, two main activities can be distinguished:

[iv] The term investment bank may be confusing, as investment banks themselves typically *invest* less than traditional (commercial) banks. Investment banks mainly help other financial institutions to invest.

- *Underwriting*: Investment banks are mainly involved in assisting companies or governments to raise finance by issuing and selling *securities* such as shares and bonds to investors. For companies and governments, selling securities to pension funds, insurance companies, asset management companies and private investors is an important way to attract new capital. The investment bank will value the company, write a prospectus, promote the securities and "underwrite" the securities. Underwriting means that the investment bank buys the securities from the company for a fixed price and in the days after that, tries to sell the securities to institutional investors for a slightly higher price. In this way, the revenue for the company is guaranteed. The investment banks aims to ensure that there are sufficient buyers for the securities and that their clients, the companies and governments raising the finance, receive the best possible revenue. on a predetermined date the investment bank purchases the shares and bonds of its client at a fixed price, and sells them to the investors who can sign within a few days.

- *Brokerage* (sometimes called *corporate finance*): in this case, the investment bank doesn't purchase anything itself, but only acts as a broker who mediates between the buyer and the seller.

Investment banking services are mostly provided to listed companies and governments, but they can also be granted to non-listed companies. For most banks that are involved in investment banking, it is a matter of course that they apply the policy for bank investments for these financial services (see section 1.3.1). In the case of *underwriting* this is also very logical, because the banks themselves invest in the respective shares and bonds - although usually only for a few days. The risks the banks take are therefore comparable to those of other bank investments.

In case of banks that are only involved in *brokerage*, the bank does not make an investment, and it is therefore not always the case that the policy for bank investments also applies to brokerage accounts. However, the Fair Finance Guide International believes that for these types of financial services, the same sustainability criteria should apply as for commercial banking, because in this role banks also provide capital to companies and governments.

1.3.3 Insurance companies

An insurance company hedges risks. An insurance is a contract which ensures that the insurance company pays damages to the insurant in certain situations (such as damages caused by fire or by an accident, in the event of death, or for medical costs due to disease) in exchange for a certain premium the insurant pays.

When the parties conclude the contract they don' t know whether damages will ever have to be paid or, if so, how much damages will be paid. The insurance companies invest the premiums that people pay for their insurance. This is why insurers are key players on the capital market: they create a flow of society's capital from private people and institutions such as pension funds, towards (other) private people, companies and governments who need money in order to finance their activities.

Insurance companies receive money from several sources and they invest this money in several ways in private people's, companies' and governments' activities. On the insurers' balance sheet these flows are put next to each other: on the right you see how the insurer obtained his money (the *liabilities*), on the left you see how the insurer spent the money (the *assets*). An explanation of these two categories follows:

- **Liabilities**

  An insurer's *liabilities* – i.e. all the money the insurer has received – may be divided into obligations and equity. The equity is the money of the insurer's owners. They may be private people, other financial institutions or – in the case of a cooperative insurance company – the insurants themselves. The equities consist of:

  - money that has been obtained by selling the insurance company's shares to the owners;
  - the net profit made by the insurer over the years.

  All other money obtained by the insurer falls within the insurer's obligations. Especially:

  - premiums paid by private people, institutions and companies;
  - loans of other financial institutions;
  - bonds sold by the insurer to investors;
  - financial derivatives: debts due to swaps[v], futures[vi] or options.

- **Assets**

  All the money received by an insurer is invested in several kinds of assets (properties and claims). In other words: the liabilities always are always equal to the assets. An insurer may invest in the following types of assets:

  - the offices, including furniture, where the insurance company staff works;
  - other real estate like office buildings, multi-story car parks and shopping malls;
  - mortgage loans and consumer credits to private people;
  - loans to other financial institutions;
  - investments in i.a. assets and bonds of companies and government bonds, as well as in private equity (see 1.2.3);
  - investments in financial derivatives: swaps, futures or options.

Not every single insurance company invests in all these kinds of assets. Moreover, insurers deal with investments on their own account and risks and investments on the policyholder's account. With regard to the latter kinds of insurances, the insurant bears the risk more or less. Insurants may decide for some part how their money is invested, usually according to a certain kind of investments profile that brings along either more or less risks. However, in the end the insurer is responsible for the choices made with regard to the investments.

Basically, the insurance company can freely use the premiums paid by private people, institutions and companies, for all kinds of possible investments: varying from mortgage loans to private people, to investments in international companies and financial derivatives. This means that someone who pays insurance premiums, may not know what exactly his or her money is invested in. The insurers are free to invest the insurants' money on their own discretion - including the premiums on their own account. For this reason it is very important that insurers are transparent about their policy regarding investments.

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v A swap is a derivative in which two parties swap cash flows. E.g. in the case of an interest swap, two insurers swap the interest payments of two loans. The aim may be a limitation of the risks of, say, an increase of the interest rate or perhaps to speculate upon a decrease of the interest rate. Thus when engaging in a swap transaction the insurer both has a debt as well as property.

vi A future is a financial contract between two parties to buy or sell at specified future date a certain quantity of a product or a financial instrument for a price agreed upon today.

1.3.4 Pension funds

Pension funds are established by employers to provide pensions for their workers when they retire. The fund, paid for by the employer and employees, is a common asset pool meant to generate a stable income over the long term. Larger companies may run their own pension funds, but often a financial intermediary runs the fund. In many countries, pension funds are the largest institutional investors.[4]

Pension funds receive money from their clients and they invest this money in diverse assets and investment strategies.

On the pension fund's balance sheet these flows are put next to each other: on the right you see how the fund obtained his money (the liabilities), on the left you see how the insurer spent the money (the assets). An explanation of these two categories follows:

- **Liabilities**

  A pension fund's liabilities – i.e. all the money the pension fund has received – may be divided into technical provisions, financial derivatives and loans. Together they amount to the pay-outs that a pension is obligated to make.

- **Assets**

  The money received by pension funds is invested in in different types of assets:

  - public listed equities, consisting of publicly traded stocks of large corporations;
  - corporate bonds that are issued by a corporation to raise money to expand its business;
  - government bonds that are issued by a national government to fund public services, goods or infrastructure;
  - private equity, consisting of investments in unlisted companies, ranging from venture capital investments in start-ups, to mezzanine financing for established companies aiming for a trade sale or public listing, to buy-outs of public companies;[5]
  - commodities, which are natural resources or derivatives of natural resources, like food, energy and metals;
  - hedge funds, which are aggressively managed portfolios of investments that use advanced investment strategies such as leveraged, long, short and derivative positions in both domestic and international markets with the goal of generating high returns;[6]
  - real estate, consisting of a wide range of products including home ownership for individuals, direct investments in rental properties and office and commercial space for institutional investors, publicly traded equities of real estate investment trusts, and fixed-income securities based on home-loans or other mortgages.

In 2013, the average asset allocation of the seven largest pension markets in the world (Australia, Canada, Japan, Netherlands, Switzerland, United Kingdom, United States) was: 52% equities, 28% bonds, 1% cash and 18% other assets (including property).[7]

There is a growing recognition among pension funds and an increasing demand from stakeholders that Environmental, Social and Governance (ESG) issues are a fundamental part of assessing the value and performance of investments. Pension funds' investor views and motivations to adopt responsible investment strategies are embedded in five main interrelated categories: fiduciary duty, risk management, financial performance, expectations from stakeholders and universal ownership. The pension fund has a fiduciary duty that involves creating optimal value for the participant of the fund. Value in this case includes both financial return and ESG considerations.[8]

ESG factors are an important dimension of investment expectations and ESG factors should be part of a pension funds' overall expectations for their fund's performance. Furthermore, pension funds should make sure that the asset managers they hire act in line with the pension funds' risk management procedures as well as with participants expectations. As a vast majority of pension funds have outsourced management tasks to external providers and to create a shared vision of ESG risks and possibilities, the pension fund should communicate a coherent set of ESG expectations to agents acting on their behalf.[9] Pension funds as 'universal owners' are investors in a broad cross-section of the economy and they should use their position as capital providers to deny notorious polluters and human rights offenders access to capital, stimulate the large majority of companies to invest in sustainable development and production methods and grant smaller, truly innovative companies easier access to capital.[10]

Many investors refer to the Principles for Responsible Investment (PRI) or the UN Global Compact. Financial institutions that adhere to the PRI or the UN Global Compact inherently already make an intentional statement on ESG issues. This shows their awareness on the subject and intention to apply responsible (financing) policies to their investment decisions. Being a member of the PRI or adhering to the Global Compact, however, is not a guarantee for sustainable practices. The current situation is that only few pension funds take full responsibility, as they do not give sufficient attention to their outsourced asset management activities.[11]

1.3.5 Asset managers

Often, large financial institutions do not only provide capital to companies and governments by means of corporate loans or investments (section 1.3.1) and investment banking (section 1.3.2). They may also have one or more subsidiaries which are involved in asset management. These asset management subsidiaries invest in shares, companies and government bonds along with other types of investments. They do so with monies from private investors, pension funds, policy holders and other clients. For these asset management activities, financial institutions don't always apply the same policy that they apply for their lending and investment banking.

This is to some extent due to the differences between saving and investing. Savers cannot choose where their money is invested, but on the other hand they enjoy the security of a relatively fixed savings interest rate and, in many countries, a government guarantee on savings deposits.

However, investors are generally more at risk, although their returns may be higher. Moreover, investors are free to make choices as to how their money is invested. For example, they can choose from the range of investment funds the financial institution offers them (often including funds marketed as 'sustainable'). Therefore, some financial institutions do not see the need to apply a 'responsible investment policy' to all asset management activities: it is reasoned that the investing clients who consider this important will opt for the sustainable funds the financial institution offers.

The Fair Finance Guide International primarily focuses on customers with a current or savings account at a bank. For them, the main concern is which policy the bank applies for its lending and other financial services. The policy that the subsidiaries of the bank apply for asset management is not directly relevant for these savers, because the money of savers is not managed by these asset management subsidiaries. Yet, many savers do consider the policy of the financial institution for asset management to be important. As clients, they expect that their bank operates responsibly in all these aspects, including in its asset management, regardless of whether this concerns investments with their own savings.

For customers of a financial institution's asset management division (i.e. investors), insurance customers or customers who commission the financial institution to invest for them (i.e. *private banking* customers), an assessment of the policy for asset management is also important.

The Fair Finance Guide International believes that financial institutions may also be expected to act in a responsible way regarding their activities in the field of asset management, and therefore, the policy of the financial institutions towards asset management is also assessed. In making the decision to include an assessment of the policy for asset management, it was of great importance for the Fair Finance Guide International that most financial institutions can play a role in creating a just and sustainable world through their asset management activities. As asset managers, they can choose which investments to offer to their clients. Such choices may have consequences for the availability of capital for companies and governments.

1.4 Assessment of policies

1.4.1 Themes

The Fair Finance Guide International has chosen to assess the policy that the investigated financial institutions apply to the investment categories corporate credits, project finance, investments made on its own account and asset management for third parties, with regard to cross-cutting themes and sector themes. The cross-cutting themes entail the main international sustainability issues that are paramount to the work of the organisations behind the Fair Finance Guide International and are relevant to all or most of the industrial sectors a financial institution may invest in:

- Animal welfare
- Climate change
- Health
- Human rights
- Labour rights
- Nature
- Taxes and corruption

The Fair Finance Guide International believes that all financial institutions should have a clear policy on all these cross-cutting themes.

When a financial institution invests in, or grants financial services to, companies in certain sensitive industrial sectors (i.e. those where sustainability problems are particularly likely), then the financial institution should also have specific policies for these sectors. Presently, the Fair Finance Guide International has selected the following sector themes:

- Arms
- Fishery
- Financial sector
- Food
- Forestry
- Housing and real estate
- Manufacturing
- Mining
- Oil and gas
- Power generation

Besides the themes that merely asses a financial institution's investment and finance policy and the expectations therein regarding the investee companies' and/or clients' behaviour, Fair Finance Guide International has also developed themes that assess the internal operations only. These themes are related to the investment decisions made by the financial institutions and consists of:

- Remuneration
- Transparency and accountability

The coalitions that are collaborating in the Fair Finance Guide International network have agreed that a number of themes will be used by all coalitions to assess the selected financial institutions' policies. The other themes can be added by coalitions depending on the public debate, the priorities and objectives of the organizations within the coalition.

In the future, new themes may be included in this methodology. For all these themes, the policies of the financial institutions are compared to national and international norms, standards and initiatives for sustainable development and Corporate Social Responsibility, and to other criteria that are considered important in the opinion of the organisations that make up the Fair Finance Guide International.

1.4.2 Scoring principles

To underpin and structure the comparison of financial institutions' policies, this methodology describes the selected cross-cutting themes (in Chapter 2), sector themes (in Chapter 3) and operational themes (**Fel! Hittar inte referenskälla.**). Each selected theme is dealt with in a separate section, beginning with "*What is at stake?"*, a description of the sustainability issues involved. This is followed by an overview of applicable and widely supported international standards, such as declarations, conventions, guidelines, certification schemes, and codes of conduct (*"International standards and initiatives"*)**.** Next, the elements a financial institution should include in its policy for investments and financial services are described ("*Assessment elements"*). The score of each financial institution is then based on the proportion of elements included in the policy.

The elements are formulated as *principles*. Principles can be applied by the financial institutions in various ways, for new and existing investments and financial services. For example, the principles can be included by the financial institutions in the conditions for new loans and be applied as selection criteria for new investments and financial services. For existing loans and investments they can be applied as a guideline for engagement activities and for agreements on improvements with the companies in which the financial institution has existing investments. Based on these principles, financial institutions could ultimately decide to terminate an investment relation.

The Fair Finance Guide International does not comment on the way financial institutions should apply the principles to their investments and financial services, but does expect that they explain their method of working in their policies. The financial institution would *inter alia* have to indicate what the principles mean for various types of investments and financial services. If the financial institution only establishes a certain condition for a specific type of investment or for certain financial services, it is difficult to claim that the financial institution applies a principle. The Fair Finance Guide International believes that principles need to have a meaningful link to the activities or products of a company for all types of investments in companies and all financial services to companies.

When the financial institution explains its method of working, its objectives are also of importance, because the financial institution can use them to indicate how and when it will ensure that the entire investing portfolio and all granted financial services comply with the principles formulated in its policy. This is mainly important if the existing portfolio of the financial institution does not yet entirely comply with the policy. Fair Finance Guide International expects that such objectives have been included in the policy and investigates this *inter alia* by means of case studies.

So when comparing the policies of financial institutions, Fair Finance Guide International does not assess the way the financial institution takes decisions on its investments and financial services, but the underlying *principles*. An exception to this rule is the assessment of elements that are formulated for the operational themes Remuneration and Transparency and accountability, because these elements do largely concern the business operations of the financial institution. Incidentally, also for other issues elements have been included that concern operational activities of the financial institution. These assessment elements are announced by “the following elements are crucial for a policy regarding the financial institution's internal operations.” Elements explaining what a financial institution should expect with regard to the companies it invests in are introduced as “the following elements are crucial for a policy regarding the companies a financial institution invests in.”

Basically, the score for each theme is the number of elements included in the policy documents, the website or annual report of a financial institution, divided by total number of elements expected. Fair Finance Guide coalitions are free to present the outcome as a single number between 0 and 10 or as a percentage. Each coalition can also attach qualifications, such as sufficient, good or excellent, of their choice to this score.

The following sections discuss some additional points that are taken into consideration.

1.4.3 Scope of policy

To assess the investment policies of financial institutions, the Fair Finance Guide (FFG) has developed a number of assessment elements which are deemed crucial for a good policy on the themes which are evaluated by the FFG. These elements are described and explained in Chapter 2, 0 and **Fel! Hittar inte referenskälla.**). The FFG policy assessment then verifies whether these elements are included in the public policy documents of a financial institution.

However, not only the content, but also the scope of the financial institution’s policy document is of importance. Policy documents sometimes cover only a small share of all investments made by the financial institution. This can especially be the case with large international banking groups, which often have a large number of subsidiaries in different countries which offer different products and services to various client groups. As the Fair Finance Guide aims to assess the policies which are applied across the entire banking group, including all subsidiaries, the scope of policy documents is integrated in the assessment methodology.

Experience with the assessment of investment and credit policies learns that there are generally four options by which a financial institution’s policies might insufficiently cover the full scope of all investments made, and financial services offered, by the financial institution:

- The policy is not adopted by all subsidiaries within the financial institution;
- The policy is not applied to all categories of investments and financial services;
- The policy is not applied to all countries the financial institution invests in; and
- The policy is not applied to all activities of a company (e.g. only if the investment is earmarked for certain activities).

The last two options are found less often and are not always mentioned in the policies themselves. The third option is also, if mentioned, often used as part of risk assessment procedures. As these are difficult to trace back to policies and in order to simplify the scoring model, the Fair Finance Guide does not take those options into account further.

In order to take into account the first two options in its scoring methodology, the Fair Finance Guide has selected four categories of investments (or financial services) that are considered relevant for most financial institutions the Fair Finance Guide investigates. This selection is based on the description of the various types of financial institutions in section 1.2 and on research done on the scope of the investment and credit policies of financial institutions. To assess the scope of the policies of a financial institution, the Fair Finance Guide considers the following categories of investments (or financial services):

- **Corporate credits**: loans and other forms of credits provided by a financial institution to (listed and unlisted) companies, which allow the company to finance short-term expenses and/or long-term investments. Corporate credits usually carry an interest rate and are secured by specific assets (as in the case of mortgage loans) or by the entire balance sheet of the company. This category also includes the underwriting of share and bond issuances, but does not include loans and credits to private customers.
- **Project finance**: a specific form of corporate credits to finance infrastructure or industrial projects, whereby the loan is secured by the projected cash flows of the project rather than by the balance sheet(s) of its sponsor(s).
- **Investments for own account**: investments in (sovereign and corporate) bonds, shares and other types of securities for the account of the financial institution, listed on the financial institution's balance sheet.
- **Asset management**: the management of a client's investments in all types of securities by a financial services company, such as an investment bank, a private bank, an investment manager or an asset manager. These investments are usually not listed on the balance sheet of the financial institution. This category includes all funds and mandates which are managed actively or passively for clients, as well as all forms of investment advice offered to clients.

For each financial institution, the Fair Finance Guide determines which of these four investment categories are relevant, as (one or more subsidiaries of) the financial institution is actively making this type of investments or is offering these financial services. How this assessment of relevant categories is made, is explained further in section 1.4.4.

For each policy document of the financial institution, the Fair Finance Guide verifies to which of the four investment categories it applies to. For each assessment element found in a policy document a basic score, set at 50% of the full point, is granted. Additional points can be granted for each investment category which is relevant for the financial institution and to which the policy applies. The other 50% of the full point is divided equally over the relevant investment categories. This means that when the element is included in the policy and the scope of the policy covers all investment categories which are relevant for the financial institution, the full point for this element will be granted.

1.4.4 Determining relevancy

Fair Finance Guide International determines relevancy and materiality of the type of investments according to the following considerations:

- **Private mortgages**

  Fair Finance Guide International focuses on the financial relationships between companies and financial institutions. A category like private mortgages therefore initially falls outside the scope of Fair Finance Guide International, but for some banks it is an important asset. However, the sustainability challenges within many of the selected themes are not directly relevant for this type of investment. Fair Finance Guide International only integrates this type of investment into the scoring model of the theme Housing and Real estate.

- **Asset management**

  A difficulty in assessing the policies on asset management is that they hardly ever share a common policy on all their asset management activities. This is due to the organisation's structure. Financial institutions often have several subsidiaries in the field of asset management, and these all have their own policies. Often they even use a specific policy for a specific product, like an investment fund or a mandate. In this way there are hundreds or thousands of different investment products that all may have their own specific policy.

  Furthermore, not all types of asset management are assessed, because in consultation with Dutch financial institutions (March 2011) it has been established that they are not all relevant. The asset management subsidiaries of financial institutions are not always free to choose whether to provide capital to certain companies or governments. And sometimes it is not possible for these asset management companies to deploy instruments on 'responsible investment'. Based on the following criteria it has been determined whether the various asset management activities are included in the assessment:

  - Will capital be at the disposal of companies or governments as a result of this kind of asset management?
  - Will the bank have freedom of choice/responsibility regarding the granting of this kind of asset management (possibly under certain conditions)?
  - Is the bank able to use sustainable investment instruments when granting this financial service?

  Based on these criteria, the Fair Finance Guide InternationalFair Finance Guide International has decided to include the following types of asset management in the assessment of the scope of the policies of each financial institution:

  - The financial institution's own investment funds: investment funds that have been assembled and offered by the financial institution itself to private and institutional investors;
  - Private banking: all forms of discretionary management of private investors' money, meaning both direct investments in shares and bonds regarding other parties' investment funds;
  - External Mandates: investments in shares and bonds or in investment funds, using institutional investors' money (i.e. pension funds, insurance companies);
  - Internal client relations: investments in shares and bonds or in investment funds, using internal clients' money. This includes insurance premiums.[vii]

  Types of asset management not included in the assessment of the scope of the policy are:

[vii] Investments using insurance premiums are on the parent company's balance sheet and they therefore fall within the scope of investments using the bank's own resources and are not part of asset management on behalf of third parties. Since these investments are not part of the banking branch of the financial institution and therefore may not be financed with saver's money, they are categorized as asset management.

- Advice regarding private banking;
- Trading platforms where clients may invest in shares, bonds and investment funds by themselves (execution only services);
- Taking charge of shares for private or institutional investors.

Finally, in order to be able to take into account the scope of responsible investment policies for asset management, the Fair Finance Guide InternationalFair Finance Guide International looks at the total number of assets that are managed and that have their own responsible investment policy. If a financial institution has different asset management policies the policy that applies to the highest part of assets under management will be assessed. If this is the case for other investment types as well, the same rule applies.

- **Sectors**

Principles that have been included in the financial institution's sector policy and only apply to companies active in a specific sector do not count for the assessment of the cross-cutting themes. The general policies should apply to all investments and financial services, while sector policies merely concern a limited part of the investments of a financial institution.

If the financial institution can prove or explicitly and publicly states that it is not involved with companies operating in a certain sector, the financial institution is not expected to have a policy for this sector. In that case the financial institution is not granted additional scores for the type of investment this applies to, but given the notification "not applicabl" (n.a.). If it is the case for all types of investments researched, the sector as a whole can receive this qualification.

If a financial institution does not make an explicit statement that it is not active in a particular sector, the decision for applying n.a. can be made based on information about the portfolio in the annual report(s) of the financial institution and its subsidiaries. For defining the maximum level of investments in one of the investment categories (threshold), Fair Finance Guide International uses the breakdown of the portfolio:

- If the sector is explicitly mentioned in the breakdown of its, for example, corporate credit portfolio, apply n.a. when less than 0.2% and a maximum of € 1 million of total corporate credits is lend to that specific sector.
- If the sector is mentioned together with other sectors (e.g. public administration, defence and social security), then apply n.a. when this is together less than 1.0% and a maximum of € 5 milion of total corporate credits.
- If the sector is not mentioned explicitly, but only overarching and overlapping sectors and definitions such as manufacturing, other, or 'building materials and construction', do not apply n.a.
- The same applies to the other types of investment (project finance, investments own account asset management for third parties).
- If there is not enough information available regarding the portfolio available, the qualification n.a. cannot be given.

Note that the companies operating in a certain sector do not only include primary producers. Also, trade and processing companies that purchase products from this sector are part of the supply chain and therefore belong to this sector.

1.4.5 Documents assessed

Fair Finance Guide International expects that the policy of the financial institution, or at least a summary of it, is made public, for example through their website or in the annual report. The name or the topic of the policy document is not relevant, for example elements on labour rights can be included in a human rights policy.

Sometimes a financial institution makes a statement about a decision considering a certain issue in a newsletter or press release. In the first year after publication Fair Finance Guide International will consider this as a valid source of information, but it also expects the financial institution to integrate the decisions in its investments policy – as the employees who will make the decisions about investments will not take all these newsletters, brochures etc. into account. When updating the policy review Fair Finance Guide International will check whether the principle is part of the general policy documents.

1.4.6 Collective policies

When assessing the policies of financial institutions, not only the policy that the financial institution has developed independently but also the collective policy documents signed by the financial institutions are taken into consideration. These signatures mostly represent an obligation to apply certain sustainability criteria on the investments and financial services of a financial institution. Therefore, these collective policy statements are assessed according to the method described above beforehand. Financial institutions that have signed a collective policy statement and make clear it is applied to its investment portfolio, receive the basic score for each element that is predefined for that particular collective policy statement.

For the following collective standards and statements Fair Finance Guide International has pre-defined the score through an annual assessment:

- Equator Principles
- IFC Environmental, Health, and Safety Guidelines
- IFC Performance Standards
- OECD Guidelines for Multinational Enterprises
- UN Global Compact
- UN Principle for Responsible Investment

1.5 Case Studies

Fair Finance Guide International hopes to stimulate a process that leads to ever increasing tightening of the norms used by financial institutions (*race to the top*) in social, environmental and economic fields and to enhance the constructive role these financial institutions can play in creating a just and sustainable world. Naturally, the policy the financial institution has formulated is only one of the necessary steps.

Equally important is the issue whether the financial institutions themselves, when making decisions on their investments, in practice comply with the norms recorded in widely supported international standards, such as conventions, guidelines, certifications and codes of conduct. Therefore, in case studies Fair Finance Guide International investigates the operational practices, strategies and instruments and evaluates the investments and financial services of the researched financial institutions.

Chapter 2 Assessment themes

2.1 Climate change

2.1.1 What is at stake?

The climate on earth is changing: globally the temperature is increasing. Due to this, ecosystems are changing and societies are at the risk of being struck by floods and cyclones. This process is a direct result of human activities that increase the concentration of greenhouse gases in the atmosphere.

In October 2006 a very influential research report on climate change was launched: Stern Review on the Economics of Climate Change. This report predicted that the concentration of greenhouse gases in the atmosphere would be twice as much in 2035 (550 parts CO2 per million) as it was before the industrial revolution, and that it would cause a rise in temperature of 2°C. This will have an enormous impact on the world, especially when you realise that today it is only 5°C warmer than it was during the last ice age, which ended about 10,000 years ago.[12]

The leading authority on this topic, the Intergovernmental Panel on Climate Change (IPCC) publishes quite regularly scientific research on climate change. In September 2013 the panel published its fifth Assessment Report: Climate Change 2013: The Physical Science Basis. In this report Both the conclusion was reached that the average global temperature increase since the mid twentieth century has been largely caused by the observed increase of greenhouse gases concentrations (such as carbon dioxide, methane, nitrogen oxide and some other gases), released by human activity. The main greenhouse gas is carbon dioxide (CO_2), which is released with the combustion of fossil fuels.[13] The fifth IPCC-report states that it is highly likely that human activities have caused more than 50% of the noticed temperature increase between 1951 and 2010. [14]

The IPCC has also presented four scenarios for climate change in the fifth report. The best case scenario is that the rise in temperature will stay under 2°C. In three of the four scenarios the temperature rise will be bigger however, and this will lead to catastrophic results. In order to reduce the rise to 2°C is it necessary that the average emission should be reduced with 50% by 2050 compared to the level of emissions in 1990. [15]

Depending on future developments, according to the IPCC in the 21st century, globally the temperature will increase between 0.4°C and 4.8°C on average. [16] This will probably result in:[17]

- An increase of the sea level from 17 to 582cm (without considering the accelerated melting of the continental glacier on Greenland);
- More frequent warm periods, heat waves and heavy rainfall;
- An increase in drought, tropical cyclones and extreme high tides.

These developments not only lead to extraordinary and unprecedented risks for the global environment, but can also have profound and disastrous consequences for mankind economically, socially, as well as for human health. Both the *Stern Review* as well as IPCC reports predict the following climate change consequences:[18]

- Melting glaciers will cause a steep increase in the average water level of some rivers. The availability of water will increase in some areas, while elsewhere drought and a lack of drinking water will occur.

- Of all plant and animal species globally, 15 to 40% are at risk of extinction if the average temperature increases by more than 2°C. This will lead to a rapid degradation of ecosystems and the acidification of oceans, which in turn will have major consequences for marine ecosystems. Global climate belts will shift, with drastic consequences for flora and fauna.
- The global food production will increase with local temperatures that increase between 1-2°C, but in turn decrease as soon as the temperature increases further. Higher frequencies of periods of drought, floods, hurricanes and heat waves will reduce the production of local crops; mainly in areas close to the equator that already produce little food.
- Climate change will increase the risk of peat fires worldwide, leading to substantial and sustained CO_2 emissions as peat fires can smoulder for years and have the highest CO_2 production of all fires. Haze caused by peat fires also causes serious long-term health problems.[19]
- Coastal areas will be exposed to increased risks by the increasing sea level and coastal erosion. Not only coral reefs and *wetlands* are at risk, but also huge cities in developed and developing countries. The melting or breaking down of ice floes will ultimately threaten the residential areas of 1 in every 20 people.
- If the existing climate change scenario becomes a reality, almost half the world's population will be living in areas of high water stress by 2030. This is including between 75 million and 250 million people in Africa. Furthermore, water scarcity in some arid and semi-arid places will cause the displacement of between 24 million and 700 million people.[20]

Besides, development organisation Oxfam International stresses the consequences for local communities:

- Poor communities are even more vulnerable because their adaptability is limited and because they are more dependent for their livelihood on climate sensitive provisions such as local water and food supplies. Due to climate change, before 2015 it is expected that about 375 million people will become victims of climate related disasters such as drought, cyclones and floods.[21]
- The climate changes will influence the health of millions of people, mainly of those who have difficulty in adapting. Those groups already physically weakened by malnutrition are the most vulnerable for the expected increase in heat waves, floods, storms, fires and droughts, metabolic diseases and parasitic diseases such as malaria or dengue.[22]

The 2014 Third United Nations World Conference on Disaster Risk Reduction proposed to make investing in economic, social, cultural, and environmental resilience one of the four top priorities in the global Post-2015 framework for disaster risk reduction. “Such measures are cost effective and instrumental to save lives and prevent and reduce losses”, the United Nations report argues. “A continued integrated focus on key development areas, such as health, education, agriculture, water, ecosystem management, housing, cultural heritage, public awareness, financial and risk transfer mechanisms, is required”.

To be able to adapt to the consequences of climate change, large scale investments are required, mainly in developing countries. In a report published in December 2014 Oxfam International argues that financial goals set in earlier agreements will not be sufficient to close the finance gap. It will be vital to negotiate a finance package that recognises the true scale of the climate change challenge, while remaining responsive to the needs and specific circumstances in given countries. To win the battle against climate change, the most CO_2-intensive industries - energy, construction, food, heavy industry and transport - have to change structurally.[23]

According to conservative estimations by Eurodad and other NGOs, developing countries' climate finance needs are thought to be between $27 to $66 billion per year by 2030 for adaptation and $177 billion per year for mitigation'. In this paper, 137 global civil society organizations have published recommendations on the mobilising of financial resources. Financial institutions should play a major role in financing climate adaptation.[24] This is necessary for the environment, but also to fight poverty. It is not without reason that the United Nations are considering developing renewable energy and more efficient use of energy as an important part of the Millennium Development Goals.

Companies in various industries will be confronted with these consequences and risks in the economic, social and health care fields. Climate change itself brings new legislation, but at the same time new opportunities and innovations. Companies that produce, process, transport, or use fossil fuels in large volumes will first be required to consider changing their *business model*. Buying out or compensating CO_2-emission should only be considered as a last resort. There are projects for CO_2-storage and CO_2-removal from the atmosphere, but research by SinksWatch and other organisations shows that a lot of these types of projects do not lead to concrete greenhouse gas reductions and moreover may have negative consequences for other sustainability aspects.

The OECD International Energy Agency (IEA) publishes calculations of global CO_2 -emissions. It appears that a new record was set regarding global CO_2 -emissions. While in in 2020 the energy related emission of CO_2 should not exceed 32 Gigatonnes, in 2012 the emission was already 31.6 Gt. According to the IEA, the objective not to increase the average temperature on earth by more than 2°C will be very difficult to realise if CO_2-emissions keep increasing at this speed.[25]

For financial institutions, the challenge is to deal with this huge task in a proactive way, by encouraging companies in which they invest to reduce climate risks and to make use of new opportunities. In addition, where possible, financial institutions can also encourage private clients to save energy and start using renewable energy sources. When developing policies in this respect, financial institutions can make use of the international standards described below.

2.1.2 International standards

The most important international standards concerning climate change are summed up below.

- **Setting measurable reduction objectives**

  The climate problem is global by nature and therefore requires an internationally coordinated set of answers. The world community is working on this: the 1992 UN Framework Convention on Climate Change (UNFCCC) and the corresponding 1997 Kyoto Protocol, are the two main international conventions on climate change.

  The *UNFCCC* formulates global objectives and principles and asks all member states to annually report their emission of greenhouse gases. Virtually all countries in the world take part in the UNFCCC, including the United States.

  The *Kyoto Protocol* is based on the principles and objectives of the UNFCCC and establishes objectives and timelines for industrialised countries to limit their emissions. On average, the Kyoto Protocol demands an emission reduction (during the period 2008-2012) of 5.2% of the greenhouse gases in comparison to the level of 1990.

Although the Kyoto Protocol is a first step in reducing global emissions of greenhouse gases, scientists argue that the established reduction objectives are far too low to halt climate change, let alone undo it. To limit the global temperature increase to 2 to 2.4°C - which will in any way lead to drastic social, economic, and environmental problems - according to the IPCC, the annual global emission of greenhouse gases should be 50% lower in 2050 than in the year 1990, on average.[26]

In July 2008, a large group of international companies - including financial institutions like Citibank, Crédit Suisse, Deutsche Bank, HSBC and Standard Chartered - advised the G8 government leaders to support such a reduction objective in a recommendation. This example was followed by the Corporate Leaders Group on Climate Change, an initiative of the Prince of Wales supported by the managers of almost 1,000 multinationals. In 2011, this group released the 2°C Copenhagen Communiqué in which the reduction objective is endorsed and advice is given on how to reach this objective.

In November 2009, also in the Netherlands, ten large Dutch financial institutions declared that they recognise the climate problem and support the reduction objective in a joint statement. In addition, the financial institutions have called upon the Dutch government to seriously stimulate sustainable energy. The financial institutions promise to pay more attention to sustainable energy projects in their financing and investments. Also in 2011, Dutch financial institutions, together with a group of 265 investors by means of 2011 Global Investor Statement on Climate Change, called upon governments to make clear choices so there would be more possibilities for large scale investments in projects that fight climate change.

In December 2009, in Copenhagen the 15th United Nations Climate Change Conference was held. The aim of this conference was to reach a new agreement to replace the Kyoto Protocol, but this has not been achieved. The following year - on the 16th Climate Change Conference in Cancun - again no new agreement was reached. During the 17th Climate Change Conference in Durban, in December 2011, the countries agreed on a timetable for binding agreements that will take effect at the latest in 2020. The new treaty has to be ready in 2015. The Kyoto Protocol, which would have ended in 2012, has been extended, although not by all initial participants. The countries in the European Union will keep their objectives for 2020 of 20% CO2. [27]

As a result of future international climate agreements, policy to limit the emission of greenhouse gases has been developed on a national level. In the European Union, Australia, Canada, Japan, Russia and some states in the United States, companies in CO2-intensive industries have to meet increasingly stringent rules and standards.[28] As with the developing countries such as China, these countries will introduce new rules to save fuel and limit CO2-emissions in the transport industry.

There are also initiatives based on market mechanisms. Emission rights for greenhouse gases are traded on the Asia Carbon Global and the Chicago Climate Exchange (CCX) and the EU Emission Allowances (EUAs) of the European Union Greenhouse Gas Emissions Allowance Trading Scheme (EU ETS) are traded by different exchanges such as Climex. A report by Carbon Trade Watch warns that the current proposal to regulate emission trading schemes, are far from being sufficient to safeguard the environment or the technical and financial integrity of these new markets. The European Emissions Trading system has however been heavily criticized, notably by several NGOs.

In 2013 the European Commission tried to improve the emission trading scheme, by selling less permits for example. This should lead to higher prices. [29] The European Commission has also written a Green Paper which contains indicative aims for emissions which are no part of the emission trading scheme. For example, The Netherlands should reduce their greenhouse gas emissions by 40 – 43% between 1990 and 2030. [30]

Some financial institutions have developed initiatives to standardise and encourage the measurement of carbon footprints by banks and investors. For example, the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI) developed the Greenhouse Gas (GHG) Emissions Protocol, which sets the global standard for how to measure, manage, and report greenhouse gas emissions. Another example is the Montréal Carbon Pledge, where investors commit to measure and publicly disclose the carbon footprint of their investment portfolios on an annual basis. Alternately, the Portfolio Decarbonisation Coalition (PDC), by the UNEP, CDP and the UNEP Finance Initiative, also strives to encourage financial markets to drive economic decarbonisation.

This leads to assessment elements 1, 2, 3, 4, 5, 6, 7 and 8.

- **Measuring and reporting greenhouse gas emissions**

Globally, the standards of the Greenhouse Gas Protocol (GHG Protocol) are the most used standards to measure and manage greenhouse gas emissions. Besides the general measuring instruments for own activities, there are also sector specific guidelines and the GHG Protocol has developed a standard for the emissions of products and the corporate value chain. The GHG Protocol is consistent with the IPCC guidelines for reporting CO2-emissions.

The Carbon Disclosure Project (CDP) is a coalition of institutional investors that asks the world's largest companies to release their annual emissions and other information on climate change. Since recently, the CDP acts as the Secretariat for the Climate Disclosure Standards Board (CDSB), established at the annual meeting of the World Economic Forum in 2007, as a response to the increased demand for standardised reporting guidelines for financial information related to climate change. The Climate Change Reporting Framework was launched in September 2010.

The Asset Owners Disclosure Project (AODP) encourages asset managers to be transparent about the CO2-emissions concerning their portfolios. In the first round of discussion of the AODP in 2013, only 19 out of the 1000 asset managers who were interviewed, made comments. [31]

This leads to assessment elements 2, 3, 5 and 6.

- **Shifts towards climate friendly technology**

The WWF study Clean Economy, Living Planet argues that temperature increases as a result of global warming could be limited to 2 degrees Celsius if clean energy technologies are implemented soon, throughout the world. The WWF advocates a 100% shift towards climate friendly energy technology, which would require a substantial increase in renewable energy use and clean technology development but would make it possible to limit the catastrophic climate changes associated with a 2 degrees warmer world. This reduction can be achieved without the use of nuclear energy, non-sustainable biomass and non-sustainable types of hydropower.[32]

The third part of the IPCC's 5th Assessment Report, published in April 2014, focused on mitigating, or avoiding, climate change, showed that the world must significantly reduce its reliance on fossil fuels in the coming decades. The IPCC projected that over the next two decades (2010 to 2029), annual investment in conventional fossil fuel technologies for electricity supply sector would decline, with a median projected rate of decline being around 20%. At the same time, annual investment in low-carbon electricity supply (including renewable energy, nuclear power and electricity generation with carbon capture and storage) is projected to rise by 100% compared to 2010 on the same median basis.

This leads to assessment elements 99 and 10.

- **Switching to a low-carbon economy**

There are various initiatives within the corporate world and the financial industry to make agreements and to exchange experiences on stimulating the transition to a low-carbon economy:

- UNEP FI's Climate Change Working Group (CCWG);
- the Investor Network on Climate Risk (INCR);
- the Institutional Investors Group on Climate Change (IIGCC);
- the Global Business Leadership Platform on Climate Change; and
- the Global Roundtable on Climate Change.

Shifting towards a low-carbon economy will mean in practice to move away from high emission generating activities to low emission activities. From this perspective, activities such as extracting fossil fuels and using them for power generation are unacceptable.

This leads to assessment elements 11, 12, 13, 14, 15 and 16.

- **Emissions Performance Standards**

An Emissions Performance Standard (EPS) is a standard for power generation based on the level of carbon dioxide emissions produced per unit of energy, normally expressed in grams of carbon dioxide emitted per kilowatt hour of energy produced (gCO2/kWh). Emissions Performance Standards have been introduced by governments, for example to impose limits on the level of emissions permitted for new power stations, and also by some financial institutions to screen out finance for power stations which do not meet the standard.

The European Investment Bank (EIB) has introduced an EPS which is applied to all fossil fuel generation projects to screen out investments whose carbon emissions exceed a threshold level. This threshold has been set at a level which reflects existing EU and national commitments to limit carbon emissions. In the first instance the EPS has been be set at 550gCO_2/kWh. This will rule out any further lending to regular coal and lignite power plants. The EIB agreed that the EPS would be kept under review and that more restrictive commitments could be considered in the future.[33]

This leads to assessment element 17.

- **Biomass for energy generation**

While biofuels can be helpful in reducing greenhouse gas reduction targets, biofuel production also carries along some disadvantages. As such, biofuel production typically takes place on cropland that was already used for growing food or feed. Most often, soy farmers do thus not deforest themselves. Agricultural production, since it is still necessary, is consequently displaced leading to conversion of forests or natural grasslands to croplands elsewhere.

This process can be recognized as Indirect Land Use Change (ILUC). ILUC is crucially important to assess the sustainability impacts of for instance soy expansion and crops for biofuels in general. ILUC especially concerns first generation biofuels, as second- or third generation biofuels can also be made from waste and hence do not directly require cropland. Hence, no real positive climate impact can be achieved through first-generation biofuels.[34]

In 2007 a Dutch committee developed sustainable criteria for biofuels. These so-called Cramer Criteria were formalised in March 2009 as the NTA 8080:2009 Sustainability criteria for biomass for energy purposes.[35]

In 2010, the Steering Board of the Roundtable on Sustainable Biomaterials (RSB) approved Version 2 of the principles and criteria for sustainable biofuel production, after three years of consultation with biofuels stakeholders. The RSB offers Global Standards that apply to any type of feedstock worldwide and EU-RED Standards that apply to feedstock entering the EU market and comply with the EU Renewable Energy Directive regarding land-use and GHG criteria.[36] The global RSB Principles are: [37]

1. Biofuel operations shall follow all applicable laws and regulations.
2. Sustainable biofuel operations shall be planned, implemented, and continuously improved through an open, transparent, and consultative impact assessment and management process and an economic viability analysis.
3. Biofuels shall contribute to climate change mitigation by significantly reducing lifecycle GHG emissions as compared to fossil fuels.
4. Biofuel operations shall not violate human rights or labor rights, and shall promote decent work and the well-being of workers.
5. In regions of poverty, biofuel operations shall contribute to the social and economic development of local, rural and indigenous people and communities.
6. Biofuel operations shall ensure the human right to adequate food and improve food security in food insecure regions.
7. Biofuel operations shall avoid negative impacts on biodiversity, ecosystems, and conservation values.
8. Biofuel operations shall implement practices that seek to reverse soil degradation and/or maintain soil health.
9. Biofuel operations shall maintain or enhance the quality and quantity of surface and ground water resources, and respect prior formal or customary water rights.
10. Air pollution from biofuel operations shall be minimized along the supply chain.
11. The use of technologies in biofuel operations shall seek to maximize production efficiency and social and environmental performance, and minimize the risk of damages to the environment and people.
12. Biofuel operations shall respect land rights and land use rights.

The RSB standards are accompanied by a set of guidelines such as the RSB-Impact Assessment Guidelines and the RSB-Screening Tool.[38]

In September 2013 the European Parliament had voted in favour of regulation that reduces the obligation to blend biofuels to 6%. The European Parliament thus intends to reduce the CO^2 emissions of the cultivation for biofuel.

This leads to assessment element 17.

- **CO_2-compensation**

The Gold Standard for CO2-compensating investments - developed by the WWF - identifies investments that do contribute to sustainable development. The Gold Standard contains strict criteria for certification. These criteria are maintained by means of monitoring, reporting and processes of verification.

CO2-compensating investments are used by airlines, for example. Many airlines have their own CO2-compensation price calculation for a *green* seat. The amount of CO2-emissions is often wrongly estimated, and not all the greenhouse gases that are emitted during flights are mentioned. [39]

This leads to assessment element 19.

- **Adapting to climate change**

In June 2012, Oxfam Novib published a report on the ways companies can support small suppliers in adapting to the consequences of climate change. In *Climate Change Risks and Supply Chain Responsibility* five activities have been identified:

- Ensure awareness and insight in adapting within the company;
- Ask suppliers about climate developments and the respective effects;
- Work on long term and stable relations with suppliers;
- Support the development of the local community and sustainability; and
- Cooperate with existing institutions, including governments.

This leads to assessment elements 20.

- **Lobbying practices**

Companies in heavy industries (such as steel company Arcelor Mittal) have successfully lobbied against European intervention in the emission market. Arcelor Mittals top executive wrote a letter to the European Commission in 2006, in which he threatened to close down the factories if the Commission would put restrictions on the issuing of carbon credits. [40] In April 2013 the steel and chemical industries' branch organizations wrote a letter to the European Parliament, stating that the emission market should not be changed as this would only increase the costs and aggravate the competition between the industries in Europe.[41] The Parliament then voted for a proposal, in which the plans had been diluted, as late as July 2013. Similarly, on the 9th of October 2014, TATA Steel wrote a letter to the Dutch government, urging it to consider the competitive position of the company, as well as its role as employer, in the discussions with the European Commission about European climate and energy policy.

In 2012 Sandbag, a British NGO, published a report with an overview of European companies that benefit from the *loopholes* in Europe's Emissions Trading System (ETS). According to Sandbag these are all companies that (through their branch organisations) actively lobby against improving the climate policy. [42]

This leads to assessment element 21.

- **Procurement and supply chains**

  Companies are often part of long production chains. They can monitor one another and question how they respect local and national legislation and international norms on climate change. The requirements that companies set for their suppliers can be included in contractual agreements. The importance of this also recognised in the OECD Guidelines for Multinational Enterprises since its revision in 2011.

  Also the ISO 26000 guideline recognises the importance of supply chain responsibility, because “the impacts of an organization's decisions or activities can be greatly affected by its relationships with other organizations.” A companies’ sphere of influence includes relationships within and beyond an organization’s supply chain.[43]

  This leads to assessment element 22 and 23.

2.1.3 Assessment elements

Investments that take place today determine the CO_2-intensity of all future activities. Therefore, it is crucial that strict reduction objectives are set now and companies are stimulated to emit less CO_2. Oxfam argues that by 2050 'there could be an extra 25 million malnourished children under the age of 5 because of climate change, and 50 million more hungry people'. Being important financiers of energy projects, financial institutions can play a leading role in shifting investments to a less CO_2-intensive economy. Hereby, financial institutions should apply CO_2-avoiding standards in line with the UN-objectives, in order to limit global warming.

The following elements are crucial for a policy regarding the financial institution's internal operations:

1. For its own direct and indirect greenhouse gas emissions, the financial institution establishes measurable reduction objectives that contribute to limiting the maximum global temperature increase of 2°C.
2. For its financed greenhouse gas emissions, i.e. the emissions of the companies in which the financial institution invests, the financial institution discloses its share of the emissions of the energy companies and projects it invests in.
3. For its financed greenhouse gas emissions, the financial institution discloses its share of all the companies and projects it invests in.
4. For its financed greenhouse gas emissions the financial institution establishes measurable reduction objectives that contribute to limiting the maximum global temperature increase of 2°C.

The following elements are crucial for a policy regarding the companies a financial institution invests in:

5. Companies disclose their direct greenhouse gas emissions.
6. Companies disclose their indirect greenhouse gas emissions.
7. Companies reduce their direct greenhouse gas emissions.
8. Companies reduce their indirect greenhouse gas emissions.
9. Companies save energy.
10. Companies develop products that are energy efficient.
11. Companies support the transition to a low-carbon economy and projects that contribute to the emission reduction of the economy as a whole.
12. Companies switch from using fossil fuels to renewable energy sources.
13. Coal based power generation is unacceptable.
14. Coal mining is unacceptable.

15. Extracting oil from tar sands is unacceptable.
16. Extracting oil and gas is unacceptable.
17. Using fossil fuel based power generation with a relatively high CO_2-emission per produced energy unit, whose emissions exceed 550g CO_2 / kWh, is unacceptable.
18. The production of biomaterials complies with the 12 principles of the Roundtable on Sustainable Biomaterials (RSB).
19. CO2-compensating investments are certified according to the Gold Standard .
20. Companies enable suppliers in developing countries - mainly in the agricultural sector - to adapt to the consequences of climate change.
21. Companies do not participate in lobbying (attempting to influence decisions made by regulators) aimed at weakening climate policy.
22. Companies integrate climate change criteria in their procurement and operational policies.
23. Companies include clauses on the compliance with criteria on climate change in their contracts with subcontractors and suppliers.

2.2 Human rights

2.2.1 What is at stake?

Human rights are “rights and freedoms inherent to all human beings”.[44] The rights and freedoms that are generally considered as human rights comprise of civil and political rights - such as the right to life, freedom of expression and equality before the law - economic, social and cultural rights - such as the right to an adequate standard of living, the right to food, work and education or collective rights, such as the rights to development and self-determination.

On 10 December 1948, the United Nations General Assembly adopted the Universal Declaration of Human Rights (UDHR) that for the first time in human history spelled out 30 basic civil, political, economic, social and cultural rights that all human beings should enjoy. It has over time been widely accepted as the fundamental norms of human rights that everyone should respect and protect. Through a series of international human rights treaties and other instruments these inherent human rights have developed into a body of legal international human rights. While international treaties and customary law form the backbone of international human rights law, other instruments, such as declarations, guidelines and principles adopted at the international level contribute to its understanding, implementation and development.

There are particular groups who, for various reasons, are vulnerable or have traditionally been victims of violations and consequently require special protection for the equal and effective enjoyment of their human rights, such as women and girls, children, disabled persons, migrant workers and indigenous peoples. Often human rights instruments set out additional guarantees for persons belonging to these groups.[45]

Globalisation presents new and complex challenges for the protection of human rights. Economic players, especially multinational companies that operate across national borders, have gained unprecedented power and influence across the world. Companies have an enormous impact on people’s lives and the communities in which they operate. Sometimes the impact is positive - jobs are created, new technology improves lives and investment in the community translates into real benefits for those who live there. But there are also countless instances when corporations exploit weak and poorly enforced domestic regulation with devastating effect on people and communities.

In some industrial sectors, such as the extractive sector, the risks for human rights abuses are particularly high. Traditional livelihoods are destroyed as land is contaminated and water supplies polluted. Economic, social and cultural rights are at stake, including the right to food, work, housing, health and a healthy environment. The impact can be particularly severe for indigenous peoples because their way of life and their identity is often closely related to their land. Far too often, companies operating across borders are involved in severe abuses, such as child labour, forced labour or forcibly relocating communities from their lands. Affected communities are frequently denied access to information about the impact of company operations. This means that they are excluded from participating in decisions that affect their lives. When communities attempt to get justice, they are thwarted by ineffective legal systems, a lack of access to information, corruption and powerful state-corporate alliances. Worryingly, when the poor cannot secure justice, companies learn that they can exploit poverty without consequences. [46]

Under international law, states have an obligation to protect human rights, which requires measures by states to ensure that other actors (such as companies) do not undermine or violate human rights. The fact of government failure to protect rights does not absolve the non-state actor from responsibility for their actions and the impact of them on human rights. It is now widely accepted that companies have a responsibility to respect human rights.

The corporate responsibility to respect human rights is part of the 2008 Framework of the former UN Special Representative of the Secretary-General on the issue of human rights and transnational companies and other business enterprises, Prof. John Ruggie. This Framework rests on three pillars: [47]

- the state duty to protect against human rights abuses by third parties, including business enterprises;
- the corporate responsibility to respect human rights;
- the need for greater access by victims to effective remedy, both judicial and non-judicial.

At the request of the UN Human Rights Council (HRC), Ruggie operationalised his Framework, resulting in the United Nations Guiding Principles on Business and Human Rights (UNGPs) which were endorsed by the HRC in June 2011.[48] The UNGPs are currently considered the main global standard addressing the risks of adverse impacts on human rights that are linked to business activities. It is well established that this corporate responsibility also applies to the entire range of financial institutions and actors, including commercial banks, retail banks, investment banks, rating agencies, financial service providers, and institutional investors.[49]

2.2.2 International standards

When developing strong human rights policies and practice, the following international human rights standards and norms should be utilized as a benchmark.

- **International Bill of Human Rights**

  Because companies can have an impact on virtually the entire spectrum of internationally recognized human rights, their responsibility to respect applies to all such rights. In practice, some human rights may be at greater risk than others in particular industries or contexts, and therefore these will be the focus of heightened attention. However, situations may change, so all human rights should be the subject of periodic review.

  An authoritative list of the core internationally recognized human rights is contained in the International Bill of Human Rights, consisting of the Universal Declaration of Human Rights and the main instruments through which it has been codified: the International Covenant on Civil and Political Rights (ICCPR) and the International Covenant on Economic, Social and Cultural Rights (ICESCR), coupled with the principles concerning fundamental rights in the eight ILO core conventions as set out in the Declaration on Fundamental Principles and Rights at Work (for the latter, see chapter 2.5).

  On 10 December 1948, the UN General Assembly adopted the Universal Declaration of Human Rights (UDHR), including civil, political, economic, social and cultural rights and freedoms in a single international human rights instrument. Examples are the rights to life, to freedom of movement, peaceful assembly, thought, conscience and religion. Everyone is entitled to all these rights and freedoms without distinction of any kind, such as race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth, or other status.

  The International Covenant on Civil and Political Rights (ICCPR) 1966 comprises 55 articles, including civil rights and freedoms such as the freedom of religion and expression, freedom from torture, interference with privacy, the right to a fair trial and the protection of minorities. Political rights include e.g. the rights to vote, to participate in governance, to form political parties and to freedom of the press. Combined, the rights from the ICCPR form the 'classical' human rights, sometimes also equated to fundamental rights.

The International Covenant on Economic, Social and Cultural Rights (ICESCR) comprises 31 articles on human rights relating to the workplace, social security, family life, participation in cultural life, and access to housing, food, water, health care and education. State Parties to the Covenant have to make sure that water and food are available, accessible and of good quality. The right to health refers to the right to a healthy living environment as well as the right to physical and mental health.

This leads to assessment elements 1 to 6, 7, 9, 10 and 11.

- **United Nations Guiding Principles on Business and Human Rights**

Companies, including financial institutions, should respect human rights. The responsibility to respect human rights is a global standard of expected conduct for all companies wherever they operate. It exists independently of States' abilities and/or willingness to fulfil their own human rights obligations, and does not diminish those obligations. And it exists over and above compliance with national laws and regulations protecting human rights.

The responsibility to respect human rights requires that companies:

- Avoid causing or contributing to adverse human rights impacts through their own activities, and address such impacts when they occur;
- Seek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or services by their business relationships, even if they have not contributed to those impacts.

According to the United Nations Guiding Principles on Business and Human Rights (UNGPs), in order to meet their responsibility to respect human rights, companies should have in place:

- A *policy commitment* to meet their responsibility to respect human rights;
- A *human rights due-diligence process* to identify, prevent, mitigate and account for how they address their impacts on human rights; and
- Processes to enable the *remediation* of any adverse human rights impacts.

In the United Nations Guiding Principles on Human Rights (UNGPs) 16 to 24, operational guidance is given on how the required policies and processes should be put into practice.

Regarding the responsibility to conduct due-diligence to seek to prevent or mitigate an adverse impact, it is recognized that financial institutions may have hundreds to thousands of clients, and that it may not always be practical to conduct extensive due-diligence on each of them. The United Nations Guiding Principles on Business and Human Rights (UNGPs) and OECD Guidelines instead expect companies, including financial institutions, to identify general areas where the risk of adverse impacts is most significant and to prioritize due-diligence on their clients accordingly, through screening and monitoring clients when the risk is high, and/or when a risk is brought to the attention of the company (e.g. by an external stakeholder).[50]

If a company identifies a risk that it will *cause* an adverse impact, it has it within its powers to cease or prevent that impact and should make sure to do so. If a company identifies a risk of *contributing* to an adverse impact, it has control over its contribution and should therefore cease or prevent its contribution and use its leverage with other entities also contributing to the adverse impact to persuade them to cease or prevent any further impacts and to mitigate any remaining impacts to the greatest extent possible. In both cases, the enterprise should provide or *contribute to a remedy*.

If a company identifies a risk or is made aware of adverse impacts being *directly linked* to its operations, products, and services through its business relationships, it should seek to use its leverage to influence the entity causing the adverse impact to prevent or mitigate that impact and future impacts. This can be done by the company itself or in co-operation with other entities, as appropriate.

This leads to assessment elements 1 to 6.

- **Land rights and forced evictions**

Human rights, particularly economic, social and cultural (ESC) rights, play a central role in land-related issues. However, there is no such thing as a 'human right to land'. Those who face threats to their land rely on other rights, such as the right to food, the right to water, the right to housing and the right to work. These rights are included in the above mentioned International Covenant on Economic, Social and Cultural Rights (ICESCR)**.** [51]

The right to adequate housing encompasses the right to live in security, peace and dignity. To realize this right, governments have an obligation to guarantee security of tenure, which essentially means a set of arrangements in the context of housing and land that will protect the occupants from forced evictions and other threats and harassment.[52]

As noted by the UN Special Rapporteur on Adequate Housing: "Involuntary resettlement amounts to a forced eviction when it occurs without the provision of, and access to, appropriate forms of legal or other protection."53 The effects of forced evictions can be very serious, especially for people who are already living in poverty. The UN Commission on Human Rights has described forced evictions as a "gross violation of human rights, particularly the right to adequate housing."54 The protection measures that should be applied to all evictions have been clearly articulated in the Basic Principles and Guidelines on Development-based Evictions (2007) developed by the UN Special Rapporteur on Adequate Housing.55 They reflect existing standards and jurisprudence on this issue. They include detailed guidance on steps that should be taken prior to, during and following evictions in order to ensure compliance with relevant principles of international human rights law.

The 11 core principles of the United Nations Special Rapporteur on the right to food, Olivier de Schutter, include the notion that any shifts in land use can only take place with the free, prior and informed consent of the local communities concerned. This is particularly important for indigenous communities, in view of the discrimination and marginalization they have been historically subjected to.

In May 2011, the Tirana Declaration was adopted by over 150 representatives of civil society organisations, social movements, grassroots organizations, international agencies, and governments - including the members and strategic partners of the International Land Coalition (ILC) such as the World Bank, FAO, IIED and the IFAD. The Declaration defines land grabbing as "acquisitions or concessions that are one or more of the following: (i) in violation of human rights, particularly the equal rights of women; (ii) not based on free, prior and informed consent of the affected land-users; (iii) not based on a thorough assessment, or are in disregard of social, economic and environmental impacts, including the way they are gendered; (iv) not based on transparent contracts that specify clear and binding commitments about activities, employment and benefits sharing, and; (v) not based on effective democratic planning, independent oversight and meaningful participation."

This leads to assessment elements 7 and 8.

- **Indigenous peoples' rights**

  Indigenous peoples face a number of land related challenges. Among these are forced evictions due to development projects, discrimination, a failure to respect and support indigenous modes of production such as pastoralism and subsistence hunting/gathering, dismissal of their customary systems of governing land and other natural resources, and disregard of their sacred sites and the spiritual relationship with their lands. Indigenous peoples' traditional lands are often in remote areas that have fragile ecosystems. This makes them vulnerable to natural disasters.[56]

  The UN Declaration on the Rights of Indigenous Peoples sets out the individual and collective rights of indigenous peoples, including their right to self-determination and to maintain and strengthen their distinct political, legal, economic, social and cultural institutions. It prohibits discrimination against indigenous peoples. Moreover, it provides indigenous peoples the right to their land, habitat and other resources that they traditional own, cultivate or otherwise use. Under Article 10 of the Declaration, they are guaranteed the right not to be forcibly removed from their lands or territories, and no relocation shall take place without their free, prior and informed consent (FPIC) and after agreement on just and fair compensation and, where possible, with the option of return.

  In article 8(j), the Convention on Biological Diversity (CBD) also considers the fair and equal use and the advantages of biological diversity and requires that traditional knowledge of indigenous and local communities can only be used with their permission. According to the related Nagoya Protocol this also applies to access to and utilization of genetic resources. The Akwé: Kon Guidelines require the conduct of cultural, environmental and social impact assessments regarding developments proposed to take place or which are likely to impact on sacred sites and on lands and waters traditionally occupied or used by indigenous and local communities.

  International Labour Organisation (ILO) Convention Nr.169 on the *Identification of indigenous and tribal peoples* protects countries and habitats of indigenous peoples. The convention describes measures to protect the rights of these peoples on the use of areas they had traditionally access to and that are important for their livelihood and traditional activities. It includes the right of indigenous peoples to Free, Prior and Informed Consent (FPIC) on decisions that can influence their habitats and natural resources.[viii]

  The *Inter-American Development Bank* recognises in its Operational Policy on Indigenous Peoples that the life and the culture of peoples that live in voluntary isolation or have not yet been in contact with the outside world have to be protected against potential investments. The bank obliges itself not to invest in any project that may have negative consequences for these peoples.

  This leads to assessment elements 7 and 8.

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viii In its Working Paper on FPIC the United Nations Workgroup Indigenous Peoples of the Sub-Commission on the Promotion and Protection of Human Rights describes the right of indigenous peoples to Free, Prior Informed Consent (FPIC) on decisions that can influence their habitats and natural resources. The FPIC-principle requires the full and timely publication of information on the potential consequences of proposed investment plans. Communities have the right to respond to this in a negotiation process. This gives them more influence in decision-making processes, offers them the opportunity to negotiate any direct advantages and to speak out in favour of or against the plans

- **Women's rights**

  The main international treaty for women's rights Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) was adopted in 1979. The CEDAW describes the global consensus on the changes that should take place to realize women's rights.. The Convention defines discrimination against women as "...any distinction, exclusion or restriction made on the basis of sex which has the effect or purpose of impairing or nullifying the recognition, enjoyment or exercise by women, irrespective of their marital status, on a basis of equality of men and women, of human rights and fundamental freedoms in the political, economic, social, cultural, civil or any other field."

  Equal participation of indigenous women during consultation procedures (based on the FPIC-principle) has to be guaranteed. The Beijing Declaration of Indigenous Women requires "equal political participation in the Indigenous and modern structures of socio-political structures and systems at all levels".

  The UN Declaration on the Rights of Indigenous Peoples calls on States to pay particular attention to the rights and special needs of indigenous women when measures are taken to ensure continuing improvement of economic and social conditions. It also calls for full protection and guarantees against all forms of violence and discrimination against women.

  This leads to assessment element 9.

- **Rights of children**

  The Convention on the Rights of the Child contains the fundamental rights of children that State Parties need to respect, protect and fulfil, including the rights to survival, to be able to fully develop, to protection from harmful influences, abuse and exploitation and to fully participate in the family and in social and cultural life.

  In 2012, UNICEF, UN Global Compact and Save the Children have drafted the Children's Rights and Business Principles, which is the first comprehensive set of principles to guide companies on the full range of actions they can take in the workplace, marketplace and community to respect and support children's rights.

  The UN Declaration on the Rights of Indigenous Peoples calls on States to pay particular attention to the rights and special needs of indigenous children when measures are taken to ensure continuing improvement of economic and social conditions. It also calls for full protection and guarantees against all forms of violence and discrimination against children.[57]

  This leads to assessment element 10.

- **Activities in occupied territory**

  International humanitarian law (IHL) regulates situations of conflict, including occupation, and defines the rights of the protected population (i.e. the Palestinians living in the occupied territory) and the obligations that a country occupying the area (i.e. Israel) has vis-à-vis the protected population. The United Nations Guiding Principles on Business and Human Rights (UNGPs) prescribes that enterprises should respect standards of IHL. Thus, doing business in occupied territories requires understanding of IHL.

IHL regulating occupation is described in the Fourth Geneva Convention from 1949, most of which has become customary international law. Among others, this convention prohibits transfer of the occupying country's population into the territory, forcible transfer and confiscation of private land and property of the protected population, and changing the laws of the occupied territory. It also sets out that some of these violations (e.g. forcible transfer) amount to war crimes.

Settlements in occupied territory are consequences of, maintain and constitute various violations of IHL and customary international law. Beyond that, settlements and the infrastructure that enables settlements also violate human rights of the protected population, triggering human rights responsibilities of enterprises. [58]

This leads to assessment element 11.

- **Other guidelines for companies**

The OECD Guidelines for Multinational Enterprises are recommendations by governments to multinational corporations. They contain voluntary guidelines and standards for responsible enterprise behaviour in line with relevant legislation. According to the guidelines, companies have to respect the human rights of people affected by their activities. At the update in 2011, the recommendations have been entirely aligned with the Ruggie Framework and its United Nations Guiding Principles on Business and Human Rights (UNGPs).

This leads to assessment elements 1 to 5.

Also the ISO 26000 guideline recognises the importance of human rights. In this guideline for social responsibility of organisations, Respect for Human Rights is one of the seven principles of CSR. In the core issue, the main underlying topics -risk situations, *due diligence*, avoiding complicity, solving grievances, discrimination and vulnerable groups, civilian and political rights, economic, social and cultural rights and fundamental principles and labour rights- are elaborated further into actions and expectations. [59]

Companies are often part of long production chains. They can monitor one another and question how they respect local and national legislation and international norms on labour rights. The requirements that companies set for their suppliers can be included in contractual agreements. The above guidelines also recognize the importance of integrating human rights criteria in procurement.

This leads to assessment elements 1, 2, 3, 12 and 13.

Companies that participate in the UN Global Compact programme endorse two principles on human rights:

- Businesses should support and respect the protection of internationally proclaimed human rights.
- Businesses should make sure that they are not complicit in human rights abuses.

This leads to assessment elements 1, 3 and 5.

2.2.3 Assessment elements

Although financial institutions are mostly not directly involved in violations of human rights, they can be held jointly responsible if the companies or governments in which they invest violate human rights. After all, the responsibility to respect human rights requires companies not only not to cause, or contribute to, a negative impact on human rights with their own activities, but also to try to prevent or mitigate a negative impact on human rights made by their business relations; when such is directly linked to their own operations, products or services, even if they did not contribute to this impact directly.60 In order to avoid any type of involvement in violations of human rights, financial institutions need a human rights policy with clear standards and policy lines. A policy that mainly formulates general objectives will be insufficiently effective.

The following elements are crucial for a policy regarding the financial institution's internal operations:

1. The financial institution respects all human rights as described in the United Nations Guiding Principles on Business and Human Rights (UNGPs).

The following elements are crucial for a policy regarding the companies a financial institution invests in:

2. Governments respect, protect and fulfil all human rights as described in international declarations and conventions.
3. Companies respect all human rights as described in the United Nations Guiding Principles on Business and Human Rights (UNGPs).
4. Companies have a *policy commitment* to meet their responsibility to respect human rights.
5. Companies have a *human rights due diligence process* to identify, prevent, mitigate and account for how they address their impact on human rights.
6. Companies have processes to enable the *remediation* of any adverse human rights impact to which they cause or to which they contribute.
7. Companies prevent conflicts over land rights and acquire natural resources only by engaging in meaningful consultation with local communities and obtaining free, prior and informed consent (FPIC) when it concerns indigenous peoples.
8. Companies prevent conflict over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of the land users involved.
9. Companies have special attention for respecting the rights of women, especially to prevent discrimination and to improve equal treatment of men and women.
10. Companies have special attention to respect the rights of children.
11. Companies respect International Humanitarian Law and do not enable settlements in occupied territories.
12. Companies integrate human rights criteria into their procurement and operational policies.
13. Companies include clauses on compliance with human rights criteria in their contracts with subcontractors and suppliers.

2.3 Labour rights

2.3.1 What is at stake?

Protecting people in their working environment is a fundamental responsibility of companies and governments. Employees have the right to:

- good working conditions: a safe and healthy workplace, no discrimination;
- good labour conditions: remuneration, working hours, provisions, etc.;
- respect of their labour rights: the freedom of association, the right to collective bargaining and other rights.

All companies have to be able to prove that their employees work in a safe environment, that they are not discriminated against or mistreated, that they can deal freely with colleagues, labour unions and representative organisations, and that they are remunerated in a fair way for their services. These basic rights apply to all employees, regardless of their race, gender or religion. Meeting these conditions helps when developing a strong work force that can contribute to the development of sustainable *human capital*. In addition, ensuring labour rights can contribute to the democratisation of societies, which leads to a more favourable investment climate for the corporate world.

Higher wages and more stringent maximum working hours, investments in professional training and respect for equality lead to better trained and more satisfied employees. In addition, safety requirements are essential to prevent accidents and to minimise the number of people that need health care. Protection of employment agreements can encourage employees to think innovatively and choose new paths. Furthermore, developing direct communication channels between employees and employers and setting up grievances and mediation procedures can contribute to productivity growth and to a greater stability of the labour market.[61]

Special attention for the position of women in the labour market is important. If women earn an income, this contributes strongly to the health and productivity of families and even communities as well as to improved prospects for their children and future generations.[62] The UN Convention on the Elimination of All Forms of Discrimination Against Women endorses the right of women not to be discriminated against on education, labour relations, and economic and social activities. Working environments where men and women are treated equally (Gender Equality) are of great importance in helping to reduce poverty and improve the standards of living. In addition, it is important that such factors are also considered for women during and around the period of pregnancy. Within one of the eight Millennium Development Goals, special attention is paid to the position of women.
The financial and economic crises of recent years have also had an impact on the job market: there is less and less security for employees. Mainly young people have been hit hard by the crisis: since 2007 there has been a worldwide increase of 4 million unemployed youngsters of 15-24 years of age (now a total of 74.8 million). The ILO concludes that the world community is facing a challenge to create 400 million new jobs, before the next decade, to absorb the expected growth in the work force. Jobs are also needed for the 900 million people that are living below the poverty line.[63]

The policy of financial institutions has to take care that they only invest in companies that meet these criteria. When developing policies in this respect, financial institutions can make use of the international standards described below.

2.3.2 International standards

With regard labour rights the following international standards and norms are relevant:

- **Fundamental principles**

  The body that internationally establishes standards for the labour field is the United Nations International Labour organisation (ILO) in which governments, employers, and employees cooperate. Up to now, the ILO has adopted 189 agreements (conventions) and 201 recommendations that combined deal with a wide spectrum of labour issues.ix In 2014 the Brief on the Protocol to the Forced Labour Convention, 1930, was updated.[64]

  With the adoption of the ILO Declaration on Fundamental Principles and Rights at Work in 1998, the ILO identified eight of its conventions as “fundamental” or “core” conventions. These eight cover four topics that are considered as the fundamental principles and rights at work:

  - The freedom of association and the effective recognition of the right to collective bargaining;[65]
  - The elimination of all forms of forced and compulsory labour;[66]
  - The effective abolition of child labour;[67]
  - The elimination of discrimination in respect of employment and occupation.[68]

  This leads to assessment elements 1, 2, 3 and 4.

- **Working conditions**

  Another leading ILO document is the Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, adopted in 1977. In March 2006, the fourth revised edition was published. The Tripartite Declaration focuses on the responsibility of companies and specifically on their dealings with labour issues. Besides the reaffirmation of the rights on freedom of association and collective bargaining and the ban on discrimination and forced labour, the agreement requires companies to:

  - Improve working conditions and development opportunities, preferably hiring people from the local population, and the use of local materials and local production and processing capacity.
  - Improve equal chances and treatment, by basing hiring procedures on qualifications, skills and experience, and to offer staff training on all levels and to avoid discrimination of employees (based on ethnicity, gender or social background).
  - To protect employees and to avoid arbitrary dismissal. Whenever changes with major employment effects occur, these are to be disclosed in advance to labour unions and government authorities.
  - To offer relevant education on all levels, for employees and management.
  - To offer the best possible wages and fringe benefits for employees, in any case not considerably less than other local employers. The labour remuneration has to be linked to the economic position of the company and should at least provide in the basic needs of employees and their families.
  - To achieve and preserve the highest standards of health and safety and to report any hazards to government authorities and employee organisations.
  - To establish a procedure for regular consultation between employees and employers.
  - To establish a procedure to handle complaints.

  This leads to assessment elements 4, 5, 6, 7, 9 and 10.

[ix] For a complete overview see the ILOLEX database, online:www.ilo.org/ilolex/english, viewed in March 2012.

- **Rights of children**

  The United Nations Convention on the Rights of the Child support the appeal for the effective abolition of child labour.

  This leads to assessment element 3.

- **Women's rights**

  The UN Convention on the Elimination of All Forms of Discrimination Against Women endorses the right of women not to be discriminated against on education, labour relations and economic and social activities.

  This leads to assessment element 4.

- **Migrant workers**

  The United Nations Convention on the Protection of the Rights of All Migrant Workers and Their Families emphasises the connection between migration and human rights and and aims to protect migrant workers and their families. The Convention does not bring any new rights for migrants into existence, but intends to guarantee equal treatment and working conditions for migrants and nationals.

  This leads to assessment element 8.

- **Health and safety**

  OHSAS means Occupational Health and Safety Assessment Series. OHSAS 18001 was developed as an international standard which should help companies to manage health and safety risks at work. This standard provides guidelines for a risk management system. It applies to all kinds of organisations and it serves to guarantee the health and safety of both employees and external stakeholders, for example constructors staff and visitors. OHSAS 18001 means that risks are surveyed structurally and evaluated too. The standard has been developed by the OHSAS Project Group, which is a consortium of i.a. certification organisations, governments and representatives of the industries. Presently, the standard is administered by the British Standards Institution (BSI). The International Standards Organization (ISO) does not recognize OHSAS 18001 as an official ISO standard.

  This leads to assessment element 7.

- **Guidelines for companies**

  Various guidelines for companies endorse both the four fundamental ILO principles and rights at work, as well as the Tripartite Declaration:

  - According to the United Nations Guiding Principles on Business and Human Rights (UNGPs), the responsibility of companies includes the fundamental principles of the ILO, together with the International Bill of Human Rights.
  - The UN Global Compact has added the four fundamental ILO principles and rights at work to the ten principles of responsible business.
  - The IFC Performance Standards, used in decision-making on financing by the International Finance Corporation;
  - After the revision in 2011, the OECD Guidelines for Multinational Enterprises are entirely in line with the Ruggie framework (see section 2.5.2) and also contain principles for supply chain responsibility;

- The ISO 26000 guideline recognises the importance of labour rights and good working conditions. In the core issue labour practice the main underlying topics - employment and labour relations, working conditions, and social security, social dialogue, health and safety at work, personal development and training at the work place - have been further elaborated in actions and expectations.[69]

International companies can conclude an *International Framework Agreement (IFA)* with an international umbrella union. In an IFA, set agreements can be established on labour conditions, working conditions, and labour rights for all employees, and sometimes also subsidiaries and suppliers of the enterprise. The international employer's organisation IOE has written papers about drafting an IFA.

- **Procurement and supply chains**

Companies are often part of long production chains. They can monitor one another and question how they respect local and national legislation and international norms on labour rights. The requirements that companies set for their suppliers can be included in contractual agreements. The importance of this also recognised in the OECD Guidelines for Multinational Enterprises since its revision in 2011.

Also the ISO 26000 guideline recognises the importance of supply chain responsibility, because "the impacts of an organization's decisions or activities can be greatly affected by its relationships with other organizations." A companies' sphere of influence includes relationships within and beyond an organization's supply chain.[70]

Usable standards in this field are amongst others, the SA8000 Standard, Fair Wear Code of Conduct, the FTSE4 Good Supply Chain Labour Standards Criteria and Fair Labour Association's Workplace Code of Conduct.

This leads to assessment elements 11 and 12.

2.3.3 Assessment elements

Like other companies, financial institutions are expected to respect local, national, and international legislation and legal systems, and to endorse the four fundamental ILO principles, labour rights and the Tripartite Declaration in all their spheres of influence (as employers, in investees and in their production chains). However, the Fair Finance Guide International solely assesses the investment policy and not the staff policy of the financial institution.
The following elements are crucial for a policy regarding the companies a financial institution invests in:

1. Companies uphold the freedom of association and the effective recognition of the right to collective bargaining.
2. All forms of forced and compulsory labour are unacceptable.
3. Child labour is unacceptable.
4. Discrimination in respect of employment and occupation is unacceptable.
5. Companies pay a living wage to their employees.
6. Companies apply a maximum of working hours.
7. Companies have a solid health and safety policy.
8. Companies ensure equal treatment and working conditions for migrant workers.
9. Companies have a clear management system to monitor and, if needed, correct compliance with norms on labour law.
10. Companies establish procedures on how to deal and process employee complaints and to solve violations and conflicts, preferably in consultation with the relevant trade union.
11. Companies integrate labour rights criteria in their procurement and operational policies.
12. Companies include clauses on the compliance with criteria on labour rights in their contracts with subcontractors and suppliers.

2.4 Nature

2.4.1 What is at stake?

The biological diversity of planet earth - its ecosystem diversity, species diversity and genetic diversity - forms a complex web of life that is of great importance to the economic and social development of our society, for our culture and for our leisure facilities. The accelerating decline of the global biodiversity (nature) is one of the most urgent environmental concerns. The loss of biodiversity imposes huge potential costs and risks, such as the destruction of habitats, the loss of the functions of ecosystems, the threat of the food supply and the loss of medicinal plants. The Economics of Ecosystems and Biodiversity (TEEB) project of the UNEP estimates that the loss of biodiversity due to deforestation alone will cost the world economy about $ 4,500 billion annually.[71] The care for the natural riches of the world is a moral and ethical responsibility for all mankind.

In March 2005, the Millennium Ecosystem Assessment (MEA) was published: a four-year scientific study initiated by the United Nations, in which 1,360 experts cooperated globally. A part of the study focuses on biodiversity. For this purpose, both the findings as well as the extensive recommendations for policy are published separately. The MEA findings provide insight into the current state and change of ecosystems and the respective effects on human life. The report also provides a recommendation for companies to use and preserve ecosystems in a sustainable way.

The MEA concluded: “Over the past 50 years, humans have changed ecosystems more rapidly and extensively than in any comparable period of time in human history, largely to meet rapidly growing demands for food, fresh water, timber, fibre and fuel. This has resulted in a substantial and largely irreversible loss in the diversity of life on Earth and the exacerbation of poverty for some groups of people. These problems, unless addressed, will substantially diminish the benefits that future generations obtain from ecosystems. The degradation of ecosystem services could grow significantly worse during the first half of this century and is a barrier to achieving the Millennium Development Goals.”[72]
At the same time, the MEA believes “that with appropriate actions it is possible to reverse the degradation of many ecosystem services over the next 50 years, but the changes in policy and practice required are substantial and not currently underway.”[73] The Millennium Development Goals report from 2014 still support these findings. Although much progress has already been made, a significant effort is still required to protect the ecosystems humanity relies on for survival – especially freshwater ecosystems.74

Climate change also has an impact on biological diversity. According to the Intergovernmental Panel on Climate Change (IPCC), climate change will alter the structure and functioning of most ecosystems, it will reduce biodiversity and therefore compromise the ecosystem services required by life on earth. In the report ‘Climate Change 2007: Working group II: Impacts, Adaptation and Vulnerability’ the IPPC states that confidence exists that part of the shifts in species that have occurred in the past decades can be attributed to human-induced warming. Moreover, it argues that since regional temperature trends are already affecting species and ecosystems around the world, additional climate changes will thus be likely to adversely affect many more species and ecosystems as global mean temperatures will continue to increase.

The investment policy of financial institutions should ensure that financial institutions are only involved in investments in companies and governments that aim to prevent further loss to natural riches and also put this principle into systematic practice. When developing policies in this respect, financial institutions can make use of the international standards described in section 2.7.2.

2.4.2 International standards

The 1992 UN Convention on Biological Diversity (CBD) aims to globally protect and use biological diversity in a sustainable manner. The CBD demands that signatory countries include the topic of biodiversity in the legal procedures that assess the effects of activities on the environment (environmental impact assessments). Virtually all countries in the world have signed the convention.[75]

In April 2002, the signatory countries of the CBD agreed that they will "achieve by 2010 a significant reduction of the current rate of biodiversity loss at the global, regional and national level as a contribution to poverty alleviation and the benefit of all life on Earth".[76] In November 2010, the CBD achieved a new agreement, in which it was agreed that 10% of the oceans are marked as natural areas, more stringent laws have to be created to protect fish and that the amount of protected land will grow from 13% to 17%.[77]

The CBD divides biodiversity into three categories: ecosystem diversity, species diversity and genetic diversity. The specific standards that are available for each category are discussed below.

- **Protection of ecosystems and habitats**

  Various international agreements require the protection of ecosystems and natural habitats:

  - The UN Convention on Biological Diversity (CBD) demands that each member state establishes a system to preserve the biodiversity in protected areas, or ensure the protection of ecosystems in other ways.
  - The UN Convention on the Law of the Sea (UNCLOS) obliges all signatory countries to protect and preserve the biodiversity in ocean areas. The protection of specific ocean areas is dealt with in the Regional Seas Conventions, which falls under the UN Environmental Programme (UNEP). Also, the International Coral Reef Initiative focuses on specific ocean areas.
  - The biodiversity in areas that are important on environmental and cultural grounds falls under the protection of the UNESCO World Heritage Convention.
  - For *wetlands* (swamps and bogs), which are rich in biodiversity, there is the Ramsar Convention on Wetlands that ensures protection and proper management of these areas.
  - The International Union for Conservation of Nature (IUCN) has developed a system that categorises natural areas in six categories and indicates in which areas biodiversity has to be protected (category I to IV). In addition, the IUCN provides guidelines for companies on how to deal with fields that fall within these Protected Area Management Categories. In 2000, a resolution was adopted on the IUCN World Conservation Congress that calls upon all states not to allow investments in oil, gas and extractive industry projects in the protected areas (categories I to IV).

  This leads to assessment elements 1, 2, 3 and 4.

- **Protection of plant and animal species**

  The most obvious step for the preservation of biodiversity is the protection of endangered species of flora and fauna. A leading report of endangered species is the IUCN Red List of Threatened Species. The habitat of these endangered species is protected by the Convention on the Conservation of Migratory Species of Wild Animals (1979). This treaty also aims to restrict exploitation of areas where wild and endangered migratory animal species reside. Other global and regional conventions prohibit or restrict the commercial exploitation of whales, migratory birds, polar bears, sea turtles and seals.[78]

This leads to assessment element 5.

The Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) sets stringent conditions for the international trade in all endangered species with demands for national legislation from the countries that have ratified the convention. CITES applies three lists with species that are more or less threatened with extinction. Animal and plant species included in Appendix I may only be traded in exceptional situations, while the trade in species included in Appendix II is monitored to ensure that they are not endangered. Appendix III concerns species that are endangered in at least one country and where other countries are asked for help in monitoring the trade.[79]

Except for the protection of endangered animal species, conservation of nature requires that animal species that are not (yet) endangered are not unduly captured and that commercial catching takes place in a sustainable way. The CBD demands that countries "restore habitats and use their resources in a sustainable way to ensure species diversity".[80] This topic is also dealt with in section 3.1 on food and section 3.5 on forestry.

This leads to assessment elements 6 and 7.

Nature is also threatened by the intended and unintended introduction of invasive alien species. When these are outside their natural habitat, they can drive off indigenous species and take over their habitat. *Exotic invaders* can be found all over the world, but mainly pose a problem for the ecosystems of islands. Therefore, the UNCLOS and the CBD both require that member states prevent the import and introduction of alien species in order to keep it under strict control.

On 1 January 2015 the EU Regulation 1143/2014 on Invasive Alien Species entered into force. This Regulation seeks to address the problem of invasive alien species in a comprehensive manner so as to protect native biodiversity and ecosystem services, as well as to minimize and mitigate the human health or economic impacts that these species can have. Amongst others, Member States will have to draw up a list of invasive species, perform risk assessment and set up early detection measures.[81]

This leads to assessment element 11.

- **Protection of genetic material**

The CBD demands that companies that want to have access to genetic material from abroad have to obtain prior permission from the exporting country and have to make clear agreements for the use of the material.

The Bonn Guidelines are recognized as a useful first step in the implementation of relevant provisions of the CBD and are meant to assist stakeholders in developing access to genetic resources and benefit-sharing strategies. The Cartagena Protocol on Biosafety has developed a framework for the safe use of living genetically modified organisms that may have a harmful effect on biodiversity and human health and entail trans-boundary risks. The protocol also requires permission from the importing country before it is permitted to import living genetically modified organisms.

This leads to assessment elements 8, 9 and 10.

- **Guidelines for companies**

The High Conservation Value (HCV) concept was initially conceived within the framework of certification of forest management and wood products (High Conservation Value Forests or HCVF), but can be applied to all ecosystems and natural living environments. The HCV Resource Network has developed national implementation guidelines, local projects, training and workshops.

In April 2006, the Voluntary Guidelines on Biodiversity-Inclusive Impact Assessments were published by the CBD. These guidelines include clear instructions on how nature criteria can be included in environmental impact assessments.

In Great Britain the EarthWatch Institute and others are working on involving companies in the preservation of biodiversity. They have drafted a road map specifically for companies, based on 10 principles of engagement, including the preparation of a strategic biodiversity plan, the integration of biodiversity standards in regular quality measurements and the protection of nature in the procurement policy. The Wildlife Trust has developed a biodiversity benchmark. Both initiatives mainly focus on companies that own land or are responsible for land management.

In December 2007, the IUCN National Committee of the Netherlands published a manual for companies, Business and Biodiversity.
The ISO 26000 guideline, published in November 2010, states that organisations behave socially responsible if they value and protect biodiversity; value, protect and restore ecological services; use land and natural resources in a sustainable way and develop areas in an environmentally responsible way.[82] In October 2011, the Global Reporting Initiative (GRI) published a report on ecosystem services and the ways in which companies can investigate what effect they have on ecosystem services. Suggestions are made for indicators of future use in the GRIs Reporting Framework.

The International Finance Corporation's (IFC) Performance Standard 6 concerning Biodiversity Conservation and Sustainable Management of Living Natural Resources determines how companies should operate in order to avoid negative consequences on areas of high biodiversity value, including impact on natural habitats as well as endangered and endemic species. The requirements in the standard have been guided by the Convention on Biological Diversity.

The UNEP FI has introduced the Natural Capital Declaration on the Rio + 20 Earth Summit in June 2012. Signatories of this initiative will show their commitment to integrate natural capital (natural resources and the ecosystem services the earth produces from them) and criteria into their financial products.

In 1994, the Global Ecolabelling Network (GEN) was founded. This non-profit association aims to improve, promote and develop the eco-labelling of products and the creditability of eco-labelling programs worldwide. It associates third-party, environmental performance recognition and certification and labelling organizations.

A useful methodology to quantify the biodiversity impact of companies and sectors is provided by the Dutch Benchmark Biodiversity of research agency CE Delft.
Several very large companies, notably traders in the palm oil sector such as Archer Daniels Midland and Wilmar International (the latter controls roughly 45% of the global market in palm oil), have adopted 'no deforestation' policies in recent years. These policies set a high benchmark, often allowing no deforestation, no peat development and no conflicts, in their own operations or in their supply chain. Although in these first cases directed at the palm oil sector, financial institution may apply the policies to other sectors causing deforestation, peat loss and conflicts as well.[83]

This leads to assessment elements 12, 13 and 14.

2.4.3 Assessment elements

Financial institutions can influence the protection of nature, especially if they invest in industries with a potentially large influence on nature, such as forestry, the extractive industry, the oil and gas industry, fishery, water supply and infrastructure and industries that make use of genetic material, such as agriculture, biotechnology, the medical industry and the cosmetic industry.

For companies there are various grounds for putting biodiversity high on the agenda. This includes more stringent rules to protect ecosystems and more stringent supervision, increased costs in product chains that depend on certain ecosystems, changes in consumption patterns and pressure from society and social organisations. Moreover, new commercial chances for companies arise in situations where commerce and nature management go hand in hand. Financial institutions can capitalise on this development.[84]

In order to address the risks for natural areas and other threats to biodiversity, financial institutions have to draft an investment policy in line with international conventions and national legislation.

The following elements are crucial for a policy regarding the companies a financial institution invests in:

1. Companies prevent deforestation and protect natural forests including old growth forests, bogs, mangroves and rainforests, as described in the High Conservation Value (HCV) concept.
2. Companies prevent negative impact on protected areas that fall under the categories I-IV of the International Union for Conservation of Nature (IUCN).
3. Companies prevent negative impact on UNESCO World Heritage sites.
4. Companies prevent negative impact on protected areas that fall under the Ramsar Convention on Wetlands.
5. Companies prevent negative consequences for the populations or the number of animal species that are on the IUCN Red List of Threatened Species.
6. Trade in endangered plant and animal species complies with the CITES conditions.
7. Trade in endangered plant and animal species that are on the CITES lists is unacceptable.
8. Activities in the field of genetic materials and genetic engineering only take place if they meet the permission and processing requirements as described in the UN Convention on Biological Diversity and the related Bonn Guidelines or Nagoya Protocol.
9. Production of, or trade in, living genetically modified organisms can only take place if permission has been obtained from the importing country and all requirements of the Cartagena Protocol have been met.
10. Production of, or trade in, living genetically modified organisms is unacceptable.
11. Companies prevent the introduction of invasive alien species in ecosystems.
12. Companies make an environmental impact assessment on the total consequences of the project on biodiversity, at least according to the guidelines for reporting on biodiversity and land use in the Global Reporting Initiative.
13. Companies integrate criteria on nature into their procurement and operational policies.
14. Companies include clauses on the compliance with criteria on nature in their contracts with subcontractors and suppliers.

2.5 Taxes and corruption

2.5.1 What is at stake?

For each democratic society, tax revenues are essential to finance public provisions such as health care, education, infrastructure and social security. Research shows that a fair system of taxation contributes more to the development of a healthy, democratic society than revenues from development aid or from the export of raw materials. As in order to raise taxes, the development of a capable and reliable civil service is required, while conversely civilians that have to pay tax expect a lot of more of, and are more involved with, the public administration. Democratisation is often the result of striving for higher tax revenues.[85]

Also, companies benefit from the public provisions in the countries where they operate and therefore have responsibility to pay tax in every country and to be open about it. Yet, a lot of international operating financial institutions, companies and rich private clients benefit from international differences in tax percentages and loop holes in national tax legislation to significantly reduce their overall tax burden (tax planning).[86]
Thereby, they often make use of shell companies in tax havens that are not only known for their low tax rates but also for their lack of financial transparency. How much tax is ultimately paid, and in which country, quickly eludes everybody. A lot of international financial institutions have branches in tax havens to help their clients *and* to limit their own tax payments. If these type of constructions violate the law, this is called tax evasion, but even if this is not the case - in case of tax avoidance - this type of behaviour is contrary to the Corporate Social Responsibility principles: it is socially irresponsible to deprive governments of the revenues they need to develop their country socially and economically.[87]

The Tax Justice Network (TJN) estimated in 2012 that the 'super rich' have channeled between US$21 and US$32 billion of untaxed capital to tax havens.88 The UK organisation Christian Aid calculates that developing countries annually lose US$ 160 billion in tax revenues through tax evasion and avoidance by companies. A 2014 report of IMF explored the "broader macroeconomic and development impact of corporate tax spillovers, including wider issues of tax competition between national governments". The IMF argues that national tax laws and international tax arrangements should be transformed to prevent base erosion and profit shifting (BEPS). "Our technical assistance work in developing countries frequently encounters large revenue losses through gaps and weaknesses in the international tax regime", the IMF argues. Relative to all tax revenues, this can be up to 10-15 percent.[89]

A 2015 study of UNCTAD estimates that the contribution of "multinational enterprises' (MNEs) foreign affiliates to government budgets in developing countries at $730 billion annually". These contributions are vital to the government budget of developing countries as "this represents, on average, around 10% of total government revenues. Contributions through royalties on natural resources, tariffs, payroll taxes and social contributions, and other types of taxes and levies are twice as important as corporate income taxes." 90 Besides calculating that developing countries' governments annually lose US$ 100 billion in revenues due to tax avoidance by multinational enterprises (MNEs), UNCTAD also points towards the problem that the size and direction of foreign direct investment (FDI) flows are often influenced by MNE tax considerations. Policymakers should therefore not only focus on tax rules and transparency principles, but also consider the role of investment.[91]

This is more than the amount that developing countries need according to the Millennium Development Goals to halve global poverty before 2015. And corresponds with the OECD estimation that developing countries annually lose more than three times the development aid received to tax revenues in tax havens.[92] However, it is not just the developing countries that have to deal with such problems. The Financial Secrecy Index shows that most of the tax evasion is taking place in countries that are members of the OECD (. i.a. Switzerland, Luxembourg, the US, Japan and Germany are high on the list.[93]

The Ex'Tax Project, in cooperation with accountancy firms Deloitte, EY, KPMG Meijburg and PwC, argues that fiscal reforms are required in order to achieve a circular and inclusive economy. In a 2014 report, the organizations conclude that the EU tax systems 'play a key role in prohibiting such economy'. The report claims: 'Many labour intensive business models are needed in a circular economy, including repair, urban mining, innovation and redesign of products and services. But high labour taxes and social contributions currently give incentives to business to hire as few people as possible, or to outsource to low-income countries. High taxes on labour also cause technological innovation to focus on making people redundant in production processes. Environmental taxes, on the other hand, are considered more growth-friendly and less distortive than taxes on labour. In the EU, however, environmental taxes are at their lowest level in more than a decade'.[94]

In a lot of countries, the tax system suffers from corrupt practices. It lowers tax revenues and limits the possibilities of the government to meet its obligations.[95] Corruption also has negative economic consequences. It leads to capital flight and to the expenditures of scarce public funds to unprofitable prestige projects, instead of to more necessary types of infrastructure such as schools, hospitals and drinking water supplies. It also hinders the development of markets and disturbs free competition. In addition, corruption leads to large scale plundering of natural resources, such as wood, gemstones and minerals. Large scale, strongly polluting projects are given free rein in a climate of corruption and they often mean public money ends up in private hands.[96]

Furthermore, corruption has significant negative consequences on the political, social and environmental fields. On the political field, corruption forms a large obstacle when developing the rule of law. Government representatives lose their legitimacy when many abuse their office for personal gain. It also undermines the faith of the people in the political system, which leads to frustration and apathy. It clears the way for leaders, whether chosen democratically or not, to appropriate national assets for themselves without supervision. And if corruption is the norm, honest and capable civilians will leave the country.[97]

The Transparency International (TI) Corruption Perceptions Index shows that corruption mainly occurs in southern, poorer countries. But TI emphasises that for corruption, two parties are involved, the payer as well as the receiver of the bribes. According to the TI Bribe Payers Index, companies from China and Russia are most inclined to pay bribes, but also companies from OECD-countries like Italy and France have a poor reputation in that respect. According to TI, corruption occurs mostly in the construction industry (including public works and real estate).[98] In the Netherlands, the Dutch National Bank (DNB) investigated corruption risks at Dutch banks and insurers. The DNB found out that corruption risks, both connected to internal operations as to clients and investee companies, are sufficiently identified, but are not adequately dealed with.[99]

Lobbying practices can have similar effects as corruption. Although lobbying as such cannot be regarded as corruption per se, sometimes lobbyists will go as far in striving to influence legislators and regulators that it could almost be considered as corruption. The influence of the corporate world on the development of international norms is often large and forms an important ground for legislation being behind on certain fields. On the one hand, public institutions have formulated clear rules for their employees to which they must comply in order to prevent bribery and influence. On the other hand the participation of social and commercial organisations in the decision-making process is far from transparent. Since the mid-nineties, Canada and the US have mainly been active in providing more clarity in this respect. That is why in these countries, organisations are now obliged to register when they participate in the decision-making process. Organisations that register themselves can therefore make it clear that they work in a transparent and legitimate way.

One can expect from responsibly operating financial institutions that they do not deliberately assist clients in avoiding taxes and that they do not avoid taxes themselves. Moreover, financial institutions have the responsibility to only grant financial services to companies that pay the taxes owed in the countries where they operate and that they do not engage in corruption and negatively influencing the development of international norms. When developing policies on taxes and corruption, financial institutions can make use of the international standards described below.

2.5.2 International standards

The most important international standards in the field of tax and corruption are summarized below.

- **Harmful tax practices**

  There are various international initiatives that aim to ban harmful tax practices by governments:

  In January 1998, the Organisation for Economic Co-operation and Development (OECD) started a project against harmful tax practices.[100] The OECD distinguishes between tax havens and countries with harmful preferential tax regimes. Tax havens are often very small countries that almost entirely depend of the revenues from activities related to tax avoidance and tax evasion. Between 2000 and 2009, OECD identified 41 jurisdictions as tax havens according to their own criteria. In 2002, agreements were made for more transparency and the exchange of data with a total of 31 tax havens identified by the OECD in this project. Seven jurisdictions remained unwilling to co-operate herein, which were subsequently placed on the OECD list of uncooperative tax havens. In 2003 however, two of these jurisdictions made their commitments at last and were removed from the list, followed by two other jurisdictions in 2007. In 2009, the three remaining tax havens were removed from the list, which has since then been empty.[101]

  Countries with harmful preferential tax regimes try to lure corporate investments offering fiscal advantages to certain groups of companies. These measures stimulate tax avoidance by multinational corporations and decrease the tax revenues of other states. Also in this field, the OECD claims to have made a lot of progress: by now, the 47 possibly harmful preferential schemes that were in force in 2000 in the OECD-member states, have all been abrogated, adapted, or appeared not to be harmful at further research. However, agreements of governments with individual companies are not included in this OECD-project.[102] The OECD continues to monitor countries within the Global Forum on Transparency and Exchange of Information for Tax Purposes. To this effect, OECD and non-OECD countries cooperate in the implementation of an internationally accepted standard for taxes.[103] However, civil society organisations have outlined several weaknesses of the Global Forum process and called for a more inclusive process under the auspices of the UN.[104]

  In December 1997, the European Council adopted a Code of conduct for business taxation. In this code of conduct, the EU-member states promise not to implement harmful preferential tax regimes and to abrogate existing legislation. The code of conduct mentions various characteristics of harmful preferential tax regimes including “an effective level of taxation which is significantly lower than the general level of taxation in the country concerned”, “the basis of profit determination for companies in a multinational group departs from internationally accepted rules” and “granting of tax advantages even in the absence of any real economic activity” in the respective country.[105]

In 2013, the Tax Justice Network published its website, Financial Secrecy Index, on which 82 locations or so-called global *secrecy jurisdictions* have been identified and listed by their level of transparency. The term 'secrecy jurisdictions' can be interchanged with the term tax haven, but emphasizes suspension from disclosure (of information). Tax Justice Network furthermore recognizes the large amount of illicit financial flows in poor countries, but at the same time recalls 'the other side of the coin', namely 'those jurisdictions that encourage and facilitate illicit financial flows, by providing an environment of secrecy that allows these outflows to remain hidden, and largely untaxed. Contrary to OECD, Tax Justice Network has not suspended its list of secrecy jurisdictions'.[106]

The European Network on Debt and Development (Eurodad), a transnational NGO working on issues related to debt, development finance and poverty reduction, argues that the OECD seems to be dictated by tax havens rather than the other way around. This is shown by the G20 unimplemented sanctions against tax havens and by OECD members that threaten the organisation to restrain from paying annual fees if they would not be placed on the tax haven 'white list'.[107]

In November 2013 the European Commission has introduced new regulations for the corporation tax which parent companies and their subsidiaries have to pay, in order to try to close the loopholes of the law. This is the reason why it is no longer allowed to make use of the so-called 'double non-taxation'. Due to double non-taxation "it could occur that a subsidiary receives tax deduction, and the mother company receives an exempt in another country. The net result is that the company pays very little or no tax at all over the profits the subsidiaries have made". With the new regulations multinationals should be no longer able to take advantage of differences in tax regulations.[108]

This leads to assessment elements 1, 2, 3 and 4.

- **Tax planning**

Various international standards deal with the question of how international companies can deal with their tax obligations in a responsible way:

The OECD Guidelines for Multinational Enterprises offer a tool for codes of conduct of companies on how to deal with social issues. On taxes, the guidelines mention that "It is important that enterprises contribute to the public finances of host countries by making timely payment of their tax liabilities. In particular, enterprises should comply with both the letter and spirit of the tax laws and regulations of the countries in which they operate. Complying with the spirit of the law means discerning and following the intention of the legislature."

The UK organisations Tax Justice Network and the Association for Accountancy and Business Affairs have drafted a Code of Conduct for Taxation. The code states that companies should pass their revenues to tax authorities in the place where they are economically active and that they have to stop the artificial relocations of revenues to locations with lower tax percentages, mostly tax havens, to avoid paying tax. On how companies have to deal with tax planning, the code of conduct states:

- Tax planning seeks to comply with the spirit as well as the letter of the law;
- Tax planning seeks to reflect the economic substance of the transactions undertaken;
- No steps are put into a transaction solely or mainly to secure a tax advantage.

In October 2005, the UK asset management company Henderson Global Investors published the report Responsible Tax that presents a number of principles that can help companies in making decisions in the field of taxes. The report also makes proposals to improve the transparency of tax payments by companies.

UNCTAD argues that offshore investment hubs play a major role in tax avoidance. UNCTAD proposes ten Guidelines for Coherent International Tax and Investment Policies, which include the following key objectives to address tax avoidance:

- removal of aggressive tax planning opportunities as investment promotion levers;
- mitigation of the impact on investment of tax avoidance measures;
- recognition of shared responsibilities between investor host, home and conduit countries and the consequent need for a partnership approach; acknowledgement of links between international investment and tax agreements;
- and understanding of the role of both investment and fiscal revenues in sustainable development and of the capabilities in developing countries to address tax avoidance issues.

This leads to assessment elements 2, 3, 4 and 7.

- **Transparency on taxes and other payments**

In November 2006, the International Accounting Standards Board, which sets international guidelines for business accounts, published the International Financial Reporting Standard (IFRS) 8 Operating Segments. This standard indicates on how companies operating in several countries have to split their financial figures over their various business activities and the different countries in which they operate.[109]

A proposal of the Publish What You Pay coalition to also include in IFRS8 companies' reports on their paid taxes per country was not adopted by the IASB.[110] This makes it impossible to determine the extent to which companies relocate revenues to other countries to avoid or evade tax payment. It also remains unclear how many companies pay to the governments of countries where they operate, to obtain concessions for example, and whether there is corruption. There are various initiatives to improve transparency in this respect:

- In the Extractive Industries Transparency Initiative (EITI) a coalition of governments, companies, social organisations, and investors has drafted criteria for governments of countries where oil and gas extraction and mining takes place. From the governments comprehensive publication of all revenues they receive from these activities is expected. The Publish What You Pay coalition, in which more than 300 social organisations cooperate, focuses on the same industries and advocates that the mining companies also make their payments to governments public. This means that companies have to report on their tax payments in the countries where they operate, but also on royalties, payments for concessions and the like. According to the Revenue Watch Institute, the contract conditions in exploration and mining contracts in the oil, gas, mining, and forestry industries should also be made public.

- Comparable transparency obligations are increasingly imposed by multilateral financial institutions. The standards of the IFC Policy on Social and Environmental Sustainability oblige mining companies to make payments to local governments public. Also the EBRD Energy Operations Policy contains obligations for mining and energy companies to make their payments to local governments public and to behave according to the EITI principles and criteria.

- In July 2010, in the United States the Dodd-Frank Wall Street Reform and Consumer Protection Act was adopted, in which a large number of reforms of the financial markets have been included. Section 1504 of this law obliges US listed companies operating in the production of oil, gas and extractive industry products to provide information on their payments to governments in their annual report, broken down per country. The obligation applies to all payments after September 30, 2013.

- During the G20 conference in Moscow in July 2013 the OECD presented an Action Plan on Base Erosion and Profit Shifting (BEPS). This report introduces 15 guidelines for modernising tax systems and to prevent tax avoidance by multinationals. The plan was fully endorsed by G20 Finance Ministers and Central Bank Governors at their July 2013 meeting in Moscow as well as the G20 Heads of State at their meeting in Saint-Petersburg in September 2013[111]

  The ActionPlan is backed up by several institutional investors, calling for governments to install tax reforms: "As international investors, ensuring sound governance practices are embedded in corporate activities, including taxation planning and associated reporting and disclosure mechanisms is a fundamental concern. [112] Civil society organisations have heavily criticised the OECD BEPS process, among other things for its lack of inclusion of developing countries.[113]

- In June 2013, the amendments to Directive 2006/43/EC were accepted and published as Directive 2013/34/EU which covers EU public interest entities and large EU undertakings in the extractive industries and the logging of primary forests and obliges them to publicly report on their payments to governments, broken down per country.

  The EU also adopted the EU Capital Requirements Directive IV (2013/36/EU) in 2013, which applies to credit institutions and investments firms with their residence in one or more of the EU Member States. This obliges banks to provide full country-by-country reporting (CBCR) on the following topics:[114]

  - name(s), nature of activities and geographical location
  - turnover
  - number of employees on a full time equivalent basis
  - profit or loss before tax
  - tax on profit or loss
  - public subsidies received

The first three issues should be applied from July 2014 onwards, while the whole list should be applied from January 2015 onwards.

- However, organisations such as the Tax Justice Network and Eurodad believe that reporting tax payments per country should not be restricted to specific industries, but should apply to all companies operating in more than one country. This statement was endorsed in June 2011 by the Dutch House of Representatives by means of an accepted motion.[115] In September 2012, the European Parliament and the tax services of Canada, France, Great Britain and South Africa also spoke in favour of this principle.[116]

- In the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI) the breakdown of tax payments per country is also included. *Economic Performance Indicator EC1* asks companies to report on the “Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.” In this last category it is requested to report on: “all company taxes and related penalties paid at the international, national, and local levels. (..) Report taxes paid by country for organisations operating in more than one country.”

This leads to assessment elements 1, 6 and 9.

- **Anti-money laundering and beneficial ownership**

  In December 2014 the European Parliament and Council agreed listing the ultimate owners of companies on central public registers. If the EU's Anti-Money Laundering Directive (AMLD) is revised according to this vote, any company and trust registered in an EU member state will be required to provide information about its beneficial owner including: name, date of birth, nationality, jurisdiction of incorporation, contact details, number and categories of shares, and – if applicable - the proportion of shareholding or control. However, the agreement still needs to be endorsed by EU member states' ambassadors and by Parliament's committees on Economic and Monetary Affairs and on Civil Liberties, Justice and Home Affairs, before being put to a vote by the full Parliament in 2015.

  The Wolfsberg Group, a group of eleven international financial institutions that undertake a lot of activities in the field of *private banking* (banking for rich private clients), has developed standards for financial institutions for Know Your Customer, Anti-Money Laundering and Anti-corruption procedures. The Wolfsberg Anti-Money Laundering Principles on Private Banking, includes measures with which the financial institution can prevent its institution being used for criminal activities.

  This leads to assessment element 8.

- **Corruption**

  The UN Convention against Corruption (UNCAC) contains minimum standards in order to prevent corruption as well as money laundering. It explains what states would have to do to prevent, and bring to trial, corruption and money laundering and provides recommendations on international cooperation and recovery of capital. The convention is signed by 129 nations. In 2011, these nations have agreed to establish a Mechanism for the Review of Implementation of the UNCAC.

  The main international standard with respect to fighting international corruption is the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions of the OECD, which came into force in February 1999. The convention obliges countries to make paying bribes to foreign public officials a criminal offence. By now, 38 countries have ratified the convention, which obliges them to implement this convention in their national legislation.

  The OECD Guidelines for Multinational Enterprises state: "Enterprises should not, directly or indirectly, offer, promise, give, or demand a bribe or other undue advantage to obtain or retain business or other improper advantage." This is further elaborated upon in seven detailed guidelines.

  In December 2004, TI published the Business Principles for Countering Bribery, a framework that can help companies to draft an effective anti-corruption policy. The new edition of 2009, stresses the importance of making the external verification of anti-bribery systems public and of making use of them. Although a lot of large companies have an anti-corruption policy, the implementation often leaves a lot to be desired and in practice bribes are still regularly being paid. To help companies with the implementation of their anti-corruption policy, TI provides the Corruption Fighters' Tool Kit.

  The Wolfsberg Anti-Corruption Guidance (revised, extended and renamed version of the Wolfsberg Statement against Corruption) which includes measures with which financial institutions can prevent corruption in their own organisation and protect themselves against abuse of its institution for corruption.

This leads to assessment elements 5, 9 and 10.

- **Lobby practices**

  Various national and regional initiatives try to provide insight into the interests of organisations within legislation processes. The most recent initiative comes from the European Commission, which has drafted a voluntary register for interest representatives in 2008 within the framework of the European Transparency Initiative. In this way, they aim to inform the public which general or specific interests groups influence the decision-making process of the European institutions and what budget they have. Therefore, organisations that register can make it clear that they work in a transparent and legitimate way. By registering, they promise to comply with the code of conduct. Because the register is voluntary, social organisations call upon the European Commission to adopt the example set by the United States and Canada where registration is obliged.

  This leads to assessment element 11.

- **Procurement and supply chains**

  Companies are often part of long production chains. They can monitor one another and question how they respect local and national legislation and international norms on tax and corruption. The requirements that companies set for their suppliers can be included in contractual agreements. The importance of this also recognised in the OECD Guidelines for Multinational Enterprises since its revision in 2011.

  Also the ISO 26000 guideline recognises the importance of supply chain responsibility, because "the impacts of an organization's decisions or activities can be greatly affected by its relationships with other organizations." A companies' sphere of influence includes relationships within and beyond an organization's supply chain.[117]

  This leads to assessment elements 12 and 13.

2.5.3 Assessment elements

For financial institutions, the issue of taxes and corruption is relevant in three ways. Primarily, international financial institutions are multinational corporations themselves and therefore they have to pay the owed taxes by the letter of the law as well as in the spirit of the countries in which they operate. Financial institutions can be expected to be transparent in their tax payments and also that they are not guilty of corruption.

Secondly, virtually all financial services that financial institutions grant to companies and rich private clients have a tax component. Because large amounts are involved in business loans, financing projects and investments, tax planning can often result in significant savings for clients. Thirdly, taxes and corruption are issues on which financial institutions should assess all their investees, even if the financial institution does not actively cooperate with tax avoidance or the corrupt payments made by the company.

The following elements are crucial for a policy regarding the financial institution's internal operations:

1. For each country in which the financial institution operates, it reports country-by-country on its revenues, costs, profit, subsidies received from governments and tax payments to governments.
2. Financial institutions do not advise companies to set up international corporate structures with the main purpose to avoid taxes, nor do they participate in transactions with such structures.

3. Financial institutions do not own subsidiaries nor associates in tax havens, unless the subsidiary or associate has substance and undertakes local economic activities.
4. Financial institutions do not provide financial services to companies in tax havens, unless the company has substance and undertakes local economic activities.
5. Offering, promising, giving and requiring, either directly or indirectly, bribes and other undue advantages in order to acquire and to maintain assignments and other undue advantages, is unacceptable.

The following elements are crucial for a policy regarding the companies a financial institution invests in:

6. For each country in which companies operate, they report country-by-country on their revenues, costs, profits, subsidies received from governments and payments to governments (e.g. withholding taxes, payments for concessions and company tax).
7. Companies focus their international enterprise structure and their international transactions in a way that reflects the economic substance of the activities and transactions undertaken, without any steps made primarily to secure a tax advantage.
8. Companies publicly report on their beneficial owner or owners including full name, date of birth, nationality, jurisdiction of incorporation, contact details, number and categories of shares, and if applicable the proportion of shareholding or control.
9. Offering, promising, giving and requiring, either directly or indirectly, bribes and other undue advantages in order to acquire and to maintain assignments and other undue advantages, is unacceptable.
10. Companies have a management system with which immediate action can be taken if employees or suppliers are guilty of corruption or tax evasion.
11. Companies report on their participation in the decision-making processes of international norms and legislation (lobby practices).
12. Companies integrate criteria on taxes and corruption in their procurement policies and operational policies.
13. Companies include clauses on the compliance with criteria on taxes and corruption in their contracts with subcontractors and suppliers.

2.6 Arms

2.6.1 What is at stake?

Arms can kill, maim and destroy. Therefore, they are a threat to the most fundamental human right: the right to life. Arms are deployed in wars and armed conflicts between and within states, by government forces as well as armed groups that do not belong to a state (also known as non-state actors). Armed conflicts threaten the safety of millions of people around the world. Moreover, small arms are not only used in armed conflicts but also in conflicts between individuals, within families and between groups and gangs. Nowadays, there are about 875 million small arms in circulation.[118]

States have the right - and indeed the obligation - to protect their citizens and individually or collectively defend security interests. States' responsibilities towards public security include regulating, checking and monitoring the manufacture, transfer, possession, stockpiling and use of arms. Yet, in practice there has been a lack of expediency to governments and multilateral bodies (such as the United Nations Security Council) to monitor the international arms trade. Civil society research reports show how the arms industry, despite existing regulatory regimes, continues to sell arms to human rights abusing regimes and conflict zones, using loopholes in the law to circumvent arms embargoes and export controls.[119]

In 2013, total global military expenditure had an estimated value of € 1.460 billion. On average, military expenditure was about 2.3% of the Gross National Product (GNP). The United States spending of € 501 billion accounted for 34% of global military expenditure, followed at a large distance by China (12%), Russia (4.8%), Saudi Arabia (4.5%), and France (3.5%). Military spending grew the most in Central America and the Caribbean (9.1%), North Africa (7.6%), and Eastern Europe (8.4%).[120]

There seems to be a relationship between military expenditure and the socio-economic development of poor countries. Globally, military expenditure counts for about 9% of total public spending. In developing countries - where there is a large need for investments in agriculture and food, education, health care and infrastructure - military expenditure is often a significant barrier to reaching the Millennium Development Goals (MDGs).121 According to the most recent figures of the SIPRI Military Expenditure Database (1988-2013), Afghanistan, with 26%, is the country with the most military spending in relation to its total public spending. Myanmar (13.5%) and Angola (12.2%) are other examples of developing countries that spent a significant amount of their total government budget on military material.[122]

The harmful effect of military expenditure on human development is further aggravated by debts made for purchasing military equipment. An estimated 15 to 20 percent of global indebtedness is related to military spending. In many developing countries, interest payments on military debts surpass the expenditures on health care and education.[123]

Perhaps more than any other legal trade, international arms trade is also strongly connected to corruption.124 Despite the fact that arms trade only constitutes for 1% of global trade, studies by SIPRI suggest that corruption in the arms trade contributes roughly to 40% of all corruption in global transactions.125 Transparency International estimates that corruption in the arms trade leads to a loss of US$20 billion annually, which is equivalent to the total sum pledged by the G8 in L'Aquila in 2009 to fight world hunger.126 A large part of arms exports goes to developing countries and emerging economies127 and through corruption, public funds are diverted from spending on economic and social development and may end up fuelling conflict.

The industry needs to be thoroughly and structurally reformed to ensure, as a minimum, that:

- No arms are produced which do not distinguish between combatants and non-combatants (i.e. which violate International Humanitarian Law)

- Arms are not supplied to repressive regimes, fragile states, and non-state actors;
- Corruption is eliminated and transparency in reporting is improved;
- Products and services supplied/sold do not affect the sustainable development of poor countries.

As long as these structural changes do not occur in the arms industry, investing in this industry imposes large corporate social responsibility (CSR) risks. Financial institutions could invest in companies that are involved in corrupt practices or in trade with oppressive regimes. Hence, it is of great importance that financial institutions implement a policy for this industry that is based on the international standards described below.

2.6.2 International standards

The most important international standards relevant to arms and arms transfers are summed up below.

- **International humanitarian law**

  International Humanitarian Law (IHL) is a collection of leading international agreements that constitute the rules concerning armed conflicts. The objective of IHL is to limit civilian suffering from armed conflicts. It protects people who do not participate in hostilities and limits the means and methods of warfare. An important principle is that distinction has to be made during warfare (including with the use of arms) between soldiers and civilians: civilians should not be a target in warfare.[128]

  This leads to assessment elements 1, 2, 3, 4, 5 and 6

- **Specific arm systems**

  There are various international conventions that concern the production, the use, the storage, and the trade of specific arm systems:

  - The 1970 Nuclear Non-proliferation Treaty (NPT) aims to prevent the spread of nuclear arms.
  - The 1975 Biological and Toxin Weapons Convention (BWC) prohibits the use of biological and toxin weapons.
  - The 1980 Convention on Certain Conventional Weapons (CCW) aims to ban or restrict the use of weapons that are considered to cause to cause unnecessary or unjustifiable suffering to combatants or to affect civilians indiscriminately.
  - The 1997 Chemical Weapons Convention (CWC) prohibits chemical arms.
  - The 1997 Mine Ban Treaty prohibits anti-personnel landmines.
  - The 2008 Convention on Cluster Munitions (CCM) bans cluster munitions.

  International conventions and national legislation on arms rarely explicitly include prohibitions on financial investments. However, civil society organisations and a growing group of states interpret investments in cluster munitions as banned under the Convention on Cluster Munitions. [129] Article 1 (1) c of this convention reads: “Each State Party undertakes never under any circumstances to assist, encourage or induce, in any way, anyone to engage in any activity prohibited to a State Party under this Convention.”

An increasing group of countries has expressed that article 1.1c, according to their understanding, also includes a ban on financial assistance. Australia, Bosnia and Herzegovina, Cameroon, Canada, Czech Republic, Colombia, the Republic of Congo, Croatia, the Democratic Republic of Congo, France, Ghana, Guatemala, the Holy See, Hungary, Laos, Lebanon, Madagascar, Malawi, Malta, Mexico, Niger, Norway, Rwanda, Senegal, Slovenia, the United Kingdom and Zambia have all said to interpret the article in such a way that investments in cluster munitions are or can be seen as prohibited under the convention. Belgium, Ireland, Italy, Liechtenstein, Luxembourg, the Netherlands, New Zealand, Samoa and Switzerland have adopted laws to prohibit (different kinds of) investments in cluster munitions. Denmark has announced to investigate a ban on investments in land mines, antipersonnel mines and cluster munitions.[130]

This leads to assessment elements 1, 2, 3, 4, 5 and 6

- **International arms trade**

It is of course never allowed to supply arms to countries on which an embargo is imposed. Besides, supplying arms to countries where people lack basic freedoms or where armed conflicts rage, is undesirable. Likewise, in countries most receptive to corruption, in fragile states, or where a relatively high share of public spending is for the military, there is a serious risk that delivering arms enhances violations of human rights and/or contribute to creating more poverty.[131]

There are various initiatives to regulate arms trade in order to, for instance, prevent arms from being delivered to repressive regimes or countries in conflict.

Organisations such as the United Nations Security Council, the European Union and the Organisation for Security and Co-operation in Europe (OSCE) have the (international) authority to establish arms embargoes against certain countries or combat troops. Mostly, embargoes are established following involvement in conflicts involving serious violations of human rights.[x]

This leads to the assessment element 8.

The Arms Trade Treaty (ATT) is a multilateral treaty that regulates the international trade in conventional arms. It was adopted on 2 April 2013 by the General Assembly of the United Nations with a large majority of votes. After obtaining the required 50 ratifications, the treaty entered into force on 24 December 2014.[132] The ATT obliges governments to adopt national legislation in order to improve inspections of arms export and also to maintain the ban on trading arms that may be used for genocide, terrorism and crimes against humanity.[133] States should report on their arms exports annually, and they should also take measures that ensure compliance to the Treaty. Although not all types of arms are covered by the treaty, it does regulate the most important conventional arms. The treaty is open to additional regulations on future military technologies.[134]

The Control Arms Campaign wrote six 'Global Principles for the Parameters of an ATT', based on regional and international conventions, declarations, and resolutions of the United Nations and others. The principles were intended as model provisions for an arms trade treaty.[135]

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x For an extensive up-to-date overview, see SIPRI's Arms Embargoes Database: http://www.sipri.org/databases/embargoes.

Amnesty International has insisted on including the soc-called Golden Rule on Human Rights and Humanitarian Law in the ATT. The Golden Rule specifies that "all governments must avoid trade in arms - also military arms, munitions and gear - when there is a substantial risk that the weapons be used for severe violations of international human rights and humanitarian rights."[136] In the ATT the term *overriding risk* has been chosen for the aforementioned *substantial* risk. Taken into account that the humanitarian principles that form the basis of the ATT this means, according to the Control Arms Campaign that states are not allowed to export in case of a 'substantial or clear' risk of the arms being used for violations of human or humanitarian rights.[137]

This leads to the assessment elements 9 and 10.

The EU recognizes the need for a system to control arms transfers. Its Common Position "defining common rules governing control of exports of military technology and equipment" contains eight criteria, aimed at, among others, preventing military exports likely to be used in the country of final destination for internal repression, in internal or international conflicts. The EU arms export policy also contains measures to facilitate implementation by the member states and improve cooperation between the member states. The EU criteria are summarized below:[138]

- Respect for international commitments of Member States, in particular sanctions decreed by the UN Security Council and the EU, as well as agreements on non-proliferation and other international obligations;
- The respect of human rights and international humanitarian law in the country of destination;
- The internal situation in the country of final destination, as a function of the existence of tensions or armed conflicts;
- Preservation of regional peace, security and stability;
- The national security of the Member States and of territories whose external relations are the responsibility of a Member State, as well as that of friendly and allied countries;
- The behaviour of the buyer country with regard to the international community, as regards in particular its attitude to terrorism, the nature of its alliances and respect for international law;
- The risk that equipment will be diverted within the buyer country or re-exported under undesirable conditions;
- The compatibility of the arms exports with the technical and economic capacity of the recipient country, taking into account the desirability that states should achieve their legitimate needs of security and defence with the least diversion for armaments of human and economic resources, e.g. through considering the recipient country's relative levels of military and social spending.

This leads to the assessment elements 11 to 14.

The status quo of countries can be looked up in several lists and initiatives:

- Most of the countries where people lack freedom (criterion 2 of the EU arms export policy) can be looked up in the index of the Freedom House. This is an independent American non-profit organisation that ever since 1941 has stood up for democracy and freedom all over the world. The Freedom House annually publishes "Freedom in the World". This publication assesses 195 countries and 14 related and disputed territories with regard to Political Rights and Civil Rights.

- Countries that have been caught up in armed conflicts (criteria 3 and 4 of the EU-arms export policy) can be looked up in the Uppsala Conflict Data Program. Also The Global Peace Index Global Peace Index of Vision of Humanity, an independent Australian research institute could be useful. The Global Peace Index assesses the extent to which countries live in peace or are caught up in conflicts. They use 22 indicators for their assessments . The Global Peace Index is supported by a long list of Nobel Prize winners, politicians, academics, business people and societal organisations.
- Countries that are corrupt can be looked up in the Corruption Perception Index of Transparency International. This is an international non-profit organization that campaigns against the destructive influence corruption has on the lives of men, women and children, all over the world. The annual Corruption Perception Index assesses countries with regard to the extent to which experts and companies perceive politicians and officials to be corrupt.
- The Fragile States Index may be used for identifying fragile states. This Index is published by Foreign Policy, a leading American magazine in the field of international politics and economy, and the Fund for Peace, an independent American education and research institute that is committed to prevent warfare and to limit the terms for outbreaks of war. The Fragile States Index assesses 178 states, using 12 social, economic, political and military indicators in order to indicate which states are most vulnerable to violent internal conflicts and social decline.
- In order to indicate which countries spend a great part of their Gross Domestic Product (GDP) on arms (criterion 8 of the EU-arms export policy) the publications of the Stockholm International Peace Research Institute (SIPRI) may be used. SIPRI is an independent Swedish research institute for peace and security. Among many others things, they publish data on levels of relative military spending.

2.6.3 Assessment elements

Even more so than in other sectors, financial institutions have to carefully consider their investments in arms manufacturers and traders. Firstly, because it concerns lethal products. In addition, because the market and trade flows are not transparent and the industry has a history of corruption and violations of the law. With outstanding loans and/or investments in this industry, financial institutions can get involved in transactions underlying very serious violations of human rights, armed conflicts, corruption, and the production of controversial arms, being arms that are prohibited by the existing and emerging international arms conventions.

The following elements are crucial for a policy regarding the companies a financial institution invests in:

1. Production of, maintenance of, and trade in anti-personal landmines, including important parts of landmines, is unacceptable.
2. Production of, maintenance of, and trade in cluster munitions, including important parts of cluster munitions, is unacceptable.
3. Production of, maintenance of, and trade in nuclear weapons, including important parts of nuclear weapons, in or to countries that have not ratified the Non-proliferation Treaty is unacceptable.
4. Production of, maintenance of, and trade in nuclear weapons, including important parts of nuclear weapons, is unacceptable.
5. Production of, maintenance of, and trade in chemical weapons, including important parts of chemical weapons, is unacceptable.
6. Production of, maintenance of, and trade in biological weapons, including important parts of biological weapons, is unacceptable.
7. Parts or systems that are essential for military purposes, but can also be used for civil end products (‘dual-use’ technology), are considered as arms or arm systems.

8. Supply of arms and weapons systems, military transport systems, and other military goods to countries that are under a United Nations or European Union arms embargo, is unacceptable.
9. Supply of arms and weapons systems, military transport systems, and other military goods is unacceptable if there is an overriding risk that the arms will be used for serious violation of international human rights and humanitarian rights.
10. Supply of arms and weapons systems, military transport systems, and other military goods to regimes that violate human rights, is unacceptable.
11. Supply of arms and weapons systems, military transport systems, and other military goods to countries that are involved in armed conflict, is unacceptable.
12. Supply of arms and weapons systems, military transport systems, and other military goods to countries that are severely corrupt, is unacceptable.
13. Supply of arms and weapons systems, military transport systems, and other military goods to countries having a failed or fragile state, is unacceptable.
14. Supply of arms and weapons systems, military transport systems, and other military goods to countries that spend a disproportionate part of their budget on purchases of arms, is unacceptable.
15. The policy does not mention exceptions for certain types of investment, financing and/or asset classes of the financial institution.
16. The policy does not mention exceptions for activities or projects that are not related to the production of weapons.

2.7 Food

2.7.1 What is at stake?

Food production is a key factor role in achieving the first of the Millennium Development Goals: to eliminate hunger and poverty in the world. The right to food (Article 25 of the Universal Declaration on Human Rights) is the most basic human right, and the food sector has a major role to play so that it can be respected, protected and fulfilled everywhere, always.

The Voluntary Guidelines to Support the Progressive Realization of the Right to Adequate Food in the Context of National Food Security adopted by FAO Council in 2004 reflects the consensus among FAO member countries on what needs to be done in all of the most relevant policy areas to promote food security. In this reference document the right to food is considered as the situation "when all people, at all times, have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life."[139] It does not only addresses the final outcome of food security for all, it also proposes ways and tools by which that goal is reached and achievements maintained in a sustainable manner. Food security has long been regarded as a matter of balancing supply with demand. In the past, policies were limited to increasing agricultural production and/or slowing population growth. Nowadays food security is based on the four pillars availability, access, utilization and stability.[140]

The food sector's first objective should be to ensure food security for all human being and all communities in the world. The sector consists of agricultural companies, including small-scale family producers, food processing companies and retail companies. This diverse group of companies forms the food supply chain. The food processing sector "[i]ncludes all companies that are engaged in processing food, as well as food commodity trading related to food processing and fish processing, and beverage companies. [T]he food processing industry includes a diverse group of companies involved in the processing of products like fish, meat, milk, crops and water. It includes millions of Small & Medium Enterprises (SMEs) worldwide and also some of the largest companies in the world. Many of these companies deliver products directly to consumers, while others specialise in Business-to-Business activities (ingredients, commodity markets). Some companies directly participate in all areas of food production, from farming activities through to final production and retail. Others are concentrated more at the top end of the production chain or buy through commodity markets".[141]

Nowadays, companies operating in food supply chains are facing major sustainability issues. The demand for agricultural products is growing more rapidly than the world population. One of the reasons for this is that consumption patterns in emerging markets (such as the BRICS-countries: Brazil, Russia, India, China and South Africa) are increasingly starting to look like those in industrialised countries with more meat being consumed globally. And to feed the expanding global livestock, large amounts of raw materials containing protein are needed. Another cause of the growing demand for agriculture raw materials is the development of biofuel production. These are extracted from palm oil, corn and sugar cane as well as from other food and feed crops.

The sharp increase in the global demand for agricultural products leads to economic, social and environmentally related problems:

- Globally, the agriculture industry is the largest contributor to soil depletion, environmental pollution and the degradation of ecosystems. To meet the growing demand for agricultural products, a lot of natural ecosystems and living environments have to make way for agricultural activities.

- Globally the agricultural industry is the largest user of freshwater resources, using up to 90% of available freshwater in developing countries. Following predictions of population growth and the subsequent increased demand for food, water demand is also expected to increase while availability is decreasing. 142 By 2050, the agricultural sector will have to produce 60% more food globally and 100% more in developing countries. Substantial changes in policy and management, throughout the entire agricultural production chain, are required to ensure that the available water resources are used in the best way possible, to meet growing demands for food and other agricultural products.143

- Due to the NO_2- and CH_4 emissions, the global agriculture industry is responsible for 10-12% of the global emissions of greenhouse gases due to the use of fertilisers and the methane emissions from rice fields and cattle.[144] According to a study of Delft Hydraulics, drainage of bogs and deforestation by the agriculture industry also substantially contributes to the global CO_2-emission. Especially in the palm oil production, peat land is frequently drained and burned to make room for plantations, leading to substantial greenhouse gas emissions and serious health risks for local and regional populations.[145]

- The agriculture industry strongly contributes to harmful emissions to the environment, with the role of livestock being particularly significant. According to the Intergovernmental Panel on Climate Change (IPCC), agriculture and deforestation (largely driven by expansion of agricultural land) are responsible for around 25 percent of global emissions.[146] This is mainly due to the production and processing of cattle feed (45% of the total amount) and the gases produced by cattle as they digest their food (39%). The FAO has calculated that a 30% reduction of greenhouse gas emissions is possible if the producers switch to so-called best practices.[147] Notably, the world's ten largest food companies emit 263.7 million tons GHGs per annum. Implementing best practices at these companies would have major effects.[148]

- The livestock industry is also responsible for 53% of human ammonia emissions that cause acid rain and acidification of ecosystems. Moreover, the livestock industry uses 70% of all agriculture land available and 8% of the global water consumption. Global figures are not available, but the contribution of the livestock industry to water pollution through antibiotics, hormones, sediments, fertilisers, pesticides and other chemicals is very high.[149]

- In intensive livestock farming the welfare of animals such as laying hens, calves and pigs can come under pressure, both in the production companies as well as during transport to slaughterhouses. Intensive large-scale husbandry also increases risks of spreading diseases.

- An unintended by-product of agricultural practices in which fire is used (such as unprofessional palm oil production plants), together with (fire-led) deforestation and the draining of peatlands are peatland fires.[150] Peatland fires contribute to an estimated 13-40% of the mean annual global carbon emissions from fossil fuels, and contributed greatly to the largest annual increase in atmospheric CO_2 concentration detected since records began in 1957.[151]

- In assessing the sustainability impacts of e.g. soy expansion and biofuel crops in general, it is important to consider Indirect Land Use Change (ILUC). Biofuel production typically takes place on cropland which was previously used for other agriculture such as growing food or feed. Since this agricultural production is still necessary, it may be partly displaced to previously non-cropland such as grasslands and forests. This process is known as indirect land use change (ILUC). While they may not deforest themselves, it is clear that the demand for cash crops does indirectly push these type of companies further into the frontier, leading to ILUC. Especially in the debate on biofuels, ILUC plays a crucial role: when ILUC is taken into account, there is no positive climate impact from first-generation biofuels. Especially those pushing the rangeland frontier into the Amazonian forests, could offset the carbon savings from biofuels.[152]

- The use of genetically modified organisms (GMOs) in agriculture leads to a loss of biodiversity. GMO-use also has social effects, such as the fact that small farmers become dependent of some very large companies for their purchasing of seeds, pesticides and fertilisers.[153] Risks of contamination of other cultivated or wild varieties and side-effects from the crossing of genes from entities that do not belong to the same natural category cannot be excluded given the current state of scientific knowledge.

- A combination of factors (the varroa destructor, changed habitat, loss of biodiversity, use of pesticides) forms a serious threat to the honeybee. In the last few years, the number of bee colonies has decreased by 20 to 30% and a further decrease could lead to a shortage in pollination with large consequences for agriculture harvest. About ninety agricultural products, accounting for a third of the global food production, depend on animal pollination. Honeybees are the main animal pollinator and are responsible for 80 to 90% of this pollination[154]. Research shows that some insecticides can cause a decrease in the production of the number of queen bees and other insecticides negatively influence the number of bees that find their way to their beehive. [155]

- In some countries the expansion of agricultural activities is associated with the expropriation of land inhabited by local communities or indigenous peoples. As a result, these people are not only deprived of their property and the right to use their land, but also of their familiar habitat, cultural riches and sources of food and income. Reports from the GRAIN, International Land Coalition and the World Bank show that the number of transactions in which land is purchased for the expansion of agriculture activities increased tenfold in 2009 compared to the previous years.[156]

- A lot of agricultural companies do not comply with internationally recognised labour rights. There are countless examples of forced labour, child labour, low wages and insufficient protection of the health and safety of employees.

- The development of infrastructure such as roads, railways and waterways goes hand in hand with the development of an export-oriented agriculture industry and can have very negative effects on ecosystems and local societies. The construction of roads in forest areas facilitates, for example, access for poachers and illegal loggers. The construction of infrastructure can also lead to land rights conflicts and rising land prices for the original inhabitants.

- The macro economic effects of the agriculture and livestock industry are often detrimental for developing countries due to the often unfavourable terms of trade for these countries, the agriculture subsidies in richer countries and the dumping of subsidised agricultural products in developing countries. This leads to an unfair balance of power in the entire production, distribution and consumption chain. Due to a strong increase of food prices in recent years, more and more people in developing countries are living below the poverty line.[157] FAO calculated that an eight of the global population (842 million people) in the years 2011-2013 suffered from persistent food shortage. This is 17% less than in the period 1990-1992. [158]

To offer a sufficient and nutritious diet to all world civilians and to enable socio-economic development of poorer countries, unfavourable terms of trade in agricultural products for developing countries have to be combated and the disturbing subsidies and dump practices have to be prohibited. In addition, the use of agricultural fields for the production of biofuels and animal feed has to be discouraged because it displaces food production for the local population and poses a threat to their right to food security.

Also, the debate around the phenomenon of *land grabbing* has grown stronger. Land grabbing occurs when foreign companies, countries, or investors buy or rent land for large-scale industrial and/or commercial agriculture production oriented on the export market at the expense of land rights of the local communities concerned. Mainly in developing countries, the lack of consultation and transparency for the allocation of land is a problem. Evictions and conflicts over land are often paired with a violation of basic principles, such as an impact assessment, compensation and rehabilitation. Besides these direct consequences, there is the problem of the reduced availability of land for local actors. The national market will be aimed more at producing crops for the food and the biofuel industry on the global market and less on sustainable peasant agriculture for the local and national market for current and future generations.[159]

The above mentioned developments leads to a global food crisis with catastrophic consequences for many people. People in developing countries spend about 50 to 80% of their income on food. They can only respond to an increase in food prices by reducing their food consumption and suffering from hunger. Those that are already living on the edge are the most vulnerable, such as the landless, slum dwellers and itinerant labourers. Furthermore, women and children primarily belong to risk groups.[160]

Feeding more than seven billion of the world's habitants in a sustainable way is one of the major challenges the world community is facing. All parts of the chains within the food industry - from farmers, middlemen, transporters and processing companies to supermarkets - will have to make an effort in this. Also, financial institutions that invest in companies at all stages of food chains will have to develop policies that take all above mentioned problems into account. When developing an investment policy for this, industry banks can make use of the international standards described in the following section.

2.7.2 International standards

In recent years, various initiatives have been taken to develop standards for both the agricultural industry as well as the food industry. Some initiatives focus on general, industry wide agreements, while others focus on specific crops. A short overview of the main standards is depicted below.

- **Right to adequate food**

According to Article 25 of the Universal Declaration of Human Rights "everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control."

These rights have also been protected by The International Covenant on Economic, Social and Cultural Rights. Article 11 of this Covenant guarantees the right to an adequate standard of living including adequate food, clothing, housing and continuous improvement of living conditions.

The FAO Voluntary Guidelines to Support the Progressive Realization of the Right toe Adequate Food in the Context of National Food Security, further specifies the right to adequate food and links it to the concept of food security. While the Voluntary Guidelines are written for states, it presents a valuable overview of all the factors determining the realization of the right to food and can therefore be valuable for non-state actors as well.

This leads to assessment element 1.

- **Labour rights**

The circumstances for health and safety in the agriculture and food industry are often below standard due to the use of huge amounts of pesticides. Wages are generally low and negotiating rights are often not respected. It is therefore of great importance that agriculture and food companies adhere to the main codes of conduct of the United Nations International Labour organisation: the ILO. These are the 1998 ILO Declaration on Fundamental Principles and Rights at Work and the Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, of which the fourth edition was published in March 2000.

This leads to assessment element 2.

- **Land rights conflicts and forced evictions**

Human rights, particularly economic, social and cultural (ESC) rights, play a central role in land-related issues. However, there is no such thing as a 'human right to land'. Those who face threats to their land rely on other rights, such as the right to food, the right to water, the right to housing and the right to work. These rights are included in the above mentioned International Covenant on Economic, Social and Cultural Rights (ICESCR). [161]

The right to adequate housing encompasses the right to live in security, peace and dignity. To realize this right, governments have an obligation to guarantee security of tenure, which essentially means a set of arrangements in the context of housing and land that will protect the occupants from forced evictions and other threats and harassment.[162]

As noted by the UN Special Rapporteur on Adequate Housing: "Involuntary resettlement amounts to a forced eviction when it occurs without the provision of, and access to, appropriate forms of legal or other protection."[163] The effects of forced evictions can be very serious, especially for people who are already living in poverty. The UN Commission on Human Rights has described forced evictions as a "gross violation of human rights, particularly the right to adequate housing."[164]

The protection measures that should be applied to all evictions have been clearly articulated in the Basic Principles and Guidelines on Development-based Evictions (2007) developed by the UN Special Rapporteur on Adequate Housing.[165] They reflect existing standards and jurisprudence on this issue. They include detailed guidance on steps that should be taken prior to, during and following evictions in order to ensure compliance with relevant principles of international human rights law.

The 11 core principles of the United Nations Special Rapporteur on the right to food, Olivier de Schutter, include the notion that any shifts in land use can only take place with the free, prior and informed consent of the local communities concerned. This is particularly important for indigenous communities, in view of the discrimination and marginalization they have been historically subjected to.

In May 2011, the Tirana Declaration was adopted by over 150 representatives of civil society organisations, social movements, grassroots organizations, international agencies, and governments - including the members and strategic partners of the International Land Coalition (ILC) such as the World Bank, FAO, IIED and the IFAD. The Declaration defines land grabbing as "acquisitions or concessions that are one or more of the following: *(i) in violation of human rights, particularly the equal rights of women; (ii) not based on free, prior and informed consent of the affected land-users; (iii) not based on a thorough assessment, or are in disregard of social, economic and environmental impacts, including the way they are gendered; (iv) not based on transparent contracts that specify clear and binding commitments about activities, employment and benefits sharing, and; (v) not based on effective democratic planning, independent oversight and meaningful participation.*"

This leads to assessment elements 3 and 4.

- **Areas of high biodiversity and protected areas**

Agricultural activities in those areas listed in the categories I-IV of the World Conservation Union, in the UNESCO World Heritage Convention and the Ramsar Convention on Wetlands have to be excluded from investment.

These areas are also included in the analyses for investments by International Finance Corporation's (IFC) Performance Standard 6 concerning Biodiversity Conservation and Sustainable Management of Living Natural Resources. It determines how companies should operate in order to avoid negative consequences on areas of high biodiversity value, including impact on natural habitats as well as endangered and endemic species. The requirements in the standard have been guided by the Convention on Biological Diversity.

The *High Conservation Value* (HCV) concept was initially conceived within the framework of certification of forest management and wood products (High Conservation Value Forests or HCVF), but can be applied to all ecosystems and natural living environments. The HCV Resource Network has developed national implementation guidelines, local projects, training, and workshops.

This leads to assessment elements 5,6 and 7.

- **Protection of genetic material**

The Cartagena Protocol to the Convention on Biological Diversity has drafted provisions with respect to the use of GMOs and the identification of GMOs in the processing chain. For example, trade in living modified organisms is prohibited unless approval of the importing country has been obtained.

Also, signatories of the protocol themselves have to comply with precautionary measures for the production and the use of GMOs. Because the technology and the knowledge of GMOs is still developing, the GMO standards in the Cartagena Protocol are also constantly developing.

The Bonn Guidelines are recognized as a useful first step in the implementation of relevant provisions of the UN Convention on Biological Diversity (CBD) and are meant to assist stakeholders in developing access to genetic resources and benefit-sharing strategies.

This leads to assessment elements 8, 9 and 10.

- **Animal welfare**

The European Convention for the Protection of Animals kept for Farming Purposes (adopted in 1976 and amended in 1992 by the Council of Europe) establishes minimum guidelines for livestock. The European Convention for the Protection of Animals during International Transport (adopted in 1968 and amended in 2003 by the Council of Europe) sets guidelines for the transport of animals.

On a global level there is a Terrestrial Animal Health Code (TAHC) which is conducted by the World Organisation for Animal Health (OIE). This organisation is recognized by the World Trade Organization (WTO) and it has set up guidelines in the TAHC about eg. cattle transport over land and over sea, how to treat animal diseases and the influence cattle have on public health. [166]

The Dutch Parliament and the European Parliament both have addressed the issue of setting time limits to cattle transport, especially the transport of cattle for slaughter. [167]

This leads to assessment elements 11, 12 and 13.

- **Emissions reduction**

The agriculture industry strongly contributes to harmful emissions to the environment, in particular through NO2- and CH4 emissions. The role of livestock is of great significance, but also the methane emissions from rice fields and peat land are important greenhouse gasses. The use of fertilisers and pesticides result in pollution of soil and water.

Globally, the standards of the Greenhouse Gas Protocol (GHG Protocol) are the most used standards to measure and manage greenhouse gas emissions. Besides the general measuring instruments for own activities, there are also sector specific guidelines and the GHG Protocol has developed a standard for the emissions of products and the corporate value chain. The GHG Protocol is consistent with the IPCC guidelines for reporting CO2-emissions.

This leads to assessment element 14 and 15.

- **Pesticides**

With respect to the use of pesticides, the FAO has drafted the International Code of Conduct on the Distribution and Use of Pesticides. This code of conduct includes voluntary, internationally accepted norms for the treatment, storage, use and the disposal of pesticides.

This leads to assessment element 16.

- **Water use**

  Given the immense amounts of freshwater being used to produce food globally, amidst growing shortages, it is vital that this is done as efficiently as possible. Furthermore, serious efforts to curb pollution of water resources and negative effects on other water users are also required. Finally, companies should be able to demonstrate that they are saving water.

  There are several guidelines and water 'footprinting' methods as well as voluntary certification or disclosure projects, such as the CDP's Water Program, to calculate and publish corporate water use throughout the supply chain. The UN Global Compact's CEO Water Mandate, which is a public-private initiative designed to assist companies in the development, implementation and disclosure of water sustainability policies and practices.

  Alternately, the AWS International Water Stewardship Standard is a new standard, soon to be supported by a verification process. It defines a set of water stewardship criteria and indicators for how water should be stewarded at a site and catchment level in an environmentally, socially, and economically beneficial manner.

  This leads to assessment elements 16 and 18.

- **Certification and eco-labels**

  The demand for sustainable agricultural products is growing, but on the definition of *sustainable* no general agreement has been achieved as yet. However, *eco-labelling* is taking place on a large scale: granting voluntary and binding sustainability labels to agricultural products. A lot of labels are issue specific (for example *organic* or *fair trade or GMO-free*) and therefore make use of different standards. As a result, the market for sustainable agricultural products is somewhat opaque.

  In February 2008, the Sustainable Agriculture Network (SAN) published the Sustainable Agriculture Standards. The norms are based on the United Nations guidelines, the European Union and the International Labour organisation and are endorsed by the Rainforest Alliance. The standards contain fourteen criteria for sustainable agriculture (on waste management, working conditions, health and safety, the use of chemical and biological additives and genetically manipulated seeds). For certification purposed SAN has developed the Farm Certification and Chain-of-Custody certification. Both are used in the certification process of sustainable agricultural companies. The SAN also works on an additional sustainable standard for keeping cattle, in which specific topics are dealt with and previous SAN standards for water and waste management are applied to livestock farms.

  With respect to organic farming, the International Federation of Organic Agricultural Movements (IFOAM) has developed the Norms for Organic Production and Processing. These comprise of the IFOAM Basic Standards for Organic Production and Processing and corresponding Accreditation Criteria. All producers worldwide that adhere to the IFOAM norms are included in the Organic Guarantee System.

  With respect to fair trade, the Fair trade Labelling Organizations International (FLO) is industry leading. FLO is a cooperation of twenty certification initiatives that *market* the Fair trade label in their own country. Goods that carry the Fair trade label meet the Fair trade Production and Trade Standards, which include both general norms (on investments in local economies and reducing waste) as well as product specific norms (minimum prices and quality standards).

The Responsible Commodities Initiative (RCI), set up by the *Sustainable Food Laboratory with* the support of the UNCTAD and the IISD, is a multi-stakeholder initiative with the aim of stimulating the sustainable production of agricultural products. The RCI has developed a measuring instrument, the Benchmarking tool, which enables measuring improvements in important environmental and social indicators of agricultural production chains. In addition, the benchmark tool assists when developing sustainability norms per crop.

Through The 2050 criteria, WWF provides an overview of the investments criteria for several agricultural resources. By referring to the best practices in the different sectors WWF provides guidance in the search for certification schemes and trends and developments in the environmental and social field.

This leads to assessment element 19.

- **Norms for specific raw materials**

Recently guidelines have been developed for sustainable production and trade for a number of important agricultural products. These guidelines, with the objective to reduce social and environmental problems, are preferably drafted by so-called multi-stakeholder initiatives and roundtables, in which researchers, companies from involved industries, financial institutions, social organisations, and other stakeholders participate. In recent years, the roundtables have defined more and clearer standards for the sustainable production of specific crops. Up to now multi-stakeholder initiatives for some agricultural products are still lacking, but norms are being drafted by the industry itself. Until these norms have been developed further in consultation with all stakeholders, they are not to be considered as real sustainability norms; but they do offer some guidance in the assessment of companies that produce these agricultural products.

The main examples of norms for specific agriculture crops are:

- ***Soy***: If not managed adequately, large scale soy farming causes huge social and environmental damage in Latin America. Clear norms and guidelines are described in the Basel Criteria for Responsible Soy Production, developed by the WWF and Coop Switzerland. Companies will find this non-genetically modified soy expensive, because it needs to be farmed and traded separately, as long as the largest part of the market does not comply with these requirements. The Basel Criteria are also followed in the globally used ProTerra standard.

  The Roundtable on Responsible Soy Association (RTRS), established by organisations and companies in the soy industry, aims to stimulate ‘more responsible’ production of soy but has less strict requirements. The RTRS Standard that came into force in June 2010 (and was updated in 2013) recognises the environmental and social problems in the soy chain.

  Other standards are the Sustainable Agriculture Network Standard, Fairtrade Production and Trade Standards, standards for organic farming, EcoSocial certification and the Social Responsibility Criteria for Companies that Purchase Soy and Soy Products - developed by the Brazilian Soy Platform. That latter document also places a clear responsibility on financial institutions and other lenders that are involved in financing soy producers. NGOs united in the Dutch Soy Coalition believe that sustainable soy production cannot be achieved without a significant reduction in meat and dairy consumption in Europe, as well as using European farmed crops as cattle feed instead of imported soy.

- ***Palm oil:*** In October 2007, the Roundtable on Sustainable Palm Oil (RSPO) - a multi-stakeholder initiative with more than one hundred members that represent more than one third of the global palm oil trade - has adopted the Principles and Criteria for Sustainable Palm Oil Production (P&C). The P&C comprises of clear norms on environmental aspects (use of soil, water, chemicals) and social environment (land rights, working conditions, etc.). The norms are based on United Nations, the FAO and the ILO guidelines.

  In 2013, the Palm Oil Innovators Group (POIG) was established. Within POIG a couple of NGO's (amongst whom WWF and Greenpeace) work together with palm oil companies in order to improve the RSPO standards.

  A 2015 publication of an alliance of international human rights and environmental organisations urges companies to ensure the rights of palm oil workers. The Free and Fair Labor in Palm Oil Production: Principles and Implementation Guidance is not intended as a new code of conduct but as a resource that provides companies with detailed implementation guidance. The publication expects companies to adhere to the following seven principles throughout their supply chain:

  - The International Labor Organization (ILO) Core Conventions are upheld.
  - Ethical hiring and responsible employment are practiced.
  - Reasonable production targets, working hours, and leave entitlements are established.
  - A living wage is paid.
  - Worker health and safety and the welfare of workers and their families are prioritized.
  - Access to remedy is guaranteed.
  - Commit to meaningful due diligence, transparency, and disclosure of human rights policies, procedures, and data, with a focus on labor and employment.

- ***Sugar cane:*** Except in the food industry, sugar cane is increasingly being used as a raw material for biofuel ethanol. Besides huge areas of agricultural land, the sugar industry also uses large quantities of water. The multi-stakeholder Bonsucro unites a number of very large companies and other stakeholders in the industry. The objective of the BSI is to develop international guidelines for sustainable production of sugar cane that can be used by companies and investors worldwide, as well as a certification system. In November 2009, Bonsucro's predecessor, BSI, published a second edition of the BSI Standard, which had yet been adapted. The standard comprises of norms for people and labour rights, the production process and the environment. The Fairtrade Labelling Organizations (FLO) also has a Product Standard for sugar.

- ***Biofuels:*** Palm oil, soy and sugar cane are increasingly often being used as a raw material for biofuels. The Roundtable on Sustainable Biofuels (RSB) is a multi-stakeholder initiative in which companies, scientists and social organisations cooperate. In November 2010, the RSB published the Global Principles and Criteria for Sustainable Biofuels Production, which comprises of norms on the environment and social aspects based on the international guidelines of the United Nations and the International Labour Organisation.

  The Sustainable Food Laboratory also works on the development of a comprehensible assessment of the most sustainable raw materials for biofuels that enables a useful comparison between the different agriculture raw materials.

In 2007 a Dutch committee developed sustainable criteria for biofuels. These so-called Cramer Criteria were formalised in March 2009 as the NTA 8080:2009 Sustainability criteria for biomass for energy purposes.[168] In September 2013 the European Parliament had voted in favour of regulation that reduces the obligation to blend biofuels to 6%. The European Parliament thus intends to reduce the CO^2 emissions of the cultivation for biofuel.

- ***Cocoa**:* Way back in 2001, the Harkin Engel Protocol was drafted to prevent the worst types of child labour on cocoa plantations. Yet, in recent years various examples of child labour on African cocoa plantations came to light. The chain also suffers from unequal power relations, which leads to small cocoa farmers not receiving reasonable prices. In October 2007 the first meeting of the Roundtable on a Sustainable World Cocoa Economy was held in which farmers, traders, processing companies, governments and social organisations talk on the development of sustainability norms for the cocoa industry. Other initiatives are the World Cocoa Foundation (WCF), which supports programmes for sustainable cocoa farming, and the Sustainable Tree Crops Programme for the development of the sustainable harvest of cocoa, coffee and cashews in Africa. Some certification marks for sustainable cocoa are: Fairtrade Labelling Organizations (FLO) Product Standard, organic (EKO), Utz and Rainforest Alliance (SAN Additional Criteria and Indicators for cocoa).

- ***Coffee:*** For many years, organisations like Max Havelaar and - more recently - Utz Certified have been involved in the certification of coffee. Max Havelaar particularly focuses on small coffee producers and establishes minimum prices for these farmers. The Common Code for the Coffee Community (4C) provides an extensive framework in which both environmental aspects as well as social problems within the coffee industry are covered. For 50 years, the International Coffee Organisation (ICO) has developed standards for responsible coffee. The last ICO agreement was the International Coffee Agreement 2007. There is also a Rainforest Alliance certification mark for coffee, based on the Additional Criteria and Indicators for coffee.by SAN. The Fairtrade Labelling Organizations (FLO) also has a Product Standard for coffee.

- ***Tea:*** Tea production is labour intensive and the industry creates jobs in very remote rural areas. Globally, millions of people depend on the production of tea. The price on the world market for tea has fallen dramatically in the past twenty years and, partly due to this, large social problems have arisen in the production of tea. Since 1997 the Ethical Tea Partnership, a joint industry initiative of traders and packers, monitors the working conditions on large plantations. Other certification systems are Fairtrade, Rainforest Alliance and Utz Certified.

- ***Other norms:*** Fairtrade Labelling Organizations (FLO) has also Product Standards for vanilla, fresh fruit and rice. Also, the Sustainable Agriculture Initiative Platform is presently developing principles and procedures for different agricultural products, such as corn, coffee, dairy, potatoes, vegetables and fruit. The certification mark Fair Produce is an initiative of producers and trading companies which should improve the disturbed competitive situation in the mushroom industry.

The list described above is not an exhaustive overview of all the certification schemes and agricultural crops. The initiatives also are in various stages of development and have gained different levels of support, from very concrete and widely supported to quite vague and one dimensional. In virtually all industries, effective verification and control systems still have to be developed so that certification becomes waterproof and any progress in the field of sustainability can be measured. Some initiatives already offer reliable norms on which a policy of financial institutions can be based and others provide starting points.

This leads to assessment element 19.

- **Sustainability reporting**

  The Global Reporting Initiative has drafted guidelines on how to write sustainability reports. In the additional Food Processing Sector Supplement (FSSS) guidelines are also included with respect to animal welfare, fair trade, health and the wellbeing of consumers, impact on natural resources and the use of packaging. The guideline has been specifically developed for companies involved in processing food and drinks. Parts of the guideline are also suitable for companies involved on the side, such as suppliers of pesticides, and take all links in the production chain into account.

  This leads to assessment elements 20 and 21.

- **Procurement and supply chains**

  Companies are often part of long production chains. They can monitor one another and question how they respect local and national legislation and international norms regarding social, economic and environmental issues. The requirements that companies set for their suppliers can be included in contractual agreements. The importance of this also recognised in the OECD Guidelines for Multinational Enterprises since its revision in 2011.

  Also the ISO 26000 guideline recognises the importance of supply chain responsibility, because “the impacts of an organization's decisions or activities can be greatly affected by its relationships with other organizations.” A companies’ sphere of influence includes relationships within and beyond an organization’s supply chain.[169]

  This leads to assessment elements 22 and 23.

2.7.3 Assessment elements

A reform of the global food and agriculture sector is badly needed in order to improve its contribution to sustainable development and to meeting its responsibility to respect peoples’ right to food. Only through sustainable practices the massive deforestation that presently takes place as a result of the growth of agricultural activities can be reduced. This would protect biodiversity and ecosystems, climate change and fight desertification as well as preventing social problems with respect to the land rights of the local populations. Financial institutions play an important role in the food and agriculture sector as they finance producers, processors and traders of agricultural products. On these grounds, financial institutions carry a shared responsibility for improving the sustainability of this sector.

The following elements are crucial for a policy regarding the companies a financial institution invests in:

1. Companies respect the right to adequate food.
2. Companies respect the ILO Declaration on Fundamental Principles and Rights at Work.
3. Companies prevent conflicts over land rights and acquire natural resources only by engaging in meaningful consultation with local communities and obtaining free, prior and informed consent (FPIC) when it concerns indigenous peoples.
4. Companies prevent conflict over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of the land users involved.
5. Companies prevent negative impact on protected areas that fall under the categories I-IV of the International Union for Conservation of Nature (IUCN).
6. Companies prevent negative impact on UNESCO World Heritage sites.
7. Companies prevent the negative impact on protected areas listed under the Ramsar Convention on Wetlands

8. Activities in the field of genetic materials and genetic engineering only take place if they meet the permission and processing requirements described in the UN Convention on Biological Diversity and the related Bonn Guidelines or Nagoya Protocol.
9. Production of, and trade in, living genetically modified organisms can only take place if permission of the importing country has been obtained and all requirements of the Cartagena Protocol have been met.
10. Production of, or trade in living genetically modified organisms is unacceptable
11. Companies respect the *Five Freedoms* of animals.
12. Very restricted housing methods for calves (in crates), hens (in battery cages) and sows (in feeding cubicles) are unacceptable.
13. Companies reduce the time limit of animal transport to a maximum of 8 hours.
14. Companies reduce their direct emission of greenhouse gases and harmful substances, such as particulate matter, nitrogen oxide and ammonia.
15. Companies reduce their indirect emission of greenhouse gases and harmful substances, such as particulate matter, nitrogen oxide and ammonia.
16. Companies use pesticides as little as possible and, if necessary, only in a responsible way.
17. Companies use as little water as possible.
18. Companies prevent water pollution.
19. Companies are certified according to certification schemes criteria (mentioned in section 2.7.2) for all raw materials they produce.
20. Companies publish a sustainability report that may contain (a number of) Standard Disclosures from the GRI G4 Sustainability Reporting Guidelines.
21. Companies in the food industry publish a sustainability report that is set up in accordance with the GRI G4 Sustainability Reporting Guidelines, which includes the Food Processing Sector Disclosure (FSSD).
22. Companies integrate social, economic and environmental criteria in their procurement and operational policies.[xi]
23. Companies include clauses on the compliance with social, economic and environmental criteria in their contracts with subcontractors and suppliers.

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xi If the financial institution has no specific sector policies or does not mention this in its sector policies, but does mention this in cross-cutting policies for at least three themes, the financial institution is deemed to comply with this element.

2.8 Forestry

2.8.1 What is at stake?

About 30% of the surface of the earth - almost 4 billion hectares - is covered with forests. Of this, about 271 million hectares are timber plantations. Although these have an entirely different function, the plantations are often classified as 'forest'.[170] Forests and plantations play an important role on earth and provide us with a variety of services which are described below.

- Globally, over 1.6 billion people depend on forests for their livelihood.[171]
- About 350 million people - of whom 60 million are the original inhabitants of the forest - consider the forest to be their home: their social, cultural, and economic wellbeing is inextricably connected with the forest and the products they find there.[172]
- Forest ecosystems are the most bio-diverse ecosystems on earth, offering shelter to about 70% of all animals and plants living on land. [173]
- Trees grow by extracting CO_2 from the air. Untouched forests serve as carbon storage and are therefore invaluable with regard to climate protection.[174] In October 2006, a case study by the World Bank proved that about one fifth of the global climate change is a direct result of deforestation in tropical forests. End 2005, a study of IPAM and Environmental Defence concluded that as much as 27% of the global climate change is due to deforestation in the tropics.
- Forests ensure the fertility of the soil, protect reservoirs and reduce the risk of natural disasters such as floods and avalanches because they hold water resources and prevent soil erosion. These properties have a very positive effect on global agriculture productivity and human health.
- The forest products industry is a source of economic growth and provides timber and other products, such as edible nuts and fruit, medicinal plants, fibres and rubber. The global trade in forest products has an average annual value of about € 270 billion, of which about 20% comes from developing countries. The economic importance of the informal, local trade in timber and other forest products is likely to be much higher. Besides, the loss of forests also causes damage to the economy. Deforestation and forest deterioration are responsible for costs between € 1.5 and € 3.4 trillion in the world economy. [175]
- Forestry creates employment, but in this policy there are large differences between the types of forestry. Small scale and informal forestry - often in combination with *agro forestry* - are usually an important source of employment. However, there is a great deal of variation between types of forestry work, within different kinds of forestry work and also between regions.[176]

Despite their importance for human beings and nature, forests are still being destroyed with unprecedented speed. Experts estimate that during the nineties of the last century, about sixteen million hectares of natural forest was lost annually.[177] The Food and Agriculture Organization of the United Nations (FAO) calculated that between 2000 and 2010 the average net loss of forest per year was 12.8 million acres.[178] The reduction of the net loss is caused by the increase of planting new forests for plantations. Besides entire deforestation, due to overexploitation there is also a lot of *forest degradation* taking place. This means that forests lose their richness in biodiversity and parts of their social and ecological functions.

Deforestation and forest degradation deprive local communities of their territory and livelihood, lead to loss of biodiversity, soil erosion and a decrease in the surface and groundwater table. In addition, deforestation activities sometimes cause horrible forest fires. Due to air pollution caused by these fires, people end up in hospital with breathing problems - such as asthma, bronchitis and pneumonia - and with other consequences of the fires, such as eye and skin problems. Most forest fires were caused by the destruction of forests for the purpose of expansion of the large-scale pulp industry and palm oil plantations.[179]

Due to the speed of deforestation, climate change has also accelerated across the globe. According to the Stern Review, the emission of greenhouse gases due to deforestation causes more than 18% of the global CO_2-emissions. That is a larger share in the emission of greenhouse gases than the global transport industry accounts for.

Important causes of deforestation and forest degradation are:

- **Non-sustainable and illegal logging.** Non-sustainable logging occurs when forests are cut down so fast that recovery is impossible. Although non-sustainable logging is often illegal, these are two different issues. Not all unsustainable logging is illegal, because the forestry regulations in a lot of countries still fail to take sustainability into account. And not all types of illegal logging are non-sustainable, such as the small scale logging by population groups that live in the forest and depend on small-scale agricultural activities (shifting cultivation).

  Due to illegal logging, governments of wood producing countries have a loss of revenue of about € 10 to €15 billion annually. Governments would have been able to use this money for the improvement of health provisions, education, and other public services or for the improvement of sustainable forest management systems.

  Also, non-sustainable logging often causes great damage to the environment. Due to the conversion of forests and other bio-diverse areas into timber plantations and secondary (degenerating) forests, biodiversity is lessened. In addition, legal (but non-sustainable) logging exposes the forest to illegal logging and poaching when infrastructure is created.

  Non-sustainable logging, which is often illegal, has negative consequences for the livelihood of population groups that depend on forests. Many of these groups are part of the poorest and most oppressed communities in the world. In some forest rich countries, the forestry industry is very corrupt. Private allocations of licenses and payment for these services by large scale logging companies have increased to such an extent that national legislation is being undermined. As a result, democratic governance and attention to human rights have come under pressure. In some cases the illegal exploitation of forests is directly linked to large-scale violent conflicts (such as in the Democratic Republic of Congo) and to the financing of military rule (such as in Burma).[180]

- **Conversion of natural forests into timber and pulp plantations.** One of the main causes of non-sustainable logging is the establishment of large-scale pulp, paper and veneer factories. The timber mills in these factories produce a great deal of their respective products and these companies generally fail to make use of the sustainable timber supply. Often, large areas of natural forests are cut down to make room for timber plantations on the exposed land that use fast growing types of tree. Although plantations are sometimes classified as forests - for example in the annual FAO study State of the World's Forests - they do not offer the same social and ecological functions as natural forests do.

  About 42% of global logging is destined for industrial paper use and pulp factories are becoming increasingly controversial. The huge monoculture plantations needed to supply modern pulp factories with raw material have serious consequences for biodiversity, water quality, land rights and income provision. Due to this, the factories themselves are very polluting. Stimulated by financial institutions, the industry constructs larger factories than needed, as it is easier to obtain financing for a large factory than for a small one. Financial institutions can therefore exert significant influence in determining which projects ultimately go ahead.[181]

- **Conversion of forests for agriculture.** Agricultural activities in livestock farming and the production of palm oil, soy and corn (for food and bio fuel) increasingly use larger land areas. To make way for agricultural activities, forests are cut on a large scale, after which the remaining vegetation is burnt to serve as fertiliser. This system is commonly known as *slash-and-burn*. It is conducted by large-scale agricultural companies, but in case of great population pressure also by large groups of small farmers.

- **Conversion of mangroves for fish farming.** Also, for large-scale fish and shell fish growers, forests - in this case mangroves in tropical coastal areas - are destroyed.

- **Development of large-scale industrial and infrastructure projects.** For the development of industry and infrastructure - such as roads, railways, channels, dams, mines, oil and gas plants and pipelines - forests are destroyed.

According to a recent case study by the World Bank, to date the forestry industry has contributed too little to the preservation and management of the forests on earth. Instead "Industrial timber production has a poor track record in Africa. Over the past sixty years, there is little evidence that it has lifted rural populations out of poverty or contributed in other meaningful and sustainable ways to local and national development." With respect to the management of forests in Cambodia, the Inspection Panel of the World Bank concluded "one could hardly overemphasise the negative effects of logging on a natural habitat of world class value and most importantly on very poor and vulnerable rural communities and indigenous peoples."

The United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (UN-REDD) is an initiative whereby developing countries are financially stimulated to reduce the emission of greenhouse gases due to deforestation and to invest more in sustainable development. During the 15th United Nations Climate Change Conference in Copenhagen in December 2009, the Copenhagen Accord agreement was achieved on the need to stop deforestation and forest degradation.

This section deals with the forestry industry, which comprises of all companies that manage forests and plantations and the companies that process timber (lumber, pulp, paper, and other wood products). The forestry industry also comprises all companies that are involved in trade and the further processing of these products, such as furniture, and therefore exists of long chains with a lot of different companies in which financial institutions can invest. As well as having a large influence on the state of the forests in the world, the forestry industry also depends on it. Therefore, the forestry industry deserves a separate policy, besides the investment policy for other industries that contribute to deforestation and forest degradation (such as agriculture, fishing and mining).

Financial institutions should develop a stringent investment policy to themselves ensure that they only invest in companies and governments that manage their forests in a way that is not only sustainable for the environment, but is also beneficial to local societies. The FAO states that public policy and the ability for adaptation of forestry companies leave a great deal to be desired in many countries. When developing a policy for this industry, financial institutions can make use of the international standards described below.

2.8.2 International standards

The most important international standards and initiatives for the forestry industry are:

- **Protected areas and High Conservation Value Forests**

  Forestry activities in all protected areas that fall within the categories I-IV of the World Conservation Union, the UNESCO World Heritage Convention and the Ramsar Convention on Wetlands require special attention and protection. These areas are dealt with extensively in section 2.8.2 on nature. Policies of financial institutions have to be aimed at avoiding investments in forestry activities in these areas.

  These areas are also included in the analyses for investments by International Finance Corporation's (IFC) Performance Standard 6 concerning Biodiversity Conservation and Sustainable Management of Living Natural Resources. It determines how companies should operate in order to avoid negative consequences on areas of high biodiversity value, including impact on natural habitats as well as endangered and endemic species. The requirements in the standard have been guided by the Convention on Biological Diversity.

  In addition, FSC has developed the *High Conservation Value Forests (HCVFs)* concept. HCVFs describe forest areas with special attributes that make them particularly valuable for biodiversity and/or local people, and are defined as "natural landscapes of which the conservation value - including the presence of rare animal species and sacred sites have traditional importance to local or indigenous people." the objective of assigning an HCVF-label to certain forest areas is to be able to better identify valuable forests, developing suitable protection so important ecological and social economic values remain preserved.[182] The Global HCVF Toolkit, developed by IKEA and ProForest, provides starting points to apply the concept and implementation on a national scale. Organisations supporting HCV Resource Network HCV Charter can register.

  This leads to assessment element 1.

- **High Carbon Stock**

  Different forests have different degrees of carbon storage. The High Carbon Stock (HCS) Approach is a methodology to identify areas of land suitable for plantation development and forest areas that can be protected in the long term. The methodology distinguishes natural forest areas from degraded lands (former forest) that now contain only small trees, shrubs or grasses. HCS forests store a lot of carbon that would be released if converted into plantations, as well as having rich biodiversity values. The methodology was originally developed by Greenpeace, The Forest Trust (TFT) and Golden Agri-Resources (GAR), and is now governed and will be further refined by a multi-stakeholder body called the High Carbon Stock Approach Steering Group. The HCS Approach is now used by plantation companies that have made a commitment to exclude deforestation from their supply chains.[183]

  This leads to assessment 2.

- **Illegal logging and deforestation**

  Since 2002, governments of wood producing and consuming countries have organised a number of conferences together with the World Bank. These Ministerial Conferences on Forest Law Enforcement and Governance (FLEG) processes are aimed at reducing illegal logging and the respective trade and corruption in the forestry industry. In order to reach these objectives producers, consumers and donor governments are held accountable to international commitments to increase their efforts. Up to now, FLEG-meetings have taken place in South-East Asia and Australia, Africa, Europe and in North Asia. A possible new FLEG-initiative in Latin America and the Caribbean area is presently being developed.

In May 2003, the European Commission developed the Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan, which was adopted by the EU in 2004. The FLEGT Action Plan establishes a new and innovative approach to prevent illegal logging. This means that legal agreements within the EU that concern trade and exploitation of raw materials are linked to the governance of the developing countries where these raw materials (in this case wood) come from. The action plan describes a series of measures - such as supporting the private industry by keeping illegal timber out of the chain - and it supports measures to prevent investments in illegal logging.

In 2008, the United States were the first country to ban the import, sale and trade of illegal timber and other related products. According to the Lacey Act, importers have to indicate the wood species and the country of origin of most wood species, with heavy fines on importing wood products from illegal sources, regardless of whether this is done intentionally or unintentionally.[184]

In March 2013, the EU Timber Regulation (EUTR) came into force: “Placing illegally harvested timber and products derived from such timber on the EU market for the first time, is prohibited. EU operators – those who place timber products on the EU market for the first time – are required to exercise ‘due diligence’. Traders – those who buy or sell timber and timber products already on the market – are required to keep information about their suppliers and customers to make timber easily traceable.” Companies can develop their own Due Diligence System or make use of the services of monitoring organisations across the EU.

Several very large companies, notably traders in the palm oil sector such as Archer Daniels Midland and Wilmar International (the latter controls roughly 45% of the global market in palm oil), have adopted ‘no deforestation’ policies in recent years. These policies set a high benchmark, often allowing no deforestation, no peat development and no conflicts, in their own operations or in their supply chain. Although in these first cases directed at the palm oil sector, financial institution may apply the policies to other sectors causing deforestation, peat loss and conflicts as well.[185]

The United Nations Climate Summit’s New York Declaration on Forests has been signed by several large companies. The Declaration is a non-legally binding political declaration, which aims to cut natural forest loss with 50% by 2020 and to ultimately end deforestation by 2030. Furthermore, it also promotes the restoration of forests and croplands of an area larger than India. The Declaration has been endorsed by dozens of governments, 30 of the world’s largest companies and over 50 influential civil society and indigenous organisations. The associated voluntary Action Agenda serves as a guide to governments, companies, and organisations regarding the diverse set of actions that can achieve these transformational goals.[186]

This leads to assessment elements 3.

- **Pulp and paper production**

In 2014 a group of over 120 non-profit organizations endorsed a new Global Paper Vision, to improve sustainability in the paper supply chain. The Global Paper Vision encompasses seven principles, addressing the entire paper life-cycle:

- reduce global paper consumption and promote fair access to paper;
- maximise recycled fibre content;
- ensure social responsibility;
- source fibre responsibly;
- reduce greenhouse gas emissions;
- ensure clean production; and

- ensure transparency and integrity.

This leads to assessment elements 4 and 5.

- **Fair and equal use of forests**

  In article 8(j), the Convention on Biological Diversity (CBD) also considers the fair and equal use and the advantages of biological diversity and requires that traditional knowledge of indigenous and local communities can only be used with their permission. The Akwé: Kon Guidelines require the conduct of cultural, environmental and social impact assessments regarding developments proposed to take place or which are likely to impact on sacred sites and on lands and waters traditionally occupied or used by indigenous and local communities.
  This leads to assessment elements 6.

- **Land rights conflicts and forced evictions**

  Human rights, particularly economic, social and cultural (ESC) rights, play a central role in land-related issues. However, there is no such thing as a 'human right to land'. Those who face threats to their land rely on other rights, such as the right to food, the right to water, the right to housing and the right to work. These rights are included in the above mentioned International Covenant on Economic, Social and Cultural Rights (ICESCR). [187]

  The right to adequate housing encompasses the right to live in security, peace and dignity. To realize this right, governments have an obligation to guarantee security of tenure, which essentially means a set of arrangements in the context of housing and land that will protect the occupants from forced evictions and other threats and harassment.[188]

  As noted by the UN Special Rapporteur on Adequate Housing: "Involuntary resettlement amounts to a forced eviction when it occurs without the provision of, and access to, appropriate forms of legal or other protection."[189] The effects of forced evictions can be very serious, especially for people who are already living in poverty. The UN Commission on Human Rights has described forced evictions as a "gross violation of human rights, particularly the right to adequate housing."[190] The protection measures that should be applied to all evictions have been clearly articulated in the Basic Principles and Guidelines on Development-based Evictions (2007) developed by the UN Special Rapporteur on Adequate Housing.[191] They reflect existing standards and jurisprudence on this issue. They include detailed guidance on steps that should be taken prior to, during and following evictions in order to ensure compliance with relevant principles of international human rights law.

  The 11 core principles of the United Nations Special Rapporteur on the right to food, Olivier de Schutter, include the notion that any shifts in land use can only take place with the free, prior and informed consent of the local communities concerned. This is particularly important for indigenous communities, in view of the discrimination and marginalization they have been historically subjected to.

  In May 2011, the Tirana Declaration was adopted by over 150 representatives of civil society organisations, social movements, grassroots organizations, international agencies, and governments - including the members and strategic partners of the International Land Coalition (ILC) such as the World Bank, FAO, IIED and the IFAD. The Declaration defines land grabbing as “acquisitions or concessions that are one or more of the following: *(i) in violation of human rights, particularly the equal rights of women; (ii) not based on free, prior and informed consent of the affected land-users; (iii) not based on a thorough assessment, or are in disregard of social, economic and environmental impacts, including the way they are gendered; (iv) not based on transparent contracts that specify clear and binding commitments about activities, employment and benefits sharing, and; (v) not based on effective democratic planning, independent oversight and meaningful participation.*”

This leads to assessment elements 7 and 8.

- **Certification of forest management and the wood product chain**

The Global Paper Vision emphasises the importance of responsible sourcing “from forest managers that have credible, independent, third-party certification for employing the most environmentally and socially responsible forest management and restoration practices”.[192]

Most certification schemes developed to guarantee sustainable forest management, fail in developing and monitoring strict guidelines. Often, this has to do with the involvement of companies from the forestry industry at the certification process. Due to the fact that these companies have a commercial interest in weak certification guidelines, their participation in the process merely enhances the status quo of non-sustainable forest management. This is reflected in the fact that most certification methods do not respect the rights of indigenous peoples and exclude them from the decision-making process and decisions.[193]

There are two certification systems that include this topic in their standards: the Forest Stewardship Council (FSC) and the Program for the Endorsement of Forest Certification (PEFC).

In the FSC forest owners, forest construction companies, labour unions, social and environmental organisations are represented. The FSC has drafted the 10 Principles of Forest Stewardship. With the corresponding criteria, these principles form the basis of all FSC standards for forest and plantation management. By now, 180 million hectares of forests and plantations in about 80 countries have been certified according to the FSC standards, and managed by 1229 certificate holders. In addition, 27,000 wood products carry the FSC Chain of Custody-certificate, which implies that the entire production chain complies with FSC conditions. [194]

The PEFC criteria also includes that the UN Declaration on the Rights of Indigenous Peoples is observed (including the so-called Free and Prior Informed Consent principle). The PEFC certificates (16,000 companies have a Chain of Custody certificate) are mainly issued in Europe (84%).[195] No less than 60% (151 million hectares) of PEFC-certified wood comes from North America. Europe follows with 33% (84 million hectares).[196]

The Dutch Ministry of Environment has established that both FSC and PEFC (except the Malaysian MTCS-certificate) ensure sustainable wood. However, because PEFC certification takes place on the basis of national standards, it is not possible to derive clear criteria from a PEFC certificate. Among nature and environmental organizations there is unanimity PEFC standards do not ensure sustainable forestry, especially outside Europe. The Global Paper Vision also states that FSC is currently the only international certification programme meeting their requirements of a good certification programme. Friends of the Earth Netherlands determined unsustainable forestry in 2009 in the United States, Australia and Slovakia in PEFC - certified forests. [197] In addition there are, according to WWF and Greenpeace, among others, the following weaknesses of PEFC compared to FSC:[198]

- Woodlands can be converted to monoculture plantations.

- No need to protect endangered plant and animal species
- The organization is dominated by the timber industry and there is too little involvement of other stakeholders.

This leads to assessment elements 9 and 10 .

- **Sustainability reporting**

In September 2003 the World Wildlife Fund (WWF) published Guidelines for Investment in Operations that Impact Forests. These guidelines help financial institutions to identify critical problems in the forestry industry and to develop a forestry policy.
The recently launched Forest Footprint Disclosure (FFD) project tries to help investors in identifying links between tropical deforestation and the activities and chains of the companies in which they invest. As with the Carbon Disclosure Project, on behalf of institutional investors a questionnaire has been sent. The results - which indicate whether a company has developed 'best in class' in innovative risk control strategies, or did not respond to the request to make its forest footprint public - are collected in an annual report.[199]

The Global Reporting Initiative has set up guidelines for writing sustainability reports.

This leads to assessment elements 11, 12 and 13.

- **Procurement and supply chains**

Companies are often part of long production chains. They can monitor one another and question how they respect local and national legislation and international norms regarding social, economic and environmental issues. The requirements that companies set for their suppliers can be included in contractual agreements. The importance of this also recognised in the OECD Guidelines for Multinational Enterprises since its revision in 2011.

Also the ISO 26000 guideline recognises the importance of supply chain responsibility, because "the impacts of an organization's decisions or activities can be greatly affected by its relationships with other organizations." A companies' sphere of influence includes relationships within and beyond an organization's supply chain.[200]

This leads to assessment elements 14 and 15.

2.8.3 Assessment elements

Financial institutions can use their influence to prevent deforestation and forest degradation. Financial institutions can do so by establishing a strict policy for investments in the forestry sector. This policy applies to the entire forestry sector, being forestry, logging, pulp, paper and furniture production as well as other wood processing and trade companies.

The following elements are crucial for a policy regarding the companies a financial institution invests in:

1. Forest construction companies identify and protect the High Conservation Value (HCV) areas within the forests they manage.
2. Companies identify and protect High Carbon Stock (HCS) forests.
3. Companies throughout the wood supply chain prevent the use of illegally cut and traded timber.
4. Pulp and paper factories ensure through independent analysis that there is sufficient sustainably grown wood or sustainably produced pulp available for the factory.

5. Pulp and paper factories restrict the use of chemicals and the pollution of soil, water and air by making use of the best available techniques.
6. Companies respect the rights of local and indigenous communities on the fair and equal use of forests.
7. Companies prevent conflicts over land rights and acquire natural resources only by engaging in serious consultation with local communities and obtaining free, prior and informed consent (FPIC) when it concerns indigenous peoples.
8. Companies prevent conflict over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of the land users involved.
9. Production forests and timber plantations are certified according to the criteria of the Forest Stewardship Council (FSC).
10. Production chains of timber traders and companies in the wood product chain (including pulp, paper, veneer, furniture) are certified according to the FSC Chain of Custody criteria.
11. Companies in industries with a large impact on forests (including in any case the forestry and paper industry), report their *forest footprint* to the Forest Footprint Disclosure (FFD) project.
12. Companies publish a sustainability report that may contain (a number of) the Standard Disclosures from the GRI G4 Sustainability Reporting Guidelines.
13. Companies publish a sustainability report that is set up in accordance with the GRI G4 Sustainability Reporting Guidelines.
14. Companies integrate social, economic and environmental criteria in their procurement and operational policies.[xii]
15. Companies include clauses on the compliance with social, economic and environmental criteria in their contracts with subcontractors and suppliers.

xii If the financial institution has no specific sector policies or does not mention this in its sector policies, but does mention this in cross-cutting policies for at least three themes, the financial institution is deemed to comply with this element.

2.9 Mining

2.9.1 What is at stake?

Mining and ore refining are very polluting activities that affect the soil and water quality. A lot of extractive industry activities take place in open quarries, due to which the natural habitat of plants and animals is destroyed in large areas. In addition, mining companies use huge amounts of water to separate the minerals of the excavated mud or to dump acidic, toxic and even radioactive waste. Rivers that supply people, animals and forests with water are seriously polluted, as are the seas into which these rivers flow. In addition, pollution of waterways leads to erosion. A lot of mines are located in hilly or mountainous areas and when forest vegetation disappears - mainly after rainfall - the soil can start sliding, ending up in local waterways. Erosion can even lead to landslides and fatal floods.

The consequences of the extractive industry have an effect long after the extractive industry's activities have been finished. Generally, repair work is insufficient to restore nature in the extractive industry areas. Long-term problems - such as the leaking of acid from the mines - can pollute the waterways in the vicinity for decades or even centuries. Besides, mining ore and also ore refining - even with the use of modern technologies - causes air pollution over a large area.

A common problem in the extractive industry is that mining companies do not respect the land rights of the local inhabitants. The companies deprive these communities of large areas of land and forest of which they depend upon for their food and livelihood. In addition, the pollution of the mines can lead to an accumulation of heavy metals in the soil, the water and the air in the vicinity. These metals cause serious health problems if the drinking water supplies of local communities are polluted or destroyed, or if the air is inhaled. Also, the heavy metals harm the health of the local population indirectly, because the crops and animals they need to survive have absorbed the heavy metals.

In a lot of mining companies the work is very dangerous, with poor working conditions, many accidents and poor safety conditions. Moreover, fundamental labour rights are often not respected and sometimes child labour also occurs.
Finally, the extractive industry disturbs the macro-economic development in a lot of countries; this is also referred to as the resource curse.[201] In developing countries, with no stable political or legal system, the exploitation of metals and minerals from the soil often leads to corruption, irreducible revenues, bad management of the supplies and the unequal division of the revenues within the local communities. The costs related to protecting the environment and to ensuring social cohesion will be borne by the population, or in other words: by those that have made little or nothing from the exploitation. As a result, the extractive industry basically leaves a lot of countries even poorer than prior to the development of the industry. The African Development Bank has calculated that African countries miss out on \$50-\$60 billion due to the resource curse. Moreover, the industry regularly leaves countries with conflicts between local population groups, the mining companies and the government.[202]

Some mining companies operate in developing countries but the related subsidiaries are located in tax havens to pay as little tax as possible. According to Publish What You Pay Norway, after the US state Delaware, the Netherlands is the favourite hosting country for mining companies. The ten largest oil companies and mining companies globally that own natural resources in developing countries have 365 subsidiaries in the Netherlands. However, under Dutch legislation it is impossible to investigate the fiscal and financial data of these subsidiaries. Therefore, it proved to be very difficult to determine how much revenue companies make from the activities in these countries and how much tax the governments lose. [203]

Some minerals extracted by the mining industry are sourced from areas in which conflict is taking place and the mining and trade of these minerals is involved in the fuelling and financing of this conflict, leading to serious human rights abuses. Important areas to consider are the Democratic Republic of Congo (DCR), Afghanistan, Colombia and Zimbabwe.204

Besides large scale mining companies, artisanal, small-scale mining industries are also active in a lot of countries. According to CASM (Consultative Group for Artisanal and Small-Scale Mining, established by the World Bank) this concerns thirteen to twenty million people in about fifty developing countries. Globally, over one hundred million people fully or partly depend on the industry for their livelihood. These people often belong to the most vulnerable population groups. But small-scale extractive industry activities can also cause environmental problems, enhance material poverty and harm human health. This is because these activities also take place in fragile ecosystems with large degrees of cultural and biological diversity.

The Indigenous Rights Risk Report for the Extractive Industry (U.S) from First Peoples Worldwide, published in October 2013, shows that a lot of mining (92%) in developing countries involves a lot of risks for shareholders. Especially when it concerns mining in or near areas of indigenous peoples. John Ruggie (the main author of the UN Guiding Principles on Business and Human Rights) calculated that extractive companies lose $20 to $30 million on average every week when indigenous peoples rise in revolt. Ruggie also points out that the extractive industry estimates that asset managers will spend between five and ten percent of their time on 'community engagement issues'. But there are also examples of 50 or even 80%.[205]

The extractive industry consists of companies that extract, transport, purify and store minerals. The products are then processed and used in several other industries on a large scale, such as the electronics industry, the construction industry and the automotive industry. These industries strongly depend on the extractive industry and to a certain extent are also involved in the negative effects of the mines and refineries on the environment and local communities.

In order to contribute to a more sustainable and socially just world, the extractive industry will have to drastically change course. The policy of financial institutions has to be aimed at only engaging in financial relations with mining companies that are willing to do so. When developing policies for this industry, financial institutions can make use of the international standards described in the following section.

2.9.2 International standards

Various international initiatives are involved in the risks that extractive industry pose for human beings and the environment; globally there is increasingly more consent to apply standards to this industry. In addition, there are some international conventions and multi-stakeholder processes that set standards for specific extractive industry activities, such as those depicted below.

- **Areas of high biodiversity and protected areas**

  Extractive industry activities may not take place in areas listed in the categories I to IV of the World Conservation Union, or included in the UNESCO World Heritage Convention or in the Ramsar Convention on Wetlands. Furthermore, extractive industry projects in areas that fall under the following conventions and initiatives are to be expressly avoided: forests identified with the High Carbon Stock Approach, Marine Protected Areas, High Conservation Value areas and IUCN protected areas.

Many of these areas are also included in the analyses for investments by International Finance Corporation's (IFC) Performance Standard 6 concerning Biodiversity Conservation and Sustainable Management of Living Natural Resources. It determines how companies should operate in order to avoid negative consequences on areas of high biodiversity value, including impact on natural habitats as well as endangered and endemic species. The requirements in the standard have been guided by the Convention on Biological Diversity.

This leads to assessment elements 1, 2 and 3.

- **Crisis response and crisis prevention**

As part of the Awareness and Preparedness for Emergencies at a Local Level (APELL) programme in 2001, which provides assistance to governments, companies, aid organisations and communities in preparing for any incidents and in response to environmental disasters in the extractive industry, the United Nations Environment Program (UNEP) has set up a multi-stakeholder initiative involved in the sustainability of the extractive industry. The initiative has not yet lead to new standards, but a report states that new standards are required and that financial service providers should include these standards in their investment policies.

This leads to assessment elements 4 and 5.

- **Waste management**

Many environmental problems in the extractive industry concern dealing with extractive waste. The existing standards and guidelines with regard to waste management are:

- The Convention on the Prevention of Marine Pollution by Dumping of Wastes and other Matter (1972), of the United Nations International Maritime Organization (IMO). The convention prohibits the direct dumping of mercury and mercury compounds into the sea and makes special permits a requirement to dump cyanide and other heavy metals.
- The World Bank Extractives Industries Review (EIR, 2003) advises companies to avoid waste dumping into the sea and rivers and to look for safer alternatives for the use of cyanide and mercury. The most recent update for this advice is from 2004.
- The Mining, Minerals and Sustainable Development (MMSD) project of the International Institute for Environment and Development, which ran from 2000 to 2002, supports a ban on the dumping of extractive waste in rivers. Legislative authorities in the United States and Canada have now prohibited dumping waste directly into rivers. In 2012 an update has been published that discusses the industry's progress.
- The Directive on the Management of waste from the extractive industries, published by the European Commission in 2006, requests that European Union member states ensure that extractive waste is managed without endangering human health or the environment, especially water, air, soil, flora and fauna. The member states also need to take the necessary precautions to prohibit the uncontrolled abandonment, dumping and disposal of extractive waste.

This leads to assessment elements 6 and 7.

- **Closing depleted mines**

  The condition in which exhausted mines are left behind has large consequences for the population and the ecosystems in the vicinity. Negative environmental and health effects can have an impact for years - perhaps even centuries. The Mining, Minerals and Sustainable Development (MMSD) project asks companies to take the environment and health effects after closing mines into consideration in the plans for the development of the mine and in the assessment of the effects on local communities. This means the future destination of the mine, the provisions to be made and the responsibilities of the mining company need to be taken into account.

  The United States are a good example. Here, government rules on the closure of mines require financial guarantees for the sanitation, remediation and restoration of the natural environment.

  This leads to assessment elements 8 and 9.

- **Small scale and artisanal extractive industry**

  Small scale and artisanal extractive industry projects - provided they are well managed - can enhance sustainable economic and social development on a local level. The Alliance for Responsible Mining (ARM) is an independent multi-stakeholder initiative that aims to enhance social justice and wellbeing in the small scale extractive industry by improving social, environmental and working conditions, solid management of the mines and conducting repair work for the ecosystem. In 2009, ARM presented the final edition of the Standard Zero for Fair Trade Artisanal Gold and Associated Silver and Platinum, which sets social and environmental standards for the small-scale extractive industry. In addition, the Fairtrade Labelling Organizations International (FLO) and ARM have jointly developed the Fairtrade and Fairmined Standard for Gold. Since 2013 only the ARM works on an update of the Fairmined Standard for Gold. In November 2013 the ARM has started cooperation with the Swiss Institute for Market Ecology in order to develop an independent certification and auditing system for the Fairmined Standard.

  This leads to assessment element 10.

- **Labour rights**

  Besides respecting human rights, it is of great importance that mining companies adhere to the United Nations International Labour organisation's main codes of conduct, the ILO. These are the 1998 ILO Declaration on Fundamental Principles and Rights at Work and the Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, of which the fourth edition was published in March 2006. In addition, specifically for the extractive industry, the 1995 Safety and Health in Mines Convention should be taken into account. The rights of women in the extractive industry are recognised in the Iroco Declaration.

  This leads to assessment element 11.

- **Land rights conflicts and forced evictions**

  Human rights, particularly economic, social and cultural (ESC) rights, play a central role in land-related issues. However, there is no such thing as a 'human right to land'. Those who face threats to their land rely on other rights, such as the right to food, the right to water, the right to housing and the right to work. These rights are included in the above mentioned International Covenant on Economic, Social and Cultural Rights (ICESCR). [206]

The right to adequate housing encompasses the right to live in security, peace and dignity. To realize this right, governments have an obligation to guarantee security of tenure, which essentially means a set of arrangements in the context of housing and land that will protect the occupants from forced evictions and other threats and harassment.[207]

As noted by the UN Special Rapporteur on Adequate Housing: "Involuntary resettlement amounts to a forced eviction when it occurs without the provision of, and access to, appropriate forms of legal or other protection."[208] The effects of forced evictions can be very serious, especially for people who are already living in poverty. The UN Commission on Human Rights has described forced evictions as a "gross violation of human rights, particularly the right to adequate housing."[209] The protection measures that should be applied to all evictions have been clearly articulated in the Basic Principles and Guidelines on Development-based Evictions (2007) developed by the UN Special Rapporteur on Adequate Housing.[210] They reflect existing standards and jurisprudence on this issue. They include detailed guidance on steps that should be taken prior to, during and following evictions in order to ensure compliance with relevant principles of international human rights law.

The 11 core principles of the United Nations Special Rapporteur on the right to food, Olivier de Schutter, include the notion that any shifts in land use can only take place with the free, prior and informed consent of the local communities concerned. This is particularly important for indigenous communities, in view of the discrimination and marginalization they have been historically subjected to.

In May 2011, the Tirana Declaration was adopted by over 150 representatives of civil society organisations, social movements, grassroots organizations, international agencies, and governments - including the members and strategic partners of the International Land Coalition (ILC) such as the World Bank, FAO, IIED and the IFAD. The Declaration defines land grabbing as "acquisitions or concessions that are one or more of the following: *(i) in violation of human rights, particularly the equal rights of women; (ii) not based on free, prior and informed consent of the affected land-users; (iii) not based on a thorough assessment, or are in disregard of social, economic and environmental impacts, including the way they are gendered; (iv) not based on transparent contracts that specify clear and binding commitments about activities, employment and benefits sharing, and; (v) not based on effective democratic planning, independent oversight and meaningful participation.*"

In 2004, Oxfam Australia has developed a code of conduct for mining companies on how to deal with the rights of nearby residents. In this code of conduct, five basic rights are defined:

- The right to be heard;
- The right to livelihood, including the rights on suitable re-settlement, compensation, employment and a clean environment;
- The right to basic provisions, such as clean water, education, and health care;
- The right to life and safety;
- The right to equal treatment.

In the code of conduct, these rights are further elaborated through concrete steps that mining companies would have to take.

In 2013 the International Council on Mining and Metals (ICMM) has issued guidelines for its member companies. The Indigenous Peoples and Mining Position Statement deals with the obligations of extractive companies with regard to the indigenous peoples. The guidelines should replace a document from 2008. The most important change is that companies are expected to commit to work to obtain the consent (FPIC) of indigenous peoples for new projects located on lands traditionally owned by or under customary use of indigenous peoples.

This leads to assessment elements 12 and 13.

- **Security and law enforcement**

Companies can get involved in violations of human rights when (private or public) company security officers use violence against nearby residents of the company. This issue is dealt with in the UN Code of Conduct for Law Enforcement Officials and the UN Basic Principles on the Use of Force and Firearms by Law Enforcement Officials. Based on this code of conduct and principles, in a multi-stakeholder process the Voluntary Principles on Security and Human Rights have been developed that set guidelines for companies for their security methods.

This leads to assessment element 14.

- **Access to remedy**

Mining companies need to respect and guarantee the rights of local communities affected by mining. Companies may not directly, indirectly, or implicitly cooperate in violating human rights. According to the United Nations Guiding Principles on Business and Human Rights (UNGPs), if a company identifies a risk or is contributing to an adverse impact, it should cease or prevent its contribution and to mitigate any remaining impacts to the greatest extent possible. Finally, the enterprise should provide or contribute to a remedy.

Since 2000, Oxfam Australia acts as an ombudsman for the extractive industry. During this period of time, numerous complaints of violations of human rights, environmental pollution and the unequal division of extractive industry revenues have been dealt with. Based on the experience gained, a grievance mechanism for the extractive industry that can deal with grievances, give advice and provide the compliance with standards and recommendations for the grievance mechanism was proposed by Oxfam Australia in 2009. For a grievance mechanism for the extractive industry to work properly, six conditions have to be met: clear standards, independency, transparent financing, possibilities to force compliance, access to information and accountability. For the time being there is no grievance mechanism that complies with these conditions.

This leads to assessment elements 15 and 16.

- **Transparency of financial flows**

In the Extractive Industries Transparency Initiative (EITI) a coalition of governments, companies, social organisations and investors have drafted criteria for governments of countries where extractive industry activities take place. The governments are expected to fully publish all revenues they receive from these activities.

The Publish What You Pay coalition, in which more than 650social organisations cooperate, advocates that the mining companies themselves also make their payments to governments publicly known. This means that companies have to report on their tax payments in the countries where they operate. They also have to report on royalties, payments for concessions and such. And important contracts and agreements between governments and mining companies and all bank loans related to the exploitation of raw materials should be made public.

The Global Reporting Initiative has drafted the G4 Sustainability Reporting Guidelines on how to write sustainability reports. These guidelines state that organisations should report on the payments they make to governments (EC1) and on the amounts companies receive from governments (EC4). With respect to EC1, in the Mining and Metals Sector Disclosures (MMSD), it has been added that mining companies have to report the payments to governments for each country in which they operate.[211]

In mid-2010, in the United States the Dodd-Frank Act (*Dodd-Frank Wall Street Reform and Consumer Protection Act)* came into force (see also section on conflict minerals). Section 1504 concerns reporting requirements payments to government institutions in relation to the mining of oil, gas and minerals.[212]

The European Commission has made draft regulations to stimulate companies to be open about their tax payments to the governments of the countries in which they operate (extractive industry and forestry industry). The EU also supports the use of *due diligence* processes described in the OECD Guidelines. [213] However, in December 2013 there still was no EU-regulations for conflict minerals, in spite of the fact that in June 2013 new EU regulations on transparency in the extractive industry has been developed. In doing so, the EU partly takes over de Dodd Frank Act, but it does make an exception for conflict minerals. The European Commission expected to have finished an impact assessment towards the end of 2013, in order to be able to introduce legislation in the beginning of 2014. [214]

This leads to assessment elements 17, 18 and 19.

- **Sovereignty on natural resources**

The legislation on the use of raw materials varies by country. However, on an international level it has been established that mining companies have to recognise the sovereignty of states over their own raw materials. This concept (*Permanent Sovereignty on Natural Resources*) is part of various resolutions of the United Nations. For example, the UN Declaration on Permanent Sovereignty over Natural Resources (1962) not only gives raw material producing countries the right to take decisions on the management and the mining of their natural riches, but also - provided people are compensated for their loss - expropriate or nationalise territories in the public interest.

In addition to this declaration, UN Resolution 2158 (XXI) (1966) followed and was specifically aimed at developing countries. In this resolution, public-private joint-ventures are recommended as the most suitable model for development.

This leads to assessment element 20.

- **Good governance**

  In order to minimise the negative consequences of the *resource curse*, it is important that the development of the extractive industry is combined with the development of capable and reliable governance. The World Bank Extractive Industries Review (EIR) advises against stimulating private investments in the extractive industry in countries where governance is ineffective. It also states that the quality of governance has to meet explicit conditions before an extractive industry project can be financed by the World Bank.

  The United Nations Guiding Principles on Business and Human Rights (UNGPs) points to heightened risks of involvement in gross human rights abuses in conflict-affected areas. A company should manage it own impact in order to prevent involvement in human rights violations.

  The OECD Risk Awareness Tool for Multinational Enterprises in Weak Governance Zones could be helpful detecting areas were strong governance is needed to avoid human rights abuses or to refrain from doing business.

  This leads to assessment element 21.

- **Conflict minerals and diamonds**

  The problem of proceeds from mineral mining fuelling conflict and civil war has been well-documented for many years, particularly in the Democratic Republic of Congo (DRC) but also in parts of Afghanistan, Colombia, Zimbabwe and elsewhere. Minerals which risk fuelling conflict include gold, coltan (or tantalum), tin (or cassiterite) and wolframite (or tungsten). These resources can enter global supply chains and end up in mobile phones, laptops, jewellery and other products. It is important to note that this includes blood diamonds or conflict diamonds and minerals sourced from conflict zones outside the DRC.

  Significant legislation includes Section 1502 of the Dodd Frank Act (passed in 2010), which requires US-listed companies to carry out due diligence on tantalum, tin, gold or tungsten sourced from DRC and neighbouring countries. It also concerns reporting requirements on the use of conflict raw materials from the Democratic Republic of Congo (DRC) and neighbouring countries. Companies that are listed on the New York Stock Exchange and use minerals from this region have to provide insight into the financial flows and research of whether they contribute to the financing of armed groups.[215]

  Conflict minerals regulation is being discussed in Europe, and MEPs are due to vote on a responsible trading strategy for minerals from conflict zones in Spring 2015.

  This leads to assessment element 22.

- **Unacceptable mining practices**

  As almost all mined uranium is used in electricity production, in nuclear power stations (discussed in section 2.11), this can be considered a strategic service to the nuclear power sector. The World Nuclear Association claims that in most respects the environmental impacts of a uranium mine are the same as those of other metal mines, although NGOs such as Greenpeace have identified levels of radioactive materials in the air, water and soil above internationally accepted limits around some uranium mines. Many other mined materials are radioactive. For example, iron contains radioactive isotopes and is included in some lists of radioactive materials. Mined radioactive elements are also used in medical equipment and household items including smoke detectors. Rare earths with radioactive isotopes are used in wind turbines and electric cars. For this reason, the assessment element is limited to uranium mining, rather than to all mining of radioactive materials.

Taking into account the huge impact of coal mining on the environment and local communities, especially extreme mining such as mountain top removal mining, and its contribution to climate change once the coal is burned,[216] these activities are considered unacceptable by the Fair Finance Guide network as well.

This leads to assessment element 23, 24, 25 and 26.

- **Standards for a sustainable extractive industry**

Framework for Responsible Mining - drafted by the WWF - provides a clear analysis of environmental, social and governance problems that should be included in its sector policy for the extractive industry.

The Sustainable Development Framework of the International Council on Minerals & Metals (ICMM) is based on the Mining, Minerals and Sustainable Development (MMSD) project. The Framework comprises of 10 principles for sustainable development in the extractive industry, it obliges the participants of ICMM to report according to GRI, including the Mining and Metals Sector Disclosure, and it requires verification of this reporting. Also, a grievance mechanism has been set up for dealing with grievances of ICMM participants.[217]

In February 2015, the mining industry organization ICMM released a best practice guidance on water management: “International Council on Mining and Metals (ICMM) member companies have come to understand that even the most water-efficient operations that stringently manage water discharges can still be subject to significant water risks manifesting outside the operational fence line at the catchment level”. The guidance calls for wide stakeholder engagement and expects companies to consider risks outside its own operations. The guidance accompanies ICMM's 2014 Water stewardship framework.

For some minerals there are specific standards, or they are being developed, including:

- End 2010, the OECD has written recommendations on respecting human rights and avoiding involvement in conflicts in extractive industry areas. The OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas also contains specific guidelines for tin, tantalum, and tungsten.
- The involvement of the diamond industry in armed conflicts has led to the Kimberley Process Certification Scheme. The system forces governments to certify diamonds that are not being used for financing conflict groups. The certification process has proven to be a useful first step to make conflict diamonds recognisable, but it still lacks an independent supervisor.
- The Council for Responsible Jewellery Practices (CRJP) is also working on a certification scheme similar to the Kimberley Process. The council consists of more than 450 companies operating in the product chains of gold, diamonds, jewelry and watches. In November 2013, the CRJP published the third edition of Principles and Code of Practice, together with certification manuals and assessment guidelines. New in 2013 is: all participating companies are expected to produce a human rights report and they must (in relevant cases) take into account the Free and Prior Informed Consent and the extraction of raw materials in conflict areas.
- The Roundtable of Sustainable Platinum Group Metals (PGM) mainly tries to reach agreement on strategic questions within the industry. These questions have to be based on developing concrete actions for sustainable production of PGM, to which all stakeholders agree.

- The gold industry has developed the International Management Code for the use of Cyanide, a voluntary agreement on reducing the use of cyanide, on improving safety in transport and on taking measures that guarantee the miners health and safety. The code also contains plans for crisis management, but lacks guidelines for waste processing. The World Gold Council has developed the Conflict-Free Gold standard. Voluntary participation involves submitting to an audit, of which the results are made public, to assess whether gold has been responsibly extracted. Fairtrade Gold and Precious Metals is a certification scheme for responsibly sourced gold and precious metals from artisanal and small-scale sources that comply with social, environmental, labour and traceability requirements. Another option is Fairmined Gold, a third party assurance scheme developed by the ARM. The Initiative for Responsible Mining Assurance (IRMA) Standard for Responsible Mining, which outlines requirements based on business integrity and social and environmental criteria. The International Conference on the Great Lakes Region (ICGLR) Regional Certification Mechanism has set standards for traceability and certification of minerals in the conflict-prone Great Lakes area. Finally the London Bullion Market Association (LBMA) Responsible Gold Guidance, is mandatory for all LBMA accredited refiners and ensures that all gold feed stock and all gold produced by refiners is conflict-free.

Many of these initiatives are still in their infancy and haven't yet developed specific standards that financial institutions can take over literally in their investment policy. Financial institutions have been advised to closely follow the developments of these initiatives and/or actively participate in them.

This leads to assessment element 27.

- **Sustainability reporting**

The Global Reporting Initiative has drafted guidelines on how to write sustainability reports. Besides the general G4 Sustainability Reporting Guidelines it also provides sector guidance for a number of industrial sectors. The Mining and Metals Sector Disclosures includes guidelines on companies active in exploration, mining and primary metal processing (including smelting, recycling and basic fabrication).

This leads to assessment elements 28 and 29.

- **Procurement and supply chains**

Companies are often part of long production chains. They can monitor one another and question how they respect local and national legislation and international norms regarding social, economic and environmental issues. The requirements that companies set for their suppliers can be included in contractual agreements. The importance of this also recognised in the OECD Guidelines for Multinational Enterprises since its revision in 2011.

Also the ISO 26000 guideline recognises the importance of supply chain responsibility, because "the impacts of an organization's decisions or activities can be greatly affected by its relationships with other organizations." A companies' sphere of influence includes relationships within and beyond an organisation's supply chain.[218]

This leads to assessment elements 30 and 31.

2.9.3 Assessment elements

When financial institutions invest in mining companies, they have to be aware of whether the company complies with the relevant international guidelines and agreements on the social and environment fields. This means that in the investment policy of financial institutions, clear norms need to be drafted.

The following elements are crucial for a policy regarding the companies a financial institution invests in:

1. Companies prevent negative impact on protected areas that fall under the categories I-IV of the International Union for Conservation of Nature (IUCN).
2. Companies prevent negative impact on UNESCO World Heritage sites.
3. Companies prevent negative impact on protected areas that fall under the Ramsar Convention on Wetlands.
4. Companies mitigate the chance of accidents by making use of the best available techniques and have a solid road map for crisis situations (a 'contingency plan')
5. Companies do not operate at locations where the consequences of an accident for the environment are unmanageable.
6. Companies reduce extractive waste and manage and process this in a responsible way.
7. Riverine tailings disposal and sub-marine tailings disposal is unacceptable.
8. Companies include the environmental and health effects of a mine after its closure in plans for the development of new mines.
9. Companies ensure the complete recovery of ecosystems after commercial activities have been completed, for all extractive industry projects (i.e. this is included as an activity in the planning and the budget of the project).
10. Companies enhance small scale and artisanal mining that improves sustainable economic and social development on a local level.
11. Companies respect the ILO Declaration on Fundamental Principles and Rights at work.
12. Companies prevent conflicts over land rights and acquire natural resources only by engaging in serious consultation with local communities and obtaining free, prior and informed consent (FPIC) when it concerns indigenous peoples.
13. Companies prevent conflict over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of the land users involved.
14. Companies follow the Voluntary Principles on Security and Human Rights for the security of their employees and company premises.
15. Companies have a process in place to provide for, or cooperate in, the remediation of any adverse human rights impacts to which it may have caused or contributed.
16. Companies established or participate in a grievance mechanism for individuals and communities which may be adversely impacted by its activities.
17. Companies pay the taxes owed in each country where they operate.
18. For each country in which companies operate, they report country-by-country on their revenues, costs, profits, subsidies received from governments and payments to governments (e.g. withholding taxes, payments for concessions and company tax).
19. Offering, promising, giving and requiring, either directly nor indirectly, bribes or other undue advantages in order to acquire or to maintain assignments or other undue advantages, is unacceptable.
20. Companies recognise the sovereignty of states over their own natural resources.
21. Companies only operate in weak governance zone or conflict-affected areas if they are able to demonstrate that they are not causing or contributing to human rights abuses.
22. Mining and trading in conflict minerals is unacceptable.
23. Uranium mining is unacceptable.
24. Mountaintop removal mining is unacceptable.
25. Establishing new coal mines is unacceptable.
26. Coal mining is unacceptable.

27. Companies are certified according to the criteria of certification schemes for certain minerals (called in section 3.8.2).
28. Companies publish a sustainability report that may contain (a number of) the Standard Disclosures of the GRI G4 Sustainability Reporting Guidelines.
29. Companies publish a sustainability report that is set up in accordance with the GRI G4 Sustainability Reporting Guidelines, including the Mining and Metals Sector Disclosure (MMSD).
30. Companies integrate social, economic and environmental criteria in their procurement and operational policies.[xiii]
31. Companies include clauses on the compliance with social, economic and environmental criteria in their contracts with subcontractors and suppliers.

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xiii If the financial institution has no specific sector policies or does not mention this in its sector policies, but does mention this in cross-cutting policies for at least three themes, the financial institution is deemed to comply with this element.

2.10 Oil and gas

2.10.1 What is at stake?

Several processes within the oil and gas industry may harm the environment. Drilling platforms, oil and gas production facilities, flaring plants, and refineries pollute the land, the air and the water. The urge to fill reserves, lead to oil companies penetrating deeper and deeper into ecologically vulnerable regions, from the Amazon to the Polar Regions. Cracks in pipelines caused by earthquakes, other natural causes and sabotage can lead to soil/ and water pollution and even to fatal explosions and fires. Moreover, oil spilled from tankers that were involved in accidents has polluted many marine areas and coastlines.

Also, the social consequences of the oil and gas industry can be extremely detrimental. Pollution and contagious diseases cause harm to the health, food safety and the culture of indigenous (sometimes isolated) population groups. Often, oil and gas companies take the land of local communities and expropriate them from their source of food or revenues. Also, due to pollution nearby residents can lose their source of income and food supply to the activities of oil and gas companies. Moreover, the mining and transport of oil and gas have regularly contributed to the emergence of armed conflicts, the coming to power of, and remaining in power of, oppressive regimes and the violation of human rights. Especially in situations where companies cooperated with the army or local militias for the security of their operations, great humanitarian harm has occurred.

As with the extractive industry, the oil and gas industry often disturbs the macro-economic development of countries. The term *resource curse* is used for the development of corruption, irreducible revenues, bad management of oil supplies and an unequal division of the revenue to the population, in countries that are rich in natural raw materials.[219] Mainly in developing countries where there is no stable political or legal system, the resource curse is a well-known phenomenon. In these countries conflicts regularly arise between the local population, the oil companies and the government.[220] In such countries, companies ignore both the local legislation as well as internationally accepted highest standards for safe business operations, while operating to the letter of the law in industrialised countries where the highest standards are laid down by law. This double standard was clearly shown in a 'Friends of the Earth' report for the business operations of Shell in Nigeria. [221]

Some oil and gas companies operate in developing countries but the related subsidiaries are located in tax havens to pay as little tax as possible. According to Publish What You Pay Norway, after the US state Delaware, the Netherlands is the favourite hosting country for oil companies. The ten largest oil companies and mining companies globally that own natural resources in developing countries have 365 subsidiaries in the Netherlands. However, under Dutch legislation it is impossible to investigate the fiscal and financial data of these subsidiaries. Therefore, it proved to be very difficult to determine how much revenue companies make from the activities in these countries and how much tax the governments lose. [222]

A relatively new form of extracting gas is drilling for shale gas. This is a controversial way of gas extraction and there is a heavy debate on the pros and cons. The risks for people and environment are summarised by Friends of the Earth Netherlands. Polluting water sources with methane and chemicals, the enormous use of clean water, the infringement on landscape and nature due to many drilling sites, bigger chances of accidents with drilling pits and transport, earthquakes caused by fracking, the impact of shale gas and coal gas on climate change, the small economic effects of shale gas and coal gas. A study done by engineering agencies, issued by the European Commission, endorsed these risks.[223]

Also the Associaton for drinking water companies in the Netherlands (Vewin) has uttered her worries about the risks of shale gas extraction: (test) drilling can pollute the groundwater. According to Vewin Dutch regulations are not sufficient for excluding the risks of groundwater pollution. [224] In December 2014 the Dutch parliament voted against shale gas extraction and artic drilling.[225] Other countries, such as Scotland, South Africa, France and Wales, as well as several states and cities in Canada and the Unites States have also chosen to ban shale gas fracking.[226] The United States recently banned oil and gas drilling in large parts of the Arctic Ocean.[227]

It may be clear that the oil and gas industry also plays an important role in global climate change. Global climate change is largely caused by the combustion of fossil fuels supplied by companies in the oil and gas industry. In a world where sustainable energy sources are becoming more important, there is less and less room for the oil and gas industry. Therefore, the largest challenge for this industry is to use its knowledge of energy markets and technologies to develop a supply of clean energy. In preparation for this, oil and gas companies have to minimise the risks of oil and gas production, transport and processing throughout the entire chain in the fields of environment, safety, health and biodiversity.

The investment policy of financial institutions has to ensure that financial institutions are only involved with investments in companies in the oil and gas industry that meets these objectives. When developing policies for this industry, financial institutions can make use of the international standards described below.

2.10.2 International standards

In general, international standards for the oil and gas industry concern specific topics:

- **Areas of high biodiversity and protected areas**

  Oil and gas activities are especially not permitted in areas that are listed in the categories I to IV of the World Conservation Union, or listed in the UNESCO World Heritage Convention or in the Ramsar Convention on Wetlands.

  These areas are also included in the analyses for investments by International Finance Corporation's (IFC) Performance Standard 6 concerning Biodiversity Conservation and Sustainable Management of Living Natural Resources. It determines how companies should operate in order to avoid negative consequences on areas of high biodiversity value, including impact on natural habitats as well as endangered and endemic species. The requirements in the standard have been guided by the Convention on Biological Diversity.

  Furthermore, forests identified with the High Carbon Stock Approach, Marine Protected Areas and High Conservation Value areas should by identified and protected.

  This leads to assessment elements 1, 2 and 3.

- **Crisis management**

  After the accident with the Exxon Valdez in 1989, where more than 40 million litres of oil covered the coastal areas of Alaska, the United Nations International Maritime Organization (IMO) has adapted the requirements for oil transport. The amendment of 2003 on the MARPOL Convention demands that new oil tankers need to have a double hull and all large tankers with a single hull have been taken out of circulation between 2005 and 2010.

The Protocol on Preparedness, Response and Co-operation in pollution Incidents by Hazardous and Noxious Substances (OPRC-HNS Protocol, 2000) drafted by IMO aims to establish a global framework for international cooperation in order to prevent large scale incidents and the threat of maritime pollution. Parties that have ratified the HNS Protocol are expected to establish measures for polluting incidents or cooperate on a national level with other countries. Ships are obliged to have an emergency plan on board for specific incidents with *Hazardous and Noxious Substances*.

Globally, the development of norms and regulations concerning the management of oil pipelines follows the standards originating from the United States. The US system, Integrity Management (IM), is used all over the world as a 'best practice'. In Alaska there is the additional requirement that the 'Best Available Technology' (BAT) has to be applied to all oil and gas activities. An important part of such standards is that a company also has to be able to adequately respond to incidents. Globally recognised standards are: [228]

- API 1160 (American Petroleum Institute) for the implementation of Integrity Management (IM) programmes for High Consequence Areas;
- ASME B31.4 (American Society of Mechanical Engineers) standard for the design and construction of oil pipelines; and
- API 1130 standard to detect leakages *(Leak Detection Systems*).

The working group 'Oil Spill Working Group' of the IPIEC has written guidelines for crisis planning and response in case of oil disasters at sea (Oil Spill Contingency Planning and Response). These guidelines are meant for the industry and for government organisations and it is based on Industry Best Practices and on the expertise of IPIECA members the International Maritime Organisation (IMO) and the International Tanker Owners Pollution Federation (ITOPF).

The European Union had introduced a new directive 2013/30/EU on safety of offshore oil and gas operations which must improve the safety on oil rigs. The directive should prevent pollution of water and coastal areas by means of strong demands regarding safety. Moreover, companies are expected to use adequate response mechanisms in order to reduce the consequences of accidents.

Investment in projects in areas that fall under the following conventions and initiatives are to be expressly avoided: forests identified with the High Carbon Stock Approach, Marine Protected Areas, High Conservation Value areas, IUCN protected areas, UNESCO World Heritage sites, areas that are listed in the categories I to IV of the World Conservation Union and the Ramsar Convention on Wetlands (see also the section on Areas of high biodiversity and protected areas).

This leads to assessment elements 4 and 5.

- **Waste management**

The *Convention for the protection of the Marine Environment of the North-East Atlantic* (better known as the OSPAR Convention) regulates the disposal and processing of waste from offshore oil and gas extraction and mining and serves as a basis for national legislation in the countries that have signed the OSPAR. Norway has drafted an even more stringent national standard for waste processing from offshore-oil production, the so-called Zero environmentally hazardous discharges standard. This standard requires that a large part of the drilled mud is purified so it can be injected back into the oil field.

A special type of waste is the natural gas that surfaces at the oil mining of some oil fields. This gas is often vented, or it is burnt (flaring). Both venting as well as flaring results in a huge loss of energy and contributes significantly to the greenhouse effect. The Global Gas Flaring Reduction Public-Private Partnership (GGFR), established by the World Bank, has drafted guidelines to minimise the flaring and venting of natural gas. In cooperation with GGFR and GHG Emissions Task Force the International Petroleum Industry Environmental Conservation Association (IPIECA) developed a guideline ('*Preparing effective flare management plans: Guidance document for the oil and gas industry*') for governments and companies that wish to try and reduce gas flaring.

The Guideline with respect to the management of waste of mining industries, drafted by the European Commission in 2006, requests European Union member states to ensure that extractive waste is managed without endangering human health or the environment; specifically water, air, soil, flora and fauna. The member states also need to take the necessary precautions to prohibit the uncontrolled abandonment, dumping and disposal of extractive waste.

Standards for the disposal of offshore drilling platforms are drafted by the OSPAR Convention in OSPAR Decision 98/3 on the Disposal of Disused Offshore Installations. This decision states that oil companies have to choose the method of dismantling that causes the least harm to the environment. In addition, companies have to make adequate provisions to overcome any environmental problems involved in dismantling. They have to take responsibility for the dismantling of their production capacity and the waste they produce and can no longer leave this to governments.

This leads to assessment element 6 and 7.

- **Effects on marine life**

In the offshore oil and gas industry, seismological research causes harm to whales and other marine mammals. To curb these effects, the JNCC guidelines were published in 2004. These comprise of a number of minimum requirements that reduce harm to marine life off the coast of the United Kingdom.

This leads to assessment element 8.

- **Labour rights**

As part of respecting human rights, it is of great importance that oil and gas companies adhere to the United Nations International Labour organisation's (ILO) main codes of conduct. These are the 1998 ILO Declaration on Fundamental Principles and Rights at Work and the Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, of which the fourth edition was published in March 2006. In addition, specifically for the extractive industry, the 1995 Safety and Health in Mines Convention should be taken into account. The rights of women in the extractive industry are recognised in the Iroco Declaration.

This leads to assessment element 9.

- **Land rights conflicts and forced evictions**

Human rights, particularly economic, social and cultural (ESC) rights, play a central role in land-related issues. However, there is no such thing as a 'human right to land'. Those who face threats to their land rely on other rights, such as the right to food, the right to water, the right to housing and the right to work. These rights are included in the above mentioned International Covenant on Economic, Social and Cultural Rights (ICESCR). [229]

The right to adequate housing encompasses the right to live in security, peace and dignity. To realize this right, governments have an obligation to guarantee security of tenure, which essentially means a set of arrangements in the context of housing and land that will protect the occupants from forced evictions and other threats and harassment.[230]

As noted by the UN Special Rapporteur on Adequate Housing: "Involuntary resettlement amounts to a forced eviction when it occurs without the provision of, and access to, appropriate forms of legal or other protection."[231] The effects of forced evictions can be very serious, especially for people who are already living in poverty. The UN Commission on Human Rights has described forced evictions as a "gross violation of human rights, particularly the right to adequate housing."[232] The protection measures that should be applied to all evictions have been clearly articulated in the Basic Principles and Guidelines on Development-based Evictions (2007) developed by the UN Special Rapporteur on Adequate Housing.[233] They reflect existing standards and jurisprudence on this issue. They include detailed guidance on steps that should be taken prior to, during and following evictions in order to ensure compliance with relevant principles of international human rights law.

The 11 core principles of the United Nations Special Rapporteur on the right to food, Olivier de Schutter, include the notion that any shifts in land use can only take place with the free, prior and informed consent of the local communities concerned. This is particularly important for indigenous communities, in view of the discrimination and marginalization they have been historically subjected to.

In May 2011, the Tirana Declaration was adopted by over 150 representatives of civil society organisations, social movements, grassroots organizations, international agencies, and governments - including the members and strategic partners of the International Land Coalition (ILC) such as the World Bank, FAO, IIED and the IFAD. The Declaration defines land grabbing as "acquisitions or concessions that are one or more of the following: *(i) in violation of human rights, particularly the equal rights of women; (ii) not based on free, prior and informed consent of the affected land-users; (iii) not based on a thorough assessment, or are in disregard of social, economic and environmental impacts, including the way they are gendered; (iv) not based on transparent contracts that specify clear and binding commitments about activities, employment and benefits sharing, and; (v) not based on effective democratic planning, independent oversight and meaningful participation.*"

In GRI's Oil and Gas Sector Disclosures it is stated that oil and gas companies have to produce a sustainability report that addresses the rights of indigenous peoples:

- the locations where indigenous peoples live or are influenced by business activities and where an engagement has been made (OG9);
- the number of conflicts and a respective description with local communities and indigenous peoples (OG10);
- business activities where forced relocation of people has occurred and the number of households involved in this (OG12).

This leads to assessment elements 10 and 11.

- **Security and law enforcement**

Companies may get involved in violations of human rights when (private or public) companies use violence against people who live in the surroundings of the company. This question is dealt with in the UN Code of Conduct for Law Enforcement Officials and the UN Basic Principles on the Use of Force and Firearms by Law Enforcement Officials. Based on this code of conduct and on these principles the Voluntary Principles on Security and Human Rights were developed in a multi stakeholder process. They provide guidelines for companies with regard to, amongst others, their security methods.

This leads to assessment element 12.

- **Access to remedy**

Oil companies need to respect and guarantee the rights of local communities affected by oil and gas extraction and mining. Companies may not directly, indirectly, or implicitly cooperate in violating human rights. According to the United Nations Guiding Principles on Business and Human Rights (UNGPs), if a company identifies a risk or is contributing to an adverse impact, it should cease or prevent its contribution and to mitigate any remaining impacts to the greatest extent possible. Finally, the enterprise should provide or contribute to a remedy.

This leads to assessment element 13 and 14.

- **Transparency of financial flows**

In the Extractive Industries Transparency Initiative (EITI), a coalition of governments, companies, social organisations and investors has drafted criteria for governments of countries where oil and gas extraction and mining take place. Governments are expected to fully publish all revenues they receive from these activities.

The Publish What You Pay coalitions, in which over 300 social organisations cooperate, advocates that the oil companies also make their payments to governments publicly known. This means that companies have to report their tax payments in the countries where they operate, but also on royalties, payments for concessions and such. Also, the important contracts and agreements between governments and oil companies and all bank loans related to oil and gas extraction and mining should be made public.

The Global Reporting Initiative has drafted the G4 Sustainability Reporting Guidelines on how to write sustainability reports. It states that organisations should report on the payments that they make to governments (EC1) and on the amounts that companies receive from governments (EC4). In its Oil and Gas Sector Disclosures it has been added that oil companies have to report the payments to governments for every country where they operate per type (taxes, royalties, payments for concessions, bonuses, etc.).[234]

This leads to assessment elements 15, 16 and 17.

- **Sovereignty on natural resources**

The legislation with respect to the use of raw materials varies by country. However, on an international level it is established that mining companies have to recognise the sovereignty of states over their own raw materials. This concept (*Permanent Sovereignty on Natural Resources*) is part of various resolutions of the United Nations. For example the UN Declaration on Permanent Sovereignty on Natural Resources (1962) not only gives raw material producing countries the right to take decisions on the management and the mining of their natural riches, but also - provided people are compensated for their loss – to expropriate or nationalise territories in the public interest.

In addition to this declaration, UN Resolution 2158 (XXI) (1966) followed and was specifically aimed at developing countries. In this resolution, public-private joint-ventures are recommended as the most suitable model for development.

This leads to assessment element 18.

- **Good governance**

In order to minimise the negative consequences of the *resource curse*, it is important that the development of the oil and gas extraction and mining is combined with the development of capable and reliable governance. The World Bank Extractives Industries Review (EIR) advises that private investments in oil and gas extraction and mining are not encouraged in countries where governance is weak. It also establishes that the quality of the governance has to meet explicit conditions before any oil and gas project can be financed by the World Bank.

The United Nations Guiding Principles on Business and Human Rights (UNGPs) points to heightened risks of involvement in gross human rights abuses in conflict-affected areas. A company should manage its own impact in order to prevent involvement in human rights violations.

The OECD Risk Awareness Tool for Multinational Enterprises in Weak Governance Zones could be helpful detecting areas were strong governance is needed to avoid human rights abuses or to refrain from doing business.

This leads to assessment element 19.

- **Unconventional oil sources**

Due to a still ever-increasing demand for fossil fuels, unconventional oil sources - such as the Canadian tar sand fields, oil shale in the United States and extracting shale gas or coal gas - are economically attractive, although extracting these unconventional oil supplies is highly polluting. Extracting these hydrocarbons is also very CO2-intensive and therefore disastrous for the environment. As is the use of great quantities of water in mining oil and gas supplies, which can have huge consequences for the water supply and can lead to loss of areas agricultural and nature areas.

There are no international guidelines yet which regulate how to deal with unconventional oil supplies. However, the Fair Finance Guide network considers extracting oil from tar sand fields, from oil shale, from liquefied coal as well as extracting shale gas and arctic drilling for oil and gas as unacceptable activities.

This leads to assessment elements 20 to 24.

- **Sustainability reporting**

The Global Reporting Initiative has drafted guidelines on how to write sustainability reports. Besides the general G4 Sustainability Reporting Guidelines it also provides sector guidance for a number of industrial sectors. The Oil and Gas Sector Disclosures includes guidelines on companies active in exploration, extraction, production, refining, and transport and sale of oil, gas and petrochemicals.

This leads to assessment elements 25 and 26.

- **Procurement and supply chains**

  Companies are often part of long production chains. They can monitor one another and question how they respect local and national legislation and international norms regarding social, economic and environmental issues. The requirements that companies set for their suppliers can be included in contractual agreements. The importance of this also recognised in the OECD Guidelines for Multinational Enterprises since its revision in 2011.

  Also the ISO 26000 guideline recognises the importance of supply chain responsibility, because "the impacts of an organization's decisions or activities can be greatly affected by its relationships with other organizations." A companies' sphere of influence includes relationships within and beyond an organization's supply chain.[235]

  This leads to assessment elements 27 and 28.

2.10.3 Assessment elements

The investment policy of financial institutions on the oil and gas sector has to emphasise that the main challenge for the oil and gas sector is the further development of sustainable energy provisions. In addition, the policies of financial institutions have to include social and environmental norms for the oil and gas sector.

The following elements are crucial for a policy regarding the companies a financial institution invests in:

1. Companies prevent negative impact on protected areas that fall under the categories I-IV of the International Union for Conservation of Nature (IUCN).
2. Companies prevent negative impact on UNESCO World Heritage sites.
3. Companies prevent negative impact on protected areas that fall under the Ramsar Convention on Wetlands.
4. Companies mitigate the chance of accidents (oil spills, leakages) by making use of the best available techniques and have a solid road map for crisis situations (a so called 'contingency plan').
5. Companies do not operate in locations where the consequences of an accident for the environment are unmanageable.
6. Companies reduce waste from oil and gas extraction and mining, especially the flaring of natural gas, and manage and process this in a responsible way.
7. Companies include the environmental and health effects of the dismantling of production facilities, especially of *offshore* drilling platforms, in plans for the development of new projects.
8. Companies reduce the effects of seismological research on whales and other marine mammals.
9. Companies respect the ILO Declaration on Fundamental Principles and Rights at Work.
10. Companies prevent conflicts over land rights and acquire natural resources only by engaging in meaningful consultation with local communities and obtaining free, prior and informed consent (FPIC) when it concerns indigenous peoples.
11. Companies prevent conflict over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of the land users involved.
12. Companies follow the Voluntary Principles on Security and Human Rights for the protection of their employees and de company sites.
13. Companies have a process in place to provide for, or cooperate in, the remediation of any adverse human rights impacts to which it may have caused or contributed.
14. Companies established or participate in a grievance mechanism for individuals and communities which may be adversely impacted by its activities.
15. Companies pay the taxes owed in each country where they operate.

16. For each country in which companies operate, they report country-by-country on their revenues, costs, profits, subsidies received from governments and payments to governments (e.g. withholding taxes, payments for concessions and company tax).
17. Offering, promising, giving, or requiring, either directly nor indirectly, bribes or other undue advantages in order to acquire or to maintain assignments or other undue advantages, is unacceptable.
18. Companies recognise the sovereignty of states over their own natural resources.
19. Companies only operate in weak governance zone or conflict-affected areas if they are able to demonstrate that they are not causing or contributing to human rights abuses.
20. Extracting oil from tar sands is unacceptable.
21. Extracting oil from oil shale is unacceptable.
22. Extracting fuel from liquefied coal is unacceptable.
23. Extracting shale gas is unacceptable.
24. Arctic drilling for oil and gas is unacceptable.
25. Companies publish a sustainability report that may contain (a number of) the Standard Disclosures from the GRI G4 Sustainability Reporting Guidelines.
26. Companies publish a sustainability report that is set up in accordance with the G4 Sustainability Reporting Guidelines, which includes the Oil and Gas Sector Disclosures (OGSD).
27. Companies integrate social, economic and environmental criteria in their procurement and operational policies. [xiv]
28. Companies include clauses on the compliance with social, economic and environmental criteria in their contracts with subcontractors and suppliers.

2.11 Power generation

2.11.1 What is at stake?

Power generation is essential to meet society's demands for energy, and is central to efforts to achieve sustainable development and poverty reduction. There are many pressures on energy suppliers to generate power in a manner which offers security of supply, is affordable for consumers, and which has a minimal level of negative environmental impacts.

A crucial concern regarding power generation is its impact on climate change. Energy, including power and heat generation for businesses and households as well as energy for transport, is the largest source of anthropogenic (man-made) greenhouse gas emissions globally, accounting for 64% of all global emissions. Generation of power and heat is the largest component of this.[236]
According to the world's leading authority on climate change, the Intergovernmental Panel on Climate Change (IPCC), most scenarios in which dangerous climate change is avoided require low carbon sources of power (including renewable energy, nuclear power and fossil fuels with carbon capture and storage) to reach around 80% of global power generation by 2050, with power generation from fossil fuels such as oil, coal and gas to be phased out almost entirely by 2100, unless accompanied by carbon capture and storage (CCS). Despite many years of research, CCS is not yet available at a commercial scale.

The IPCC also notes that such mitigation scenarios would lead to devaluation of fossil fuel assets and reduced revenues for the coal and oil trade, providing a financial incentive for financial institutions to decrease their exposure to fossil fuels.[237]

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xiv If the financial institution has no specific sector policies or does not mention this in its sector policies, but does mention this in cross-cutting policies for at least three themes, the financial institution is deemed to comply with this element.

However climate change is not the only environment or social issue arising from power generation from fossil fuels. Coal power plants have particularly egregious impacts. As well as releasing carbon dioxide, burning coal emit pollutants including sulphur dioxide, nitrogen oxides, and mercury compounds. Fine particles from coal power plants kill an estimated 13,200 people each year in the United States alone, according to the Boston-based Clean Air Task Force.[238] Coal plants also use large quantities of water, which becomes polluted with heavy metals such as lead and arsenic during use, and soil at coal-fired power plant sites can become contaminated with various pollutants from the coal and take a long time to recover, even after the power plant closes down.[239] Gas plants are also associated with emissions of air pollutants including carbon dioxide and nitrous oxides, although these are lower than for coal.[240]

Nuclear power is considered a low carbon power source by the IPCC, but its use remains highly controversial. The dangers of nuclear power are illustrated by accidents including those at Chernobyl, Ukraine in 1986, at Tokaimura, Japan, in 1999, and at Fukushima, Japan in 2011. Nuclear power also produces a legacy of radioactive nuclear waste, for which the issue of long-term safe storage remains unsolved. For these reasons, as well as for economic reasons (in particular the cost of decommissioning nuclear power stations at the end of their useful life), major environmental groups including Greenpeace and WWF continue to oppose nuclear power.[241]

Among power generation technologies considered “renewable”, large dams are the most controversial. According to the final report of the World Commission on Dams (WCD), published in November 2000, globally, the construction of large dams has driven between 40 and 80 million people away from their homes. Besides these direct impacts of displacement, communities’ livelihoods can be impacted by flooding (upstream), disturbing of water streams and fishery (downstream), violations of indigenous land rights and disruption of local food production.[242] In addition, dams (including dams for water management) have interrupted or reclaimed 60% of the word’s rivers, with often huge and irreversible effects on the natural environment and ecosystems. Research also shows that hydropower plants may produce large volumes of methane gas, a very potent greenhouse gas that arises from the decay of vegetation on the bottom of the reservoir. The methane gas is released when the water is led through the turbines. In some cases, hydropower plants produce more greenhouse gas than a power plant of comparable scope running on fossil fuel.[243]

Given the serious, irreversible ecological impacts of dams, NGOs such as International Rivers say that dam-based hydropower cannot be considered a renewable source of power. However this does not mean that all hydropower is problematic: many smaller (‘micro’ and ‘pico’) hydropower projects operate without damming rivers, and these projects can offer low-emissions energy without substantial negative impacts.[244] Ecological impacts of dams depend on: scale of river fragmentation compared to existing dams, disruption of main river connectivity, new road building needed, new transmission lines needed, and direct environmental impacts from location near protected area, harming fish productivity and biodiversity and blocking of fish migration routes, or flooding of over 100 km^2 of forests.[245]

In general, power generation using other forms of renewable energy, including wind power, solar power, geothermal power, smaller scale hydroelectric power as well as tidal marine power, are responsible for much lower emissions of greenhouse gasses than fossil fuels (although due to the emissions from the construction, maintenance and decommissioning of technologies like solar panels and wind farms, these technologies are not completely free of harmful emissions). It is generally agreed by environmental groups and climate scientists that a substantial increase in investments in renewable energy is needed, alongside investment in energy efficiency, to decarbonize the energy sector and meet emissions reduction targets.

However, financial institutions financing power generation from renewable energy must also be mindful of its potential impacts, in terms of factors such as impacts on land use, wildlife and local communities.

When developing policies for the power generation sector, financial institutions can make use of the international standards described below.

2.11.2 International standards

The most important international standards concerning power generation are summed up below.

- **Shifts towards climate friendly technology**

  The WWF study Climate Solution shows that it is very probable that well-known alternative energy sources and technologies can be ready for use between now and 2050 in order to meet the predicted doubling of the global energy demand, provided that in the coming 5 years decisions will be taken to enable this. This development will ensure a reduction of 60 to 80% of current CO2 emissions, which is necessary to prevent dangerous climate change. This reduction can be achieved without the use of nuclear energy, non-sustainable biomass and non-sustainable types of hydropower.[246]

  The third part of the IPCC's 5th Assessment Report, published in April 2014, focused on mitigating, or avoiding, climate change, showed that the world must significantly reduce its reliance on fossil fuels in the coming decades. The IPCC projected that over the next two decades (2010 to 2029), annual investment in conventional fossil fuel technologies for electricity supply sector would decline, with a median projected rate of decline being around 20%. At the same time, annual investment in low-carbon electricity supply (including renewable energy, nuclear power and electricity generation with carbon capture and storage) is projected to rise by 100% compared to 2010 on the same median basis.

  This leads to assessment elements 1 to 7.

- **Emissions Performance Standards**

  An Emissions Performance Standard (EPS) is a standard for power generation based on the level of carbon dioxide emissions produced per unit of energy, normally expressed in grams of carbon dioxide emitted per kilowatt hour of energy produced (gCO2/kWh). Emissions Performance Standards have been introduced by governments, for example to impose limits on the level of emissions permitted for new power stations, and also by some financial institutions to screen out finance for power stations which do not meet the standard.

  An example of the latter is the EPS introduced by the European Investment Bank (EIB), which is applied to all fossil fuel generation projects to screen out investments whose carbon emissions exceed a threshold level. This threshold has been set at a level which reflects existing EU and national commitments to limit carbon emissions. In the first instance the EPS has been be set at 550gCO2/kWh. This will rule out any further lending to regular coal and lignite power plants. The EIB agreed that the Emissions Performance Standard would be kept under review and that more restrictive commitments could be considered in the future.[247]

  This leads to assessment element 8 and 9.

- **Areas of high biodiversity and protected areas**

  Various international agreements require the protection of ecosystems and natural habitats:

  - The biodiversity in areas that are important on environmental and cultural grounds falls under the protection of the Unesco World Heritage Convention.
  - For *wetlands* (swamps and bogs), which are rich in biodiversity, there is the Ramsar Convention on Wetlands that ensures protection and proper management of these areas.
  - The World Conservation Union (IUCN) has developed a system that categorises natural areas in six categories and indicates in which areas biodiversity has to be protected (category I to IV). In addition, the IUCN provides guidelines for companies on how to deal with fields that fall within these Protected Area Management Categories. In 2000, a resolution was adopted on the IUCN World Conservation Congress that calls upon all states not to allow investments in oil, gas and extractive industry projects in the protected areas (categories I to IV).

  These areas are also included in the analyses for investments by International Finance Corporation's (IFC) Performance Standard 6 concerning Biodiversity Conservation and Sustainable Management of Living Natural Resources. It determines how companies should operate in order to avoid negative consequences on areas of high biodiversity value, including impact on natural habitats as well as endangered and endemic species. The requirements in the standard have been guided by the Convention on Biological Diversity.

  This leads to assessment elements 10, 11 and 12.

- **Land rights conflicts and forced evictions**

  Human rights, particularly economic, social and cultural (ESC) rights, play a central role in land-related issues. However, there is no such thing as a 'human right to land'. Those who face threats to their land rely on other rights, such as the right to food, the right to water, the right to housing and the right to work. These rights are included in the above mentioned International Covenant on Economic, Social and Cultural Rights (ICESCR). [248]
  The right to adequate housing encompasses the right to live in security, peace and dignity. To realize this right, governments have an obligation to guarantee security of tenure, which essentially means a set of arrangements in the context of housing and land that will protect the occupants from forced evictions and other threats and harassment.[249]

  As noted by the UN Special Rapporteur on Adequate Housing: "Involuntary resettlement amounts to a forced eviction when it occurs without the provision of, and access to, appropriate forms of legal or other protection."[250] The effects of forced evictions can be very serious, especially for people who are already living in poverty. The UN Commission on Human Rights has described forced evictions as a "gross violation of human rights, particularly the right to adequate housing."[251] The protection measures that should be applied to all evictions have been clearly articulated in the Basic Principles and Guidelines on Development-based Evictions (2007) developed by the UN Special Rapporteur on Adequate Housing.[252] They reflect existing standards and jurisprudence on this issue. They include detailed guidance on steps that should be taken prior to, during and following evictions in order to ensure compliance with relevant principles of international human rights law.

  The 11 core principles of the United Nations Special Rapporteur on the right to food, Olivier de Schutter, include the notion that any shifts in land use can only take place with the free, prior and informed consent of the local communities concerned. This is particularly important for indigenous communities, in view of the discrimination and marginalization they have been historically subjected to.

In May 2011, the Tirana Declaration was adopted by over 150 representatives of civil society organisations, social movements, grassroots organizations, international agencies, and governments - including the members and strategic partners of the International Land Coalition (ILC) such as the World Bank, FAO, IIED and the IFAD. The Declaration defines land grabbing as "acquisitions or concessions that are one or more of the following: *(i) in violation of human rights, particularly the equal rights of women; (ii) not based on free, prior and informed consent of the affected land-users; (iii) not based on a thorough assessment, or are in disregard of social, economic and environmental impacts, including the way they are gendered; (iv) not based on transparent contracts that specify clear and binding commitments about activities, employment and benefits sharing, and; (v) not based on effective democratic planning, independent oversight and meaningful participation.*"

This leads to assessment elements 13 and 14.

- **Access to remedy**

Companies need to respect and guarantee the rights of local communities affected by the construction and operations of power generation. Companies may not directly, indirectly, or implicitly cooperate in violating human rights. According to the United Nations Guiding Principles on Business and Human Rights (UNGPs), if a company identifies a risk or is contributing to an adverse impact, it should cease or prevent its contribution and to mitigate any remaining impacts to the greatest extent possible. Finally, the enterprise should provide or contribute to a remedy.

This leads to assessment elements 15 and 16.

- **Standards for dams and hydropower**

The most authoritative international guidelines for dam projects were drafted in November 2000 by the World Commission on Dams (WCD). The WCD was established by the World Bank and the World Conservation Union and comprises of twelve experts. In a series of multi-stakeholder meetings, the WCD has raised virtually all environmental and social issues associated with large dam construction. Based on this, the committee has drafted a series of recommendations, on which future dam projects can base their environmental and social plans. Also, financial institutions can use these guidelines as a base for their investment policies.[253]

The recommendations of the WCD are drafted around the issue of who carries the rights and who is responsible for the risks in dam projects. The recommendations themselves comprise of seven strategic priorities and supported principles:

- obtaining public consent;
- solid assessment of alternatives;
- standard for existing dams;
- the preservation of rivers as a source of livelihood;
- respect of rights and sharing revenues;
- focus on compliance; and
- sharing rivers for peace, development and safety.

Any problems that occur during the construction of dams also occur in similar water infrastructure projects, such as navigation work, pumping water between reservoirs and large irrigation projects. Therefore, the above described principles should also apply to the development of these types of projects.

This leads to assessment elements 17 and 18.

- **Standards for biofuels**

In 2007 a Dutch committee developed sustainable criteria for biofuels. These so-called Cramer Criteria were formalised in March 2009 as the NTA 8080:2009 Sustainability criteria for biomass for energy purposes.[254]

In 2010, the Steering Board of the Roundtable on Sustainable Biomaterials (RSB) approved Version 2 of the principles and criteria for sustainable biofuel production, after three years of consultation with biofuels stakeholders. The RSB offers Global Standards that apply to any type of feedstock worldwide and EU-RED Standards that apply to feedstock entering the EU market and comply with the EU Renewable Energy Directive regarding land-use and GHG criteria.[255] The global RSB Principles are: [256]

1. Biofuel operations shall follow all applicable laws and regulations.
2. Sustainable biofuel operations shall be planned, implemented, and continuously improved through an open, transparent, and consultative impact assessment and management process and an economic viability analysis.
3. Biofuels shall contribute to climate change mitigation by significantly reducing lifecycle GHG emissions as compared to fossil fuels.
4. Biofuel operations shall not violate human rights or labor rights, and shall promote decent work and the well-being of workers.
5. In regions of poverty, biofuel operations shall contribute to the social and economic development of local, rural and indigenous people and communities.
6. Biofuel operations shall ensure the human right to adequate food and improve food security in food insecure regions.
7. Biofuel operations shall avoid negative impacts on biodiversity, ecosystems, and conservation values.
8. Biofuel operations shall implement practices that seek to reverse soil degradation and/or maintain soil health.
9. Biofuel operations shall maintain or enhance the quality and quantity of surface and ground water resources, and respect prior formal or customary water rights.
10. Air pollution from biofuel operations shall be minimized along the supply chain.
11. The use of technologies in biofuel operations shall seek to maximize production efficiency and social and environmental performance, and minimize the risk of damages to the environment and people.
12. Biofuel operations shall respect land rights and land use rights.

The RSB standards are accompanied by a set of guidelines such as the RSB-Impact Assessment Guidelines and the RSB-Screening Tool.[257]

In September 2013 the European Parliament had voted in favour of regulation that reduces the obligation to blend biofuels to 6%. The European Parliament thus intends to reduce the CO^2 emissions of the cultivation for biofuel.

This leads to assessment element 19.

- **Sustainability reporting**

The Global Reporting Initiative has drafted guidelines on how to write sustainability reports. Besides the general G4 Sustainability Reporting Guidelines it also provides sector guidance for a number of industrial sectors. The Electric Utilities Sector Disclosures includes guidelines on the construction of the infrastructure of power generation companies.

This leads to assessment elements 20 and 21.

- **Procurement and supply chains**

  Companies are often part of long production chains. They can monitor one another and question how they respect local and national legislation and international norms regarding social, economic and environmental issues. The requirements that companies set for their suppliers can be included in contractual agreements. The importance of this also recognised in the OECD Guidelines for Multinational Enterprises since its revision in 2011.

  Also the ISO 26000 guideline recognises the importance of supply chain responsibility, because “the impacts of an organization's decisions or activities can be greatly affected by its relationships with other organizations.” A companies’ sphere of influence includes relationships within and beyond an organization’s supply chain.[258]

  This leads to assessment elements 22 and 23.

2.11.3 Assessment elements

Financial institutions investing in the energy sector should carefully consider how they can orient their investments to support the transition to a low-carbon economy, in line with the pathways suggested by the IPCC. This may be through choosing to support exclusively renewable energy generation, or by setting out a clear pathway to reduce finance for fossil fuels and other controversial energy sources and replace this with low-carbon finance.

Financial institutions investing in the construction of dam projects should develop sector policies for these investments in which the recommendations of the World Commission on Dams (WCD) are included.[259] This policy should at least be applicable to all large dam projects, but ideally includes all important water infrastructure projects.

The following elements are crucial for a policy regarding the financial institution's internal operations:

1. The financial institution finances companies involved in renewable energy generation (wind, solar, small and medium scale hydro power, geothermal power, tidal power, etc).
2. The financial institution has a measurable target to increase its finance for renewable energy generation.
3. The financial institution has a measurable target to decrease its finance for fossil fuel power generation, in absolute terms or relative to its finance for renewable energy generation.

The following elements are crucial for a policy regarding the companies a financial institution invests in:

4. Unabated coal power plants (i.e. without operational carbon capture and storage) are unacceptable
5. Unabated fossil fuel power plants are unacceptable.
6. Nuclear energy is unacceptable.
7. Large scale hydropower plants are unacceptable.

8. Coal power plants emitting more than 550 grams of carbon dioxide per kilowatt hour (gCO_2/kWh) are unacceptable.
9. Fossil fuel power plants emitting more than 550 grams of carbon dioxide per kilowatt hour (gCO_2/kWh) are unacceptable.
10. Companies prevent negative impact on protected areas that fall under the categories I-IV of the International Union for Conservation of Nature (IUCN).
11. Companies prevent negative impact on UNESCO World Heritage sites.
12. Companies prevent negative impact on protected areas that fall under the Ramsar Convention on Wetlands.
13. Companies prevent conflicts over land rights and acquire natural resources only by engaging in serious consultation with local communities and obtaining free, prior and informed consent (FPIC) when it concerns indigenous peoples.
14. Companies prevent conflict over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of the land users involved.
15. Companies have a process in place to provide for, or cooperate in, the remediation of any adverse human rights impacts to which it may have caused or contributed.
16. Companies established or participate in a grievance mechanism for individuals and communities which may be adversely impacted by its activities.
17. The construction of dams complies with the 7 principles of the World Commission on Dams (WCD).
18. The construction of all water infrastructure projects complies with the 7 principles of the World Commission on Dams (WCD).
19. The production of biomaterials complies with the 12 principles of the Roundtable on Sustainable Biomaterials (RSB).
20. Companies publish a sustainability report that may contain (a number of) Standard Disclosures from the GRI Guidelines on level G4 Sustainability Reporting Guidelines.
21. Companies publish a sustainability report that is set up in accordance with the GRI G4 Sustainability Reporting Guidelines, which includes the Electric Utilities Sector Disclosure (EUSD).
22. Companies integrate social, economic and environmental criteria in their procurement and operational policies.[xv]
23. Companies include clauses on the compliance with social, economic and environmental criteria in their contracts with subcontractors and suppliers.

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xv If the financial institution has no specific sector policies or does not mention this in its sector policies, but does mention this in cross-cutting policies for at least three themes, the financial institution is deemed to comply with this element.

2.12 Remuneration

2.12.1 What is at stake?

Remuneration for employees within a company increasingly consists of a fixed part - the base salary - and a variable part. The height of this variable part can be determined in different ways, for example by linking the achievements of the employee to the financial result of (a part of) the company. In case of good achievements or good financial results, the variable remuneration for the employee can be relatively high compared to the base salary, but the reverse can also occur. The variable remuneration part is often referred to in terms of bonus, commission pay, profit sharing, performance remuneration, etc. In this paper all these variable types of remuneration are called “bonuses”.

Granting bonuses does not necessarily have to be a bad thing. It is often viewed as an ‘honest’ way of repaying exceptional efforts. Some also regard a bonus system as a way to encourage companies to become more sustainable.260 However, there are negative aspects to consider as well.

Firstly, in practice, bonuses are regularly linked to indicators in which the importance of the enterprise as a whole is not reflected and certainly not the wider social importance. In these cases, the indicators are aimed too much towards short term objectives, on financial results and on the achievements of the individual employee, while achievements coming from long term objectives and the non-financial results of the company as a whole would be better indicators. If these are left out of the equation, employees can be encouraged to take undesired and sometimes irresponsible risks that may be of personal importance, but are not of importance to the company and society, with all their respective consequences.

Secondly, the often very large bonus sums leads to a lot of social indignation as the link between personal strains, the financial achievements of the company and the height of the bonus seems lost. Top managers receiving huge salaries and bonuses whilst the enterprise they work for suffers financial difficulty and even has to fire people, is incomprehensible to a lot of people. The same applies to top managers of financial institutions.

The short-term objectives and the excessive sums - characterise the bonus culture in the US, UK, and other financial institutions, mainly in the investment banking departments. Many people consider this bonus culture in the financial world to be one of the main causes of the current financial crisis.[261] The prospects of a very high bonus - based on short-term financial objectives - lead to granting mortgages and loans to people that could not really afford them. The consequences of this risky behaviour have been felt globally:

- Consumers are insufficiently informed of the risks of the products that were sold to them. Particularly in the United States this has led to a lot of people being evicted from their homes because they could no longer afford to pay their mortgages and loans;
- A part of the receivables that financial institutions had on consumers could therefore not be resold, causing financial problems for the financial institutions themselves, but also for the rest of the financial system to which outstanding receivables had been sold;
- Society has had to save financial institutions from bankruptcy and partly due to this was faced with an economic crisis;
- Not only the countries of origin of the financial institutions, but also developing countries are experiencing the negative consequences of this economic crisis in decreased export revenues, foreign investments, currency exchange rates and budgets for development aid.[262] Estimates of several organisations on the number of people that have fallen, and will fall, into poverty through the financial crisis are running into tens of millions.[263]

Due to these developments, the public and governments have frequently called for the mitigation of bonuses, for a link to long-term objectives, or for the entire abrogation of bonuses, mainly in the financial world.

On average, the number of companies that have included sustainable objectives in their bonus policy is one third. This has arisen from an analysis of the annual reports of the largest listed companies in 11 countries. The objectives are related to environmental issues (reduction of emissions and energy efficiency) and social issues (client satisfaction, safety, social involvement, employees). Research also shows that the companies are convinced that including sustainable criteria in their remuneration policy contributes to more sustainable development.[264] CEOs of multinational corporations also consider this an important method in developing a new and sustainable vision of the corporate world.[265]

Due to the increased attention to the height of bonuses and the link with sustainability and Corporate Social Responsibility, all financial institutions should develop solid bonus policies. To this effect, financial institutions can make use of the international standards and initiatives described in the following section.

2.12.2 International standards

As far as regulation and standards concerning remuneration are concerned, there are currently no global policies in place.

In the United States, regulators have implemented mechanisms to supervise remuneration paid by banks to their employees, which are mandated by § 956 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Banking regulators have specifically targeted bank practices regarding incentive-based compensation. In undertaking this initiative, the banking regulators have jointly implemented a variety of regulatory regimes.

In the United States, three Federal Statutes are relevant in relation to remuneration: [266]

- Sarbanes-Oxley Act of 2002 (SOA) §304; 15 U.S.C. §7243(a)
- Emergency Economic Stabilization Act of 2008 (EESA) §111(b)(3)(B), as added by Section 7001 of the American Recovery and Reinvestment Act of 2009 (ARRA); 12 U.S.C. §5221(b)(3)(B) (applicable only to recipients of assistance under the Troubled Asset Relief Program (TARP) that have not repaid the Treasury)
- Dodd-Frank Wall Street Reform and Consumer Protection Act (DFA) §954, 15 U.S.C. §78j-4(b)

In the European Union, the European Banking Authority (EBA) has set out requirements in the Capital Requirements Directive (CRD). There are three main Directives that regulate remuneration: [267]

- Capital Requirements Directive IV (CRD IV) and CRD II
- Alternative Investment Fund Managers Directive (AIFMD)
- fifth Undertakings for Collective Investment in Transferable Securities Directive (UCITS V)

The CRD IV and the Capital Requirements Regulation (CRR) both came into force on the first of January 2014 and essentially carried over the existing provisions of the CRD III relating to remuneration with some enhancements in relation to the bonus cap. The relevant provisions can be found in articles 74, 92 to 95 and 161 (in addition to recitals 62 to 69 and 83) in the CRD IV; and in article 450 on disclosure in the CRR.[268]

In July 2010, the European Parliament achieved an agreement on a new European guideline that establishes stringent norms for the bonuses paid out by banks. A maximum of 30% of the total bonus may be paid out in *cash*, for very large bonus there is even a maximum of 20%. The payment of 40 to 60% of the bonus has to be deferred over a period of at least three years so the bonus can be recovered if the results prove to be disappointing at a later stage. At least 50% of the bonus has to be paid out as subordinated capital: funds on which the bank can first make recourse should the bank get into trouble. Finally, the ratio between bonus and fixed salary is also kept to a maximum, but the guideline does not provide to which maximum. The guideline is binding for all banks in the European Union and came into force on 1 January 2011.[269]

The Committee of European Banking Supervisors released an elaboration of the principles in these European guidelines in December 2010, the Guidelines on Remuneration Policies and Practices. In March 2013 the European Parliament proposed new regulations for the remuneration in the financial sector. The adjusted motion has been adopted in April 2013. As of January 2014 it is no longer allowed to pay out bonuses of more than 250% of the annual salary.[270]

The European Banking Authority (EBA) has also published varioushttp://www.eba.europa.eu/regulation-and-policy/remuneration/-/activity-list/LmXDN4h7shbt/more;jsessionid=D865567F70E94362B25EF875CEBFDB16 and Regulatory Technical Standards (RTS) for the definition of material risk takers, and for remuneration purposes set out process and criteria for the identification of staff who have an impact on the institution's risk profile, so-called 'Identified Staff'.[271]

The Financial Stability Board (FSB) - previously the Financial Stability Forum (FSF) - was established in 1999 by the G7[xvi] with the objective of improving international financial stability. In the FSB central banks, financial supervisors and financial institutions are represented.

In response to the international financial crisis in April 2008, the FSB issued a report with recommendations to improve the strength of financial markets and institutions. One of these recommendations was to reduce the risks associated with the remuneration policy. For this purpose, end 2008 a Compensation Workstream Group was formed with the mandate to establish sound principles, which resulted in the Principles for Sound Compensation Practices. The emphasis of these principles is on the relation between the degree of risk that an employee takes on behalf of the company and the height of the remuneration that is granted. In practice, this means that if two employees realise the same amount of profit, but have taken various levels of risk, they should not receive similar compensation. Therefore, the remuneration is corrected downwards if more risk has been taken.

Other standards, reports and guidelines to consider are the UN PRI and Global Compact's recommendations on remuneration; the G20's recommendations about remuneration at the Pittsburgh Summit in 2009; Consumers International's report Responsible Lending (2013), and the 2010 Sustainable Remuneration research report of Association of Investors for Sustainable Development (VBDO), the Hay Group, and DHV, which serves as a manual to link sustainability objectives to the bonus of company managers.

In terms of regulating remuneration in the financial sector, a relevant remuneration policy mainly concerns measures that are aimed at tackling risky behaviour as well as short-term strategies and goals within the financial sector, thereby increasing stability, transparency and accountability in the financial system, and includes the following topics:

[xvi] The G7 consists of the Ministers of Finance of seven industrialised countries (Canada, Germany, France, Great-Britain, Italy, Japan, and the United States) and they meet annually to discuss economic and financial issues. Since Russia became a member the group is called the G8.

- **Clawback schemes**

  In its 2009 report the Financial Stability Board (FSB) states that compensation payout must be sensitive to the time horizon of risks. This means that if a bonus is granted that is sensitive to risk outcomes, it should be seen as a multi-year risk horizon. Otherwise employees could have an incentive to expose the firm to risks that are unlikely to be exposed for some time. To align time horizons a bonus can be subjected to a clawback. In United States legislation "clawback" means a repayment of previously received compensation required to be made by an executive to his or her employer. Clawbacks under SOA §304 concern only clawbacks from the CEO and the CFO and apply only to cases in which there is "misconduct" resulting in "material noncompliance of the issuer…with any financial reporting requirement under the securities laws….".

  The EESA of 2008 only applies to institutions receiving aid under the Troubled Asset Relief Program (TARP) and requires that institutions that are receiving assistance under TARP are obligated to maintain certain standards for executive compensation and corporate governance.272 Under the Dodd-Frank Act §954 (DFA), publicly traded firms are obligated to have policies in place that enforce the repayment of specific types of overpayments made to executives, based on financial results that turn out to be false and require a restatement.[273] The clawback is to be carried out if the listed company is required to file a financial restatement under securities laws due to material noncompliance under those laws. The clawback applies to "incentive-based compensation (including stock options awarded as compensation) during the 3-year period preceding the date on which the issuer is required to prepare an accounting restatement, based on the erroneous data, in excess of what would have been paid to the executive officer under the accounting restatement."[274]

  In the European Union, malus or clawback arrangements are explicit ex-post risk adjustment mechanisms where the institution itself adjusts remuneration of a staff member based on such mechanisms (e.g. by lowering awarded cash remuneration or by reducing the number or value of instruments awarded).The CRD IV pertains to banks and other financial institutions and the clawback arrangements dictate that up to 100% of variable pay will be subject to clawback or malus arrangements. Financial institutions will be required to set specific criteria for such arrangements.[275]

  This leads to assessment element 1.

- **Bonus maximum**

  In the United States, a maximum for bonuses or variable remuneration is officially regulated through the DFA § 956, however the language of the Act is not quantified sufficiently.276 For example, the banking, securities and federal housing regulators have proposed regulations (Proposed Regulations) that state that financial institutions are prohibited "from having incentive—based compensation arrangements that may encourage inappropriate risks (a) by providing excessive compensation or (b) that could lead to material financial loss to the covered financial institution." However, no standards have been created to give these ambiguous regulations substance. Nevertheless, the regulators have claimed that such standards will be established.[277]

  In the European Union, under the CRD IV "variable pay" or a maximum for bonuses is capped at 100% of total fixed pay or, with shareholder approval, 200% of total fixed pay. This is including performance based payments or benefits and, in exceptional circumstances, other contractual elements that do not "*form part of a routine employment package*" (examples in the Directive include healthcare, child care facilities or proportionate regular pension contributions). EU Member States have the discretion to adopt stricter standards (e.g. lower bonus caps).[278]

In the Netherlands, recently implemented law does not allow bonuses within the finance sector above 20% of fixed remuneration.[279] With regard to normalising the variable remunerations, the Dutch labour union confederation FNV believes that the height of the variable remunerations when compared to the fixed wage, meaning the total remuneration, has to be restricted. In this respect, FNV strives for a maximum bonus of 10% of the fixed remuneration for both staff that fall under a collective agreement as well as the top management. Therefore, the total income for top managers is a maximum of twenty times the lowest salary in the company plus 10% of this amount.

This leads to assessment elements 2, 3 and 4.

- **Highest versus lowest salaries**

The Dodd-Frank Act Section 953 requires proxy disclosure of median employees (as calculated under the SEC's executive compensation disclosure rules) to CEO pay.

In the Netherlands, the Dutch labour union confederation FNV believes that it is important that a norm is pursued for the ratio between the fixed wage for the top and the fixed remuneration for staff that fall under a collective agreement. This norm can be related to various anchor points, but FNV establishes this norm at a maximum of twenty times the lowest salary within the company or twenty times the maximum of the lowest salary scale.

This leads to assessment element 5.

- **Long-term objectives**

Another criteria to consider for sound remuneration policies, is that of long-term objectives for investment practices. When granting variable remuneration as a reward for certain achievements, it is important to consider whether the achievements concern long-term or short-term objectives, for the company itself and for society at large. This can also be accomplished through clawback schemes.

The G20[xvii] had established that restructuring policy and practice on remunerations and bonuses is required to further support financial stability. As a part of their recommendations, at the Pittsburgh Summit in September 2009, the G20 agreed that it is necessary that a significant part of variable remunerations has to be linked to achievements and creating long term value. The G20 encourages companies to implement their agreements with immediate effect.

In the United States, the Federal Reserve in cooperation with other banking agencies in 2010 issued Final Guidance on Sound Incentive Compensation Policies, in which it is stated that "incentive compensation arrangements at banking organizations [should] appropriately tie rewards to longer-term performance." [280]

In the European Union, regulation (CRD IV/ RTS) is aimed at stimulating a focus on long-term objectives, instead of rewarding risky activities that would offer profit in the short term. In the EBAs Guidelines on Sound Remuneration Policies, it is stated that "To set the appropriate incentives for long-term oriented and prudent risk taking, the remuneration policy and practices need to be transparent on the fixed remuneration, the variable remuneration and award criteria. Fixed remuneration should be permanent, predetermined, nondiscretionary and non-revocable." [281]

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xvii The G20 consists of the 19 countries that have the largest national economies and the European Union. They meet annually or more often if needed to discuss the international financial system.

In cooperation with the UN Global Compact the UN PRI has made recommendations on taking up ESG criteria in the variable rewards of the employees - Integrating ESG issues into executive pay. In order to make the senior employees more aware of ESG issues, these two initiatives recommend companies to develop mechanisms that ensure that the both the company's interest as well as the employee's and society's interest are connected to one another. This may be done by setting long-term goals for employees as well as the company.

In the Netherlands, the Dutch Association of Investors for Sustainable Development (VBDO), Hay Group and DHV call upon all companies to base at least 60% of the bonus on long-term objectives. To achieve this it is important to take the activities and the industry in which a company operates into account. According to the VBDO, Hay Group and DHV, sustainable objectives for banks should comprise of: integrity, responsible investment and the level of energy consumption. In the report, sustainability is defined as the total of all organisation specific issues with an ethical, environmental and/or social nature that influence the interests of the organisation and its stakeholders. Within this framework, a company that, besides the financial objectives, aims towards client satisfaction is considered as a company with a limited sustainable focus. A company that in addition also aims for employee satisfaction and the reduction of its CO2-emissions is considered to be more sustainable.

This leads to assessment element 6.

- **Non-financial criteria**

The International Labour Organisation emphasises in its World of Work Report 2013 that it is important to increase a focus on better alignment of the activities in the financial sector with the needs of the real economy, for example through linking performance-based compensation to social and environmental objectives.

In the UN Global Compact and UN PRI report Integrating ESG issues into executive pay companies are recommended to link appropriate ESG metrics to reward systems in a way that they form a meaningful component of the overall remuneration framework. They are furthermore encouraged to develop their own definition of sustainable value creation and use it to select appropriate ESG metrics, thereby also consulting shareholders and stakeholders in order to enhance internal and external support.

In the European Union, the CRD Remuneration requirements: Articles 74 and 92 to 96 and Article 450 CRR dictate that remuneration that is linked to performance, should in total be based on both the assessment of the performance of an individual, the business unit concerned and the overall results of the institution. When assessing the performance of an individual, financial as well as non-financial criteria are to be taken into account. The total amount of remuneration is based on a combination of the assessment.

In the Netherlands, the Dutch Association of Investors for Sustainable Development (VBDO), Hay Group and DHV call upon all companies to base at one third of the total bonus on sustainable objectives. To achieve this it is important to take the activities and the industry in which a company operates into account. According to the VBDO, Hay Group and DHV sustainable objectives for banks should comprise of: integrity, responsible investment and the level of energy consumption. Also the Dutch labour union FNV argues that for top positions the criteria for variable remuneration should be aimed at sustainability with respect to social policy, the environment and client focus.

The Dutch Banking Code provides that, besides financial achievement criteria, non-financial achievement criteria also have to be an important part of an assessment of an individual for variable remuneration. In its recommendations, the Maas Committee gave examples for these non-financial criteria, such as client satisfaction, risk management, investor relations, operational objectives, human resources, integrity, compliance and sustainability.

This leads to assessment element 7 to 14.

2.12.3 Assessment elements

A solid policy for the entire financial institution (including all subsidiaries) on remuneration at least concerns the Board of Directors, the directors, the senior management and risk takers. The senior management includes the people that are ultimately responsible for certain divisions, portfolios, internal departments, etc. that operate directly under the directors and Board of Directors. Risk takers comprise of investment bankers, stock exchange traders and trading room managers. Each element (with the exception of elements 1, 5 and 6) will be scored for these three groups.

The ideal bonus policy would be extremely sober, in part based on sustainability criteria and would also include the possibility of recovering the bonus in cases of malpractice. Banks and financial institutions should not make exceptions in their bonus policies for investment bankers or subsidiaries.

The following elements are crucial for a policy regarding the financial institution's internal operations:

1. The financial institution maintains the right to recover bonuses[xviii] if, after payment, it appears that they were paid unduly (a so-called *clawback* scheme).
2. The bonus is a maximum of 100% of the fixed annual salary.
3. The bonus is a maximum of 20% of the fixed annual salary.
4. The bonus is a maximum of 10% of the fixed annual salary.
5. The fixed salary does not exceed twenty times the lowest salary or the maximum of the lowest salary scale within the financial institution.
6. At least 60% of the bonus is based on long term objectives (not to be confused with agreements for deferred payment of the bonus).
7. At least one third of the bonus is based on non-financial criteria.
8. At least two third of the bonus is based on non-financial criteria.
9. The bonus is based on employee satisfaction.
10. The bonus is based on client satisfaction.
11. The bonus is based on the social impact of the financial institution, for example by improving the social and environmental impact of the financial institution’s management.
12. The bonus is based on the social impact of the financial institution, for example by improving the social and environmental impact of the financial institution’s services (lending, investments etc.).
13. The bonus is based on increasing transparency on loans and investments.
14. The bonus is based on the evaluation and tightening of ESG-criteria for the investment policy.

[xviii] All forms of variable remuneration, including profit sharing programs, are considered a bonus.

2.13 Transparency and accountability

2.13.1 What is at stake?

Each individual has the right to know what consequences business activities can have for his or her life and which risks he or she is exposed to in these activities. People whose lives are influenced by economic activities are unable to defend their legitimate interests if they are not fully informed on the social, economic and environmental advantages, as well as the costs and risks connected to that activity. Also, they have to be informed on the possible alternatives for the proposed activity. In order to properly defend their social, cultural and environmental interests, social organisations also have to have access to all relevant information.

For these grounds, the public right of information - with the objective to participate in a meaningful way in the decision-making process - is recorded in various international instruments. Examples are the Universal Declaration of Human Rights, the Rio Declaration on Environment and Development, the Aarhus Convention, the OECD Guidelines for Multinational Enterprises and ISO 26000.

In the first instance, some of these guidelines formulate obligations for governments, but the general principles are obviously applicable to all important social actors, including companies who are also obliged to be transparent on activities that can have consequences for employees, nearby residents and others. Moreover, they have to be prepared to be accountable for it and to listen to the expectations and concerns of other stakeholders. This means that the company has to establish a formal complaints procedure.

More and more companies realise that transparency and accountability is not only their moral duty, but that it can also offer them an advantage. Transparency creates trust. It is the lack of sufficient information and the public perception that managers try to keep certain information secret that causes conflicts and resistance to the activities of companies. Transparency also decreases the risk of corruption. A company that is transparent and prepared to be accountable in this way acquires social approval for its activities.

For financial institutions, transparency and accountability are possibly even more important than for other companies. Contrary to other companies, as capital providers they play an important role in virtually all economic industries. And for the social and environmental consequences of all these economic activities they as investors carry a certain responsibility. To this effect, financial institutions not only have to inform the public of their own activities, but they also have to be as transparent as possible about the companies, projects and governments in which they invest.

For financial institutions, transparency also provides a significant advantage in that they are able to timely recognise and solve the public concerns on activities in which they want to invest before actual conflicts arise. Therefore, multilateral development banks and a lot of export credit insurance companies all have transparency policies that ensure data is made public on all considered transactions.

When developing policies in this respect, financial institutions can make use of the international standards described below.

2.13.2 International standards

There are various international standards on transparency (both at the level of the financial institutions as a whole as well as with respect to individual investments) and accountability. The main standards are described here.

- **Sustainability reporting**

The ISO 26000 guidelines have included transparency as a principle and states that an organisation is responsible “for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour.”[282]

In recent years, drafting a sustainability policy has become commonplace. The best known guideline for this is the Global Reporting Initiative (GRI) Reporting Framework, of which the latest edition (G4) has been presented in May 2013. GRI encourages financial institutions to not only describe their sustainability policy, but to also measure the respective implementation. Besides the general Reporting Principles and Standard Disclosures there are also Sector Disclosures that elaborate more on the transparency requirements for specific types of companies and industries.

In cooperation with the UNEP Finance Initiative (UNEP FI) in October 2007, GRI published the Financial Services Sector Supplement with specific guidelines with on product portfolios, active ownership, investing in local communities and developing accessible and honest sale of financial products.[283] GRI Sector Supplements are now called GRI Sector Disclosures.

The following requirements on transparency are laid down in the GRI Framework:

- Publication of the policy of the financial institution on specific issues and industries (FS1). If these policy documents are not publicly available, they are of less value. Because financial institutions cannot be hold accountable when people that experience harm or disadvantage from the investments of a financial institution cannot verify to what standards the investments should comply with.
- Providing information on investments, divided according to region, size and sector (FS6: Percentage of the portfolio for business lines by specific region, size (e.g. micro/SME/large) and by sector. This indicator provides contextual information on a financial institution’s portfolio and customer base, and serves as a starting point for further engagement processes with stakeholders. It is particularly relevant when combined with information on environmental and social policies and risk assessment/screening procedures as applied to the different business lines.
- Providing information on how a financial institution deals with investments that do not (or no longer) meet the policy, the norms, or the contract conditions of the financial institution is now explicitly requested. Financial institutions have to report which action they have taken in these situations, whether these actions have been successful and what further steps will be taken (FS2, FS3 and FS10).

This leads to assessment elements 6, 8, 11, 12 and 14.

- **Transparency on specific transactions**

It is not sufficient that financial institutions publish positive sounding policy statements. It is important that these policy statements actually lead to more sustainable investment practices. This can only be verified publicly if the financial institution provides insight into loans granted and other investments. On the financial institution’s website, stakeholders have to be able to find basic information on all transactions in which a financial institution is involved. And if available, the social and environmental impact assessments on these transactions also have to be publicly available.

The financial institution should at least specify all regions and industries of the breakdown in assessment element. Financial institutions often claim that they are unable to publish such information as it harms trust with their clients. However, this argument does not hold water. When a financial institution participates in bank syndicate, it often proudly advertises it in financial magazines. Apparently, the relation of trust with the client does not play a role in these situations.

But if financial institutions individually grant loans to companies, they can inform these clients in advance that their name could be published. Multilateral development banks such as the World Bank, the Asian Development bank and many others have been setting a good example in this respect for years. Since 1994, the International Finance Corporation (IFC) has a strict Access to Information Policy (AIP). On its website, IFC provides extensive and comprehensive information on its activities, including its investment guidelines and its investments. When IFC finances a certain project, a lot of information on that project is available on its website, such as environmental impact assessments and environmental action plans.[284] Another example is the Italian Banca Etica, that not only publishes information on its loans (name lender, term of the loan, amount), but also on potential transactions that are pending at an external Ethics Committee.

Commercial financial institutions could follow these examples by:

- providing an overview in their annual report of the industrial and regional breakdown of the transactions in which they are involved. Such information is required in the GRI Financial Services Industry Supplement (FS6). Stakeholders also quickly gain insight in the sensitive sectors and fields in which the financial institution is active;
- by providing basic information through their website on the companies in which they invest;
- obliging the companies in which they invest (in some situations) to provide information to involved communities on the social and environmental effects of their activities, such as those included in the Equator Principles for Category A transactions.

If a financial institution does not wish to publish the names of companies they invest in, they may provide insight in their investments based on main categories (the first two numbers) of the Standaard Bedrijfsindeling (Standard Company Classification) of the Dutch Centraal Bureau voor de Statistiek (Statistics Netherlands). This classification is based on the European Nomenclature Statistique (NACE) and the United Nations International Standard Industrial Classification of All Economic Activities (ISIC).

This leads to assessment elements 3, 4, 5, 6, and 7.

- **Auditing**

In order to verify whether financial institutions meet their sustainability promises, financial institutions sometimes conduct internal audits of their Environment and Social Risk Management System, including their policy on certain sectors and issues. Based on these audits, they can establish whether their Environment and Social Risk Management System can be improved further.

It is even better when financial institutions conduct an external audit of their Environment and Social Risk Management System where they can make use of the AA1000 Series of Standards that AccountAbility has developed, a combination of norms on accountability, auditing and reporting. Preferably, a summary of the results of these audits is made public and discussed with stakeholders.

This leads to assessment elements 2 and 13.

- **Consultation**

Respecting the interests of the stakeholders is one of the principles in the ISO 26000 guidelines: “an organisation should respect, consider and respond to the interests of its stakeholders.” The document also elaborates on ways to implement an effective stakeholder dialogue as part of the social responsibility of organisations.[285]

Through consultation mechanisms, financial institutions can also consult social organisations on their investment policy on certain sectors and issues. In order to make such consultations effective, it is important that financial institutions translate their policy documents into a language and jargon that is comprehensible to the communities and organisations involved. Such a consultation has to be a dialogue, a two-way process. When financial institutions do not take the concerns, sensitivities and other stakeholders' contributions seriously, the process is useless. Serious concerns have to lead to adapting the policy of the financial institution and the procedures followed.[286]

This leads to assessment element 14.

- **Grievance mechanisms**

Financial institutions are also accountable to local communities and other stakeholders for involvement in specific investments. Naturally, the companies themselves are primarily responsible for the social and environmental effects of their activities; any grievances of communities should first be directed at them. However, this does not absolve a financial institution from the obligation to ensure that all investees meet the standards set by the financial institution in its sector and the issue policies. Therefore, it is important that financial institutions introduce an independent grievances procedure for local communities and other stakeholders that experience effects of activities in which the financial institution invests and for social organisations that defend wider social and environmental interests. They can submit a complaint if they establish that a given investment does not comply with the policy of the financial institution. Most multilateral development banks and more export credit insurance companies dispose of a grievances procedure.[xix]

In the United Nations Guiding Principles on Business and Human Rights (UNGPs), John Ruggie, the *Special Representative of the Secretary-General of the United Nations on the issue of Human Rights and Transnational Corporations*, mentions the lack of grievances procedures as a weak point of companies. Also, in all initiatives of financial institutions that want to guarantee compliance with human rights for the companies in which they invest, this is lacking. In an earlier report he indicated that “In the absence of an effective grievance mechanism, the credibility of such initiatives and institutions may be questioned.” The OECD National Contact Points provide independent grievance mechanisms. Financial institutions should cooperate with OECD National Contact Points.

This leads to assessment elements 15 and 16.

2.13.3 Assessment elements

For financial institutions that take social responsibility seriously, a solid policy on transparency and accountability is of great importance. The following elements are crucial for a policy regarding the financial institution's internal operations:

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xix See e.g. the World Bank Inspection Panel, the IFC and MIGA Compliance Advisor Ombudsman, the ERBD Independent Recourse Mechanism and the JBIC Examiners for Environmental Guidelines.

1. The financial institution describes its Environment and Social Risk Management System and provides insight into how the financial institution ensures that investments meet the conditions set in its policies.
2. The financial institution's Environmental and Social Risk Management System is audited by a third party and the results are published.
3. The financial institution publishes the names of companies and governments in which it invests.
4. The financial institution mentions and describes all companies (on its website) to which it has granted more than €1 million credit.
5. The financial institution discloses the names of all project finance deals and project related corporate finance deals, including the information required by the Equator Principles III.
6. The financial institution publishes a breakdown of its portfolio by region, size and industry (in line with GRI FS6).
7. The financial institution publishes a breakdown of its portfolio in a cross table, combining industry and region data.
8. The financial institution publishes a sufficiently detailed breakdown, for example based on the main categories (the first two figures) of the Standard Industry Classification.
9. The financial institution publishes the number of companies with which there has been interaction on social and environment topics (in line with GRI FS10).
10. The financial institution publishes the names of companies with which there has been interaction on social and environment topics, including the results of this engagement.
11. The financial institution publishes its voting record.
12. The financial institution publishes a sustainability report that may contain (a number of) Standard Disclosures of the GRI G4 Sustainability Reporting Guidelines.
13. The financial institution publishes a sustainability report that is set up in accordance with the GRI G4 Sustainability Reporting Guidelines, which includes the Financial Services Sector Supplement (FSSS).
14. The financial institution's sustainability report has been verified externally.
15. The financial institution reports on the consultation with civil society organisations and other stakeholders.
16. The financial institution establishes an internal grievance mechanism for individuals and communities which may be adversely impacted by its activities.
17. The financial institution shall abide by the decisions of an independent grievance mechanism for individuals and communities which may be adversely impacted by its activities.

Climate Change

		Danske Bank	Ekobanken	Handelsbanken	JAK Medlemsbank	Länsförsäkringar	Nordea	SEB	SkandiaBanken	Swedbank
Policy principles applied on the bank's own operations										
1	For its own direct and indirect greenhouse gas emissions, the bank establishes measurable reduction objectives that contribute to limiting the maximum global temperature increase of 2°C.	1,0	1,0	0,0	1,0	1,0	1,0	1,0	1,0	1,0
2	For its financed greenhouse gas emissions, i.e. the emissions of the companies in which the bank invests, the bank discloses its share of the emissions of the energy companies and projects it invests in..	0,0	n.a.	0,6	n.a.	0,0	0,5	0,5	0,0	0,6
3	For its financed greenhouse gas emissions, i.e. the emissions of the companies in which the bank invests, the bank discloses its share of all the companies and projects it invests in.	0,0	0,5	0,6	0,5	0,0	0,5	0,5	0,0	0,6
4	For its financed greenhouse gas emissions, i.e. the emissions of the companies in which the bank invests, the bank establishes measurable reduction objectives that contribute to limiting the maximum global temperature increase of 2°C.	0,0	0,5	0,0	0,5	0,0	0,0	0,0	0,0	0,0
Policy principles applied on companies that the bank finances and invests in										
5	Companies disclose their direct greenhouse gas emissions.	0,5	1,0	0,5	1,0	0,5	0,5	0,6	1,0	0,6
6	Companies disclose their indirect greenhouse gas emissions.	0,0	1,0	0,5	1,0	0,5	0,5	0,6	1,0	0,5
7	Companies reduce their direct greenhouse gas emissions.	0,0	1,0	0,5	1,0	0,5	0,6	0,6	0,5	0,6
8	Companies reduce their indirect greenhouse gas emissions.	0,0	1,0	0,5	0,5	0,5	0,0	0,5	0,0	0,5
9	Companies save energy.	0,5	1,0	0,0	1,0	0,0	0,6	0,6	0,0	0,6
10	Companies develop products that are energy efficient.	0,0	1,0	0,0	1,0	0,0	0,0	0,0	0,0	0,6
11	Companies support the transition to a low-carbon economy and projects that contribute to the emission reduction of the economy as a whole.	0,0	1,0	0,0	1,0	0,0	0,5	0,5	0,0	0,6
12	Companies switch from using fossil fuels to renewable energy sources.	0,0	1,0	0,0	1,0	0,0	0,5	0,5	0,0	0,6
13	Coal based power generation is unacceptable.	0,0	1,0	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
14	Coal mining is unacceptable.	0,0	1,0	0,0	n.a.	0,0	0,5	0,0	0,0	0,0
15	Extracting oil from tar sands is unacceptable.	0,0	1,0	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
16	Extracting oil and gas is unacceptable.	0,0	1,0	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
17	Using fossil fuel based power generation with a relatively high CO2-emission per produced energy unit, whose emissions exceed 550g CO2 / kWh, is unacceptable.	0,0	1,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
18	The production of biomaterials complies with the 12 principles of the Roundtable on Sustainable Biomaterials (RSB).	0,0	1,0	0,0	0,0	0,0	0,0	0,5	0,0	0,0
19	CO2-compensating investments are certified according to the Gold Standard.	0,0	1,0	0,0	1,0	0,0	0,0	0,0	0,0	0,0
20	Companies enable suppliers in developing countries - mainly in the agricultural sector - to adapt to the consequences of climate change.	0,0	1,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
21	Companies do not participate in lobbying (attempting to influence decisions made by regulators) aimed at weakening climate policy.	0,0	1,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
22	Companies integrate criteria on climate change in their procurement and operational policies.	0,8	1,0	0,6	1,0	0,8	1,0	0,8	1,0	0,6
23	Companies include clauses on the compliance with criteria on climate change in their contracts with subcontractors and suppliers.	0,0	1,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Final score		12%	95%	17%	64%	16%	29%	32%	20%	33%

Human Rights

		Danske Bank	Ekobanken	Handelsbanken	JAK Medlemsbank	Länsförsäkringar	Nordea	SEB	SkandiaBanken	Swedbank
Policy principles applied on the bank's own operations										
1	The financial institution respects all human rights as described in the United Nations Guiding Principles on Business and Human Rights (UNGPs).	1,0	1,0	1,0	0,0	0,0	1,0	1,0	1,0	1,0
Policy principles applied on companies that the bank finances and invests in										
2	Governments respect, protect and fulfill all human rights as described in international declarations and conventions.	1,0	1,0	0,6	1,0	1,0	0,6	1,0	1,0	1,0
3	Companies respect all human rights as described in the United Nations Guiding Principles on Business and Human Rights (UNGPs).	1,0	1,0	0,6	1,0	0,8	1,0	1,0	1,0	1,0
4	Companies have a *policy commitment* to meet their responsibility to respect human rights.	1,0	1,0	0,6	1,0	0,8	1,0	1,0	1,0	0,6
5	Companies have a *human rights due diligence process* to identify, prevent, mitigate and account for how they address their impact on human rights.	1,0	1,0	0,6	1,0	0,8	1,0	1,0	1,0	0,6
6	Companies have processes to enable the *remediation* of any adverse human rights impact to which they cause or to which they contribute.	1,0	1,0	0,6	1,0	0,8	1,0	1,0	1,0	0,6
7	Companies prevent conflicts over land rights and acquire natural resources only by engaging in meaningful consultation with local communities and obtaining free, prior and informed consent (FPIC) when it concerns indigenous peoples.	0,0	1,0	0,6	1,0	0,8	0,6	0,6	0,0	0,6
8	Companies prevent conflicts over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of the land users involved.	0,0	0,5	0,0	0,5	0,0	0,0	0,0	0,0	0,0
9	Companies show that they have special attention for respecting the rights of women, especially to prevent discrimination and to improve equal treatment of men and women.	0,0	1,0	0,6	1,0	1,0	0,6	0,6	0,0	0,0
10	Companies have special attention to respect the rights of children.	0,0	1,0	0,6	1,0	1,0	1,0	1,0	1,0	1,0
11	Companies respect International Humanitarian Law and do not enable settlements in occupied territories.	0,5	n.a.	0,6	1,0	1,0	0,5	0,0	0,0	0,0
12	Companies integrate human rights criteria into their procurement and operational policies.	1,0	1,0	0,6	1,0	0,8	1,0	0,8	1,0	1,0
13	Companies include clauses on the compliance with human rights criteria in their contracts with subcontractors and suppliers.	0,0	1,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Final score		58%	96%	56%	81%	65%	72%	69%	62%	58%

Labour rights

		Danske Bank	Ekobanken	Handelsbanken	JAK Medlemsbank	Länsförsäkringar	Nordea	SEB	SkandiaBanken	Swedbank
Policy principles applied on companies that the bank finances and invests in										
1	Companies uphold the freedom of association and the effective recognition of the right to collective bargaining.	1,0	1,0	0,6	1,0	1,0	1,0	1,0	1,0	1,0
2	All forms of forced and compulsory labour are unacceptable.	1,0	1,0	0,6	1,0	1,0	1,0	1,0	1,0	1,0
3	Child labour is unacceptable.	1,0	1,0	0,6	1,0	1,0	1,0	1,0	1,0	1,0
4	Discrimination in respect of employment and occupation is unacceptable.	1,0	1,0	0,6	1,0	1,0	1,0	1,0	1,0	1,0
5	Companies pay a living wage to their employees.	0,0	1,0	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
6	Companies apply a maximum of working hours.	0,0	1,0	0,0	n.a.	1,0	0,0	0,0	0,0	0,0
7	Companies have a solid health and safety policy.	0,0	1,0	0,0	1,0	1,0	0,6	0,6	0,0	0,0
8	Companies ensure equal treatment and working conditions for migrant workers.	0,0	1,0	0,0	1,0	1,0	0,6	0,6	0,0	0,6
9	Companies have a clear management system to monitor and, if needed, correct compliance with norms on labour law.	0,0	1,0	0,0	1,0	0,0	0,6	0,6	0,0	0,0
10	Companies establish procedures on how to deal and process employee complaints and to solve violations and conflicts, preferably in consultation with the relevant trade union.	0,0	1,0	0,0	1,0	0,0	0,6	0,6	0,0	0,0
11	Companies integrate labour rights in their procurement and operational policies.	1,0	1,0	0,6	1,0	0,8	1,0	0,9	1,0	1,0
12	Companies include clauses on the compliance with criteria on labour rights in their contracts with subcontractors and suppliers.	0,0	1,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Final score		**42%**	**100%**	**26%**	**90%**	**65%**	**63%**	**61%**	**42%**	**47%**

Nature

	Policy principles applied on companies that the bank finances and invests in	Danske Bank	Ekobanken	Handelsbanken	JAK Medlemsbank	Länsförsäkringar	Nordea	SEB	SkandiaBanken	Swedbank
1	Companies prevent deforestation and protect natural forests including old growth forests, bogs, mangroves and rainforests, as described in the High Conservation Value (HCV) concept.	0,0	1,0	0,0	1,0	0,8	0,6	0,6	0,0	0,0
2	Companies prevent negative impact on protected areas that fall under the categories I-IV of the International Union for Conservation of Nature (IUCN).	0,0	1,0	0,0	1,0	0,0	0,6	0,6	0,0	0,0
3	Companies prevent the negative impact on UNESCO World Heritage sites.	0,0	1,0	0,6	1,0	0,8	0,6	0,6	0,0	0,0
4	Companies prevent the negative impact on protected areas that fall under the Ramsar Convention on Wetlands.	0,0	1,0	0,6	1,0	0,0	0,6	0,6	0,0	0,0
5	Companies prevent negative consequences for the populations or the number of animal species that are on the IUCN Red List of Threatened Species.	0,0	1,0	0,0	1,0	0,0	0,6	0,6	0,0	0,0
6	Trade in endangered plant and animal species complies with the CITES conditions.	0,0	1,0	0,6	n.a.	1,0	0,0	0,0	0,0	0,0
7	Trade in endangered plant and animal species that are on the CITES lists is unacceptable.	0,0	1,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
8	Activities in the field of genetic materials and genetic engineering only take place if they meet the permission and processing requirements as described in the UN Convention on Biological Diversity and the related Bonn Guidelines or Nagoya Protocol.	0,0	1,0	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
9	Production of, or trade in, living genetically modified organisms can only take place if permission has been obtained from the importing country and all requirements of the Cartagena Protocol have been met.	0,0	1,0	0,0	n.a.	1,0	0,0	0,0	0,0	0,0
10	Production of, or trade in, living genetically modified organisms is unacceptable.	0,0	1,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
11	Companies prevent the introduction of invasive alien species in ecosystems.	0,0	1,0	0,0	1,0	0,8	0,6	0,6	0,0	0,6
12	Companies make an environmental impact assessment on the total consequences of the project on biodiversity, at least according to the guidelines for reporting on biodiversity and land use in the Global Reporting Initiative.	0,0	1,0	0,0	1,0	0,0	0,6	0,6	1,0	0,0
13	Companies integrate criteria on nature into their procurement and operational policies.	1,0	1,0	0,6	1,0	0,8	1,0	0,9	1,0	0,6
14	Companies include clauses on the compliance with criteria on nature in their contracts with subcontractors and suppliers.	0,0	1,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
	Final score	**7%**	**100%**	**18%**	**73%**	**36%**	**38%**	**38%**	**14%**	**9%**

Taxes & Corruption

		Danske Bank	Ekobanken	Handelsbanken	JAK Medlemsbank	Länsförsäkringar	Nordea	SEB	SkandiaBanken	Swedbank
Policy principles applied on the bank's own operations										
1	For each country in which the financial institution operates, it reports country-by-country on its revenues, costs, profit, subsidies received from governments and tax payments to governments.	1,0	1,0	0,0	1,0	1,0	1,0	0,0	1,0	0,0
2	The financial institution does not advise companies to set up international corporate structures with the main purpose to avoid taxes, nor do they participate in transactions with such structures.	0,0	1,0	1,0	1,0	0,0	0,0	1,0	n.a.	0,0
3	The financial institution does not own subsidiaries nor associates in tax havens, unless the subsidiary or associate has substance and undertakes local economic activities.	0,0	1,0	0,0	1,0	1,0	0,0	0,0	0,0	0,0
4	The financial institution does not provide financial services to companies in tax havens, unless the company has substance and undertakes local economic activities.	0,0	1,0	0,0	1,0	0,0	0,0	0,0	n.a.	0,0
5	Offering, promising, giving and requiring, either directly or indirectly, bribes and other undue advantages in order to acquire and to maintain assignments and other undue advantages, is unacceptable.	1,0	1,0	1,0	1,0	1,0	1,0	1,0	1,0	1,0
Policy principles applied on companies that the bank finances and invests in										
6	For each country in which companies operate, they report country-by-country on their revenues, costs, profits, subsidies from governments and payments to governments (e.g. withholding taxes, payments for concessions and company tax).	0,0	n.a.	0,0	0,0	0,0	0,0	0,0	0,0	0,5
7	Companies focus their international enterprise structure and their international transactions in a way that reflects the economic substance of the activities and transactions undertaken, without any steps made primarily to secure a tax advantage.	1,0	1,0	0,6	1,0	0,8	1,0	0,8	1,0	0,6
8	Companies publicly report on their beneficial owner or owners including full name, date of birth, nationality, jurisdiction of incorporation, contact details, number and categories of shares, and if applicable the proportion of shareholding or control.	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
9	Offering, promising, giving and requiring, either directly or indirectly, bribes and other undue advantages in order to acquire and to maintain assignments and other undue advantages, is unacceptable.	1,0	1,0	0,6	1,0	0,8	1,0	0,8	1,0	0,6
10	Companies have a management system with which immediate action can be taken if employees or suppliers are guilty of corruption or tax evasion.	1,0	1,0	0,6	1,0	0,8	1,0	0,8	1,0	0,6
11	Companies report on their participation to the decision-making processes of international norms and legislation (lobby practices).	1,0	1,0	0,6	1,0	0,8	1,0	0,8	1,0	0,6
12	Companies integrate criteria on taxes and corruption in their procurement and operational policies.	0,0	0,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0
13	Companies include clauses on the compliance with criteria on taxes and corruption in their contracts with subcontractors and suppliers.	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Final score		**46%**	**79%**	**35%**	**69%**	**46%**	**46%**	**38%**	**55%**	**31%**

Arms

	Policy principles applied on companies that the bank finances and invests in	Danske Bank	Ekobanken	Handelsbanken	JAK Medlemsbank	Länsförsäkringar	Nordea	SEB	SkandiaBanken	Swedbank
1	Production of, maintenance of, and trade in anti-personal landmines, including important parts of landmines, is unacceptable.	0,8	n.a.	1,0	n.a.	1,0	0,6	1,0	1,0	1,0
2	Production of, maintenance of, and trade in cluster munitions, including important parts of cluster munitions, is unacceptable.	0,8	n.a.	1,0	n.a.	1,0	0,6	1,0	1,0	1,0
3	Production of, maintenance of, and trade in nuclear weapons, including important parts of nuclear weapons, in or to countries that have not ratified the Non-proliferation Treaty is unacceptable.	1,0	n.a.	1,0	n.a.	1,0	0,6	1,0	1,0	1,0
4	Production of, maintenance of, and trade in nuclear weapons, including important parts of nuclear weapons, is unacceptable.	0,0	n.a.	1,0	n.a.	1,0	0,0	1,0	0,0	0,0
5	Production of, maintenance of, and trade in chemical weapons, including important parts of chemical weapons, is unacceptable.	0,5	n.a.	1,0	n.a.	1,0	0,5	1,0	1,0	1,0
6	Production of, maintenance of, and trade in biological weapons, including important parts of biological weapons, is unacceptable.	0,5	n.a.	1,0	n.a.	1,0	0,5	1,0	1,0	1,0
7	Parts or systems that are essential for military purposes, but can also be used for civil end products ('dual-use' technology), are considered as arms or arm systems.	0,0	n.a.	0,0	n.a.	0,0	0,0	1,0	0,0	0,0
8	Supply of arms and weapons systems, military transport systems, and other military goods to countries that are under a United Nations or European Union arms embargo, is unacceptable.	0,0	n.a.	1,0	n.a.	0,0	0,0	1,0	0,0	1,0
9	Supply of arms and weapons systems, military transport systems, and other military goods is unacceptable if there is an overriding risk that the arms will be used for serious violation of international human rights and humanitarian rights.	0,0	n.a.	0,0	n.a.	1,0	0,0	1,0	0,0	0,6
10	Supply of arms and weapons systems, military transport systems, and other military goods to regimes that violate human rights, is unacceptable.	0,0	n.a.	0,0	n.a.	0,0	0,0	1,0	0,0	0,0
11	Supply of arms and weapons systems, military transport systems, and other military goods to countries that are involved in armed conflict, is unacceptable.	0,0	n.a.	0,0	n.a.	0,0	0,0	1,0	0,0	0,0
12	Supply of arms and weapons systems, military transport systems, and other military goods to countries that are severely corrupt, is unacceptable.	0,0	n.a.	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
13	Supply of arms and weapons systems, military transport systems, and other military goods to countries having a failed or fragile state, is unacceptable.	0,0	n.a.	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
14	Supply of arms and weapons systems, military transport systems, and other military goods to countries that spend a disproportionate part of their budget on purchases of arms, is unacceptable.	0,0	n.a.	0,0	n.a.	0,0	0,0	1,0	0,0	0,0
15	The policy does not mention exceptions for certain types of investment, financing and/or asset classes of the financial institution.	0,0	n.a.	0,0	n.a.	0,0	0,0	1,0	0,0	0,9
16	The policy does not mention exceptions for activities or projects that are not related to the production of weapons.	0,0	n.a.	0,6	n.a.	1,0	0,0	0,0	0,0	1,0
	Final score	**22%**	**n.a.**	**48%**	**n.a.**	**50%**	**18%**	**81%**	**31%**	**53%**

Food

		Danske Bank	Ekobanken	Handelsbanken	JAK Medlemsbank	Länsförsäkringar	Nordea	SEB	SkandiaBanken	Swedbank
Policy principles applied on companies that the bank finances and invests in										
1	Companies respect the right to adequate food.	0,5	1,0	0,0	0,5	0,0	0,0	0,0	0,0	0,0
2	Companies respect the ILO Declaration on Fundamental Principles and Rights at Work.	1,0	1,0	0,6	1,0	1,0	1,0	1,0	1,0	1,0
3	Companies prevent conflicts over land rights and acquire natural resources only by engaging in meaningful consultation with local communities and obtaining free, prior and informed consent (FPIC) when it concerns indigenous peoples.	0,0	1,0	0,6	1,0	0,8	0,8	0,6	0,0	0,6
4	Companies prevent conflict over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of the land users involved.	0,0	0,5	0,0	0,5	0,0	0,0	0,0	0,0	0,0
5	Companies prevent negative impact on protected areas that fall under the categories I-IV of the International Union for Conservation of Nature (IUCN).	0,0	1,0	0,0	1,0	0,0	0,6	0,6	0,0	0,0
6	Companies prevent negative impact on UNESCO World Heritage sites.	0,0	1,0	0,6	1,0	0,8	0,6	0,6	0,0	0,0
7	Companies prevent the negative impact on protected areas listed under the Ramsar Convention on Wetlands	0,0	1,0	0,6	1,0	0,0	0,6	0,6	0,0	0,0
8	Activities in the field of genetic materials and genetic engineering only take place if they meet the permission and processing requirements described in the UN Convention on Biological Diversity and the related Bonn Guidelines or Nagoya Protocol.	0,0	1,0	0,0	n.a.	0,0	0,0	0,0	0,0	0,6
9	Production of, and trade in, living genetically modified organisms can only take place if permission of the importing country has been obtained and all requirements of the Cartagena Protocol have been met.	0,0	1,0	0,0	n.a.	1,0	0,0	0,0	0,0	0,6
10	Production of, or trade in living genetically modified organisms is unacceptable	0,0	1,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
11	Companies respect the Five Freedoms of animals.	0,0	1,0	0,0	1,0	0,8	0,0	0,0	0,0	0,0
12	Very restricted housing methods for calves (in crates), hens (in battery cages) and sows (in feeding cubicles) are unacceptable.	0,0	1,0	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
13	Companies reduce the time limit of animal transport to a maximum of 8 hours.	0,0	1,0	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
14	Companies reduce their direct emission of greenhouse gases and harmful substances, such as particulate matter, nitrogen oxide and ammonia.	0,0	1,0	0,0	1,0	0,0	0,6	0,6	0,0	0,0
15	Companies reduce their indirect emission of greenhouse gases and harmful substances, such as particulate matter, nitrogen oxide and ammonia.	0,0	1,0	0,0	1,0	0,0	0,0	0,0	0,0	0,0
16	Companies use pesticides as little as possible and, if necessary, only in a responsible way.	0,0	1,0	0,0	1,0	0,0	0,6	0,6	0,0	0,0
17	Companies use as little water as possible.	0,0	1,0	0,0	1,0	0,0	0,6	1,0	0,0	0,0
18	Companies prevent water pollution.	0,0	1,0	0,0	1,0	1,0	0,6	1,0	0,0	0,0
19	Companies are certified according to certification schemes criteria (mentioned in section 3.4.2) for all raw materials they produce.	0,0	1,0	0,0	0,5	0,0	0,0	0,0	0,0	0,0
20	Companies publish a sustainability report that may contain (a number of) Standard Disclosures from the GRI G4 Sustainability Reporting Guidelines.	1,0	1,0	0,6	1,0	0,8	1,0	0,8	1,0	0,6
21	Companies in the food industry publish a sustainability report that is set up in accordance with the GRI G4 Sustainability Reporting Guidelines, which includes the Food Processing Sector Disclosure (FSSD).	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
22	Companies integrate social, economic and environmental criteria in their procurement and operational policies.	1,0	1,0	0,6	1,0	0,8	1,0	0,8	1,0	0,6
23	Companies include clauses on the compliance with social, economic and environmental criteria in their contracts with subcontractors and suppliers.	0,0	1,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Final score		**15%**	**93%**	**16%**	**76%**	**29%**	**35%**	**36%**	**13%**	**18%**

Forestry

		Danske Bank	Ekobanken	Handelsbanken	JAK Medlemsbank	Länsförsäkringar	Nordea	SEB	SkandiaBanken	Swedbank
Policy principles applied on companies that the bank finances and invests in										
1	Forest construction companies identify and protect the High Conservation Value (HCV) areas within the forests they manage.	0,0	1,0	0,0	1,0	0,8	0,6	1,0	0,0	0,0
2	Companies identify and protect High Carbon Stock (HCS) forests.	0,0	1,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
3	Companies throughout the wood supply chain prevent the use of illegally cut and traded timber.	0,0	1,0	0,0	0,0	0,0	0,0	1,0	0,0	0,0
4	Pulp and paper factories ensure through independent analysis that there is sufficient sustainably grown wood or sustainably produced pulp available for the factory.	0,0	1,0	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
5	Pulp and paper factories restrict the use of chemicals and the pollution of soil, water and air by making use of the best available techniques.	0,0	1,0	0,0	1,0	0,0	0,6	1,0	0,0	0,0
6	Companies respect the rights of local and indigenous communities on the fair and equal use of forests.	0,0	1,0	0,0	1,0	0,8	0,6	1,0	0,0	0,0
7	Companies prevent conflicts over land rights and acquire natural resources only by engaging in meaningful consultation with local communities and obtaining free, prior and informed consent (FPIC) when it concerns indigenous peoples.	0,0	1,0	0,6	1,0	0,8	0,6	1,0	0,0	0,6
8	Companies prevent conflict over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of the land users involved.	0,0	0,5	0,0	0,5	0,0	0,0	0,0	0,0	0,0
9	Production forests and timber plantations are certified according to the criteria of the Forest Stewardship Council (FSC).	0,0	1,0	0,0	0,0	0,0	0,0	1,0	0,0	0,0
10	Production chains of timber traders and companies in the wood product chain (including pulp, paper, veneer, furniture) are certified according to the FSC Chain of Custody criteria.	0,0	1,0	0,0	0,0	0,0	0,0	1,0	0,0	0,0
11	Companies in industries with a large impact on forests (including in any case the forestry and paper industry), report their forest footprint to the Forest Footprint Disclosure (FFD) project.	0,0	1,0	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
12	Companies publish a sustainability report that may contain (a number of) the Standard Disclosures from the GRI G4 Sustainability Reporting Guidelines.	1,0	1,0	0,6	1,0	0,8	1,0	0,8	1,0	0,6
13	Companies publish a sustainability report that is set up in accordance with the GRI G4 Sustainability Reporting Guidelines.	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
14	Companies integrate social, economic and environmental criteria in their procurement and operational policies.	1,0	1,0	0,6	1,0	0,8	1,0	0,8	1,0	0,6
15	Companies include clauses on the compliance with social, economic and environmental criteria in their contracts with subcontractors and suppliers.	0,0	1,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Final score		**13%**	**90%**	**13%**	**50%**	**25%**	**30%**	**57%**	**13%**	**13%**

Mining

	Policy principles applied on companies that the bank finances and invests in	Danske Bank	Ekobanken	Handelsbanken	JAK Medlemsbank	Länsförsäkringar	Nordea	SEB	SkandiaBanken	Swedbank
1	Companies prevent negative impact on protected areas that fall under the categories I-IV of the International Union for Conservation of Nature (IUCN).	0,0	n.a.	0,0	n.a.	0,0	0,6	1,0	0,0	0,0
2	Companies prevent negative impact on UNESCO World Heritage sites.	0,0	n.a.	0,6	n.a.	1,0	0,6	1,0	0,0	0,0
3	Companies prevent negative impact on protected areas that fall under the Ramsar Convention on Wetlands.	0,0	n.a.	0,6	n.a.	0,0	0,6	1,0	0,0	0,0
4	Companies mitigate the chance of accidents by making use of the best available techniques and have a solid road map for crisis situations (a so-called 'contingency plan').	0,0	n.a.	0,0	n.a.	0,0	0,6	1,0	0,0	0,0
5	Companies do not operate at locations where the consequences of an accident for the environment are unmanageable.	0,0	n.a.	0,0	n.a.	0,0	0,0	1,0	0,0	0,0
6	Companies reduce extractive waste and manage and process this in a responsible way.	0,0	n.a.	0,0	n.a.	0,0	0,6	1,0	0,0	0,0
7	Riverine tailings disposal and sub-marine tailings disposal is unacceptable.	0,0	n.a.	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
8	Companies include the environmental and health effects of a mine after its closure in plans for the development of new mines.	0,0	n.a.	0,0	n.a.	0,0	0,6	1,0	0,0	0,0
9	Companies ensure the complete recovery of ecosystems after commercial activities have been completed, for all extractive industry projects (i.e. this is included as an activity in the planning and the budget of the project).	0,0	n.a.	0,0	n.a.	0,0	0,0	1,0	0,0	0,0
10	Companies enhance small scale and artisanal mining that improves sustainable economic and social development on a local level.	0,0	n.a.	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
11	Companies respect the ILO Declaration on Fundamental Principles and Rights at work.	1,0	n.a.	0,6	n.a.	1,0	1,0	1,0	1,0	1,0
12	Companies prevent conflicts over land rights and acquire natural resources only by engaging in meaningful consultation with local communities and obtaining free, prior and informed consent (FPIC) when it concerns indigenous peoples.	0,0	n.a.	0,6	n.a.	1,0	0,6	1,0	0,0	0,6
13	Companies prevent conflict over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of the land users involved.	0,0	n.a.	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
14	Companies follow the Voluntary Principles on Security and Human Rights for the security of their employees and company premises.	0,0	n.a.	0,0	n.a.	0,0	0,0	1,0	0,0	0,0
15	Companies have processes to enable the remediation of any adverse human rights impact to which they cause or to which they contribute.	1,0	n.a.	0,6	n.a.	1,0	1,0	1,0	1,0	0,6
16	Companies pay the taxes owed in each country where they operate.	1,0	n.a.	0,6	n.a.	1,0	1,0	1,0	1,0	0,6
17	For each country in which companies operate, they report country-by-country on their revenues, costs, profits, subsidies received from governments and payments to governments (e.g. withholding taxes, payments for concessions and company tax).	0,0	n.a.	0,0	n.a.	0,0	0,0	1,0	0,0	0,0
18	Offering, promising, giving and requiring, either directly nor indirectly, bribes or other undue advantages in order to acquire or to maintain assignments or other undue advantages, is unacceptable.	1,0	n.a.	0,6	n.a.	1,0	1,0	1,0	1,0	0,6

19	Companies recognise the sovereignty of states over their own natural resources.	0,0	n.a.	0,0	n.a.	0,0	0,0	0,0	0,0	0,6
20	Companies only operate in weak governance zone or conflict-affected areas if they are able to demonstrate that they are not causing or contributing to human rights abuses.	0,0	n.a.	0,0	n.a.	0,0	0,0	0,5	0,0	0,0
21	Mining and trading in conflict materials is unacceptable.	0,0	n.a.	0,0	n.a.	0,0	0,0	0,5	0,0	0,0
22	Uranium mining is unacceptable.	0,0	n.a.	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
23	Mountaintop removal mining is unacceptable.	0,0	n.a.	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
24	Establishing new coal mines is unacceptable.	0,0	n.a.	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
25	Coal mining is unacceptable.	0,0	n.a.	0,0	n.a.	0,0	0,5	0,0	0,0	0,0
26	Companies are certified according to the criteria of certification schemes for certain minerals (called in section 3.8.2).	0,0	n.a.	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
27	Companies publish a sustainability report that may contain (a number of) the Standard Disclosures of the GRI G4 Sustainability Reporting Guidelines.	1,0	n.a.	0,6	n.a.	1,0	1,0	1,0	1,0	0,6
28	Companies publish a sustainability report that is set up in accordance with the GRI G4 Sustainability Reporting Guidelines, including the Mining and Metals Sector Disclosure (MMSD).	0,0	n.a.	0,0	n.a.	0,0	0,0	1,0	0,0	0,0
29	Companies integrate social, economic and environmental criteria in their procurement and operational policies.	1,0	n.a.	0,6	n.a.	1,0	1,0	1,0	1,0	0,6
30	Companies include clauses on the compliance with social, economic and environmental criteria in their contracts with subcontractors and suppliers.	0,0	n.a.	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
Final score		**20%**	**n.a.**	**19%**	**n.a.**	**27%**	**36%**	**63%**	**20%**	**18%**

Oil & Gas

	Policy principles applied on companies that the bank finances and invests in Fo	Danske Bank	Ekobanken	Handelsbanken	JAK Medlemsbank	Länsförsäkringar	Nordea	SEB	SkandiaBanken	Swedbank
1	Companies prevent negative impact on protected areas that fall under the categories I-IV of the International Union for Conservation of Nature (IUCN).	0,0	n.a.	0,0	n.a.	0,0	0,6	1,0	0,0	0,0
2	Companies prevent negative impact on UNESCO World Heritage sites.	0,0	n.a.	0,6	n.a.	1,0	0,6	1,0	0,0	0,0
3	Companies prevent negative impact on protected areas that fall under the Ramsar Convention on Wetlands.	0,0	n.a.	0,6	n.a.	0,0	0,6	1,0	0,0	0,0
4	Companies mitigate the chance of accidents (oil spills, leakages) by making use of the best available techniques and have a solid road map for crisis situations (a so called 'contingency plan').	0,0	n.a.	0,0	n.a.	0,0	0,6	1,0	0,0	1,0
5	Companies do not operate in locations where the consequences of an accident for the environment are unmanageable.	0,0	n.a.	0,0	n.a.	0,0	0,0	1,0	0,0	0,5
6	Companies reduce waste from oil and gas extraction and mining, especially the flaring of natural gas, and manage and process this in a responsible way.	0,0	n.a.	0,0	n.a.	0,0	0,6	0,6	0,0	0,0
7	Companies include the environmental and health effects of the dismantling of production facilities, especially of offshore drilling platforms, in plans for the development of new projects.	0,0	n.a.	0,0	n.a.	0,0	0,6	1,0	0,0	0,0
8	Companies reduce the effects of seismological research on whales and other marine mammals.	0,0	n.a.	0,0	n.a.	0,0	0,6	1,0	0,0	0,0
9	Companies respect the ILO Declaration on Fundamental Principles and Rights at Work.	1,0	n.a.	0,6	n.a.	1,0	1,0	1,0	1,0	1,0
10	Companies prevent conflicts over land rights and acquire natural resources only by engaging in meaningful consultation with local communities and obtaining free, prior and informed consent (FPIC) when it concerns indigenous peoples.	0,0	n.a.	0,6	n.a.	1,0	0,6	1,0	0,0	0,6
11	Companies prevent conflict over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of the land users involved.	0,0	n.a.	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
12	Companies follow the Voluntary Principles on Security and Human Rights for the protection of their employees and the company sites.	0,0	n.a.	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
13	Companies have processes to enable the remediation of any adverse human rights impact to which they cause or to which they contribute.	1,0	n.a.	0,6	n.a.	1,0	1,0	1,0	1,0	0,6
14	Companies pay the taxes owed in each country where they operate.	1,0	n.a.	0,6	n.a.	1,0	1,0	0,8	1,0	0,6
15	For each country in which companies operate, they report country-by-country on their revenues, costs, profits, subsidies received from governments and payments to governments (e.g. withholding taxes, payments for concessions and company tax).	0,0	n.a.	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
16	Offering, promising, giving, or requiring, either directly nor indirectly, bribes or other undue advantages in order to acquire or to maintain assignments or other undue advantages, is unacceptable.	1,0	n.a.	0,6	n.a.	1,0	1,0	1,0	1,0	0,6
17	Companies recognise the sovereignty of states over their own natural resources.	0,0	n.a.	0,0	n.a.	0,0	0,0	0,0	0,0	0,6
18	Companies only operate in weak governance zone or conflict-affected areas if they are able to demonstrate that they are not causing or contributing to human rights abuses.	0,0	n.a.	0,0	n.a.	0,0	0,0	0,0	0,0	0,5
19	The mining of oil from tar sands is unacceptable.	0,0	n.a.	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
20	The mining of oil from oil shale is unacceptable.	0,0	n.a.	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
21	Extracting fuel from liquefied coal is unacceptable.	0,0	n.a.	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
22	Extracting shale gas in unacceptable.	0,0	n.a.	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
23	Arctic drilling for oil and gas is unacceptable.	0,0	n.a.	0,0	n.a.	0,0	0,0	0,0	0,0	0,0

24	Companies publish a sustainability report that may contain (a number of) the Standard Disclosures from the GRI G4 Sustainability Reporting Guidelines.	1,0	n.a.	0,6	n.a.	1,0	1,0	0,8	1,0	0,6
25	Companies publish a sustainability report that is set up in accordance with the G4 Sustainability Reporting Guidelines, which includes the Oil and Gas Industry Supplement (OGSS).	0,0	n.a.	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
26	Companies integrate social, economic and environmental criteria in their procurement and operational policies.	1,0	n.a.	0,6	n.a.	1,0	1,0	0,8	1,0	0,6
27	Companies include clauses on the compliance with social, economic and environmental criteria in their contracts with subcontractors and suppliers.	0,0	n.a.	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
Final score		**22%**	**n.a.**	**21%**	**n.a.**	**30%**	**41%**	**51%**	**22%**	**27%**

Power generation

	Danske Bank	Ekobanken	Handelsbanken	JAK Medlemsbank	Länsförsäkringar	Nordea	SEB	SkandiaBanken	Swedbank
Policy principles applied on the bank's own operations									
1 The financial institution finances companies involved in renewable energy generation (wind, solar, small and medium scale hydro power, geothermal power, tidal power, etc.).	1,0	1,0	1,0	1,0	0,0	1,0	1,0	1,0	1,0
2 The financial institution has a measurable target to increase its finance for renewable energy generation.	0,0	n.a.	0,0	0,0	0,0	0,0	0,0	0,0	0,0
3 The financial institution has a measurable target to decrease its finance for fossil fuel power generation, in absolute terms or relative to its finance for renewable energy generation.	0,0	n.a.	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
Policy principles applied on companies that the bank finances and invests in									
4 Unabated coal power plants (i.e. without operational carbon capture and storage) are unacceptable.	0,0	1,0	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
5 Unabated fossil fuel power plants are unacceptable.	0,0	1,0	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
6 Nuclear energy is unacceptable.	0,0	1,0	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
7 Large scale hydropower plants are unacceptable.	0,0	1,0	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
8 Coal power plants emitting more than 550 grams of carbon dioxide per kilowatt hour (gCO2/kWh) are unacceptable.	0,0	1,0	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
9 Fossil fuel power plants emitting more than 550 grams of carbon dioxide per kilowatt hour (gCO2/kWh) are unacceptable.	0,0	1,0	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
10 Companies prevent negative impact on protected areas that fall under the categories I-IV of the International Union for Conservation of Nature (IUCN).	0,0	1,0	0,0	1,0	0,0	0,6	1,0	0,0	0,0
11 Companies prevent negative impact on UNESCO World Heritage sites.	0,0	1,0	0,6	1,0	0,8	0,6	1,0	0,0	0,0
12 Companies prevent negative impact on protected areas that fall under the Ramsar Convention on Wetlands.	0,0	1,0	0,6	1,0	0,0	0,6	1,0	0,0	0,0
13 Companies prevent conflicts over land rights and acquire natural resources only by engaging in meaningful consultation with local communities and obtaining free, prior and informed consent (FPIC) when it concerns indigenous peoples.	0,0	1,0	0,6	1,0	0,8	0,6	1,0	0,0	0,6
14 Companies prevent conflict over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of the land users involved.	0,0	0,5	0,0	0,5	0,0	0,0	0,0	0,0	0,0
15 Companies have processes to enable the remediation of any adverse human rights impact to which they cause or to which they contribute.	1,0	1,0	0,6	1,0	0,8	1,0	1,0	1,0	0,6
16 The construction of dams complies with the 7 principles of the World Commission on Dams (WCD).	0,0	1,0	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
17 The construction of all water infrastructure projects complies with the 7 principles of the World Commission on Dams (WCD).	0,0	n.a.	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
18 The production of biomaterials complies with the 12 principles of the Roundtable on Sustainable Biomaterials (RSB).	0,0	1,0	0,0	0,0	0,0	0,0	0,5	0,0	0,0
19 Companies publish a sustainability report that may contain (a number of) the Standard Disclosures from the GRI G4 Sustainability Reporting Guidelines.	1,0	1,0	0,6	1,0	0,5	1,0	0,8	1,0	0,6
20 Power generation companies publish a sustainability report that is set up in accordance with the GRIG4 Sustainability Reporting Guidelines, which includes the Electric Utilities Sector Disclosure (EUSD).	0,0	n.a.	0,0	0,0	0,0	0,0	0,0	0,0	0,0
21 Companies integrate social, economic and environmental criteria in their procurement and operational policies.	1,0	1,0	0,6	1,0	0,8	1,0	0,8	1,0	0,6
22 Companies include clauses on compliance with social, economic and environmental criteria in their contracts with subcontractors and suppliers.	0,0	1,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Final score	**18%**	**97%**	**22%**	**65%**	**16%**	**30%**	**36%**	**18%**	**16%**

Remuneration

		Danske Bank	Ekobanken	Handelsbanken	JAK Medlemsbank	Länsförsäkringar	Nordea	SEB	SkandiaBanken	Swedbank
Policy principles applied on the bank's own operations										
1	The financial institution maintains the right to recover bonuses if, after payment, it appears that they were paid unduly (a so-called clawback scheme).	1,0	n.a.	0,5	n.a.	0,0	0,5	0,0	0,0	0,0
2	The bonus is a maximum of 100% of the fixed annual salary.	0,6	n.a.	1,0	n.a.	0,9	0,9	0,9	0,9	0,6
3	The bonus is a maximum of 20% of the fixed annual salary.	0,0	n.a.	0,9	n.a.	0,9	0,0	0,0	0,9	0,6
4	The bonus is a maximum of 10% of the fixed annual salary.	0,0	n.a.	0,9	n.a.	0,8	0,0	0,0	0,9	0,6
5	The fixed salary does not exceed twenty times the lowest salary or the maximum of the lowest salary scale in the bank group.	0,0	1,0	0,0	1,0	1,0	0,0	0,0	0,0	0,0
6	At least 60% of the bonus is based on long term objectives (not to be confused with agreements for deferred payment of the bonus).	0,0	n.a.	0,5	n.a.	0,0	0,0	1,0	0,0	0,0
7	At least one third of the bonus is based on non-financial criteria.	0,0	n.a.	0,0	n.a.	0,0	0,0	1,0	0,0	0,0
8	At least two third of the bonus is based on non-financial criteria.	0,0	n.a.	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
9	The bonus is based on employee satisfaction.	0,0	n.a.	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
10	The bonus is based on client satisfaction.	1,0	n.a.	0,5	n.a.	0,0	0,5	1,0	0,0	0,0
11	The bonus is based on the social impact of the financial institution, for example by improving the social and environmental impact of the financial institution's management.	0,0	n.a.	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
12	The bonus is based on the social impact of the financial institution, for example by improving the social and environmental impact of the financial institution's investments.	0,0	n.a.	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
13	The bonus is based on increasing transparency on loans and investments.	0,0	n.a.	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
14	The bonus is based on the evaluation and tightening of ESG-criteria for the investment policy.	0,0	n.a.	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
Final score		**19%**	**100%**	**30%**	**100%**	**25%**	**13%**	**28%**	**19%**	**13%**

Transparency & Accountability

		Danske Bank	Ekobanken	Handelsbanken	JAK Medlemsbank	Länsförsäkringar	Nordea	SEB	SkandiaBanken	Swedbank
Policy principles applied on the bank's own operations										
1	The financial institution describes its Environment and Social Risk Management System and provides insight into how the financial institution ensures that investments meet the conditions set in its policies.	0,9	1,0	0,8	1,0	0,7	0,9	1,0	1,0	0,8
2	The financial institution's Environmental and Social Risk Management System is audited by a third party and the results are published.	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
3	The financial institution publishes the names of governments in which it invests.	0,5	1,0	0,5	1,0	0,5	0,5	0,5	0,5	0,5
4	The financial institution publishes the names of companies in which it invests.	0,5	n.a.	0,5	0,0	0,5	0,5	0,5	0,5	0,5
5	The financial institution mentions and describes all companies (on its website) to which it has granted more than €1 million credit.	0,0	1,0	0,0	n.a.	0,0	0,0	0,0	n.a.	0,0
6	The financial institution discloses the names of all current and recently closed project finance deals and project related corporate finance deals, including the information required by the Equator Principles III.	0,0	n.a.	0,0	n.a.	n.a.	0,0	0,0	n.a.	0,0
7	The financial institution publishes a breakdown of of its portfolio by region, size and industry (in line with GRI FS6).	0,6	1,0	0,8	0,5	0,7	0,6	0,6	0,0	0,6
8	The financial institution publishes a breakdown of outstanding investments in a crosstable, combining industry and region data.	0,0	n.a.	0,0	n.a.	0,0	0,6	0,5	0,0	0,0
9	The financial institution publishes a sufficiently detailed breakdown, for example based on the main categories (the first two figures) of the Standard Industry Classification.	0,5	n.a.	0,5	n.a.	0,0	0,6	0,5	0,0	0,5
10	The financial institution publishes the number of companies with which there has been interaction on social and environment topics (in line with GRI FS10).	0,0	n.a.	0,6	n.a.	0,7	0,6	0,8	0,0	0,6
11	The financial institution publishes the names of companies with which there has been interaction on social and environment topics, including the results of this engagement.	0,0	n.a.	0,5	n.a.	0,5	0,0	0,0	0,0	0,6
12	The financial institution publishes its voting record.	0,0	n.a.	0,0	n.a.	1,0	0,0	0,0	0,0	1,0
13	The financial institution publishes a sustainability report that may contain (a number of) the Standard Disclosures of the GRI G4 Sustainability Reporting Guidelines.	1,0	1,0	1,0	0,0	1,0	1,0	1,0	1,0	1,0
14	The financial institution publishes a sustainability report that is set up in accordance with the GRI G4 Sustainability Reporting Guidelines, which includes the Financial Services Sector Supplement (FSSS).	1,0	0,0	0,0	0,0	0,0	1,0	1,0	1,0	1,0
15	The financial institution's sustainability report has been verified externally.	1,0	1,0	1,0	0,0	0,0	1,0	1,0	0,0	1,0
16	The financial institution reports on the consultation with civil society organisations and other stakeholders.	0,0	1,0	0,0	1,0	0,0	0,0	0,0	0,0	1,0
17	The financial institution establishes an internal grievance mechanism for individuals and communities which may be adversely impacted by its activities.	0,0	1,0	0,0	n.a.	0,0	0,0	1,0	0,0	0,0
18	The financial institution shall abide by the decisions of an independent grievance mechanism for individuals and communities which may be adversely impacted by its activities.	0,0	0,0	0,0	n.a.	0,0	0,0	0,0	0,0	0,0
Final score		33%	73%	34%	39%	32%	41%	47%	25%	51%

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