

Banking on Human Rights

Confronting human rights in the financial sector

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Study undertaken jointly by ISIS Asset Management plc and KPMG LLP UK.

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Executive Summary

ISIS Asset Management – Shareholder engagement with the financial sector

ISIS is a leading European investment manager with €100 billion under management. It manages its equity portfolios according to its Responsible Engagement Overlay (**reo**[®]) approach. With **reo**[®], ISIS engages in dialogue with the companies in which it invests in order to assess how they manage risks related to governance, social, environmental and ethical factors, and to encourage the adoption of best practice where this can enhance shareholder value.

KPMG

KPMG is the global network of professional services firms of KPMG International. KPMG's member firms provide audit, tax and advisory services through industry-focused, talented professionals who deliver value for the benefit of their clients and communities. With nearly 100,000 people worldwide, KPMG member firms provide services from 715 cities in 148 countries. KPMG in the UK engages with a wide range of insurance, investment banking, investment management and retail organisations. KPMG in the UK works to turn knowledge into value for the benefit of clients and views this study as a contribution to the industry, enhancing its risk management capabilities.

This study is designed to highlight the ways in which the financial services sector is affected by, and manages, the challenges associated with human rights. Throughout the report, distinctions are made between the immediate impacts that human rights can have on a financial institution's own business operations (e.g. its employees) and the potential impacts the institution itself can have on society through the products and services provided to its customers or borrowers.

Nine international institutions participated in the study: **ABN Amro, Barclays, Credit Suisse Group, HSBC, Morgan Stanley, Rabobank, Royal Bank of Scotland, Standard Chartered** and **UBS**. Discussions with these companies aimed to highlight some of the current thinking and experiences of financial institutions in relation to human rights, to illustrate existing good practices among these organisations and to stimulate awareness of human rights issues whilst encouraging better practices across the sector.

Overview of key findings

- Whereas in the past human rights issues have mainly been a focus for industrial companies, increasingly the financial sector is being scrutinised for its role in providing funding for projects that are associated with human rights abuses.
- Human rights are a new area for the financial sector, in contrast to environmental risk factors, which are relatively well understood and the subject of more mature, formalised management systems in the credit risk assessment process.
- Human rights are definitely rising up the corporate agenda, although they are still managed in a largely *ad hoc* manner and there is little industry consensus on how to tackle the challenges they pose.
- Key concerns relate to employee rights, security of staff, supply chain management, litigation, loan default, and reputational risk resulting from being seen to be complicit with human rights abuses committed by customers.
- Problems can affect numerous areas of an institution's business – whether in domestic or emerging market operations.

- Surprisingly, there is little evidence that human rights issues are being systematically integrated into sovereign or project credit risk assessments.
- Amongst the financial institutions surveyed for this study, several examples of good practice were identified, such as: development of specific human rights policies; establishment of specialist review committees and teams; senior management buy-in and accountability; staff training; preliminary attempts at reporting.
- Although some modest progress has been made in certain cases, key challenges remain, in particular: implementing head office policies across different business units; tailoring risk assessment procedures for geographic operations; measuring performance and reporting to an external audience.

What the future holds: A changing context

Public awareness of the role and influence of financial institutions is changing, and with this comes steadily heightening scrutiny from a range of stakeholders. Among these are:

- Increasingly active International Financial Institutions (IFIs) – for example, the International Finance Corporation (IFC) is currently in the process of developing Safeguard Policies relating to human rights.
- More sophisticated Non-Governmental Organisations (NGOs) whose campaigns aim to sway customers, future employees (e.g. students), IFIs and government.
- Experimentally-minded regulators, such as stock exchanges that are beginning to encourage more ‘engaged’ or ‘responsible’ financial activity or even specific disclosure.
- More governance-conscious institutional shareholders, who are drawing the links between accountability, good governance, sound ethics and shareholder value.

Key recommendations: Establishing a route map

Although progress is embryonic, this study was able to identify the basic elements of a sound approach to managing human rights related risks in the financial sector. These consist of:

- Analysing where in the geographical and product mix human rights issues can have an impact
- Developing a clear and comprehensive human rights policy
- Securing internal buy-in and ensuring that senior executives are accountable for its enforcement
- Communicating the policy to all staff and translating it into practical concepts that are relevant to employees’ day-to-day functions
- Training staff to recognise and manage human rights issues
- Reviewing human rights policies, maintaining intelligence and planning for the future
- Developing key performance indicators – though this is one of the most difficult practical challenges
- Developing guidelines for external reporting
- Engaging with sector peers to stimulate wide adoption of good practice, if nothing else to ensure a level playing field and avoid competitors cutting corners to secure short-term business at one’s expense.

How will the study be used?

This study will serve to enhance understanding of the various factors that can affect long-term commercial success and financial valuations in the financial sector. To this end, it will:

- be integrated into ISIS's overall investment analysis to enhance the effectiveness of its analytical process;
- form part of ISIS's ongoing engagement programme (**reo**®) focusing on social and environmental risk management in the financial sector; and
- will be used by ISIS as a platform to address human rights issues with the wider group of financial institutions that were not included in this study but are held in its portfolios.

KPMG will use the conclusions from the study to inform its discussions with the financial services sector. The draft changes to the UK Companies Act, under the Company Law Review, will mean that Audit Committees will be developing their response to this regulation in the short term. As such, this is a timely report.

“This is the human rights terrain where most global businesses find themselves today: in the grey area between laws defined by legislators and courts, and new norms, proposed by a variety of stakeholders, that suggest a broader social role... One challenge will be defining consistent principles to determine the extent of practical engagement in human rights. Part of our job will be to help financial institutions and private sector companies sort through those differences in a reasoned way. We need to be able to tell a CEO or CFO, in very blunt terms: these are the areas where you are likely to have difficulty, and these are the areas where you may be able to step in and have a positive role.”

Peter Woicke, Executive Vice President, IFC

“The Role of the Private Sector in Promoting Human Rights,” Speech to Conference on Human Rights and Development, The Centre for Human Rights and Global Justice, New York University Law School, 1 March 2004

1. Introduction: Are Human Rights Relevant to the Financial Sector?

Developments over the past 18 months make it abundantly clear that the financial sector's role in promoting and protecting human rights is becoming increasingly significant.

- 2002 concluded with the UN Security Council condemning 85 multinationals – including five financial services institutions – for aiding in the plunder of the Democratic Republic of the Congo's wealth.
- At the start of 2003, several financial services institutions experienced public protests for allegedly financing rainforest destruction and displacing local populations, through the provision of debt or equity finance or advisory services, to Indonesia's Asia Pulp and Paper Company Ltd.
- In May 2003, more than 30 of the world's leading international banks and corporations faced a claim in the US, under the highly controversial Alien Torts Claims Act (ATCA), for \$100 billion in damages for their role in supporting apartheid in South Africa.
- June 2003 saw the launch of the industry-led Equator Principles for sustainable project finance and;
- In November 2003, the International Finance Corporation (IFC) announced its intention to include human rights in its sustainable development safeguard policies, which apply to all private sector lending, as well as to development institutions co-financing its loans.

Given all of these developments, financial services institutions are likely to continue to be drawn into the human rights debate, if not willingly, then by default.

Aims of the study

Earlier research by ISIS Asset Management in 2002 highlighted the ways in which ten financial services institutions address environmental issues in their lending decisions. One conclusion of this study was that further research was needed into the management of human rights issues. Given the above reference trends, ISIS and KPMG determined that human rights issues are, by necessity, rising up the agenda of international financial services institutions. The objectives of this study are therefore threefold:

- to highlight current thinking and experiences of financial services institutions with human rights,
- to analyse existing good practice among these organisations,
- to stimulate awareness of human rights issues whilst encouraging better practice across the sector.

Methodology

This study identifies good practice but does not aim to benchmark performance. As a relatively new area for the financial sector, it was deemed that there is currently insufficient information to measure the relative performance of various organisations. Financial institutions were invited to participate based on a public commitment to human rights and a varied geographic scope ensuring that all major markets were included.

The study initially involved a review of the current landscape relating to finance and human rights, including extensive background research into relevant legislation and guidelines. Structured interviews were then conducted between the project leaders and participants, before a fact-checking exercise allowed participants to verify the accuracy of statements attributed to them.

This report looks to answer four main questions relating to the ways in which the financial services sector is affected by, and manages, the challenges associated with human rights:

- Drivers:** What are the factors driving financial services institutions to develop or incorporate human rights into company policy?
- Policies:** How are these policies developed within a corporate governance and larger regulatory structure?
- Procedures:** How do financial services institutions incorporate these policies into traditional risk assessment procedures, both at the country level and the project level?
- Tools:** What are the different skills and tools for implementing policies that incorporate human rights risks into business process?

The study concludes with a review of the ongoing challenges and opportunities facing financial services institutions addressing human rights and with an appendix of reference information.

Participating Financial Services Institutions

ABN Amro
Barclays
Credit Suisse Group
HSBC
Morgan Stanley

Rabobank
Royal Bank of Scotland
Standard Chartered
UBS

Definitions and scope

For the purpose of this report, the financial services sector is primarily defined as including commercial and investment banking. Additional sub-sectors (such as insurance) were outside of the scope of the study.

Whilst the challenges of using such a broad umbrella term as “human rights” are recognised, the definition has been based on the principles contained within the United Nations Universal Declaration of Human Rights (UDHR). As such, it includes both civil and political rights, such as freedom from persecution and discrimination – as well as economic, social and cultural rights, such as the right to health and education. It is worth noting, however, that an additional challenge when talking about human rights is the lack of consensus over any one clear definition.

Note on confidentiality

Financial services organisations often view their approach to risk management as a key part of their competitive advantage, and as such, requests to maintain confidentiality on specific issues have been upheld. This study includes references to information that institutions consider sensitive. Permission has been given to include references noted.

2. Where Does the Sector Experience Human Rights Problems?

Identifying how human rights issues interplay with the financial services sector can be elusive. This section highlights some of the main drivers prompting the sector to examine human rights and take action. It looks at the drivers that currently exist in domestic operations, emerging market operations, customer relationships and transactions, and the provision of products and services.

Historically, the extractive and retail industries have been the prime focus of pressure groups concerned with the protection and promotion of human rights. Such industries' exposure to extensive supply chains, as well as their presence in challenging operating environments, has caused them to develop a greater level of engagement with concerned stakeholders. Now the focus is shifting to financial institutions, both in respect of their own operations, particularly outsourcing from the developed to the developing world, as well as the operations of the customers they finance. The response of non-governmental organisations (NGOs) has increasingly been to focus on the role of finance in various aspects of sustainability and development.

Turning up the heat - NGO activity

Campaigning by NGOs against financial institutions is not new, but it is certainly becoming more organised and focused. The activities detailed below are international in their reach and tend to focus on the specific areas of finance that they believe have the greatest social and environmental impacts, namely provision of finance for infrastructure projects. In addition to these finance-focused groups, NGOs with wider remits, including Rainforest Action Network, Friends of the Earth and Amnesty International, are increasingly turning their attention to the financial sector.

CEE Bankwatch Network: <http://www.bankwatch.org/>

Set up in 1995, this is an international NGO with member organisations from 12 countries of the Central and Eastern Europe region. The network aims to monitor the activities of international finance institutions and propose constructive alternatives to their policies and projects in the region.

Collevocchio Declaration: <http://www.foe.org/camps/intl/declaration.html>

Over 100 international advocacy groups and NGOs drafted a statement calling on financial institutions to adopt six principles relating to sustainable financing. Launched to coincide with the World Economic Forum in Davos in 2003, it encourages governments to develop a suitable regulatory framework for the principles to flourish.

Redlisted: <http://www.redlisted.com>

Drawn from a network of international and country-based organisations working on indigenous rights and environmental issues, the Amazon Financial Information Service aims to provide information on the downside risks associated with controversial financing projects in Latin America.

BankTrack: <http://www.banktrack.org>

An association of 15 civil society organisations committed to tracking the operations of private financial organisations and their impact on the environment and society. The network specifically focuses on how financial institutions are implementing the Equator Principles for project finance.

It is widely recognised that the financial services sector has the means and standing to influence human rights practices. In 2004, approximately 20% of the S&P 500 by value had their primary business service in finance. Additionally, private capital flows have now reached nearly five times governmental aid to developing countries. Human rights controversies have historically been associated with governments on the one hand, or industrial companies with physical operations in conflict areas. However, international capital providers are increasingly finding themselves in the spotlight for funding and advising projects that may be associated with human rights abuses. Increasingly, investors, the state and civil society are calling on the sector to take greater responsibility for both its own and its customers' impacts on human rights.

Whilst human rights issues may or may not impact a financial institution's asset quality, there is little debate that they will impact its reputation. From our discussions, participants indicated that these impacts would affect their business in both foreign and domestic operations through employees and the supply chain, and through customers, products and services.

Some financial services institutions have also recognised that managing human rights issues is not just about the mitigation of risk. A successful management strategy can also lead to business opportunities, including identifying new threats to their customers' business, building customer loyalty around an improved service, minimising project interruptions and delays, and improving employee morale.

2.1 Domestic operations

All participants felt that human rights issues impacted their domestic market businesses in Western Europe and the US and cited the following key drivers for taking action:

- **Employees** – Human rights issues associated with non-discrimination and health and safety are at the heart of workplace standards. Comprehensive equal opportunities policies were recognised as important components in attracting and retaining quality employees, and diversity training was highlighted as a means of improving the workplace environment, as well as avoiding litigation associated with employee discrimination claims. Health and safety related issues, while often linked to poor labour standards that violate human rights in developing countries, were deemed to be less of a risk in OECD (Organisation for Economic Co-operation and Development) countries given the high standards and operating requirements that apply.
- **Supply chain management** – Financial institutions have complex supply chains that may be exposed to areas with poor human rights records and weak labour standards. Some areas where concerns may arise are in the working conditions and wages of call centre or cleaning staff. Global procurement policies and the outsourcing of services to developing countries are therefore areas where financial services institutions are under increasing scrutiny to demonstrate effective protection of human rights in the supply chain. Participants recognised that successful supply chain management is no longer merely expected from high-visibility sectors such as retail and manufacturing.
- **Reputation management** – Human rights issues have an enormous capacity to negatively impact a company's reputation. Consequently, corporate or public affairs departments will be responsible for managing the reputation risk associated with situations where an institution is rightly, or wrongly, implicated in human rights violations.

2.2 Emerging market operations

Participants agreed that human rights issues are particularly testing in emerging market operations, especially in areas marked by conflict, repression and weak enforcement of the rule of law. The following challenges were reported as especially acute:

- **Staff security** – Where retail networks or key banking relationships exist, companies must ensure the safety and security of their employees. These are widely regarded as key human rights.
- **Weak legislative environments** – In countries where the rule of law is not respected, human rights violations are frequently widespread. In such areas, companies recognise the need to develop clear policies and practices to defend themselves from the impact of, or association with, human rights abuses. In many cases, this involves setting standards above local norms.
- **Government relations** – Participants emphasised a limited ability to influence government expenditure, but recognised that they could pro-actively promote transparency, avoid money laundering, and combat bribery in countries where they operate. Countries with a high degree of corruption were specifically identified as presenting heightened human rights risk, where revenues could be misappropriated and used to persecute marginalised communities or fuel conflict.
- **Competitive advantage** – As multinational corporations, financial services institutions are held to account for higher standards of corporate behaviour than their locally-based peers. In some instances, these stricter operating standards could result in losing business to local competition. In other circumstances however, the scale of their business could enable them to walk away from potentially controversial business with limited commercial impact, or their superior practices could enable them to win new business opportunities.

2.3 Customer relationships and transactions

In domestic and emerging market operations alike, human rights issues can have an impact on financial services institutions through the provision of finance to customers. If a financial institution's customer fails to manage human rights risks, the project is likely to be impaired from a commercial standpoint, and the probability of default may increase. The sectors and countries in which particular customers operate are important in identifying the specific human rights issues that may threaten the viability of a transaction.

- **Sovereign Risk** – Human rights risks tend to be higher in unstable, emerging market economies and equally, the evidence of human rights abuses and poor standards of governance, can serve as a useful marker when measuring business risk. Procedures for analysing sovereign risk may include a PESTE (political, economic, social, technological, environmental) analysis that would capture social risks including human rights risks. Through the operations of its customers, banks will be exposed to the social, economic and market instabilities of that geographic location.

- **Supply chain risk** – Participants identified supply chain risks arising from lending to manufacturing companies, specifically in low-skilled, labour-intensive sectors such as textiles, carpets, clothing and information, communication and technology industries. Many businesses in these sectors operate in foreign trade zones for export back to European and American markets and thus financial institutions are exposed to their complex supply chains. When commercial banks lend to small businesses overseas, it becomes increasingly important to consider the ‘human rights risk’ these clients may pose to the reputation of the ‘big business’ to whom they supply goods and services. If the ‘big business’ is the target of consumer pressure or boycott, its suppliers will be scrutinised for their labour practices and could be forced out of business if they fail to meet particular standards. This, in turn, would negatively impact the institutions that fund them.

Standard Chartered emphasised the links between supply-chain risks and default risk. If **Standard Chartered** provides finance to a small Chinese clothing company that supplies 80% of its goods to a well-known retailer and that small manufacturer fails to meet the retailer’s labour standards requirements, the retailer might cancel the contract, putting the small clothing company out of business and leading to loan default.

- **Concentration risk** – Financial institutions conduct regular strategic reviews of existing loan portfolios to identify and monitor their overall exposure to particular customers, sectors and geographic regions. Within this analysis, exposure to a high concentration of human rights risks can also be identified and considered.
- **Litigation risk** – In recent years, financial services institutions have increasingly been associated with the courtroom for the role they play in financing allegedly “irresponsible” projects and customers. In the US, the controversial Alien Tort Claims Act has been used to hold capital providers responsible for their role in apartheid South Africa.

2.4 Provision of products and services

Participants widely agreed that human rights concerns were most likely to appear in the following product areas:

- **Project finance/Structured finance** – Project finance was identified for two main reasons: (1) the deals being financed are frequently sizeable infrastructure projects, in emerging markets, with a potentially high impact on local communities and (2) the finance is extended on a non-recourse basis with the financial institution reliant on the project’s cashflows for loan repayment, making delays and disruption, potentially caused by human rights controversies, a significant influence on the project’s financial viability.
- **Advisory capital markets and underwriting activities** – Participants recognised that human rights risks, if not successfully identified, could lead to mis-pricing in capital markets transactions. In pre-market advisory work and in subsequent underwriting activities, a financial institution’s ability to price a deal correctly, and sell it on to clients, could be negatively affected.

- **Private banking** – Private banking operations present a potentially significant reputational risk to a financial institution, given the link that often exists between human rights abuses and money laundering. Although the origins of laundered money are extremely varied, “dirty money” rings can often flourish in conflict situations – where human rights violations are common. In these instances a financial institution could be implicated, knowingly or not, in facilitating the laundering operation or funding the perpetrators.
- **Asset management** – A number of financial services institutions already factor human rights considerations into asset management activities through specialist socially responsible investment funds. However, there is also a growing awareness that the performance of any fund can be negatively impacted by non-traditional financial risks, including those related to human rights.

Underwriting – The perils of ignoring human rights issues

Case Study

Two banks were asked to underwrite a bond for the government of Guatemala, a country with a history of human rights violations and drug trafficking. At “Bank 1”, analysts conducted a traditional risk analysis and proceeded with the transaction. At “Bank 2”, analysts recognised the social issues involved and consulted with the IMF on the impact that the drug trade and human rights abuses might have on the ability of the government to repay the bond. Bank 2 joined with the IMF and introduced a covenant involving a supervised pay-out process to ensure that the proceeds of the bond were used as intended. Bank 1 reassessed the risk and decided to withdraw from the underwriting after having publicly announced its participation. Although both banks in this example ultimately recognised the human rights risks involved, one was able to manage them at an early stage and complete the transaction, whilst the other ultimately suffered reputational damage and antagonised its clients following poor management of this question.

Case Study

In 2001, **Goldman Sachs** took the decision to offer shares in China's restructured oil company, PetroChina, on the US stock market. When details of the transaction became public, a broad-based coalition of environmentalists, human rights groups and labour unions vociferously argued against the deal, claiming that any financing raised would only be used to damage the environment in China and provide support for a regime notorious for its disdain of human rights, particularly in Tibet.

Human rights groups and labour unions lobbied and visited potential investors, calling on them not to invest. These activities reduced the amount that the IPO was able to raise and demonstrated the vulnerability of such financings to well-organised pressure.

3. Addressing Human Rights

The nine financial services institutions participating in this study have incorporated, or were in the process of incorporating, human rights into company policies and procedures for their operations or products. Three steps were identified as a means of addressing human rights issues. First, at an operational level, financial services institutions look for ways to adapt existing policies, or create new ones, to incorporate human rights. Second, at a policy level, they look to external guidelines to inform the content of company policy. Finally, participants assess how existing processes and management tools can be leveraged to address human rights concerns.

3.1 Policy development

Findings reveal that participants tend to take one of two approaches when developing a human rights policy: (1) create a dedicated, overarching human rights policy, or (2) incorporate human rights into existing policies such as environmental or ethical policies. The approach adopted largely depends on the differing organisational structure of each institution.

- **Dedicated human rights policy** – Four of the participating institutions have created stand-alone human rights policies that apply across group operations. These include references to the United Nations Universal Declaration of Human Rights (UDHR) and are used as a baseline for behaviour in countries with poor human rights records. The institutions in this category tended to have relatively wide exposure to high-risk countries, both through the location of their employees and through the international nature of their services.
- **Integrating human rights into existing policies** – The other five institutions do not have stand-alone policies but have integrated human rights into other policies relating to ethics, anti-bribery and corruption, the environment, and human resources. Institutions with more limited operations in high-risk countries tended to adopt such a method. This implies that human rights risk, rather than being considered as a stand-alone risk, is instead seen as a potential contributor to higher risk in other business areas.

Dedicated Human Rights Policy	Human Rights Integrated into Other Policies
Barclays HSBC Rabobank Standard Chartered	ABN Amro Credit Suisse Group Morgan Stanley Royal Bank of Scotland UBS

Depending on their risk exposure, some institutions have supplemented human rights risk management frameworks with geographic or sector-specific policies or exclusions. Financial services organisations with a high concentration of customers in a given sector have created policies reflecting risks specific to that industry. One such example relates to the agricultural sector and policies that deal with the sustainable sourcing of palm oil, as detailed in the table below.

In certain situations, where reputational risks were deemed to be exceptionally high, such as in countries with repressive regimes (e.g. Sudan, Burma), a number of organisations stated that they preferred to exclude doing business in these markets altogether.

Human rights risk and palm oil production

Several participants identified palm oil production as one sector with human rights concerns, especially where palm plantations are located on land that is home to indigenous peoples. Several Dutch financial institutions including, **Rabobank**, **ING** and **Triodos**, have developed sustainable palm oil policies based on the principles established by the Roundtable on Sustainable Palm Oil. **ABN Amro** has also introduced a Forestry and Tree Plantations Policy, the scope of which reaches beyond palm oil, that aims at engaging responsibly with clients and projects in the forestry sector to address social and environmental impacts. In May 2004, **HSBC** released its latest forestry policy, which also addresses the human rights risks associated with oil palm plantations.

Rabobank places a number of specific demands on its clients, including a requirement to consult local populations affected by plantations, and a prohibition on cutting primary forests to clear land for oil palms. These requirements aim to ensure that the institution is not financing projects that contribute to environmental and social problems.

ABN Amro's Forestry and Tree Plantations Policy aims to promote sustainable practices for both the organisation and its customers in the forestry and tree plantations sector. The policy requires detailed assessments of its customers' overall forestry and plantations business, including an assessment of impacts on affected societies, such as land title and land use rights, the rights of indigenous peoples, community relations and workers' rights.

HSBC recently developed a set of "Forest Land and Forest Products Guidelines" applying to the palm oil sector. They commit the financial institution to observing international standards for its clients' impacts on affected societies, such as land title and land use rights, the rights of indigenous peoples, community relations and workers' rights.

3.2 External reference points

Participants look to existing international protocols, frameworks and guidelines to inform and shape the content of human rights policies. These fall primarily into two broad categories: (1) binding legislation or regulation at the international, regional or local level and; (2) self-regulation in the form of industry codes or external society-based standards.

Whilst a number of these frameworks are discussed below, a more comprehensive list can be found in Appendix I.

Existing human rights standards

Transnational financial services providers will be subject to all relevant international, regional and local legislation. The following are the most significant:

- **United Nations Universal Declaration of Human Rights (UDHR)** – The cornerstone of international human rights law, as with other UN conventions, the UDHR binds all organs of society in member countries to uphold and protect both civil and political rights and economic, social and cultural rights.
- **ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy** – Extends human rights to include labour standards and non-discrimination. This code applies to all corporations based in member countries of the International Labour Organisation (ILO).
- **OECD Guidelines on Multinational Enterprises** – Encourages member-states to harmonise their standards regarding overseas operations to include transparency, ethics and stakeholder engagement.
- **European Convention on Human Rights** – The official human rights law established by Council of Europe in 1950 and a backbone for Financial Standards Authority (FSA) regulation of human rights.
- **UK Human Rights Act of 1998** – Commits companies to the European Convention on Human Rights and operationalises the European Court of Human Right's jurisdiction within UK law.
- **US Alien Torts Claims Act** – In the United States, attorneys have filed suit against large corporations on behalf of villagers, indigenous people and labour leaders overseas under the Alien Tort Claims Act (ATCA). Passed in 1789, this law allows foreigners to sue one another in US courts. The ATCA does not allow for liability of corporations that merely do business in countries with widespread human rights abuses; rather it allows for liability of corporations that are complicit in those abuses.
- **Pending...**
UN Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights (UN Norms) – The UN Norms were developed by a United Nations working group to create a new set of international standards for the conduct of private business in the area of human rights. At its April 2004 meeting, the UN Commission decided that the Norms should be part of a broader review of business and human rights, to be conducted by the UN High Commissioner by mid- 2005. The year-long review will involve extensive consultation with governments, companies and NGOs in an attempt to reach consensus about what the responsibilities of companies should be.

	Binding	Non-Binding	Global	Regional	National /Local	Governmental	Corporate
UDHR	✓		✓			✓	✓ ¹
ILO Tripartite Declaration	✓		✓				✓
OECD Guidelines		✓		✓			✓
European Convention on Human Rights	✓			✓		✓	✓
UK Human Rights Act	✓				✓	✓	✓
US Alien Tort Claims Act	✓		✓ ³			✓	✓
<i>UN Norms</i>	✓ ²		✓				✓

¹ The UDHR is an inter-governmental commitment, voluntarily endorsed by some members of the corporate sector.

² The UN Norms do not currently have legal status and would only become binding if approved and ratified by the member states of the UN.

³ Although the Alien Tort Claims Act is a U.S. law, it applies to “any civil action by an alien for a tort only, committed in violation of the law of nations or a treaty of the United States.” In practice, the ATCA has been used in a small number of relatively high-profile civil cases, against foreign officials and transnational corporations, for violations of international human rights law outside the U.S.

Human rights self-regulation

The financial services sector is not regulated on a global basis and no overarching framework exists to manage key human rights issues. Codes of conduct have been established that, because of either their reach or influence, have become proxies for industry standards. The most relevant were considered to be:

- **World Bank/IFC Safeguard Policies** – These were established in order to protect against environmental and human rights risk in co-financed development projects in high-risk sectors. These policies cover environmental assessment, natural habitats, cultural property, protection of indigenous people, involuntary resettlement, and child and forced labour among others. Commercial financial institutions participating in IFC syndication projects are expected to monitor projects against these criteria before a project begins and throughout its lifetime.
- **Equator Principles** – In June 2003, ten multinational financial institutions announced their voluntary commitment to this industry standard for assessing and mitigating social and environmental impacts in project finance. Developed in co-ordination with the IFC, and based on the World Bank and IFC’s safeguard policies, these Principles apply to loans greater than \$50 million. As of August 2004, 27 financial institutions - comprising 25 banks, one export credit agency and one multilateral agency - had committed to adopt the Principles. Human rights issues relating to indigenous peoples and local consultation are part of the Principles, and review and mitigation requirements reflect the classified risk rating of each project. Compliance with environmental and social standards is included in loan covenants and non-compliance can trigger a default.

- **United Nations Environment Programme (UNEP) Financial Initiative** – This voluntary initiative has 232 participants and whilst it has traditionally focused on environmental issues, is broadening its remit to include human rights as well. Signatories aspire to the precautionary principle, incorporating sustainable development into all business activities and communicating this publicly.
- **UN Global Compact** – The Global Compact is a network of 1770 businesses that have committed to upholding ten principles respecting the environment, human rights and labour standards in business operations. The network recently adopted the tenth principle addressing the issue of bribery and corruption.
- **Ethical Indices Requirements** – The introduction of ethical indices such as FTSE4Good and the Dow Jones Sustainability Index has provided a direct business motivation for considering social risks to business. To be eligible for inclusion, companies need to meet prescribed standards in the areas of environmental sustainability, human rights, and stakeholder engagement.

Self-regulation may help to raise standards amongst industry leaders; however, participants and their critics also recognise that voluntary initiatives can have limited effectiveness if they are not adopted broadly. Equally, such initiatives may be criticised for “lacking teeth” if no accountability mechanisms exist to assess how well they are being implemented in day-to-day business practices. Ultimately, binding regulation may be more likely to ensure that industry leaders are not competitively disadvantaged, and that all companies operate to a set of agreed minimum standards. However, such regulation can be intrusive and not flexible enough to allow for experimentation and new approaches. Equally, it could result in standards being watered down to such an extent that, once again, they become broadly ineffectual.

3.3 Making the policy work

External reference points, frameworks and guidelines only go part of the way in creating an effective human rights approach. In order for a policy to work in practice, the following challenges were identified:

- **Reconciling legislation and company policy** – All participants stated that minimum operating standards are legal compliance. However where an institution’s own policies are more stringent than local legislation, these internal policies are upheld. Such an approach can be impractical in some countries, for example in China where the right to form a union is in practice not recognised. In instances such as these, a company management that recognises and responds to alternative forms of employee organisation and expression will be important in upholding the company’s global standards.
- **Creating a group level policy....** Most of the participants have human rights policies that apply across group operations. Since reputation, security or litigation risk can originate in any location or business unit and impact the whole business, institutions have to grapple with the logistics of creating a group-wide policy.
- **....that can still be applied locally** – Despite the need for group-wide policies and standards, they must nevertheless be flexible enough to be relevant in different locations and to different projects and business units.
- **Working without independent benchmarks** – Participants considered that the development of human rights related risk strategies was so immature that it would not be possible (at this stage) to produce independent, objective, externally scrutinised policy benchmarks.

4. Risk Assessment and Human Rights

Sovereign risk and transaction, or project, risk were consistently named by participants as the two spheres in which human rights affected their business activities.

4.1 Sovereign risk

All participants consistently identified sovereign risk as an area where human rights issues became a potential risk to capital, operations and personnel.

Sovereign risk analysis is largely a subjective exercise with every institution carrying out its own assessment. No objective, or commonly agreed, classification system exists to rank individual countries. It is often chronologically the first, and/or the broadest, filter of risk assessment undertaken by an institution. Sovereign risk includes factors such as political and economic risks, as well as corporate governance standards and various other determinants such as size and liquidity of markets. All of these criteria exist as a means of distinguishing between developed and emerging markets. Such risk is managed on a case-by-case basis, meaning that a tailored risk management strategy is put in place each time a new product or service is delivered within a particular country.

Human rights issues were seen to influence sovereign risk assessment where a financial institution has operations, or finances projects, in areas with limited political freedom or civil liberties. In such undemocratic environments, the regime in power may manipulate the economy, directly or indirectly, to further its own agenda, thus changing levels of sovereign risk. Financial institutions can consequently be impacted either through a higher default rate in relation to an increased credit risk, or through damage to its brand, by being associated with an oppressive government.

A few participants expected that sovereign risk would be reflected in the market pricing of assets. However, with no objective classification of this risk currently being employed, little evidence of the risk being factored into pricing was found.

Factoring human rights into sovereign risk assessment

Human rights issues, such as labour rights (relating to staff, supply chains and products and services) or the presence/absence of oppressive regimes were reflected, to varying degrees, in the following sovereign risk assessments:

- **Sovereign risk ratings** – A number of institutions rely on in-house, or external, research teams to generate sovereign risk ratings that seek to rank countries as developed, emerging, or secondary emerging markets. None of the participants maintain formal “red” or “black” lists of countries for exclusion from any business dealings based on their human rights record. Projects, as well as human rights concerns in particular high-risk markets, tend to be considered on a case-by-case basis, depending on the nature of the underlying business.

- **Political economy analysis** – Defined as the impact that political change can have on the economic situation of a country. Financial institutions use economic research teams (both internal and external) to assess how national spending priorities will change as political priorities alter, (e.g. from health to defence) and the influence these changes will have on an institution’s operating environment.

Models for Rating Sovereign Risk	
Barclays	Internally generated country codes according to risk levels.
Royal Bank of Scotland	Economists Team considers sovereign risk and reports to the Credit Risk Team.
ABN Amro	Country Risk, Emerging Markets Analysis and Multilateral Organisations, and Sustainable Business Advisory units working on a framework for evaluating country reputation risk against a number of non-economic risk criteria (e.g. political stability, human rights, and corruption).
UBS	Transparency International, Freedom House and the Central Intelligence Agency scores incorporated into country index.

Managing human rights in sovereign risk

Whilst the resources indicated above provide financial institutions with significant information about the countries in which they operate or invest, a number of challenges were identified in successfully incorporating such information into day-to-day financing activities.

- **Risk limits** – The main Board of a financial institution, or a Committee of the Board will be responsible for setting the limits and the range of the institutions’ appetite in relation to sovereign risk. This will be conveyed to the operating divisions, which will cover geographic as well as product exposure. Although at group level, limits will be established for particular countries on the basis of sovereign risk, tighter restrictions may be imposed by country managers where local conditions, including the human rights related environment (e.g. stability or security situation), warrant it.
- **Decentralised nature of organisations** – Many financial services institutions are complex and decentralised organisations making the application of a single, generic sovereign risk policy impractical. Local branches, in practice, often operate as autonomous units and may be influenced, either positively or negatively, by local standards regarding the promotion and protection of human rights.

- **Divestment** – Several participants highlighted the pressure they have experienced to divest from particular countries or projects. This pressure is largely exerted by civil society groups and activists campaigning for business to withdraw from countries considered inappropriate for investment as a result of poor human rights records. In these instances, banks have to weigh up the advantages of maintaining market share in a particular country, where conditions could change for the better, and the risks to their operations, brand and reputation resulting from such an association. Furthermore, one participant emphasised that in some instances, maintaining operations in a high risk country is a form of engagement and may be one factor in improving poor conditions.
- **Lack of information/transparency** – Participants emphasised that access to reliable and clear information in high-risk countries is often lacking, compounding the challenges of doing business there. In countries with limited independent news sources, it is often hard to get a realistic picture of the “true” situation regarding human rights. International NGOs may be helpful in filling this void, but they have limited reach and resources. As a result, comprehensive due diligence and successful risk management remain extremely difficult.

Oil trading in Sudan

Case Study

As part of its human rights assessment, **Rabobank** discovered that one of its customers was active in oil trading in the Sudan. An analysis of the sovereign risks of operating in the Sudan which is in the midst of an ongoing civil war and is experiencing what the UN has called “one of the world’s worst humanitarian crises”, concluded that oil revenues were likely to be used to finance further human rights abuses and possibly even genocide. Under these circumstances, **Rabobank** determined that the human rights risks involved were too great and it discontinued financing the client.

4.2 Project risk

Project finance is most commonly used to fund infrastructure projects, generally those that are long-term and encompass design, build, operate and transfer phases. They are either completely non-recourse to the principals, or with limited recourse to the project originators. Projects proposed in emerging markets tend, by their nature and location, to be associated with higher levels of human rights risk. In all of these cases, it is the ability of the project cash flows to repay any associated financing that is the critical credit risk issue. Human rights factors have the ability to influence this credit risk through their impact on delays and disruptions.

The risks associated with particular projects can be measured according to sector categorisations that have been developed by IFIs. These all cover human rights to varying degrees. For example, the World Bank’s safeguard policies for co-financing require in-depth social and environmental impact assessments before finance will be approved for projects in designated high impact sectors (from aluminium manufacturing to telecommunications and food and beverage processing). In addition, the UK Export Credit Guarantee Department (ECGD), in common with the majority of the Export Credit Agencies (ECAs), now classifies applicants as high, medium or low impact depending on the degree to which a project will impact the local society and environment. As such, the borrower has the option not to take financing from these agencies if it does not want to uphold the safeguard criteria.

Factoring human rights into project risk assessment

All participants reported that in theory, human rights could be factored into risk assessments at the sector and project level in the following ways.

- **Sector risk appetite** – Banks tend to employ risk matrices that classify transactions according to the level of risk associated with the relevant sector. By ensuring that human rights related risks are a specific component of sector ratings, institutions can mitigate overall risk exposure to different sectors.
- **“Know your customer”** – Strong customer relationships are key to determining customer or project-related risk. Through the principle of “know your customer”, finance providers can identify and mitigate any human rights risks that could arise from the relationship. For example, a lending or risk officer who is aware that textile manufacturing could involve poor labour standards will be in a better position to ask the textile customer questions relating to this risk and what responses are required successfully to complete a transaction. Furthermore, he will be better placed to push for improvements in the borrower’s standards if they are deemed necessary.

In practice, however, participants were at different stages in implementing such approaches.

Managing human rights in project risk

The risk assessments used by all participants start from the premise that all risks present in a project need to be codified, and wherever possible, a monetary value or range of values assigned to each of them. Financiers will assess how material such risks are in relation to the overall project, and the potential impact they will have on its successful implementation and consequent ability to generate the necessary funds to repay any borrowing. The following tools are currently used, to varying degrees, to quantify human rights-related risks in what are deemed to be high-impact projects.

- **Impact assessments** – Financial institutions use social and environmental impact assessments as a means of quantifying the level of risk arising from different hazards. In carrying out such assessments, good practice includes engagement with key stakeholders to inform thinking and test opinions. These assessment tools are deployed during the due diligence process before an institution will confirm, or otherwise, support of a project.
- **Covenants and warranties** – Once impact assessments have been concluded, specific warranties or covenants may be stipulated as conditions of support. Typically these will include assurances that the monies dispersed will be applied to agreed project costs, as well as the implementation of environmental management plans and community support mechanisms. Non-compliance with such performance measures, the monitoring of which is frequently outsourced to specialist businesses, is reported to the financing institution and a notice of event of default issued to the borrower. However, there is little information in the public arena on the kind of covenants and warranties employed by financial institutions and the way in which these instruments are being used, particularly the extent to which specific human rights criteria can be attached to them. This is an unfortunate repercussion of commercial confidentiality agreements, rather than industry secrecy, since in most instances, such warranties and covenants are deal-specific.

- **Engagement with borrowers** — This was highlighted as a way of managing human rights concerns in specific projects, particularly in cases where a financial institution has a strong pre-existing relationship with the borrower. Participants also recognised that they were able to exert significantly more influence over a borrower as lead manager on a deal, rather than as a member of a syndicate. However, while engagement was seen as a source of positive influence, participants cautioned that there was a fine line between engaging with customers and being viewed as telling them how to run their business.

4.3 Portfolio risk

Portfolio risk management is used as a central tool to balance the risk profile across the assets of a financial institution. Portfolios are segmented on a sectoral basis so that the overall risk appetite of the institution, as set by the Board, is controlled. In assessing the risk appetite, institutions will take into account the potential for assets not to perform. Such assessments will include taking a range of risks into consideration. Long-term finance is inherently a greater risk to capital than short term simply because of the period of exposure.

The identification of human rights related risks at the country and project level is relevant to overall portfolio risk management. In addition to the immediate repayment risks human rights issues can present, individual high-risk projects may alter the balance of portfolio risk exposure or subject the company to heightened reputational risks.

5. Current Good Practice

In order to integrate human rights considerations into day-to-day business operations, an array of tools and mechanisms need to be deployed. This section outlines what current good practice exists in the sector as exhibited by participants in this study. The result is intended to be illustrative rather than comprehensive.

Six stages have been identified, beginning with strategies, followed by management and accountability, training, communication, measurement and working with external stakeholders.

5.1 Over-arching strategies for managing human rights

Specialist committees and teams

- **Rabobank:** has created an Ethical Committee made up of the CEO and senior management. Employees can seek advice from the Committee when they are faced with ethical dilemmas in their business operations, some of which may include a human rights element. The Committee provides an opinion on how the dilemma should be managed, which is then also posted on the company intranet. The Committee can call for further engagement with the client, or recommend that certain provisions be set in order for a transaction to be approved. However, the Committee only acts in an advisory capacity and the account manager is ultimately responsible for all aspects of the final transaction. In practice, most advice provided by the Committee is accepted by business managers. The strength of this approach is that the process and recommendations are transparent and senior management is directly engaged. The core weakness, however, is the voluntary aspect of the approach, as the onus lies with business managers to approach the Ethical Committee in the first place.
- **ABN AMRO:** has senior risk committees within each business unit of the bank that evaluate non-financial risks on sensitive transactions, which can then be escalated to the Managing Board for approval. The company also has a Brand Committee, consisting of the Managing Board members, to ensure that its commitment to sustainable development is also reflected in the management of its brand and reputation.
- **Barclays:** has established a Brand and Reputation Committee to ensure conformance of all its businesses to the CSR Board Governance Standard, which includes a human rights-related policy, and to act as a think tank on material social, ethical and environmental issues affecting the organisation. The Committee is headed by the Executive Vice Chairman and is a subset of the Executive Committee. It has three additional sub committees that focus on equality and diversity, environment, communities and social affairs.
- **HSBC:** recently established a CSR Board Committee that is responsible for overseeing the effectiveness of the institution's CSR strategy, policies and practices and considers matters that may materially affect the business, brand or reputation. These include policies and internal strategies to address human rights, equal opportunities and diversity, health and safety and 'any other matter of legitimate concern.' The Committee is comprised of independent non-executive directors and external advisers and is supported by an executive steering group.
- **Royal Bank of Scotland** and **UBS** also have CSR Board Committees.

Integration into existing frameworks

- Some participants drew a parallel between the management of environmental issues and human rights. In their view, the two shared common features, although the sector has not established a commonly accepted risk management framework for either. Both environmental and human rights concerns cut across markets and business functions. Most importantly, the impact of these risks has no direct correlation to the size of the transaction. In many cases, a social or environmental risk can be exponential to the transaction itself. Given these parallels, participants use mechanisms originally established to deal with environmental issues, to include human rights¹.

Filters

- **ABN Amro:** has developed a high-level Environmental, Social and Ethical Risk Filter, which poses a series of questions for risk officers and relationship managers, and is applied to all credit proposals in the wholesale business unit. The filter requires clients and commitments to be assessed against relevant environmental, social and ethical policies and criteria. It directs users to the appropriate environmental and social risk sector policy and requires that issues be assessed within the appropriate risk team with the support of the Sustainable Business Advisory unit.

5.2 Management and accountability

Board commitment

Board-level responsibility was identified as an effective means of underscoring the importance of human rights issues across business units. Assigning specific responsibility to board committees or individual directors was thought to entrench this commitment further.

- **Barclays:** the Vice-Chairman is responsible for CSR issues with reference to human rights.
- **Royal Bank of Scotland:** the Group CEO is the Board director responsible for all CSR issues, including human rights. These issues are discussed formally at Board level twice a year.
- **Credit Suisse Group:** includes the management of social risks as part of the remit of the Board's Risk Committee.
- **Rabobank:** assigns Board responsibility for human rights to several members of the Executive Board. One director is responsible for the human rights policy as well as social innovation, another for considering human rights in social funds and a third director chairs the Ethics Committee where human rights dilemmas are evaluated.

¹ For more information on existing environmental management, refer to ISIS Asset Management, *Benchmarking Study "Environmental Credit Risk Factors in the Pan-European Banking Sector"*, September 2002.

Local context

Group-wide policies need to be relevant to the local context if they are going to be effective and practically applicable. Buy-in from local or regional managers was deemed critical for ensuring success in this area.

- **ABN Amro:** The Sustainable Business Advisory (SBA) unit is responsible for global policy development and assessment of transactions according to environmental, social and ethical policies (including human rights issues). Corporate SBA also maintains regional SBA offices in Asia, and teams at subsidiary level.
- **Standard Chartered:** In-country risk officers are responsible for monitoring human rights-related risks. Lending officers also participate in one-day training workshops on how to identify and respond to environmental and social risks.
- **Royal Bank of Scotland:** Established an Enterprise Risk Team within the Group Risk Team to address political, social, ethical, reputation and environmental risks. This team interfaces with local credit risk teams to reinforce the relevance of non-financial risks.

5.3 Training staff

Two levels of employee training were highlighted by participants.

General awareness raising – To highlight the ways in which human rights issues can impact business and to help employees understand “how this issue is relevant to me?” A common method for doing this is through the introduction of a human rights risk element to the general training of new hires or to the training of staff being promoted.

Training specific departments or offices – All participants considered it essential to provide comprehensive training to those employees likely to be most exposed to human rights issues, such as risk managers or credit officers in high-risk countries. Including human rights considerations in ‘Know Your Customer’ policies and training was also thought to be important.

Workshops/Seminars

- **Standard Chartered** and **ABN Amro** have both developed workshops to train relevant staff in human rights-related risk assessment. **Standard Chartered** held one-day workshops in local offices around the world, while **ABN Amro** ran two day training seminars for project finance staff in three regions on how to implement the Equator Principles. Both organisations have focused on the Asia Pacific region where human rights issues are becoming increasingly topical with a number of different stakeholder groups. Such developments have led to demand from the field for this type of training, rather than it purely being a push from the corporate centre.

Employee guidelines

- **Rabobank:** has developed employee guidelines to aid staff when they are faced with an ethical dilemma. This consists of a list of questions and considerations that employees can utilise when analysing a transaction that might put human rights at risk. These include questions such as “What parties are involved?” “Who will be affected by this transaction?” and “What are the interests of each party?” Employees are also cautioned to differentiate between the legal, moral and commercial issues in specific cases. For example, whilst a deal may be legal in certain environments, there may be questions over whether it is morally sound, and thus a risk to reputation. **Rabobank** operates on a global basis, and therefore its guidelines emphasise the importance of staff being sensitive to differing cultural expectations in different regions.

Case studies

Several participants indicated that “real-life” case studies based on actual business unit experiences were highly effective tools in underlining the relevance of human rights to financial operations, and in moving discussions beyond a purely theoretical level. A number of these experiences have been highlighted in this report, including case studies relating to supply-chain risks, especially in high impact sectors such as clothing and textiles.

5.4 Communicating human rights policies and procedures

Internal communications

- **Rabobank:** The Ethical Committee reports on specific cases brought before it and views expressed, and invites feedback from employees. Through a combination of learning from precedents and real examples serving as guides, employees’ understanding of human rights dilemmas increases.
- **ABN Amro:** The organisation has developed, in co-operation with the IFC, a web-based project finance categorisation and assessment tool in follow-up to the Equator Principles training seminars. The software will be disseminated to regional businesses as a means of embedding the procedures for evaluating social impacts at a project level and ensuring that the tools and training are locally applicable.

External communications

- **Reporting standards and guidelines:** There is currently no industry standard for reporting on human rights-related risks amongst financial institutions. **ABN Amro** is currently experimenting with portfolio-style reporting that reflects clients/projects, approved/declined, when screened in line with the Equator Principles’ categorisation. In addition, members of the UNEP Finance Initiative are working with the Global Reporting Initiative (GRI) to develop a series of general reporting indicators for the sector that will include human rights.
- **Coverage in public reports and company websites:** Within the sector, coverage of human rights within company CSR reports, annual reports, and company websites is largely *ad hoc*. While most participants referred to human rights as relevant to business in their public reports, only half engaged in any real discussion of the business impact of human rights and even fewer committed to uphold the Universal Declaration of Human Rights (UDHR).

	Reference to human rights	In-depth discussion of human rights	Reference to UDHR
ABN Amro	✓	✓	
Barclays	✓	✓	✓
Credit Suisse Group	✓		
HSBC	✓		✓
Rabobank	✓	✓	✓
Royal Bank of Scotland	✓	✓	
Standard Chartered	✓	✓	✓
UBS	✓		

5.5 Measuring human rights risk assessment

All participants acknowledged the difficulties in directly measuring the effectiveness of human rights risk assessment. A catalogue of financial values, either in terms of the number of applications for loans, or the amount supported or declined on human rights grounds, has little meaning unless the human rights elements in such decisions can be isolated. However, such a task is virtually impossible given the wide variety of factors that can influence a loan's viability. Default rates therefore become equally ineffective measures. The best proxies for measuring policy effectiveness are therefore perhaps currently seen to be process measures, such as staff awareness and training, rather than final outputs, and the results are necessarily imperfect.

Employee awareness – Most participants agreed that it is difficult to measure employee awareness of human rights risk or the frequency with which it is incorporated into decision-making. Some record the range of decisions made on a precedent basis (i.e. once a precedent has been set, how many other decisions follow suit), and/or how many new risk issues arise in the decision-making process. In theory, both of these numbers should fall as precedents are set and policies are communicated more broadly to staff. However, with a subject as complex as human rights, enquiries may well increase as greater awareness leads to even more ambiguities.

Extent of training – Another method of measuring the implementation of policies is based on the number of employees trained and their feedback. To date, only two of approximately 400 **Standard Chartered** employees trained world-wide in human rights related risk assessment felt that the workshop had been of little use to them.

5.6 Consultation and engagement

External consultation

Several participants acknowledged that they had consulted with leading human rights NGOs and experts when drafting policies and training manuals.

- **Credit Suisse Group** and **ABN Amro**: are both in dialogue with Amnesty International to inform their general understanding of human rights issues, and to get feedback on their approach to managing them.
- **Barclays**: joined the Business Leaders Initiative on Human Rights in 2003 to work with other interested companies, NGOs, and government organisations to determine how human rights can be integrated into business decision-making.

Training assistance

Participants recognised that they are not environmental or human rights specialists. Outside experts are therefore important resources in helping to train staff in these specific areas.

- **HSBC**: is working with the World Wildlife Fund (WWF) in communicating the link between environmental and human rights risk by training credit and risk staff on non-financial risk analysis.
- **ABN Amro**: teamed up with Friends of the Earth in Brazil to train its risk and commercial staff on environmental, social and human rights issues as part of the non-financial analysis of business transactions.
- **Equator Principles adopters**: have been trained by the IFC in human rights issues as reflected in the Equator Principles. In May 2004, the IFC conducted a training programme in Rome for “Equator Banks”. The programme was designed for professionals working in project finance, corporate finance, credit, legal, customer relations and other relevant areas and covered risk assessment, categorising projects, selecting appropriate assessment tools and identifying value-added solutions for project sponsors. In addition, the IFC conducted customised training programmes at other institutions, including **Royal Bank of Scotland**, **HSBC** and **ABN Amro**.

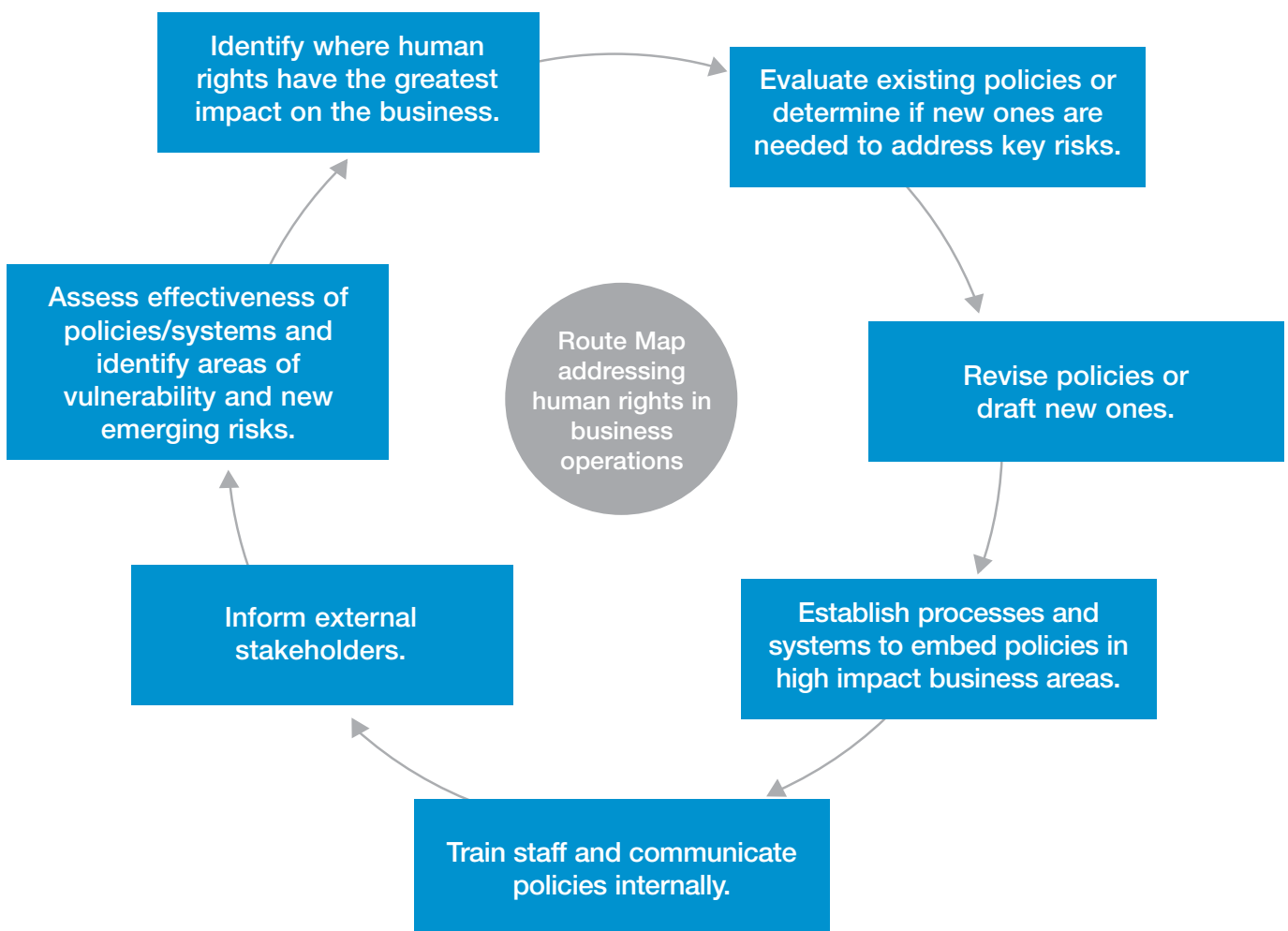
6. “Route Map” for the Future

This study aims to analyse how human rights issues can impact the financial services sector and support some next steps institutions might take to manage such risks. Whilst practices vary considerably, integration remains *ad hoc*. There is little consensus over what constitutes “human rights,” and even less consensus on how the sector as a whole, should address them. Nevertheless, there is broad agreement that human rights concerns need to be recognised and managed in both domestic and overseas operations, amongst employees and through an institution’s products and services.

The “route map” below aims to summarise what structures and processes institutions can employ to manage human rights risks. It also seeks to highlight areas of current weakness in order to encourage the development of solutions to unresolved questions.

6.1 Establishing a route map

For financial institutions wishing to address human rights in business operations, a first step would be to consider how existing practices should be adopted and broadened, and new policies introduced. Management processes then need to be implemented and staff informed, as well as trained, to recognise and respond appropriately to human rights issues as they emerge in day-to-day business. The impact of this organisational change needs to be captured and reported upon both internally and externally. Finally, institutions need to collect experiences from the field in order to refine their policies and spread learning to all relevant staff.



Policy Development

Developing a clear and comprehensive human rights policy is critical. A poorly drafted or shallow policy will attract criticism from external groups who scrutinise such issues, including financial analysts. A largely aspirational policy runs the risk of being seen as a marketing device rather than a practical business tool.

- **Assessing the need** – A constructive starting point is to undertake an analysis to determine (1) where human rights issues arise most often, (2) where they are currently being adequately managed and, (3) where they are not. Human rights issues are relevant to a number of different areas in an institution and therefore need to be identified by units such as human resources or marketing, as well as lending and investment areas.
- **Surveying the regulatory landscape** – Compliance with local regulation is a minimum standard that can be surpassed by more stringent group policies. The need to account for differing legal frameworks is key to ensuring that an institution adopt the appropriate strategy, for example in outlining how collective bargaining might be addressed by a global institution operating in countries where this right is not recognised.
- **Drafting a policy** – Draft policies should include the following elements: a clear definition of human rights and their relevance to the business; clear objectives for the policy; explicit guidelines as to how the policy addresses different business relationships (i.e. employees, supply chain, customers etc); a reporting and review mechanism; and a communications channel through which affected persons and other stakeholders may escalate concerns.
- **Getting internal buy-in** – Formal endorsement by the Board is essential, but beforehand, it is advisable to take internal soundings to ensure that there are no insurmountable obstacles to its implementation. With human rights issues, it is useful to include suppliers as well as key clients and to consult on a wide geographic basis. Similarly, local buy-in from officers in the countries that will most likely be impacted by the policy will ensure that it is relevant and applicable.
- **Ensuring accountability** – Given the emerging nature of human rights related risk and the lack of commonly accepted guidelines and standards, it is essential for any policy to have dedicated and visible champions. A senior or Board level representative should have ultimate responsibility for the policy. However, comprehensive adoption of the policy will be encouraged if employees throughout the organisation are assessed against their compliance with it. Introducing such measurement into employee review processes, and factoring it into remuneration and promotion decisions, will ensure that individuals are aware of their own responsibilities. Different compliance structures are also needed when applying the policy to suppliers and customers.

Policy Implementation

- **Communication** – Clear communication of human rights policies to all affected parties is essential in order for them to be effective. Communicating the policies externally to other stakeholders will also help to increase credibility (particularly amongst institutional shareholders) and divert criticism (specifically from NGOs and the media).
- **Training** – Employee training should include a two-tiered approach involving (1) general training for all employees and, (2) specific in-depth training for groups identified as those likely to be most exposed to human rights issues, for example, credit risk and relationship management. An appropriate, if stretching, target would be to train 100% of risk committee officers, within a twelve month period.
- **Translating policies at the local level** – For policies to work in practice, they may require tailoring to the local context. For instance, where equal opportunities are not recognised at a national level, policies will have to be adapted to reflect these customs while nevertheless upholding the rights of employees.

Policy Review and Maintenance

- **Policy review cycle** – Policies should be subject to periodic review by the Board within a cycle that may change over time. Given the nature of human rights as an emerging issue for the sector, such reviews are likely to be quite frequent in upcoming years.
- **Process review** – Internal audit functions typically encompass a risk-based approach and will incorporate new policies into their audit plan. This can be used to test the effective implementation of the policy and identify specific development needs. In addition, a regular review of all learning and development processes will indicate how effectively resources are being used in developing individual competencies.
- **Maintain intelligence and plan for the future** – Financial institutions need to anticipate new risks. One way to do this is to create early “alerts” or “watch lists”, that signal issues being pursued by various groups, NGOs, analysts, regulators or enforcement agencies. Intelligence will be updated through in-country risk officers, peer and stakeholder dialogue and publications.

Measurement and Reporting

- **Development of key performance indicators (KPIs)** – Internally, financial institutions are assessing the awareness levels of key staff of human rights as a first measure of performance. This is achieved by using internal audit, and adding human rights awareness to the existing risk-based cycle of assessment. There are a number of other indirect and qualitative measures, including adherence to, or endorsement of, specific codes and voluntary principles. These signal broad indications of high-level human rights commitments and provide a basis for assessing how successfully such commitments are being implemented into working practices.

- **External reporting** – This is a very underdeveloped area and clearer industry standards need to emerge. The UN Global Compact encourages signatories to report within their financial statements on how they are supporting the ten principles of the Compact. The Global Compact web site provides examples of reports containing references to the human rights principles (Principles 1 and 2). However, the reporting commentary is discursive, with little in the way of performance monitoring. Meanwhile, the UNEP Finance Initiative is currently developing sustainability management and reporting guidelines for financial institutions. These guidelines are being developed with particular reference to the needs of financial institutions in developing countries and transition economies, and aim for completion at the end of 2004.

These initiatives suggest that good reporting should start with a clear indication of CEO/Board commitment to the promotion and protection of human rights within business operations. An explicit human rights policy should be publicly available and indications given for the time frame for its complete integration into the company. Future reporting against such a timeframe, as well as instances of any non-compliance, is likely to build trust with a broad range of stakeholders.

6.2 What are the benefits?

All of the participants in the study recognised that effective management of human rights issues would bring benefits to their business, not least in terms of risk avoidance, but increasingly as a means of aiding customers to anticipate and manage such risks, and thereby build loyalty and create new avenues for business development. Whilst the nature of these benefits is becoming better understood, they remain largely qualitative, and as such, hard to translate into quantitative measures.

- **Avoidance of bad debts** – An understanding of potential human rights issues was recognised as leading to more thorough due diligence procedures and consequently improved knowledge of the risk profile of loans. As such, mitigating steps can be taken to try to avoid the occurrence of bad debts and ultimately loan default.
- **Opportunities for new business** – While ‘raising the bar’ on clients through the introduction of new due diligence criteria can complicate business relationships, shrewd and tactful engagement with clients can enhance their own long-term viability, thereby positioning the bank as the customer’s valued adviser who shares in its long-term success. This will enhance customer loyalty, generate new business from old customers and lead to the acquisition of new customers.
- **Comprehensive portfolio management** – Integrating human rights related risks into traditional risk management processes was identified as a tool for institutions to better manage and protect their lending and investment portfolios. This is another way of analysing the level of component risk across a portfolio.
- **Litigation risk reduction** – The effective management of human rights was acknowledged as reducing an organisation’s exposure to potentially costly litigation on the basis of discrimination claims or complicity in human rights abuses.

- **Brand protection and enhancement** – All participants cited the importance of protecting and enhancing an organisation’s brand and reputation. Not only was avoiding any association with human rights violations seen as essential to maintaining a trustworthy brand, but positively promoting and protecting human rights was increasingly seen as enhancing a company’s brand and reputation. Furthermore, by publicly professing a commitment to upholding human rights, financial services organisations can shield themselves from invitations to participate in projects that do not uphold their standards of human rights and might otherwise harm the brand through association.
- **Positive employee morale** – A reputation for integrity will make a financial institution an attractive employer. In addition, policies and procedures ensuring freedom from discrimination and encouraging diversity were identified as contributing to positive employee morale and the opportunity to recruit talent from the most diverse applicant pool.
- **Improved supply chain management** – High labour standards in an organisation’s employee base and across its supply chain were highlighted as helping to avoid potential operational disruptions and enhancing the quality of products and services. Good supply-chain management will benefit both the internal operations of financial institutions as well as the operations of their customers.
- **Positive stakeholder relations** – Human rights policies and procedures that encourage dialogue and consultation with local communities and active stakeholder groups were seen to enhance an institution’s credibility with these groups as well as reduce the potential for future conflicts on controversial human rights issues. Furthermore, good relationships with key stakeholders can act as an early-warning system informing a financial institution about new issues that could materialise into future business risks.

6.3 What are the challenges?

At this early stage of development, participants identified the key challenges to incorporating human rights into management processes to be related to: making the business case internally in the face of competing pressures for resources and quantifying the results of adopting such an approach.

This gave rise to the following difficulties at each stage of implementation:

- **How to embed a human rights policy?** – All participants noted that human rights policies are still being embedded in organisations and further training would be needed to ensure comprehensive adoption into all management processes. Increasing high level support and operationalising policies were cited as critical next steps.
- **How to disseminate a policy?** – Even where policies were well developed, several participants stressed the challenges of disseminating policies throughout decentralised organisations so that they are actually implemented across high risk business units and geographic areas. A central policy that is only used by Corporate Affairs may result in less than optimal risk management and incur reputational damage, particularly when external communications get ahead of implementation on the ground.

- **How to measure the impact or materiality of human rights?** – Policies outline the principles by which an institution will do business. However, measuring the implementation of these principles, as detailed in Section 5.5, remains a challenge. Current measurement tools tend to be proxy measures reflecting management or training, as there is currently no metric that provides a simple arithmetic description of performance.
- **What to report?** – Stakeholders are interested in both process and outcomes. They want to know how an institution makes decisions and the result of such decisions. Whilst it is straightforward to outline the governance processes underpinning a policy, it may prove difficult to describe the results of such a policy in a way that is not challenged by NGOs and other groups. Under the Company Law Review, the recently announced changes to the UK Companies Act, including the implementation of a mandatory Operating & Financial Review², may provide some guidance on how best to meet the needs of these various groups.
- **How to respond to critics?** – Even with robust management systems in place, certain human rights issues may provoke ongoing stakeholder activism that will not be diminished by engagement with these groups. In these instances, institutions will have to develop very clear defences for their decisions.
- **How to remain competitive?** – A few participants expressed concern that active management of human rights issues could result in the loss of business to a competitor with lower standards. However, at the moment, there is little clear evidence that business has moved between institutions as a result of a firm stance on human rights.
- **Where to go for help?** – Some participants felt that governments were moving backwards rather than supporting business and human rights. They emphasised that financial services institutions cannot ‘go it alone’ but require government/IFI/NGO buy-in. The Extractive Industries Transparency Initiative (EITI) was considered an example of the power of partnerships to address local governance issues, in this case corruption. A similar partnership approach may be appropriate for human rights.

² See *Company Law Review details in Appendix 1*

7. Conclusion – What Lies Ahead?

This study started by posing the question “Are human rights relevant to the financial sector?” The answer received from all participants was an indisputable “Yes”. The relevance of human rights issues is further highlighted by the ways in which they can impact financial services institutions and their activities. Awareness is most certainly growing. However, this study also highlights that this is still a very new area for the sector. Whilst human rights issues are being addressed in nascent policies and risk assessment procedures, the sector’s approach is far from comprehensive and remains largely *ad hoc*.

All indications are that financial institutions will have to refine their approach to human rights risk management in the near future. The ongoing migration of foreign direct investment from public to private sector finance institutions will ensure that they are subjected to ever increasing scrutiny from national governments, shareholders and civil society. International finance institutions (IFIs), are looking to introduce new human rights covenants within financing mechanisms and to enforce their compliance monitoring more rigidly. To this end, the IFC is currently reviewing its safeguard policies to include human rights and will require private sector co-financiers to comply with them. Regulators are starting to incorporate human rights issues within their codes and requirements. One example is the latest requirements of the South African Stock Exchange for listed companies to report on their management of HIV/AIDS and their approach to black economic empowerment. Within the UK, the revisions to the Companies Act, incorporating a mandatory Operating and Financial Review, is expected to lead to more detailed reporting on material ethical and community issues – which, for some companies, will include explicit reference to their treatment of human rights issues.

Whilst human rights related risks and pressures are rising, associated opportunities can also be grasped if human rights issues are well understood and managed. As significant business flows continue to shift to emerging economies, a more sophisticated understanding of human rights issues will help forward-thinking financial institutions maintain competitive advantage, reinforce client relationships in the face of competitors and win new customers.

Given these rising pressures and opportunities, financial institutions cannot afford to sit back and ignore human rights issues. There is a need for improvements in training, performance measurement and reporting relating to human rights, to name but a few key areas. It will only be through a pro-active approach to discussing and managing human rights issues that financial institutions will be able to protect themselves fully from such associated risks and grasp the business opportunities that lie ahead.

Appendix I: Frameworks for Addressing Business and Human Rights

Standard	Description	Focus	Sector	Voluntary/ Mandatory	Scope	Number of Signatories	Performance/ Reporting
AA1000	AA1000, launched in November 1999 by the Institute of Social and Ethical Accountability (ISEA), is a Standard for the process of social and ethical accounting, auditing and reporting. It aims to improve accountability and overall performance of organisations by increasing the quality of these processes. AA1000 is principles and process oriented, unlike SA8000 (issues based) or ISO 14001 or ISO 9001/2 (systems based). AA1000 is designed as a 'foundation' and offers a common currency of principles and processes to underpin and therefore provide reassurance on specialised standards. It is also designed to function as a stand-alone quality system/process for managing and communicating social and ethical performance.	Ethical reporting	General	Voluntary	Global	27 (as of August 2004)	Reporting
Association of British Insurers (ABI) Guidelines on Social Ethical & Environmental Reporting	In October 2001 the ABI issued a report 'Investing in Social Responsibility – Risks and Opportunities'. The report contains a variety of case studies around Corporate Social Responsibility and includes disclosure guidelines on social responsibility. In brief, the ABI guidelines recommend companies to disclose in their annual reports whether: <ul style="list-style-type: none"> • The Board has identified and assessed the "significant risks to the company's short and long term value arising from social, environmental and ethical (SEE) matters"; • The Board has received "adequate information to make this assessment" (the training of directors should take into account SEE matters) • The company has in place "effective systems" to manage SEE matters - and if not the Board should provide reasons for their absence. The Guidelines also recommend disclosure of a company's policies and procedures for managing SEE risks and a description of the procedures for verification of SEE disclosure - this is aimed to "achieve a reasonable level of credibility".	Ethical reporting on social environmental & ethical matters	General	Voluntary	UK	> 50% of FTSE100	Reporting

Standard	Description	Focus	Sector	Voluntary/ Mandatory	Scope	Number of Signatories	Performance/ Reporting
Community Reinvestment Act (CRA)	In 1977, the US Congress enacted the CRA to encourage banks and thrifts to help meet the credit needs of their entire communities, including low- and moderate-income neighbourhoods, consistent with safe and sound lending practices. In the CRA, Congress found that: (1) regulated financial institutions are required by law to demonstrate that their deposit facilities serve the convenience and needs of the communities in which they are chartered to do business; (2) the convenience and needs of communities include the need for credit as well as deposit services; and (3) regulated financial institutions have continuing and affirmative obligation[s] to help meet the credit needs of the local communities in which they are chartered.	Community re-investment equal opportunity	Banking	Mandatory	US	N/A	Performance
Company Law Review (CLR)	The Department of Trade and Industry launched the CLR in 1998. Its aim is to produce a framework for undertaking business in the next century with an independent Steering Group to administer the review. The resulting proposals included a mandatory Operating and Financial Review statement (OFR) to be published by companies of significant economic size. The new OFR would also require the following to be covered by directors, so far as is necessary, to achieve its objective: <ul style="list-style-type: none"> • Corporate governance including the group's systems for controlling and focusing the powers of management and securing an effective working relationship between members, directors and senior management. • An account of the company's key relationships with employees, customers, suppliers and others, on which its success depends. • Policies and performance in environmental, community, social, ethical and reputational issues including compliance with relevant laws and regulations. • Receipts from, and returns to, shareholders. 	Corporate Governance, stakeholder engagement	General	Mandatory	UK	UK Listed Companies estimated 1,200	Reporting

Standard	Description	Focus	Sector	Voluntary/ Mandatory	Scope	Number of Signatories	Performance/ Reporting
Dow Jones Sustainability Indexes	The Dow Jones Sustainability World Indexes (DJSI World) are derived from and fully integrated with the Dow Jones Global Indexes. The DJSI World, consists of a composite index and five narrower, specialised indexes excluding companies that generate revenue from alcohol, tobacco, gambling, armaments & firearms or all of these industries. This set of indexes was first published on September 8, 1999.	Sustainability	General	Voluntary	Global	Varies by index	Performance
Equator Principles	ABN Amro, Barclays, Citibank and WestLB, in collaboration with the International Finance Corporation, drafted the “Equator Principles”, under which the banks agree to adopt the IFC's social and environmental rules for sustainable development, which include guidelines on issues ranging from environmental assessment and natural habitats to indigenous peoples and child and forced labour. The move to adopt the principles comes as financial institutions around the world grow increasingly sensitive to the reputational risk from participating in controversial transactions.	Environment, human rights, sustainability	Financial Services	Voluntary	Global	27 (as of August 2004)	Performance
European Convention on Human Rights	The official human rights law established by the Council of Europe in 1950 and a backbone for FSA regulation of human rights. Reaffirms commitment to UDHR, additional rights and commits member-states to confer upon the European Court of Human Rights Competence to give Advisory Opinions.	Human rights	General	Mandatory	Europe	45 countries	Performance
FORGE II: Corporate Social Responsibility - Guidance for the Financial Services Sector	Developed by the ABI, the BBA (British Bankers Association) and 8 financial services institutions, these Guidelines assist the financial services sector in incorporating Corporate Social Responsibility into their business. FORGE II focuses on making the business case for CSR, proper management of CSR activities, and appropriate reporting guidelines. It also looks at best practice to date and identifies scope for future innovation. FORGE II is the sister project to FORGE I which focuses on environmental management and reporting issues.	Corporate Social Responsibility	Financial Services	Voluntary	UK head-quartered banks only	Developed by 8 banks and insurers	Performance/ Reporting

Standard	Description	Focus	Sector	Voluntary/ Mandatory	Scope	Number of Signatories	Performance/ Reporting
FTSE4Good Index	A London-based Index ranking companies based on their social responsibility. To be eligible for inclusion, companies in the starting universe need to meet prescribed standards in three areas: environmental sustainability, upholding and supporting universal human rights, and developing positive relations with stakeholders. Criteria are updated regularly.	Environment, human rights, stakeholder engagement	General	Voluntary	Global	Varies by index	Performance
Global Reporting Initiative (GRI)	GRI promotes international harmonisation in the reporting of corporate environmental, social and economic performance information to enhance responsible decision-making. The GRI incorporates the active participation of corporations, non-governmental organisations, international organisations, business associations, universities, and other stakeholders from around the world. The Guidelines are designed to create a globally accepted common framework for corporate sustainability reporting.	Economic, environment, social impact	General	Voluntary	Global	500 companies claiming to utilise GRI (as of August 2004)	Reporting
SPI 2	SPI 2 is a supplement to the GRI focusing on the financial sector and social performance. It was developed by a group of private international banks to identify key performance indicators related to social performance. SPI 2 looks specifically at social indicators internally and in the supply chain, the social impact of corporate products and services, CSR management, and corporate-community relations.	Social impact	Financial Services	Voluntary	Global	10	Performance/ Reporting

Standard	Description	Focus	Sector	Voluntary/ Mandatory	Scope	Number of Signatories	Performance/ Reporting
UK Human Rights Act 1998	The premier UK legislation related to Human Rights and a backbone of FSA regulation regarding Human Rights and Financial Services. Commits members to the European Convention on Human Rights and operationalises policies and the European Court of Human Rights' jurisdiction over the UK.	Human rights	General	Mandatory	UK	N/A	Performance
ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy & Other Core ILO Conventions	The International Labour Organisation (ILO), is a UN affiliated body that counts most nations as members. The ILO is a tripartite body with official representation from business, government and labour. The Tripartite Declaration establishes principles governing the global operations of multinational companies on issues such as health and safety and non-discrimination. Other ILO conventions cover issues such as child labour, forced labour and freedom of association. ILO conventions become national law when they are ratified or formally approved by national legislatures. They are often used as the basis for many corporate codes of conduct.	Labour rights	General	Mandatory	National	176 member countries	Performance
London Principles	Developed by the Corporation of London in partnership with DEFRA to guide the financial sector in their role on sustainable development. 7 Principles for financing sustainable development including: access to finance and risk management products, transparency and corporate governance, identifying costs of environmental/social risk in pricing, equity ownership to promote efficient asset use, access to finance for environmentally efficient technologies, promotion of CSR, and provision of financial products and tools to disadvantaged communities and developing economies.	Sustainability	Financial Services	Voluntary	Global	18	Performance

Standard	Description	Focus	Sector	Voluntary/ Mandatory	Scope	Number of Signatories	Performance/ Reporting
OECD Guidelines on Multinational Enterprises (MNEs)	The Guidelines establish norms for multinational enterprises with an aim to ensure MNEs' activities are in harmony with national policies of the countries where they operate and to strengthen mutual confidence between MNEs and government authorities. A broad range of issues are addressed in the guidelines including environment protection, information disclosure and science and technology. Companies are encouraged to disclose their policies on ethical and environmental issues and actively engage with employees and stakeholders. Although the guidelines are not legally binding, OECD-member countries are committed to promoting their observance and are obliged to establish National Contact Points to assist in dealing with issues that arise in the application of the guidelines.	Environment, ethics, stakeholder engagement	General	Voluntary	Global	30 member countries	Performance
UK Pensions Act of 1995	The July 2000 amendment to the 1995 Pensions Act requires pension fund trustees to report to their members the extent to which, if at all, social, environmental and ethical considerations are taken into account in the selection, retention and realisation of investments. Companies are facing increasing pressure to develop public policies in response to inquiries by fund managers. In addition, the amendment has served to raise awareness among pension fund trustees, fund managers and policy members of the potential value of sustainable performance.	Ethics, environment, social impact	Financial Services	Mandatory	UK	N/A	Reporting

Standard	Description	Focus	Sector	Voluntary/ Mandatory	Scope	Number of Signatories	Performance/ Reporting
Social Accountability SA8000	SA800, established by The Council on Economic Priorities Accreditation Agency, is a standard for assessing labour conditions in global manufacturing operations. SA8000 addresses issues including prison labour, wages, child labour, and health and safety, and relies on certified monitors to verify factory compliance with the standard.	Labour rights	Manu- facturing	Voluntary	Global	10	Performance
UN Convention on Biological Diversity	Established at the 1992 Earth Summit in Rio de Janeiro, world leaders agreed on a comprehensive strategy for “sustainable development”. The Convention establishes three main goals: the conservation of biological diversity, the sustainable use of its components, and the fair and equitable sharing of the benefits from the use of genetic resources. It goes beyond direct environmental impact and assesses the impact of biodiversity for poverty alleviation and indigenous people.	Environment, human rights, sustainability	General	Mandatory (where ratified)	Global	168 member countries	Performance
UN Norms on the Responsibilities of Trans- national Corporations and Other Business Enterprises with Regard to Human Rights	The UN Norms were developed by a UN working group to create a new set of international standards for the conduct of private business in the area of human rights. At its April 2004 meeting, the UN Commission decided that the Norms should be part of a broader review of business and human rights, to be conducted by the UN Commissioner, by mid 2005. The year-long review will involve extensive consultation with governments, companies and NGOs in an attempt to reach consensus.	Human rights, labour rights	General	Voluntary	Global	N/A	Performance Reporting

Standard	Description	Focus	Sector	Voluntary/ Mandatory	Scope	Number of Signatories	Performance/ Reporting
UN Global Compact	The Compact, developed by UN Secretary-General Kofi Annan, calls on companies to adhere to human rights as defined in international treaties, as well as core labor standards as defined by the ILO.	Labour rights, human rights, environment & anti-corruption	General	Voluntary	Global	1770 (as of August 2004)	Performance
United Nations Environment Programme Finance Initiative (UNEP FI)	Established in 1992, this initiative covers the integration of environmental and social management into all aspects of financial institutions' products and services. Requires institutions to continually improve in this field and report publicly on their progress.	Environmental, social impact	Financial Services	Voluntary	Global	163 banks 69 insurers (as of August 2004)	Performance Reporting
Universal Declaration of Human Rights (UDHR) & Other UN Treaties	The UDHR, the fundamental human rights benchmark, establishes principles on issues such as equal pay for equal work, equal protection under law, freedom of association, the right to own property, and non-discrimination. The UDHR is the basis of the work of international human rights organisations. Several of the rights established in the UDHR relate specifically to business. Other covenants adopted by the United Nations provide additional human rights standards. The International Covenant on Civil and Political Rights, as well as the International Covenant on Economic, Social and Cultural Rights, elaborate on the principles contained in the Universal Declaration. The Convention on the Rights of the Child is an example of a U.N. convention that focuses on the specific rights enjoyed by a group of people.	Human rights	General	Voluntary	Global	N/A	Performance

Standard	Description	Focus	Sector	Voluntary/ Mandatory	Scope	Number of Signatories	Performance/ Reporting
US/UK Voluntary Principles on Security and Human Rights	Voluntary principles established by the governments of the US, UK, extractive industry companies, NGOs and human rights groups, these principles address the frequent human rights violations that take place at the hands of security forces, often in the employment of private sector companies in the developing world. The Principles directly address risk assessment for companies operating in countries of concern, the relationship between corporations and public/private security forces, the need for local community dialogue and greater due diligence with regard to human rights.	Human rights	General/ focus on extractive industries	Voluntary	Global	No accurate count on companies who have adopted	Performance
World Commission on Dams	Established by the World Bank and the International Union for the Conservation of Nature in 1998, the Commission had a remit to examine the processes by which dams are built. The Commission was made up of representatives from all relevant stakeholder groups agreeing to a set of principles covering social, environmental and economic issues that could impact the success of any infrastructure project. The Commission completed its work with the launch of its final report and disbanded in 2001.	Social impact, environment, economic development	Infrastructure	Voluntary	Global	N/A	Performance
World Summit on Sustainable Development Plan of Development & Type II Partnerships	Non-negotiated partnerships for sustainable development emerged from the World Summit on Sustainable Development in Johannesburg in 2002. They supplement the commitments agreed to by Governments through the inter-governmental process. Type II Partnerships are those between business, governments, and non-governmental Organisation and are based on the Bali Guiding Principles, to address all critical areas of global sustainable development.	Sustainability	General	Voluntary	Global	260 partnerships	Performance

Appendix II: Topics for Discussion with Participants

Human rights impacts in the financial services sector

- Business areas
- Examples

Incorporating human rights into policies

- Drivers
- Alignment with international standards
- Accountability
- Communication

Factoring human rights into sovereign risk assessment

- Areas of operation
- Lending decisions

Factoring human rights into industry / borrower / project risk assessments

- Identification and monitoring
- Involvement of multilateral institutions

Developing competencies for assessing human rights risk

- Internal training
- External consultation

Achieving continuous improvement

- Evaluating outcomes
- Informing policy development
- Key challenges
- Looking to the future

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