Collevecchio Declaration

The role and responsibility of financial institutions

BANKTrack

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Collevecchio Declaration on Financial Institutions

Financial institutions (FIs) such as banks and asset managers can and must play a positive role in advancing environmental and social sustainability. This declaration calls on FIs to embrace six main principles which reflect civil society's expectations of the role and responsibilities of the financial services sector in fostering sustainability. The following civil society organizations call on FIs to embrace the following principles, and take immediate steps to implement them as a way for FIs to retain their social license to operate.

The Role and Responsibility of Financial Institutions

The financial sector's role of facilitating and managing capital is important; and finance, like communications or technology, is not inherently at odds with sustainability.

However, in the current context of globalization, financial institutions (FIs) play key roles in channeling financial flows, creating financial markets and influencing international policies in ways that are too often unaccountable to citizens, and harmful to the environment, human rights, and social equity.

Although the most well-known cases of resource misallocation in the financial sector have been associated with the high tech and telecom bubbles, FIs have played a role in irresponsibly channeling money to unethical companies, corrupt governments, and egregious projects. In the Global South, FIs' increasing role in development finance has meant that FIs bear significant responsibility for international financial crises, and the crushing burden of developing country debt. However, most FIs do not accept responsibility for the environmental and social harm that may be created by their transactions, even though they may be eager to take credit for the economic development and benefits derived from their services. And relatively few FIs, in their role as creditors, analysts, underwriters, advisers, or investors effectively use their power to deliberately channel finance into sustainable enterprises, or encourage their clients to embrace sustainability.

Similarly, the vast majority of FIs do not play a proactive role in creating financial markets that value communities and the environment. As companies FIs concentrate on maximizing shareholder value, while as financiers they seek to maximize profit; this dual role means that FIs have played a key role in creating financial markets that predominantly value short-term returns. These brief time horizons provide strong incentives for companies to put short-term profits before longer-term sustainability goals, such as social stability and ecological health.

Finally, through the work of international public policy bodies such as the Bretton Woods institutions, the power of FIs has increasingly expanded as countries have deregulated, liberalized, and privatized their economies and financial markets. Financial institutions have not only actively promoted these policies and processes, they have benefited from them through increased profit and influence.

In too many cases, FIs unfairly benefit from their power at the expense of communities and the environment. For example, during financial crises, FIs have charged indebted countries high risk premiums while at the same time relying on public bail-outs. They have spoken out against innovative solutions to the debt crisis, such as the sovereign-debt restructuring processes proposed by civil society groups and now being discussed in the International Monetary Fund. And their voice has been absent in efforts to address tax havens, a problem that blocks progress towards equity and sustainability.

As a result, civil society is increasingly questioning FIs' accountability and responsibility, and challenging FIs' social license to operate. As major actors in the global economy, FIs should embrace a commitment to sustainability that reflects best practice from the corporate social responsibility movement, while recognizing that voluntary measures alone are not sufficient, and that they must support regulations that will help the sector advance sustainability.

Commitments to Six Principles

Acknowledging that FIs, like all corporations, exist as creations of society to act in the public interest, FIs should promote the restoration and protection of the environment, and promote universal human rights and social justice. These principles should be inherent in the way that they offer financial products and services, and conduct their businesses.

Finance and commerce has been at the center of a historic detachment between the world's natural resource base, production and consumption. As we reach the boundaries of the ecological limits upon which all commerce relies, the financial sector should take its share of responsibility for reversing the effects this detachment has produced. Thus, an appropriate goal of FIs should be the advancement of environmental protection and social justice rather than solely the maximization of economic growth and/or financial return. To achieve this goal, FIs should embrace the following six principles:

1. Commitment to Sustainability

FIs must expand their missions from ones that prioritize profit maximization to a vision of social and evironmenmental sustainability. A commitment to sustainability would require FIs to fully integrate the consideration of ecological limits, social equity and economic justice into corporate strategies and core business areas (including credit, investing, underwriting, advising), to put sustainability objectives on an equal footing to shareholder maximization and client satisfaction, and to actively strive to finance transactions that promote sustainability.

2. Commitment to 'Do No Harm'

FIs should commit to do no harm by preventing and minimizing the environmentally and/or socially detrimental impacts of their portfolios and their operations. FIs should create policies, procedures and standards based on the Precautionary Principle to minimize environmental and social harm, improve social and environmental conditions where they and their clients operate, and avoid involvement in transactions that undermine sustainability.

3. Commitment to Responsibility

FIs should bear full responsibility for the environmental and social impacts of their transactions. FIs must also pay their full and fair share of the risks they accept and create. This includes financial risks, as well as social and environmental costs that are borne by communities.

4. Commitment to Accountability

FIs must be accountable to their stakeholders, particularly those that are affected by the activities and side effects of companies they finance. Accountability means that stakeholders must have an influential voice in financial decisions that affect the quality of their environments and their lives -- both through ensuring that stakeholders rights are protected by law, and through practices and procedures voluntarily adopted by the FI.

5. Commitment to Transparency

FIs must be transparent to stakeholders, not only through robust, regular and standardized disclosure, but also through being responsive to stakeholder needs for specialized information on FIs' policies, procedures and transactions. Commerical confidentiality should not be used as an excuse deny stakeholders information.

6. Commitment to sustainable markets and governance

FIs should ensure that markets are more capable of fostering sustainability by actively supporting public policy, regulatory and/or market mechanisms which facilitate sustainability and that foster the full cost accounting of social and environmental externalities.

Immediate Steps

Committed FIs can demonstrate their commitment to these six principles by working with civil society to take the following immediate steps:

1. Commitment to Sustainability

a) Measurement of environmental and social impacts

FIs should measure the environmental and social impacts of their portfolios in core business areas, including lending, investing, underwriting and advising.

b) Continuous improvement based on environmental & social impacts of portfolios

Although some FIs embrace the concept of continuously improving their management systems, all FIs must assess the sustainability challenges and issues facing their portfolios; and create objectives, strategies, timetables and performance indicators to increase the sustainability profile of their portfolios.

c) Fostering sustainability

FIs must actively seek to shift their businesses to proactively sustainable practices which improve environmental and social conditions. This might include, for example, reducing the carbon footprint of their portolios by shifting investments from fossil fuel to renewables; or the capitalization of sustainable enterprises. FIs should use their influence to ensure that companies and projects in which they invest or support act in line with best practice. FI should set clear timetables for improving their clients' sustainability performance, and if neccessary, withdraw their support of non-performing clients.

d) Implementation and capacity building

FIs should take all necessary steps to ensure that staff are trained and capacity is built to ensure that sustainability objectives are met and that procedures, policies and standards are implemented. Staff performance reviews and bonuses should be linked to the acheivement of sustainability targets and timetables.

2. Commitment to 'Do No Harm'

a) Sustainability procedures

On the basis of the Precautionary Principle, FIs should create transactions-based procedures that screen and categorize potential deals on the basis of environmental and social sensitivity. Based on a transaction's sensitivity, the FI should perform appropriate levels of due diligence, stakeholder consultation, and assessment. FIs should also create processes for influencing, legally enforcing and monitoring sensitive transactions.

b) Sustainability standards

FIs should adopt internationally recognized, sector-specific, best practice standards that can be the basis for financing or refusing to finance a transaction (e.g. World Commission on Dams guidelines, Forest Stewardship Council standards)

Banks should also establish supplementary sectoral standards with stakeholder input and guidance. Some such standards exist already for the forests sector and others are being developed for other issues/sectors such as Minerals and Dams projects. These standards will vary, but should as a minimum cover issues such as: respect for international conventions, no-go zones, gender equity issues, supply chain issues, human rights, etc.

3. Commitment to Responsibility

a) Bear full responsibility for the impacts of transactions

FIs must pay for their full and fair share of risks that they accept and create. This means FIs should not help engineer country bail-out packages that aggravate the debt burden of developing countries. It also means that FIs should bear full repsonsbility for the environmental and social costs that are created by their transactions but borne by communities. This includes using their influence and resources to address the needs of communities whose livelihoods and ways of life are compromised by the adverse environmental or social impacts of their transactions.

b) Recognize their role in developing country debt crisis

FIs should recognize that the ability of countries to service external debt depends on the maintainance of social and ecological systems, and that developing country debt burdens are socially, environmentally, and economically unsustainable. FIs should refrain from lobbying against innovative solutions to the developing country debt crisis, and support calls for significant debt relief/cancellation.

4. Commitment to Accountability

a) Public Consultation

FIs can advance accountability by consulting civil society groups when creating sustainability policies, objectives, procedures, and standards. FIs should incorporate the views of stakeholders affected by their credit, lending, underwriting or advisory functions. This includes respecting the right of affected communitites to "say no" to a transaction.

b) Stakeholder Rights

FIs must also support regulatory efforts that increase the rights of stakeholders in having a more influential voice in the governance of FIs and their transactions.

5. Commitment to Transparency

a) Corporate Sustainability Reporting

FIs should publish annual sustainabilty reports according to an internationally recognized reporting format supported by civil society. FIs should further include disclosure on the sustainability profile of the FI's portfolio, a breakdown of core business activity by sector and region, and the implementation of the FI's sustinability policies and objectives.

b) Information Disclosure

There should be an assumption in favour of disclosure of information. Particularly for compled transactions, but also for those in the pipeline, FIs should publicly provide information on companies and significant transcations in a timely manner, and not hide behind the excuse of business confidentiality.

6. Commitment to Sustainable Markets and Governance

a) Public policy and regulation

FIs must recognise the role that governments must play in setting the market frameworks within which companies and FIs function. FIs should work to make markets are more capable of fostering sustainability by actively supporting public policy, regulatory or market mechanisms that foster the internalisation of social and environmental externalities.

b) Financial practicesFIs should avoid and discourage inappropriate use of tax havens or currency speculation that are unfair and that create instability. FIs should also strive to make financial decisions based on longer-term time horizons and reward clients that do the same.

Organizational Endorsements

A SEED, Netherlands

Adrian Dominican Sisters, USA

Aid Through Trade, USA

Aksjon Slett U-landsgjelda (SLUG) The Norwegian Campaign for Debt Cancellation, Norway

Alliance for Democracy, Mendocino Coast Chapter, USA

Armenia - Holland "BLUE TULIP" Friendship Union, Armenia

Asociacion Civil Labor, Peru

Association for Accounting and Business Affairs, UK

Associazione Terres des Hommes, Italy

Attac - Italy

Bank Information Center, USA

Bay Area Jubilee Debt Cancellation Coalition, USA

BUND - Friends of the Earth Germany

CalPERRS - California Public Employees for a Responsible Retirement, USA

Campagna per la riforma della Banca mondiale, Italy

Catholic Healthcare West, USA

CEE Bankwatch Network, Czech Republic

Center for Environmental Law and Community Rights Inc., Papua New Guinea

Centro Internazionale Crocevia, Italy

Centro Salvadoreño de Tecnologia Apropiada (Friends of the Earth, El Salvador)

Citizen Works, USA

Community "Atgaja", Lithuania

Co-op America, USA

Cumberland Countians for Peace & Justice

Development VISIONS (DV), Pakistan

Down to Earth: the International Campaign for Ecological Justice in Indonesia, UK

EarthRights International- Thailand

EarthRights International- USA

Ecosouthwest, Bulgaria

Euronatur - European Nature Heritage Fund, Germany

Fair Trade Federation, USA

First Nations Development Institute/First Peoples Worldwide, USA

Forum for Consultation with Civil Society on Structural Adjustment, FOCO

Friends of the Earth Amazonia, Brazil

Friends of the Earth, Australia

Friends of the Earth, Canada

GeoEcoClub "Academica", Bulgaria

Global Exchange, USA

Global Response, USA

Grassroots Globalization Network (GGN), A project of Earth Island Institute, USA

Green Women, Hungary

Greenpeace - Italy

Halifax Initiative (14 groups), Canada

Hnuti DUHA/Friends of the Earth Czech Republic

Indigenous Environmental Network, USA/Canada

Institute for Agriculture and Trade Policy, USA

Instituto Iberamericano de Vigilancia Economica e Social, Brasil

International Group for Grassroots Initiatives, India

International Rivers Network, USA

International Simultaneous Policy Organization

Intersos, Italy

Jersey Attac (Association for the Taxation of Financial Transactions for the Good of the People), Jersey Islands

JoMiJo Foundation, USA

Jubilee USA Network, USA

Legambiente, Italy

Lithuanian Green Movement/Friends of the Earth Lithuania

Milieudefensie, Netherlands

Mineral Policy institute, Australia

Missionary Oblates of Mary Immaculate, USA

MOSOP, Denmark

Netwerk Vlaanderen VZW, Belgium

New York Whale and Dolphin Action League, USA

Nicaragua Center for Community Action, Nicaragua

Nuclear Information and Resource Service, USA

Obed Watershed Association

Ohio Valley Environmental Coalition, USA

Organic Consumers Association

Pakistan Network of Rivers, Dams and People, Pakistan

ParkWatch Action Network, USA

Pesticide Action Network North America (PANNA), USA

Pro Natura - Friends of the Earth Switzerland

Rainforest Action Network, USA

Rivista Solidarieta' Internazionale, Italy

Sierra Club of/du Canada

Sierra Club, USA

Social & Environmental Entrepreneurs (SEE), USA

Southern Neighborhoods Network, USA

Southern Oregon Forest Coalition, USA

Students for a Free Tibet, USA

SustainUS, USA

Swiss Coalition of Development Organizations, Switzerland

The Berne Declaration, Switzerland

The Corner House, UK

The Gaia Trust, UK

The Mauritius Council for Development, Environmental Studies & Conservation (MAUDESCO), Mauritius

The Union of Environmental Protection And Animal Rights, Georgia

TIKKUN Magazine, USA

TIME - Ecoprojects Foundation, USA

U.S Tibet Committee, USA

Uganda Youth Network, Uganda

United Church of Christ Network for Environmental & Economic Responsibility, USA

United for a Fair Economy, USA

Urgewald, Germany

WACAM, Ghana

WarWatch Network, USA

Wildnerness Society, Australia

Women's Eyes on the Multilaterals Campaign, Mexico

World Bank Boycott, Czech Republic

World Wildlife Fund - Italy 10

World Wildlife Fund - United Kingdom

WTO Watch Qld, Australia

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