

Trends in social cohesion, No. 7



## Civil society and new social responsibilities based on ethical foundations



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**Civil society  
and new social responsibilities  
based on ethical foundations**

*The opinions expressed in this work are those of the authors and do not necessarily reflect the official policy of the Council of Europe or of the Secretariat.*

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## FOREWORD

This volume of the “Trends in social cohesion” series contributes to the discussion on issues raised by the new social responsibilities, drawing on the main papers presented and discussed at the October 2002 Forum – “New social responsibility in a globalising world: the role of the state, the market and civil society”, organised by the Council of Europe’s Social Cohesion Development Division (Directorate General of Social Cohesion). While Volume 6 focused more specifically on the new roles of the state in the context of globalisation, this volume now looks at some of the many initiatives taken as part of civil society’s drive to exert an ethical influence on economic decision-making.

The forum’s major conclusion was that social responsibility is a matter of concern to all sections of society. In the face of the challenges posed by globalisation and an increasingly complex socio-economic fabric, the new social demands cannot be met by states alone. Civil society is also called upon to play an increasing role.

This volume sets out four proposals from citizens for ethical public action, which all reflect the same underlying concern: the definition of a publicly shared ethical code. The proposals express an aspiration for new public ethical models and raise a fundamental question: is there a place for market ethics?

The Council of Europe believes that the attitude of citizens as savers and consumers is a crucial factor in the economic decisions and that there is accordingly a place for market ethics. The involvement of citizens in the economy is one of the important themes of its Strategy for Social Cohesion.

The Council of Europe wishes to extend thanks once again to the European Parliament’s Committee for Employment and Social Affairs and the Flemish Ministry for Economy, Foreign Policy, Foreign Trade and Housing, for their contribution to the success of the 2002 Forum.

*Gabriella Battaini-Dragoni*

**Director General of Social Cohesion  
Council of Europe**



## INTRODUCTION

Social responsibility is a matter of concern to all sections of society. In the face of the challenges posed by globalisation and an increasingly complex socio-economic fabric, the new social demands can no longer be met by states alone. Civil society is called upon to play an increasing role. This division of social responsibility between the state and civil society is one of the major conclusions of the forum on this subject held in October 2002, organised by the Council of Europe Social Cohesion Development Division (Directorate General of Social Cohesion).

In order to shed light on the issues raised by this division of responsibility, two volumes of the “Trends in social cohesion” series are devoted to this topic, and draw on the main contributions presented and discussed during the forum. This volume looks at some of the many initiatives taken by civil society as part of its drive to exert an influence in the new context.

These initiatives, involving different players and fields of activity, all reflect the same underlying concern: the definition of a publicly shared ethical code. How can useful reference points be created to guide individual and collective actions in a rapidly changing world? The aim of these initiatives is therefore to draw the attention of citizens and businesses to issues relating to interaction, the sharing of responsibility and guidance in decision-making.

Four proposals and a commentary on the need for ethical public action will be presented here.

The first proposal concerns ethics in finance. The author, Karol Sachs, refers to the problems of financial governance based on experience in France with the *Crédit coopératif*. He describes financial schemes based on public appropriation of the concepts of ethics, sustainable development, social responsibility, solidarity and sharing. He suggests the creation of five European “labels” to guide citizens (savers and consumers) in their choices, based on a series of criteria applied to economic activities. He reviews rating systems, explaining that the major challenge of the ethical and solidarity-based finance market is to convert a significant proportion of savings into loans and investments in sectors recognised as having ethical affiliations. Proper safeguards should be provided to prevent the savings of employees and other savers from being squandered. Consideration is given to the possibility of savers bearing the risk associated with

solidarity-based credit. For this purpose he proposes the creation of a European ratio which would be used to assess loans according to the same five criteria as those applied to savings: that is ethics, sustainable development, socially responsible development, solidarity-based development (particularly with regard to risk-bearing) and sharing of results. He lays down a challenge: if ethical and solidarity-based finance, which is still in its infancy, manages to prove its technical reliability, it can also aim to become an alternative to triumphant capitalist globalisation for those who reject it outright. Between the “pro” and “anti” globalisation camps, he claims that there is room for “equitable globalisation”.

The second proposal relates to the assessment of corporate social and environmental performance. Nicole Notat, its originator, Chair and Managing Director of *Vigeo*, points out that an increasing number of businesses provide information and publish reports on their responsible contribution to sustainable development. The number of rating agencies and bodies involved in the societal analysis of enterprises is also increasing. *Vigeo*, for example, is a company which assesses corporate social and environmental performance and which sets out to produce reliable, rigorous and transparent assessments of enterprises' principles and practice. The company, in which three different shareholder categories are represented, has introduced new corporate-solicited ratings for which the enterprises themselves pay. Its challenge is to contribute towards proving that a firm's overall performance is based not only on economic success but also on social and environmental excellence.

Commenting on criteria for corporate ethical rating, Dominique Danon, Managing Director of a company based in Alsace, France, gives his views on the uses of ethical rating and its limits. He agrees on the need for ethical behaviour based on an individual commitment which integrates a certain notion of the common interest into daily actions.

The third proposal presents the Charter of Commitment of the Committee for the XXth Olympic Winter Games, to be held in Turin in 2006. This charter is intended as a tool for transparent action in the area of sport viewed as a universal human activity. The Turin Organising Committee set out to develop a tool reflecting its own identity and its desire to ensure that the Olympics would not be “the business of a few” but of “benefit for all”. The charter was inspired by some fundamental texts on rights and was drawn up by a values commission including representatives of Amnesty International, the ILO (International Labour Organisation), trade unions, and chambers of commerce, etc. It will lead to the compilation of

a social report on the games, which will assess the committee's ethical and social achievements and define the organisational arrangements and structures required to enhance the social repercussions on the ground. Rinaldo Bontempi, Vice-Chair of the Organising Committee, author and advocate of this charter, also argues that this text should make it possible to avoid entering into agreements with firms guilty of human rights or environmental violations.

The fourth proposal presents another tool for social and economic responsibility: the Charter of Human Responsibilities. It is the outcome of a consultation process organised at the global level within the framework of the Alliance for a Responsible, Plural and United World. The author of this paper, Pierre Calame, Chair of the Charles Léopold Mayer Foundation, stresses the need to renew the "social contract" in order to found a society of responsible players. As he sees it, this is based on a new definition of responsibility reflecting the extent of world interdependence between societies and with the biosphere. A "contract society" at the global level calls for the development of a common ethical foundation, embodied in the Charter of Human Responsibilities. The charter leaves it to each socio-professional sector to adapt its principles to the nature of its responsibility towards society's other players.

These proposals illustrate a characteristic theme of current public debate in democratic societies in Europe and the world over. They highlight the trend towards introducing ethical values into the renewal of the social contract and institution-building. Rating systems, charters, and ethical labels, etc., are initiatives bearing on the principles which govern social relations, behaviour and practical action in our societies, where responsibility transcends the individual dimension and belongs to the public dimension of interaction with the world at large. These initiatives are therefore the expression of the individual and collective pursuit of new public ethical models.

These proposals do, however, raise one fundamental issue: to what extent can ethical principles regulate such complex sectors as those of finance, equitable distribution of resources, services and products, and the balanced use of the biosphere, etc.? In other words, is there a place for market ethics? Can these new proposals create reference points and institutions founded on equity and solidarity?

Europe has a tradition of institutionalising the concept of "solidarity" in the form of the welfare state. State-imposed solidarity has created a shared wisdom which is necessary for socialisation and co-existence. The

welfare state is therefore seen as a “fair institution” based on universal obligations and forms of integration and sharing.

Why is reflection upon new, fair institutions necessary today? The answer lies in the changing socio-economic context of globalisation, where national responses are no longer sufficient. As a result there is an increasingly pressing need to evaluate the efficiency and fairness of the mechanisms whereby resources, goods and services are distributed within the human community at local, national, European and also global level. It is therefore becoming a matter of urgency to extend the ethical debate to the various sectors of the economy, the business world and finance, because a fair society no longer depends solely on the action of the welfare state: it should also be underpinned by institutional and economic relations guided by publicly shared standards of fairness.

The proposed new common reference frameworks (for example ethical codes for businesses and banks, etc.) can thus serve as a guide for promoting an equitable and responsible market and can contribute to globalisation based on justice. The welfare state is no longer the sole criterion for a fair society. The intensive research conducted as part of the emerging movement to make the behaviour and economic action of the market “fair” and equitable now provides another point of reference.

The “voluntary” nature of certain ethical instruments, especially those calling for corporate social responsibility, warrants particular attention here. If the underlying principles (Global Compact, recommendations of the European Commission’s Green Paper: Promoting a European Framework for Corporate Social Responsibility, etc.) are not taken on board and promoted rigorously and with due conviction, responsibility is reduced to superficial declarations incapable of bringing about any concrete change in actions and choices. This can be seen, for example, in the case of businesses which use the concepts of sustainable development and social responsibility in their communications with consumers, while their behaviour remains unchanged.

This dichotomy between form and substance must be overcome in a code of public ethics that gives itself the means to distinguish between mere declarations of intent and objective verification of practices and the resources deployed.

These ideas raise issues relating to the social responsibility of citizens and their commitment as savers (and investors) and as consumers. For example, social responsibility implies not only a commitment based on solidarity

but also acceptance of risks. In his article, Karol Sachs recommends looking for ways of making it easier to convert savings into loans for the more vulnerable groups and for the so-called less profitable sectors (culture and social services).

The attitude of citizens as savers or consumers is thus the final element in determining firms' economic choices. This form of involvement is now the subject of a specific project within the Social Cohesion Development Division and will be dealt with in greater depth in forthcoming volumes of the "Trends in social cohesion" series. The division will be organising a forum in 2004 on the theme of "Ethical and solidarity-based involvement of citizens in the economy". This should lead to the setting up of a European platform of players involved in the fields of ethical finance, fair trade and responsible consumption.



# I – GOVERNANCE OF ETHICAL FINANCE AND SOCIAL COHESION

By Karol Sachs\*

## Introduction

The aim of this report is to lay down certain principles to facilitate the rapid development of ethical finance in Europe.

We consider finance, that is savings, loans and investment, to be a key element in the development of socially responsible sustainable development, in other words of a world where the values of social cohesion and responsibility to future generations take precedence over the search for short-term profit, whatever the cost.

Such views may seem idealistic or at least irrelevant given the prevailing realities since the events of 11 September 2001. To claim that ethical finance is changing, let alone governing, the world would of course be an exaggeration, even totally misleading.

Nevertheless, here and there attempts have been made to achieve some form of reconciliation between finance and development, between ethics and the legitimate search for enrichment that is the driving force of economic development.

Our objective is to identify tools that will enable different interests to understand each other and suitable conditions for the growth of ethical finance in a Europe committed to sustainable development and social

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\* Karol Sachs: staff member at the *Crédit coopératif* headquarters since 1982, head of social and alternative finance activities since their establishment in September 2001. From 1982 to 1988 he worked in the areas of the financing of local authorities and associations. During this period he helped to set up the first two shared savings funds, *Faim and développement* in 1983 and *épargne solidaire* in 1985, the *Innovation et développement* guarantee fund (1986) and the *France active* foundation. In 1990 in Poland he helped to establish the Bank for Socio-Economic Initiatives (BISE) of which *Crédit coopératif* is a shareholder and Karol Sachs the current deputy chair of the supervisory board. He is also chair of the supervisory board of the Polish risk capital company TISE, a member of the supervisory board of SIDI (an investment management company established by the Catholic hunger and development committee (CCFD)) and a member of the supervisory board of the Nord-Pas-de-Calais *Caisse solidaire*. He is also joint-founder and chair of the France-Poland Solidarity Association.

cohesion. Our analysis and proposals are very pragmatic, perhaps because the *Crédit coopératif*<sup>1</sup> has already been practising ethical finance for twenty years. In 1983 it set up the first mutual fund and the first shared fund, *Faim et Développement*. There followed a series of financial institutions, such as *Innovation et Développement*, a flexible mutual guarantee fund, in 1986. *Crédit coopératif* has also been involved in setting up the *Société financière de la Nef* and the *Caisse solidaire du Nord-Pas-de-Calais* in France, savings and loans funds in Mali (*Kafo Jiginew*), the Bank for Socio-Economic Initiatives (BISE) in Poland and, more recently, the European Federation of Ethical and Alternative Banks and Financiers (Febea).

What follows reflects the joint thinking and experience of *Crédit coopératif*'s social and alternative finance department.

## 1. Governance of ethical investments

The last twenty years or more have seen a growing worldwide debate on ethical finance and social responsibility, and more generally the purpose of savings.<sup>2</sup>

The most striking success came in the late 1980s when American savers forced first banks and then other businesses to withdraw from South Africa, thus bringing down the apartheid regime established after the Second World War, which since 1965 had resisted United Nations imposed international sanctions without undue difficulty. Yet concern about what purpose investments are to serve now seems to be confined

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1. *Crédit coopératif* is a co-operative bank whose capital is held by its members-clients. Their representatives sit on a governing board. Its sixty-three agencies across the whole of France distribute all the proceeds and services of the group's establishments. A subsidiary, the Public Buildings and Works Bank (BTP) has thirty-two branches in France and works with undertakings in these sectors. The *Crédit coopératif* group is a federation of thirty-three lending institutions, including *Crédit coopératif* itself, *BTP Banque*, *Crédifrance Factor*, mutual guarantee and micro-finance institutions and the *Crédit maritime mutuel* network.

2. The starting point for this debate in modern times came in the United States in the 1920s, when investors, particularly Quakers, sought to achieve greater compatibility between financial investments and certain moral standards (see Paule de Prémont "Les enjeux éthiques des fonds éthiques" and Percy S. Mistry "Socially responsible investment: a developing country perspective", in *Finance and the common good*, "Responsible investment in Europe", 2001, Financial Monitoring Centre, Geneva).

to a handful of specialists and militants. In France this type of saving only represents about one percent of the total.

Increasing economic globalisation, the somewhat chaotic spawning of pension funds in Europe over the last ten years, and the sometimes excessive and universally demonised influence of their American and Japanese equivalents, have helped to transform the end-purposes of savings and supervision of their use into a major issue for the coming decade.

The subject may be approached in a number of stages. First the relevant notions need to be clarified. We can then go on to identify the *desiderata* for corporate governance. Finally we shall consider how in practice savings can be transformed into ethical investment compatible with sustainable development and the solidarity principle.

### ***Defining the concepts***

We identify four themes applicable to fund managers:<sup>3</sup> ethics, sustainable development, social responsibility and the solidarity principle.<sup>4</sup> A fifth separate issue concerns shared funds. We will look at each of these in turn and try to identify criteria that offer managers clear and operational guidelines.

#### *a. Ethics*

Superficially this seems to be an easy concept to define. In practice the term covers a number of widely varying situations. Ethics may be based on religion, which by definition is more likely to divide than unite savers, or respect for human rights, with all the difficulties that this entails for consensus building.

Certain ethical funds exclude tobacco products, others nuclear energy and the armaments industry. Yet loan stock issued by national energy funds or telecommunication undertakings may also contribute to the development of nuclear energy or modern armaments, which could not exist without telecommunications services. The people of central and

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3. Investment companies and open-ended mutual funds or unit trusts (in France, grouped together under the heading OPCVM), and pension, employee savings and life insurance funds.

4. Excluded from this category are shared returns on investment schemes, which are considered separately but are closely related to other forms of socially responsible investment.

eastern Europe know the price they had to pay in the past for being short of weapons.

In other words there is no lack of examples to demonstrate the inadequacies of ethics as a guiding principle, at least when defined in this way.

However the concept of ethics may be made operational in two complementary ways :

- positively: any manager may select values à la carte. For example if Catholics want to give preference to particular securities according to their ethical principles they can do this by identifying the sectors that reflect these values, while others may prefer to focus on transparency, long-term development or the north-south balance. What is important is to ensure that the ethical values concerned are respected and are not simply a marketing gimmick.
- negatively: a lack of management transparency, manipulation of accounts, failure to disclose information and speculation-based activities (such as arbitrage) would render securities incompatible with ethical fund holding. This would exclude not just Vivendi Universal or Enron but also firms for whom secrecy was an element of governance and who, for example, refused to subscribe to the Global Compact.

### *b. Sustainable development*

Since the term "ethical" – used quite indiscriminately in France – lost its relevance, it has tended to be replaced by the notion of sustainable development, at least as far as employee savings schemes are concerned. The French government has even appointed a state secretary for sustainable development, who is answerable to the minister for ecology and sustainable development. This alone shows that the concept lends itself to some confusion.

If sustainable development is taken to mean a form of development in which social progress takes priority, which takes account of environmental constraints and which meets the necessary conditions for profitability, then very few firms can claim to apply it in practice. For example the major international water treatment undertakings undoubtedly operate for the good of the environment but they supply their product at inflated prices, thus depriving some consumers of a commodity they cannot do without.

Recently it has become the practice to define sustainable development according to a time criterion. Firms with long-term strategies, most of whose employees are on permanent contracts, are considered to satisfy sustainable development principles, in contrast to ones whose management strategy is much more short term and market influenced.

Such an interpretation is very oversimplified and – like the notion of ethics – can very rapidly become devalued.

Nevertheless, we believe that a number of criteria taken in combination may point us in the right direction. For example, firms whose environment-friendly production methods entitle them to use quality labels, such as the French *agriculture biologique*, or the green label for tropical products, and which invest significant sums in scientific research to develop more environmental friendly technologies or show concern for their suppliers' employment conditions, for example by helping small producers to co-operate with each other, can reasonably claim to be compatible with sustainable development principles.

On the other hand firms that do not undertake or support such research, reject any form of dialogue, and refuse to accept social oversight of their activities will not be eligible for such labels.

We can compare, for example, *Shell*, which has commendably made amends for a north sea drilling rig accident a few years ago by entering into dialogue with Greenpeace, and *Total*, which has done nothing to repair the damage caused by the capsizing of the *Erika*. Moreover, the actions of *Total's* managing director, who in February 2002 escaped through a window, rather than meet the employees of *AZF* in Toulouse, cast considerable doubt on its management's credibility, and certainly on the credibility of the Paris stock exchange.

Sustainable development purists would of course argue that any firm producing energy from a fossil fuel should not be entitled to such a label. However, if such an argument were taken as a starting point, the "sustainable development" tag could only be applied to a few environmental sectors such as the renewable energy industry. We believe that a firm that practices long-term and socially responsible management of its non-renewable resources, coupled with research into substitute fuel sources and/or energy saving, can in practice lay claim to a sustainable development label.

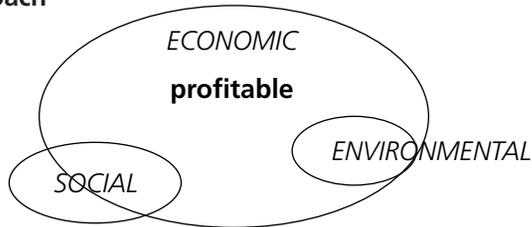
## Sustainable development<sup>5</sup>

The term may be interpreted in a number of ways, but the most frequently used definition appears in the United Nations Brundtland Report (1987): “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”.

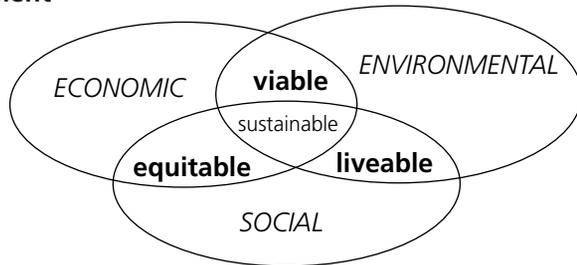
This definition was made operational at the 1992 Rio Conference, which approved “Agenda 21”. This argued that to be viable development had to satisfy three conditions: respect for the environment, social equity and economic efficiency.

Within businesses, this requires management to abide by the so-called “triple bottom line”, in which a balance of environmental, social and economic factors replaces the preponderance of purely financial indicators. It must also adopt a long-term perspective, instead of the short-termism that currently prevails.

### Traditional approach



### Sustainable development approach



Sustainable development only becomes fully operative when all the aforementioned aspects interact.

5. Agora 21 : French sustainable development site : [www.agora21.org](http://www.agora21.org) ; Ceres (Coalition of Environmentally Responsible Economies) : American NGO network : [www.ceres.org](http://www.ceres.org) ; Environnement Québec : [www.menu.gouv.qc.ca](http://www.menu.gouv.qc.ca) ; Diogènes : French NGO concerned with corporate social responsibility : [www.diogenes-ere.org](http://www.diogenes-ere.org)

In practice, some equate sustainable development purely with the environment, and ignore its ethical and social aspects. This is an over-simplification that reflects the fact that ecological activities are more visible and easily measured than the other elements of the triple bottom line.

Other expressions currently used as synonymous with sustainable development are corporate responsibility or citizenship, sustainability policies and societal or global (that is, encompassing environmental, social and economic aspects) reporting.

### c. *Social responsibility*

This may be a more operational criterion than the previous ones. Firms are socially responsible if they maintain close relations with employee representatives, take a close interest in the employment conditions of their suppliers, take account of their impact on the wider community and inform the public of their activities and have this information confirmed as accurate by their auditors.

These criteria exist. They are set out in the European Commission's July 2001 Green Paper: Promoting a European Framework for Corporate Social Responsibility. In most European countries, major companies now have to undergo social audits and, in the last few years, societal audits.

It is certainly possible to rate socially responsible businesses, with the assistance of a series of objectively measurable indicators.

#### **Several initiatives for promoting corporate social responsibility**

"Social responsibility" is taken here in its broad sense, which is synonymous with "sustainable development".

**The Global Compact<sup>6</sup>** was proposed by the Secretary General of the United Nations, Kofi Annan, at the January 1999 World Economic Forum in Davos, and was officially inaugurated by the UN in July 2000.

It embodies nine "universal principles" to which signatory companies must subscribe.

*Human rights:*

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6. [www.unglobalcompact.org](http://www.unglobalcompact.org)

Principle 1 : businesses should support and respect internationally proclaimed human rights ;

Principle 2 : make sure that they and their subsidiaries are not complicit in human rights abuses.

*Labour standards :*

Principle 3 : businesses should uphold freedom of association and effective recognition of the right to collective bargaining ;

Principle 4 : the elimination of all forms of forced and compulsory labour ;

Principle 5 : the effective abolition of child labour ;

Principle 6 : eliminate discrimination in respect of employment and occupation.

*Environment :*

Principle 7 : businesses should support a precautionary approach to environmental challenges ;

Principle 8 : undertake initiatives to promote greater environmental responsibility ;

Principle 9 : encourage the development and diffusion of environmentally friendly technologies.

The Global Compact is not a forum, a code of conduct or a regulatory instrument, but a voluntary initiative to encourage corporate practices compatible with human rights and the environment. In particular, each signatory is expected to tell the other members about initiatives they have developed during the year in one of the relevant areas, with a view to assessing their strengths and limitations.

We believe that commendable as it is, the compact does not allow us to assess levels of corporate citizenship. It does not include any monitoring arrangements or measurement or systems for measurement. However it could be applied by ethical fund managers, using for example a rating system.

**Similar initiatives :**

**Ceres** (Coalition for Environmentally Responsible Economies)<sup>7</sup> is an American initiative similar to the Global Compact. It was established in 1987 and now comprises more than eighty organisations, such as investors and environmental groups, and about seventy business undertakings of all sizes. The members accept the ten Ceres principles and consider issues relating to corporate environmental responsibility. They seek to act as a model for environmental reporting.

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7. [www.ceres.org](http://www.ceres.org)

The ten principles of the Ceres code of conduct are: protection of the biosphere; sustainable use of natural resources; reduction and disposal of waste; energy conservation; risk reduction; safe products and services; environmental restoration; informing the public; management commitment; audits and reports.

Numerous studies can be consulted on the Internet. Ceres has also helped to found the Global Reporting Initiative (GRI).

**Sigma** (Sustainability – Integrated Guidelines for Management)<sup>8</sup> also aims to develop management strategies for sustainability. Stakeholders are invited to take part in and contribute to discussions. One particular concern is how to incorporate sustainability principles into the supply chain.

Sigma has also produced guidelines for global reporting.

Once again the numerous ideas and methods proposed do not include any effective form of effective verification, but they do provide a reservoir of concepts and practices that could help similar organisations.

### **Business Charter for Sustainable Development<sup>9</sup>**

The sixteen-point charter was launched by the International Chamber of Commerce in 1991 to establish a foundation for corporate citizenship. The main headings are:

- corporate priority;
- integrated management;
- process of improvement;
- employee education;
- prior assessment;
- products and services;
- customer advice;
- facilities and operations;
- research;
- precautionary approach;
- contractors and suppliers;
- emergency preparedness;
- transfer of technology;
- contributing to the common effort;
- openness to concerns;
- compliance and reporting.

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8. [www.projectsigma.com](http://www.projectsigma.com)

9. [www.iccwbo.org](http://www.iccwbo.org)

These fairly general principles, on such matters as respect for and consultation with stakeholders and the development of environmentally-compatible processes and products, offer firms an easy-to-use basis for their own environmental management systems (EMS). To date some 2 300 businesses have subscribed to the charter.

#### *d. The solidarity principle*

This is a fairly novel concept for France, where it has been jointly fostered by Laurent Fabius, the author of the most recent employee savings act (the sixth since 1967), and Guy Hascoët, State Secretary for the Social Economy.

Under the legislation, tax incentives are offered to employees (€ 2 300 tax-free per annum) and employers (€ 4 600 per employee per annum) to establish voluntary employee savings plans (PPESV), plus additional benefits if at least 5% of the sums produced are invested in social enterprises, via a special investment fund.

Under the Employee Savings Act of 19 February 2001, social enterprises are undertakings that are not quoted on the stock exchange and fulfil at least one of the following conditions :

- the enterprise employs at least one-third disabled persons, persons receiving the state minimum income (RMI) or the long-term unemployed (at least one year);
- the enterprise is a co-operative, friendly society, association or company whose directors are elected by the employee members or partners and are paid no more than four times the minimum statutory wage (Smic – € 1160) in establishments with fewer than twenty employees or seven times the Smic in larger establishments.

In all cases these undertakings must be formally recognised as social enterprises by the finance ministry.

The *Crédit coopératif*, assisted by the *Fondation de France*, which supplied the initial necessary funding, is trying to implement this concept through the establishment of an investment fund, *Choix solidaire*, at least 5% of whose assets are invested in unquoted shares in social enterprises.

This solidarity-based approach, which may become a label, introduces unquoted securities into employee savings schemes to finance supplementary pensions. It is therefore up to the social, alternative, ethical and environmental sectors to produce transferable securities that will offer a

reasonable rate of return, to enable these savings funds to invest between 8 and 10% of their assets in these sectors. We consider that investing in unquoted securities is a new form of sharing (see shared funds hereafter).

### **Social economy and finance: the French example**

*By Guy Courtois, Economist, Director of Crédit coopératif*

The social economy is concerned not with high finance and corporate enterprise, but with the financing of projects on a human and local scale with a strong social or cultural content.

In some respects the social economy has re-established the co-operative credit systems of the early twentieth century using new tools created by the financial world for an urban society where solidarity is no longer exclusively geographical or occupational.

#### **Defining the social economy**

The term solidarity may have family, occupational or geographical connotations and associated activities may be profit or non-profit making, for the benefit of individuals or the community at large and focus on France or other parts of the world. In its currently accepted meaning it refers to projects or persons working in the collective interest.

According to *Finansol*<sup>10</sup>, to qualify for a solidarity-based or social label, initiatives must be involved in one of the following:

- offering housing or work to persons in difficulty;
- redeveloping deprived areas;
- producing and distributing sustainable goods and services using natural resources economically;
- providing public services or services of value to the community.

This definition based on the type of project is not used in the current legislation, which specifies that social enterprises must have:

- at least one-third of work force who are difficult to employ;
- elected directors;
- salaries subject to statutory limits.

Social enterprises are also taken to include bodies at least 80% of whose assets are made up of securities issued by other social enterprises, or credit

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10. [www.finansol.org](http://www.finansol.org)

establishments, 80% of whose assets are used to support social enterprises. Also included are venture capital companies and venture capital mutual funds (FCPR) whose assets include at least 40% of securities issued by social enterprises, and employees' mutual funds (FCPE) for which social enterprises' or funds' securities or equity make up between 5 and 10% of the assets.

There is a considerable disparity between the two approaches, which view solidarity from the standpoint of, respectively, the types of activity undertaken and the nature of the undertaking. Such a disparity would be unimportant if there were no practical implications, but difficulties arise in the case of tax measures to encourage this form of economy, and the financial machinery, particularly savings institutions, to support it.

### **Social finance**

In a certain number of cases social enterprises are financed by traditional financial institutions and banks. For example ADIE (Association for the development of economic initiative) has concluded agreements with a number of banks, including *Crédit coopératif*, to enable it to carry out its micro-financing activities while the *France active garantie* fund brings together several credit institutions and banks.

However the nature and size of such projects, a lack of guarantees and the relative illiquidity of these enterprises' equity and securities all limit their access to the traditional banking system, particularly when its own funds are being sought, and necessitate the establishment of alternative machinery reflecting the demands of a growing number of citizens who seek a different form of development and want to use some of their savings for that purpose.

*Finansol*, which monitors social finance, draws a distinction between shared saving and social investment.

### **Shared saving**

The subscriber to a financial or banking product foregoes part of the income in favour of an association in the form of a donation.

The first product was created by *Crédit coopératif* and the Catholic hunger and development committee (CCFD), on behalf of the latter and its international investment and development subsidiary (Sidi), to inject capital into economic projects in the countries of the south and other development NGOs. It took the form of a mutual fund that over fifteen years has distributed more than 17 million euros.

Subsequent funds have been established by *Crédit coopératif* and *Epargne Solidaire*, and by other banking institutions, on behalf of humanitarian and

other charitable associations. To date, some twenty such funds have provided overall support amounting to 150 million euros.

During the last four years *Crédit coopératif*:

- has established industrial development accounts (Codevi) and shared savings accounts (the NEF – a co-operative that lends money to social projects – proposes income sharing from deposit accounts);
- has modified the *Faim et développement* (hunger and development) fund to take account of changes in the financial market by introducing three elements: a short-term fund, a three-year fixed-interest fund and a longer-term fund part of whose assets are invested in an ethical investment company, thus uniting the sharing and ethical principles. In the last two elements, share donations have replaced income donations.

Some institutions have also abandoned purchase fees for investment and mutual funds and life insurance contracts.

For recipient organisations the benefit of shared saving arrangements is that they receive a flow of low-cost income each year, since subscribers are remarkably loyal. On the other hand this flow is very dependent on the financial markets and interest rates and can therefore vary significantly from year to year.

### **Social savings and investment**

More and more people who want to contribute to a form of economic development consistent with their aspirations and principles are prepared to invest part of their savings either directly in social enterprises, in the form of loans or capital investments, or indirectly in products of whose transparency they can be sure.

Social investment uses the majority of the available instruments: shareholding in property-based enterprises, such as *Habitat et Humanisme*, and companies like *Autonomie et Solidarité* (the two named were granted social enterprise status on 20 March and 18 April 2002 respectively), venture capital funds, investment clubs (*les Cigales*), OPCVMs (which may hold up to 10% of unquoted stock such as that of the *Fonds Insertion Emploi*), loans, deposit accounts (NEF<sup>11</sup> and *Caisse solidaire du Nord-Pas-de-Calais*<sup>12</sup>), *Crédit coopératif* savings bank accounts (NEF and *Caisse solidaire du*

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11. Nef is a financial institution and a member of the Febea (European Federation of Ethical and Alternative Banks and Financiers). It is about to be granted social enterprise status.

12. *Caisse solidaire du Nord-Pas-de-Calais* is a lending institution and a member of the Febea. It was granted social enterprise status on 14 February 2002.

*Nord-Pas-de-Calais*, *Crédit coopératif* CODEVIs (industrial credit accounts) known as Codesol (*Codevi Solidaire*), *Crédit coopératif* current accounts (NEF), and savings accounts (PEPs) offering longer-term income.

With the exception of shareholdings in the capital of social finance institutions, since the Finance Act 2002 these products no longer enjoy special tax advantages, even though they are often less liquid or receive lower returns than other market-based facilities. *Finansol* is trying to secure special arrangements to take account of this situation and direct more savings towards such schemes.

Although socially responsible companies operate in a largely different world from that of social finance, there are now contacts since certain equity funds reserve part of their assets for investment in the social economy. It is perfectly reasonable for shared saving funds to take account of the financial and social standing of the enterprises in which they invest and ensure that a small part of their holding is in social investments. For example, the *Faim et développement* fund has subscribed to a debenture issue by *Solidar'monde*, which operates in the fair trade sector.

The social savings movement is developing many links with the banking and financial sector, which can offer it technical assistance and know-how, but it must rely on its own resources to expand, at a time when a growing number of citizens want to know how their savings are being used. Such transparency is impossible in increasingly national and even international banking systems.

From a purely economic standpoint there are sufficient funds available globally to finance all the social and alternative credit outlets, but demands for transparency and the need for activism mean that there will still be a place for decentralised institutions close to the citizen. On the other hand although it is generally accepted that there are considerable needs for finance the number of projects offering at least a low or even zero return is unlikely to be limitless. Social investment is concerned with loans and not grants. Any ambiguity in this respect would only serve to discredit social finance and confuse it with the gift economy.

The more or less simultaneous appearance in France of socially responsible quoted companies and social enterprises has led to a degree of confusion. The realities are quite different, even though links are possible. Social enterprises are by definition socially responsible, but socially responsible companies are not necessarily based on the solidarity principle and are not intended to be. Clarification of the social economy concept and the development of socially responsible funds should help each to establish its proper role.

### e. *Sharing*

The concept originated in France nearly twenty years ago when the Catholic hunger and development committee (CCFD) and *Crédit coopératif* established the *Faim et développement* (hunger and development) mutual fund. Subscribers to the fund shared its annual yield with the CCFD. Initially anything earned in excess of inflation was set aside for the CCFD in the form of grants. In 1984, for example, the fund's yield was 14% and inflation 8%, so the grant was equal to 6% of earnings.

Earnings from investment and mutual funds have since diminished, particularly when invested in liquid stock. In France the current capitalisation of such funds is nearly €120 million, of which *Faim et développement* accounts for nearly €50 million.

By launching the mutual fund *Choix solidaire*, *Crédit coopératif* hopes to establish a new generation of shared products. What is shared here is not the yield but the risk of investing in the unquoted shares that will constitute 10% of the assets, more than half of which finance French social enterprises.

The combination of donations and subscribed loans can work well, since unquoted shares in social enterprises can provide funds with an honourable and regular return, which given stock market instability since 11 September 2001 offers this type of placement an element of stability.

The problem for managers – as the only fund of this sort in France<sup>13</sup> has discovered – is the lack of relevant investments to reach the 5% minimum laid down in the legislation to qualify for social status.

Consideration might therefore be given to a fifth category or “label” : that of “sharing”, which would be qualitatively different from the other categories referred to and would concern either risk or yield sharing, or the two together.

Risk sharing particularly relates to so-called social funds. Yield sharing can apply to all types of funds, including paradoxically speculative funds, which in prosperous times generate more income to be shared out. The term sharing makes no assumptions therefore about the ethical nature of the proposed investments.

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13. *Insertion emploi* set up by the *Caisse des dépôts et consignations*.

The degree of sharing can be measured by the following indicators:

- the amount donated as a proportion of fund yield and management costs;
- the frequency of donations (the sum of small but extremely frequent donations may be quite considerable);
- the ratio of management costs devoted to securing donations to total donations.

What distinguishes sharing from the other categories is that there are no elimination tests – any donation is valid, so long as there are no ethically unacceptable implications. The aim of the “sharing” label is to show who shares what and in what proportions. It is therefore easy to apply because it is readily quantifiable.

### **Creating five European labels**

The first benefit of these labels would be that savers (and thus consumers), fund managers and the businesses and local authorities whose securities were purchased would finally know what criteria were used to assess these assets. Fund managers could apply the relevant labels to each fund. There would be nothing to prevent funds from specialising according to just one or two criteria, or alternatively all five. Firms could lay claim to these labels, so that managers need no longer debate which securities to purchase. Each label would have a scale running from say one to five as with financial ratings.

The next stage should be for a particular body to organise a conference where the five labels could be defined and adopted. Subsequent annual conferences would then be the opportunity to assess and modify them, so that each label could evolve over time.

### **A concerted approach to rating securities**

To achieve a certain consistency between these five labels (which might subsequently be extended) a relatively unified approach is required, as in the case of business ratings. A comparative study of European rating agencies<sup>14</sup> shows that their approaches are somewhat varied and make

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14. Eiris, founded in the United Kingdom in 1982 – Arese, founded in France 1997, became Vigeo in 2002 – Ethibel, founded in Belgium in 1992 – Innovest, based in London, New York and Toronto – Deminor, founded in 1990 with offices in Amsterdam, Brussels, Frankfurt, Luxembourg, Paris and Rome.

comparisons between ratings very difficult. This contrasts with financial ratings, where *Standard and Poor's* and *Moody's*, for example, use similar methods. Those concerned should therefore propose and adopt a common approach to assessing firms, as issuers of stocks and shares, and national, regional and local public offerings, and to improving these ratings' reliability.

We believe that setting out the reasons for and the date of recommendations would be a great advance. In practice it is unlikely that a firm operating in the global economy with establishments in several countries could honestly lay claim to one of the five labels without encountering problems along the way, as in the case of Renault at Vilvorde in 1997.

On the other hand companies that have been selected will take great care to maintain the standard of the product or other aspect of their activities for which they have been chosen. It will be a source of legitimate pride to them and they will make every effort to secure other labels or extend existing ones to other products or sites.

Rating agencies should also draw the lessons of the Enron affair and draw their income essentially from consumers, that is, savers – through fund managers using part of the management costs charged to fund holders. This means that instead of competing to reduce management costs savers' representatives should pay more attention to negotiating on the standard of service delivered by fund managers. Businesses that pay their own auditors or rating agencies are well placed financially to persuade them to sacrifice part of their objectivity. Besides firms that can afford to seek a rating or a quality label must already be fairly wealthy and moderately large. Ratings paid for by the business concerned are in themselves a source of inequality in the capital markets.

#### a. *Examples of social rating agencies in Europe*

- *Arese (June 2002) – France*

Arese is an independent commercial undertaking which was set up in July 1997 to assess and rate corporate environmental sustainability. Its shareholders are CDC and *Caisse d'Epargne*, which have since merged.

Arese rates the way firms' management structures incorporate sustainable development into their activities but also monitors them and issues recommendations. It is committed to a long-term approach to economic performance.

Its ratings are based on structural – long-term relationship with stakeholders – and managerial – ability to anticipate change – aspects.

The purpose of recommendations is to inform investors, not to advise particular shares.

The firms that are rated are those quoted on the SBF 120 index plus other Euro Stoxx companies. It also issues sectoral ratings.

Its criteria are :

- links with civil society (sponsorship, combating exclusion, etc.);
- clients and suppliers ;
- human resources ;
- the environment ;
- the shareholders ;
- (since 2002) respect for human rights.

Information sources :

- company documentation : accounts, employment-related and internal reports, etc.;
- questionnaires, discussions, on-site visits ;
- contacts with stakeholders (staff, trade unions, clients, consumers, suppliers, voluntary associations, NGOs) ;
- external documentation (media, studies) ;
- data bases ;
- Internet research ;
- information from Arese's foreign partners ;
- contacts with specialists.

For its ratings, Arese considers each criterion from three standpoints : management/leadership (strategy, policies), deployment (action programmes, given the area of activity and the firm's distinctive features) and results (how far policies are achieved and what performance measures are used).

A rating is then produced for each criterion and overall, from each standpoint.

- *Eiris (Ethical Investment Research Service) – United Kingdom*

Eiris, which has thirty permanent employees, was set up in 1982 as a charity by a group of charities and churches that wanted to put their

principles into practice. It is based in the United Kingdom, with nine international partners, and 75% of British ethical funds use its services. It helps its eighty clients – investors, charities, fund managers and suppliers – to invest in accordance with their personal ethical principles. In particular it carried out a survey of firms doing business with South Africa during the apartheid era. A subsidiary, Eiris Service Ltd, carries and markets its studies. It has researched over 2 500 companies, including all those on the FTSE All World Developed Index plus ones requested by clients, to assess their approach and conduct. These investigations are constantly updated. Its main partner is the Belgian undertaking, Ethibel.

Areas of investigation :

- environmental: companies' environmental impact policies (is there at least an impact reporting system ?) and performance (CO<sub>2</sub> emissions, waste treatment, biodiversity and so on);
- social : corporate behaviour on employee issues, relations with stakeholders (clients, suppliers, the local community) and human rights ;
- management : allocation of responsibilities, codes of ethics (preventing corruption, types of donation authorised), risk policies (social and environmental) ;
- specific ethical areas : research into particular activities (alcohol, arms sales, nuclear, vivisection and so on).

Geographical areas covered: North America, continental Europe, Asia, United Kingdom

Methodology :

- research based on public company documents, surveys, independent sources, including data bases, media information and dialogue with companies (annual surveys) ;
- following data collection, assessment of level and type of involvement, for example in armaments, policies and performance ;
- rating ;
- recording of results on multifunctional software that allows clients to undertake simple or complex interrogations, from rejecting firms linked to the arms industry to identifying ones with a genuine environment policy. Eiris offers clients 350 indicators in 40 research areas.

- *Ethibel – Belgium*

Ethibel has twenty employees speaking eight languages, and was established in 1992 by Wallonian and Flemish NGOs led by *Hefboom* and *Chantier Coopératif*. It is the Belgian leader in this field and covers France for the Siri group, following the withdrawal of Arese. It is non-profit making.

Ethibel covers the following areas:

- internal social policy: strategy, employment, type of work, conditions, labour relations;
- economic and financial policy: potential, risks, clients, shareholders, authorities, suppliers;
- external social policy: social impact, controversial activities, communication with stakeholders, human rights, social investments, developing countries;
- environment policy: strategy, management, production processes, products.

Ethibel organises its results into 22 themes, 64 subjects, 97 indicators and 320 sub-categories. It uses the term fourth generation approach to describe a much greater level of interaction with stakeholders and shareholders.

For its sources it mainly relies on information provided by firms themselves, the media, specialist databases, the Internet and relevant stakeholders such as trade unions, NGOs, consumer groups and human rights associations.

Assessments give rise to three types of rating:

- absolute: relating to the firm or business;
- relative: relating to the sector or region;
- expert: opinion.

This makes it possible to build up a profile of the firm and its rating. The latter is decided by an advisory committee that is independent of the researchers, to ensure that its conclusions are objective. It takes account of the data received, but also of firms' particular circumstances, including their regional and sectoral context. Assessments are updated annually unless problems arise in the meantime. They are completely revised every three years.

- *Innovest*

Innovest is a rating agency with twenty-five analysts based in London, New York and Toronto. It specialises in classifying business corporations by sector.

It investigates the intangible aspects of firms' activities :

- corporate governance, such as strategy ;
- human capital, including recruitment and training policy ;
- products and services, such as their safety standards ;
- emerging markets, including the use of child labour ;
- stakeholder capital, including partnerships and clients.

The agency also takes account of companies' financial risk.

Its methodology comprises :

- data collection, from firms, the state, NGOs and industry ;
- interviews, to obtain specific information on risk and clarifications ;
- a rating matrix ;
- a final rating and comparisons with other firms in the sector.

Model :

- sector study ;
- data collection on the firm (company documents, legal information, studies carried out by third parties such as NGOs) ;
- interviews in the firm ;
- analysis based on the rating matrix with a sector rating ;
- presentation of conclusions to the firm's managers.

- *Deminor*

Deminor was founded in 1990 and has offices in Amsterdam, Brussels, Frankfurt, Luxembourg, Paris and Rome. It advises minority shareholders, provides institutions with ratings on 300 quoted European companies and identifies areas for improvement, in terms of transparency or structural changes.

The Deminor report, which is a sort of quality certificate, is intended to reduce risks for investors, identify well-run companies and support stock market prices.

Its methodology covers a three to six month period and involves collecting information, interviewing top managers, analysing the situation, drawing up an initial profile, rating and report for investors, which the firm concerned has the opportunity to amend, setting a final rating and publicising the report's findings.

Its criteria include respect for shareholders rights and duties, consultation with shareholders, transparent management and structure and effective management.

### **Environmental and social labels and standards**

#### **1. Standards of the International Environmental Management System**

- The ISO 9 000 and 14 000 standards<sup>15</sup>

The ISO 9000 standard has now become a classic and has given rise to the ISO 14 000 EMS (environmental management system) standard. Both are issued by the certifying body, the Geneva-based International Organisation for Standards, which is the network of national standards institutes and has been in operation since 1947.

"ISO 9000: Up to the end of December 2001, at least 510 616 ISO 9 000 certificates had been awarded in 161 countries and economies, an increase of 101 985 certificates (+ 24,96 %) over the end of December 2000."

"Up to the end of 2001, at least 36 765 ISO 14 000 certificates had been awarded in 112 countries or economies, an increase of 13 868 (+ 60,57 %) over the end of December 2000."

This information taken from the ISO website shows that certification in the environmental field is expanding rapidly. It is the most easily quantified aspect of sustainable development. However it must be borne in mind that under the ISO 14000 standard firms cannot be classified according to their precise environmental "score".

- EMAS (Eco-Management and Audit Scheme)<sup>16</sup>

The European Commission established this environmental management scheme in 1995. It was initially confined to industrial undertakings but has since been extended to all companies, public and private.

15. [www.iso.ch](http://www.iso.ch)

16. Established under Council Regulation (EEC) No 1836/93 of 29 June 1993. Website: [europa.eu.int/comm/environment/emas](http://europa.eu.int/comm/environment/emas)

Emas has also been strengthened by the incorporation of the ISO 14 000 standard into its required environmental management system (EMS). The two “labels” are in fact very similar, the only differences being a few conditions governing audit frequency and method and the requirement to publicise certain information concerning the EMS.

Unlike other eco-labels, such as the EU one, Emas does not apply to products or services, but only to the environmental performance of productive processes and production sites.

## **2. Social reporting standards**

- The SA 8 000 standard<sup>17</sup>

SA 8 000 has been developed by SAI (Social Accountability International), an American human rights organisation founded in 1997. It is part of the Council on Economic Priorities (CEP), a pioneering organisation in the sphere of social responsibility that dates back to 1969.

It was the first international and social standard concerned with working conditions and human rights. It is based on ILO principles and is accompanied by a checking and monitoring system, which among other things relies on NGOs to disclose non-compliance with or breaches of the standard.

SAI accredits qualified organisations to verify compliance. Certification is valid for three years and there are checks every six months.

The standard is subject to the same criticism as that applied earlier to ISO 14 000.

- The AA 1 000 standard<sup>18</sup>

This standard was established in 1999 by AccountAbility, a British non-profit making association, to encourage firms to establish systematic accountability practices. It is involved in a number of projects, including GRI and Sigma.

AA 1 000 claims to be the first standard based systematically on the quality of the dialogue with stakeholders, and to be the most effective means so far of bridging the credibility gap in global accounting caused by the multiplicity of measuring and recording methods currently in use. AA 1 000 is therefore based on principles of accounting and reporting to stakeholders whereas GRIs are purely reporting instruments.

The AA 1 000 standard does not lead to accreditation and is therefore strictly speaking not a label.

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17. [www.cepaa.org](http://www.cepaa.org)

18. [www.accountability.org.uk](http://www.accountability.org.uk)

b. *Examples of legal frameworks in the field of social and environmental reporting*

*The French social reporting system*<sup>19</sup>

<b>The social report</b>	<b>The new annual report</b>
<p>Established by Act 77-769 of 12 July 1977, section 3.</p> <p>Date of application: 1979 for undertakings with 750 or more employees; 1982 for undertakings with 300 or more employees.</p> <p><i>Application:</i></p> <p>Undertakings with 300 or more employees.</p> <p>Manager required to prepare an annual social report for submission to the works council.</p> <p><i>Content of social report:</i></p> <p>Must contain the necessary statistical information to assess the undertaking's employment and social performance.</p> <p>Includes information on employment, remuneration and social security charges, health and safety conditions, other working conditions, training, industrial relations and the living conditions of employees and their families to the extent that these conditions depend on the undertaking (extracts from articles L438-1</p>	<p>Established by Act 2001-420 of 15 May 2001 – the New Economic Regulations (NRE) Act.</p> <p>Date of application: 1 January 2001.</p> <p><i>Application:</i></p> <p>Public companies (with stock market quotation).</p> <p>The report of the board or directorate must describe how the company deals with the social and environmental consequences of its activities.</p> <p><i>Content of annual report:</i></p> <p>Total workforce, the organisation of work time, occupational equality between women and men, industrial relations, health and safety conditions, employee training, charitable activities, employment of disabled workers and the extent of subcontracting (particularly subcontractors' compliance with ILO conventions).</p> <p>Also describes the steps taken to deal with the local employment and regional development effects of the</p>

19. *Légi France*: [www.legifrance.gouv.fr](http://www.legifrance.gouv.fr)

<p>and 438-3, section 8, of the Labour Code).</p> <p><i>Comments :</i></p> <p>The aim is to offer a social perspective in terms of human resources and working conditions.</p> <p>The information in the social report is purely internal.</p> <p>As such it is mainly concerned with employer-employee relations.</p>	<p>company's activities (Decree no. 2002-221 of 20 February 2002), and relations with various stakeholders, such as consumers and environmental associations.</p> <p>Foreign subsidiaries must also report on the local impact of their operations.</p> <p><i>Comments :</i></p> <p>The general nature of the approach adopted for this report justifies the use of the term social, in its broadest sense.</p> <p>Firms now have to be aware of the social and environmental consequences of their activities.</p> <p>The report's concern with relations with various internal and external stakeholders, compliance with ILO conventions and respect for the environment all place it firmly in a sustainable development context.</p>
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*The French "Societal" reporting<sup>20</sup>*

The French New Economic Regulations Act of 2001 reflects a ten-year trend in that country largely initiated by the *Centre des Jeunes Acteurs de Économie Sociale* (CJDES) and its current chairman Thierry Jeantet.

Since the early 1990s, the CJDES has been looking for ways of assessing not just firms' compliance with their statutory obligations but also their impact on all their stakeholders. The result was the first general social or "societal" report in 1995.

It serves as a basis for consultation between the various participants and for self-evaluation by companies that are aware of their wider social

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20. CJDES : Presentation, methodology and assessment criteria of the "societal report" : [www.cjdes.org](http://www.cjdes.org)

responsibilities. This constitutes major progress for a country that, unlike its English-speaking counterparts, is little concerned by such issues.<sup>21</sup>

### *European initiatives*

Only a few countries have made the publication of social reports obligatory :

- Denmark : the Danish social affairs ministry has designed a social index. This is a self-evaluation tool leading to a 0 to 100 rating, indicating the extent of firms' compliance with their social responsibilities ;
- Netherlands: certain companies in "at risk" sectors are required to publish environmental reports ;
- Norway : report on working conditions and processes and products with an environmental impact.

In its July 2001 Green Paper : Promoting a European Framework for Corporate Social Responsibility, the European Commission<sup>22</sup> stresses the need to promote sustainable development and the importance of "societal reports", which must not be just a communication tool for companies.

It has adopted a recommendation on the recognition, measurement and disclosure of environmental issues in the annual accounts and annual reports of companies, dated 30 May 2001.

### *Societal reporting models*

#### *The Sustainability reporting guidelines (SRG)<sup>23</sup>*

The guidelines are the foundation stone of the Global Reporting Initiative (GRI), introduced by Ceres (Coalition for Environmentally Responsible Economies) in 1997. The GRI brings together organisations (including NGOs), large corporations and the United Nations, via Unep (United Nations Environment Programme). The aim is to produce a standard method of assessing companies' social and environmental performance and form of social reporting.

The Sustainability Reporting Guidelines include a list of indicators on particular subject areas or themes, such as diversity and added value, or concerned with integrating corporate citizenship aspects into more tradi-

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21. *Cabinet Utopies*: French management consultants on corporate social responsibility: [www.utopies.com](http://www.utopies.com)

22. European Commission Website : [www.europa.eu.int](http://www.europa.eu.int)

23. [www.globalreporting.org](http://www.globalreporting.org)

tional aspects of reporting such as financial and micro and macro-economic data. The guidelines also propose a sustainable development reporting format for presenting and explaining the information contained in the indicators. The format is not immutable. The reports' authors have asked for criticisms and suggestions from the companies that have developed this tool so that it can be improved in the light of experience of its use.

So far, the SRGs appear to have been the most successful approach to standardising social reporting procedures. They are widely referred to and are gradually being adopted by both traditional business enterprises and ethical financial institutions, such as the Triodos Bank and SAM-Sustainability asset management.<sup>24</sup>

Nevertheless they have their limitations. Clearly they encourage greater transparency in sustainable development reporting and permit comparisons through benchmarking, something which is currently badly lacking. However the procedure is also rather cumbersome, making the final product, the reports, relatively unhelpful to fund managers.

In practice the information to emerge from the sustainability reporting guidelines cannot be used directly, but requires considerable analysis before the enterprise concerned can be properly assessed or rated. This task may be entrusted to a specialist rating agency.

The other limitation of the procedure established by the guidelines is that there is no way of checking the information supplied. This may be considered in the future since the authors are aware that this could otherwise lead to a loss of credibility.

### *Other initiatives*

#### *Corporate social responsibility guidelines for the financial sector*<sup>25</sup>

These have been developed by the Forge Group on behalf of the British Department for Environment, Food and Rural Affairs and designed to help financial institutions establish their own system for environmental

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24. The Corporate Environmental and Sustainability Reports: [www.enviroreporting.com](http://www.enviroreporting.com); [www.sustainability-reports.com](http://www.sustainability-reports.com) (Website listing the various social reports produced by numerous companies. The reports can be consulted on-line and there is also up-to-date information on reporting issues). Banque Triodos: [www.triodos.be](http://www.triodos.be); [www.triodos.nl](http://www.triodos.nl); [www.triodos.co.uk](http://www.triodos.co.uk); Sustainability Asset Management: [www.sam-group.com](http://www.sam-group.com)

25. [www.defra.gov.uk](http://www.defra.gov.uk); [www.pwcglobal.com/gx/eng/about/svcs/environment/reports.html](http://www.pwcglobal.com/gx/eng/about/svcs/environment/reports.html)

management and reporting as one aspect of corporate governance. The Forge Group is a consortium of some of the leading British banks, and insurers, assisted by PriceWaterhouseCoopers Global Sustainability Services.

As the project is relatively recent (April 2002), we are unable so far to assess its effectiveness, but the idea of specific financial sector social and environmental reporting machinery is an interesting one.

*Measuring eco-efficiency: a guide for companies to report performance*<sup>26</sup>

Like many other studies and reports on sustainable development this guide was published by the World Business Council for Sustainable Development (WBCSD), in 2000. The council is based in Switzerland and was set up in 1995. It is a coalition of 165 international companies with a shared commitment to sustainable development through eco-efficiency and innovation.

It encourages the achievement of eco-efficiency through the use of standard measurement tools. The environmental indicators in the GRI guidelines have been strongly influenced by the council's work on eco-efficiency.

### **The management of socially responsible savings funds**

These are employee savings schemes and mutual funds, which of course have to be managed like any other savings institutions under the supervision of the stock market authorities. However as well as investing in companies or public stock that qualify for one or more of the five labels they must also meet certain other conditions:

- Savers must also be actively consulted one way or another on the policies adopted by the fund in which they place their savings. The necessary time and effort must be devoted to explaining the choices and how their funds are managed;
- Managers must themselves operate according to a sustainable development framework. Such funds must not be quoted from day to day, and employees must not be allowed to invest in their firm's savings schemes beyond a certain frequency, say once every three or six months. This would avoid the sort of "corporate patriotism" engendered in France Telecom or Vivendi, whose employees could invest in

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26. [www.wbcsd.org](http://www.wbcsd.org)

their savings schemes every month. Their jobs are now at risk and their savings have lost between 70% and 90% of their value.

- These schemes and funds must adopt an active shareholder strategy.

Mutual funds that wish to qualify for one of the first five labels must establish monitoring machinery to ensure that companies in which they hold shares continue to abide by the criteria on which the selection was based (currently only financial monitoring is possible) and enable their managers to take an active part in those companies' general meetings to defend the principles underlying the original investment decisions.

Currently such monitoring is confined to minority shareholders' associations and American pension funds, the former to ensure that all shareholders are treated equally and the latter to defend individuals against institutional shareholders. To the best of our knowledge, Amnesty International is the only body to have adopted this strategy on behalf of human rights.

The governance of ethical investments in the broad sense therefore poses a major challenge. Just as American savers were able to force their companies to abandon South Africa, European savers must be able to direct their savings – the fruit of their labour – into sustainable and social development, with an acceptable degree of security and equity as the guiding principle.

This calls for a concerted approach. The establishment of investment institutions that are overseen by employee organisations and other citizen groupings is likely to reverse, or at least impede, the progress of a form of globalisation based exclusively on capital expansion rather than on fairness and thus sustainability.

We consider it necessary to create an alternative approach to managing employee savings and even to using the stock market for more positive ends.

## **2. Governance of ethical and social lending**

The major challenge facing the ethical and social capital market is how to transform a significant proportion of savings into loans and investments in sectors that satisfy the conditions for ethical labelling, with sufficient protection for employees' and other citizens' savings.

The first objective of such savings is that it be invested to produce wealth, whether a supplementary pension or income, that will help to strengthen social cohesion.

Ethical saving attracts hundreds of thousands (and soon, it is hoped, millions) of savers with a commitment to this objective and three others: respect for the environment, responsibility to future generations and sharing with one's neighbour (a valued shared by monotheistic religions and secular states whose ideals include equality and fraternity). These savers will only be convinced of the value of such an approach if it can be shown that the loans and investments they finance really do correspond to the relevant labels.

If such schemes are to develop to a significant extent there must be a guaranteed rate of return, coupled with a limited and acceptable failure rate. A zero or near-zero failure rate means that loans are only going to the already wealthy.

In practice the proportion of loans going to unconventional or innovatory projects or high-risk groups has declined over the last ten years and will fall a lot further if the Basle II regulations, or so-called McDonough<sup>27</sup> ratio, are applied.

**Strengths and weaknesses of the Basle II agreements  
for social finance institutions<sup>28</sup>**

The so-called Basle II reforms propose new regulations to the international financial community concerning capital requirements. The aim is to encourage banks and financial institutions to improve their risk management and monitoring, rating and reporting procedures. However, despite some interesting innovations, the proposed applications will do little to achieve these aims.

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27. The McDonough ratio will succeed the Cooke ratio, which has been in operation since 1988 but is now being replaced by the Basle Committee on account of its weaknesses. The latter is a prudential management standard to measure banks' (and related establishments') solvability and the level of their commitments (loans, off balance-sheet transactions and so on), in relation to their own resources. The new McDonough ratio is based on three pillars: minimum capital requirements, prudential oversight and reliance on financial disclosure to enhance market discipline.

28. The agreement encompasses three pillars: Pillar 1: minimum capital requirements (the McDonough ratio), which concerns three risk categories: credit risk, market risk, and a completely new concept, operational risk, in which the social risk dimension may be included; Pillar 2: prudential oversight by national supervisors, with stronger reporting and auditing requirements; Pillar 3: financial communication (market discipline), with the requirement to publish information and practise transparency in risk management procedures.

Positive aspects: one of the main innovations of these regulations is that they introduce the notion of operational risk into risk management. This offers a means of incorporating social and environmental risk into overall risk calculations and thus giving full weight to the sustainable development dimension.

Negative aspects: it is generally agreed that the Basle Committee's recommendations on the allocation of own resources will tend to standardise bank risk assessment and rating. This could have two main consequences:

- Greater concentration of the banking sector and increased remoteness from clients: greater uniformity could also lead to a high concentration of financial institutions as a result of increased competition and the need to reduce costs and achieve economies of scale, particularly regarding capital equipment and data processing capacity. This could leave a number of large banking conglomerates competing strongly over the risk profiles described earlier and possibly a few highly specialist niche banks. Such concentration would be at the expense of close contact with clients, on which social finance institutions often lay great stress;
- Excluding certain profiles from access to credit: an implicit consequence of the use of standard models implicitly imposed by regulators is that banks would be forced to follow the same strategies. By giving preference to certain risk profiles – highly profitable clients such as multinationals and low-risk public authorities – they are likely to exclude borrowers such as small and medium sized enterprises (SMEs) and associations with insufficient collateral, or firms whose ratings are deteriorating and are thus denied bank credit as well as the possibility of raising finance from the capital markets.

Despite initial good intentions, therefore, as they stand the Basle II proposals appear incomplete and their application could have undesirable structural effects on the banking and financial systems, and in particular social finance.

The creation of the European Federation of Ethical and Alternative Banks and Financiers (Febea) is a response to changes in the banking sector, which in the interests of profits is making increasing use of scoring, a statistical approach to risk that automatically excludes anything atypical and non-repetitive.

We will not go into the details of the reforms, which, thanks to Germany, the only country whose politicians have really grasped its implications, is the subject of bitter debate between Europe and the United States. Some countries, such as Poland, are already applying Basle II. Briefly the McDonough ratio is designed to maximise returns on shareholders' capital.

The level of capital required, which is a key aspect of profitability, will be closely linked to institutions' investment portfolio ratings and the structuring of their transactions.

As Rizzo has noted :

“Banks will re-examine their client portfolios in the light of a new instrument that compares the profitability of a potential transaction with the capital requirements associated with its intrinsic risk. This approach is radically different from that of net banking income earned from a client.

In a banking environment in which alliances and mergers are reducing competition this new outlook will inevitably lead to a radical change in the conditions governing business financing. The winners will probably be the large conglomerates. Although the latter, which have benefited from disintermediation, are currently suffering from a tightening of capital markets and the temporary drying up of the share market, the new risk assessment procedures should work in their favour. Their high intrinsic ratings, coupled with the right structuring, should limit banks' own capital requirements, thus enabling the latter to maintain tight margins without impinging excessively on their profits.

The larger SMEs, in contrast, which over the years have been much sought after and have benefited greatly from excessive inter-bank competition, are likely to suffer a real cataclysm. Their ratings will reflect their greater risk of default and require a level of banks' own capital commensurate with the risk involved. In the absence of direct access to financial markets the more firmly established could face a significant rise in their financing costs and/or stricter conditions, such as greater collateral. The consequences for the others could be still more dramatic, with a radical tightening of lending conditions, the drying-up of credit lines and the enforced resort to other sources of finance, such as mobilising client portfolios”.<sup>29</sup>

These warnings from a banker show that urgent action is needed with regard to both the ethical aspects of saving and its use in the financial system.<sup>30</sup> The higher the return on investment in companies – and in early 2002 certain pension funds were still demanding a 15% return – and the greater the security required, the less saving will be available to finance medium or small-scale projects or ones where the risk of default is greater than 0.3 or 0.4%.

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29. Extract (translated) from article by Christophe Rizzo (official of Société Générale), “*La Révolution McDonough*” – *Les Echos*, 8 July 2002.

30. The McDonough ratio does not simply have negative aspects. It tries to take account of impact on sustainable development, environmental risk and so on.

Ethical finance thus faces two major challenges. First, if employee and NGO representatives do not change their instructions to fund managers, employee and ethical savings will help to exclude less developed countries and SMEs from the credit market, thus exacerbating economic and social exclusion and rifts. Second, economic and social entrepreneurs must be sufficiently dynamic and responsible to offer viable and attractive projects for such savers to invest in.

This means reinventing and developing techniques based on solidarity and mutualist principles to establish a genuine social credit and – more broadly – finance system.

### **European Federation of Ethical and Alternative Banks and Financiers (Febea)**

#### **Why the Febea ?**

*Strengthening financial institutions that support the social, local and micro economies*

There are many in Europe who are attempting to establish an economic alternative to the market economy and the purely public sector. They include a variety of organisations, including banks, co-operatives and other financial institutions, operating in the context of:

- a general withdrawal of the European banking sector from the local economy, small and medium sized enterprises, social sectors and other parts of the economy that cannot meet ever-increasing requirements for profitability;
- the gradual disappearance of traditional local and people's banks – as formerly represented by savings banks, co-operatives and other public banks – through de-mutualisation, mergers and privatisations;
- difficulties experienced by the state in filling the role abandoned by the commercial banks.

Existing regulations do not help the situation. The new Basle agreements may well leave small businesses and other atypical undertakings, such as service providers and emerging sector businesses, still more isolated from traditional banks.

Over the last fifteen years or so new organisations have emerged in Europe in response to many unmet needs, based on the successful application of local financing to encourage development. The methods used include various forms of lending, including micro-lending and venture capital financed by savers concerned about how their money is spent, and have

helped to create jobs, particularly for the difficult-to-place and promote local development, while maintaining sustainable development.

The Febea is an association under Belgian law whose objectives and federal structure make it particularly appropriate for drawing on local forces while retaining the specific national, regional and local strengths of its members and the other bodies it serves.

#### *Overcoming barriers to access to micro-finance*

One of the weak links in the development of such initiatives is the problem of access to public funds – either directly or through the normal mediating banks – and to large-scale investment funds. There are various reasons:

- differences in scale: local, and even national, bodies cannot offer a sufficient volume of activity to absorb available public or private funds;
- their non-bank status, at least for the most part: the majority of public sector programmes are confined to banks;
- the nature of their activities and their risk profile: as traditional banks have increasingly distanced themselves from local financing operations, their guarantee requirements have become much more stringent.

Various existing organisations therefore decided to come together to form a certain critical mass, to increase their credibility with potential funding sources.

#### *The objectives*

Uniting to create financial instruments to support existing and develop new alternative finance initiatives. This is a very practical objective. Instruments currently (2002) planned include a mutual guarantee fund and a co-operative investment company.

#### *Benefits*

- Febea members offer a series of benefits, particularly as mediators for public funds;
- they act in the public interest using private instruments;
- they offer a local service to target groups who fall outside the scope of traditional banking intermediaries;
- by combining local saving and public funds they offer guaranteed responsibility (high standard of governance) and commitment to their task;
- their specialisation and experience guarantees a high standard of professionalism, with a default rate generally below 1%.

## The Febea Charter:

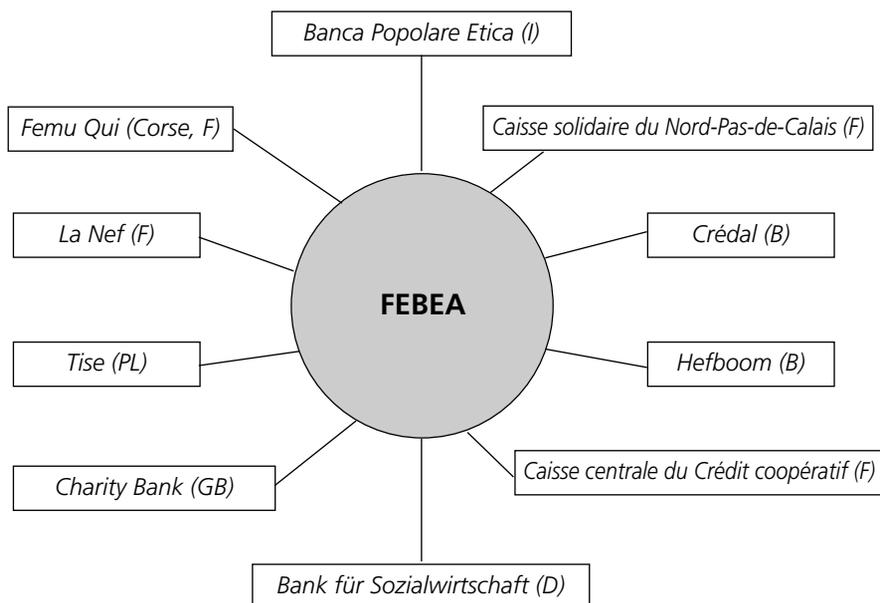
The Febea tries to impart a certain level of consistency in terms of principles and operating methods, particularly through its charter, which affiliated financial organisations are asked to observe. They should:

- have goals that extend beyond the search for profit;
- be politically and economically independent;
- finance economic initiatives concerned with job creation, particularly in the social domain, sustainable development (renewable energy, organic farming and biodiversity) and cultural and ethnic diversity;
- have a capital of at least 1 million euros;
- be headquartered in one of the twenty-five European Union member or future member countries.

However the Febea also aims to serve other financial bodies whose activities or objectives resemble its own but who for whatever reason do not wish to or cannot become members.

The charter also serves as a sort of quality or visibility label that enables private and public sources of finance to identify local, regional and national intermediaries for whom the creation of long-term high quality jobs is a central concern.

## Members (June 2002)



*Banca Popolare Etica – Padua, Italy*<sup>31</sup>

The recently established *Banca Popolare Etica* offers an excellent and successful illustration of all the options associated with alternative finance. It is supervised by the Italian banking regulator and acts as a partner for the social economy, development NGOs, and disability and environmental organisations throughout Italy.

*Bank für Sozialwirtschaft – Cologne, Germany*<sup>32</sup>

The *Bank für Sozialwirtschaft* is a general bank. What distinguishes it from other banks is its clients, which are institutions and organisations in the social economy and the health sector. The bank finances their activities concerned with social exclusion, education, development aid, health and housing and helps to create social employment. It also offers advice on a whole range of financial and management issues. Its capital mainly comes from national welfare organisations (*Wohlfahrtsverbände*) and the bank's employees.

*Caisse solidaire du Nord-Pas-de-Calais – Roubaix, France*

This savings bank was founded four years ago and has branches in other northern French towns and cities. It supports voluntary projects and the social economy in this old industrial region and also finances start-up businesses.

*Crédal – Louvain-La-Neuve, Belgium*<sup>33</sup>

*Crédal* is a co-operative founded fifteen years ago and offers loans and venture capital according to strict social criteria to the entire social economy of French-speaking Belgium. It also offers micro-credit through its MC2 programme to entrepreneurs with no access to traditional bank loans.

*Caisse centrale du Crédit coopératif– Paris, France*

The *Crédit coopératif*, the twenty-fifth largest bank in France, is a co-founder of the Febea. It is the bank of the social economy (co-operatives, producers' co-operatives, mutual associations, insurance associations, works councils, etc.). It is a traditional co-operative bank offering active support to the social economy through social investment and has plans to co-operate with the Febea in establishing a European alternative bank. The fact that it is well regarded by the regulatory authorities makes it a valued intermediary with institutions such as the European Investment Bank.

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31. [www.bancaetica.com](http://www.bancaetica.com)

32. [www.sozialbank.de](http://www.sozialbank.de)

33. [www.credal.be](http://www.credal.be)

*Femu Qui – Bastia, Corsica, France*<sup>34</sup>

*Femu Qui* is a local venture capital company. It takes minority shareholdings in all sectors of the economy to assist business creation, development and transfer. From the outset it has sought to make a practical contribution to Corsica's development through business and job creation financed by local savings schemes and shareholdings.

*Hefboom – Brussels, Belgium*<sup>35</sup>

*Hefboom* provides social enterprises with finance in the form of loans and shareholdings. Its funds come from co-operative society members who wish to support the social economy and fair trade.

*NEF – Villeurbanne, France*<sup>36</sup>

*Nef* aims to invest savings into projects with a primarily social or environmental value. It operates with total transparency as a credit agency legally recognised by the Bank of France. Borrowers may be individual enterprises, such as craftsmen, shop keepers, farmers, members of the professions or artists, voluntary associations or companies, partnerships, co-operatives and so on.

*Charity Bank – Kent, United Kingdom*<sup>37</sup>

This is the most recent of all the institutions referred to here and is mainly concerned with financing charities and social enterprises throughout the United Kingdom. It also acts as a bank for local micro-credits institutions.

*Tise – Warsaw, Poland*<sup>38</sup>

This is a venture capital institution for the creation and development of small and medium sized enterprises as part of the general restructuring of the Polish economy. It is linked to the *Bise* bank, which is involved in social and environmental development.

***Applicants for membership (currently under discussion)***

*Oikokrediet – Netherlands*

*Oikokrediet* is entirely devoted to assisting the south through the financing of micro-credit banks and fair trade.

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34. femuqui.mic.fr

35. www.hefboom.be

36. www.lanef.com

37. www.charitybank.org

38. www.tise.com.pl

*Credit unions – United Kingdom*

The 800 British credit unions are grassroots savings and loans bodies that have existed in Europe since the early twentieth century. In Britain they mainly started in the 1980s and allow local communities and groups to regenerate their local economies.

**The Mutual Guarantee Fund**

This Fund has been developed for the Febea by *Crédit coopératif*.

It was scheduled for the second half of 2002 and would have two sections: A and B.

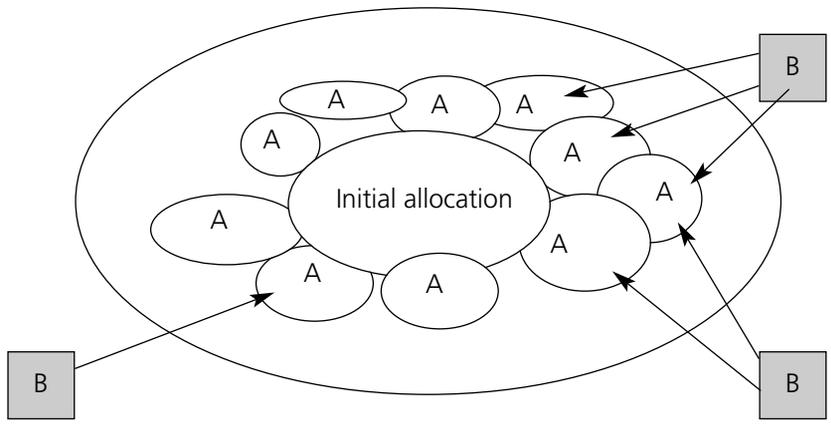
Section A includes non-repayable grants and advances, as well as funds initially loaned by the *Crédit coopératif* central treasury and subscriptions by beneficiaries of the guarantee. Each beneficiary will contribute to the fund a sum that reflects the final risk presented by the subscriber.

Subscriptions to the fund are “mutualised”, in that all concerned are jointly and severally liable for risks. When loans successfully mature subscriptions are returned to beneficiaries, together with their financial remuneration but minus their contribution to defaults covered by the fund, which is *pro rata* to their contribution to section A of the fund.

Section B includes sums lodged by sponsoring bodies that seek to encourage social investment to cover specific projects, regions or themes. These contributions are not mutualised and each sponsoring body is only liable for risks incurred by its particular constituents.

The mutual guarantee system is therefore based on the combined effects of the two risk cover sections.

Deposited sums may be replaced by signed guarantees.



The fund's guarantees are intended to cover as wide a range of sectors as possible, thus increasing the risk spread. Given the differences to be found in the various social economy movements a multi-layered mutual system has been developed to take account of very varied risks.

### ***Sebea Co-operative Society***

Sebea is a co-operative society founded by the European Federation of Ethical and Alternative Banks and Financiers (Febea). Under its statutes the society must :

- foster the development of the European social economy, particularly by establishing a guarantee fund for this sector ;
- establish and develop technical assistance for European ethical and social finance institutions ;
- take shares in existing or proposed European ethical and social lending establishments and other bodies concerned with developing the social economy ;
- offer training, consultancy and advice to the members of existing or proposed European ethical and social lending establishments.

More generally it is expected to draw on the resources and skills of the Febea's constituent organisations for the benefit of all its members.

It will have the status of an open-ended co-operative society, with a directorate and supervisory board. Its initial capital is € 2.5 million.

Its status as a co-operative means that each member will have a vote, whatever its share of the equity. However the statutes also authorise the issuing of non-voting preference shares for organisations that are not Febea members but wish to support a particular project.

The Sebea co-operative is not authorised to receive savings. Its main function is to invest in its members or grant them loans, within the limits laid down by its regulations. The society marks a real turning point for the Febea since it will constitute a joint body that will slowly evolve to reflect its member societies' needs. Over time it will take over the *Crédit coopératif's* activities in partnership with the Febea. It will eventually form the core of a proposed European alternative bank and will offer the latter a firm foundation with a set of fully operational financial instruments.

### **Controlling risk**

Mutualist and ethical principles do not absolve those concerned from assessing risk. Successful schemes with which *Crédit coopératif* has been involved, such as BISE S.A. in Poland or *Kafo Jiginew* in Mali, show that

atypical projects are no more subject to risk so long as three basic conditions are met.

*a. Project design and management*

Project feasibility and design must be the subject of dialogue, within the project's social environment. Whenever *Crédit coopératif* has involved a federation or grouping in a loan decision, and thus at the same time in risk sharing, the failure rate has been less than the national average in that area.

Changes in the banking sector, with the constant pressure on margins, have made it difficult to finance such a participative approach to lending. Someone therefore has to meet the additional costs. In *Banca Popolare Etica's* case this is done by associations and local authorities. With NEF it is the shareholders, who have a negative return on their capital, and savers, who also accept a lower return.

These two experiences, and many others, show that there is room for another ratio alongside, rather than instead of, the McDonough ratio. This would measure the effectiveness of a lending establishment in terms of the level of risk and commitments in a particular sector, rather than its profitability. Return on capital is a secondary concern to co-operative banks and mutual institutions whose members come together to obtain a service. Indeed improved performance should lead to lower borrowing rates (as with *Caisses Desjardins*<sup>39</sup> in Quebec in 1999), or contributions (as with *Maif*<sup>40</sup> in France in 2000).

*b. Follow up*

Following-up a project or undertaking is almost as important as the initial decision, if not more so. In France part of the cost could be met from public sources. An unusual example is provided by the Leclerc supermarket chain, whose statutes require it to assist the creation of distribution outlets, in the form of training and guarantees, so that new shops can be financed from loans rather than own resources.

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39. [www.desjardins.com](http://www.desjardins.com)

40. [www.maif.fr](http://www.maif.fr)

Such a sponsorship system could become a basic principle for any recipient of social credit. There should also be tax incentives for any company or individual with the necessary competence willing to act as a “business angel”. A business sponsorship tax credit for all those that help to create jobs in enterprises with fewer than ten employees, or social enterprises (*entreprises solidaires*) as defined in French law, would be a suitable subject for a committee recommendation to all the countries of Europe.

### *c. Mutual guarantees*

According to the Polish economist Michel Kalecki, banks are institutions that lend money to those that do not need it because they generally require security worth more than the value of the project itself. In Europe co-operative banks’ strength is based on a mutual guarantee system in which solidarity between a large number of members replaces physical collateral, or capital.

Changes in the banking sector, the introduction of the Cooke ration, and now the emergence of the McDonough ratio have relegated well-worn mutual guarantee techniques to a subordinate role. *Crédit coopératif* bases its ethical, alternative and local finance strategy on the development of a multisectoral and multinational mutual guarantee fund – the *garantie solidaire* – under Febea auspices. If guarantee funds are to offer genuine risk coverage they must encompass as many participants as possible and the great majority of sectors covered must have a very low probability of default.

The establishment of a second ratio, either in Basle or by the European Central Bank, would give financial institutions the possibility of opting for one or other of the two ratios when being judged by the market and the supervisory authorities.

#### *Joint solidarity of savers and borrowers*

Ethical and social banks in Europe depend on a sense of solidarity among savers who accept below-par returns on their deposits and taxpayer contributions in the form of subsidies and tax relief. The recipients of such finance should also contribute to this process. We therefore support the principle of shareholding loans, a technique developed by the French co-operative movement, in which the return on the investment comprises fixed and variable elements, the latter depending on the results obtained.

### **3. Employee savings – progress or illusion ?**

If ethical and social finance is to have a significant impact on Europe's economy, in terms of savings and employment, or in other words loans and investment, at least a part of employees' savings in whatever form – pension funds, employee savings schemes, life insurance, group contracts and so on – must be channelled into sustainable and socially responsible development.

The current crisis is once more casting doubt on the wisdom of establishing and maintaining capitalised retirement pension schemes, rather than financing them from taxation, social security contributions or a combination of the two. From a strictly economic standpoint the choice between the two options is neutral, but in any event given current demographic trends the productive part of the economy must finance the unproductive part.

In the interests of social cohesion we believe that some responsibility for intergenerational solidarity should be shouldered by the social partners (unions and management) by encouraging voluntary employee savings schemes managed by persons elected for that purpose (thus making them subject to employee supervision). However a certain number of rules must be established for such a proposal to be justifiable from an ethical and sustainable development standpoint.

The stock market crisis that started in 2001 and was exacerbated by the 11 September attacks highlights the total confusion surrounding the debate on employee savings, capitalised pension schemes and so on.

Imagine, for example, that a country reduces considerably the number of road traffic offences and abolishes traffic policing at the same time as the number of cars on the road increases by ten. The number of accidents will inevitably rise. Does this imply that cars should be banned ? This is unfortunately what has happened to the financial markets.

In the early 1980s in the United States and the United Kingdom free market governments launched the disengagement of the state from the economy and reliance on private finance for its development. To that end in 1981 most of the constraints on employee savings schemes in the United States, such as prudential investment ratios and investment compartments, were abolished and several tax incentives were introduced to encourage employees to subscribe to private schemes.

Continental Europe followed some twelve years later, particularly when it was realised in about 1995 that more than half the assets on the Paris stock exchange were held by American pension funds.

This free market policy had numerous consequences: colossal capital investment in a limited number of shares until the whole machine went off the rails<sup>41</sup>, a frantic search for maximum returns (managers were soon haunted by the nightmare of the return on equity ratio ROE)<sup>42</sup>, stock options for managers, and so on.

It would therefore be reasonable to say that this ruthless and ill-considered deregulation process has had a major impact on provident saving schemes and is at the root of the current financial crisis. However it would be wrong to claim that employee and retirement savings are based on individual schemes since in the United States nearly 70% are managed collectively.

In our view the time is ripe for the reintroduction of a minimum of good sense in fund management, but not the wholesale rejection of at least an element of capitalisation in pension, particular retirement pension, arrangements. Demographic forecasts show that a retirement scheme based entirely on current contributions and taxation would place the necessary deductions beyond the psychological limits for a substantial part of the population.

What is needed is a certain number of statutory safeguards and incentives to channel these savings towards the desired sectors. Employee savings must complement rather than replace pay-as-you-go retirement systems but adopting such an approach could become a factor for progress by offering something more flexible, decentralised and participative than existing systems managed by social partners, who are fairly remote from the citizenry, and the state, which is even more so.

Basic measures might include :

- Forbidding employee savings or pension funds from subscribing to more than a certain percentage of quoted or unquoted shares or of shares in their own company, sector or geographical employment area. Employee savings schemes must give priority to sustainable

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41. Since 1999 admittedly the FED (*Federal Reserve System*) authorities have tried to reduce the pressure on the New York Stock Exchange, but without success.

42. Ration ROE: "Return on Equity"

development rather than profit maximisation. Any financier knows that the higher the return the greater the risk.

Forcing employee savings schemes to invest in quoted companies has led to an enormous mass of money being invested in a very limited number of firms. A return to the pre-1981 Act<sup>43</sup> principles in force in the United States would facilitate the long-term management of investment to the benefit of the economy.

- Introducing European regulations that lay down the percentages to be invested in state, regional and local stocks, housing for rent, financial instruments providing capital for small and medium sized enterprises and quoted companies. One could then speak of positive use of the stock market and financial instruments in the interests of sustainable development and social cohesion.
- Establishing a system that smoothes out the results of investment decisions to ensure that employees' pensions are not adversely affected by particular downturns in the economy. Such a system operated in France to counteract the swings in the petroleum market and still applies to life assurance, which can carry forward operating surpluses to the following financial years.
- Introducing genuine participation into the management system through the election of administrators by employees, and providing them with training (financed, for example, by a specified proportion of fees received) and an allowance for time spent on the job.
- Ensuring that audits and ratings are carried out by independent experts.
- Limiting the size of each employee fund so that employees can exercise genuine oversight. For example, unlike the major co-operative banks and mutual associations, funds such as CalPERS (California Public Employees' Retirement System), which covers 1.3 million employees and is cited as a leading supporter of sustainable development, cannot provide for real elected supervision. Instead these units should remain on a human scale. On the other hand there should be no restrictions on co-operation between funds, for example in the choice of values, which should reduce the cost of ratings.

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43. As result of whose free market provisions the Dow Jones rose from 1300 points in 1983 to 11400 in January 2000, compared with a previous rise of 200 points over ten years.

## Summary of the CalPERS operating principles

CalPERS, the largest California employees' pension fund, operates in accordance with sustainable development principles. In July 2002 it was managing a \$US 105 billion investment portfolio.

### *Financial aspects*

Prudent management: maximise return on investment and minimise risk.

### *Professional responsibility*

Financial assessment takes priority over non-financial considerations. However, CalPERS may encourage firms in which it has invested to become more socially responsible.

It ensures that the board members of firms in which it has invested are socially responsible and take rapid action to rectify any failure to apply these principles.

If a company operates in a country where human rights are abused, CalPERS expects it to take all possible steps to eliminate such practices and help disadvantaged employees and their families to have decent lives.

CalPERS will take account of improved practices.

Where there is disagreement on a criterion, CalPERS may enter into correspondence with a company, organise meetings, propose shareholder resolutions or withdraw its investment.

Basis: the Global Sullivan Principles of Corporate Responsibility:

- encourage economic, social and political justice;
- encourage human rights;
- encourage equal opportunities at all levels of recruitment;
- encourage greater tolerance and understanding among peoples, thereby, helping to improve the quality of life for communities, workers and children with dignity and equality.

CalPERS therefore undertakes to:

- express support for human rights, particularly those of employees, authorities and stakeholders with whom it works;
- promote equal opportunities for employees at all levels of the company; respect its employees' freedom of association;
- enable employees to respond to their basic needs and give them the opportunity to improve their skills to facilitate their social and economic advancement;
- provide a healthy and safe working environment, protect human and environmental health and promote sustainable development, promote

fair competition, by respecting intellectual property rights and rejecting corruption ;

- work with governments and authorities with whom it collaborates to improve the quality of local life ; promote these values among those with whom it works.

Responsible governance :

- directors are responsible to the shareholders and management to the directors. The directors are therefore available to answer shareholders' questions about company strategy ;
- company information must be transparent ;
- all investors, including those abroad, should be treated according to the same one share/one vote principle ;
- proxies must be very clearly drafted so that shareholders know what they are voting for and are encouraged to participate ;
- each market should draw up its own code of conduct and each company should submit it to its shareholders for approval ;
- companies' directors and management should have a long-term strategic vision.

It is difficult to establish rules in the absence of detailed investigations but the following restrictions and incentives might be applied :

<b>Restrictions</b>	<b>Incentives</b>
<ul style="list-style-type: none"> <li>• maximum investment in equity: 35%, of which :               <ul style="list-style-type: none"> <li>– 10% in the company ;</li> <li>– 15% (i.e. 10 + 5%) in the same branch of activity ;</li> </ul> </li> <li>• minimum 15% in liquid assets to smooth out sudden fluctuations ;</li> <li>• funds may not hold more than 5% of the capital of the same company in the same country or 10% across the world, unless it is vouched for by one or more outside bodies ;</li> <li>• in the case of multinationals, at least half the branches abroad should have another auditor ;</li> <li>• requirement to invest a percentage in property and stocks.</li> </ul>	<ul style="list-style-type: none"> <li>• the equity percentage may be increased to 45% if 5% is invested in shares rated at least 4 out of 5 on the sustainable development and social responsibility scales and 5% in the social economy ;</li> <li>• accelerated fiscal depreciation for investments in the purchase of forests, land for organic farming, protected sites, historic buildings and so on ;</li> <li>• tax incentives to employees if funds are invested in the social economy or sustainable development.</li> </ul>

If the rest of Europe is able to draw the consequences from a crisis that currently threatens the future of millions of employees in the United Kingdom and the United States this will already offer some consolation. If the outcome is the rejection of pension funds in favour of taxation and increased contributions the crisis will be doubly damaging and will eventually threaten social cohesion as excessive taxation opens the way to all forms of populist discontent.

## Conclusion

*Is the financing of sustainable development and social cohesion a utopia or an operational reality?*

We consider social finance to be impossible in the absence of a system of social credit. Savers must accept a level of risk for the use of their savings and this must be measured. For example *Crédit coopératif* offers savers a mutual fund called *Choix solidaire*, 10% of whose assets will be invested in unquoted securities. This is a start. In future, this or a successor fund might take 5% of the capital of a mutual guarantee fund so that savers can contribute to risk coverage.

In the case of lending we propose the establishment of a European ratio, under the supervision of the European Central Bank, so that saving and investment can be rated according to the same five criteria or labels, namely ethics, sustainable development, social responsibility, solidarity and sharing. The last named would extend the practice of shareholding loans throughout Europe.

Establishing the same labels for saving and investment will be a decisive step towards making the product of saving traceable, just like industrial and agricultural products.

Ethical, alternative and social finance is still in its infancy. If it can establish its technical reliability, which means controlling risk and intermediation costs, it might become the alternative to triumphant capitalist globalisation for those who reject the latter *en bloc*. But between those who are rigidly "for" or "against" globalisation there is room for a fairer half-way house.

Is finance on behalf of development a pipe dream? In fact it will become a reality, just as the twentieth century co-operative and mutualist movements have shaped Europe's development.



## **APPENDIX 1 – Summary of the European Commission Green Paper: Promoting a European Framework for Corporate Social Responsibility**

Social responsibility encompasses all firms' employees and, more generally, all their stakeholders, who in turn can contribute to their success.

When social responsibility is treated as an investment rather than a cost, companies can have an inclusive financial, commercial and social approach, leading to a long-term strategy minimizing risks linked to uncertainty. Being socially responsible means satisfying legal obligations but also going further and investing more in human capital, the environment and relations with stakeholders. For example, providing additional training can have a direct impact on productivity and improve the management of change.

### **I. Internal dimension of corporate social responsibility**

*Human resources management: attracting and keeping qualified workers*

Examples of measures:

- lifelong learning;
- empowerment of employees;
- better information throughout the company;
- better balance between work, family, and leisure;
- greater work force diversity;
- equal pay and career prospects for women;
- profit sharing and share ownership schemes;
- concern for employability;
- job security;
- active follow up and management of employees who are off work due to disabilities or injuries.

Firms should also adopt responsible recruitment practices to reduce unemployment and combat social exclusion by drawing staff from minorities, the elderly, the long-term unemployed and so on.

*Health and safety*

Health and safety at work has traditionally been approached mainly by means of legislation and enforcement measures but insufficient attention

is often paid to contractors and suppliers. Two complementary approaches should be considered :

- encouraging health and safety in sub-contractors ;
- developing a prevention culture within firms.

### *Adapting to change*

Widespread restructuring raises concerns for all employees and other stakeholders. Socially responsible restructuring means balancing and taking account of the interests of all those concerned by the changes and the associated decisions. As much attention must be paid to the form as the content. The participation and involvement of those affected must be sought through open information and consultation. All the costs – direct and indirect – must be accurately identified and consideration given to all possible ways of reducing the need for redundancies.

### *Managing environmental impact and natural resources*

This generally entails reducing resource use, polluting emissions and waste. It can be good for the business by reducing energy and waste disposal bills, as well as input and de-pollution costs.

## **II. External dimension of corporate social responsibility**

The external dimension concerns persons other than the employees and shareholders, that is business partners and suppliers, customers, public authorities and NGOs representing local communities and the environment.

### *Local communities*

Companies contribute to their communities, especially local communities, by providing jobs, wages and benefits, and tax revenues. On the other hand companies depend on the health, stability, and prosperity of the communities in which they operate. For example, they recruit the majority of their employees from the local labour markets, and therefore have a direct interest in the availability of the skills they need. A good reputation will also make it easier for them to sell their products locally.

Many companies become involved in community causes, by sponsoring events, donating to charities, recruiting socially excluded people, forming local partnerships and so on.

### *Business partners, suppliers and consumers*

By working closely with business partners, companies can reduce complexity and costs and increase quality. Selection of suppliers is not always exclusively through competitive bidding. Establishing alliances and joint enterprises may be equally important. In the long run building relationships may result in fair prices and reasonable terms and expectations along with quality and reliable delivery. The economic welfare of suppliers may depend primarily or entirely on one large company. Some large firms therefore offer :

- mentoring schemes to start-ups and local SMEs, or assistance to smaller firms on social reporting and communication of their corporate social responsibility activities ;
- corporate venturing, in which a large enterprise takes a minority stake in a promising start-up and promotes its development. This offers a better grip on innovative developments for the large company and easier access to financial resources for the small one.

Socially responsible businesses also build lasting relationships with customers by focusing their whole organisation on understanding what the customers need and want and providing them with superior quality, safety, reliability and service.

Applying the principle of design for all (making products and services usable by as many people as possible, including disabled consumers) is an important example of corporate social responsibility.

### *Human rights*

Corporate social responsibility has a strong human rights dimension, particularly in relation to international operations and global supply chains. Under pressure from consumers and NGOs, such firms are establishing codes of good conduct, covering areas like working conditions, human rights and environmental protection. They do so for various reasons, notably to improve their corporate image and reduce the risk of negative consumer reaction. Monitoring, which should involve stakeholders such as public authorities, trade unions and NGOs, is important to secure the credibility of codes of conduct.

## **III. A holistic approach towards corporate social responsibility**

### *Integrated management of social responsibility*

- declaration of principle ;

- action across the organisation, from strategies to day-to-day decisions ;
- adding a social or ecological dimension to programmes and budgets ;
- assessing their performance in these areas ;
- creating “community advisory committees” ;
- carrying out social or environmental audits ;
- setting up continuing education programmes.

### *Social responsibility reporting and auditing*

Despite the Social Accountability 8000 standard and the Global Reporting Initiative, the difficulties of establishing international social standards means they are still controversial.

### *Social and eco-labels*

Consumers are interested in these labels but they often tend to lack transparency and independent verification of their claims. Their growing number is also a source of confusion.

### *Socially responsible investment*

In recent years, socially responsible investing (SRI) has experienced a strong surge in popularity among mainstream investors. They contribute to minimising risks by anticipating and preventing crises that can affect reputation and cause dramatic drops in share prices.

There are several methods :

- excluding sectors of activity ;
- positive criteria, such as socially and environmentally pro-active companies ;
- shareholder activism is expected to increase in line with the importance of corporate governance issues and the development of pension funds.

One problem is the number of requests for information from screening agencies and the lack of transparency in their methods.

There is therefore a need for further standardisation, harmonisation and transparency in the screening tools and measures used by screening agencies.

### *Conclusion :*

The European institutions want to stimulate debate, offer political support and organise information exchanges on this subject.

## **APPENDIX 2 – Summary of the *Guide for social analysis bodies*<sup>44</sup>**

Socially responsible investment (SRI): according to Amy Domini, how we invest determines the sort of world in which we live.

According to the Social Investment Forum there are three aspects to SRI :

- screening : the inclusion or exclusion of corporate securities in investment portfolios based on social or environmental criteria ;
- shareholder advocacy : using voting rights attached to shareholding and presenting resolutions to influence corporate behaviour and make them more responsible ;
- corporate responsibility : ensuring that funds and financial institutions invest in projects and unquoted businesses concerned with such “responsible” areas as renewable energy, organic farming and local development.

### **Background**

In the mid-eighteenth century, John Wesley, the founder of Methodism, criticised those who accumulated wealth through financial speculation and other unwholesome activities. In 1928, American Quakers adopted the notion of “sin stocks” : shares in companies involved in alcohol, tobacco, gambling and pornography. In 1970 nuclear energy was added to the list of proscribed activities. Then in 1982 and up to end of apartheid South African-linked enterprises joined the banned list. Since the 1990s :

- socially responsible investment (SIR) has made growing inroads into pension funds ;
- social investment rating agencies have appeared on the scene ;
- the moral connotations of SIR have been replaced by ecological considerations, and the notions of corporate citizenship and sustainable development. Firms are no longer excluded from consideration but encouraged to improve their internal practices and adopt a more long-term approach to their area of activity ;

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44. ADEME-ORSE-EPE, *Guide des organismes d'analyse sociétale*, ADEME Editions, réf. 4165, November 2001.

- international responsibility indices have been developed in collaboration with the main financial indices (Dow Jones, STOXX and FTSE):
  - 1990, Domini Social Index or DSI 400 (KLD): the most responsible companies in the S&P 500;
  - 1999, Dow Jones Sustainability Global Index (SAM / DJ): global index;
  - 2001, Arese Sustainable Performance Indices or ASPI (Arese / STOXX): Europe;
  - 2001, FTSE4GOOD Indices (EIRIS/FTSE): Europe.

## **Definitions**

Sustainable development: “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (Brundtland Report of the World Commission on Environment and Development, submitted to the United Nations in 1987).

At enterprise level, sustainable development is reflected in the “triple bottom line” :

- environmental: compatibility between the activity and the maintenance of ecosystems;
- social: impact on employees, suppliers, clients, local communities and society in general;
- economic: contribution to the economic development of the local area and its stakeholders and respect for the principles of fair competition.

## **Seven aspects of corporate responsibility**

- ethics: applying ethical principles to investments. This has often been associated with certain filter mechanisms such as religious communities, more recently Islamic investment services have excluded firms involved in pork production and banks and insurance companies, - which grant returns on capital based on interest, - which is proscribed by the Koran;
- environment;
- society;
- corporate citizenship: this principle is well-developed in the United States and based on the notion of community, local and minority.

High priority is accorded to sexual and racial non-discrimination and charitable activities ;

- sustainable development: firms must perform satisfactorily in the three areas of responsibility – social, environmental and economic – particular stress is laid on the long-term impact of business activities and the introduction of management systems to ensure continuing progress and a sustainable strategy ;
- stakeholding : this approach emphasises companies' interaction with all their stakeholders and often overlaps with the sustainable development approach ;
- finance : including social factors in the equation gives a better picture of a firms' real value than purely financial assessments. For example, Innovest will analyse the financial risk for a company linked to its CO<sub>2</sub> emissions.

The methodology and types of service on offer include research, screening, rating and the preparation of selected lists, based on screening or ratings.

## Indices

- DSI 400, launched by the KLD agency<sup>45</sup>  
Its selection is based on ratings and exclusion criteria produced by KLD. New indices have been added, included the LCSi, a sub-set of 730 companies from the Russell 1000 (United States), and the BMSI, with 2200 companies from the Russell 3000.  
The indices exclude firms in a poor financial state or whose shares are worth less than \$5, and the nuclear power and armaments (more than 2% of turnover or turnover of \$ 50 million), and firearms, gambling, alcohol or tobacco (more than 15% of turnover) industries.
- Dow Jones Sustainability Indices (DJSI)<sup>46</sup>  
Ratings and screening carried out by Sustainability Asset Management (SAM). The DJSI World indices track the 2000 firms on the Dow Jones Global Index, and are matched by the DJSI Stoxx indices for European companies.
- Arese Sustainable Performance Indices (ASPI)<sup>47</sup>  
The Eurozone ASPI (Advanced Sustainable Performance Indices)

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45. [www.domini.com](http://www.domini.com) (and [www.kld.com](http://www.kld.com)).

46. [www.sustainability-index.com](http://www.sustainability-index.com)

47. [www.aresse-spi.com](http://www.aresse-spi.com)

were launched in June 2001 in conjunction with the suppliers of the STOXX indices and are the first European corporate responsibility indices. There is also a French equivalent and a world version will soon follow. The STOXX classification comprises eighteen sectors.

Arese selects companies according to its own criteria (civil society, governance, clients and suppliers, health, safety and environment and human resources). Each company is compared with the other firms in its sector according to each criterion and an average of the ratings for the five criteria. Firms with a zero average are automatically excluded and the 50% best performers of those that remain are then selected.

- FTSE4GOOD indices<sup>48</sup>

The FTSE4GOOD was launched by the FTSE (owned by the Financial Times and the London Stock Exchange) in July 2002 and is unusual in that its income from licences goes to Unicef. There are four indices: Global, Europe, United States, United Kingdom.

The information collection and selection procedures are carried out by the EIRIS research institute, using screening criteria identified by the FTSE4GOOD indices committee.

Firms in each category must satisfy certain criteria and/or be evaluated according to a best practice framework, based on firms' progress compared with that of their competitors, their backgrounds, public expectations and the legal context.

Finally it should be noted that environmental impact is easier to measure than social impact, via:

- air and water emissions;
- air gas and soil waste content;
- noise levels.

(Respectively m<sup>3</sup>, tonnes, concentrations and decibels, with the possibility of ISO 14000 certification).

## **Networks of social analysis agencies**

*Siri Group (Sustainable Research International Group)*<sup>49</sup>

- association based in the Netherlands, created in June 2000 by Arese, Triodos Research and Centre Info;

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48. [www.ftse4good.com](http://www.ftse4good.com)

49. [www.sirigroup.org](http://www.sirigroup.org)

- database of 500 harmonised profiles using the Siri Group\* model + 2000 profiles produced by the various members;
- Siri Group members meet every three months.

\* Siri Global Profile describes the following :

- the general company situation ;
- the community ;
- company governance ;
- clients ;
- employees ;
- the environment ;
- suppliers, sub-contractors, partners ;
- involvement in risk-sectors.

Members include Avanzi, Caring Company, Centre Info, *Fundacion Ecologia y Desarrollo*, KLD, MJRA, PIRC, Scoris GmbH, Triodos Research.

*Global Partners for Corporate Responsibility*:<sup>50</sup>

- international network of organisations specialising in corporate and environmental responsibility formed in 1995 ;
- annual four-day meeting ;
- main aims to improve the quantity and quality of research, improve the way it is used (to maximise its impact) and educate the general public.

Members include IMUG, Ethibel, Asahi Shibun Foundation, CRFIB, ODE, EIRIS, CSE, Ethic scan, Avanzi, Caring Company.

*European Corporate Governance Services (ECGS)*<sup>51</sup>

ECGS is a network of independent organisations that have formed an alliance to supply investors with practical assessments of corporate governance and advice on how to vote at general meetings. It covers the firms in the FTSE Eurotop 300, FTSEE 100, CAC 40 and DAX 40 indices.

Members include Proxinvest Sarl, DSW, Caring Company and Centre Info.

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50. No Internet site or official spokesman – see the various members

51. [www.ecsg.org/index.htm](http://www.ecsg.org/index.htm)



## II – ASSESSING CORPORATE SOCIAL AND ENVIRONMENTAL PERFORMANCE

*By Nicole Notat, Managing Director of Vigeo*

### 1. Corporate social and environmental responsibility: a solid trend

The concepts of socially responsible investment and corporate social responsibility have thrust themselves into the public arena. Initially the preserve of a select few, these concepts are now starting to be taken up by economic and business circles.

In just a few years, a wealth of initiatives has sprung up, including:

- the OECD Guidelines for Multinational Enterprises;
- the drawing up of ethics charters and codes of good practice adopted or negotiated by enterprises;
- the ILO Tripartite Declaration on Fundamental Principles and Social Rights; and
- the UN Global Compact.

At European level significant examples include the publication in 2001 of a European Commission Green Paper: Promoting a European framework for Corporate Social Responsibility, which was followed up last year by a Commission Communication.

A recent non-exhaustive guide lists around thirty bodies involved in the societal analysis of enterprises.<sup>52</sup> Today, very few financial managers do not have at least one ethical or socially responsible fund in their portfolio.

Enterprises themselves have caught on, and an increasing number are providing information on these topics and publishing reports on their contribution to sustainable development. In the same vein, the activities of the business sector at the Johannesburg Summit demonstrated its commitment in this area and the importance it attaches to social responsibility concerns.

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52. ADEME-ORSE-EPE, op.cit.

This wealth of initiatives cannot simply be dismissed as a passing fad. They constitute a solid, lasting trend, which is still in its infancy. There is a simple explanation. The globalisation debate has drawn attention to the meaning and impact of economic development, and this has led to an emerging social and citizen awareness on the part of consumers, employees and the various corporate stakeholders that is favourable to sustainable development of the planet and responsible corporate practice. Enterprises are thus increasingly called upon to account for the impact and ethics of their activities.

Another major transformation has changed the existing state of affairs, and that is the new role played by financial markets and the influence of shareholders, whether individual or institutional. Against a background of stock-market crises and financial turmoil – from which lessons need to be learned, particularly in terms of corporate governance and transparency and reliability of information – companies are starting to concentrate more on their long-term performance, taking into account their global, financial, social and environmental performance, knowing that their shareholders will see this as a guarantee of long-term security and profitability.

Institutional investors, especially those with responsibility for managing employee savings schemes – be they pension funds or conventional employee savings schemes – are particularly interested in this approach, the benefit of which would appear to be confirmed by recent stock-market failings. Investors will increasingly resort to socially responsible investment as it becomes clear that SRI funds are just as profitable as others.

There is an increasing need, both for enterprises and their various stakeholders, for reliable, rigorous and transparent assessment of enterprises' principles and practice in this area.

Vigeo – a company for the assessment of corporate social and environmental performance – was set up to do just that.

## **2. An innovative approach**

Vigeo was set up with the aim of becoming a European reference for the assessment of corporate profits and social and environmental practice at international level. The agency's status, the distribution of its equity capital and the methodology it intends to develop will help to achieve this.

Vigeo is a limited company whose equity capital is distributed among all its shareholders – European enterprises, investors and trade union confederations. The rules governing equity distribution – there is no majority shareholder group and no single enterprise has more than 2% of the equity – means that none of the shareholders can wield influence and thereby jeopardise the project's independence and objectivity.

Vigeo's independence, combined with its professionalism, ensure its credibility *vis-à-vis* the different players, since they guarantee the agency's high professional standards. A scientific committee will ensure the objectivity and quality of the methodology and assessment. Company assessments will not constitute sanctions, much less arbitrary judgments. They will be based on objective criteria, expressed in quantitative and qualitative, normative and relative indicators, which measure immediate results as well as observed and anticipated trends.

Enterprises that so wish will be assessed by the agency, for which they will pay a fee. In return they will gain improved knowledge of the realities of their business and of their strong and weak points, enabling them to make any necessary corrections and adjustments.

Investors need to be assured that the commitments undertaken by enterprises are respected, and that they are effective. Vigeo's role is to provide, and to be able to back up, this assurance. For a fee, investors can be provided with Vigeo's detailed company assessments, enabling them to adapt their investment policy to their preferences in the area of sustainable development.

Vigeo's expectation is that an increasing number of enterprises will wish to be assessed and given an SRI grading, and that the agency – through the quality and relevance of its services – will be able to meet this demand.

By virtue of its ownership structure, which represents three different shareholder categories, and the specific methodology it is to develop, Vigeo offers services going beyond those currently on offer in the area of corporate social rating. It will continue the work carried out thus far by ARESE in the area of investor-solicited ratings, but will introduce new corporate-solicited ratings, for which the companies themselves pay.

In this way, Vigeo aims to show that economic success and social and environmental excellence are both factors in corporate global performance and have a role to play in giving concrete expression to the European development model.



### III – COMMENTS ON CRITERIA FOR CORPORATE ETHICAL RATING

*By Dominique Danon, Managing Director, Alsatel, Strasbourg*

“I would first like to make it clear that I am speaking with my citizen’s hat on – in other words, what I am about to say is my personal view only – and that I manage an SME.

I will try to, firstly, define my view of ethics, then try to identify targets and possible criteria and, finally look at the uses of ethical rating and identify its limits.”

#### 1. My view of ethics

If one person’s freedom ends where another’s begins we can say that ethics is, quite simply, about not doing to others what we would not wish them to do to us, or, more positively speaking, to consider others as we would wish to be considered ourselves.

Ethical behaviour is the opposite of the adage “the end justifies the means” ; it is about acting the right way at a given time in a given situation.

Ethics, or morality, is governed by subjective criteria: is it fine, is it true, is it good? These questions must form the basis of any tool used to measure corporate economic activity.

Ethical behaviour starts with oneself: an enterprise is a legal entity, but is constituted and managed by men and women.

Ethics is also a matter of basic honesty and the creation of a relationship based on trust – a long-term gamble with the potential for great rewards.

Ethics is a duty, and, as Pierre Calame put it, “law isolates, duty integrates”.

#### 2. Targets and criteria

Compliance with ethical criteria can be measured for all the players with which an enterprise deals:

- the physical environment: the management of polluting waste in industry and agriculture, and the recycling of consumable products

are major challenges. ISO standards and international agencies are trying to establish rules, but their application is difficult to enforce. The French food labels used to designate organic or high-quality produce (“label bio” and “label rouge”, respectively) show the extent to which quality is starting to be taken seriously;

- customers and suppliers: there is a lot of talk about the need to respect customers and about the concept of partnership, but it is hard to define exactly what is meant. What can be measured, and how? The following are some examples:

- responsiveness in the event of a problem;
- provision of clear information on commitments and compliance with commitments;
- fair (but not necessarily equal) treatment, particularly regarding terms of payment and pricing levels;
- taking into account others’ constraints, without exploiting a dominant position and while fostering ethical behaviour;
- openness to dialogue, possibly involving the study of lawsuits that have been won or lost;

- employees: the staff may be a company’s greatest asset, but the objectives of either side may appear to be contradictory: stability versus flexibility, maximisation of salaries versus maximisation of profits. Everyone looks after their own interests. Possible criteria are:

- the importance of individual development; the types of training provided in the company and to whom. Particular attention could be paid to the place of poorly qualified staff in the hierarchy;
- salary range: in an article published in *Le Monde* on 8 January 2000, Peter Drucker stated: “thirty years ago the highest salary in a company was 20 times higher than the average salary in the same company. Now it is nearly 200 times higher. This is extremely dangerous.”;
- stability of managerial teams: it takes time to apprehend problems, provide solutions and see how they evolve, and to oversee a project from inception through to implementation, then adapt it. It also takes time to establish a relationship of trust with all the company’s partners;

- shareholders: for companies quoted on the stock exchange, to act in a “true” manner, and not yield to the temptation to promise the moon: it is impossible to show positive results only and to continu-

ally expand. The quality of documents shown to shareholders can be analysed, and claims checked against reality. For companies not quoted on the stock exchange, the shareholder is often the manager: it is therefore up to him or her to instil these values;

- the state, regulatory texts: compliance with regulatory texts can be measured by the number of recorded breaches. But the state itself has to be “ethical” by taking into account as far as possible the general interest, guaranteeing a certain stability of the regulatory environment, publishing clear, applicable rules and enforcing their application.

### **3. The uses and limitations of ethical rating**

The uses :

- express the expectations of certain consumers, investors or shareholders and enable their voices to be heard ;
- show that ethical behaviour is “profitable” ;
- in this way, encourage companies to adjust their behaviour in accordance with factors other than simply the maximisation of short-term profits ;
- encourage, in the debates required to establish these criteria, discussion and awareness of the contradictions between the expectations of the different actors ;
- promote the greatest possible adherence to these values to ensure the reciprocal ethical behaviour of other players.

The limitations :

- excessively strict criteria are not economically viable in a world of increasing competition ;
- the “tyranny” of an ultra-protectionist view of those defined as weak ; worship of power and money being replaced by worship of nature ;
- a certain naivety serving the interests of those who have a different definition of ethics and who can find excuses for not complying with their commitments or for exploiting a dominant position ;
- cultural differences between countries : negotiation, membership of a group and the extent to which ambiguity is acceptable are not all perceived in the same way.

## Conclusion

The quest for ethical behaviour, difficult as it is, is essential. It involves treading a very fine line to achieve a constantly shifting balance between the short- and long-term; in other words between a “fox let loose in a chicken coop” situation, at one end of the spectrum, and protectionism at any price at the other. The search for this balance should be based on widespread common values, which individuals apply to themselves. We need to find the lowest common denominator, expand it, and accept differences between countries and cultures.

Moreover, capitalism is based on compliance with strict rules that enable a commercial activity to be developed. Ethical rating enables these rules to be spelled out and, I hope, certain excesses to be curbed.

Only through individual commitment progress will be possible; in other words, if we manage to integrate a certain notion of the common interest into our daily actions instead of our own immediate, selfish interests.

Ethical behaviour is the behaviour of people who have, to quote a friend: “a brain, a heart and courage” and who, in addition, are consistent. It also requires discernment, as one needs to be aware of changing situations if one is to resist the temptation to act “non-ethically”.

*Postscriptum*: the social role of enterprises is not a new idea. It was at the core of late nineteenth century paternalism, characterised by workers’ housing estates and specific forms of aid. With the advent of social welfare, these practices disappeared. Today, faced with certain abuses, the business sector is taking action once more.

## IV – THE CHARTER OF INTENTS OF THE COMMITTEE FOR THE XXTH OLYMPIC WINTER GAMES IN TURIN IN 2006

*By Rinaldo Bontempi, Vice-President of the Turin Organising Committee of the XXth Winter Olympics in 2006*

### 1. Social responsibility in the domain of sport

I like to describe the “Charter of Intentions” adopted by the Toroc<sup>53</sup> as an “experiment” in order to highlight both its innovativeness and the caution with which the possible results and effects should be viewed. But, precisely because our perception of the process initiated through the charter is realistic and not just rhetorical, we feel (and I do especially) the fascination of a major challenge which must be met so as to uphold, in the world of sport as elsewhere, the principle that values are to be practiced and not just preached.

Indeed, the peculiarities of the sports sector possibly make it more needful here than elsewhere to carry out a highly transparent operation regarding principles and rules, as the essential basis for a comprehensive reform capable of achieving cohesion and proper balance between the various facets of sport, whether top-class professional sport or the huge catchment of amateur sport, well-endowed or deprived disciplines, competition and solidarity, techniques and education.

In my opinion, this “reform” founded on “values and rules” has even stronger bearing on the Olympic Movement and the Games. Unlike individual disciplines that are patently linked with professionalism and have business implications, the Olympic Movement is in fact “universal” by definition, embracing virtually the whole world, as witness the universal scope of the principles set out in the Olympic Charter and the Code of Ethics, for example :

“The goal of Olympism is to place everywhere sport at the service of the harmonious development of man, with a view to encouraging the establishment of a peaceful society concerned with the preservation of

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53. Toroc: Turin Organising Committee of the XXth Olympic Winter Games in 2006 ([www.torino2006.org/](http://www.torino2006.org/)).

human dignity. To this effect, the Olympic Movement engages, alone or in cooperation with other organisations and within the limits of its means, in actions to promote peace (Olympic Charter, Article 3);

“Safeguarding the dignity of the individual is a fundamental requirement of Olympism” (IOC Code of Ethics, part A. Dignity, para. 1). That is why, even more so than for other aspects of sport, the sadly recurrent cases of infringement of the principles and rules (from doping to occurrences of corruption), or again just over-identification of Olympic events with profit motives and the commercial side, have a de-legitimising effect that, perhaps before long, may mark the end of an idea of Olympics that we have all viewed favourably and enthusiastically.

On that score, attention should be drawn to the worthwhile interest shown by the present top IOC echelons in sustainability (environmental and also social) of the Games, with overt objections to the excesses of over-scaling and an increasing awareness of the recently formed IOC Ethics Commission’s potential role.<sup>54</sup>

## **2. Why adopt a charter of its own ?**

As regards the Toroc’s choosing to adopt a “charter” of its own, it should be recalled that as early as the candidacy stage the Promotion Committee and the principal local institutions (the Turin urban authority, the municipalities of the valleys and the provincial and regional authorities) had identified that upholding the quality of the “Olympic heritage” was one of the main objectives of the event, and a supporting ethical body had even been created.

More recently, in mid 2001, we in the Organising Committee considered it right and proper, as well as wise and thus expedient, to try to equip ourselves with a working instrument with which we could outline a set of principles and rules of conduct that would form a component of our identity, especially considering the stated aspiration to ensure that the Turin Olympic Games in 2006 would not be the business of a few but a benefit for all. It should also be noted that significant encouragement to take this course was provided by the requests, which we gave our attention to, and were put forward by a range of associations linked with the

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54. The present composition of the Ethics Commission includes figures such as Perez de Cuellar, Edwin Moses and Robert Badinter.

World Social Forum, stating that the choice of sponsors should be ethically determined, excluding anyone implicated in human rights violations or serious environmental damage.

The charter establishes a series of inalienable principles for the organisation of the games, and seeks to promote effective commitments and positive action as the sports world's tangible contribution to disseminating a culture of global responsibility. The guiding principles concern responsibility, non-discrimination and freedom, life, health and safety, minors, sustainability and environment, integrity and transparency, dissemination and participation.

This charter has been drawn up in the light of some fundamental texts on rights (European Union Charter of Fundamental Rights, UN Convention on the Rights of the Child, UN Declaration of the Rights of the Child) and similar documents adopted by international bodies and federations, such as:

- the IOC Code of Ethics (Seoul, June 1999) constituting the document whereby the IOC and its members, the candidate cities, the Olympic Games Organising Committees and the National Olympic Committees reaffirm their dedication to the values embodied in the Olympic Charter, with special reference to the principles of human dignity, integrity, propriety in the management of financial resources, political neutrality, and privacy;
- the FIFA Code of Conduct (1996) based on an agreement between FIFA and the International Confederation of Free Trade Unions (ICTFU), the International Textile, Garment and Leather Workers' Federation (ITLGWF) and the International Federation of Commercial, Clerical and Technical Employees; the Code provides for the adoption of fundamental principles and their extension to the enterprises manufacturing footballs and other sports requisites under licence.

Some particular features of the charter's structure and philosophy should be noted:

- the introductory remarks and article 1 clearly state that the document hinges on the international system of fundamental rights, stemming from the 1948 declaration and from the assertion of the principle that it creates responsibility for all;
- the effect of the charter is defined in the final paragraph of the introductory remarks:
  - "The Turin Organising Committee will submit this charter to all the subjects involved or interested in organising, preparing, staging

- and participating in the 2006 Olympic Games, such as institutions, local authorities, associations, sponsors, suppliers, firms responsible for the construction of the venues, and will ask them to adhere concretely to the principles listed in the following articles” ;
- in sum, the charter can function either as a self-regulation instrument (code of conduct for the Toroc) or as an undertaking offered to and asked of the entities participating in various capacities in the organisation of the games (and thus not only the sponsors);
  - it behoves me to place special emphasis on the undertakings embodied in articles 5 (sustainability and environment) and 6 (integrity and transparency) to the extent that, while they are associated with the general obligations pertaining to the general system of fundamental rights, they acquire a special significance in relation to the Olympic endeavour and the provision of the installations making up the infrastructure. Naturally the appeal for transparency and integrity, however cogent, does not suffice in itself to ward off the risks of impropriety or worse, corruption; it is nonetheless true that an explicit undertaking like this can aid the processes of social control and citizen scrutiny that help to guard against or minimise risks of this kind;
  - the charter was prepared by a group (the values commission) which included NGOs such as Amnesty International and Unicef, agencies like the ILO, and labour relations bodies such as the trade unions and employers’ organisations, and institutions like the Chamber of Commerce. Thanks to their contribution by way of dialogue and enquiry, the final text was achieved according to the productive method of participation and consultation;
  - finally, the fact that the IOC Ethics Committee has approved the Turin Charter represents not only the necessary validation of a Toroc act by the body responsible for the Games, but above all can serve as a source of values and principles to do with human rights safeguards which adds to the value of current “identification papers” of the Games and the IOC itself. Looking towards the Beijing Games, this could be quite important!

### **3. The Turin Charter and its principles**

Article 10 of the Charter of Intents lays down the procedures for implementing the charter through definite action. With regard to some of the principles (for example environmental sustainability), Toroc in partnership

with the local institutions has already adopted positive models of practice, for instance the preparation of the environmental assessment, the VAS<sup>55</sup> as baseline programming instruments.

The levels of action that can be projected are as follows :

- presentation of the Charter of Intents to all public and private partners of Toroc to obtain their support, with the aim of publicising and consolidating positive behavioural models, also by means of pilot projects ;
- preparation of a programme of “affirmative action” to be put to the private and/or public partners, comprising either actions included in the Toroc programmes or actions aimed at promoting growth of informed awareness of issues relating to a) fundamental rights; b) environmental sustainability; c) social sustainability;
- compilation of the social report, whose preparation is the outcome of a process whereby the Toroc quantifies, evaluates, communicates and enhances social and ethical achievements, analysing the social impact on the areas covered by the activities carried out and the ethical standard of its own organisational practices, having regard to its aims and to the expectations of the stakeholders. The social report thus constitutes an instrument of review and control that accompanies and supplements the environmental assessment, allowing a broad-based, transparent communication policy to be pursued.

The main aims sought through the preparation of the social report are summed up as follows :

- defining a comprehensible framework for the ethical and social action of Toroc, capable of bringing out the positive and negative effects during and at the end of the Olympic programme ;
- specifying organisational and/or structural devices aimed at making the social benefits that accrue from the conduct of the Olympic programme more significant on the ground ;
- setting in motion a process of communication with the social partners.

For the pursuit of these goals, the social report will be drawn up in accordance with the existing international standards and best practices ; to be precise, the “Sustainability Reporting Guidelines on Economic, Environ-

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55. VAS: Associazione Verdi Ambiente e Società.

mental and Social Performance” of the Global Reporting Initiative will be the benchmark for the project.

This choice is due to the fact that the above-mentioned standard has also been adopted for the environmental assessment: as from 2005, the Environmental Directorate will produce as a single document a “sustainability report” on the Olympic programme, combining the environmental and socio-economic aspects dealt with earlier in the two separate documents.

The published version of the sustainability report, which will be distributed during the Games in 2006, will also contain the treatment of the environmental and social aspects of the Olympic programme from 2002 onwards, and will form a kind of “aggregate” of the work done up to that point.

#### **4. Final remarks**

Understandably, the path leading to the drafting and approval of the charter has been neither easy nor short.

Apart from the difficulties, let us say, of a cultural nature and of sensitivity to a problem still largely unknown to the general public and most economic operators (and often political players too), we have had to reckon with the imperious need for the Olympic organisation to achieve the target of 400 million euro, 80% of our budget, through the national sponsors, providers and suppliers.<sup>55</sup>

Considering that the economic situation is greatly changed following 11 September, slowing down the commitment of resources to long-term ventures everywhere, it can be appreciated how cautiously we have had to move in order to prevent cynical political manipulation from having the charter blamed for the difficulties in acquiring sponsors.

Consequently, we have always emphasised the fact that the charter is not a “static” instrument that does a “blood test” on our interlocutors, but commits them to act positively by observing the charter and its principles and undertaking to make definite moves in the directions recommended,

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55. These are the categories of Toroc-selected sponsors, while the sponsors under “The Olympic Partner” (TOP) programme have direct contacts with the IOC, usually for several rounds of the Games, and their earnings are paid virtually in full to the IOC itself.

particularly if it is expedient for them to adapt to higher standards in some respects.

Of course it follows from the letter and spirit of the charter that agreements with enterprises that have already accumulated violations of various kinds are to be avoided.

However, the fact remains that the whole spirit of the document aims to promote and assist the acceptance of responsibilities, as we are convinced that we must be resolved together on the principles and capable of achieving results by stages too.

In the work on the charter, finally, we bore firmly in mind the “European sports model” as defined on the basis of the declaration attached to the Treaty of Amsterdam<sup>56</sup> at the subsequent major European Sports Forums and similar meetings (Helsinki, Lille, etc.).

We invoke a number of binding principles, for instance :

- recognition by the European Union of the prominent role held by sport in European society with its function of social integration, education and furtherance of public health and contribution to the functions performed in the public interest by the federations ;
- anti-doping ;
- protection of young people in sport.

The European Commission itself has drawn attention to the danger which certain factors are posing to the European approach to sport :

- the growth in the popularity of sport in terms of playing and watching it. A grand total of some billions of TV viewers followed the matches of the last football World Cup ;
- internationalisation of sport with the multiplication of international competitions ; in 1997 alone, 77 world championships and 102 European championships were organised within Europe ;
- the unprecedented expansion of the economic dimension of sport with, for example, the spectacular increase in the value of TV broadcasting rights : the rights acquired from the IOC rose from \$441 million in 1992 (Barcelona Games) to an estimated \$1318 million for the 2000 Games in Sydney. For Turin 2006, \$738 million are forecast.

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56. “The [Union] emphasises the social significance of sport, in particular its role in forging identity and bringing people together.”

Benefits to sport and to society accrue from these factors. For instance, the pool of employment directly and indirectly generated by sport has grown by 60% over the last ten years, attaining almost 2 million jobs. It should nonetheless be acknowledged that these factors can also generate tensions and imbalances and may thus have an outright bubble effect capable of bursting disastrously.

# APPENDIX – Charter Intents of the Organising Committee for the XXth Olympic Winter Games in Turin in 2006

## Introductory remarks

The Organising Committee for the XXth Olympic Winter Games in Turin in 2006 reasserts the significance and the value of the Olympic Charter, the IOC Code of Ethics and the fundamental principles contained therein.

In particular, it underscores the universal importance of some provisions, such as :

- “the goal of Olympism is to place everywhere sport at the service of the harmonious development of man, with a view to encouraging the establishment of a peaceful society concerned with preservation of human dignity. To this effect, the Olympic Movement engages, alone or in cooperation with other organizations and within the limits of its means, in actions to promote peace” (Olympic Charter, art. 3);
- “safeguarding the dignity of the individual is a fundamental requirement of Olympism” (*IOC Code of Ethics*, “A. Dignity”, par. 1).

From the letter and the spirit of these solemn declarations emerges their close connection with the general principles of the promotion and safeguard of human rights, as historically achieved through the Universal Declaration of Human Rights of 1948 and the subsequent agreements, conventions and charters (such as the recent Charter of Fundamental Rights of the European Union, December 2000).

In the new global environment of human endeavours, these principles have gained ground and become stronger over the years, especially given the need to guarantee adherence to shared and universal rules; hence, the recognition – in addition to economic and social rights – of the principles of sustainable development and environmental sustainability.

Faced with the many violations they are subject to, however, these principles call for consistent support and promotion, starting with young people education and training.

Accordingly, it is the firm intention of the Organising Committee to make the Olympic Games in Turin an opportunity to educate people even further in the values of peace, tolerance, justice, freedom, solidarity and equality between people and individuals.

The Turin Organising Committee intends to make a tangible contribution to this effort by drafting a “Charter of Intents”, of which these introductory remarks are an integral part.

Setting forth the principles and the objectives that the Turin Organising Committee intends to adhere to in all the activities within its authority, this charter aims to promote effective commitments and positive through a more direct involvement of the world of sport in the dissemination of a culture of global responsibility.

Therefore, the Turin Organising Committee will submit this charter to all the subjects involved or interested in organising, preparing, staging and participating to the 2006 Olympic Games, such as institutions, local authorities, associations, sponsors, suppliers, firms responsible for the construction of the venues, and will ask them to adhere concretely to the principles listed in the following articles.

## **Principles**

### **Article 1 – Responsibility**

The primary responsibility for the safeguard and protection of human rights lies with the states and, therefore, with their governments. They are under an obligation not only to comply and enforce compliance with national laws, but also to include in their legislation the rules that they have willingly undersigned and that are internationally binding,<sup>57</sup> as is the case with the Olympic principles. Other actors, however, can also make a decisive contribution to the safeguard and protection of human rights.

In its preamble, the Universal Declaration of Human Rights requests that “every individual and every organ of society, keeping this declaration

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57. *IOC Code of Ethics*, “E. Relations with states”, par.1 : “[...] the spirit of humanism, fraternity and respect for individuals which inspires the Olympic ideal requires the governments of countries that are to host the Olympic Games to undertake that their countries will scrupulously respect the fundamental principles of the Olympic Charter and the present code”.

constantly in mind, shall strive by teaching and education to promote respect for these rights and freedoms and by progressive measures, national and international, to secure their universal and effective recognition and observance, both among the peoples of member states themselves and among the peoples of territories under their jurisdiction”.

The Olympic Movement is deeply involved in the promotion of these principles, recalled in the Olympic Charter and the IOC Code of Ethics.

As a part of the Olympic Movement the Turin Organising Committee will promote a far-reaching information and awareness-raising campaign, in close cooperation with local institutions, the world of education, entrepreneurial organisations, trade unions and non-governmental organisations.

### **Article 2 – Non discrimination and freedom**

All human beings are born free and equal in terms of dignity and rights. Each individual is entitled to all the rights and freedoms set forth in the Universal Declaration of Human Rights, without any limitations on account of their race, colour, sex, language, religion, social or national origin, or political opinions. Each individual is entitled to freedom of thought, conscience and religion. Every individual is entitled to freedom of opinion and expression, peaceful assembly, and association.

The respect of such principles and rights, concerning non discrimination and the fundamental freedoms, must be rigorously guaranteed both for the athletes and for the workers engaged in organising, preparing, staging and participating in the 2006 Olympic Winter Games.

### **Article 3 – Life, health and safety**

All men have a right to life, health, freedom and personal safety. They all have a right to an adequate standard of living, ensuring health and well-being to them and their families. All workers have a right to healthy, safe and decent working conditions.

It is essential to reassert the absolute prohibition of any doping practices,<sup>58</sup> on account of such practices being extremely harmful to people’s health

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58. *IOC Code of Ethics*, “A. Dignity”, par.3: “No practice constituting any form of physical or mental injury to the participants will be tolerated. All doping practises at all levels are strictly prohibited. The provisions against doping in the Olympic Movement Anti-Doping Code shall be scrupulously observed”.

and physical integrity, and to ensure compliance with the Olympic Movement Anti-Doping Code.

Training practices of an exceedingly intensive and vexatious sort, or that might impair an athlete's physical or psychological integrity, are to be rigorously banned.

In particular, minors and women should be protected on account of their vulnerability and the existence of cultural and social biases that are often conducive to exploitation and discrimination.

Athletes, workers and all the people involved in organising, preparing, staging and participating in the 2006 Olympic Games have the right to work in conditions ensuring their safety and wellbeing, and are entitled to the medical care they need for their psycho-physical equilibrium.<sup>59</sup>

Safety on the job, accident prevention, respect of minimum working age limits, safeguarding female workers' rights, the provision of adequate protective measures at the sites and throughout the organisational process before, during and after the Games are all basic prerequisites for the success of the event.

The exploitation of child labour is forbidden and so is forced labour. The buildings, equipment and facilities erected for and used during the Olympic Games shall have been constructed in strict compliance with national and international legislation and with all the conventions of the International Labour Organisation.<sup>60</sup>

#### **Article 4 – Minors**

Minors have the right to profit from measures of protection and promotion, ensuring that they can achieve a balanced development from a physical, intellectual, moral, spiritual and social viewpoint, in conditions of freedom and dignity.<sup>61</sup>

Special significance must be attached to those international regulations which may concern the relationship between youth and sport practice, although not specifically referred to the sport world. This affects in particular the need to consider the interest of minors in all decisions

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59. *IOC Code of Ethics*, "A. Dignity", *ibidem*.

60. *IOC Code of Ethics*, "E. Relations with states", par.3.

61. *Declaration of the Rights of Minors*, art. 2, United Nations, 20 November 1959.

concerning them, minors' protection against all forms of violence and exploitation – especially if entrusted to third parties –, minors' right to education, social inclusion, play and rest.<sup>62</sup>

## **Article 5 – Sustainability and environment**

The IOC identifies the environment as the third component of Olympism since there is no future for sport development if environmental values are not considered as the core of any intervention policies.

The whole process of organising the Olympic Games will have therefore both to guarantee the highest level of safeguard of the territory, as well as to pursue the objectives of environmental improvement, taking into account the principles of sustainable development and acknowledging the Olympic Movement Agenda 21.

The planning and implementation of the infrastructures will aim at minimising the impact on the environmental components: air, water, soil, energy and natural resources, and biodiversity. To this end, innovative and sustainable solutions will be adopted, and interventions will be realized in order to relieve and compensate the effects. In cooperation with the local authorities, the subjects involved will pursue the objective of improving the environmental balance of the Olympic territory, through a regular monitoring of the activities carried out, and the use of shared and established indicators.

The staff involved in the organisation of the Games will be appropriately trained and informed on the potential impact of their behaviour on the environment. The products, consumables and services used for the organisation will have to be selected on the basis of their environmental performance; at the same time, actions will be taken so as sponsors can adopt behaviours oriented to sustainability.

On the land used by the Games, and in cooperation with the local authorities, environmental programmes to follow the Olympic event will be developed with the purpose of promoting the sustainable development of the areas, including beyond 2006.

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62. *United Nations Convention on the Rights of the Child*, 1989, ratified by 191 countries (see also the *Nice Charter*, art. 32, 2nd comma).

Finally, the environmental education of young people will be widely reinforced, because the ecological future of our territories mostly depends on their behaviour.

### **Article 6 – Integrity and transparency**

The strict compliance with the rules and principles regarding integrity contained in the IOC Code of Ethics is a prior commitment to be undertaken.<sup>63</sup>

To support this commitment, it is necessary to ensure a high degree of transparency, on a continuous basis, also through the employment of suitable tools, throughout the various stages of realisation of the Games.

Moreover, the participation of the public should be encouraged everywhere, subject to the principle of the distinction of roles, tasks and responsibilities.

Integrity, transparency and participation should be viewed not as constraints, but rather as conditions of efficacy and efficiency, in that they enhance the credibility and authority of the complex action of “governance” on which the success of the Games hinges.

In particular, the greatest attention must be devoted to the large amount of work to be completed by 2006: this will lead to higher employment levels, especially in the building sector, and will attract many small and medium enterprises from all sectors to the region. It is essential to avoid the risk that high business volumes might encourage the involvement of people and companies working illegally and trying to obtain illicit profit from the manipulation of employment flows, including immigrant flows, which are often exposed to discrimination, unlawful treatment, prevarication.

### **Article 7 – Dissemination**

The Organising Committee ascribes the utmost importance to the diffusion of this charter, through the appropriate communication channels. The awareness of the charter content and implications by all the people involved in various ways in the participation, organisation and management of the Games, will make it legitimate and effective.

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63. Sec. II, arts. 1 to 7.

The dissemination of this charter and the principles contained herein can contribute to the growth of the local, national and international community. At this purpose, it is deemed indispensable to engage in an information campaign encompassing schools of all kinds and levels, youth and cultural associations, sport clubs, workers' associations, entrepreneurs' associations, non-governmental organisations, and the media.

Eventually, by sharing these principles, it will be possible to ensure that the Olympic delegations relay to their national governments the message of solidarity and brotherhood that the world of sport wants to convey to the international community.

### **Article 8 – Participation**

This charter is meant to serve as an important element of liaison, integration and communication with the community at city, provincial, regional, national and international level. We must increasingly realise that all the things that are being done today, and that will be done up to and including 2006, will have effects that are not limited to Turin alone, but will extend potentially over the whole world.

Finally, the Organising Committee requests this charter receive the whole-hearted commitment and active support of the public bodies and private organisations involved in any way in the Turin 2006 Olympic Winter Games.

### **Article 9 – Scope**

The principles, criteria and goals described in this charter constitute the specification of regulations and guidelines contained in documents of general scope (declarations, conventions, laws, agreements and charters), whose applicability includes all matters not provided for, or envisaged by, the charter.

### **Article 10 – Application and control**

Within sixty days from the approval of this charter, appropriate implementation and control procedures will be defined.



## **V – TOOLS FOR SOCIAL AND ECONOMIC RESPONSIBILITY: THE CHARTER OF HUMAN RESPONSIBILITIES**

*By Pierre Calame, Charles Léopold Mayer Foundation*

The definition of responsibility (particularly social responsibility), the level at which this responsibility can be assessed and the importance of the concept of responsibility in the field of ethics have changed significantly in the last fifty years. I will briefly explain how the idea of a Charter of Human Responsibilities came about, what the charter consists of and how it can be used as a tool for the responsibility of different players, especially economic players.

### **1. Genesis of a Charter of Human Responsibilities**

The “given” with which we are dealing is, of course, globalisation. Not simply economic globalisation – the kind associated with liberal ideology – but globalisation in a much broader sense, referring to the interdependence between human societies and between these societies and their environment on a scale such that the impact of the decisions, lifestyles and scientific developments of an economic player or a society affect the planet as a whole. The extent of this interdependence is such that all human activities taken together may in fact be prejudicial to the necessary conditions for the life or survival of humankind and future generations. This new awareness of globalisation, and of the incompatibility of our methods of governance, ways of thinking and development models with these new challenges, was again highlighted at the Rio+10 Summit held in Johannesburg.

The fact is that human beings throughout the world have not chosen to live together. They do not share a founding myth – the basis in a particular society of its identity and the ultimate justification of its public institutions. The global community must establish itself and work towards the construction of a political community. To look at things in a chronological perspective: humanity, thus far a philosophical concept, became an entity in law, following the Second World War, with the definition of “crimes against humanity”. The subsequent stage is the construction of a global community, for want of the inability of states to depart from the

Westphalian model of international relations. The stage after that is the construction of a political community, accompanied by the establishing of global democratic institutions.

This stage in the construction of a global community entails the drawing up of a common ethical foundation to act as the basis of the social contract. By virtue of its power and its control over nature, humankind increasingly finds itself with its fate in its own hands, which it can only cope with if a new vision of the social contract is established under which the different societies and different players – lacking, as they do, a common founding myth – agree on a set of common rules to protect their shared future. In this form of governance, ethics do not constitute the “icing on the cake” but the necessary condition for the contract itself. The starting point of a common system of ethics is not the idea of a universal truth but, more modestly, the simple observation that common rules are required if we are to manage our unique planet as a whole.

In the framework of the Alliance for a Responsible, Plural and United World<sup>64</sup>, an international civil society movement bringing together people from regions and sectors all over the world, the need to build a foundation of common values rapidly became apparent. From 1995 to 2002, intercultural dialogue took place within the alliance, which focused on the common values that could be accepted by all parties. This work in particular benefited from the dialogue between different religious and philosophical traditions that took place in the framework of the alliance’s inter-faith college. It also drew on many kinds of external discussions, particularly those arising from the different drafts for the Earth Charter prepared at the 1992 Earth Summit and the work of the interaction council set up by the former German Chancellor Helmut Schmidt. Of particular note is the fact that the concept of human responsibility was at the heart of the draft charter debated at the World Citizens Assembly in Lille in December 2001.

Making responsibility the cornerstone of a system of common ethics follows on from our earlier observations: a contract society at world level is based on the fact that the impact of our actions on all others must be taken into account, in the same way as the impact of theirs on us. Hans Jonas, long ago, showed how the objective evolution of our society called for a radical rethink of our view of responsibility. He showed that the idea of responsibility for the impact of our actions was bound up with the

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64. The alliance’s work is presented on the following website: [www.alliance21.org](http://www.alliance21.org).

golden rule “do unto others as you would have them do unto you”. Because of the new, extended reach of the impact of our actions, he also showed that we should exercise our responsibility not only *vis-à-vis* other subjects of law but also *vis-à-vis* categories not ordinarily considered to be subjects of law, such as future generations and the rest of the living world.

## **2. What does a Charter of Human Responsibilities contain ?**

The Charter of Human Responsibilities highlights the following three main features of social responsibility :

- we are responsible for the overall impact of our actions, regardless of whether this impact was deliberate or could be anticipated. This has considerable implications when, as in the case of the greenhouse effect, the impact stems not from an isolated act but from billions of acts that would be harmless at individual level but are deadly at a global level ;
- we are responsible in proportion to our power and knowledge which has considerable implications for scientists, engineers and technicians, raising the issue for them of a hierarchy of obligations, in the event of conflict between this responsibility and other ties of loyalty towards employers or colleagues ;
- we are also responsible if, through passivity, we have failed to empower ourselves with regard to our acts : it is not enough to say that we are powerless if by pooling our efforts with others we could end this powerlessness.

In turn, the definition and scale of the notion of “citizenship” has to change. Citizenship can no longer simply refer to membership of a particular country – in other words a passive acknowledgement of an identity that gives rise to a number of rights. Citizenship must also exist at the different levels of interdependence and is therefore necessarily both local and global. It is based on a balance between rights and responsibilities. This is referred to by some as “active citizenship”.

## **3. Grounds for an effective responsibility**

The advantage of a Charter of Human Responsibilities is that it can be adapted and made specific to the different regions of the world and to

different sectors. We are thus convinced that a European Charter of Human Responsibilities should be the cornerstone of the European Constitution. For what meaning can we attach, given Europe's place in a globalised planet, to a charter of fundamental rights for European citizens that does not take into account our responsibilities towards the rest of the world?

The issue of social responsibility cannot be likened to that of democracy. Social responsibility concerns our accountability to those likely to suffer the consequences of our acts – in other words, humanity as a whole. Democracy, on the other hand, is concerned with how elected representatives account for their actions to those who elected them.

Initial work has already been done on drafting charters of responsibilities for sectors such as businesses, researchers, teachers and local elected representatives. This work involves laying the foundations of well-defined responsibilities for each sector *vis-à-vis* the rest of society – in other words, the basis of the future “social contract”. In this way, in the dialectic between unity and diversity, between a common ethical foundation and the adaptation of these shared principles to each sector, a new society of responsible players can be created.

## **APPENDIX – Proposal for a Charter of Human Responsibilities**

### **Six “theses” as the foundation of the charter**

1. Facing humankind’s radically new situation, a third ethical pillar, common to all societies and all social spheres, is needed to serve as a complement to the two existing pillars which underpin international life: the Universal Declaration of Human Rights and the Charter of the United Nations.
2. The same ethical principles can be used at the personal and the collective level, both to guide individual behaviour and to underpin law.
3. The notion of responsibility, inseparable from any human relationship, constitutes a universal principle. It is the common ethical basis of the Charter of Human Responsibilities.
4. Given the impact of human activities and the interdependence among all human societies, a broader definition of responsibility is essential. It comprises three dimensions: accepting responsibility for the direct and indirect consequences of our actions; uniting with one another to escape from powerlessness; acknowledging that our responsibility is proportional to the knowledge and power which each of us holds.
5. The Charter of Human Responsibilities does not lay down rules; it proposes priorities and prompts choices.
6. Every social and professional sphere is invited to draw up, on the basis of the Charter of Human Responsibilities, which is shared by all, the rules of its own responsibility. These rules are the foundation of the contract which links it to the rest of society.

### **Preamble**

Never before have human beings had such far-reaching impacts on one another’s social, political, economic and cultural lives. Never before have they possessed so much knowledge, and so much power to change their environment.

In spite of the immense possibilities opened up by these ever-increasing inter-relationships, and in spite of the new powers which humankind has acquired, unprecedented crises are emerging in many areas.

Widening economic gaps within and between nations, the concentration of economic and political power in ever-fewer hands, threats to cultural diversity, or the over-exploitation of natural resources, are creating unrest and conflicts world-wide and giving rise to deep concerns about the future of our planet: we are at a crossroads in human history.

And yet, the social institutions which should enable these new challenges to be met are working less and less well. The pervasive power of international markets is undermining the traditional role of states. Scientific institutions, pursuing their narrow specialist interests, are increasingly pulling back from analysing and confronting the global issues and their interactions which challenge humanity. International economic institutions have failed to turn the rising tide of inequality. Business has often pursued its profit goals at the expense of social and environmental concerns. Religious institutions have not adequately fulfilled their role to provide responses to the new challenges faced by our societies.

In this context, every one of us must take up his or her responsibilities at both the individual and the collective level.

This charter maps out what these responsibilities are, and how they can be exercised. It is a first step towards developing democratic global governance based on human responsibilities, and towards developing a legal framework within which these responsibilities may be exercised.

### **Nature of responsibilities**

The growing interdependence among individuals, among societies, and between human beings and nature heightens the impacts of individual or collective human actions on their social and natural environments, immediately or far away.

This opens up new possibilities for each of us to play a role in the new challenges that face humankind: every human being has the capacity to assume responsibilities; even those who feel powerless can still link up with others to forge a collective strength.

Although all people have an equal entitlement to human rights, their responsibilities are proportionate to the possibilities open to them. The more freedom, access to information, knowledge, wealth and power someone has, the more capacity that person has for exercising responsibilities, and the greater that person's duty to account for his or her actions.

Responsibilities attach not merely to present and future actions, but also to past actions. The burden of collectively-caused damage must be moral-

ly acknowledged by the group concerned, and put right in practical terms as far as possible. Since we can only partially understand the consequences of our actions now and in the future, our responsibility equally demands that we must act with great humility and demonstrate caution.

### **Exercising responsibilities**

Throughout human history, traditions of wisdom – religious and otherwise – have taught values, to guide human behaviour towards a responsible attitude; their basic premise – still relevant today – has been that fundamental change in society is impossible without fundamental change in the individual.

These values include respect for all forms of life and the right to a life of dignity, a preference for dialogue sooner than violence, compassion and consideration for others, solidarity and hospitality, truthfulness and sincerity, peace and harmony, justice and equity, and a preference for the common good sooner than self-interest.

And yet, there may be times when these values have to be weighed against each other, when an individual or a society faces hard choices, such as the need to encourage economic development while protecting the environment and respecting human rights.

In such cases, human responsibility dictates that none of these imperatives should be sacrificed to the others. It would be futile to believe that sustainable solutions could be found to problems of economic injustice, disregard for human rights, and the environment, by tackling each issue separately. Everyone must become aware of this interconnectedness; and even if their priorities may differ due to their own histories and present circumstances, they cannot use those priorities as an excuse for ignoring the other issues at stake.

This is the thinking that lies behind the principles to guide the exercise of human responsibilities.

### **Principles to guide the exercise of human responsibilities**

We are all responsible for making sure that human rights are reaffirmed in our ways of thinking and in our actions.

- To face the challenges of today and of tomorrow, it is just as important to unite in action as to express cultural diversity.
- Every person's dignity demands that he or she contribute to the freedom and dignity of others.

- Lasting peace cannot be established without a justice which is respectful of human dignity and of human rights.
- To ensure the full flowering of the human personality, its non-material aspirations as well as its material needs must be addressed.
- The exercise of power can only be legitimate if it serves the common good, and if it is monitored by those over whom it is exercised.
- Consumption of natural resources to meet human needs must be integrated in a larger effort of active protection and careful management of the environment.
- The pursuit of prosperity cannot be separated from an equitable sharing of wealth.
- Freedom of scientific research implies accepting that this freedom is limited by ethical criteria.
- The full potential of knowledge and know-how is realised only through sharing them, and through using them in the service of solidarity and the culture of peace.
- In reaching decisions about short-term priorities, the precaution must be taken of evaluating long-term consequences with their risks and uncertainties



