

COLLEVECCHIO DECLARATION ON FINANCIAL INSTITUTIONS AND SUSTAINABILITY

Financial institutions (FIs) can and must play a positive role in advancing environmental and social sustainability. This declaration, endorsed by over 200 civil society organisations, calls on FIs to embrace six commitments, and take immediate steps to implement them as a way for FIs to retain their social license to operate. These commitments reflect civil society's expectations of the role and responsibilities of the financial services sector in fostering sustainability.

The Role and Responsibility of Financial Institutions

The financial sector's role of facilitating and managing capital is important; and finance, like communications or technology, is not inherently at odds with sustainability. However, in the current context of globalization, financial institutions (FIs) play key roles in channeling financial flows, creating financial markets and influencing international policies in ways that are too often unaccountable to citizens, and harmful to the environment, human rights, and social equity.

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

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

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

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

As a result, civil society is increasingly questioning the financial sector's accountability and responsibility, and challenging FIs' social license to operate. As major actors in the global economy, FIs should embrace a commitment to sustainability that reflects best practice from the corporate social responsibility movement, while recognizing that voluntary measures

alone are not sufficient, and that they must support regulations that will help the sector advance sustainability.

Six Commitments to Key Principles

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

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

1. Commitment to Sustainability

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

2. Commitment to 'Do No Harm'

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

3. Commitment to Responsibility.

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

4. Commitment to Accountability

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

5. Commitment to Transparency

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

6. Commitment to Sustainable Markets and Governance

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

Implementing the Collevocchio Declaration

This document provides guidance for financial institutions (FIs) on implementing the Collevocchio Declaration on Financial Institutions and Sustainability. The Declaration calls for broad commitments, and FIs may have differing interpretations regarding how to implement them. This document provides clarification of what civil society currently (2003) expects from FIs committed to implementing the six key principles of the Collevocchio Declaration.

FIs can work with stakeholders to take the following immediate steps:

1. Commitment to Sustainability

a) Measurement of environmental and social impacts

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

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

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

c) Fostering sustainability

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

d) Implementation and capacity building

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

2. Commitment to 'Do No Harm'

a) Sustainability procedures

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

b) Sustainability standards

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

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

3. Commitment to Responsibility

a) Bear full responsibility for the impacts of transactions

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

b) Recognize their role in developing country debt crisis

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

4. Commitment to Accountability

a) Public Consultation

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

b) Stakeholder Rights

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

5. Commitment to Transparency

a) Corporate Sustainability Reporting

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

b) Information Disclosure

FIs should make assumptions in favour of information disclosure. Particularly for completed transactions, but also for those in the pipeline, FIs should publicly provide information on companies and significant transactions in a timely manner, and not hide behind the excuse of business confidentiality.

6. Commitment to Sustainable Markets and Governance.

a) Public policy and regulation

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

b) Financial practices

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