

# Submission to FTSE4GOOD Consultation Exercise

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## **Background**

Just Pensions is a two year project funded by the Community Fund and managed by two development NGOs: War on Want and Traidcraft Exchange. The project's aim is to develop guidance for pension trustees and fund managers on development-related issues, and communicate this to the investment community through seminars, briefings, etc.

The purpose of these activities is to encourage and enable shareholders to engage with their investee companies to influence their business practice in relation to developing countries in ways that benefit the poor. The principal audience will be mainstream occupational pension funds rather than the existing ethical investment community. The project does not seek primarily to develop a tool for negative screening of investment portfolios (i.e. exclusion of companies from investment on 'ethical' grounds).

The first output of the project is a guide for pension fund trustees and fund managers, due to be published on 26 May. A copy of the artwork is attached. From 14 May, printed copies will be available from

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The project can also be contacted via its website on [www.justpensions.org](http://www.justpensions.org)

Just Pensions welcomes this opportunity to feed into the FTSE4GOOD Consultation Exercise. It believes the FTSE4GOOD has the potential to become a cutting edge tool for SRI, provided it concentrates on identifying and promoting best practice in a rapidly developing field. Given the focus of the Just Pensions project, this submission concentrates on ensuring international development issues are adequately addressed in the FTSE4GOOD remit. The author is happy to elaborate on any points which are not clear, or to provide further information if requested.

## **Responses to Section 2**

2.1 and 2.2: The only relevant convention the project may want to consider adding to its well-chosen list is the OECD anti-bribery convention, in the event that FTSE4GOOD accepts this submission's arguments that anti-corruption should also be a feature of CSR policies. This is available on [www.oecd.org/daf/nocorruption](http://www.oecd.org/daf/nocorruption).

## **Responses to Section 3**

3.1 and 3.2: While the three overarching themes are a good starting point, a number of important development concerns fall through the cracks:

**Corruption:** corrupt practices by both government and the private sector are bad in terms of their impact on society, and negative in terms of business performance. Page 13 of the Just Pensions guide contains a brief introduction to this theme.

**Marketing practices in developing countries:** although briefly mentioned later on in the consultation paper, a proper CSR approach should address this issue. Governments in the developing world are often either unable or unwilling to regulate what has become a highly controversial issue. Examples include the marketing by large western corporations of baby formula, tobacco, and harmful pesticides which are banned in the developed economies.

**Sector specific issues:** concentrating on the three universally applicable issues ignores some extremely important issues which are sector-specific. One recent example is the attitude of large pharmaceutical companies to **patent protection** in Third World countries, notably in the case of anti-AIDS drugs. Similar sector-specific issues arise in **tourism, construction, water services** etc.

#### **Responses to Section 4**

4.1: Just Pensions thinks a best practice model as described is the best current starting point for its work.

4.2 and 4.3: However, the current six-point best practice checklist could be improved. In a similar exercise involving some of the top CSR specialists from the NGOs working on the issue, Just Pensions came up with the following set of general questions for companies on CSR issues, based on the three core elements of risk assessment, establishing properly monitored policies and reporting & responsibility:

##### **1. Risk Assessment**

- What procedures are in place to assess risk in current and proposed operations?
- Does risk assessment include the company's joint-venture partners, subcontractors and suppliers?
- What sources of information does the company use to inform this process?
- What level of dialogue is there with other relevant bodies, be they local communities or specialist NGOs and other institutions?
- What court cases or negative press coverage has the company or its joint venture partners, subcontractors and suppliers been involved with in recent years on this issue?

##### **2. Establishing Properly Monitored Policies**

- Does the company have a written policy on the issue, available to the public?
- Does it set targets and improvement strategies?
- Is the performance of the policy internally monitored and independently verified?
- What level of training is carried out for staff, both at headquarters and in-country?
- What are the numbers and seniority of staff employed to implement the policy?
- Is there a secure and accessible system in place enabling employees or local communities safely to raise breaches of the policy with management?

##### **3. Reporting and Responsibility**

- Is there a named board level individual with overall responsibility for overseeing the design and implementation of the policy?
- What level of reporting, both internal and public, is conducted?
- Is there a feedback mechanism? (e.g. Shell's 'Tell Shell' programme)

4.4 As the consultation document makes clear, the obvious alternative to an input-based assessment such as is proposed is one based on outputs/performance. While Just Pensions accepts that currently, it is not realistic to build an index based on performance, this must remain the central goal of the exercise. As long as the index is based on words, rather than deeds, it will be vulnerable to criticism. It is therefore important that the project maps out how it intends progressively to introduce performance criteria into its work. Thought should be given now to the preparatory work that is needed to make that possible in order to avoid, three years down the line, a situation where FTSE4GOOD is still saying 'there is not sufficient data or common ground for a performance-based approach, so we are sticking to a best practice framework'.

4.5 While we think that such a connection exists, there is a serious lack of research on the links between CSR policies on both business and social/environmental performance (see summary in Just Pensions guide, pp 4-6). The FTSE4GOOD could render an invaluable service if it could devote some energy and resources to establishing both the business and social case for CSR more firmly.

4.6 Undoubtedly. If the policies do not lead to the intended result, how can they be considered 'best practice.'?

4.7 Just Pensions would start from 'the outside in'. The ultimate judge of what constitutes CSR must be society itself, whose expectations are then reflected in codes, laws, expectations. We would therefore rank the four types of performance in reverse order: iv, iii, ii, and i.

## **Responses to Section 5**

5.2.1 is either worrying or an unfortunate piece of drafting. The ILO core labour standards stand as a whole, and all of them must be contained in company policies, as for example, laid out in the ETI base code. Any suggestion of selection (especially over the politically sensitive right to freedom of association and collective bargaining) is likely to bring the FTSE4GOOD into disrepute. Similarly, the ILO core conventions and the UNDR are not alternatives to one another. One is much more specific than the other and companies should adopt both.

5.2.5 This question is extremely difficult to answer in a general fashion. The answer depends on the sector under discussion. A garment company should probably be assessed largely in terms of its policies towards its staff, plus some wider environmental concerns e.g. over its use of dyes. However, an oil company should be assessed on the wider social and environmental impact of its drilling operations, and a pharmaceutical company against its impact on health. The best approach is probably a sectoral one, following whichever combination of company-specific and wider impact assessment is deemed appropriate.

5.2.6 While this approach makes sense in terms of risk management, it carries some wider dangers. Notably, CSR is sometimes seen as both a set of alien values ‘imposed’ on developing countries by the North, and a form of backdoor protectionism aimed at keeping jobs and investment out of the developing world. A clear policy of applying the same standards to all countries can help allay these concerns. It is also worth noting that, according to the annual reports of corporate members of the Ethical Trading Initiative, the UK comes second only to China as a source of labour rights violations.

5.2.7 All, if only because the reputational risk to a company of bad performance is not linked to whether its role is strategic or not in the country concerned.

5.2.8 A number of improvements could be made – see answer to 4.3 above, and the human rights and conflict sections of the Just Pensions guide.

5.4.4 The FTSE4GOOD should establish criteria for the case of investment in pariah states such as Burma. While trade and investment boycotts are not in general advisable, there are clearly circumstances (e.g. South Africa under apartheid, or Burma today) in which a representative national body has called for the boycott of an illegitimate regime. In such situations, companies should neither invest in nor trade with the country concerned.

### **Responses to Section 6**

As far as possible, FTSE4GOOD should stick to its three core themes. However, it must be flexible enough to respond to events. A review process is needed, but always incurs the risk of appearing to be arbitrary, or scandal-driven. It is therefore important that the review mechanism is transparent and impartial, e.g. through a review body which carries out a review in response to certain criteria – e.g. cases of serious public disquiet, complaints by key stakeholders, or court cases. The findings of the review should be made available to the company concerned, with a specified time limit set for it to establish an improvement plan which satisfies the review panel. After a further time, the panel should reexamine a company’s performance. If it has failed to deliver on its improvement plan, there is a clear case for removing it from the FTSE4GOOD list.

Duncan Green, Just Pensions Project, 10/06/03