PROFILE

# Development Criteria in Socially Responsible Investment

How to develop ethical and sustainable investment policies

ENGLISH VERSION

Institut für Ökonomie und Ökumene Südwind

Brot für die Welt
www.brot-fuer-die-welt.de

**Imprint**

**Published by:**
Diakonisches Werk der EKD e.V.
for "Brot für die Welt"
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D-70184 Stuttgart
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**Art.Nr.:** 129 601 210

Stuttgart, January 2012, 2nd, revised version

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# 1 Why "Brot für die Welt" campaigns for ethical guidelines in investment policies

In 2007 the economic bubble, or more precisely the United States' housing bubble, burst. Within a year this led to a global financial crisis. The poor countries in particular were hit the hardest by the force of the worst financial crisis since the Great Depression of the 1930s.

And while brinkmanship with highly speculative transactions may have been far removed from the productive economy, the real economic impacts of the financial crash were felt on the ground. They threatened the very existence of the most vulnerable section of the population on our planet. The layoffs of millions of people, for instance in the resources and textile sectors, declining export earnings, debt-ridden state budgets, decreasing foreign direct investment and a drop in the often vital remittances, that is, money that migrants working in Europe or the USA send home to their families in Mali or Mexico – all this contributed to the fact that the poor in the Southern hemisphere were among those who suffered most. Just as in the case of the climate crisis: although the wealthy countries in the North are mainly responsible, the poor in the South must pay the price for Northern excesses.

More than 60 developing countries recorded a declining per-capita income in 2009. The financial crisis brought ruin to people all over the world. Because of the global economic tsunami the number of people living in extreme poverty increased by another 100 million. Unemployment increased. And for the first time in the history of mankind, more than a billion people were starving in 2009.

This drastic increase in hunger must also be attributed to the global economic recession, which has noticeably deteriorated the income situation of the poorest sections of the population. The often persistently high level of food prices in local markets has halted the drop in the number of persons unable to provide themselves and their families with sufficient food. And so far no reversal of this trend is in sight – on the contrary: the looming decline of investment in rural development means that the destabilised food situation is expected to worsen in the long term.

From all over the world, partner organisations continue to report how the impact of the financial market crisis further deteriorated the living conditions of already disadvantaged populations. Likewise, the interdependence of the financial and economic crises, the climate and the food crisis, produces a fatal melange of mutually reinforcing negative trends, which threaten to invalidate the promise made by the International Community in 2000 to eradicate extreme hunger and halve by 2015 the proportion of people whose income is less than one US-Dollar a day.

In such a situation a church development organisation like "Brot für die Welt"", which campaigns for the implementation of the rights of the poor and improvement in their living conditions and nutrition, must obviously also deal with the serious flaws in the financial market regime. It is time for a radical change of policy. Indeed, the commotion that triggered the global crisis provides a historic opportunity for just this, despite the apparent restoration of the same old irresponsible activities in many areas.

The global financial market requires new rules and clearly defined boundaries to ensure that the financial sector serves human development and the real economy. This is above all, but not exclusively, a regulatory issue – it is also related to the expectations institutional and private investors for associate with their investments. Not the banks alone, but also clients of financial service providers bear responsibility and can become more responsible by demanding and monitoring social, ecological and human rights criteria in their investments.

Right from the beginning "Brot für die Welt" has taken into account the existing imbalances in international economic relations, as well as the impacts that lifestyle and buying habits of German consumers have on the poor regions of the world. In the process of raising awareness for responsible consumption, fair trade has proven to be a crucial instrument, one that can specifically help in supporting disadvantaged small and micro family businesses all around the world.

In the early 1970s “Brot für die Welt” was one of the initiators of Fair trade in Germany, thus playing a major part in its success story. In certain product segments Fair trade has proven that it is possible and effective for international trade to follow ethical standards. Clients appreciate the consideration of social and ecological criteria; marketing products for which the producers receive a fair price is commercially successful and economically sustainable. Fair trade has helped to provide thousands of smallholders in Africa, Asia and Latin America with a life in dignity and a secure economic existence.

Economic activities should serve life – and so should not only international commodity trading, but also global financial markets. Failing to deal responsibly with risk is the cause of the recent financial market crisis. The financial markets can only safely and sustainably perform their main task, that is, supply the real economy with capital, if all financial market players act in a socially responsible manner. Thanks to decades of experience in development cooperation and Fair trade, and based upon the expertise of numerous partner organisations all around the world, “Brot für die Welt” emphatically advocates applying the positive experiences of socially responsible economic activity to the financial sector. Integrating social and environmental criteria into capital expenditure and investment decisions can make a substantial contribution to sustainable economic policy-making. Fair trade and fair investment pursue the same goal: the orientation of globalised economic stock activities to enhancing the common good.

What we call "sustainable investments" is a fast-emerging field in the financial market. Since the financial crisis there has been an increasing demand for sustainable investment funds by private and especially institutional investors. The volume of the sustainable investment market in Europe has almost doubled in two years, amounting to approximately 5 trillion euros in 2010 – with rising tendency. Yet so far the issue of how – beyond the protection of natural resources – such investments can contribute to development and improve the living conditions of the poor has remained largely unaddressed – despite the fact that global stock corporations obviously have a considerable impact on the living conditions of people in the poor countries – in a both positive and negative way.

Based on its experience of over 50 years in development cooperation, “Brot für die Welt” has joined forces with the SÜDWIND Institute for Economics and Ecumenism to elaborate differentiated criteria for assessing the impact of financial assets on development criteria which are continuously updated. The intention is to establish high standards for socially responsible behaviour on capital markets. Because apart from consumers’ buying decisions, the investment decisions of financial investors are what provides the crucial incentives for a socio-ecological corporate policy and fairer economic policy-making. The criteria we have developed for a development oriented investment fund follow the triad that guides all our actions: Justice, Peace and the Integrity of Creation. Each criterion has been operationalised accordingly and tested for its ability to assess corporations or countries.

With this publication we would like to present this set of criteria, which is innovative in setting priorities for development, with the hope that it will be able to give fresh impetus for the sustainable development of ethically-oriented investment funds. Before those criteria are presented in Chapter 3, Antje Schneeweiß will introduce their genesis and argumentation in the preceding chapter.

Since 2010 the KD Bank for Church and Diaconia (KD-Bank für Kirche und Diakonie) and the GLS Bank have offered a public fund managed by Union Investment, which has been adapted to the criteria we developed. More information is available from these two banks.

Based upon the criteria presented here, an independent research institute will make a pre-selection from the investment universe. For this “Brot für die Welt” has appointed a committee of development and finance experts from the North and the South, which is also entrusted with ensuring that the criteria are continuously advanced and validated.

Obviously, the implementation of criteria for ethical investment can only be one component of the efforts needed to influence financial markets and economic relations according to our Gospel-based guiding principle “Justice to the Poor”. An initiative like the one we are documenting here cannot replace other forms of direct influence on economic processes like, for instance, business dialogue, active shareholdership, informing and mobilising the public, and advocacy for our partner organisations in the South.

Ethical investments provide incentives for socially and ecologically responsible economic activities – nothing less, but nothing more either. For economic activity to serve life.

Dr. Klaus Seitz
Head of Policies and Campaigns
Brot für die Welt

# 2 Development Criteria in Socially Responsible Investment

## 2.1 Historical development of sustainable development

**From a clear conscience …**

The history of ethical investment starts with the Methodists, who were mindful even back in the eighteenth century not to invest their money in breweries, gambling or prostitution. Since the early twentieth century Quakers, for reasons of pacifism, have refused to invest money in arms factories or in countries with armies. In both cases these Christian communities were determined not to support anything with their money that they opposed for ethical reasons.

**… via a political instrument …**

After the Second World War even more was at stake. The Civil Rights Movement in the 1960s advocated withdrawing investments from companies that discriminated against black people. This was not just about having a clear conscience: they wanted business managers to think about and change their actions. The same motivation formed the basis for the anti-Vietnam War and anti-apartheid movements, both of which used divestment as one of many political measures to achieve their goals. The anti-apartheid movement was particularly successful in doing so. The divestment, also of institutional investors, from companies active in South Africa actually caused executive committees to weigh the pros and cons of remaining in that country – often coming to the conclusion that it would be better to leave.

**… to sustainability**

When critical analysis of money investments gained ground in continental Europe, criteria changed once more: they turned "green", called first "ecological" and later "sustainable" investments. For initiators of or investors in socially responsible investments, too, it is less a matter of ethical actions than of influencing entrepreneurial actions. What is new about this ecological alternative is that it does not merely strive to punish negative behaviour with divestment, but is also on the lookout for companies acting positively. With the advancement of sustainable development, sophisticated rating systems with hundreds of criteria have emerged, so as to distinguish between corporations' negative and positive behaviour, allowing potential investments to be analysed and compared with each other.

Ecological and sustainable investments often also consider social issues like human rights, equal rights and labour conditions, but they focus on ecological aspects. Hence an eco-efficient business management that assists in systematically reducing toxic emissions and the consumption of energy and water is an important criterion. Companies active in the area of regenerative energies are preferentially included in sustainable funds, as are producers of environmental technologies, for instance water conservation and purification.

So far there has been no research analysing how sustainable funds have affected companies, but there are indications that top management in many stock corporations has become susceptible to the demands of sustainable investors. Thus stock corporations advertise with the fact that they feature in recognized sustainability indexes – while a looming exclusion can become a matter for the management board.

At the same time there are indications that sustainability-oriented investors make it easier for companies with excellent sustainable economic activities, for instance, pioneering work in the field of renewable energy, to raise capital through the stock market.

The Ecumenical Development Cooperative Society Oikocredit has been successful for decades in providing investment opportunities to the microfinance sector, thus (still) acting as a motor for development cooperation. Oikocredit goes back to an initiative of the World Council of Churches. Microfinance products (loans, savings programmes and insurance) allow poor people to gain access to the financial market they have been denied so far. Microfinance institutions (MFIs) and intermediaries like Oikocredit represent one economic sector among many that welcome development-relevant investments. Similarly, effects on development can be achieved by targeting other asset classes like shares and bonds.

## 2.2 Making sustainable investments promote development

Against this backdrop the SÜDWIND Institute for Economics and Ecumenism, “Brot für die Welt“ and other development organisations asked how the instrument of sustainable investment could be better used for development policies beyond the microfinance sector.

That meant dealing with existing sustainability funds, in particular for institutional investors from a development perspective. And it required the development of alternatives, which the SÜDWIND Institute included in its plans for the long-term project on "Investing in Human Development" (“Investitionen in die menschliche Entwicklung”).

The first part of the project involved analysing and further elaborating the development relevance of existing criteria used by sustainability rating agencies and funds. The second part focussed on the issue of improved information procurement from actors in developing countries.

In the third part the results of the first two phases were to be exemplarily implemented in the capital market. For this purpose new political criteria had to be developed in cooperation with “Brot für die Welt" to define the investment universe of a newly issued investment fund.

## 2.3 Which criteria existed already?

The first step was an analysis, and the guiding questions were:

■ Which development criteria do sustainable funds mention in their securities prospectuses/sales brochures?

■ Which development criteria do rating agencies apply in their criteriologies?

■ Where do experts from developing countries see the need for modification?

The SÜDWIND publication Investments in Human Development, issued in 2005, summarises the result of this project stage. It became apparent that development criteria played a subordinate role, especially on the level of sustainable funds investing in stock corporations (of which 86 existed at the time). Only 18 of the total of 82 criteria listed by those funds were directed toward the plight faced by the population in developing countries.

Categorized according to issues these are:

- child labour,
- forced labour,
- discrimination,
- human rights violations,
- violations of trade union rights,
- repressive regimes and
- inhuman working conditions.

In the area of positive criteria results were even more meagre – only the three rather hazy criteria “Equal Working Conditions Worldwide,“ “Promoting Fair Trade,” and “Relations to Developing Countries“ referred to the issue of development.

In contrast, the criteriologies used by sustainability rating agencies and bank departments to examine stock corporations, some of which involve several hundreds of criteria, proved to be considerably more detailed.

These analyses focussed specifically on the working conditions in suppliers in developing countries. Their purpose is to assess the systems that the purchasers of the good – usually Western chain stores or sports apparel manufacturers – have put in place. Other issues include, for instance, whether companies are active in countries where human rights violations are prevalent, and how a company handles the rights of the local population.

It is striking that the underlying suspicion that Western companies act in a negative way in developing countries features in the criteria not only of the funds, but also of rating agencies. In these systems there is hardly any chance for companies to improve their rating by, for instance, promoting further training for local employees, creating (secure) jobs, or supporting knowledge transfer. In view of the positive impetus sustainable investments have given the environmental management of some companies, this is a missed opportunity.

Similarly striking is that these criteriologies were designed much more around exposing certain scandals, concerning specific grievances in developing countries published by non-governmental organisations, and much less toward classifying corporations by taking into account the whole range of positive and negative effects multinationals can have on developing countries.

In the assessment of government bonds for pension or mixed funds a number of development-relevant criteria were already been applied, like the amount of development aid paid, and whether the country has signed the Kyoto Protocol and the International Covenant on Economic, Social and Cultural Rights (ESCR).

However, it is worth noting that in the final assessment these development-relevant criteria are generally of little consequence for countries. In addition, significant international aspects like the national contributions to debt relief are not considered.

## 2.4 Bridging the Information Gap

Based upon this survey, further criteria were discussed in a workshop with nine experts from developing countries and seven analysts from sustainability rating agencies.

The following gaps particularly caught the eye of the participants:

- The specific situation of women in developing countries has not been taken into account. Equal wages and equal opportunities for advancement should become a criterion here.

- Similarly, the issue of the informal sector, which tends to be quite large in developing countries, should be addressed in a set of criteria.

- Tax honesty must be considered as an important issue, since developing countries are particularly affected by certain “tax avoidance schemes”.

- It was further suggested that knowledge transfer to suppliers, the establishment of local research and development activities as well as the training of local staff should be accounted for.

Regarding investment in government bonds, the following criteria should be added:

- Willingness for debt relief of highly indebted countries;

- Commitment to the transfer of environmentally friendly technologies;

- Campaigning for equal treatment of developing and emerging countries in the international context.

There was consensus regarding the fact that communication about the impacts of the actions of international corporations in developing countries is unsatisfactory. Sustainability analysts often received only second-hand information, and then from the companies in question. Therefore three years later a second workshop took place with the title "Bridging the Information Gap".

## 2.5 A wealth of local information

While the first workshop was meant to give input into the elaboration of development criteria, the goal of the second was to indicate what additional information experts from the developing world could contribute on companies included in sustainability funds. Seven case studies from Indonesia, South Africa, India, Brazil and Pakistan proved that a wealth of positive and negative information on multinationals is available locally, little of which has been integrated in the assessment of sustainability rating agencies to date.

This became impressively clear in the cases of the French hypermarket chain Carrefour and the multinational corporation Unilever in Indonesia. Professor Yahya Wijaya of the Center for Ethics and Professionalism in Yogyakarta revealed, for example, that fraudulent behaviour by Carrefour towards suppliers was verifiable. At the same time he was able to demonstrate that, through its cooperation with a development project for the improved cultivation of soy in Indonesia, Unilever contributed to food security. The workshop participants recognized that direct and independent information from developing and emerging countries could provide a crucial contribution to the current improvement of sustainability ratings.

## 2.6 Development criteria for an investment fund

The outcome of both workshops reinforced the notion that development issues should receive a higher profile in sustainability funds and for their analysts. It also called attention to the fact that analysts hardly have any direct contact to actors in these countries, which presents a major obstacle to verifying the actual facts about development-relevant criteria and their operationalisation in the assessment procedures, let alone to obtaining first-hand information.

And it was obvious that this would not change until investors demanded that more weight should be attached to the development perspective. As a result the joint project of SÜDWIND Institute and “Brot für die Welt" emerged to develop a criteriology for an investment fund with development criteria, and to seek the support of financial service providers for the implementation.

## 2.7 Problems in developing the criteria

In defining a set of criteria for companies emphasizing development, there were barriers to be overcome: other fundamental issues like animal testing, alcohol, or nuclear power were not to be neglected in such a criteriology. But this makes the list of criteria quite a long one, and increases the risk that there might not be enough companies suitable for the fund. Yet without enough investment options, such an investment fund could not be launched in the capital market, since the possibilities would be too limited to diversify the investment into a large number of stock certificates and economic sectors to lower the risk, thus leading to a highly volatile performance.

In assessing the new criteria for judging corporations from a development perspective, another problem occurred: information procurement. Companies were asked completely new, unfamiliar questions outside the standard canon, for instance, about the situation of their employees in developing countries. And it was obvious that some of these questions, for instance, about dubious lobbying activities, could be answered only through external enquiries by NGOs – if at all.

Still, many of these difficult to investigate criteria were included because the initiators are interested not only in defining and processing a set of criteria, but also in advancing sustainable investments, as investors and their rating agencies are demanding more commitment to development from companies. That includes asking inconvenient questions, some of which they may not even be able to answer immediately. An encouraging result is that over the last 15 years companies have increasingly adapted their sustainability, environment and social reports to the questions of critical investors.

In developing the criteria for countries the assessment of arms exports into conflict areas proved to be one of the most critical issues. The database of the Stockholm International Peace Research Institute (SIPRI) shows that, with the exception of two or three Scandinavian states, all industrialised countries supply crisis areas like the Middle East with weapons.

The newly applied criterion, according to which countries that have set up a procedure to restrict armaments in conflict zones can be included, is a compromise that assesses the more or less operational mechanisms of restricting arms exports to the respective countries, but not the actual exports. However, this is the only way that a sufficient choice remains available for the fund management to invest in government bonds.

## 2.8 A new criteriology

In order to adapt the new criteriologies and their development approach to a structure of values, they were rooted in the fundament of the Ecumenical Movement's triad: Justice, Peace and the Integrity of Creation.

Both negative and positive criteria for countries and companies are structured according to these guiding values. The initiators attach great importance to this, because it provides not only ethical grounds for the development orientation, but also legitimation, as it is based on the global process which established these values. What is more, it puts the issue of "justice" first, thus allowing it to be interpreted – true to the intent of the Ecumenical Movement – as global justice. "Justice to the Poor" is the ethical guiding principle of "Brot für die Welt".

Human rights were also relevant for the elaboration of criteria. In the process human rights are conceived as all-embracing, in other words: in addition to civil and political rights, equal consideration is given to economic, social and cultural rights.

Given that activities in the financial market can have far-reaching effects on entire economies – as recently proven by the global financial crisis – a development-oriented investment fund excludes certain instruments and practices that may have a destabilising effect.

## 2.9 Exclusion criteria for companies, countries and development banks

In choosing exclusion criteria a major priority is to effectively eliminate inacceptable policies by companies, countries and organisations (especially development banks) from an ethically oriented investment universe. In addition to systematic human rights abuses, this includes violations of the International Labour Organization (ILO) Fundamental Conventions, which state the fundamental economic rights of employees, for instance, in the Right to Organise and Collective Bargaining Convention, the Abolition of Forced Labour Convention, the Worst Forms of Child Labour Convention, and the Discrimination (Employment and Occupation) Convention.

Moreover, issues are chosen with specific relevance for development, like corruption and inacceptable behaviour by security forces, targeted lobbying for lower social and ecological standards, as well as the failure to pay minimum wages and the establishment of monopolies in a developing country.

For the assessment of countries the Gini Index of the United Nations Development Programme was consulted in addition to human rights and corruption. The Gini coefficient is a measure of the inequality of income distribution in a country: the higher the coefficient, the more unequal the income distribution. While this value is not a statement on the development status, it does reveal something about the social coherence of a country, and, in times of growing income inequalities in the majority of countries, gives substance to the value of "justice".

The coefficient 40 for industrialised countries has been chosen so as to exclude only countries with extremely high Gini coefficients like the USA, Singapore and Hong Kong. This criterion is not used for developing or emerging countries, as it has been proven that even high-income inequality may be accompanied by some poverty reduction. These countries fulfil the criterion if a measurable long-term positive trend can be discerned in terms of a successful fight against poverty.

The category "peace" is applied to assess not only whether companies produce arms (a traditional criterion for exclusion), but also whether they indirectly support conflicts. This includes economic assistance to repressive regimes as well as the purchase of resources in war zones, if the money paid are used to finance the conflict. UN Security Council documents often provide detailed information on such activities. Countries are excluded where human rights are systematically abused, and therefore political, civil, economic, social or cultural rights are violated.

The criterion "Integrity of Creation" serves to exclude those companies whose policies or products cause severe ecological damage. Key exclusion criteria include genetic engineering, production of one or more of the 21 most toxic and persistent chemicals, as well as the destruction of natural reserves. Countries that fail to sign essential international climate protection protocols are also excluded.

The exclusion criteria for development banks are guided by those for companies. The financing of projects that entail systematic human rights violations or environmental destruction, or activities in the areas of nuclear power or genetic engineering, result in an exclusion.

## 2.10 Other exclusion criteria

The category “other exclusion criteria” summarises a sub-group of issues that traditionally lead to exclusion from ethical funds, like producing alcohol or supporting pornography and prostitution.

Also excluded are companies that conduct stem cell research, to which both the German Bishops' Conference as well as the Protestant Church in Germany have objected in public.

Bank shares are accepted in development-oriented funds only as an exception, because many banking establishments do not disclose quality information regarding their business operations. By enabling business in shadow banking systems and speculating with currencies from developing and emerging economies they can do particular damage. To be considered an exception, the bank’s operation must show direct social benefits, as in the case of microfinance institutions; or the bank must have subjected its entire business operation to ecological and social criteria.

## 2.11 Positive criteria: basic orientations

Negative criteria are unambiguously clear in their excluding effects. Positive criteria, however, raise the issue as to which positive criteria must exist to what extent to satisfy the requirements of a sustainable financial investment with development criteria.

Rating agencies have therefore developed sophisticated screening procedures with scores for individual aspects, which are summed up to yield an overall score. Hence many funds have defined a minimum score a company must achieve in a rating procedure for it to be included.

For development-oriented funds a different procedure has been chosen. The positive criteria are divided into six categories (for countries) or seven (for corporations).

In order to be included, a company, a country or an organisation that has passed the negative screening must show a clearly positive performance in at least two of these categories. Companies may also be included if their performance is positive only in the “development promotion” category, or if they meet the “product developmentally sound” criterion.

**Categories for companies and development banks:**

- Human rights,
- Sustainable business management,
- Development promotion (internal or external),
- socially and developmentally sound products and projects,
- Environmentally sound products and projects,
- Environmental management,
- Environmental management in developing and emerging countries.

**Categories for countries:**

- Human rights,
- Commitment to development,
- Commitment to peace,
- Good governance,
- Environmental protection in the national context,
- Environmental protection in the international context.

## 2.12 Positive criteria for companies

The advantage of this screening process is that it benefits smaller first movers, which usually come off badly in the company assessment of sustainability criteria, as these tend to apply the best-in-class approach. The usual procedures attach great importance to compliance with environmental and social standards, which small first movers cannot establish to the same extent as big companies.

By placing more emphasis on the social and ecological qualities of products, first movers get a better chance to be included in a development-oriented fund as long as they meet the strict exclusion criteria. For big companies that can produce good procedures in complying with ecological and social standards, however, it is more difficult to pass the test due to the high demands of the exclusion criteria.

Besides, this procedure does not "automate" the inclusion or exclusion of shares/securities. What may initially appear as a disadvantage was set up deliberately by the initiators owing to their belief that ethical decisions cannot be achieved by numerically balancing plus factors against minus factors. Hence the ultimate decision in favour of or against a company, a bank or a country is not generated automatically by a fund operating according to these criteria, but is made by a panel – the Criteria Committee – that measures the values and their priorities. Its decision is supported by the diagrammed and detailed data provided by the rating agency imug Beratungsgesellschaft für sozial-ökologische Innovationen mbH (www.imug.de). This consulting agency was a spin-off of the Institut für Markt-Umwelt-Gesellschaft in 1995 and provides, among other services, investment research and counselling for sustainable investment.

In the first instance positive criteria revert to the issues that already appear in the negative criteria. In this assessement the positive criteria are analysed to ascertain whether the company is making special efforts in respecting human rights; for instance: does it implement specific measures to improve working conditions in its subsidiaries? Has it improved its record on equal opportunity, and in doing so considered the special situation of women in developing countries?

A company can score additional points by creating formal jobs, especially in developing countries. These criteria include education and training measures for local staff, especially in developing countries, and involving suppliers in the effort of providing formal jobs.

The topic of "sustainable business management" includes aspects like management remuneration, transparency, fair competition and corruption as well as tax honesty and dealing with stakeholders. The latter explicitly refers to the employees and local communities and not to the shareholders, who represent a comparatively powerful economic group of stakeholders.

The issue of "development promotion" is probably the most innovative one. This concerns the company's measures to enhance development. In addition to the ones already mentioned these include:

- the number of local management personnel,
- the inclination to establish research and development departments in developing countries,
- the extent of reinvesting returns from developing and emerging countries back into their economies,

**The Criteria Committee**

“Brot für die Welt” has appointed a Criteria Committee for the advancement of the criteria portrayed here, the members of which are renown development and financial experts. The Criteria Committee verifies the operationalisation of the social, ecological and development criteria as well as their compliance based upon the company and country ratings by the sustainability rating agency imug.

The members and advisors of the committee are:

- Heidemarie Wieczorek-Zeul (Committee Chairwoman), Member of the Bundestag (MdB) and former German Federal Minister of Economic Cooperation and Development
- Alberto Acosta, economist, former Minister for Mining and Energy, Quito/Ecuador
- Dr. Karin Bassler, “Brot für die Welt,“ Expert on Financial Markets Organisation and Ethical Investments
- Reverend Cornelia Füllkrug-Weitzel, Director of “Brot für die Welt"
- Thomas Goldfuß, GLS Bank, Head of Customer and Investment Counselling
- Prof. Dr. Dorothea Greiling, Kepler University Linz, Director of the Institute for Management Accounting
- Christian Müller, KD-Bank für Kirche und Diakonie, Head of the Marketing Board
- Silke Riedel, imug, Head of Investment Research
- Antje Schneeweiß, Research Scholar of the SÜDWIND Institute
- Dr. Klaus Seitz, “Brot für die Welt", Head of Policies and Campaigns Department
- Ingo Speich, Union Investment, Funds Manager
- OKR Heinz Thomas Striegler, Head of Finances of the Protestant Church in Hessen and Nassau (EKHN)
- Michael Windfuhr, Deputy Director of the German Institute for Human Rights

- the commercialisation methods in developing and emerging countries.

These criteria shall reveal how much consideration for development a company applies in its business activities. Two categories of criteria are dedicated to the social and ecological benefits of the products manufactured or marketed. This is based on the notion that, given how scarce resources are, it certainly makes a difference whether rare metals, for instance, are used for costume jewellery, surgical instruments or solar power plants.

The “environmental management” category considers the company’s management in this respect as well as climate policy and the most significant environmental performance indicators such as the consumption of water, energy and waste. As a separate criterion the environmental commitment of the company to developing and emerging countries is screened. This aspect looks into the corporation's cooperation with suppliers on climate change mitigation measures and the conservation of often fragile biodiversity and natural resources.

## 2.13 Positive criteria for development banks

Criteria focusing on “development“ would be incomplete if they were to disregard development finance institutions (DFIs). Among the development banks, these are the institutions that fund, for instance, infrastructure or supporting the economy in developing countries. The same criteria as for other companies apply to DFIs, plus the following additional criteria:

A DFI receives a positive assessment if the recipients of credit have voting rights or other means of exerting influence within the bank's decision-making structures. Another aspect is the evaluation of the standards applied to verify effects which the promoted products have on people and the environment, and the guidelines for granting loans at reduced interest rates for products of particular social and ecological value.

## 2.14 Positive criteria for countries

For the positive criteria applied to countries, priority has also been given to the realisation of economic, social and cultural rights. Here developing, emerging and industrialised countries are still in a process, the progress of which must be documented with frequent reports. The reports are the basis for the assessment. A rather crucial, albeit as yet often disregarded factor for a development-oriented fund, is the extent to which a country advocates the implementation of economic, social and cultural rights in the international context.

The categories “Good Governance” and “Integrity of Creation within the National Context” mostly include well-established criteria on these issues. What is new, however, is that international commitment to environmental protection receives special emphasis through a separate category. This especially includes national and international climate change mitigation measures as well as the signing of the Cartagena Protocol on Biosafety, which seeks to protect biological diversity from the potential risks posed by genetically modified organisms (GMO).

Individual criteria for countries that seem particularly innovative from the development perspective are:

- How does the country perform in the “Commitment to Development Index" (CDI), an index that measures a country's overall dedication to supporting developing countries?

- How much of the funds available for development cooperation are used for poverty alleviation?

- Does the country campaign for debt relief for developing countries?

- Does the country promote the equal treatment of developing countries on the international level, for instance, in the distribution of power in the executive boards of the International Monetary Fund and the World Bank?

- For developing and emerging countries, a special criterion demands that over several years a measurable positive trend is discernable in successfully fighting poverty and reducing extreme social inequality.

## 2.15 Analysis by a rating agency

The sustainability rating agency imug assesses companies and countries as well as other issuers of fixed-income securities according to this special set of criteria. In so doing, the rating of the British sustainability agency Experts In Responsible Investment Solutions (EIRIS) is used as far as possible (www.eris.org).

EIRIS is an independent non-profit organisation that conducts investment research and offers counselling as well as ratings focussing on corporations' environmental, social, management and ethical performance. Moreover a specific questionnaire regarding development issues has been developed and distributed to suitable companies.

Besides this voluntary disclosure of information, sources from independent third parties, non-governmental organisations and the media are included. The companies that come into consideration are first screened thoroughly for possible violation of any of the exclusion criteria. Following an assessment based upon the positive criteria, the remaining companies are subdivided into the categories 'A', 'B' and 'C': 'A' (suitable, positive performance in at least two of seven categories), 'B' (suitable only to a limited extent, positive performance in one of seven categories), and 'C' (not suitable, no positive performance).

The 'A-List' includes companies like, for example, Green Mountain Coffee with a share of fair-traded coffee far above average, and the Brazilian natural cosmetics manufacturer Natura Cosmeticos, whose outstanding environmental and social policies have been attested by local experts.

Yet other securities did not make it on the list of the suitable companies, despite a good approach. For instance, the German company "Heidelberger Druckmaschinen" (Heidelberg) has an outstanding education and training programme worldwide, including developing and emerging countries. Yet compared to other companies it makes considerably less effort to prevent corruption and does not publish a code of conduct that is binding for its employees.

## 2.16 Behaviour in the capital markets

In addition to the demands made for companies and countries, a development-oriented fund also imposes restrictions on itself. For with the global financial crisis, if not long before, it has become obvious that financial market actors must act according to ethical standards, because their actions often have far-reaching effects on entire economies. And developing and emerging economies are often affected in a particularly negative way.

**FairWorldFonds**

In March 2010 Union Investment issued the FairWorldFonds, which is distributed by the Protestant KD Bank for Church and Diaconia (Bank für Kirche und Diakonie) and the GLS Bank. The FairWorldFonds is a global, mixed-asset fund that focuses on investing worldwide in fixed-income securities and shares, as well as up to 10 per cent in microfinance funds. In so doing, investment decisions are based upon social, ecological and development criteria. These criteria have been elaborated by "Brot for die Welt" in cooperation with the SÜDWIND Institute. A committee of development experts from North and South sees to it that these criteria are continuously advanced and verified.

Investors can support projects in countries of the Southern hemisphere by donating their annual fund dividends to "Brot für die Welt," for which the agency issues a tax-deductible donation receipt.

For detailed product-specific information regarding the chances and risks of the fund, please refer to the current sales brochures, the terms of contract as well as the annual and mid-year reports, which can be obtained free of charge from the customer service of the Union Investment Service Bank AG as well as via the KD-Bank for Church and Diaconia and the GLS Bank. These documents alone serve as the binding basis for the purchase of fund shares. For further information, visit www.fairworldfonds.de.

Since 2010 Union Investment has offered the FairWorldFonds, an investment fund whose investment universe is guided by the above described criteria of "Brot für die Welt" and the SÜDWIND Institute. The fund management selects the individual securities from the sustainable investment universe in due consideration of economic aspects.

Moreover the FairWorldFonds acknowledges responsibility for its actions in capital markets and has stipulated the following self-imposed restrictions:

- The financial means of the funds are used neither for speculations with foreign currencies nor derivative finance instruments,

- financial derivatives are used exclusively for hedging,

- the fund management seeks long-term investments,

- no investments are made in the bonds of companies that have removed their headquarters to a shadow financial centre for tax purposes.

## 2.17 At the beginning of the road

By defining a set of criteria that is guided by a development perspective, its practical implementation in researching corporations by a sustainability rating agency, and the selection of the first securities for the FairWorld-Fonds, development criteria have been introduced into ethical investment. In doing so an instrument has been created for the selection of investment in countries, companies and organisations, whose activities are better compatible with the goal of justice and development worldwide than those of many other actors.

But the set of criteria is not static. For everyone involved in this project, applying the criteria within the framework of the FairWorldFonds has meant starting up a learning process. The implementation process constantly provides new insights into the matter of how investments can bring about more justice for the poor. In turn, these insights are reflected in the advancement of the criteriology. Investors, and in particular institutional and church investors, show great and persistent interest in the implementation of these criteria in the capital market.

There is still a long way to go for achieving investments benefitting development, especially for issuers of securities. For many companies that have not yet been targeted by critical non-governmental organisations, the question of their contribution to global development is new. Answers come slowly and are seldom complete. But the first step has been made: a dialogue has been initiated. In the years to come the task will be to extend this dialogue, and to commit more and more companies to consider the particular situation of the poor in the developing countries by applying criteria that promote development.

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# 3 Criteria for an investment fund with the focus on development

## 3.1 Criteria for companies listed on the stock exchange

| Criteria | | Specification |
|---|---|---|
| **1** | **Exclusion criteria** | |
| **1.1** | **Justice** | |
| 1.1.1 | The company systematically violates one of the four fundamental ILO principles. This applies for both, the own business operations as well as for important suppliers, especially in developing and emerging countries. | The four fundamental ILO principles encompass: the right to organise and to collective bargaining, the abolition of forced labour, the abolition of child labour, and the ban on discrimination in employment and occupation. |
| 1.1.2 | The company is responsible for systematic minimum wage violations. | In company-owned plants or important suppliers wages are systematically paid below the mandatory minimum wage. |
| 1.1.3 | The company is responsible for systematic human rights abuses. | The civil, political, economic, social and cultural human rights are systematically violated. That includes that the company is responsible, if people are denied or have only restricted access to water, to food, to primary education and primary health care, that is, the satisfaction of their basic needs. Special attention is given to controversies with local communities concerning their livelihood (destruction of nature, forced relocation etc.). |
| 1.1.4 | The company systematically violates the United Nations "Basic Principles on the Use of Force and Firearms by Law Enforcement Officials" and the "Code of Conduct for Law Enforcement Officials" by security forces of the company. | Companies operating in countries in which according to the Amnesty International report private security forces and/or law enforcement officials systematically violate human rights on behalf of the companies are under observation. In 2009 these countries included among others Columbia, Myanmar, Nigeria and Sudan. |
| 1.1.5 | The company is systematically involved in corruption and bribery. | There are verifiable and credible accusations that the company has violated internationally accepted anti-corruption standards like, for instance, UN Global Compact or the United Nations Convention against Corruption. |
| 1.1.6 | The company is doing systematic lobby work in public institutions with the aim of lowering social and ecological standards. | The organisations "Lobby Watch" and "Corporate Europe Observatory" are consulted by default to collect data on this exclusion criterion. Also considered is information regarding individual cases whenever available, for example, through participants of international conferences. |
| 1.1.7 | The company exploits a monopoly in a developing or emerging country. | Credible and plural confirmed reports by relevant organisations suggest a monopoly position of the company in one or several developing and emerging countries. |
| **1.2** | **Peace** | |
| 1.2.1 | The company produces armaments. | The production of arms is excluded as a rule; the production of other armaments if the percentage of the company's turnover is above 5%. |
| 1.2.2 | The company supports with its activities repressive regimes or civil wars. | According to reports of the UN Security Council the company is supporting repressive regimes or civil wars. Research standard is to consider reports of the UN Security Council, if needed other sources are consulted. |

| Criteria | | Specification |
|---|---|---|
| **1.3** | **Integrity of Creation** | |
| 1.3.1 | The company is holding patents on plant or animal genes, or it produces genetically modified crops. | The company is producing or distributing e.g. genetically modified corn or cotton seeds. |
| 1.3.2 | The company produces electricity generated by nuclear power or extracts uranium. | Building components for nuclear power plants or services for the nuclear industry are excluded if the percentage of turnover lies above 5%. |
| 1.3.3 | The company conducts non-statutory animal testing. | In particular companies testing animals for their cosmetic products are excluded. In medical research animal testing is generally required. |
| 1.3.4 | The company produces one or several of the 21 most hazardous chemicals or persistent organic pollutants (POPs). | These 21 compounds include the "dirty dozen" – aldrin, chlordane, DDT, dieldrin, endrin, heptachlor, hexachlorobenzene, mirex, polychlorinated biphenyls, polychlorinated dibenzo-p-dioxins, polychlorinated dibenzofurans, and toxaphene – as well as 9 new POPs according the Stockholm Convention. |
| 1.3.5 | The company is active in protected areas and is causing damage there. | Verifiable and credible allegations suggest that the company is active in protected areas and doing damage to the ecosystem there, thus violating the Convention on Biological Diversity. Incidents may include: damage to the ecosystem, the natural habitat or endangered plant and animal species, deforestation of especially protected areas or trading endangered species. |
| **1.4** | **Further exclusion criteria** | |
| 1.4.1 | The company is a bank with unrestricted business activity and no exclusion criteria. | Only banks that have defined their entire business activities according to exclusion criteria or banks that have specialised their business activities on a specific, ethically neutral business segment (mortgages on private homes, municipal bonds) can be included. The assessment of the bank in question is based upon a sustainability rating for special banks. |
| 1.4.2 | The company generates more than 5% of its turnover with the production of alcohol. | That excludes breweries and distilleries, but not companies distributing alcohol like supermarket chains. |
| 1.4.3 | The company is involved in prostitution or produces media with pornographic content. | This criterion excludes media producers of pornography. |
| 1.4.4 | The company conducts embryonic stem cell research. | Thus all big pharmaceutical companies where there are indications for embryonic stem cell research are excluded. |
| 1.4.5 | The company generates more than 5% of its turnover with the production of tobacco products. | This criterion excludes producers as well as distributers of tobacco products. |

| Criteria | | Specification |
|---|---|---|
| 2 | Positive criteria | The positive aspects of a company that does not violate an exclusion criterion are assessed by means of the positive criteria. In order to be included the company must either positively perform in the subcategories “development promotion” or “products benefitting development” or in at least two of the seven categories.<br><br>The categories are:<br>2.1.1. Human rights,<br>2.1.2. Sustainable business management,<br>2.1.3. Development promotion,<br>2.1.4. Socially and developmentally sound projects,<br>2.2.1. Environmentally sound products,<br>2.2.2. Environmental management,<br>2.2.3. Commitment to the environment in developing countries. |
| **2.1** | **Justice** | |
| **2.1.1** | **Human Rights** | Contributions the company makes to implement human rights |
| 2.1.1.1 | Assessment of measures taken by the company within its sphere of influence to prevent a violation of the political, civil, economic, social and cultural human rights | The company has included the subject of “human rights" in its guidelines and established mechanisms warranting compliance with these rights within its sphere of influence. That includes in particular measures to protect the human rights of indigenous population groups. |
| 2.1.1.2 | Assessment of measures taken to improve the working conditions in subsidiaries and suppliers especially in developing, emerging and transforming countries | The assessment of measures includes the following criteria: ILO fundamental conventions, job security, payment of livelihood securing wages, compliance with ILO norms regarding working hours and payment of overtime.<br><br>The company has a corresponding code of conduct and takes specific measures for its implementation. The company reports frequently on those measures and is subject to independent monitoring. Also considered are measures against the spreading of HIV/AIDS as well as assistance for employees, who are already infected or contracted the virus, and specific improvement measures, like for example professional trainings of suppliers. An indicator for that is the number of suppliers certified according to SA 8000. |
| 2.1.1.3 | Assessment of measures taken to create and secure formal jobs | The company consciously pursues a policy of securing formal jobs. This may include: long-term location policy, over-average investment in the training of all employees, prioritising formal employment relationships over informal employment (including suppliers). Compare the number of formal to informal staff in one industrial sector or one company over the course of the past five years. |
| 2.1.1.4 | Assessment of measures taken for the advancement of women | The company has, for instance, developed a plan for the advancement of women, is conducting specific further trainings for women, and in specific low-qualified women, and provides low-cost and high quality childcare for all female employees. |
| 2.1.1.5 | Assessment of measures taken to improve in specific the situation of women in production sites and suppliers in developing and emerging countries | Depending on the cultural context these measures can turn out rather diversely. For instance in Islamic countries door-to-door transportation of the female employees in a company-owned bus is considered to be very important. |
| 2.1.1.6 | Assessment of women’s situation in the hierarchy of salaries and incomes | Comparing the amount of women on the lowest and highest wage scales to the amount of men |

| Criteria | | Specification |
|---|---|---|
| 2.1.1.7 | Assessment of measures taken for the specific advancement of the disabled and of minorities | Measures could be, for instance, the development and implementation of equal opportunities guidelines as well as measures in the areas training, informal employment, and suppliers, run by disadvantaged groups. |
| **2.1.2** | **Sustainable Business Management** | |
| 2.1.2.1 | Assessment of corporate governance | Assessment is geared to the four key elements of corporate governance: incompatibility of membership of the managing board with membership of the supervisory board, independent supervisory board, disclosure of the income of the members of the managing board, establishment of supervisory board committees working independently of the members of the managing board on the subjects of wages, revision and appointments. |
| 2.1.2.2 | Evaluation of the managing board fees | The board members' fees are compared with the average wage in the home country of the company. Alternatively they can be compared to the wages of suppliers in developing and emerging countries. Favourable assessments receive board members' fees that are moreover linked to the performance in the field of sustainability. |
| 2.1.2.3 | Evaluation of measures taken for corporate ethics | The assessment includes the following issues: competition law/ falsification of a balance sheet / fraud / conflict of interest / ombudsman for anonymous complaints /externally verified reports on business ethical issues. |
| 2.1.2.4 | Evaluation of measures taken against corruption and their actual implementation | The company has adopted a satisfactory to outstanding policy on the subject of bribery and corruption as well as implemented a management system, which guarantees and monitors in a satisfying to outstanding manner the implementation of and compliance with the standards. |
| 2.1.2.5 | Assessment of the company's tax honesty | For the assessment may be consulted: guidelines on the issue tax honesty, confident cooperation with fiscal authorities, disclosure of tax payments beyond the statutory degree, for example, by specifying tax payments per country. |
| 2.1.2.6 | Assessment of the company's donations for social and ecological purposes | Assessment based on the amount of donations for social and ecological purposes |
| 2.1.2.7 | Assessment of contact with stakeholders | Information on contact and dialogue with trade unions, employees, clients (product safety), abutters, affected indigenous communities, human rights organisations, providers, franchisees |
| 2.1.2.8 | Assessment of sustainability reports | Character and complexity of coverage, significance of development issues in coverage; is the company reporting within the framework of the Global Reporting Initiative (GRI)? |
| **2.1.3** | **Development Promotion** | |
| 2.1.3.1 | Assessment of measures taken for knowledge transfer from companies located in industrialised countries to subsidiaries and suppliers in emerging and developing countries | Subjects are: education and further training of local staff, research and development departments in those countries, knowledge transfer beyond the company, for example, to suppliers. (Maybe comparison of training in locations in industrialised countries with further training in locations in developing and emerging countries.) Dealing with patents and the transfer of environmental friendly technologies in development countries. |
| 2.1.3.2 | Percentage of local executives in subsidiaries in developing and emerging countries | Percentage should be at least 50% to receive a positive assessment. |

| Criteria | | Specification |
|---|---|---|
| 2.1.3.3 | Assessment of contact with suppliers from emerging and developing countries, contact with domestic suppliers | Subjects are: guidelines on fair dealings with suppliers in emerging and developing countries, support in quality management (avoidance of unnecessary time pressure etc./ transfer of know-how to suppliers, pricing pressure); absorption of costs for compliance with ecological and social standards; special trainings of suppliers in social standards, fair payments, contact with cooperative organised companies, share of fair traded products |
| 2.1.3.4 | Assessment of reinvestments of profits from developing countries | Percentage of profit generated by subsidiaries based in developing countries and reinvested in developing or emerging economies |
| 2.1.3.5 | Assessment of marketing products in developing and emerging countries | Subjects: Marketing (advertisement, marketing channels and product information) and product safety are reasonably adapted to the special circumstance in developing countries. The policy of marketing of products designed for bottom of the pyramid (BOP) is, however, regarded rather critical in this context, because the aim is to make poorer population groups to spend more money for e.g. cosmetics, and hence food quantity and quality may diminish. |
| 2.1.3.6 | Applies exclusively to the sectors "pharmaceutics, cosmetics and food": Assessment of dealing with traditional knowledge that is incorporated in the product development | How is the involvement of the native population guaranteed in the commercialization of indigenous knowledge? – (keyword "biopiracy") |
| 2.1.3.7 | The company actively pursues a policy of securing formal jobs in developing and emerging countries | This may include: Long-term commitment to a location, above-average investments in the education and training of the entire staff, prioritising formal employment relationships over informal employment –including suppliers. Compare the number of formal to informal staff in one industrial sector or one company over the course of the last five years. |
| 2.1.3.8 | Applies exclusively to the sectors pharmaceutics, biomedical engineering, hospital operators etc.: Assessment of accessibility of the offered products and services for poorer population groups in developing countries und industrialised countries (e.g. migrant labourers) | Examples: A pharmaceutical company facilitates access to its AIDS drugs for people in rural Africa, for instance, by distributing generics, or a US health insurance adapts to the special needs of Latin American immigrants. |
| 2.1.3.9 | Which proportion of the added value of the goods produced in developing countries is generated in the country? | It will receive favourable assessment, if a company generates a great proportion of the value added in a developing country, thus not only extracting its resources, but also processing them there. |
| **2.1.4** | **Socially and developmentally sound products** | |
| 2.1.4.1 | The company produces and develops products allowing in particular disadvantaged people to satisfy their basic needs | Example: A US health insurance specialised on the needs of migrants from Latin America, microfinance banks, development of drugs for diseases prevalent in developing countries etc. |
| 2.1.4.2 | Research and development of reasonable products that are adapted to the special conditions in the host country | Example: A cell phone provider in Africa offers a special rate for the communal use of its services. |

| Criteria | | Specification |
|---|---|---|
| **2.2** | **Integrity of Creation** | |
| **2.2.1** | **Environmentally sound products** | |
| 2.2.1.1 | Assessment of the environmental usefulness of products and services | Assessed is, if the product makes a sustainable contribution to mitigating environmental destruction, as is generally the case, for instance, with regenerative energies. |
| 2.2.1.2 | Assessment of measures taken to improve products regarding the environment and health | The company shows "satisfactory to good" performances in the area "product stewardship" and has implemented adequate and sufficient processes to continuously minimise the environmental impact of its products. |
| **2.2.2** | **Environmental management** | |
| 2.2.2.1 | Assessment of the company's environmental management | Aspects of this assessment are well-defined measures for environmental protection with definite targets, publication and development of the fundamental environmental performance indicators, external verification of environmental reporting, environmental certification of locations, and the environmental guidelines refer to the supply chain. |
| 2.2.2.2 | Assessment of the company's climate policy | Issues are: targets for the reduction of greenhouse gases, implementation, externally verified coverage, lobby work, use of regenerative energies (according to the current state of scientific debate the assessment of biofuels will be incorporated). |
| 2.2.2.3 | Assessment of the company's environmental certification | The company has implemented a satisfying to outstanding environmental management system or can prove certifications according to ISO 14001 or validations according to EMAS for at least 20% of its business activities. |
| 2.2.2.4 | Assessment of the company's environmental performance indicators | Consulted are the classical environmental performance indicators like consumption of energy and water, emissions in air and water etc. for the production and distribution of the products as well as indicators for emissions in transport and package. |
| 2.2.2.5 | The company has significantly reduced its energy consumption during the last three years and adopted quantitative targets. | The company has reduced its energy consumption by more than 2.5 percent and published quantitative targets regarding the reduction of its emissions and use of resources. |
| **2.2.3** | **Environmental commitment in developing and emerging countries** | This section above all assesses to what extent the companies also implement the above-mentioned measures in manufacturing plants in developing and emerging countries. |
| 2.2.3.1 | Assessment of environmental management in emerging and developing countries | Environmental management, measures for environmental protections with defined targets, publication and development of the basic environmental performance indicators, external verification of environmental reporting, certification of production sites, the environmental guidelines include the supply chain. |
| 2.2.3.2 | Assessment of the company's environmental performance indicators in emerging and developing countries | Consulted are the classical environmental performance indicators like consumption of energy and water, emissions in air and water for the production and distribution of the products as well as indicators for emissions in transport and package. |
| 2.2.3.3 | Environmental certification of production sites and suppliers in developing, emerging and transforming countries | For instance, certification of subsidiaries in developing and emerging countries e.g. according to ISO 14000 |

| Criteria | | Specification |
|---|---|---|
| 2.2.3.4 | Assessment of the cooperation with suppliers in developing and emerging countries for the improvement of their environmental balance | The company conducts tutorials on environmental management for its suppliers in developing and emerging countries and advises them in the implementation. |
| 2.2.3.5 | Assessment of measures taken to maintain biological diversity | This concerns in particular the sectors active in the areas of mining, oil and gas extraction, plantations, timber/wood and fishery. For the segments timber and fishery the Forest Stewardship Council (FSC) and Marine Stewardship Council (MSC) are existing eco-labels. So far there is no certification for plantations available. |

## 3.2 Additional Criteria for Public Banks, in particular Development Banks

The term “development banks“ encompasses all banks, whose guideline determine a funding purpose for the benefit of social, ecological and /or development projects and companies.

The criteria for companies listed on the stock exchange are applied, and furthermore the following additional criteria:

| Criteria | | Specification |
|---|---|---|
| **1** | **Exclusion criteria** | |
| 1.1 | The bank's guidelines include the promotion of activities contradicting the exclusion criteria for companies listed on the stock exchange. | This refers to activities, for instance, in the areas nuclear power or genetic engineering. |
| 1.2 | The development bank promotes projects, in which systematic human rights abuse and/or environmental destructions take place. | Credible and plural confirmed reports by relevant organisations suggest such projects. |
| **2** | **Positive criteria** | |
| 2.1 | Assessment of structures for participation of credit receivers | Receivers of credits have voting rights and/or possibility to exert influence within the decision-making structures of the development bank. |
| 2.2 | Assessment of verification standards of the ecological and social effects of the promoted projects | Consulted for the assessment are: character, complexity and implementation of standards, measures to verify their compliance during the entire project progression and sanctions in case of non-compliance. |
| 2.3 | Estimation of specific social and ecological funding guidelines | Sectors and projects especially worthy of funding, e.g. in the area of educational infrastructure, protection of resources, establishment of social security systems and health facilities as well as the funding of small and medium companies receive development loans with low interest. |

## 3.3 Criteria for Countries

| Criteria | | Specification | Data Availability |
|---|---|---|---|
| 1 | Exclusion criteria | | |
| 1.1 | Justice | | |
| 1.1.1 | Human Rights | | |
| 1.1.1.1 | Systematic human rights violations | Violation of the political and civil human rights and the economic, social and cultural human rights as well as the rights of women, children, disabled persons and migrants. No investments are made in countries allowing systematic tortures or in countries practising the death penalty. | Freedom House,<br>International Crisis Group,<br>Annual Amnesty International reports,<br>CIRI,<br>UNHCHR reports on the situation of human rights – including economic, social and cultural rights,<br>Human rights report of the State Department |
| 1.1.2 | Social Coherence | | |
| 1.1.2.1 | Constant high or increasing coefficient in the GINI index | In industrialised countries the GINI coefficient must not rise above 40. | UNDP |
| 1.1.2.2 | High degree of corruption | Far below average performance in the World Bank corruption index | World Bank,<br>Transparency International |
| 1.2 | Peace | | |
| 1.2.1 | Compared to expenditure for education and health, arms spending is disproportionately high | According to the data of the Bonn International Center of Conversion (BICC) | BICC |
| 1.2.2 | The country has not ratified the Geneva Convention | The Geneva Convention exists since 1864 and has been updated several times since then; its terms establish protections for the civilians not involved in the hostilities. | Geneva Convention |
| 1.2.3 | A great number of internally displaced persons live in the country | This is a reliable indicator for armed conflicts, including conflicts of low or medium intensity. | OHCHR |
| 1.2.4 | The country has not signed the relevant non-proliferation treaties | These include: the 1970 Nuclear Non-Proliferation Treaty; the Biological Weapons Convention of 1972, banning the production of an entire category of biological weapons; the Chemical Weapons Convention of 1997 | SIPRI |
| 1.2.5 | No government control policy for arms exports in conflict areas (only applies to countries with armament industry and arms exports) | The country has neither government bodies nor restrictive criteria controlling the export of armaments into conflict zones. | BICC |
| 1.2.6 | The country does not report to the UN Register of Conventional Arms | According to the data of the UN Office for Disarmament Affairs (UNODA) | UNODA |

| Criteria | | Specification | Data Availability |
|---|---|---|---|
| **1.3** | **Integrity of Creation** | | |
| 1.3.1 | The country has set no reduction targets for $CO_2$ emissions that it strives to accomplish with a reproducible policy | The targets must be binding and substantiated with a corresponding policy. | UNFCCC |
| 1.3.2 | Non-ratification of the Kyoto Protocol and its follow-up treaty/second commitment period | The treaty, which went into force on 16 February 2005, was the first to establish legally binding targets for greenhouse gas emissions in the industrialised countries. The first period will expire at the end of 2012. | UN |
| **2** | **Positive criteria** | Assessment of the positive aspects of a country that is not violating any exclusion criteria. In order to be included a country must show a positive performance in at least two of the following six categories, with at least one category from the development-relevant categories 2.1.1 to 2.1.3:<br><br>2.1.1. Human rights,<br>2.1.2. Commitment to development,<br>2.1.3. Good Governance,<br>2.2.1. Commitment to peace,<br>2.3.1. Integrity of Creation in the national context,<br>2.3.2. Integrity of Creation in the international context. | |
| **2.1** | **Justice** | | |
| **2.1.1** | **Human rights** | | |
| 2.1.1.1 | Assessment of the implementation of the political and civil human rights and the measures taken to improve the human rights situation | Assessment includes situation of freedom of press, variety and significance of non-governmental organisations, the right to organise as well as the rights of women, children, and migrants as well as native and disabled persons. | Freedom House,<br>CIRI database,<br>CEDAW,<br>Amnesty International |
| 2.1.1.2 | For developing and emerging countries: Assessment of progress in achieving the Millennium Development Goals (MDG) | Assessment is made based upon the information of the World Bank's "MDG Monitor" | World Bank |
| 2.1.1.3 | Assessment of dealing with internal conflicts | The assessment is following the country's classification in the Country Database of the Bonn International Center for Conversion (BICC). This classification is based upon the data of the Heidelberg Institute for International Conflict Research and the Working Group on causes of war research ("Krisenursachenforschung") of the University of Hamburg. | BICC Country Database,<br>International Crisis Group |

| Criteria | | Specification | Data Availability |
|---|---|---|---|
| 2.1.1.4 | Assessment of the implementation of the economic, social and cultural rights and the measures taken to improve their implementation | In the assessment special attention is given to satisfaction of basic needs (water, food, housing, health, education), the right to work and the situation of women, children, native and disabled persons. | National reports and observation regarding ESC Rights – Assessment based upon the reports, CEDAW reports |
| 2.1.1.5 | The country has accepted the jurisdiction of the International Court of Justice (ICJ) and the International Criminal Court (ICC). | The ICJ settles legal disputes among international organisations and states. The ICC prosecutes genocide, crimes against humanity, and war crimes. | |
| 2.1.1.6 | Assessment of the global implementation of the economic, social and cultural rights | Which efforts are made to promote the global implementation of economic, social and cultural rights in other countries? | National reports and observations regarding ESC Rights – Assessment based upon the reports,<br>ILO,<br>ITUC |
| **2.1.2** | **Commitment to development** | | |
| 2.1.2.1 | Above average performance in the Commitment to Development Index (CDI) | Addition of the CDI values achieved, divided by the number of countries; countries above average are regarded as positive | Center for Global Development |
| 2.1.2.2 | Assessment of measures taken to improve quantity and quality of public development services | Efforts to increase ODA and poverty orientation in the use of funds | DAC/OECD,<br>Aid Watch |
| 2.1.2.3 | Support for equal treatment and promotion of developing and emerging countries in the international context (industrialised countries only) | For example willingness to change the distribution of power in the executive boards of the International Monetary Fund in favour of developing and emerging countries | Report based upon politicians' statements and actions |
| 2.1.2.4 | Participation in debt relief (industrialised countries only) | Crediting debt relief against the official development aid earns a negative assessment. Positive is, however, if the country participates in multilateral agreements on debt relief, and facilitates in particular the possibility to cancel illegitimate debts. | Report: HIPIC Status of Implementation, (www.erlassjahr.de), DAC/OECD |
| 2.1.2.5 | Assessment of measures taken for poverty alleviation and their impact (developing and emerging countries only) | For this purpose the indicators from the United Nations Report on Human Development are consulted like, for instance the Human Development Index I and II as well as the achievement of the Millennium Development Goals. | Human Poverty Index (HPI-2), UNDP,<br>possibly include MDG Monitor |
| 2.1.2.6 | Assessment of measures taken to abolish extreme social inequality | In the country a measurable long-term positive trend can be discerned in terms of a successful fight against social inequality | Notable decline in the GINI coefficient or far above Human Development Index (HDI) compared to the stage of development |

| Criteria | | Specification | Data Availability |
|---|---|---|---|
| **2.1.3** | **Good Governance** | | |
| 2.1.3.1 | Assessment of political stability | The World Bank Index on Political Stability measures the perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including domestic violence and terrorism. | Freedom House,<br>World Bank Index on Political Stability,<br>International Crisis Group |
| 2.1.3.2 | Assessment of the functioning of the juridical system (Rule of Law) | The indicator measures the extent to which agents have confidence in and abide by the rules of society. These include perceptions of the enforceability of contracts, the quality of the police and courts as well as the probability of crime and violence. | UNDP,<br>Annual Amnesty International report |
| 2.1.3.3 | Assessment of the effectiveness of governance | The indicator measures the quality of public service provision, the quality of the public and civil society services, the extent of political tension, the quality of political decision making processes and the credibility of the government's commitment to policies. | World Bank Indicator |
| **2.2** | **Peace** | | |
| **2.2.1** | **Commitment to peace** | | |
| 2.2.1.1 | Assessment of measures taken to restrict arms exports and their efficiency | The data of the Bonn International Center for Conversion (BICC) serve as the basis. | BICC,<br>SIPRI |
| 2.2.1.2 | Assessment of the commitment to reduce the amount of internally displaced persons | As a rule armed conflicts involve a great number of internally displaced persons, thus this is a reliable indicator for the existence and intensity of armed conflicts. | OHCHR |
| 2.2.1.3 | The country has signed the Ottawa Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on Their Destruction as well as the Convention on certain Conventional Weapons and the Convention on Cluster Munitions (CCM). | This treaty came into effect in 1999 and prohibits the use, stockpiling, production and transfer of anti-personnel mines. | UN |
| **2.3** | **Integrity of Creation** | | |
| **2.3.1** | **Integrity of Creation in the national context** | | |
| 2.3.1.1 | Assessment of environmental policy and the implementing institutions | Taken into account are, for instance, ministries, offices, national plans for environmental policy | |
| 2.3.1.2 | Increased share of renewable energies in the primary energy mix | The share of renewable energies is increasing compared to the situation in similar countries. | World Resources Institute (WRI) |

| Criteria | Specification | Data Availability |
|---|---|---|
| 2.3.1.3 Proportion of protected areas of the total national area | Measured against the proportion of protected areas the country receives an assessment on a scale from 0 to 10. | International Union for Conservation of Nature (IUCN),<br>World Resources Institute,<br>New Ideas in Pollution Regulation (NIPR, World Bank) |
| 2.3.1.4 Organic farming in percentage of agricultural area | It will receive favourable assessment, if a country's share organic farming reaches eight per cent and more of the agricultural area. | International Federation of Organic Agriculture Movements (IFOAM) |
| 2.3.1.5 Mineral fertilizer consumption per hectare of agricultural area | Measured is the mineral fertilizer consumption per hectare of arable land – assessment will be converted into a scale from 0 to 10. | WRI,<br>New Ideas in Pollution Regulation |
| 2.3.1.6 Fresh water consumption in percent of national renewable water resources | The assessment of the World Resources Institute will be converted into a scale from 0 to 10. | WRI |
| 2.3.1.7 Oxygen demand in rivers and lakes | Assessed is how a country affects the water quality. The measure is the biological oxygen demand in rivers and lakes. Assessment takes place on a scale from 0 to 10. | WRI/OECD |
| 2.3.1.8 Waste: per capita domestic waste | Assessment takes place on a scale from 0 to 10. The more kilograms per capita, the lower the score. | OECD,<br>UNEP |
| 2.3.1.9 The country has decided upon a nuclear power phase-out, and is implementing it. | The country has a corresponding legislation, which is implemented with specific measures. | |
| 2.3.1.10 Annual catchment quotas | Assessment takes place on a scale from 0 to 10. The more tons of fish are caught per capita, the lower the score. | |
| **2.3.2 Integrity of Creation in the international context** | | |
| 2.3.2.1 Assessment of measures taken in compliance with the Kyoto Protocol and its follow-up treaty | The agreement, which went into force on 16 February 2005, was the first to establish legally binding target values for greenhouse gas emissions in the industrialised countries. The first period will expire at the end of 2012. | UNFCCC |
| 2.3.2.2 Per-capita emissions of greenhouse gases | Reduction of greenhouse gases ($CO_2$, $CH_4$, $N_2O$, HFC, PFC) compared to the base year. | UNFCCC |
| 2.3.2.3 The country has formulated a strategy for the domestic integrity of biological diversity according to the Convention on Biological Diversity. | The objectives of the CBD signed in 1992 are conservation of biodiversity as well as the diversity of species and genetic resources. | UN |
| 2.3.2.4 The country has signed the Cartagena Protocol on Biosafety. | The Cartagena Protocol on Biosafety seeks to protect biological diversity from the potential risks posed by genetically modified organisms (GMO). | Verify ratification<br>UN-/CBD |

## 3.4 Behaviour in the financial markets

Since certain behavioural patterns of actors in the financial market as such could result in destabilising these markets, and subsequently in the destabilisation of economies all over the world, and in particular in developing and emerging countries, the fund imposes the following restrictions on itself regarding its behaviour in the capital markets:

- The fund management conducts no foreign exchange speculation.

- The fund management does not invest in bonds or companies that originate from or are based in shadow banking system centres for tax purposes.

- The fund management only seeks long-term investments.

- The fund management uses finance derivatives only for hedging.

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