

“WHO CARES WINS – THE CONVERGENCE OF GLOBAL  
CORPORATE CITIZENSHIP AND FINANCIAL MARKETS”

INVESTMENT MANAGEMENT INSTITUTE CONFERENCE

KEYNOTE SPEECH BY GAVIN POWER  
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Well, good evening ladies and gentlemen.

Let me start by saying that I have found this conference truly fascinating.  
And I would like to thank the Investment Management Institute for inviting  
me.

You may be wondering what a UN bureaucrat is doing at a conference like  
this.

The reason I am here is that there is a profound sea change in thinking at the  
United Nations and within the international community concerning the role  
of business and financial markets in meeting development objectives –  
including, critically, poverty alleviation.

Indeed, there is a powerful convergence under way between the interests and  
objectives of the UN and the private sector. At its core is the emerging  
understanding that in order for markets and communities to thrive and be  
sustainable, social and environmental pillars must be part of the

globalization process – and, equally, that globalization itself must deliver benefits to the world’s marginalized in addition to the fortunate few.

When it comes to poverty, for instance, we realize that the presence of business is rarely the problem. Its absence, however, almost always is. Business, it is being understood, is at the heart of the development process -- providing the investment, income and employment that are so desperately needed in so much of the world.

But what is equally true is that only responsible business practices can lead to systemic and sustainable progress. If societies fail so do markets. At the same time, progress can only occur if states hold up their end of the bargain through good governance that is characterized by the rule of law and the protection of human and environmental rights.

The problems are indeed daunting:

- More than one billion people still live below the extreme poverty line of one dollar per day, and three billion – almost half of humanity – live on less than two dollars.
- 14 million children die every year due to preventable causes.
- Since the year 2000, more than 40 countries have been scarred by violent conflict. Terrorism threatens societies everywhere.
- HIV/AIDS has killed over 20 million men, women and children and the number of people infected has surged to over 40 million.

- And environmental degradation continues to erode life-sustaining ecosystems while climate change is bound to disrupt the planet on a large scale.

The point is that the private sector and the financial industry have a stake in these critical and increasingly connected global issues – from an ethical and business perspective.

It was this recognition that led to the launch of the UN Global Compact by Secretary-General Kofi Annan in July 2000. Then, 50 companies stepped forward and committed to a set of universal principles related to human rights, labour standards and the environment.

Today I am proud to tell you that the Global Compact, a voluntary initiative, includes nearly 2,500 companies from over 80 countries – making it the largest corporate responsibility initiative in the world.

This is no simple public relations exercise. Participation entails CEO and board backing, thus rooting the Compact in the governance structure of companies. Last year, in order to enhance transparency and accountability, we began asking companies to disclose annually how they are implementing the 10 principles.

The Global Compact is a multistakeholder initiative, bringing companies together with NGOs, labour groups, governments and UN agencies to advance the 10 principles within corporate operations and to develop partnerships in support of development goals.

For companies involved this is fundamentally an exercise in managing global risks and opportunities – be they related to climate change, conflict situations, labour standards, disease, or general poverty. Scores of CSR initiatives have been launched, inspired by the Global Compact, and are achieving real impact, including a development program that is helping to grow sustainable business in the world's least developed countries. The Global Compact and its ten principles, I should say, have particular value in countries where laws and regulations are weak or not enforced. Here, the principles, including one on anti-corruption, can help companies navigate difficult environments.

But there has been a nagging feeling that the mainstream financial sector has lagged behind vis-à-vis other industries, and given its enormous power, could be leveraged to further advance the global corporate citizenship agenda.

Thus in July 2004 the Global Compact launched the *Who Cares Wins* initiative. Signed by the CEOs of 20 mainstream global investment houses representing \$6 trillion in assets – including Goldman Sachs, Credit Suisse, UBS, ABN Amro, Morgan Stanley and others – the initiative calls on endorsers to actively integrate environmental, social and governance criteria into research and investment processes.

Recently, the International Finance Corporation recognized *Who Cares Wins* as well as several other relevant initiatives – including the Enhanced

Analytics and Equator Principles – as being a driving force in the emerging mainstreaming of ESG issues in financial markets.

Goldman Sachs, which along with other endorsers has created a dedicated ESG team in just the past year, predicted at our Shanghai Summit just three weeks ago that ESG will become mainstream within a five-year period.

They, however, recognize the trans-Atlantic divide that Mercer referenced yesterday. The US needs to be spurred.

But, as other speakers here have referenced, achieving real impact must involve the actual asset owners. That is why the Global Compact and the UN Environment Program Finance Initiative recently launched the Principles for Responsible Investment project. These principles have been developed over the past year by 20 institutions – largely public pension funds – from 12 countries representing \$1.7 trillion. The Principles articulate a range of voluntary steps to put ESG criteria and thinking into the heart of the investment process and supply chain. The Principles, which will be announced by the endorsing funds in April, have been developed with the goal of inviting other institutions to sign on. And I would like to invite the faith-based organizations here to consider the Principles when they are launched. Mercer, who is helping the UN manage the process, will tell you more about this project tomorrow – our belief is that it will send a powerful signal to the market.

It is clear that what we are essentially witnessing is the broadening of the SRI movement based on the notion that ESG criteria can be material to long-term value creation.

To be sure, short-term pressures can lead companies to behave irresponsibly. Companies in the Global Compact are taking the long view; what they need more than anything is for the financial markets to reward them through higher asset valuations.

The good news is that the dialogues are starting. More and more companies in the Compact are actively communicating their CSR efforts to the analyst community. In Zurich later this year, we will bring corporate IR teams together with financial houses to further this interaction.

In the meantime, it's clear that companies need to do a better job disclosing material and potentially material issues. Many of the glossy CSR and sustainability reports really aren't cutting it. The Global Reporting Initiative will soon release its new G3 guidelines, which should be a great help. And we are refining the disclosure policy I mentioned so that it is more relevant for the investment community.

What's also clearly needed is more research on emerging and frontier market companies, particularly given the rising prominence of Southern transnationals. It is startling to note that today 50 percent of the world's transnationals are headquartered in developing countries. Many of these companies are quite progressive with respect to CSR, but more research is needed – something that the IFC is trying to encourage through special programs.

I should also note, as other speakers have done, the importance of asset classes beyond listed – including fixed-income, real-estate, and private equity. And, clearly, great impact is being achieved through micro-finance projects.

In terms of additional trends, another powerful convergence is the blending of corporate responsibility and corporate governance. Indeed, more and more companies in the Global Compact see CSR as an essential component of good corporate governance, from the vantage point of risk management, transparency and sustainable long-term value creation. This is an expanded notion of corporate governance and one that goes much farther than the compliance orientation of Sarbanes-Oxley. But the trend seems clear. The E and the S in ESG could ultimately just become G.

There are, of course, many challenges ahead. The majority of corporations in the world have yet to make a serious commitment to CSR. So scaling up remains the challenge and opportunity. Here, I think, the financial markets can play a key role as can governments by encouraging CSR efforts and rewarding frontrunners in areas such as procurement and tax treatment. At the UN Summit in September, member states agreed to do more.

We are also working with a core group of stock exchanges to raise awareness of CSR issues as well as the current trends under way in the financial markets. They could also act as catalyzers. Some have even joined the Global Compact.

Finally, I'm happy to say that the UN system is starting to walk the talk. The Joint Staff Pension Fund announced that it will incorporate the Global Compact principles into its investment processes, and UN Procurement is also taking up the Compact.

It has been totally thrilling to listen to the many inspiring stories at this conference. You are indeed pioneers, and have much to teach us and many other societal actors.

I do think we are at a tipping point. By sharing best practices and advancing a value and values-based approach to business and the markets, we have the opportunity to make the global economy more sustainable and inclusive – and give hope to the world's poor.

Thank you.

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