Executive Summary

The Better Returns in a Better World Project

The 2008 financial crisis raised a series of fundamental questions about the role of investors in society, both in terms of the investments that they make and the manner in which they use their influence to ensure that the positive social and environmental impacts of their activities are maximised and the negative impacts minimised.

While some investors have played a leading, and progressive, role in the climate change debate and have made valuable contributions in areas such as labour standards, access to essential medicines and bribery and corruption, many issues related to poverty reduction and sustainable development have, to date, received little attention in discussions around responsible investment. Oxfam launched the Better Returns in a Better World project in October 2008 to understand what the barriers are to greater investor engagement with this agenda, and to identify how these may be addressed or overcome.

The project was structured as a research partnership with the investment industry. We held a series of seven workshops , with these supplemented by a series of in-depth one-to-one interviews with investment and development experts. In total, the project engaged with over 80 different investors across Europe and the United States.

Oxfam has greatly appreciated the high level of interest and active participation of investors in the Better Returns in a Better World project. We have been particularly heartened by the consensus among most of the investors that we have engaged with, in the course of the project, that there are both compelling commercial and ethical arguments for investors to make a much greater contribution to the delivery of poverty alleviation and development goals.

Key Findings

The project identified two sets of barriers to investors playing a greater role in efforts to reduce poverty and support development. The first set of barriers relates to the structure and operation of the investment industry and affects not only poverty and development, but also the sustainability of the markets as a whole. Those that were identified as being of particular concern were:

- The lack of oversight by asset owners of the manner in which their investment managers take account of environmental, social and governance issues – and how they impact on poverty and sustainable development outcomes in their investment practices;
- Short-termism, in particular the striking disconnect between the very short-term horizons of most institutional investors and the much longer timeframes required for the realisation of poverty reduction and development goals; and
- The general lack of transparency within the investment community, most notably in the context of this project, the lack of information from the majority of investors on their approaches to responsible investment.

None of these will be easy to address. Addressing short-termism requires significant regulatory interventions that will take years to be implemented and function effectively. That said, there are proposals such as a financial transaction tax that would be a step forward. Nevertheless, there are some practical measures – regulatory and voluntary - that can be taken that would make a significant contribution to addressing the oversight and transparency issues. These are set out below.

The second set of barriers is more technical in nature and relates to the practical challenges of integrating social and environmental impacts that affect poverty and sustainable development into investment practice. The participants in the Better Returns in a Better World project identified the following two issues as being of particular importance:

- The general absence of credible research on the implications for financial returns of poverty and development issues, and lack of meaningful data from companies on their social and environmental impacts. The consequence is that it is difficult for investors to properly assess companies' exposure to social and environmental risks in particular in developing countries.
- The general absence of clear normative frameworks (whether defined in regulation or in widely supported codes and standards) against which company performance can be assessed and which can form the basis for dialogue between companies and their investors.

Recommendations

Below, we set out our proposals on the practical actions that we believe can – and should – be taken by investors and governments over the next three to five years to enable us to make real progress on the issues identified in the course of this project.

Concluding Comments

Participants in the BRBW project were united in their view that the centre of gravity of the investment industry is inexorably moving towards emerging markets from which it will derive an increasing proportion of its future returns. Oxfam recognizes the critical need for long-term responsible investment - that takes account of the social, environmental and governance issues that determine whether the investment has a net positive impact on poverty reduction - in developing countries, particularly in long under-invested areas and sectors. We believe that this project has made a contribution to raising awareness among investors and to identifying some of the measures that can help to ensure that those investment flows make a greater contribution to poverty reduction in the future.

The time is ripe for a bold new approach to direct and indirect investment in developing countries. One that incorporates a social equity bottom line into investors' analysis and practice, based on transparency and responsible ownership, and that encourages engagement with all relevant stakeholders.

Addressing the Structural Barriers

All institutional investors (asset owners, asset managers, insurance companies, etc.) should:

- Adopt, implement and publish a responsible investment policy.
- Publish a specific policy on poverty reduction and development issues.
- Assign senior management responsibility for the implementation of their responsible investment policies.
- Engage with the companies in which they are invested to encourage high standards of social and environmental performance in general.
- Integrate consideration of all relevant environmental, social and governance issues into all of their investment decisions.
- Monitor the implementation of their policies, both the actions taken and the outcomes achieved.
- Report annually on the implementation of the policy and the outcomes achieved.

Organisations that outsource responsibility for some or all of their investment management should build responsible investment considerations into:

- Their asset manager appointment and reappointment processes (e.g. through making responsible investment a minimum requirement for investment managers to be appointed).
- Their investment management monitoring processes.
- Their own reporting by explaining, specifically, how they have ensured that their responsible investment commitments and concerns have been addressed by their investment managers and the outcomes that have resulted.

Governments should:

- Require pension funds and other asset owners to have a policy on responsible investment and to report on social, environmental and financial outcomes that result from the implementation of the policy.
- Make responsible investment an integral part of the financial assets they manage e.g. state pension funds.

Addressing the Technical Barriers

Institutional investors need to work to improve the integration of development and poverty-related issues into investment practice by:

- Supporting the development of analytical tools to enable the integration of poverty and development issues into investment research and decision-making.
- Engaging with relevant civil society organisations to properly understand poverty alleviation and development issues, and how investors' activities may affect these.
- Encouraging the sell-side (investment banks) to focus much more on poverty and development issues in their investment research for asset managers.
- Encouraging improvements in corporate responsibility reporting, in particular ensuring that companies address poverty alleviation and development issues in their reporting and pressing companies to report in a form that enables meaningful comparisons to be made.
- Encouraging governments and key stakeholders to start or continue the process of developing normative appropriate frameworks (and improve legislation) for companies. Key priorities relate to: (a) ensuring the effective passage of the proposed UN Arms Trade Treaty, (b) developing a clear framework for the , corporate responsibility expectations of the defence sector in general, and (c) developing a clear framework for access to land (specifically the manner in which issues such as food security, right to food, land tenure, water resources, smallholders participation, communities benefits of the investment are addressed in investment decisions) .

Governments should require companies to:

- Produce a comprehensive corporate responsibility report, building on the frameworks developed by the Global Reporting Initiative and similar disclosure initiatives.
- Include information about financially material social and environmental issues in their reports to their shareholders.
- Present their reported information in a form that makes this information useful to those concerned about poverty alleviation and development issues. Most pressingly, companies should be required to disclose taxes and other payments to governments on a country-by-country basis.

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