

ESG ISSUES

ENVIRONMENTAL

SOCIAL

GOVERNANCE

For Mirova, offering an engaged investment management committed to combining value creation and sustainable development obviously begins with extra-financial research and the integration of ESG (environmental, social and governance) criteria in portfolio management. But it must go much further.

The analysis of corporate social responsibility (CSR) thus requires a review of ESG issues as well as a financial analysis.

Mirova's philosophy is based on the conviction that integrating sustainable development issues can provide investors with responsible solutions.

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FIGHTING CLIMATE CHANGE

31 Climate change and its implications

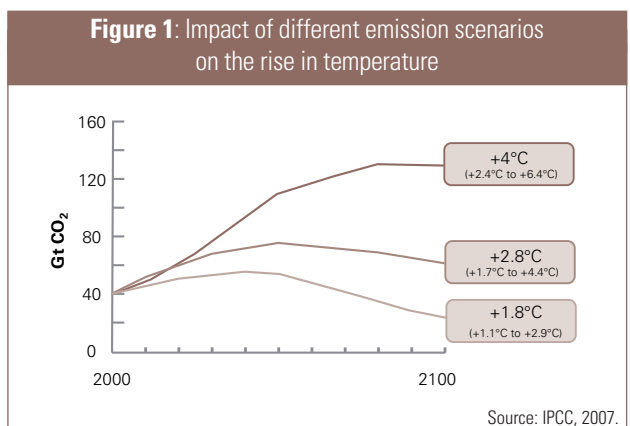
The scientific community estimates that it is 90% likely that human activities impact climate. The consequences of this can already be seen: an increase in the number of heat waves, ice melting in the North Pole, etc. Increased global warming also contributes to this trend: more drought, extinction of species, lower yields, increased coastal flooding, migration of tropical illnesses towards lower latitudes, and more.

There are two possible types of action to be taken to limit the impact of climate change. Firstly, implementing mitigation strategies in order to reduce emissions and thus decrease the magnitude of climate change:

- We must change our energy consumption habits which represent around $\frac{2}{3}$ of greenhouse gas emissions. Besides being an important contributor, our energy consumption is ever increasing, and 80% of it is still made up of fossil fuels (coal, oil, gas). Making this transformation will require major efforts from numerous sectors such as electricity production, transport, buildings and industry.
- We must also halt deforestation, which, through the removal of carbon sinks is responsible for almost 20% of climate change. This issue, which mainly affects the Amazon and forests in equatorial Africa and South East Asia, has numerous causes such as the conversion of forests to agricultural areas or pastures, and illegal logging.
- It is also essential to rethink our agricultural production methods which are currently responsible for around 15% of greenhouse gas emissions. In fact, the growing use of fertilisers in farming has resulted in a high potential contribution of greenhouse gas emissions to global warming (methane, nitrogen oxide).

Reducing emissions has to be a priority. Even if the amount currently invested in this seems high, the cost of inactivity will be much higher. However, even with important reduction efforts, some climate change is inevitable.

Secondly, therefore, specific adaptation strategies will need to be implemented to mitigate certain effects: protection of water resources, drought-resistant cultures, installation of breakwaters, and relocation of activities, among others.



41 Climate change in business

Action plans to decrease the magnitude of global warming can take various forms, depending on the activity of the company. The following are amongst the most commonly used strategies:

- **Reduction of direct emissions.** All businesses can make a difference by reducing their direct emissions. This subject is particularly appropriate for large emitters, such as electricity utilities, cement and steel companies, refineries, papermakers or glassmakers. Implementing reduction strategies is necessary if they are to comply with, and anticipate, regulatory restrictions, or even to differentiate themselves from their competitors from the point of view of a client, the government or other stakeholders.
- **Solutions enabling the reduction of energy-related emissions.** Equipment suppliers to the sectors that emit the most, such as electricity production, transport, buildings or industry must seize the opportunity to offer innovative solutions to reduce their clients' emissions. For example, a construction group could offer low-consumption building solutions, allowing the company to differentiate itself from the rest whilst anticipating the evolution of thermal regulations.
- **Development of sustainable agriculture.** Companies involved in agricultural activities equally have a key role to play, especially in the fight against deforestation, and the reduction of agriculture-related emissions. For example, controlled-release fertiliser solutions would maximise yield and reduce the need for more cultivated land, while also reducing the overall need for fertiliser.

The issue of adaption will also affect businesses, but in the long term and in a more indirect way. The fight against drought, or the construction of dikes and floodgates will no doubt require the involvement of the private sector. Although some companies offer solutions that address these issues (i.e. irrigation and water management), very few offers are, at the moment, presented as comprehensive responses.

KEY FACTS

- The average temperature could increase by 2–6°C between now and the end of the century. By way of comparison, around 20,000 years ago when the global temperature was 5°C less, Northern Europe was completely covered by a glacier.¹
- The melting of the North Pole ice cap reached a record high in September 2012 when its surface area was almost half the average it had been between 1979 and 2000.³
- If a reduction in CO₂ emissions could be limited to a cost of 1% of global GDP, inactivity could lead to much higher estimated costs of up to 20% of global GDP.⁴
- The hottest 13 years since 1850 have been during the last 15 years.²

(1) IPCC, 2007, Review of climate change. • (2) World Meteorological Organization, 2012, Press Release No. 942. • (3) National Snow and Ice Data Center, 2012, Arctic sea ice shatters previous low records; Antarctic sea ice edges to record high. • (4) Stern N., 2006, The Economics of Climate Change.

POLLUTION CONTROL

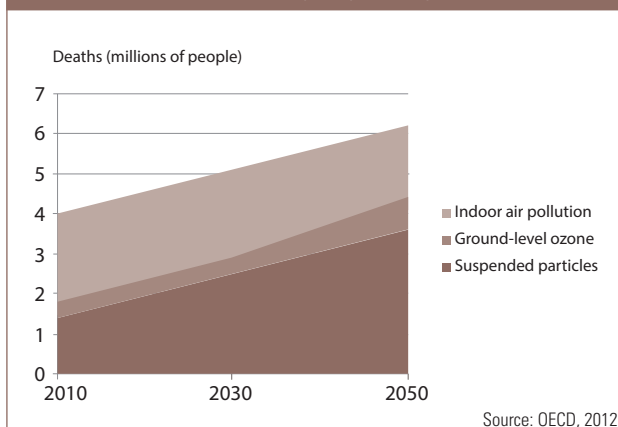
11 Definition and implications

The French chemist Lavoisier once said, 'Nothing is lost, nothing is created, everything is transformed.' From the copper in our mobile phones, to the carbon in plastic packaging, or even the nitrogen in fertilisers, everything is dispersed and diluted, not only into the air, but also into the water and the ground. The Earth possesses natural mechanisms, such as the carbon or nitrogen cycle, to recycle chemical elements. However, our way of life and the growth in population have led to increasing exchange volumes and, therefore, the saturation of these biodegradable capacities. There are concrete illustrations of this issue: the accumulation of mercury in fish, sulphur emissions that cause acid rain, oil spills that damage ocean life, or excess nitrogen from fertilisers that leads to the overabundance of green algae which is harmful to the development of certain species.

We regard 'pollution' as any degradation of the natural balance caused by the introduction of substances through human activity, particularly if they are harmful. Pollution can be chemical, biological, electromagnetic, bacterial, thermal, radioactive or genetic in origin. Above a certain threshold, pollution can become toxic and harm human health: chronic cadmium poisoning, abnormalities in new-born babies due to radioactivity or dioxins, and so on.

As a result of growing environmental awareness over the second half of the 20th century, numerous types of pollution harmful to human health have been identified, understood and subsequently reduced. Some policies led to bans on easily isolated substances such as lead present in car fuel, because of its human toxicity, and CFC gases, destroyers of the ozone layer. However, society is far from resolving its pollution issues.

Figure 2: Global premature deaths linked to environmental risks with no new policy development before 2050



21 The role of business in the control of pollution

Public authorities have implemented tools to re-internalise the negative externalities of pollution based especially on the 'polluter pays' and precautionary principles. While companies should at least comply with these regulatory requirements, they can also play a more proactive role in reducing pollution. There are numerous approaches using the principle of the 'circular economy' that can reinvent industrial ambitions by reducing, recycling and reusing material and energy flows.

For example:

- **Promotion of eco-conception** in the planning phase of products, considering and reducing the environmental impacts on the whole life cycle. This lever requires innovation and collaboration throughout the whole value chain.
- **Collecting, sorting and recycling waste:** utilities can offer these traditional services to communities, but specialised players can also play a part in recycling waste, for example with the anaerobic digestion of agricultural manure and slurry (muds) or the use, in cement manufacturing, of blast-furnace waste from steel-making.
- **Development of industrial pollution treatment activities** such as equipment specialising in measuring, controlling or filtering liquid and solid toxicities from water.

KEY FACTS //////////

- Industrial pollution is as damaging to health as malaria.⁵
- One litre of spilt oil can spread over a surface area of **1,000 m²** of water, cutting off the oxygen supply to fauna and flora for several years.⁶
- It is estimated that, each year, several million tons of plastic waste end up in the oceans.⁷
- Every year, the largest multi-national mining companies spill more than **180 million** tons of hazardous mine waste into rivers, lakes and oceans.⁸
- The financial cost of pollution from the 3,000 biggest companies in the world equates to **1,600** billion euros.⁹

(5) Blacksmith Institute Green Cross Switzerland, 2012, *The World's Worst Pollution Problems: Assessing Health Risks at Hazardous Waste Sites*. • (6) ADEME, *A chaque déchet des solutions: huiles minérales et synthétiques entières usagées*. • (7) UNEP *Distribution of Marine Litter*. • (8) Earthworks MiningWatch Canada, 2012, *TROUBLED WATERS – How Mine Waste Dumping is Poisoning our Oceans, Rivers, and Lakes*. • (9) UNEP FI / Trucost, 2010.

PRESERVATION OF RESOURCES

11 Definition and implications

Whether they are renewable (such as agriculture, forestry, water) or non-renewable (fossil fuels, i.e. oil, gas, coal, metals), resources are either limited or not renewed fast enough to sustainably provide for our needs.

Based on current consumption habits, most estimates reckon the majority of energy and mining reserves to be sufficient for less than 100 years. Indium, tin, zinc and gold resources, among others, are all going to diminish rapidly. Numerous experts now agree on the idea of a peak in oil production occurring before 2030.

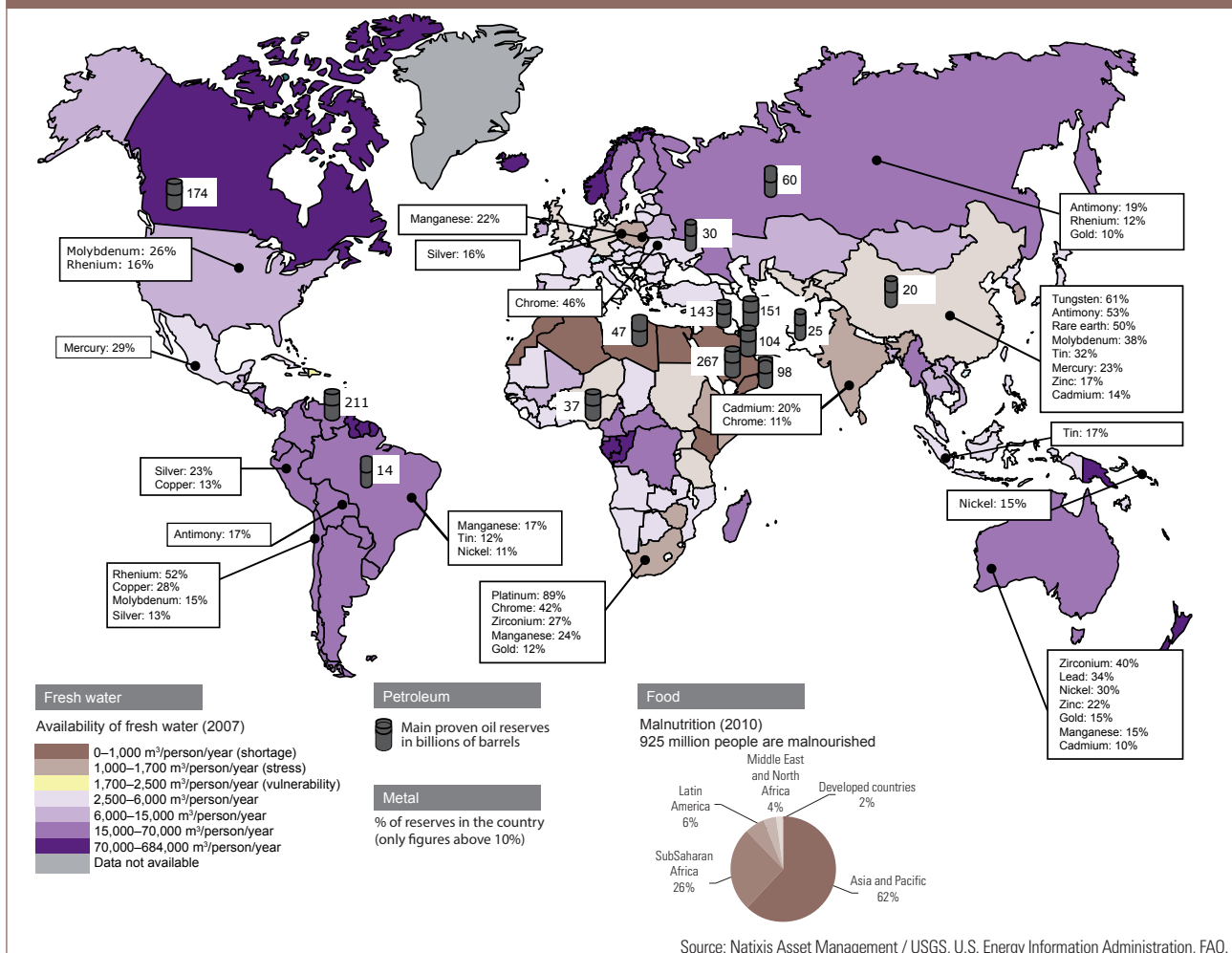
Beyond the aspect of depleting resources, the technical demands of increasingly complex extractions make oil and mining deposits more and more energy intensive. Current freshwater resources are around 18,500 litres per person per day. With demographic growth and increased

consumption, (agriculture, industry, and so on), forecasts estimate that available world resources per inhabitant will decrease and dangerously approach the threshold defined by the United Nations Environment Programme (around 7,000 litres/inhabitant/day).

Another resource to consider is arable land that may not be sufficient to ensure the food security of an estimated population of 9 billion individuals in 2050, whilst at the same time preserving biodiversity.

At this stage, alternative solutions are still limited: renewable energies and energy efficiency for fossil fuels, recycling and substitution for scarce metals, or improving yields through sustainable agricultural practices such as irrigation, fertilisation and crop protection.

Figure 3: Availability of world resources (water, petroleum, food and metals)



PRESERVATION OF RESOURCES

21 The role of business in the preservation of resources

The ambition of these economic players must be reoriented towards a circular economy. All these businesses can incorporate a means of reducing their strong dependency on limited resources into their strategies: eco-conception, industrial ecology, valorisation of by-products and function-oriented business models are all interesting concepts that respond to the challenge of preserving resources. The resources mentioned represent the raw material of all activities. So much so that all sectors can be more or less affected by resource management.

→ **Sectors with a direct link include:** agriculture, metals and mining, oil companies, pulp and paper producers, recycling companies and water distribution services.

→ **Sectors more indirectly affected include:** transport (car dependency on petrol and steel), consumption (dietary habits guiding agriculture or fish farming) and Information and Communications technology.

KEY FACTS //////////

- If developing countries were to match Western living standards, the population's ecological impact in 2050 would be equal to **72** billion inhabitants.¹⁰

- Metals with global reserves of less than **30** years: indium, antimony, palladium, lead, gold, tin, zinc, chrome, silver and molybdenum.¹²

- **13** million hectares of forest are destroyed each year.¹⁴

- **1.5** Earths would be necessary to satisfy the current needs of humanity.¹¹

- Although conventional oil production peaked in 2005, **98%** of road transport still relies on oil.¹³

(10) Jared Diamond, 2008: *What's your consumption factor?* • (11) Global Footprint Network and WBCSD, *Vision 2050*, 2010. • (12) USGS, 2012. • (13) IFP, 2009: *French document on the advantages and disadvantages of energies for transport*. • (14) FAO, 2010: *World deforestation decreases, but remains alarming in many countries*.

PROTECTING BIODIVERSITY

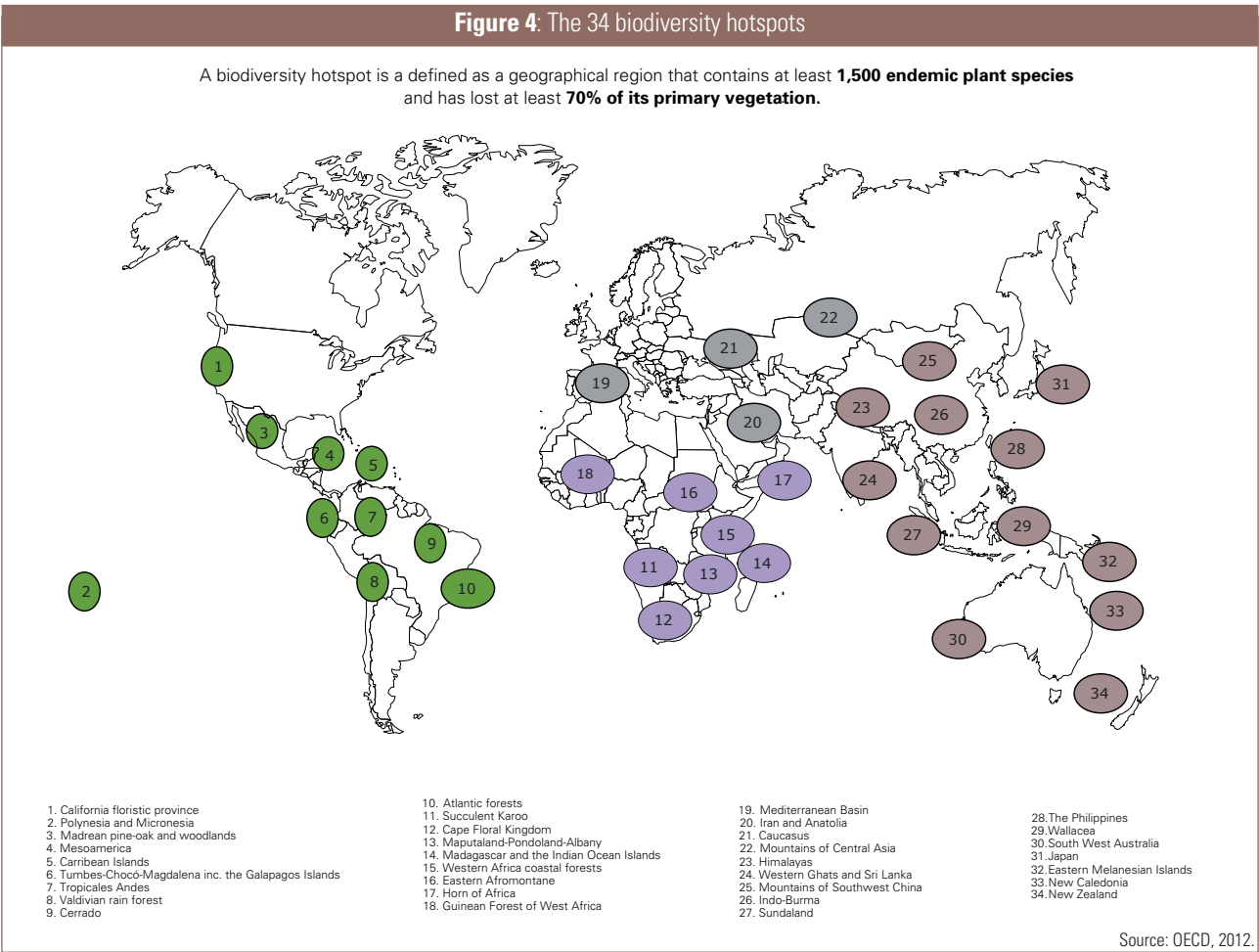
11 Biodiversity and its implications

Biological diversity, also known as biodiversity, encompasses the number, variety and variability of living organisms and the range of ecosystems in which they live and interact. Beyond the ethical implications, preventing a loss of biodiversity is important since our society is completely reliant on the natural richness of the planet for food, energy, raw materials, clean air and clean water.

Over the past decades, biodiversity has been lost at an alarming rate due to deforestation, climate change, pollution, unsustainable harvesting of natural resources, and the introduction of so-called 'alien species' to areas where they are not native. The International Union for Conservation of Nature (IUCN) says that the current rate of extinction may already be as high as 10,000 times the natural rate – an estimated one in four mammals, one in three amphibians, and one in eight birds are threatened with extinction. A reduction or loss of biodiversity may undermine, not only the environment, but also economic

and social goals. *The Economics of Ecosystems & Biodiversity (TEEB)*, a global UN study, judged that economic loss may add up to US \$2–4.5 trillion per year due to the ongoing losses of biodiversity and the degradation of ecosystems.

Effectively protecting sensitive ecosystems and managing protected areas form a major part of the solution to this extinction crisis and to decreasing economic cost. The 1992 Convention on Biological Diversity was the first legally binding treaty to recognize that biodiversity is 'a common concern of humankind'. In 2010 the UN declared the period from 2011 to 2020 as the 'UN Decade on Biodiversity' and set various related targets, such as preventing the extinction of known threatened species and conserving at least 17% of inland water, and 10% of coastal and marine areas. It also includes keeping pollution and the impact of the use of natural resources within safe ecological limits and ensuring agriculture, aquaculture and forestry, among others, are managed sustainably.



PROTECTING BIODIVERSITY

21 The role of business in the protection of biodiversity

When exploring natural resources, companies can perform their activities mindful of damaging impacts on biodiversity. As both prevention and cure are important, corporations should assess the potential effects of their activities on local biodiversity prior to the initiation of a new site, and should have mechanisms to address accidents such as spills. These elements are an integral aspect of our investment process.

Beyond the impact on biodiversity of climate change and pollution, certain industrial activities can have direct impacts on biodiversity, such as:

→ **Dams and their reservoirs:** In order to construct dams, utility companies must regulate river flows and flood river banks and plains to build reservoirs. In fact, the world's 40,000 existing reservoirs cover a total area in excess of 500,000 km². Thus, while dams provide a cleaner alternative as an energy source, beyond their impact on local communities, they also result in environmental

disturbance. They can block the movement of migratory fish and change the temperature, oxygen conditions and nutrients in the water, all of which directly impact species' ability to adapt to their environment.

Utility companies can mitigate such risks by a range of actions, including by avoiding the construction of dams in areas rich in biodiversity, by facilitating the migration of river species, by maintaining natural seasonal river flow cycles and by sustaining water quality.

→ **Sailing ballast:** Each year about 10 billion tonnes of ballast water, used in vessels for stability, are transported and exchanged around the world. Deballasting operations involve the discharge of waste water, which contains exotic and often invasive species, causing negative impacts on the local marine environment. It is important that marine transportation companies use filtration, ultraviolet or other effective ballast water treatment to ensure a only minimum of invading alien species.

KEY FACTS //////////

- In 2010, nearly two-thirds of the globe's ecosystems were considered degraded as a result of damage, mismanagement and a failure to invest in their productivity.¹⁵
- The 2008 Red List of Threatened Species states that **1.8** million species out of an estimated **13** million have been described as endangered.¹⁶
- According to some estimates, projected loss of ecosystem services could increase the risk of famine, due to a loss of up to 25% of the world's food production by 2050.¹⁷
- Ecosystems, from forests and fresh water to coral reefs and soils, deliver essential services to mankind estimated to be worth over USD **72** trillion a year – comparable to World Gross National Income.¹⁸
- In 2010, 20 targets were set in Nagoya to preserve biodiversity. The costs of implementation were estimated at between 60 billion and 150 billion euros.¹⁹

(15) UNEP, 2012, *Ecosystem Restoration Conference of the Parties to the Convention on Biological Diversity*. • (16) UCN, 2008, *Wildlife in a Changing World: An Analysis of the 2008 IUCN Red List of Threatened Species*. • (17) UNEP, 2009, *The Environmental Food Crisis The environment's role in averting future food crisis*. • (18) UNEP, 2010, *Dead Planet, Living Planet Biodiversity and Ecosystem Restoration for Sustainable Development*. • (19) European Commission, 2011, *Our life insurance, our natural capital: an EU biodiversity strategy to 2020*.

FUNDAMENTAL FREEDOMS

11 Fundamental freedoms: a core element of human rights

Fundamental human rights are indivisible and almost impossible to prioritise due to the fact that they are all interconnected. However, as Amartya Sen perceives in his 'capabilities approach', there are certain core rights and freedoms that are essential to the dignity and development of mankind.²⁰ As a whole, these rights can be grouped under the concept of fundamental freedoms.

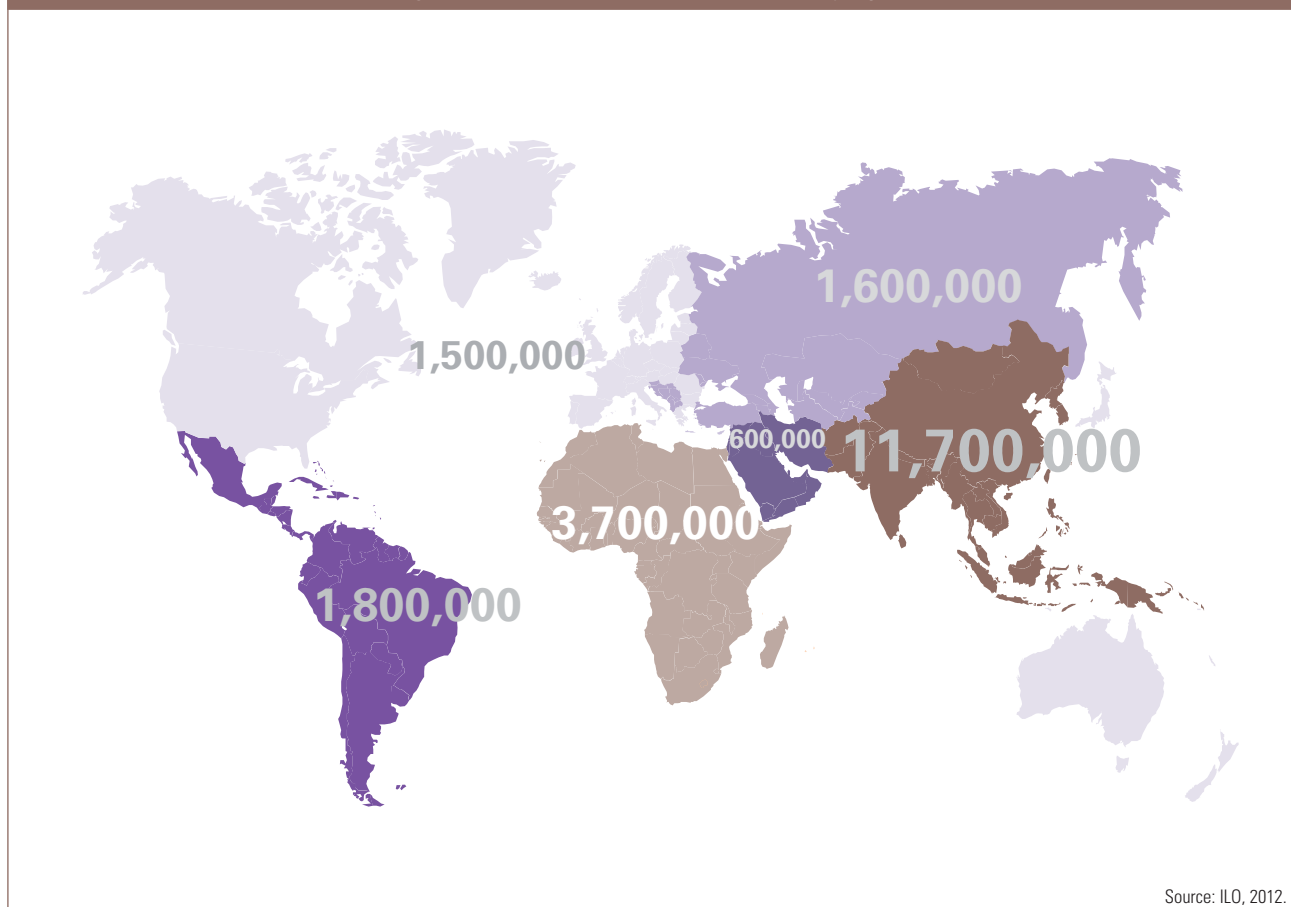
It is first and foremost important to protect the physical and moral integrity of every individual: this includes the right to life, humane treatment, freedom of choice and equal treatment. Thus, any form of endangering others, such as enslavement, forced labour or degrading conditions, constitutes a direct attack on a person's fundamental freedoms.

Major international standards protect all groups that are particularly vulnerable (including ethnic or religious minorities, women, children, people with disabilities, and indigenous groups). Child labour and all forms of discrimination therefore violate fundamental rights.

Other aspects, such as the freedom of association and the right to collective bargaining, are also essential for the protection of other fundamental rights. Freedom of opinion and expression, the right to information and respect for one's private life are, in turn, part of the fundamental freedoms in the sense that they are essential gateways to the individual's fulfilment and the development of the person's capabilities.

(20) The concept of capabilities was created by Amartya Sen, Indian economist and winner of the 1998 Nobel prize for economics. Through this concept, Sen states that individual well-being is no longer measured by usefulness, but by the freedom to choose the type of life which the individual wishes to lead.

Figure 5: Number of victims of forced labour by region



Source: ILO, 2012.

FUNDAMENTAL FREEDOMS

21 The role of business in respecting fundamental freedoms

Fundamental freedoms must, above all, be protected by national governments, but companies also have a significant role to play. John Ruggie²¹ outlines, in his *Guiding Principles*, published in 2011, that businesses have a duty to protect these rights, and to provide remediation to any violation, by implementing effective measures.

These principles clarify obligations on businesses. On the one hand, the principles define the minimum scope of human rights to respect, i.e. those that make up the basis of the Universal Declaration of Human Rights, the two associated Covenants,²² and the eight core ILO Conventions. On the other hand, they highlight the direct responsibility of businesses, over and above that of government.

The exposure of businesses to fundamental issues of freedom varies strongly according to both their sector of activity and their geographical location. In terms of a CSR (Corporate Social Responsibility) company analysis, it is necessary to understand how the company can offer solutions to address these issues and evaluate the way in which risk exposure is managed. This analysis looks at each stakeholder in the area of responsibility: employees, suppliers and subcontractors, clients and local populations.

To ensure the respect and promotion of fundamental freedoms, it is necessary to review a number of aspects. For example:

→ **Working conditions, particularly in the supply chain:** risks of exploitative working conditions (such as forced labour, child labour or unsuitable conditions) are high

up in the value chain, particularly when suppliers and subcontractors are working in developing countries, notably in the textile and food sectors. The aim of a CSR analysis is therefore to examine preventative measures in place (such as charters and training) as well as audit controls and recovery measures in the event of bad practice (including complaint mechanisms for employees, controversy reviews which have taken place and corrective measures).

→ **Respect for freedom of association and collective bargaining:** the freedom of Trade Unions is generally well respected in countries where regulations are strict on the matter (essentially Europe), but they are, however, often ignored in less legally restricting zones (including the United States and emerging countries). The CSR analysis therefore examines the measures in place to ensure that fundamental freedoms are respected and promoted across all of a company's geographical locations (e.g. signature of international framework agreements). It also seeks to examine potential bad practices, such as anti-union campaigns, intimidation and unfair dismissal.

These examples illustrate a few aspects of an analysis of companies' respect for fundamental freedoms, but the list is by no means exhaustive. The analysis is based around diverse criteria for each stakeholder in a particular area of responsibility (for instance, non-discrimination, or the protection of clients' private information).

(21) J. Ruggie is the UN Secretary General in charge of the issue of human rights in business. In 2011, he published a set of 'Guiding Principles' to implement a 'Protect, Respect and Remedy' framework for human rights endorsed by the UN Human Rights Council. • (22) International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights.

KEY FACTS //

- **215 million children work globally**, many full-time.²³
- **21 million victims of forced labour worldwide – 3 people out of every 1,000** are therefore trapped in a job into which they were forced by coercion or trickery, and from which they cannot escape.²⁴
- **34 countries** have not ratified the ILO regarding the right to association and **15 countries** have not ratified the anti-discrimination convention.
- **80%** of the world's population live in regions where **freedom of press is not fully respected**.²⁵

(23) ILO website, 2012, <http://www.ilo.org/global/topics/child-labour/lang-en/index.htm#a3>. • (24) ILO, June 2012, http://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_182005/lang-en/index.htm. • (25) Freedom of the Press, 2012, Freedom House, <http://www.freedomhouse.org/sites/default/files/Booklet%20for%20Website.pdf>.

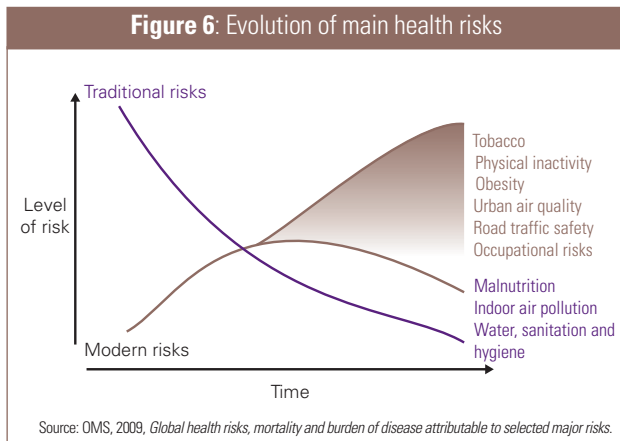
THE RIGHT TO HEALTH

11 The right to health, one of the basic themes of the concept of Human Development

The right to health is enshrined in numerous international and regional instruments on human rights and, more significantly, in the Universal Declaration of Human Rights.²⁶ It is also stated in the constitution of most countries, and is one of the UN's Millennium Development Goals. As a fundamental human right, health is an essential pillar for development. A development that is sustainable and goes beyond the economic factors by taking into account key issues such as health and longevity. This can be witnessed from the creation of the Human Development Index or the measuring of economic performance or social progress such as that of the Stiglitz Commission.²⁷

The right to health covers many aspects including the existence of health services, equitable access to health care for all, a safe and healthy working environment and a healthy diet. However, a significant proportion of the global population do not benefit from these rights, which are vital to a respectable level of human development.

It is a fact that almost 20% of the world's population does not have access to basic health care, that millions of fatal accidents occur in the workplace each year, and that 1.4 billion adults are overweight or obese.



(26) Article 25.1 of the UDHR. The Right to Health is also mentioned in Articles 7.b and 12 of the related Covenants on Economic, Social and Cultural Rights. • (27) The Commission on the measurement of economic performance and social progress was created at the beginning of 2008 under a French government initiative.

21 The role of business in respecting and promoting the right to health

As a fundamental human right, the right to health must primarily be protected by national governments, but companies also have a significant role to play. In his *Guiding Principles*, published in 2011, John Ruggie outlines that businesses have a duty to protect these rights, and to remedy any violation by implementing effective measures.

These principles clarify obligations on businesses. On the one hand, they define the minimum scope of the human right to respect, i.e. those that make up the basis of the Universal Declaration of Human Rights, the two associated Covenants,²⁸ and the eight core ILO Conventions. On the other hand, they highlight the direct responsibility of businesses, over and above that of government.

The exposure of businesses to health issues varies strongly according to both their sector of activity and their geographical location. In terms of a CSR company analysis, it is necessary to understand how the company can offer solutions to address these issues and evaluate the way in which risk exposure is managed. This analysis looks at each stakeholder in the area of responsibility: employees, suppliers and subcontractors, clients and local populations.

To ensure the respect and promotion of the right to health, the following aspects must be reviewed:

➔ **Health and safety in the workplace:** employees and subcontractors in certain activities, such as construction or the extractive industries, are susceptible to significant health and safety risks, (e.g. increased accident rate and exposure to toxic substances leading to potential occupational diseases). The aim of a CSR analysis is therefore to examine the main sources of risk, and evaluate management systems and the results obtained (such as improved indicators). The prevention and management of psychosocial risks also feature in this section of the CSR analysis.

(28) International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights.

THE RIGHT TO HEALTH

→ **Development of products to address health issues:** due to the nature of their activities, certain companies in particular are in a position to provide solutions to some health-related issues. For example, pharmaceutical groups can favour access to medicine for all, especially in emerging countries (such as flexible prices or skills transfer). As for the food sector, companies can contribute to a more healthy diet, particularly by reformulating their products (reduced sugar, salt and saturated fatty acids). In this respect, the CSR analysis seeks to identify the best positioned players in the domain and, similarly, those whose products could be harmful to human health.

→ **Protection of local populations:** certain activities can have direct impact on the overall health of local populations. For example, extractive industries are a particular nuisance for the surrounding communities (dust emissions and air/water pollution, for instance). It is therefore necessary to evaluate preventive measures (e.g. filtration mechanisms), consultation arrangements and even remedial measures in the event of an increased number of complaints. A controversy review is systematically carried out for strongly exposed sectors.

These examples illustrate a few aspects of the respect and promotion of the right to health analysis by companies, but the list is by no means exhaustive. The analysis is based around diverse criteria for each stakeholder in the area of responsibility.

KEY FACTS //////////

- More than **2.3 million** deaths each year are caused by **accidents at work or occupational diseases**.
- Around **20% of the global population** does not have access to **basic health care**.²⁹

- **6.9 million children** under the age of 5 **died in 2011**, 58% of them from infectious diseases.³⁰

- **2.8 million people die** each year as a result of being **overweight or obese**.³¹

(29) OECD, August 2005, *Private Health Insurance for the Poor in Developing Countries?*, <http://www.oecd.org/dev/35274754.pdf> • (30) WHO, 2011, http://www.who.int/gho/child_health/mortality/mortality_under_five/en/index.html • (31) WHO website, 2012, <http://www.who.int/features/factfiles/obesity/en/index.html>.

THE RIGHT TO DEVELOPMENT

11 Improving quality of life and access to education, cornerstones of the development of 'capabilities'

Access to a decent standard of living is one of the core fundamental human rights, and poverty eradication is a UN Millennium Development Goal. The Universal Declaration of Human Rights and the International Covenant on Economic, Social and Cultural Rights thus emphasise the right to basic products and services ('food, clothing, housing, medical care and necessary social services'), the right to employment, decent and fair remuneration, social welfare and physical and intellectual property. However, more than a billion people across the globe are still living on less than \$1.25 per day,³² 925 million suffer from malnutrition³³ and 100 million have no access to housing.³⁴

Employment, which should improve these vital living conditions, is still a major issue, given that 200 million people

worldwide do not have access to work, and more than 850 million employed people and their families live on or below the poverty line.³⁵

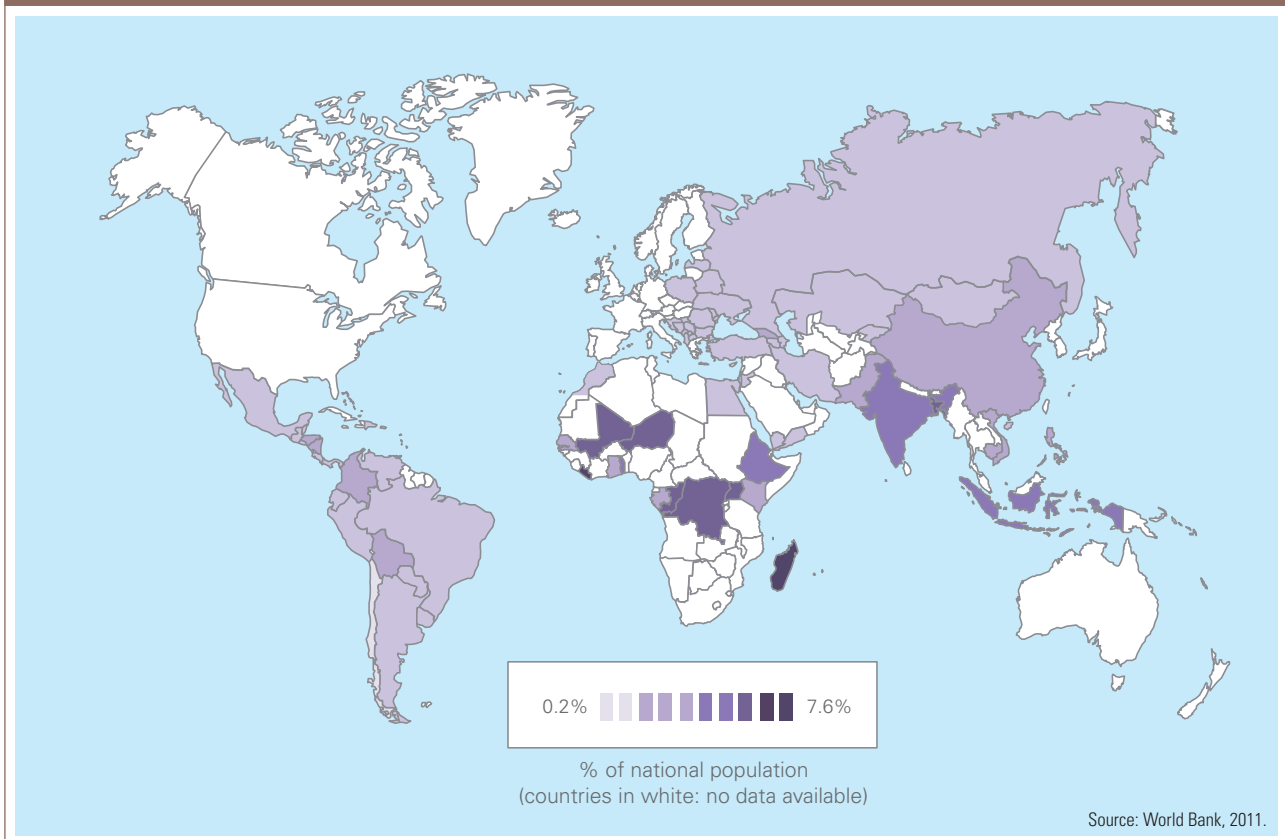
Beyond satisfying basic needs, the aim of Human Development is to allow personal fulfilment, as Amartya Sen outlines in his 'Capability Approach' (see the *Fundamental Freedoms* section).

Access to education, knowledge and culture is thus considered as one of the principal levers in the development of individual capabilities. Reducing the number of illiterate people, which today stands at almost 800 million worldwide, is therefore a key challenge for Human Development.

(32) World Bank, 2011. • (33) FAO, <http://www.fao.org/docrep/012/a1390e/a1390e00.pdf>. • (34) UN, 2005, 'Press report by special reporter on right to adequate housing', <http://www.un.org/News/briefings/docs/2005/kothanbrf050511.doc.htm>.

(35) ILO, January 2010, http://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_120465/lang-en/index.htm.

Figure 7: Ratio of population living on less than \$1.25 per day (PPP – % population)



THE RIGHT TO DEVELOPMENT

21 The role of business in respecting the right to development

As a fundamental human right, the right to development must, above all, be protected by national governments, but companies also have a significant role to play. John Ruggie outlines in his *Guiding Principles*, published in 2011, that businesses have a duty to protect these rights, and to remedy any violation by implementing effective measures. These principles clarify obligations on businesses. On the one hand, the principles define the minimum scope of human rights to respect, i.e. those that make up the basis of the Universal Declaration of Human Rights, the two associated Covenants, and the eight core ILO Conventions. On the other hand, they highlight the direct responsibility of businesses, beyond that of the government.

The exposure of businesses to development issues varies strongly according to both their sector of activity and their geographical location. In terms of a CSR company analysis, it is necessary to understand how the company can offer solutions to address development issues and evaluate the way in which risk exposure is managed. This analysis looks at each stakeholder in the area of responsibility (employees, suppliers and subcontractors, clients, local populations).

To ensure the respect and promotion of the right to development, it is necessary, for example to review the following aspects:

→ **Remuneration policies:** The aim of a CSR analysis is to make sure the company fulfils the minimum legal

requirements, notably in identifying potential controversies, and if measures are in place that go beyond their obligations (e.g. employee shareholding schemes, social welfare, company benefits). The analysis does not stop at employees, it extends to suppliers and subcontractors too (for example, the respect and promotion of a living wage, particularly in developing countries).

→ **Development of products and services for all:** due to the nature of their activity, some sectors in particular are able to contribute to development by offering a range of products and services aimed at low-income populations (Bottom of the Pyramid or BOP). The CSR analysis aims to identify proactive initiatives such as flexible pricing or tariffs based on income prioritising basic products including food, medical care and housing. Given the importance of education in Human Development, particular attention is paid to offers favouring access to knowledge and culture.

These examples illustrate a few aspects of the analysis of companies' respect for the right to development, but the list is by no means exhaustive. The analysis is based around diverse criteria for the areas of responsibility of each stakeholder; for example, sustainable restructuring and training policies aiming to preserve employability, contributions to the economic development of local populations or protection of the property of indigenous people.

KEY FACTS //////////

- More than **1 billion people in the world live on less than \$1.25 per day, and 925 million of them suffer from malnutrition.**

- There are currently **100 million homeless** and **1.6 billion** inadequately housed people in the world.

- The number of **unemployed** people reached **212 million** in 2009, thus equating to a world unemployment rate of 6.6%.³⁶

- **796 million** people in the world over the age of 15 are **illiterate**.³⁷

(36) ILO, 2010, 'Global Employment Trends' • (37) UNESCO, 2012, 'The Economic & Social Cost of Illiteracy', http://www.worldliteracyfoundation.org/The_Economic_&_Social_Cost_of_Illiteracy.pdf

RESPONSIBLE GOVERNANCE

11 Renewed governance in the wake of new sustainable growth challenges

Since the financial crisis, a range of reforms have been launched by governments and regulators, which announce a change of paradigm in corporate management and supervision practices, on a national and supra-national level. Indeed, the crisis highlighted the need to reinforce corporate governance practices to 'ensure strong, sustainable and balanced growth and to build a stronger international financial system' as outlined by the finance ministers and central bank governors of the G20 member countries.

In light of challenges both environmental (such as pressure on resources, climate change, biodiversity impact and pollution), and those related to human development (food security, access to health care, working conditions, and so on), the question arises of corporate economic growth models. Faced with this challenge, a governance system has to convey the sustainability of the company and encourage a strategy oriented towards long-term value creation in the interests of all its stakeholders.

This shift has led us to rethink the disciplinary approach and governance incentive as defined by the agency theory, in order to propose a more integrated governance approach combining economic growth challenges and social responsibility issues.

We therefore define a responsible governance system as the optimal structure of the distribution of decision-making and control powers between strategic and long-term players in the company, i.e. executives, shareholders and employees, in order to align the interest of these stakeholders, with a primary objective of long-term value creation for the company.

21 Main governance issues

There are three major governance issues:

→ **Adequacy of governance structure and distribution of powers with a long-term vision of the company.**

The analysis of this issue aims, on the one hand, to evaluate the balance of power within the supervisory authorities regarding the risks inherent in the ownership structure, and, on the other hand, to measure the effectiveness of the functioning of the Board, including:

- its ability to challenge strategic issues
- controlling the executive
- taking into account the interests of all stakeholders in decision-making.

→ **Balance in value distribution between the various company stakeholders and its impact on the company's sustainability.**

The analysis of this issue aims to assess the level of correlation between compensation systems for the company's strategic actors (managers, shareholders and employees) and the creation of long-term value.

→ **Respect for business ethics and the interests of stakeholders in the day-to-day operations of the company.**

The analysis of this issue aims to evaluate the contribution of governance mechanisms towards an effective corporate governance system through a quality assessment of:

- financial and non-financial information
- internal control and risk management
- business ethics.

KEY FACTS //////////

• **France**

- Publication of the AFG Corporate Governance Code 2013.
- Publication of the 2012 AMF report on Corporate Governance and Directors' Remuneration.
- Bill on Corporate Governance expected for spring 2013 that could introduce:
 - A shareholders' vote on remuneration policies
 - Compulsory attendance of employee representatives on the Board.

• **Europe**

- Publication of a European Commission action plan end 2012; this plan includes a schedule of measures and provisions that are set to be finalised in 2013.
- Publication of an ESMA report in 2013 following a consultation on the role of consulting companies.
- In Germany: Ongoing consultation on proposed amendments for the Corporate Governance Code aiming to introduce restrictions on directors' remuneration.
- In Switzerland: Referendum 'against rip-off salaries'; Minder Initiative expected March 2013.

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