

National Pension Reserve Fund and Responsible Business Principles

Dóchas Submission to the Inter-Departmental Committee on Responsible Investment through the NPRF

2 July 2009

Summary

Dóchas members wish to see the Government provide the National Pension Reserve Fund (NPRF) with a mandate to generate a sound return in the long-term while also protecting sustainable human development, both by safeguarding human rights and respecting environmental and international laws and norms.

Allowing that the NPRF must optimise its return for the taxpayer, Dóchas members urge the Inter-Department Committee to ensure that this is done within certain publicly acceptable parameters that do not involve NPRF funding businesses, or accepting/ being complicit in business practices, that run counter to the values of the nation and Ireland's foreign affairs priorities of peace, security and human development.

Background

Dóchas is the Irish Association of Non-Governmental Development Organisations. Its purpose is to enhance Ireland's contribution to global development, by leading the Development sector towards high standards of practice, being an independent representative voice of Ireland's Development sector, and by influencing public debate and decision-making in Ireland and the European Union in order to end global poverty.

Our 44 member organisations welcome the opportunity to make a submission to the Interdepartmental Committee tasked with facilitating the operation of the NPRF by drawing up a responsible investment policy that will allow the Irish taxpayer a profitable return on investment while also safeguarding human rights, the environment and sustainable development in line with Ireland's international commitments and obligations.

Responsible Business

While the private sector can play a crucial role in building economies and generating the wealth needed to tackle poverty, it can also have negative human and environmental outcomes if allowed free rein. Dóchas believes that investors – and especially sovereign investors such as the NPRF – have an important role to play in assuring that companies' behaviour is acceptable under accepted international and Irish norms and standards, as well as profitable.

Dóchas members' partners in the developing world cite the negative impacts of some international business operations, especially in extractive industries such as oil, gas, mining and logging. They point to some startling examples of business and commercial practices that give rise to social division, environmental degradation, food insecurity, forced displacement, human

rights violations, corrupt practices, violent conflict, abuse of women and children, and increased poverty.

Irresponsible companies sometimes exploit inter-community tensions and existing insecurity or violence for their own ends, while peaceful social protest is increasingly being criminalised in some parts of the world.

Investors' terms and conditions have an important signalling role for companies in the global marketplace, and Dóchas members wish Ireland to signal clearly that adherence to human rights, environmental and labour laws is a *sine qua non* for receiving investment support from the Irish taxpayer through the NPRF.

Dóchas members are keen to see Ireland support developing countries, and we welcome that the Irish Government, and the European Union as a whole, have made official policy commitments to enhance policy coherence for development. This is intended to ensure that the objectives of our development cooperation programmes are not undermined by other areas of government policy.

A responsible investment policy for the NPRF, as can be devised by the Interdepartmental Committee, can make a major and tangible contribution to the achievement of these policy commitments.

Setting Standards

Dóchas urges the government to set out how the National Pension Reserve Fund (with investments estimated at €15.5 billion in March 2009¹) will achieve responsible management and oversight of its investments.

Such an exercise makes particular sense in light of the recent financial meltdown which has raised serious questions about the ethics, standards and regulations governing international markets, but has also presented an opportunity to reframe rules and standards so that globalisation is built on respect for human rights, international law and environmental sustainability.

The financial crisis has clearly shown the dangers of poorly regulated and monitored market-driven behaviours, and highlighted the need to build an international business model where people's livelihoods – and future retirement provisions – are not built at the expense of human rights or the environment.

One of the greatest challenges to business operating in a responsible manner exists in parts of the world where governance is weak, where respect for human rights and the rule of law is low, where there is violent conflict, or where there is a great power disparity between corporations and local communities. However, it is vital that responsible business practices prevail in exactly such circumstances.

UN Special Representative of the Secretary-General on Business and Human Rights, John Ruggie,² has proposed 3 principles, widely accepted as a useful way forward, under which it is suggested that states – and their “sovereign wealth funds”, such as the NPRF – must fulfil their

¹ NPRF quarterly performance and portfolio update at 31 March 2009

² It is worth noting that Ireland held the presidency of the EU at this time and played a very important and supportive role in the creation of Ruggie's mandate.

duty to protect citizens against human rights abuses by companies through fostering “a corporate culture respectful of human rights at home and abroad”.

For the Inter-Department Committee to that would clearly enhance Ireland’s policy coherence for development, while also preventing the NPRF – and, by extension, the Irish state – from being open to accusations of complicity if companies in which it has invested breach human rights norms, international laws, or accepted social and environmental standards.

Due Diligence

The challenge for the Inter-Departmental Committee is to create an effective due diligence process that guides the responsible investment of the NPRF.

We realise there are challenges for the NPRF in devising and implementing a coherent and responsible investment policy, given its current mandate of securing the ‘optimal risk-adjusted total financial return’ (without reference to any human rights, ethical or sustainability criteria).

We also acknowledge the NPRF’s efforts to address these concerns through signing up to the United Nations Principles for Responsible Investment (thereby undertaking to integrate consideration of environmental, social and governance issues into investment decision-making and ownership practices) and applying the ‘Hermes principles’ on good corporate governance in relation to some of those funds or companies in which it invests.

However, we consider that these measures are not sufficiently robust for the task at hand (especially in being partial or weak, ad hoc, reactive, not wholly transparent and not underpinned by clear government policy) and we support the introduction of necessary legislation to amend the NPRF’s mandate to allow it – indeed, to require it – to pursue responsible investment.

A Responsible Investment Policy

To achieve this, Dóchas suggests the development and implementation of a responsible investment policy, based on clearly defined criteria and the engaged work of an ethics council or committee, which would include elements of:

- *Negative screening* (avoiding certain sectors/activities/companies, such as nuclear weapons, arms targeting civilians, particular regions or countries decided upon by the Government/Oireachtas);
- *Active ownership* (principled, strategic and dynamic engagement as a shareholder in key areas of concern, such as extractive industries);
- *Positive selection* (embracing certain sectors/activities, such as include renewable energy, carbon capture, water management); and
- *Exclusion of, or divestment from*, certain sectors/activities/companies (such as nuclear weapons, arms targeting civilians or others decided upon by the Government/Oireachtas) on the basis of demonstrable concerns and according to clear, pre-agreed criteria.

In this way, the responsible investment policy of the NPRF would underline and amplify emerging market signalling mechanisms that reward ethical business practices and challenge the irresponsible behaviour of companies which undermine legal and human rights laws, labour standards or environmental integrity, foment social or ethnic violence, etc.

The development and evolution of ethical investment funds has shown that it is possible to establish ground rules, boundaries and thresholds to guide investment behaviours in the marketplace. The parameters can be established with reference to international law and norms, along with Ireland's international commitments and stated policy positions, notably in relation to human rights, labour standards, environmental commitments, as well as its policy coherence for development commitments and development cooperation priorities.

Dóchas members urge that the NPRF optimise its investment return for the Irish taxpayer within certain publicly acceptable boundaries that do not involve the Fund investing in businesses, or being in any way complicit in business practices, that run counter to Ireland's foreign affairs priorities of peace, security and human development.

--o0o--

Dóchas Member Agencies

1. ActionAid Ireland
2. Action from Ireland
3. Africa Centre
4. Aidlink
5. Amnesty International - Ireland
6. Bóthar
7. Camara
8. Centre for Global Education
9. ChildFund Ireland
10. Children in Crossfire
11. Christian Aid Ireland
12. Christian Blind Mission Ireland
13. Church Mission Society Ireland
14. Comhlámh
15. Concern Worldwide
16. Friends of Londiani (Ireland)
17. Galway One World Centre
18. Gorta
19. International Service Ireland
20. Irish League of Credit Unions Foundation
21. Irish Commission for Justice and Social Affairs
22. Irish Council for International Students
23. Irish Family Planning Association
24. Irish Foundation for Cooperative Development
25. Irish Missionary Union
26. Irish Red Cross
27. Kerry Action for Development Education
28. National Youth Council of Ireland
29. Oxfam Ireland
30. Plan Ireland
31. Progressio Ireland
32. Self Help Africa
33. SightSavers International Ireland
34. Skillshare International Ireland
35. Suas Educational Development
36. The Hope Foundation
37. Trócaire
38. Vita
39. Voluntary Service International
40. Voluntary Service Overseas
41. Volunteer Missionary Movement
42. War on Want Northern Ireland
43. Wingspread International
44. World Vision Ireland