"NOTHING IS IMPOSSIBLE, PARTICULARLY WHEN IT IS INEVITABLE: THE OPPORTUNITY FOR LEADERSHIP"

LIMA 19 AUGUST 2014

SEMINAR ORGANISED BY:

FINANCIAL SECTOR SUPERVISOR OF THE CENTRAL BANK OF PERU

SPEECH BY:

HERMAN MULDER

Executive Fellow of the Duisenberg School of Finance

Independent Member of the Dutch NCP

Chairman of the Board of True Price

Former Director-General ABN AMRO Bank, Group Risk Management

Former Chairman of the Board of the Global Reporting Initiative (GRI)

Ladies and Gentlemen,

It is a real pleasure for me to have the opportunity to offer you my opinion on the subject of sustainability, corporate social responsibility and the evolution thereof in the financial sector, at this occasion of the presentation of draft Resolution on Social and Environmental Risk Management by the Peruvian financial sector Supervisor.

THE ESSENTIALS OF A CRISIS

By definition, every crisis is unexpected, with wide-scale, far-reaching, fundamental and lasting impacts and consequences. The effects of a crisis is in the short term very negative and painful, but are often in the longer term more beneficial as they rebalance disequilibriums and correct excesses on some important issues. With the benefit of hindsight we all have an unlimited wisdom to predict the crisis we are just coming out from.

Also, we seem to be pretty good in taking the measures to prevent the current crisis to happen again, at least in the short term. In our focus to take these steps, we tend to forget the signals for the inevitable next crisis. Such next crisis will be different in shape, form, effects and remedy from the previous one.

THE RECENT CRISES

My professional career started in the oil sector in 1973 (a year of a major international crisis) , followed by me joining AMRO Bank (later ABN AMRO) in 1979 (again a year with a major crisis). During the 80's, I was very much involved in the negotiations of the Latin-American sovereign debt problems, Argentina in particular. During the 90's we also saw the Asian and Russian sovereign debt problems . In 2002, I was the co-initiator of the "Equator Principles", the first voluntary, international, baseline code of conduct on environmental & social issues, agreed upon by sector Readers (initially 10, now over 80). Pressure from civil society organisations and media were catalytic in this: it was the right idea at the right moment.

The crises from the past do show us a number of interesting lessons: the crisis in 80/90's was foremost due to excessive sovereign indebtedness. The crisis of 2007/8 in USA and Europa was primarily caused by the lack of equity in the banking sector. All these crises created awareness of underlying issues and caused us to address and try to resolve them. As with most crises, it was : "from accidental pain to systemic gain".

THE NEXT CRISIS: CREEPING INSOLVENCY

In my capacity as banking executive and chairman of the Group Risk Committee in the period before 2007/8, I did not predict the emerging crisis. This is still an embarrasment and frustration for me, hence I have an obligation to you and myself to do better with respect to the next crisis, which is inevitable!

What will be the nature of such crisis? When and how will it manifest itself? What are the warning signals noticeable today which we should take much more seriously?

The date is known: like almost all crises, the next crisis will manifest itself on a Monday, as during the weekend, when the markets are closed, political summits, corporate restructuring meetings will take place in a last effort to prevent chaos when the markets open again on Monday-morning in Tokyo. Also, most crisis occur in October or November: there is something in the air and on the ground (with the UN General Assembly, the IMF/WB Annual Meeting). Finally, with almost a biblical logic, major crises occur every 7 years (1994, 2001, 2008). So for all practical purpose, the next major crisis will manifest itself on Monday 12 October 2015, Columbus Day.

The nature of this crisis is also fairly obvious: the very poor workers at the beginning of our supply chains, who are living without adequate health care, unsafe working conditions, no living wages or labor rights, being the primary victims of natural disasters, climate change, ecosystem degradation, biodiversity loss, pandemics , will tell us, the affluent middle class in the cities:" not enough is not enough". Media allow them to know our lifestyle, to know what we pay for their resources and products.

We have become increasingly dependent on this 25% of the world population who do not get their legitimate Rights and fair share. The situation is comparable with the one OPEC saw on 17 october 1973: the buyers market until then became instantly a sellers' market, with profound political, economic, social conequences. "L'histoire se repete"! The prize of globalisation which we currently enjoy will have a bill, a price to be paid by us!

The signals are clear: social conflicts increase in many countries, accident like "Rana Plaza" add fuel to already explosive conditions. Moreover, interestingly, consumers increasingly want to know the intr[redacted]ico value (or the lack thereof) of the products they buy.

The next global crisis will be a social one!

THE RESPONSIBILITY OF THE PUBLIC SECTOR: CONVENE, CONVERGE

During the Conference on Sustainable Development in 2012 (Rio +20) we, governments, business, civil society organisations convened and even converged, (despite the 3 different locations we were stationed) of steps to be taken for "the Future we want" (or rather "we need"). The promise of the post 2015 Agenda got a shot in the arm.

It was quite clear: our joint objectives can only be realised if true partnerships between all stakeholders will be entered into: the private sector must be enabled, steered and controlled to drive its business in the interest of the public agenda, both internationally and nationally.

Moreover, the public sector must become a role model for sustainable development in its procurement, contracting and investment activities

THE RESPONSIBILITY AND OPPORTUNITY FOR THE PRIVATE SECTOR

The private sector can not thrive in a society which fails. The private sector is vulnerable for its resources from people and planet: "No People, No Planet: No Profit!" Hence, corporate social responsibility , impact-sensitive sustainable business practices, and public accountability and disclosure are key preconditions for its contribution to the shared agenda, out of own self-interest and societal imerative. Many large businesses recognise this and are clearly advancing the direction of responsable and sustainable value-chain management: sustainabilising and stabilising their value chains. They do this with active engagement with benefitting and affected stakeholders, applying new business models (circular economy, cradle to cradle, etc). They recognise that "nothing is impossible, particularly when it is inevitable" so take the future in your own hand, possibly together with peers and even competitors, rather than waiting for governments to step in or major conflicts with of workers in the supply chain.

In this context sustainability reporting (like GRI/G4) and, in the future, integrated reporting, will enhance the building of trust with all stakeholders, beyond investors.

THE LEVERAGE OF THE FINANCIAL SECTOR

The financial sector may, and should play a major role in the realisation of our ambitions: in their research, advice, investment and lending operations.

My advice to you (and me), the financial sector (practicioners, regulators and supervisors alike), is to identify, jointly, which are the social, economic and political issues facing your country and map the contribution the sector may proactively make. Consultation with civil society organisatons, knowledge centres will offer opportunities for innovative, balanced, lasting solutions.

A case in kind is the initiative taken in 2012 by the (then) Governor of the Central Bank in Nigeria to co-create with the banking sector and the government a plan for a medium term, more balanced and diversified, sustainable economic development plan for the country. The Nigerian Sustainable Banking Principles, supporting this strategy, included: integrate social & environmental risk in policies; address climate change, water efficiency, waste managemnt, etc; respect for human rights; promote social and financial inclusion; robust governance; institutional learning; collaborative partnerships, incl international standards; public reporting. These principles apply to most aspects of the banking business.
Other, similar initiatives are taken in other (developing) countries (ref the SBN network by IFC).

In 2011, Peru became an "adhering country" to the OECD Guidelines for Multinational Enterprises, which were updated and upgraded in the same year, and, inter alia, explicitly includes the financial sector (as reflected in the "pro-Active Agenda). The UN Voluntary Principles on Business and Human Rights does the same. The Ruggie Framework: "Protect, Respect and Rmedy, is underlying both frameworks.

Due diligence on the impacts on society, "caused, contributed or linked to the operations" of financial sector practicioners in their full valuechain is a central theme.

Also, if financial institutions lack the effective influence, the responsibility rest with them to find partners for leverage towards better practices .

Importantly, the financial sector should move from a "do no harm" approach , as adopted in the "Equator Principles" , to a more proactive "do good" approach.

Other areas of progress are in the rapid emergence of impact investing, currently still a niche and its word perhaps more an oxymoron, but I promise you the concept will be mainstreamed and the word will be a tautology in 2020. I also want to mention the work on measuring and monetising the external costs; these "externalities" are impacts in society which are essentially off-loaded on society, hence not reflected in the ("true")value of companies or the ("true")prices of products: these external costs will eventually and inevitably have to be absorbed therein.

It is important to mention that the financial sector must address its direct and indirect impact (the latter is through its investees, clients)

THE OPPORTUNITY FOR THE FINANCIAL SECTOR IN PERU

Social and financial inclusi[redacted] is an important political priority in Peru and the financial sector ought to be an important driver to effect this imperative, similarly as is being done in other developing countries. The proposed rules on Social and Environmental Risk Management as introduced by SBS, the Financial Sector Supervisor at this seminar is an important step. They add a new dimension, in a Peruvian context, of "People, Planet. Profit" , which stands for Pneuma: breath, inspiration
I wish you all much success with this collaborative initiative.

Thank you for your attention!