

Communication on Progress

Year: 2014

STATEMENT OF CONTINUED SUPPORT

ECOFACT became a signatory to the Global Compact Principles in 2008. Since then, ECOFACT has continuously committed itself to ensuring that the Global Compact's ten Principles are an integral part of our management, strategy, culture and daily operations. We hereby report on our commitment to and application of these Principles.



10.10.2014, Raul Manjarin, Managing Partner

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1 Brief Description of Nature of Business

ECOFACT AG provides **reputational, environmental, and social risk management solutions** to global commercial and investment banks, the leading development banks, insurance companies, multinational companies, as well as non-profit organizations.

ECOFACT was founded in 1998 as a spin-off from a leading Swiss bank, and is fully independent. ECOFACT is based in Zurich and leverages a **global network of sector and topic specialists**. Working alongside our clients, we develop risk management solutions and provide support on a day-to-day basis in assessing business transactions.

Our **risk management consulting services** allow our clients to answer the following questions:

How can I make sure that my organization's internal processes are in line with industry standards?

- Risk management systems and processes, including assessment, reporting, and escalation
- Reputational and E&S risk management frameworks
- Sector policies and guidance documents
- Screening and assessment tools

How can I ensure that my organization is applying standards appropriately?

- Audit of existing processes and their implementation in day-to-day business
- Training, training materials, online learning solutions, and training delivery
- Portfolio screening (e.g. loan and client portfolios, financial products, business partnerships)
- Document screening (e.g. investment guidelines and marketing materials related to controversial issues and sectors)

How does my organization compare with its peers? How do external stakeholders perceive my organization?

How can we build trust among stakeholders and learn from them?

- Surveys and benchmark studies
- NGO engagement and dialog
- Peer review and dialog

Our risk assessment team supports our clients in assessing:

- Companies, e.g. prospects, clients, business partners, trading partners
- Transactions
- Private-sector and public-private partnerships
- Financial products associated with controversial companies, projects, sectors and issues
- Countries, e.g. when working with or in those countries

When working on a risk assessment, we examine the following questions:

- a) How does the case compare with relevant international standards, i.e. is it in compliance with corresponding requirements?
- b) Does the case comply with the organization's own standards, i.e. to what extent is the case congruent with the organization's policies and appetite for risk?
- c) Does the case present reputational risks, i.e., based on our knowledge of similar cases, what reaction should the institution expect from stakeholders?

We then make a recommendation, to which we may propose attaching conditions.

Through our **ECOFACT Quarterly – the briefing for E&S risk experts**, we offer a report tailored to the needs of individuals and teams in charge of assessing and controlling environmental and social risks at financial institutions. It aims to provide an update on environmental and social risks, standards, tools, and best practices.

www.ecofact.com/EQ

We initiated the **Roundtable on Environmental and Social Risk Management** in which many of the world's leading banks participate. The idea behind the Roundtable is to facilitate an informal exchange of knowledge and practices in banking. The Roundtable provides an opportunity to discuss the difficulties that arise as social and environmental issues are further integrated into the banks' business with corporate clients. The fourth Roundtable will take place in New York in November 2014.

www.ecofact.com/roundtable

ECOFACT also established **the Forum on Reputational Risk Management in Banking** to provide a platform for dialog and knowledge-sharing on common and best practices in reputational risk management for the world's leading banks.

www.ecofact.com/forum

2 Human Rights Principles

We are committed to **respecting and protecting** human rights not only within our own operations, but also through our work with clients. We condemn human rights violations and will not be complicit in human rights abuses of any kind by knowingly providing assistance or support for any actions that perpetuate abuse.

We do not directly face significant human rights risks in our own day-to-day operations but are, at the same time, **very aware of the potential impacts** businesses can have on human rights. Human rights issues are – indirectly – of great relevance to our day-to-day operations. Through our products and services, we **raise awareness among our clients** of business-related human rights issues. It is ECOFACT's goal to help our clients understand, assess, and mitigate human rights risks, and respect human rights in their business relationships or partnerships.

We will not do business with companies or governmental bodies that are accused of human rights violations, unless our projects will help to improve the conditions of those affected and aid the client in avoiding human rights violations in the future.

2.1 Implementation

While we are not significantly exposed to human rights risks in our own operations, we do **address human rights issues** in various ways in our day-to-day business.

Our employees have an excellent understanding of issues related to the impact of business on human rights, not only related to their own human rights, but also with regard to their role in helping to protect the human rights of others. ECOFACT ensures that its employees acquire relevant, up-to-date knowledge on human rights and business, and in particular that they are familiar with the “Protect, Respect and Remedy” framework of the UN Special Representative for Business and Human Rights, Professor John Ruggie. Overall, **knowledge-building on human rights issues** is an ongoing process that takes place, for example, through working with relevant international standards such as the Equator Principles or the Performance Standards of the International Finance Corporation (IFC), but also through research for our ECOFACT Quarterly report and through the work we do for our clients.

Furthermore, we support our clients in developing policies, guidelines, and processes that address human rights risks and help our clients assess the potential impact of their day-to-day business on human rights. In addition, our risk assessments support financial institutions and other organizations understand whether their business (e.g. specific clients or transactions, investments in specific sectors or countries, financial products) complies with **international standards**, such as the Equator Principles and the corresponding standards of the World Bank Group. This also allows us to derive strategies for our clients to avoid and mitigate negative impacts, and to address opportunities for the advancement of their business by promoting human rights.

By helping our clients **develop effective policies and guidelines** on human rights issues, we help promote respect for human rights beyond just our own actions through our clients' business relationships or partnerships. We condemn human rights abuses and help our clients to become more aware of the potential impacts of their actions on human rights issues. Overall, we use our influence on clients to promote human rights by sharing experience and good practice.

Our ECOFACT Quarterly is another channel through which we promote human rights by keeping our clients up to date with relevant human right developments by providing the latest developments in risks, standards, tools, and best practices.

2.2 Measurement of Outcomes

ECOFACT has never been the subject of investigations, legal cases, rulings, fines, or other events related to human rights violations.

To further evaluate our performance with regard to human rights principles, we take into account the number of cases in which our clients act in accordance with our suggestions. In particular, if we assess a case in which there is any indication of a violation of human rights, we recommend action that is in line with best practice, e.g. by recommending that compliance with human rights standards be made a requirement, and by making suggestions on how to remediate violations. In most cases, our clients implement our recommendations and thus **make decisions that respect and promote human rights principles**.

In the last year, ECOFACT, for example:

- Developed a **risk assessment tool** for a governmental organization intended to ensure that it does not partner with companies that violate human rights, unless that partnership aims to improve human rights practices.
- Assessed the potential exposure to human rights risks that the governmental agency might face when engaging in certain **private partnerships**.
- Helped an insurance company interpret and understand the implications of the **UN Guiding Principles on Business and Human Rights** for its day-to-day business operations.
- Helped a utilities company understand human rights risks in a weak governance zone.
- Assisted an NGO in assessing the potential risks of accepting a grant from a foundation linked to a controversial industry known for its negative **social impacts**.
- Supported a mining company in developing a comprehensive **human rights policy** in line with international best practices and standards.

3 Labor Principles

ECOFACT is committed to supporting the **elimination of all forms of forced and compulsory labor**. We condemn the illegal use of **unacceptable forms of child labor, and any kind of child exploitation** in the world. We refuse to get involved with companies using forced or child labor.

ECOFACT is committed to recognizing the right of all employees to join and form **trade unions** for the protection of their interests, as well as the right to a collective agreement where this is desired by our employees, without them having to fear any kind of intimidation.

ECOFACT is committed to respecting and promoting the **elimination of discrimination** in every aspect of human resources, i.e. hiring, payment, equal employment opportunities, and promotion decisions. We believe that diversity is very fruitful for the productivity of our employees, and do not practice any form of discrimination based on age, sex, religion, origin, or trade union membership.

Labor rights are relevant for us not only in relations with our employees, but also in terms of our business relationships. If our clients do not take labor principles – especially violations such as forced labor and unacceptable forms of child labor – into account in their day-to-day business, this might pose significant reputational risks to them. Thus, for us, the relevance of labor principles in our business goes far **beyond our own operations**. It is our goal to raise awareness of labor principles among our clients, and to promote respect for labor rights.

3.1 Implementation

We **address labor principles in several ways** in our day-to-day business.

We believe that employees are more productive if they are treated with respect and are given fair and just remuneration for their work. For us, the **balance between work and leisure time** is one of the keys to good and efficient work performance. Therefore, we respect different working styles and make an effort to create a comfortable working environment for our employees.

As an employer, we go beyond national legal requirements on issues such as holidays, unpaid leave, and social insurance coverage. ECOFACT is committed to preventing discrimination of all kinds against its employees, and ensures comparable pay for comparable work. We regularly engage with our employees to identify their needs and concerns, and to ensure employee satisfaction.

As forced labor and child labor present severe social and reputational risks, ECOFACT is very aware of the countries and sectors at risk. Awareness of these issues is very high within our company, since this is a concern that is given careful consideration in our risk assessments and screening tools. Furthermore, we monitor new developments in the field of labor rights for our ECOFACT Quarterly. In doing so, we also share relevant new developments with our subscribers. Overall, through our actions, we help to **promote an understanding of the importance of labor rights** among our clients, and support them in assessing and managing labor rights risks in their business relationships or partnerships.

3.2 Measurement of Outcomes

By engaging with our employees on a regular basis, we are able to **evaluate our performance in terms of labor** principles. Based on employee feedback, we are committed to implementing measures to ensure continued employee satisfaction.

In this reporting period, women make up **73%** of our workforce (a slight increase from last year).

ECOFACT has never been the subject of investigations, legal cases, rulings, fines, or other labor-related events.

Furthermore, we take into account the number of cases in which our clients act in accordance with our suggestions concerning labor rights. In most cases, our clients implement our recommendations and thus make **decisions that respect and promote labor principles**.

Last year, we started the development of a system relevant to financial institutions and large publicly listed companies that monitors new developments to **regulations and soft laws** on a variety of topics, including labor, environment, and human rights.

Additionally, ECOFACT developed a **risk assessment tool** for a governmental organization that intends to make sure the organization does not enter a partnership with a company that violates labor rights.

4 Environmental Principles

We consider environmental protection as an issue of utmost importance. While the direct impact of our operations on the environment is limited, we are still committed to further reducing this aspect of our business. Additionally, we are dedicated to using our business relationship to further promote environmental protection. We take a **precautionary approach** to environmental challenges and support the promotion of environmental responsibility.

Although we are not directly presented with significant environmental risks in our own operations, our clients do face such risks. In our work, we are also very aware of how crucial it is for businesses around the world to take a sensitive and preventive approach to various environmental issues. As we provide risk assessments and advice **on environmental risk management solutions**, environmental issues are of great relevance in our day-to-day business. Therefore, we follow an approach that is based on a **clear awareness of the importance of environmental protection**.

4.1 Implementation

Throughout our company, **we are very much aware of the importance of environmental protection**. Our approach includes adopting measures and processes that reduce the use of resources like paper, power, and heating. For example, we use both sides of a sheet of paper and print multiple pages per sheet. We save energy by ensuring that we buy energy-efficient products when acquiring new equipment, and by making sure that all equipment is completely turned off overnight and over the weekend. We are committed to recycling resources such as paper, cardboard, bottles, and electronic waste. We purchase 100% of our electricity from renewable sources (primarily hydropower and solar energy) and we strive to buy only environmentally-friendly products (e.g. dish and hand soap, paper towels, etc.).

ECOFACT is committed to promoting **greater environmental responsibility** through its business activities. As a company that provides environmental risk management solutions, we strongly encourage our clients to adopt policies, guidelines and strategies that include a clear commitment to environmental protection and sustainable management. Specific examples of our actions include developing environmental risk processes and frameworks, supporting our clients in revising their sustainability policies, assessing transactions against international environmental standards, and assessing financial products in terms of environmental risks and impacts. Another important channel through which we promote environmental responsibility is the training of financial professionals on environmental issues.

Furthermore, through the **Roundtable on Environmental and Social Risk Management** in banking we provide a platform for dialog and knowledge exchange.

Another channel through which we **promote environmental awareness** is the ECOFACT Quarterly. We monitor new developments related to environmental risks and share these with our subscribers to keep them up to date.

4.2 Measurement of Outcomes

All electricity is purchased from renewable sources (mainly solar energy and hydropower).

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ECOFACT has never been the subject of investigations, legal cases, rulings, fines, or other events related to environmental issues.

To evaluate our performance with regard to environmental principles, we also take into account the number of cases in which our clients act in accordance with our suggestions. In most cases, our clients implement our recommendations and thus **make decisions that help to protect the environment.**

This past year, ECOFACT started a system that monitors changes to both hard and soft laws on a variety of topics, including labor, environment, and human rights. The system is relevant to both financial institutions and large publicly listed companies.

5 Anti-Corruption Principles

ECOFACT is committed to fighting corruption. ECOFACT management will not tolerate any form of corruption, including extortion and bribery by any employee, and strictly enforces compliance with national law on these issues.

5.1 Implementation

ECOFACT **promotes anti-corruption principles** throughout its client base by building awareness of the reputational risk inherent in any actions that are in breach of these principles. We take anti-corruption principles into account when preparing risk assessments for our clients.

As one of the first organizations to join **Transparency International Switzerland**, ECOFACT supports one of the leading bodies committed to working against corruption. We strongly believe that corruption harms the economy, especially small enterprises.

5.2 Measurement of Outcomes

ECOFACT has never been the subject of investigations, legal cases, rulings, fines, or other events related to corruption or bribery.

To evaluate our performance with regard to anti-corruption principles, we take into account the number of cases in which our clients act in accordance with our suggestions. In most cases, our clients implement our suggestions and thus make decisions that **comply with anti-corruption principles**.