

Spain

€0.08 billion are invested in the institutional SRI market in Spain.

Institutional investors are still marginal in Spanish SRI, with one category of such investors creating the demand for the market (NGOs).

Although most existing products are designed for the retail market, there are many initiatives that show that institutional investors are beginning to invest or are looking for products that match their needs.

CSR is now the main issue, although the first ethical funds on the market were sharing funds.

Our analysis demonstrates that measures and initiatives that were taken in Spain last year to encourage SRI must continue to be reinforced by different sectors in politics and society as a whole.

I. SRI in Spain

Definition of SRI in Spain

In Spain, a considerable number of the funds known as socially responsible investment funds are also sharing funds. A fund is a “socially responsible investment fund” when it screens the companies for inclusion in its portfolio using criteria based on social responsibility. However, “social investment funds” allocate part of their management fees for donation to various social bodies (charities, NGOs, co-ops, communities, etc.) but do not use any mechanisms for filtering or screening its portfolio. In the latter case, the funds in question designate beneficiaries, usually Non-Governmental Organisations (NGOs), to receive the relevant part of their fees. There are also a few pure sharing funds that do not use social responsibility criteria.

The most common methodology applied to Spanish funds, and funds of Spanish origin, is negative screening, with some reference to positive screening. In Spain the most popular screening criteria for ethical funds are environmental (positive screening), which is used by 92% of funds; and arms (negative screening), which is used by 75% of funds. The best-in-class approach is rarely used.

History

The earliest SRI funds to appear in Spain were ethical investment funds. These first funds on the market were basically social funds that subjected their portfolios to negative screening. Three exclusively sharing funds were also issued, with no SRI screening.

The origins of these first SRI funds were diverse and they experienced parallel but different developments:

- In the late 1990s, the NGO Intermon Oxfam, which first learned about SRI funds in the United Kingdom, felt it had to seek an SRI option for its investments, particularly funds designated to actions involving development cooperation in the form of surplus liquidity. At the time, Spain only had one environmental fund, Arco Iris, a mutual fund belonging to Ahorro Corporación. Intermon Oxfam negotiated with several fund managers to create an SRI fund that would reflect their values. Eventually the Spanish fund manager AB Asesores, currently part of the Morgan Stanley group, accepted the commission and bought out the mutual fund, Fondo Ético. Research on Spanish companies is carried out by the Ethical Research Committee, and for non-Spanish companies by the parallel institution EIRIS (Ethical Investment Research Service).
- Renta 4 followed the same path when they launched their mutual fund Renta 4 Ecofondo, based on environmental criteria. Co-founders of the fund were the Fundación Ecología y Desarrollo, applying the company research methodology of the international network, the Siri Group.

A few months later, about eight SRI funds and three exclusively sharing funds entered the market. By then, two SRI funds issued by foreign managers had also registered.

At the time, target clients for these funds were institutional investors with a specifically social profile, for example NGOs and religious bodies, but also private investors who wanted their investments to reflect their beliefs.

Early in 1999, the CNMV (Comisión Nacional del Mercado de Valores / Spanish Securities and Investments Board), the public body responsible for regulating the national stock market, asked the financial sector for clarification on the funds they were calling ethical, environmental and social. This initiative for self-regulation was taken up by INVERCO (Asociación de Instituciones de Inversión Colectiva y Fondos de Pensiones / Association of Institutions of Collective Investment and Pension Funds), who constituted an “Ethics Committee” made up of five members.

After nine months of deliberation, the committee drew up a “Circular sobre utilización por las Instituciones de Inversiones Colectivas (IIC) de las denominaciones “ético”, “ecológico” o cualquier

otra que incida en aspectos de responsabilidad social” (Circular on the use by Group Investment Institutions (IIC) of the denominations “ethical”, “environmental” or any other term with a bearing on aspects of social responsibility), which was signed on November 15th, 1999. The CNMV approved the process and accepted the denomination of ethical, environmental and sharing funds.

More recently, in June 2002, AENOR, (Asociación Española Normalización y Certificación / Spanish Association for Standardisation and Certification) proposed an experimental Spanish standard on “Ethics - Requirements for ethical and socially responsible financial tools”, based on INVERCO’s definition.¹

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Apart from these initiatives, it seems that the greatest stimulus for SRI in Spain is currently coming from foreign institutional investors. They count social responsibility practices as good indicators of quality in management and corporate governance. Spanish companies under great pressure from these institutional investors are taking steps to join SRI funds. In addition, given media interest in market indexes like the DJSI and FTSE, companies in the IBEX 35 are showing increasing interest in appearing in these indexes as a way of enhancing their reputations.

This phenomenon is also beginning to influence Spanish institutional investors, particularly pension funds (reinforcing pressure from trade unions on their Monitoring Committees) and insurance companies.

Description of Available Products

From 1999 to 2002, thirteen ethical and/or sharing funds were set up in Spain. These were two funds from the Santander Central Hispano group, recently merged to create a single fund, and others from fund managers (BNP, Morgan Stanley Dean Witter, Ahorro Corporación, Bankpyme, la Caixa, Caja Madrid, Caixa Catalunya, Renta 4, Deutch Bank, Monte de Piedad y Caja de Ahorros de Huelva y Sevilla, Ahorro Corporación, BBVA). Two foreign funds (UBS and Crédit Suisse) were also registered.

Between late 2002 and early 2003 the scenario changed substantially with the creation of two new Spanish products (SIMCAV Banco Urquijo and Albufera Verde Bankpyme), and ten new foreign funds that were registered (by Pictet Funds, Dexia, Axa IM, Pioneer, ABN Amro IF, ING IM and Mellon Global Investment).

Various measures and initiatives are currently reinforcing the concept of Corporate Social Responsibility (CSR):

- The concept of corporate governance of listed companies is highly developed in Spain, thanks above all to the work of the Aldama Commission. The Aldama Commission is a government-led committee of experts created to pronounce on and regulate the current situation, whose work puts Spain among the leaders in Europe on the issue.
- In Spain, business ethics is frequently included as a subject in academic programmes. This has long proved a stimulus for organising conferences and meetings, and for the creation of associations like EBEN (European Business Ethics Network).
- The Spanish tradition of social action, highly developed through a series of private foundations and companies that return profits to social or environmental causes, is a first step towards CSR. However, this also has a negative effect in that it distances social and environmental concerns from core company management, and thus giving them a marginal status.
- Evaluation of environmental risks is a very active field in Spain. There is a plethora of initiatives by consultants and academics, in most cases applied to company management.
- Sustainable development is the field where corporate management has made most progress and where specific management strategies are most frequently applied.

Over the last two years, the concept of corporate social responsibility has assumed a high profile in the most forward-looking business and political forums. A few organisations have seized the initiative in encouraging this development.

¹ Source: AENOR Standard No. UNE 165001

SRI Legislation

The Spanish presidency of the European Commission (first six months of 2002) completely ignored commitments already made in the field of sustainability. Likewise, the presence of the Spanish Government at the World Summit in Johannesburg was largely symbolic.

However, Spain has an array of instruments for corporate governance that follow the lines established by the EC (the Winter Report): the white book, the Aldama Committee, and the Olivencia code. More recently, these issues have also begun to be debated at national level under various policy initiatives:

- The motion of 4 February 2003, urging the Government to take the necessary measures to introduce an obligation to inform that is directed at mutual investment institutions and pension funds about their use of ethical or social responsibility and environmental criteria in the selection of its investments. Presented in the Senate by the parliamentary Group of the Catalan party, *Convergència i Unió*.
- Ministry of Employment and Social Affairs: A Technical Committee of Experts has been created with the remit of preparing a report on corporate social responsibility. The group met for the first time in July 2003.

II. SRI Market Context

In Spain, ethical investment is still a marginal and under-developed sector as regards to both results and management practices. From the appearance in the late 1990s of the first Spanish ethical funds, ethical investment has shown a slight tendency to increase, but has still not reached the high levels attained in other European countries. After two uneventful years, last year brought some important additions to the market in socially responsible investment funds in Spain. However, these changes were not initiated by the internal market, being mainly due to the commercialisation in Spain of ethical investment funds registered and managed in other European countries. European managers of socially responsible investment funds could see opportunities for commercialisation of these funds in the Spanish market. Only one ethical SIMCAV (open-ended investment company) was created by a Spanish fund manager.

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By 2002, there were twenty-five ethical investment funds being commercialised in Spain, fourteen of which were managed in Spain. The eleven remaining ethical funds were based and managed in other European countries. However, in spite of this growth in the number of funds, the economic data on this situation does not seem so bright. Investment in ethical funds in Spain in 2002 at over €79 million (volume of capital) decreased by 9.8% from the previous year (€87 million). Comparing this with the market for group investment institutions in Spain, investment funds in Spain for the same period (2001-2002) registered an annual decrease in capital of 11.71%, affected above all by the depressed state of the financial market. We can therefore say that the percentage of capital reduction of ethical funds was lower than in the rest of the market, due above all to the incorporation of new funds.

Apart from this, the number of participants also went down, from 5,556 in 2001 to 5,242 in 2002. In this case, the reduction in volume of participants was 5.65%, while the average reduction in participants for mutual funds in general on the Spanish market was 8.19%. However, this more positive data on ethical funds was also influenced by the appearance of new ethical funds. Here too, an analysis of the situation shows the relatively limited presence of Spanish companies in business indexes like the Dow Jones, FTSE 4 Good, etc., with most Spanish funds not exceeding 3% of the total equities portfolio.

Be that as it may, the situation of SRI, still in its infancy in Spain, is not only defined by investment statistics alone. A series of recent initiatives by institutional investors is a sure sign that the market is about to take off.

Role of Institutional Investors

In Spain, the appearance and subsequent development of SRI really began to gather speed in the late 1990s. This firmed up with the entry in 1999 of the first ethical investment funds for small investors and some community banking projects. We are looking at a very young movement, still in its very early stages of development.

It should also be said that socially responsible investments have not appeared as a response to a clear demand from Spanish society. On the contrary, they are due to the initiative of minority individuals and groups familiar with the movement in Europe who considered it vital to initiate this type of activity in Spain. In addition, the promotion of SRI has entered Spain in the wake of corporate social responsibility, which has played its part in spreading the idea that companies in Spain should better understand the workings of SRI.

There have been other important changes during the movement's five years of existence:

- First and foremost, raising awareness of ethical banking and socially responsible investments among members of Spanish society, the majority of whom knew nothing about this movement,
- Secondly, the consolidation of projects aimed at developing methodologies of work.

In Spain, SRI is already a well-known concept in some business circles. However, the most problematic aspect still to be addressed is how to turn this concept into concrete projects. In order for this to happen, portfolio screening techniques need to be applied and people need to have access to proper research on management behaviour.

Players on the Institutional Side

Today, the institutional market is still an emerging and marginal market in terms of volume of assets invested. However we are beginning to see progressive changes in the attitudes of some institutions that will most certainly turn into concrete projects in the coming months.

SRI is having a substantial impact on certain types of institutions, such as companies, NGOs, foundations, pension funds etc. In some cases, their boards of directors are even now discussing the need to give consistency to their shares by linking investments to SRI projects. Important debates are going on in some corporate pension funds, in many NGOs and foundations and also in some religious orders, as detailed below.

NGOs

NGOs have been the social actors most involved in promoting the SRI movement in Spain, mainly by participating in the creation and development of SRI investment funds for individual investors (retail). There is also a group of NGOs with a significant volume of capital invested albeit temporarily, who have adopted SRI policies and are currently engaged in further internal debate on the sector. Some of these NGOs active in cooperation for development in the fourth world, and in human rights have already adopted SRI policies. We can therefore say that this sector is leading current deliberations in Spain on SRI.

However, there is one group of NGOs whose role in this field is restricted to that of beneficiaries of socially responsible investment funds, enabling them to receive management fees. This group is therefore encouraging the consolidation of sharing (social) funds.

Churches and Religious Orders

The church and religious orders form the social sector expected to be the most closely involved in SRI projects. In fact, some of the socially responsible investment funds that came onto the market in 1999

were specifically launched with the understanding that churches and religious orders would invest in them. Another factor would appear to be the serious financial scandals in which some church institutions have recently been implicated. But up to now, few changes in their behaviour have been observed.

Nevertheless, it would be wrong to say that there has been no change. Certain religious orders are now adopting a more proactive role and starting to adopt SRI policies. The current status is the use of SRI criteria for screening portfolios. The investment volume of this group could become very substantial.

Pension Funds

Spanish pension funds are familiar with movements in favour of SRI in other countries, as can be seen from specialist magazines and international conferences. Moreover, Monitoring Committees of Occupational Pension Plans include representatives of trade unions (Unión General de Trabajadores and particularly Comisiones Obreras), actively involved in working towards raising awareness about social and environmental criteria in investment.

Also significant is the fact that CSR policies being defined by large companies are increasingly global and all-inclusive, and some pioneering firms even include the companies in which their pension funds are invested within their “stakeholder” relationships.

All this makes it clear that in the near future, pension funds will be the institutional investors with most clout in Spanish SRI. This is shown by the objectives that some have set for themselves in 2003, such as Pension Plan Study Days for Telefónica employees. Among their eight most current and relevant issues for pension plan management, Telefónica have created one session putting forward SRI as the new alternative. Some economic data that will serve to illustrate this situation:

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- 2002: Investment by occupational pension funds (aggregate and declared) in a mutual fund. Amount: €1.5 million (compared with the accumulated amount of around €30 billion in Spanish pension funds).
- 2003: planned budget in SRI (aggregate and declared): €18 million.

Insurance Companies

As has happened in other countries, managers of insurance companies are also considering the option of investing using sustainability criteria. Their concern is prompted by the increasingly high costs deriving from natural disasters that are seen to be the consequence of climate change, and by legislative advances in environmental responsibility (the European “Let the polluter pay” debate). They are also involved in the general debate on CSR. Several of these initiatives were created in 2003, which leads us to believe that this type of investor will continue to follow in the footsteps of pension funds.

III. Findings and Interpretation

Future Development in the Institutional Market

The institutional market was sparked off by the demand of one class of investors (NGOs), which was met by the managers of Spanish funds. New demands from traditional institutional investors (pension funds and insurance companies), will probably also start a reaction from national managers.

Socially responsible investment is the best illustration, should one be needed, of the importance of bringing CSR policies into corporate management. SRI began to gather force as a social argument

when social groups decided to use their financial resources to fight against specific business behaviours and activities. Although this focus is still important today, in the late 1990s and above all from the year 2000 on, a significant change of trend began to take shape. Traditional investors started to consider that the practices established for issues including CSR, sustainability, corporate governance etc. are good indicators of quality in management and governance in any company.



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