

Minister Schily, Secretary Snow, Ambassador Timken, Ladies and Gentlemen.

It is a pleasure to have the opportunity to talk to you today on the subject of corporate social responsibility and the role of multinationals in globalisation.

In the City of London today, life could not be better. There is a bonanza in Mergers and Acquisitions, foreign listings and Private Equity buyouts. This transaction activity reflects the rapid pace of globalisation and the increasing interconnectivity of markets. Across Europe companies are eyeing the fast growth and opportunity in booming economies, such as India, China and Russia.

Although short-term we are doing lots of business, the voices calling for increasing focus over the medium to long term on how we do business, on measuring, managing and reporting responsible business practice, are increasingly strong. In The Sunday Times in London this weekend there was a supplement entitled "Companies that Count". This ranked the top 100 companies for corporate social responsibility, according to an Index, now in its fifth year, which measures the impact businesses have on the staff they employ, the societies in which they operate and on the environment. The companies that take part say that CSR has led to business advantage, including cost savings, improved image, better recruitment and greater efficiencies.

Investor groups are also focusing on the advantages of CSR and Socially Responsible Investment, not only as being morally preferable, but also in risk terms. Companies that overlook their CSR responsibilities are more likely to be prosecuted, shut down by the government or boycotted by the public. CSR is fast becoming a source of market and competitive advantage.

## SLIDE 1

In the next few minutes I would like to cast a look into the future to show why CSR is central to the globalisation agenda and why multinationals have a particular role to play in this development. Here I will draw on Citi's own CSR commitments and perspectives ... and Citi, like most others, still has more to do in this field.

The business growth opportunity for multinationals and others arising from globalisation is extraordinary. Steady state forecasts show global GDP increasing 3 – 4 fold to some \$150 trillion by 2050, with an 8 fold increase in the developing world. In the field of financial services we see immense potential, particularly in the developing world, for the wider adoption of wholesale and consumer banking services. But two considerations should force those pursuing these opportunities to pause and reflect, and lead them to the conclusion that corporate social responsibility has to be at the heart of their approach:-

- First, business needs sustainable societies in order to protect its own sustainability. Very few businesses are short term activities. Most businesses want to do business again and again over many decades. Enlightened self-interest therefore drives this first consideration of the importance of CSR.
- Secondly, free markets and free trade lie at the heart of the multinationals' agenda and the overwhelming challenge of the C21<sup>st</sup> is to prove that free markets can benefit broad elements of society and not just the few.

As we look forward, however, threats to the foundation of today's business world arise from major risk factors and destabilising trends. I will single out three:

#### 1. Population and aging

- Population growth – The world's population will grow from 6.5 billion to 9 billion by 2050, most of this in the developing world. This will cause a dramatic change in the relationship between mankind and the planet. As Al Gore has said, "It took 10,000 generations for the human population to reach 2 billion. Then it began to rocket from 2 billion to 9 billion in the course of a single lifetime – ours."
- Ageing – By 2050, the number of older people in the world will exceed the number of young for the first time in history, putting new pressure on the wealth creating segments of society, redefining the needs of the older population and stepping up trends, such as immigration. As the UN has said "Population ageing is enduring – we will not return to the young populations our ancestors knew."

#### 2. Technology advances, poverty and inequality

- Poverty – 3 billion of the 6.5 billion living on the planet live today on less than \$2 a day; 1.2 billion of them on less than \$1 a day.
- Social and economic exclusion – In 1960 the income gap between the fifth of the world's people living in the richest countries and the fifth living in the poorest countries was 30:1. By 1998 the gap had widened to 74:1, according to the UN, and the gap between rich and poor continues to widen, including

within the developed world. It is in the developed world that we are likely to hear the loudest calls for protectionism.

- Poverty and social and economic exclusion have of course been with us throughout history, but unlike in the past modern technology and media highlight differences between groups of people with unprecedented immediacy.

### 3. Climate change

- Climate change – According to NASA scientists, 2005 was the warmest year since the 1880's. 12 percent of the world's population living outside the developing world use 85 per cent of its water. The pressure on water supply arising from climate change, to name but one effect, threatens further imbalance.

How do these three broad themes tie back to the topic of the CSR and the responsibilities of multinationals? In a world that is increasingly joined up, in which technology has flattened walls and in which ideas, trade and capital flow freely the enlightened self-interest of multinationals drives their strategy to success down the path of corporate social responsibility, which includes contributing to the issues arising from these trends.

Why is this in companies' self-interest? Because these three forces can easily lead to alienation and disaffection with a free market economy, the prerequisite for business success going forward. But of course CSR is also in their self-interest because it will unlock exciting new business opportunities.

As Milton Freedman, the champion of free markets said: "The business of business is business". If he had coined the phrase today, he would perhaps have said that the business of business is responsible business.

#### SLIDE 2

Long gone are the days when some frantic fiscal year end cheque writing exercise was considered adequate fulfilment of a company's moral obligation to the society in which it operated. The best multinational companies consider their social responsibility not as a tacked-on, after thought policy, but as an inherent, embedded part of their business model. Multinationals have a key CSR role to play, given their ability to exert worldwide influence, more so probably than individual governments, supranational organisations or NGO's. And financial institutions, given their role as the guardians of financial flows, can be particularly influential, whether in rooting out money laundering, promoting CSR compliant lending and funding or through non-balance sheet activities, such as SRI research and asset management.

Another example of the power of multinational-driven CSR is Wal-Mart's push to sell every one of its 100 million customers compact fluorescent light bulbs as an energy saving measure.

#### SLIDE 3

You cannot discuss what CSR means to business without considering its commercial dimensions. Companies are not thinking about these issues for altruistic reasons (or at least not for purely altruistic reasons), but because integrated CSR policies can contribute to their bottom lines.

Markets are the most powerful catalysts for change, and markets today demand more in the CSR area. Our many stakeholders - investors, regulators, employees, customers, to name but a few – are rewarding good CSR actors and punishing those with less favourable records. Multinational companies can no longer think about their business in narrow terms. And in many of the markets where multinationals do business, a demonstrable commitment to the community is a prerequisite of a license to operate. So global business aspirations are literally dependent on meeting responsibilities to society.

Let's look quickly at three sets of CSR focused stakeholders to which multinationals must pay attention and must manage in order to remain competitive:

- Shareholders - Stock market performance is an important performance measure. Like it or not, one thing is for sure – CSR accidents will be punished by investors. F + C, for example, a leading UK asset manager with some \$155 billion of assets under management, includes environment and social risk policies as important investment considerations.
- Employees – Today's Under 25's are shown consistently to be more interested in a prospective employer's social engagement than any previous class. Just last week there was news that firms such as Google and GE were allowing graduates to defer their employment offers for two years to work on philanthropic projects.
- Clients – In the UK retail industry companies are competing on the green issue because this appeals to their customers. Hardly a week goes by when you don't read a new announcement from a retailer who is committing to reducing its carbon footprint or evaluating its supply chain for extended responsibility. Marks and Spencer, which competes fiercely with the much larger Tesco, made a big splash when it promised to become carbon neutral,

to cease sending waste to landfill by 2012, and to stop stocking any fish, wood or paper that had not been sustainably sourced. The response from customers, investors, media and environmental NGOs was positive. Days later Tesco announced that it would attach a carbon label to all its brands.

#### SLIDE 4

Turning to Citi's own approach to CSR. Citi has set itself the goal to be the world's most respected financial services company. As part of this we talk about our three shared responsibilities:

- To our people – Citi employs over 300,000 people, of which 98 per cent were hired locally
- To our communities – Citi is present in over 100 countries and is focused on contributing broadly to each of them
- And to our franchise – We deal with over 200 million clients and have to provide a responsible and sustainable operating framework for each of their needs.

Citi has been recognised for these efforts and is included in the Dow Jones Sustainability World Index and the UK FTSE4 Good Index, which acknowledge setting standards in sustainable growth and demonstrating exceptional environmental, social and economic performance.

#### SLIDE 5

Turning to each of these responsibilities in more detail:

Commitment to the community is channelled through the Citigroup Foundation, as well as via direct contributions from the businesses and our people.

Two examples of work by the Citigroup Foundation here in Germany are:

- The Debt Help Line. There are over 3.2 million private households in Germany that are over-indebted and there is a six month waiting list for an appointment with a debt counsellor. Citigroup funds the debt help line to provide counselling via telephone and the internet.
- Secondly, Fit für die Wirtschaft. Surveys show that there is a low level of financial awareness among teenagers who do not know how to invest or how banks and other financial institutions function. The Citigroup Foundation enables young people from disadvantaged communities to understand economics and personal finance. Endorsed by the Federal Ministries of Youth and Education 23,000 students have taken this course since 2003.

#### SLIDE 6

A third example is Citi's Micro Entrepreneurship Award. In March 2006, as part of Bill Clinton's global initiative to serve as a catalyst for global change, the Citigroup Foundation committed \$5.5 million to honour micro entrepreneurs in 24 countries. These awards, among the first of their kind, recognise and financially bolster those who take the initiative to reverse their circumstances and transform a life of poverty into a life of possibility. Amongst the European winners was Georgiy Miron. Living in a city on the eastern edge of Russia in an area where many residents could not afford cars, Georgiy made a difference with microfinance by introducing a bus service to help people commute. This service was so successful that he needed buses to expand his route. He took out a micro loan to buy more buses and employ more drivers. He now runs essential bus routes in the city and also to smaller, more

remote areas outside town, which previously had no public transport, a clear example of the power of microfinance at a local level.

#### SLIDE 7

Citi, like other multinationals competing for talent, focuses on its people for whom the company's CSR agenda is of real importance. The Cherson Group did a survey in 2001 in which it found that 78 per cent of employees would rather work for an ethical and reputable company than receive a higher salary. If the survey were carried out today the percentage would no doubt be higher.

A key plank of our commitment to people is diversity as a way to attract, develop and retain top talent. It widens the talent pool available to employers to source its people. This policy is extended into the firm's supplier chain. Expenditure with diverse suppliers has increased 13 x since 1999. Supplier diversity promotes equality of opportunity for underrepresented businesses, including those owned by ethnic groups, women and disabled people, to bid for contracts across the supply chain of major corporations. This programme is being rolled out in Europe.

Citi also encourages and supports firm-wide volunteering by its employees. During the Global Community Day in November 2006 some 45,000 Citi employees in 450 cities in 100 countries participated in over 800 volunteering activities.

#### SLIDE 8

In terms of commitment to franchise, Citi was one of three companies to establish the Equator Principles for creating higher environmental and social policies in project finance. There are now 33 signatories, representing 80% of the global project

finance market. Citi has also made commitments to reduce greenhouse gas emissions and to purchase green power for its operations.

So much for responsibilities. I mentioned at the beginning that for CSR to become as deeply embedded as it needs to be, responsible business needs also to be good business. You will have read in Tuesday's Financial Times that Citi has committed to providing US\$50 billion to environmental projects over the next decade. Part of this is a commitment to increase 10 fold to \$10 billion its planned investment to reduce its own greenhouse gas emissions.

Citi has also begun to advise borrowers on how to make their projects more sustainable to reduce risk from environmental regulation and also expects to invest in and to finance more than \$30 billion in clean energy and alternative technology over the next 10 years with current commitments of US\$7.5 billion. This makes the point clearly that there is enormous business opportunity associated with the CSR agenda.

#### SLIDE 9

There are many other business opportunities arising from CSR. Microfinance is one of them. This is edging up the agenda of financial services companies. It is now a serious business with US\$10 billion of microcredit loans outstanding and 10,000 microfinance institutions serving 80 million borrowers globally. As an example, Citi was instrumental in setting up the first commercial microfinance loan in Pakistan. The Kashf Foundation, the microfinance institution receiving the funds, provides collateral-free loans and savings services to poor women in Pakistan. More generally, Citi's Global Microfinance Fund will offer LIBOR plus returns, while providing social

benefits to micro entrepreneurs in 58 developing countries. A clear example of good business coinciding with responsible business.

#### SLIDE 10

Further examples of CSR related business opportunity are remittances and social housing. Remittances from the developed world contribute significantly to GDP in many developing countries. The inefficiencies of the financial markets around remittances are considerable. Citi engaged in a pilot plan to improve cost efficiencies for remittances from New York to Ecuador. For the client this led to a reduction in costs from \$40 per \$3,000 transaction to just \$5, meaning significantly more money arrived back home. For Citi the service brought new clients. 14% of those remitting opened an account with Citi and 24% of senders used additional services.

A second example of business opportunity is social housing, where banks can help governments and social housing associations by providing cheap funding through mortgage-backed securities and the pooling of loans.

CSR climbs steadily up the Citi agenda and is already a very real part of our company today, as you will see over the next couple of minutes in this video.

#### SLIDE 11

Ladies and Gentlemen, it has been a privilege to have the opportunity to address you on the important topic of CSR and the role of multinationals in navigating globalisation. I come from the business side of our bank and find that the CSR agenda is increasingly central to my clients, our transactions with them, the priorities

of our people and the perceptions of our brand. Respect, quality and success all have responsibility as a pre-condition. As such, CSR most definitely does matter.

The footprint and business of multinationals makes them real leaders of CSR in a globalising world. They are held to account on this every day by clients all over the world and without responsible action the business prizes of globalisation will likely elude them.

I want you to take away three key messages from today:

1. Globalisation gives rise to social, environmental and demographic challenges which must be addressed.
2. Multinationals, given their global footprint, are well placed to address these challenges and have a strong self-interest in doing so.
3. In addressing corporate social responsibility multinationals will take actions which throw up business opportunities.

As John F Kennedy said "There are risks and costs to action, but they are far less than the long-range risks of comfortable inaction." As meetings like today's show, there is increasing awareness of the importance of corporate social responsibility and a strengthening framework of constructive support to ensure that actions taken by multinationals and others are the right ones.

Thank you for your attention.