FACING FINANCE

EXECUTIVE SUMMARY

Over the past decade, Facing Finance has reported on **102 companies** in its Dirty Profits publication series that emit more greenhouse gases than entire countries, displace people and poison habitats for the exploitation of raw materials, or have brought disease, violence and destruction instead of the prosperity they promised. However, blaming these companies alone for past and ongoing abuses overlooks the role of financial institutions. After all, it is also banks that repeatedly finance corrupt mining companies, asset managers that sell funds with fossil fuel companies for quick returns or life insurance companies whose investment strategies allow for investments in arms companies that are profiting at the expense of civil society in the devastating conflict in Yemen. Financial institutions are contributing to unprecedented suffering in the world, both actively and through inaction.

Between 2012 and 2022, Facing Finance analysed the financial relationships of **40 financial institutions** in nine Dirty Profits editions. The tenth anniversary edition examines the development of financial relationships between 2013 and 2023 and addresses the following questions:

- Have the financial institutions investigated changed their financing and investment behaviour in response to the allegations? Or do the same financial service providers continue to finance and invest in the same companies?

- Have the companies investigated remedied the criticised shortcomings in the areas of environmental, social and corporate governance?

RESULTS (SELECTION)

THE COMPANIES

For the majority of companies, past environmental, social and corporate governance controversies persist and have not been resolved. In some cases, new concerns have arisen. Companies in sectors such as consumer goods may have made improvements, for example in transparency, but all too often this does not fully address human and labour rights abuses, for example in the supply chains of textile companies. Greenwashing is also a widespread problem.

Conclusion: There are improvements, but they are mostly isolated cases. For the vast majority of the companies analysed since 2012, it should be noted that improvements are either progressing too slowly or are not being implemented in a way that sustainably addresses the underlying human rights and environmental violations.

FINANCIAL INSTITUTIONS: FINANCING

The provision of fresh capital took the form of participation in loans and the issuance of new shares and new bonds. The financing of a company is considered the strongest form of support for economic activities, as it directly increases the company's financial resources and often enables the implementation of exploitative business models.

- Between 2013 and 2023, 18 banks continued to finance 77 of the 85 companies for which financing was found in previous Dirty Profits editions - with total of **€507.9 billion**. HSBC accounted for the lion's share with €104.7 billion, although it was only analysed in five editions. Deutsche Bank came in second with €102.6billion, having been analysed in each of the nine editions.

- UBS leads the way when it comes to speed. In almost half of the cases (48%), the Swiss bank reacted within a year of the investigation and no longer provided financing after criticism of companies in Dirty Profits editions. ING, UniCredit and Credit Suisse, which was recently acquired by UBS, also reacted within a year of the investigation in about a third of the cases. For these banks, between 24 and 39 companies were examined for follow-up financing.

- Approximately 60% of the companies lost at least one bank as a financier in a Dirty Profits issue in the year following the investigation.

Conclusion: More than half a trillion euros have been funneled into a significant number of companies over the past decade. Shell has received almost €50 billion, Glencore and Nestlé around €35 billion each. So it is mainly companies with particularly harmful business models that have received the bulk of the money. Then there are the big banks, such as Britain's HSBC, Deutsche Bank and France's BNP Paribas, which together account for almost 60% of the total amount of financing. These are banks with tens of thousands of employees and billions in revenue that, despite their size and resources, are unable to stop financing questionable companies within a reasonable timeframe.

FINANCIAL INSTITUTIONS: INVESTMENTS

- In July/August 2023, 35 of the banks, asset managers and life insurers invested **€483.3billion** in 96 out of 98 companies in the form of shares and bonds held. However, the total is inflated by the three asset managers BlackRock, Vanguard and State Street - the three investment companies that have only been analysed in earlier Dirty Profits editions simply invest on a different scale. If these three are excluded, the total shrinks to €135.7billion.

- UBS, the pioneer in financing, is at the bottom of the list in terms of the absolute amount invested. It holds €33.8billion in 60 of the 63 companies in which it has already invested in previous Dirty Profits editions. Deutsche Bank comes last again when it comes to the proportion of its investments in criticised companies: it still holds shares or bonds in 91 out of 93 companies in which it has already invested in previous Dirty Profits editions. This means that it has divested from just 2% of the companies and still holds shares in companies with a sobering human rights and climate footprint.

- UniCredit, by contrast, shows that things can be done differently. It has invested €258 million in only 13 of the 48 companies analysed in relation to the Italian bank in previous Dirty Profits editions. At the time of the research, it had divested from 73% of the companies. As one of Europe's largest banks, it is setting a positive example in terms of the development of its investment behavior.

- More than 70% of the companies analysed have lost at least one investor, and in many cases several.

Conclusion: Despite the larger number of financial institutions and the high investment sums of the three US fund companies BlackRock, Vanguard and State Street, the total amount of investments in the form of shares and bonds held is lower than the amount of financing. In fact, some investors have changed their behaviour and no longer invest in companies that are particularly harmful to the environment, climate and human rights. However, there are also counterexamples: For instance, none of the financial service providers analysed divested from the fossil fuel company ExxonMobil, which has been criticised for years for spreading fake news about climate change and is one of the world's largest emitters of greenhouse gases. In this context, banks like to refer to their role as active shareholders, e.g. by voting at annual general meetings or through corporate dialogues. The question of whether engagement processes actually have a lasting influence on the behaviour of a company can, at least in the case of ExxonMobil, be denied. Under no circumstances, should engagement be used as an excuse to continue investing in companies.

RECOMMENDATIONS FOR FINANCIAL INSTITUTIONS

POLICIES

The vast financial relationships with companies that have violated human rights, polluted the environment and contributed

to global warming are indicative of inadequate lending and investment policies on the part of financial institutions. While policies have improved over time, more so for some financial service providers and less so for others, there are still financial relationships with companies that have not made significant progress in eliminating the abuses they have caused. The pressure on banks, asset managers and life insurers to change is not sufficient. After (more than) ten years, financial institutions must face up to their responsibilities and adopt a consistent zero-tolerance approach. **Facing Finance therefore calls for**:

- Harmonisation of financing and investment policies: Companies that are excluded from financing due to violations of social and environmental standards should also be excluded from investments in order to ensure the consistency and integrity of the financial institution's ESG strategy and minimise the risk of ESG-related damage to the portfolio.

- Accelerate the (further) development and implementation of policies to ensure that all sectors in which the financial institution finances or invests are fully covered by social, environmental, climate and governance policies, including

  - zero-tolerance policy for systematic and serious human rights violations
  - zero-tolerance policy for systematic and serious environmental pollution
  - zero-tolerance policy for systematic and serious corruption
  - zero tolerance policy towards greenhouse gas emitters with inadequate short-term reduction targets, as well as towards oil, gas and coal companies with fossil fuel expansion plans and where renewable energies do not replace fossil fuel infrastructure, but merely complement it

DUE DILIGENCE

Financial institutions must regularly and carefully review both existing and potential new financial relationships with companies, considering each company in the context of its wider corporate group, and in relation to its value and supply chain. Such screening should identify companies that do not meet the criteria and objectives set by banks, asset managers and life insurers and run counter to the UN Guiding Principles on Business and Human Rights and the Paris Climate Goals.

Financial institutions should use all the resources at their disposal to conduct due diligence. In addition to information from the companies themselves and from research and rating agencies, banks, asset managers and life insurers should also draw on information from local and international civil society organisations, trade unions, experts, courts and the media for their risk assessment. Direct exchange with affected interest groups should become a central element of the internal corporate policy of financial institutions when company information does not match media or NGO reports or when it comes to the construction, or expansion or modernisation of (new) fossil infrastructure, mines, and the like.

Companies that repeatedly violate human and environmental rights, fail to fulfil their promises, or change and weaken their targets should be subject to increased scrutiny. Any irregularity detected during the review process should result in a contractually predefined action within a limited timeframe. In cases where the malpractices and irregularities are not remedied, and in particularly serious cases, the financial relationship should be severed.

ENGAGEMENT

If companies do not meet the criteria required by financial institutions, or do so only insufficiently, a transparent engagement process should be initiated immediately. In order to achieve the best possible results, banks, asset managers and life insurers should also consult external stakeholders as part of such a dialogue. Alliances with other investors and syndicate members make sense in order to exert greater influence.

VOTING ON SHAREHOLDER RESOLUTIONS

Active voting is an important tool that can be used by banks, asset management companies and other institutional investors to impose binding social and environmental measures on companies. However, it is still far too rarely used for such purposes. Currently, leading institutional investors usually vote against proposals at annual general meetings that call for more transparency, social responsibility or environmental protection. If they were to reverse this trend and vote in favour of most of these proposals, they could contribute to significant improvements in corporate practices. Even rejected shareholder resolutions can raise companies' awareness of important human rights or environmental issues. Investors who care about a socially just world and the role their investments play in it should use all the tools at their disposal and make active voting a central part of their engagement with companies.

DIVESTMENT

In the event that a company breaches hard exclusion criteria or systematically violates human and environmental rights, the financial relationship must be terminated as quickly as possible with reference to unacceptable business models. In addition, if a company fails to meet the objectives defined in an engagement process within a predetermined period (e.g. 3 years), the respective bank or life insurer should announce the termination of the business relationship. In order to exert public pressure on the company in question, as well as on any other company involved in controversial practices, the details and justification of the exclusion should be made public.