

# Fair Finance Guide International Methodology 2020

A methodology for the assessment of responsible investment and finance policies of financial institutions



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**FairFinance**  
International

## About this report

This report has been commissioned by Oxfam Novib on behalf of the Fair Finance International network of civil society organisations. It presents a methodology that is used to assess and rank financial institutions' finance and investment policies regarding their principles on sustainable development and corporate social responsibility. The methodology is developed by Profundo together with the civil society organisations collaborating in Fair Finance International, and is based on international standards and initiatives.

## About Profundo

With profound research and advice, Profundo aims to make a practical contribution to a sustainable world and social justice. Quality comes first, aiming at the needs of our clients. Thematically we focus on commodity chains, the financial sector and corporate social responsibility. More information on Profundo can be found at [www.profundo.nl](http://www.profundo.nl).

## Authorship

This report was updated by Jan Willem van Gelder and Lennart van Loenen, based on earlier versions. Correct citation of this document: Van Gelder, J.W. and L. van Loenen (2020, February), *Fair Finance Guide International Methodology 2020*, Amsterdam, The Netherlands: Profundo.

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## Introduction

Twelve years after the financial crisis of 2008, which forced governments to bail out banks trying to avoid a total collapse of the financial system, the world faces a new wave of deregulation. Many believe the crisis of 2008 originated from the irresponsible investment and risk-taking behaviour of banks across the globe. It showed the huge impact financial institutions have on society as a whole.

While international agreements on strengthening financial sector, regulations have taken some steps to prevent massive bailouts of banks in the future, they fall short of addressing the fundamental changes needed in this sector. Responsible financial institutions are much needed to face all social and environmental challenges the global community is confronted with, a strong and responsible financial sector is needed to efficiently allocate investment funds, find risk-sharing solutions and provide adequate financial services for all.

The burden of the negative social and environmental effects of financial institutions loans and investments is carried disproportionately by people living in poverty. Until now it is mostly civil society organizations that report on these issues and are holding companies and financial institutions accountable for this.

One of these civil society initiatives is the Fair Finance International network, launched in January 2014; based on the experience of the Fair Finance Guide in the Netherlands. The Fair Finance International is a collaborative effort of coalitions from civil society organizations (CSOs) in Belgium, Brazil, France, Germany, India, Indonesia, Japan, the Netherlands, Norway, Sweden and Thailand. In each country, these coalitions set up websites which customers and other interested parties can use to compare the finance and investment policies of their financial institutions on a range of cross-cutting issues and industries. Additionally, the coalitions regularly publish case studies on specific topics, trying to assess if and how the financial institutions apply sustainability criteria in their daily practices. Furthermore, they pressure the assessed banks, insurers and other financial institutions to improve their policy and practice, and influence regulators to develop and impose adequate regulation.

With this project, Fair Finance International will hopefully be successful in stimulating financial institutions to rethink their role in society. Developing clear and ambitious policies on environmental, social and governance issues, is a necessary first step in that direction.

This document presents the Fair Finance Guide International methodology for assessing and ranking financial institutions' policies. Through the collective expertise and experience of all involved in the Fair Finance International network we trust this methodology is based on the most current insights and international standards when it comes to environmental, sustainability and human rights issues.

We are convinced this document will help the present and future CSO coalitions collaborating in Fair Finance International as well as the financial institutions across the world, to embark upon this road towards a fair and sustainable financial sector.

We thank all the researchers and experts from the coalitions within the Fair Finance International network as well as the staff from Profundo for their tireless work and contribution to developing this methodology.

Jan Willem van Gelder  
director Profundo

Ioan Nemes  
coordinator Fair Finance international

## Chapter 1 Objective and methodology

### 1.1 Overview

This methodology is meant to verify which sustainability issues play a role in the policy that financial institutions apply when assessing credit requests and selecting investments. It sets out the elements against which the CSOs collaborating in Fair Finance International will measure financial institutions' environmental, social and governance criteria in its finance and investment policies. These elements are grouped under three headings:

- cross-cutting themes (see Chapter 2);
- sector themes (see Chapter 3); and
- operational themes (see Chapter 4).

Chapter 1 gives an overview of the Fair Finance Guide International methodology. The objective of Fair Finance International is to encourage corporate social responsibility (CSR) at financial institutions. Section 1.2 describes the principles of CSR and explains the role financial institutions have in promoting CSR amongst companies they invest in or finance. Furthermore, in this section it is explained how the Fair Finance Guide International methodology hopes to stimulate a race to the top by enabling consumers to compare financial institutions' level of social and environmental responsibility.

In section 1.3 five types of financial institutions are listed. The role of commercial banks, investments banks, insurance companies, pension funds and asset managers in the financial sector is explained.

The assessment of investment and finance policies is explained in section 1.4. It describes what issues and sectors are taken into account and how certain principles should be applied by a financial institution to be granted a score. The section elaborates on the scope of investment policies, the sectors that are relevant to particular financial institutions, the documents that should be assessed and the collective policies that could be taken into account.

The chapter is concluded by section 1.5 on the use of case studies to supplement the policy assessments based on the Fair Finance Guide International methodology.

### 1.2 Objective and principles

This methodology has been developed for the Fair Finance International network, which is a collaborative effort of CSO coalitions in Belgium, Brazil, France, Germany, India, Indonesia, Japan, the Netherlands, Norway, Sweden and Thailand.

The objective of Fair Finance International is to encourage corporate social responsibility (CSR) by financial institutions. According to ISO 26000:2010 Guidance on social responsibility, CSR can be defined as the "responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that contributes to sustainable development, including health and the welfare of society; takes into account the expectations of stakeholders; is in compliance with applicable law and consistent with international norms of behaviour; and is integrated throughout the organization and practised in its relationships."<sup>1</sup> The OECD Guidelines for Multinational Enterprises argue that corporations should "contribute to economic, environmental and social progress with a view to achieving sustainable development."<sup>2</sup>

This means companies (including financial institutions) should not only adhere to legislation and regulations in the countries where they operate, but also are expected to comply with widely supported international conventions, standards, and initiatives that recognise sustainability problems and offer solutions for them - even where these standards are not included in local legislation. Companies should comply with these standards in the business operations of their own enterprise and its subsidiaries, but they should also expect their suppliers to comply. (See the EU 2014 Compendium of Corporate Social Responsibility National Public Policies for a comprehensive overview of CSR standards.)<sup>3</sup>

According to Fair Finance International, financial institutions' CSR efforts should primarily concern their core activity: providing capital. Financial institutions offer their clients a wide range of financial services with which they enable companies, governments, and private clients to acquire capital for all kinds of activities. This can encompass activities that lead to human rights violations or environmental pollution, as well as activities that contribute to ending malnutrition or improving biodiversity.

The question Fair Finance International raises is, therefore, to what extent financial institutions support, through their financial services, activities that contribute to a socially just and sustainable world. According to Fair Finance International, financial institutions should expect companies to whom they provide capital, as well as their suppliers, to comply with widely supported international standards and initiatives.

Financial institutions should record these expectations and make them publicly known in their policies for specific issues and sectors. When assessing these policies, in most cases, legislation and regulations are not explicitly considered, because the Fair Finance Guide assumes that financial institutions expect the companies to whom they provide capital to comply with the law. Due to this focus on financial services, issues related to financial institutions' own business operations, such as their human resources policies and paper, water and energy use, are largely left out of the equation.

In the framework of Fair Finance International, websites are being set up in a number of countries - at present Belgium, Brazil, France, Germany, Indonesia, Japan, the Netherlands, Norway and Sweden - which customers and other interested parties can use to compare the policies *and* practices of the main banking groups in their country. The Fair Finance International network primarily focuses - through these websites, publications and the media - on consumers who are customers of one of the financial institutions (by means of a current account or checking account<sup>i</sup>, savings account, credit card, mortgage loan, insurance, or an investment account).

The Fair Finance International network enables consumers, the media and other interested parties to compare financial institutions and to encourage them (and their subsidiaries in asset management and insurance) to grant financial services in a responsible way.

By comparing financial institutions both on the contents of their policy as well as on the choices they make in practice when supplying financial services, the CSOs collaborating in Fair Finance International stimulate competition between financial institutions with regard to Corporate Social Responsibility. The Fair Finance International network hopes to stimulate a process that leads to increasing tightening of social, environmental and economic policies (*race to the top*) and to enhance the constructive role financial institutions can play in creating a just and sustainable world.

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i Current Accounts in British English, Checking Accounts in US English.

## 1.3 Financial sector

### 1.3.1 Commercial banks

Banks are intermediaries in the money and capital markets: they ensure that the capital of, *inter alia*, private clients and institutions such as pension funds with money to invest, is allocated to (other) private clients and institutions who need money to finance their activities. The banks broadly fulfil this role in two ways:

- Commercial banking: commercial banks use the savings of individuals, organisations, institutions and companies to provide loans and other financial products to other individuals, organisations, institutions and companies. We discuss this role in this section;
- Investment banking: Investment banks do not lend money directly: they are intermediaries between different groups of clients, including companies, governments, wealthy individuals and institutional investors. These clients pay a fee to investment banks for financial services, such as issuing shares or bonds and selling these to investors. We discuss this role in section 1.3.2.

Traditional commercial banks, which usually operate retail banking (for the public) and corporate banking (for businesses and other larger institutions), attract monies from individuals, organisations, institutions and companies in the form of savings or deposits, and invest these monies by providing loans and other financial products to other individuals, organisations, institutions and companies. Banks set out these amounts in their *balance sheets* in two columns: on the right, how the bank has obtained the monies (the *liabilities*), and on the left, how the bank has spent the monies (the *assets*). Below we describe both categories:

- **Liabilities**

The *liabilities* of the bank – all its incoming capital - can be divided into *debts* and own *capital*. The *own capital* represents the monies of the owners of the bank. These can be its shareholders, other financial institutions or - in case of a *cooperative bank*, its members, who may be its customers, employees or other local banks. Their capital consists of:

- monies raised by selling shares in the bank; and
- the net profit the bank has made in past years.

The *debts* of the bank include all other monies it attracts, including:

- monies that private clients, institutions and companies have deposited in current (checking) and savings accounts;
- loans from other banks;
- bonds that the bank has sold to investors; and
- financial derivatives: debts due to swaps<sup>i</sup>, futures<sup>ii</sup>, or options.

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i A swap is a derived financial product where two parties swap money flows. For example, at an interest swap two banks may swap the interest payments of two loans with one another. The objective of this can be to mitigate the risk of, for example, an interest increase or even to speculate on an interest decrease. So in case of a swap, banks have both a debt as well as an asset.

ii A future is a financial contract between two parties who commit themselves to trade a certain amount of a product or financial instrument for a predetermined price at a given point in time.

- **Assets**

All incoming monies at a bank are invested in various types of *assets*. In other words: the sum of the liabilities is always exactly equal to the sum of the assets. Banks may have invested in the following types of assets:

- the offices and furnishings of the bank itself;
- other real estate, such as offices, parking lots and shopping centres;
- mortgage loans and credit to private clients;
- loans and other types of credit to companies, governments and investors such as hedge funds;
- loans to other banks;
- investments in shares and bonds of companies and in bonds of governments, but also in private equity (see section 1.3.3); and
- investments in financial derivatives: swaps, futures and options.

Not all banks invest in all these types of assets. Savings banks mainly invest in investments in shares and bonds, mortgage banks mainly in mortgage loans and commercial banks mainly in loans to companies and governments. Over the last decades, some commercial banks have started to invest more in financial derivatives.

All monies that have been placed with a bank in current (checking) and savings accounts by private clients, institutions and companies, may in principal be used by the bank for all possible bank investments: from mortgage loans to private clients to investments in international companies and financial derivatives. This means that someone who has placed money in a current or savings account at a bank will not necessarily know what his or her money is used for. Banks are free to invest the monies of savers at their own discretion. Therefore, it is of great importance that banks provide insight into what policy is maintained for its investments.

### 1.3.2 Investment banks

As well as acting as intermediaries on the money and capital markets in the traditional way discussed in section 1.3.1, some banks are active in *investment banking*: this means that rather than lending money directly, they act as intermediaries between different groups of clients, including companies, governments, wealthy individuals and institutional investors. These clients pay a fee to investment banks for their financial services.

Broadly, two main activities can be distinguished:

- *Underwriting*. Investment banks are mainly involved in assisting companies or governments to raise finance by issuing and selling *securities* such as shares and bonds to investors. For companies and governments, selling securities to pension funds, insurance companies, asset management companies and private investors is an important way to attract new capital. The investment bank will value the company, write a prospectus, promote the securities and "underwrite" the securities.

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i The term investment bank may be confusing, as investment banks themselves typically *invest* less than traditional (commercial) banks. Investment banks mainly help other financial institutions to invest.



Underwriting means that the investment bank buys the securities from the company for a fixed price and in the days after that, tries to sell the securities to institutional investors for a slightly higher price. In this way, the revenue for the company is guaranteed. The investment banks aims to ensure that there are sufficient buyers for the securities and that their clients, the companies and governments raising the finance, receive the best possible revenue. On a predetermined date the investment bank purchases the shares and bonds of its client at a fixed price, and sells them to the investors who can sign within a few days.

- *Brokerage* (sometimes called *corporate finance*): in this case, the investment bank doesn't purchase anything itself, but only acts as a broker who mediates between the buyer and the seller.

Investment banking services are mostly provided to listed companies and governments, but they can also be granted to non-listed companies. For most banks that are involved in investment banking, it is a matter of course that they apply the policy for bank investments for these financial services (see section 1.3.1). In the case of *underwriting* this is also very logical, because the banks themselves invest in the respective shares and bonds - although usually only for a few days. The risks the banks take are therefore comparable to those of other bank investments.

In case of banks that are only involved in *brokerage*, the bank does not make an investment, and it is therefore not always the case that the policy for bank investments also applies to brokerage accounts. However, the Fair Finance International network believes that for these types of financial services, the same sustainability criteria should apply as for commercial banking, because in this role banks also provide capital to companies and governments.

### 1.3.3 Insurance companies

An insurance company hedges risks. An insurance is a contract which ensures that the insurance company pays damages to the insurant in certain situations (such as damages caused by fire or by an accident, in the event of death, or for medical costs due to disease) in exchange for a certain premium the insurant pays.

When the parties conclude the contract they don't know whether damages will ever have to be paid or, if so, how much damages will be paid. The insurance companies invest the premiums that people pay for their insurance. This is why insurers are key players on the capital market: they create a flow of society's capital from private people and institutions such as pension funds, towards (other) private people, companies and governments who need money in order to finance their activities.

Insurance companies receive money from several sources and they invest this money in several ways in private people's, companies' and governments' activities. On the insurers' balance sheet these flows are put next to each other: on the right you see how the insurer obtained his money (the *liabilities*), on the left you see how the insurer spent the money (the *assets*). An explanation of these two categories follows:

- **Liabilities**

An insurer's *liabilities* – i.e. all the money the insurer has received – may be divided into obligations and equity. The equity is the money of the insurer's owners. They may be private people, other financial institutions or – in the case of a cooperative insurance company – the insureds themselves. The equities consist of:

- money that has been obtained by selling the insurance company's shares to the owners;
- the net profit made by the insurer over the years.

All other money obtained by the insurer falls within the insurer's obligations. Especially:

- premiums paid by private people, institutions and companies;
- loans of other financial institutions;
- bonds sold by the insurer to investors;
- financial derivatives: debts due to swaps<sup>i</sup>, futures<sup>ii</sup> or options.

- **Assets**

All the money received by an insurer is invested in several kinds of assets (properties and claims). In other words: the liabilities always are always equal to the assets. An insurer may invest in the following types of assets:

- the offices, including furniture, where the insurance company staff works;
- other real estate like office buildings, multi-story car parks and shopping malls;
- mortgage loans and consumer credits to private people;
- loans to other financial institutions;
- investments in i.a. assets and bonds of companies and government bonds, as well as in private equity (see 1.3.3);
- investments in financial derivatives: swaps, futures or options.

Not every single insurance company invests in all these kinds of assets. Moreover, insurers deal with investments on their own account and risks and investments on the policyholder's account. With regard to the latter kinds of insurances, the insured bears the risk more or less. Insureds may decide for some part how their money is invested, usually according to a certain kind of investments profile that brings along either more or less risks. However, in the end the insurer is responsible for the choices made with regard to the investments.

Basically, the insurance company can freely use the premiums paid by private people, institutions and companies, for all kinds of possible investments: varying from mortgage loans to private people, to investments in international companies and financial derivatives. This means that someone who pays insurance premiums, may not know what exactly his or her money is invested in. The insurers are free to invest the insureds' money on their own discretion - including the premiums on their own account. For this reason it is very important that insurers are transparent about their policy regarding investments.

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i A swap is a derivative in which two parties swap cash flows. E.g. in the case of an interest swap, two insurers swap the interest payments of two loans. The aim may be a limitation of the risks of, say, an increase of the interest rate or perhaps to speculate upon a decrease of the interest rate. Thus when engaging in a swap transaction the insurer both has a debt as well as property.

ii A future is a financial contract between two parties to buy or sell at specified future date a certain quantity of a product or a financial instrument for a price agreed upon today.

### 1.3.4 Pension funds

Pension funds are established by employers to provide pensions for their workers when they retire. The fund, paid for by the employer and employees, is a common asset pool meant to generate a stable income over the long term. Larger companies may run their own pension funds, but often a financial intermediary runs the fund. In many countries, pension funds are the largest institutional investors.<sup>4</sup>

Pension funds receive money from their clients, also called participants, and they invest this money in diverse assets and investment strategies.

On the pension fund's balance sheet these flows are put next to each other: on the right you see how the fund obtained its money (the liabilities), on the left you see how the insurer spent the money (the assets). An explanation of these two categories follows:

- **Liabilities**

A pension fund's liabilities – i.e. all the money the pension fund has received – may be divided into technical provisions, financial derivatives and loans. Together they amount to the pay-outs that a pension is obligated to make.

- **Assets**

The money received by pension funds is invested in different types of assets:

- public listed equities, consisting of publicly traded stocks of large corporations;
- corporate bonds that are issued by a corporation to raise money to expand its business;
- government bonds that are issued by a national government to fund public services, goods or infrastructure;
- private equity, consisting of investments in unlisted companies, ranging from venture capital investments in start-ups, to mezzanine financing for established companies aiming for a trade sale or public listing, to buy-outs of public companies;<sup>5</sup>
- commodities, which are natural resources or derivatives of natural resources, like food, energy and metals;
- hedge funds, which are aggressively managed portfolios of investments that use advanced investment strategies such as leveraged, long, short and derivative positions in both domestic and international markets with the goal of generating high returns;<sup>6</sup>
- real estate, consisting of a wide range of products including home ownership for individuals, direct investments in rental properties and office and commercial space for institutional investors, publicly traded equities of real estate investment trusts, and fixed-income securities based on home-loans or other mortgages.

In 2014, the average asset allocation of the seven largest pension markets in the world (Australia, Canada, Japan, Netherlands, Switzerland, United Kingdom, United States) was: 42.3% equities, 30.6% bonds, 2.3% cash and 24.8% other assets (including property and other alternative).<sup>7</sup>

There is a growing recognition among pension funds and an increasing demand from stakeholders that Environmental, Social and Governance (ESG) issues are a fundamental part of assessing the value and performance of investments. Pension funds' investor views and motivations to adopt responsible investment strategies are embedded in five main interrelated categories: fiduciary duty, risk management, financial performance, expectations from stakeholders and universal ownership. The pension fund has a fiduciary duty that involves creating optimal value for the participant of the fund. Value in this case includes both financial return and ESG considerations.<sup>8</sup>

While in some countries the pension market is dominated by autonomous pension funds, in other countries the assets of the pension schemes are managed by large independent asset managers or asset management subsidiaries of banks and insurance companies. In order to cover a large part of the market, different types of pension providers may need to be selected. In such cases, it could happen that an asset manager offering pension products that is of particular interest for a Fair Pension Guide is also part of a banking or insurance group that has been selected for the Fair Bank or Insurance Guide of that coalition.

To accommodate this situation and to make a meaningful assessment in both guides, FFGI has decided to focus the assessment of pension providers on their so-called *pension related activities*. This means that when a Fair Finance Guide coalition selects a banking or insurance group for its Fair Pension Guide, the banking or insurance activities within the group will not be taken into account. Consequently, the policies applied and dedicated exclusively to those activities will not be used for scoring this financial institution's pension related activities.

ESG factors are an important dimension of investment expectations and ESG factors should be part of a pension funds' overall expectations for their fund's performance. Furthermore, pension funds should make sure that the asset managers they hire act in line with the pension funds' risk management procedures as well as with participants expectations. As a vast majority of pension funds have outsourced management tasks to external providers and to create a shared vision of ESG risks and possibilities, the pension fund should communicate a coherent set of ESG expectations to agents acting on their behalf.<sup>9</sup> Pension funds as 'universal owners' are investors in a broad cross-section of the economy and they should use their position as capital providers to deny notorious polluters and human rights offenders access to capital, stimulate the large majority of companies to invest in sustainable development and production methods and grant smaller, truly innovative companies easier access to capital.<sup>10</sup>

Many investors refer to the Principles for Responsible Investment (PRI) or the UN Global Compact. Financial institutions that adhere to the PRI or the UN Global Compact inherently already make an intentional statement on ESG issues. This shows their awareness on the subject and intention to apply responsible (financing) policies to their investment decisions. Being a member of the PRI or adhering to the Global Compact, however, is not a guarantee for sustainable practices.

### 1.3.5 Asset managers

Often, large financial institutions do not only provide capital to companies and governments by means of corporate loans or investments and investment banking. They may also have one or more subsidiaries which are involved in asset management. These asset management subsidiaries invest in shares, companies and government bonds along with other types of investments. They do so with monies from private investors, pension funds, policy holders and other clients. For these asset management activities, financial institutions don't always apply the same policy that they apply for their lending and investment banking.

This is to some extent due to the differences between saving and investing. Savers cannot choose where their money is invested, but on the other hand they enjoy the security of a relatively fixed savings interest rate and, in many countries, a government guarantee on savings deposits.

However, investors are generally more at risk, although their returns may be higher. Moreover, investors are free to make choices as to how their money is invested. For example, they can choose from the range of investment funds the financial institution offers them (often including funds marketed as 'sustainable'). Therefore, some financial institutions do not see the need to apply a 'responsible investment policy' to all asset management activities: it is reasoned that the investing clients who consider this important will opt for the sustainable funds the financial institution offers.

The Fair Finance International network primarily focuses on customers with a current or savings account at a bank. For them, the main concern is which policy the bank applies for its lending and other financial services. The policy that the subsidiaries of the bank apply for asset management is not directly relevant for these savers, because the money of savers is not managed by these asset management subsidiaries. Yet, many savers do consider the policy of the financial institution for asset management to be important. As clients, they expect that their bank operates responsibly in all these aspects, including in its asset management, regardless of whether this concerns investments with their own savings.

For customers of a financial institution's asset management division (i.e. investors), insurance customers or customers who commission the financial institution to invest for them (i.e. *private banking* customers), an assessment of the policy for asset management is also important.

The Fair Finance International network believes that financial institutions may also be expected to act in a responsible way regarding their activities in the field of asset management, and therefore, the policy of the financial institutions towards asset management is also assessed. In making the decision to include an assessment of the policy for asset management, it was of great importance for the Fair Finance International network that most financial institutions can play a role in creating a just and sustainable world through their asset management activities. As asset managers, they can choose which investments to offer to their clients. Such choices may have consequences for the availability of capital for companies and governments.

## 1.4 Assessment of policies

### 1.4.1 Themes

The Fair Finance International network has chosen to assess the policies that the investigated financial institutions apply to the investment categories corporate credits, project finance, asset management for own account and asset management for the account of clients, with regard to cross-cutting themes and sector themes. The cross-cutting themes entail the main international sustainability issues that are paramount to the work of the organisations collaborating in the Fair Finance International network and are relevant to all or most of the industrial sectors a financial institution may finance or invest in:

- Animal welfare
- Climate change
- Corruption
- Gender equality
- Health
- Human rights
- Labour rights
- Nature
- Tax

The Fair Finance International network believes that all financial institutions should have a clear policy on all these cross-cutting themes.

When a financial institution invests in, or grants financial services to, companies in certain sensitive industrial sectors (i.e. those where sustainability problems are particularly likely), then the financial institution should also have specific policies for these sectors. Presently, the Fair Finance Guide International methodology includes the following sector themes:

- Arms
- Financial sector
- Fisheries
- Food
- Forestry
- Housing and real estate
- Manufacturing industry
- Mining
- Oil and gas
- Power generation

Besides the themes that merely assess a financial institution's investment and finance policy and the expectations therein regarding the investee companies' and/or clients' behaviour, the Fair Finance Guide International methodology also include themes that solely assess the internal operations of a financial institution. These themes are indirectly related to the investment decisions made by the financial institutions and consist of:

- Consumer protection
- Financial inclusion
- Remuneration
- Transparency and accountability

The operational themes Consumer protection and Financial inclusion have been developed primarily for assessing policies regarding personal banking and insurance products and will be left out the assessment of pension providers. Furthermore, the theme Remuneration is expected to be not or hardly relevant for pension providers, especially not for pension funds. As the theme is not mandatory, coalitions may decide to leave it out of the assessment.

The coalitions that are collaborating in the Fair Finance International network have agreed that a number of themes will be used by all coalitions to assess the selected financial institutions' policies.<sup>i</sup> The other themes can be added by coalitions depending on the public debate, the priorities and objectives of the organizations within the coalition.

In the future, new themes may be included in this methodology. For all these themes, the policies of the financial institutions are compared to national and international norms, standards and initiatives for sustainable development and Corporate Social Responsibility, and to other criteria that are considered important in the opinion of the organisations that make up the Fair Finance International network.

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<sup>i</sup> These are: Climate change, Corruption, Gender equality, Human rights, Labour rights, Nature, Tax, Transparency and Accountability, and Arms.

### 1.4.2 Contents of policy

To underpin and structure the comparison of financial institutions' policies, this methodology describes the selected cross-cutting themes (in Chapter 2), sector themes (in Chapter 3) and operational themes (Chapter 4). Each selected theme is dealt with in a separate section, beginning with "*What is at stake?*", a description of the sustainability issues involved. This is followed by an overview of applicable and widely supported international standards, such as declarations, conventions, guidelines, certification schemes, and codes of conduct ("*International standards and initiatives*"). Next, the elements a financial institution should include in its policy for investments and financial services are described ("*Assessment elements*").

These elements lists the expectations from FFGI network towards financial institutions in the context of their corporate social responsibility. The methodology references a wide range of international standards and initiatives. In many cases, they contain specific requirements of financial institutions or business in general, in which financial institutions invests or finance, which are then listed as assessment element in this document. Other international standards have clear implications for the financial sector or for businesses they invest in or finance, but the standard itself does not specify these at the level needed for the aim of this research. In these cases, the FFGI network has analysed the logical implications of the standard and converted these implications into assessment elements. In defining the assessment elements the following considerations are followed:

- **Assessment elements formulated as principles**

The assessment elements are formulated as *principles*. Principles can be applied by the financial institutions in various ways, for new and existing investments and financial services. For example, the principles can be included by the financial institutions in the conditions for new loans and be applied as selection criteria for new investments and financial services. For existing loans and investments they can be applied as a guideline for engagement activities and for agreements on improvements with the companies in which the financial institution has existing investments. Based on these principles, financial institutions could ultimately decide to terminate an investment relation.

The Fair Finance Guide International methodology does not evaluate the processes which financial institutions should follow to apply the principles to their investments and financial services, but does expect that they explain their method of working in their policies. The financial institution would *inter alia* have to indicate what the principles mean for various types of investments and financial services. If the financial institution only establishes a certain condition for a specific type of investment or for certain financial services, it is difficult to claim that the financial institution applies a principle. The Fair Finance Guide International methodology assumes that principles need to have a meaningful link to the activities or products of a company for all types of investments in companies and all financial services to companies.

- **Definition of unacceptable activities**

Multiple principles consider certain activities to be 'unacceptable' and are worded as: "Activity X is unacceptable". The Fair Finance International network strongly disapproves these activities. However, because the Fair Finance Guide International methodology does not prescribe how financial institutions should apply their investment principles, the word 'unacceptable' should not be read as 'excluded'.

In other words: the Fair Finance Guide international methodology does not expect that companies involved in unacceptable activities should be excluded from all financing and investments immediately. The Fair Finance Guide International methodology is aware of the different instruments and steps financial institutions could take for implementing such principles. Financial institutions could for example start a clearly defined engagement process to convince the company to stop the unacceptable activity within a clear timeframe.

The Fair Finance Guide International methodology does expect, however, that a policy that claims to consider certain activities as undesirable or unacceptable, describes which steps will be taken and is convincingly implemented. A policy that mentions limitations or exceptions, such as a threshold on revenues companies earn with involvement in the undesired activity, can receive a score for this element. On the other hand it could also lose scores if in the Fair Finance Guide International methodology elements about these limitations are included, based on the expectations of the companies it should apply to.

When the financial institution explains its method of working, its objectives are of importance, because the financial institution can use them to indicate how and when it will ensure that the entire investing portfolio and all granted financial services comply with the principles formulated in its policy. This is mainly important if the existing portfolio of the financial institution does not yet entirely comply with the policy. The Fair Finance Guide International methodology expects that such objectives have been included in the policy and investigates this *inter alia* by means of case studies.

- **Types of assessment elements**

In its assessment of the policies of financial institutions, The Fair Finance Guide International methodology does not principally address the way the financial institution takes decisions on its investments and financial services. Rather, the focus is on the underlying *principles* or *expectations* of the financial institution with regard to the companies it finances or invests in. In the tables with assessment elements for each cross-cutting theme and each sector theme, these principles or expectations are introduced as “the following elements are crucial for a policy regarding the companies a financial institution invests in.”

The Fair Finance Guide International methodology does, however, include four *operational* themes. The assessment elements included in these themes largely concern the business operations of the financial institution, including the way decisions on investments and financial services are taken.

A few elements that concern operational activities of the financial institution have been included in the other cross-cutting and sector themes as well. These assessment elements are introduced separately as “the following elements are crucial for a policy regarding the financial institution's internal operations.”

### 1.4.3 Scope of policy

To assess the investment policies of financial institutions, the Fair Finance Guide has developed a number of assessment elements which are deemed crucial for a good policy on the themes which are evaluated by the Fair Finance Guide. These elements are described and explained in Chapter 2, Chapter 3 and Chapter 4. The Fair Finance Guide policy assessment then verifies whether these elements are included in the public policy documents of a financial institution.



However, not only the content, but also the scope of the financial institution's policy document is of importance. Policy documents sometimes cover only a small share of all investments made by the financial institution. This can especially be the case with large international banking groups, which often have multiple subsidiaries in different countries which offer different products and services to various client groups. As the Fair Finance Guide aims to assess the policies which are applied across the entire banking group, including all subsidiaries, the scope of policy documents is integrated in the assessment methodology.

Experience with the assessment of investment and credit policies learns that there are generally four situations in which a financial institution's policies might insufficiently cover the full scope of all investments made, and financial services offered, by the financial institution:

- The policy is not adopted by all subsidiaries within the financial institution;
- The policy is not applied to all categories of investments and financial services;
- The policy is not applied to all countries the financial institution invests in; and
- The policy is not applied to all activities of a company (e.g. only if the investment is earmarked for certain activities).

The last two situations are found less often and are not always mentioned in the policies themselves. The third is also, if mentioned, often part of risk assessment procedures. As these are difficult to trace back to policies and in order to simplify the scoring model, the Fair Finance Guide does not take those situations into account further.

In order to take into account the first two situations in its scoring methodology, the Fair Finance Guide has selected four categories of investments (or financial services) that are considered relevant for most financial institutions the Fair Finance Guide investigates. This selection is based on the description of the various types of financial institutions in section 1.3 and on research done on the scope of the investment and credit policies of financial institutions. To assess the scope of the policies of a financial institution, the Fair Finance Guide considers the following categories of investments (or financial services):

- **Corporate credits**

Financial institutions provide loans and other forms of credits to (listed and unlisted) companies, which allow the companies to finance short-term expenses and/or long-term investments. Corporate credits usually carry an interest rate and are secured by specific assets (as in the case of mortgage loans) or by the entire balance sheet of the company. Further, financial institutions also underwrite shares and bond issuances for companies. This service to companies is also included in corporate credits category for the Fair Finance Guide assessment. Obviously, the scope of corporate credits does not include loans and credits to private customers.

- **Project finance**

Financial institutions also provide loans in the form of project finance. Project finance is considered a specific form of corporate credits to finance a specific infrastructure or industrial project. Unlike corporate credits, the loan is secured by the projected cash flows of the project rather than by the balance sheet(s) of its sponsor(s), i.e. the company/companies involved in the project.

- **Asset management for own account**

Financial institutions invest their money in shares and (sovereign and corporate) bonds and other types of securities. This investment can be done by purchasing individual stocks and bonds or through mutual funds. Since these investments require specialization, it is mostly done through an asset manager. This can be the financial institution's asset management subsidiary or an external asset management company, and is often referred to as externally managed assets or assets managed by third party. Whether the assets are managed internally or by a third party, these investments are listed on the financial institutions' balance sheet and therefore called asset management for own account.

- **Asset management for the account of clients**

The financial institutions also offer investment solutions such as mutual funds or index trackers to their clients. These clients could be institutional investors like pension funds, churches, insurance companies, but also private customers (in which case the asset managers offering the solutions are often referred to as private banking, retail services or wealth management). The management of a client's investments in all types of securities by a financial services company, such as an investment bank, a private bank, an investment manager or an asset manager is called asset management for the account of clients.

Sometimes, clients may demand highly specialised investment products, deviating from standard investments by asset class, geographical coverage, sector coverage or financial vehicle that a financial institution may not offer. In such a scenario, the financial institution outsources the agreed amount of its client's assets to an external asset manager and this is referred to as externally managed assets. Third-party asset managers can provide asset class expertise that may not otherwise be available with in-house investment managers or financial institutions. Again, either managed externally or internally, this is still called asset management for the account of clients.

These investments are usually not listed on the balance sheet of the financial institution. This category includes all funds and mandates which are managed actively or passively for clients, as well as all forms of investment advice offered to clients. The definition of asset management used here does not apply to trading platforms managed by financial institutions, where financial institutions do not provide investment services.

The Fair Finance Guide International methodology integrates other investment categories into the scoring model of the sector theme Housing and Real estate and the operational themes Consumer protection and Financial inclusion. These are explained in the themes separately. For each financial institution, the Fair Finance Guide researcher determines which of the investment categories are relevant, as (one or more subsidiaries of) the financial institution is actively making this type of investments or is offering these financial services. How this assessment of relevant categories is made, is explained further in section 1.4.5.

#### 1.4.4 Scoring system

For every theme, the score of each financial institution is based on the proportion of elements included in the policy, corrected for the relevant investment categories that the policy is applied to. In its scoring system, the Fair Finance Guide therefore takes into account both the *contents* and the *scope* of the policies of the financial institution.

This is done in the following way. For each principle included in the policies of the financial institution that corresponds with an element of the Fair Finance Guide methodology a *contents score* of 1.0 is assigned.

This contents score is multiplied by the *scope of the policy*, expressed as a percentage. If the financial institution does not clarify the scope of this policy, it is assumed that 50% of the financial institution's activities are covered. For each investment category to which the financial institution explicitly applies the policy, 12.5% is added. If the policy is applied to all investment categories, the scope is therefore 100% and the *total score* for each element can reach 1.0 as maximum.

The above is based on the assumption that the financial institution is active in all four investment categories mentioned in section 1.4.3. If the financial institution is active in only three, two or one of these investment categories, the basic scope percentage remains 50%. For each investment category to which the policy is explicitly applied, then respectively 16.67%, 25% or 50% is added to the scope. When a financial institution applies its policies to all investment categories it is active in, the scope will therefore always be 100%.

In some situations the content score will not be multiplied by the scope of the policy and thus will be limited to 50%:

- The researcher assessing the policy finds a clear commitment but the scope is unclear;
- the text of the policy is vague, but still quite credible according to the researcher assessing the policy; and
- the financial institution has taken an initiative<sup>i</sup> which supports the principle but which is not formally stated in the finance and investment policy and does not cover a whole investment category.

Fair Finance Guide acknowledges that smaller and locally oriented banks could be less exposed to sustainability risks than financial institutions targeting midsize, large and multinational companies, operating in countries all over the world and with long, complicated supply chains. Therefore it is possible to handle situations differently when a financial institution, in a credible way, can demonstrate that an element is not really relevant. If, due to its business orientation or geographical presence, the financial institution is not exposed to the risk of breaching the principle specified in the assessment element, the element can be considered "not applicable". Elements can also be considered fulfilled if effective national legislation is in place in the countries where all the companies, that a bank lends to or invests in, are active.

The scores for all elements included in a theme are added together and then divided by the total number of elements. This results in the *final score* for a theme. Fair Finance International coalitions are free to present the outcome as a single number between 0 and 10 or as a percentage. Each coalition can also attach qualifications of their choice, such as sufficient, good or excellent, to this score.

#### 1.4.5 Determining relevancy

The Fair Finance Guide International methodology determines relevancy and materiality of the investment categories and industrial sectors according to the following considerations:

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<sup>i</sup> Such initiatives could be, among others: setting up or participating in meetings with business clients or other companies and stakeholders; participating in a round table or something similar; signing an investor statement; engaging in collective dialogue; and publishing brochures describing the issues and suggesting solutions or steps.

- **Corporate credits**

The Fair Finance Guide International methodology expects that a financial institution has a policy for corporate credits if the corporate credits portfolio makes up:

- more than 0.5% of the total balance sheet; or
- a minimum of EUR 50 million of total corporate credits.

The number of corporate loans, the size of the companies receiving the corporate loans and the amount loaned per company are not of importance in assessing the relevancy of this investment category.

Corporate credits are considered to be outside the scope of the assessment of pension providers, including when the pension provider is part of a banking group.

- **Project finance**

The Fair Finance Guide International methodology expects that a financial institution has a policy for project finance if the project finance portfolio makes up:

- more than 0.5% of the total balance sheet; or
- a minimum of EUR 50 million of total corporate credits.

The number of project finance loans, the size of the companies or projects receiving the project finance loans and the amount loaned per project are not of importance in assessing the relevancy of this investment category.

Project finance is considered outside to be the scope of the assessment of pension providers, including when the pension provider is part of a banking group.

- **Private mortgages**

The Fair Finance Guide International methodology focuses on the financial relationships between companies and financial institutions. A category like private mortgages therefore initially falls outside the scope of the Fair Finance Guide International methodology, but for some banks it is an important asset. However, the sustainability challenges within many of the selected themes are not directly relevant for this type of investment. The Fair Finance Guide International methodology only integrates this type of investment into the scoring model of the sector theme Housing and Real estate and the operational themes Consumer protection and Financial inclusion.

Private mortgages are considered to be outside the scope of the assessment of pension providers, including when the pension provider is part of a banking group.

- **Asset management for own account**

To determine the relevancy of the investment category 'asset management (or 'investments') for own account', The Fair Finance Guide International methodology analyses the following asset classes in the financial institution's financial reporting:

- Government bonds;
- Shares and corporate bonds;
- Derivatives;
- Real estate and securities; and
- Other/undefined.

The Fair Finance Guide International methodology does not assess investment policies regarding government bonds. If a financial institution only invests in government bonds, the category 'asset management for own account' is considered as not relevant for this financial institution.

- **Asset management for the account of clients**

Financial institutions involved in asset management for the account of clients hardly ever develop a common policy for all their asset management activities. This is due to the organisation's structure. Financial institutions often have several subsidiaries in the field of asset management, and these could all have their own policies. Often they even use specific policies for each specific product, such as individual investment funds and mandates. As a result, there might be hundreds of different investment products that all may have their own specific policy. This makes the policy assessment for this investment category difficult.

Furthermore, The Fair Finance Guide International methodology does not assess all types of asset management for clients, because they are not all relevant. The asset management subsidiaries of financial institutions are not always free to choose whether to provide capital to certain companies or governments. And sometimes it is not possible for these asset management companies to deploy instruments on 'responsible investment'. Based on the following criteria it has been determined whether the various asset management activities are included in the assessment by the Fair Finance Guide International methodology:

- Will capital be at the disposal of companies as a result of this kind of asset management?
- Will the financial institution have freedom of choice and/or responsibility when providing this kind of asset management (possibly under certain conditions)?
- Is the financial institution able to use sustainable investment instruments when providing this financial service?

Based on these criteria, the Fair Finance Guide International methodology includes the following types of asset management in the scope of the assessment of the policies of each financial institution:

- The financial institution's own investment funds: investment funds that have been assembled and offered by the financial institution itself to private and institutional investors;
- Private banking: all forms of discretionary management of private investors' money, meaning both direct investments in shares and bonds regarding other parties' investment funds;
- External Mandates: investments in shares and bonds or in investment funds, using institutional investors' money (i.e. pension funds, insurance companies);
- Internal client relations: investments in shares and bonds or in investment funds, using internal clients' money (including insurance premiums paid by external clients).<sup>i</sup>
- Trading platforms where clients may invest by themselves in shares, bonds and investment funds of other parties (execution only services);

Types of asset management not included in the assessment of the scope of the policy are:

- Advice regarding private banking;

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<sup>i</sup> Investments using insurance premiums are on the parent company's balance sheet and they therefore fall within the scope of investments using the bank's own resources and are not part of asset management for the account of clients. Since these investments are not part of the banking branch of the financial institution and therefore may not be financed with saver's money, they are categorized as asset management.

- Taking charge of shares for private or institutional investors (custodian services).

Under certain circumstances, the category asset management for clients may not be part of the policy assessment of pension providers. This is specifically when autonomous pension funds have an in-house asset manager that also manages the assets of other pension funds, who are then considered the clients of the asset manager. Previous research by FFGI shows that the latter pension funds have their own responsible investment policies. Because the coalition then assumes that all these pension funds have their own responsible investment policies, it is less relevant to consider the client asset management activities of these asset managers in the research. That becomes even more apparent when only part of the selected pension providers has asset manager subsidiaries working for other clients and most of these clients are subject of FFGI research themselves.

Depending on the situation in the country, the selection of financial institutions for the guide, the relevant activities of the selected entities and the priorities and strategies of the coalition setting up the guide, coalitions may decide not to assess the policies of these asset managers. The research then only includes the FFGI scope category asset management for own account.

Finally, in order to be able to take into account the scope of responsible investment policies for asset management, The Fair Finance Guide International methodology looks at the total volume of assets that are managed and to which a responsible investment policy is applied. If a financial institution has different responsible investment policies for their different products, the policy that applies to the highest part of assets under management will be assessed.

If this is the case for other investment categories, the same rule applies.

- **Sectors**

General policies often apply to all investments and financial services, while sector policies merely concern a limited part of the investments of a financial institution. Therefore, principles that have been included in the financial institution's sector policy and only apply to companies active in a specific sector do not count for the assessment of the cross-cutting themes.

If the financial institution can prove or explicitly and publicly states that it is not involved with companies operating in a certain sector, the financial institution is not expected to have a policy for this sector. In that case the contents score is not multiplied with scores for the type of investment this applies to, but given the notification "not applicable" (n.a.). If it is the case for all types of investments researched, the sector as a whole can receive this qualification.

If a financial institution does not make an explicit statement that it is not active in a particular sector, the decision for applying n.a. can be made based on information about the portfolio in the annual report(s) of the financial institution and its subsidiaries. For defining the maximum level of investments in one of the investment categories (threshold), the Fair Finance Guide International methodology uses the breakdown of the portfolio:

- If the sector is explicitly mentioned in the breakdown of its, for example, corporate credit portfolio, apply n.a. when less than 0.2% and a maximum of EUR 1 million of total corporate credits is lent to that specific sector.
- If the sector is mentioned together with other sectors (e.g. public administration, defence and social security), then apply n.a. when this is together less than 1.0% and a maximum of EUR 5 million of total corporate credits.

- If the sector is not mentioned explicitly, but only overarching and overlapping sectors and definitions such as manufacturing, other, or 'building materials and construction', do not apply n.a.
- The same applies to the other types of investment (project finance, asset management for own account and asset management for the account of clients).
- If there is not enough information available regarding the portfolio, the qualification n.a. cannot be given.

Note that the companies operating in a certain sector do not only include primary producers. Also trade, transport, warehousing, processing, and finally, retail companies are part of the supply chain and therefore belong to this sector.

#### 1.4.6 Documents assessed

The Fair Finance Guide International methodology expects that the policy of the financial institution, or at least a summary of it, is made public, for example through its website or in the annual report. The name or the topic of the policy document is not relevant, for example elements on labour rights can be included in a human rights policy.

Sometimes a financial institution makes a statement about a decision considering a certain issue in a newsletter or press release. In the first year after publication, the Fair Finance Guide International methodology considers these as valid sources of information, but it also expects the financial institution to integrate the decisions in its investments policy – as the employees who will make the decisions about investments will not take all these newsletters, brochures etc. into account. When updating the policy review, the Fair Finance Guide International methodology requires to check whether the principle is part of the general policy documents. If a financial institution published a principle in newsletters or documents in the period before the previous update was published, and has not integrated this principle into policy documents, it will not be considered as a principle for this year's policy update.

The policy assessment is based on the public documents of the assessed financial institution. Information provided by third parties, such as the external asset managers hired by pension providers, is not taken into account.

Previous research showed that pension providers, especially the smaller pension funds, tend to rely on the external asset managers and their detailed policies. As per exception, the documents of external managers may be used for the assessment in case the pension provider has published a commitment declaring that it aims to invest responsible, outsources the asset management to one or more external parties and refers to their policies as being applicable to the assets of the pension provider. Moreover, the documents of the external parties mentioned in the commitment must be available on the website of the pension provider. In case a pension provider refers to policies of various asset managers, the policy that covers most assets will be taken into consideration.

The policy assessment for the theme Consumer Protection (see section 4.1) uses as reference more specific documents in addition to the documents and information sources commonly used in the FFGI methodology. Preference is given to official sources and sources recognized by the financial institutions themselves, to minimize disputes and to maximize the objectivity of the analysis.

Documents may include:

- Ombudsman reports of an ombudsman for the banking sector; and
- Reports on consumer complaints of public consumer protection institutions.

### 1.4.7 Scoring standards and initiatives

Ideally, financial institutions write a policy presenting the principles that are used in the process for decision making regarding finance and investments. Alternatively, they can state which international standards and initiatives they expect companies to comply with. Some of the standards and initiatives the FFGI Methodology references, are considered sufficient for scoring when used in the process for decision making regarding finance and investments.

When assessing the policies of financial institutions, not only the policies that the financial institution has developed itself but also the broader standards and initiatives adopted or endorsed by the financial institution are taken into consideration. These include sustainability initiatives which can be undersigned by financial institutions, such as the Equator Principles, and the Principles for Responsible Investment. Undersigning these initiatives represents an obligation to apply certain sustainability criteria on the investments and financial services of a financial institution.

Other initiatives and standards, such as the IFC Performance Standards and the accompanying Environmental, Health and Safety Guidelines, UN Global Compact, the UN Guiding Principles for Business and Human Rights, the OECD Guidelines for Multinational Enterprises and others, cannot be undersigned by financial institutions or its does not include the obligation to apply the criteria to its investments and financial services. But financial institutions can adopt these initiatives, by stating explicitly that they apply in full the procedures and criteria described in these documents when taking financing and investment decisions.

Such an explicit statement of the above mentioned sustainability initiatives and standards, thus means that a financial institution could adhere to one or more of the principles (elements) defined in the assessment methodology, although the element as such is not mentioned in the policy documents of the financial institution itself. Financial institutions that have signed a standard or initiative, or mention a standard or initiative in their policies, and make clear that it is applied to the financing of and investment in companies, therefore receive a content score for each element that is clearly included in that particular standard. This score will be multiplied with the scope score for each investment category to which the policy is explicitly applied as well.

### 1.5 Case studies

The Fair Finance International network hopes to stimulate a process that leads to ever increasing tightening of the norms used by financial institutions (*race to the top*) in social, environmental and economic fields and to enhance the constructive role these financial institutions can play in creating a just and sustainable world. Naturally, the policy the financial institution has formulated is only one of the necessary steps.

Equally important is the issue whether the financial institutions themselves, when making decisions on their investments, in practice comply with the norms recorded in widely supported international standards, such as conventions, guidelines, certifications and codes of conduct. Therefore, in case studies the CSOs collaborating in the Fair Finance International network investigate the operational practices, strategies and instruments and evaluates the investments and financial services of the researched financial institutions. The outcomes of these studies are reported on the websites as well and linked to the themes involved, but do not lead to a downgrade or upgrade of the policy assessment score.



## Chapter 2 Cross-cutting themes

### 2.1 Animal welfare

#### 2.1.1 What is at stake?

Animals are – similar to people – sentient beings that deserve respect and protection. Based on this fundamental principle, animal protection organisations advocate measures to protect the welfare of animals. These efforts are met with growing interest from governments and the corporate world. In a protocol of the Amsterdam Treaty (1997), and its successor the Lisbon Treaty (2007), the European Union officially recognizes animals as sentient beings. The plea of animal protection organisations also resonates increasingly among European civilians, as indicated by the Eurobarometer.<sup>11</sup> In countries outside Europe, animal welfare is also increasingly becoming an issue of concern for the general public. The World Animal Protection's plea for a Universal Declaration on Animal Welfare (UDAW), drafted in 2011, has since been signed by over 2 million people all over the world.<sup>12</sup>

It is also increasingly understood that the welfare of animals is important for the wellbeing and the health of large groups of people. About one billion people depend on the health and productivity of the animals they work with for their income, food and clothing.<sup>13</sup> To this effect, the UN Food and Agriculture Organisation (FAO) has decided to pay more explicit attention to animal welfare. According to the FAO, animal welfare is related to food security, food safety, health, sustainability, working conditions, rural developments, gender equality and social justice.<sup>14</sup>

For these reasons, the corporate world is also waking up to the importance of animal welfare. In terms of economic sectors, animal welfare issues affect the largest numbers of animals in the intensive livestock sector. Intensive livestock farming is a farming system that is landless: animal feed is delivered to the farm and manure has to be removed from the farm. The system is characterised by the absence of a natural cycle and shifting the consequences of environmental pollution (eutrophication and acidification) towards society.<sup>15</sup> In 2016, over 70% of the world's farm animals were raised in intensive livestock farming systems.<sup>16</sup> The welfare of animals in these farming systems is under pressure because the animals are kept in circumstances that are not suitable for the species and are not worthy of the animal's dignity. Intensively farmed animals, including pigs, poultry, beef and dairy cattle, rabbits, goats and fish farmed in intensive aquaculture, are kept in high concentrations, often undergo un-anaesthetised surgery (cutting tails, clipping beaks, teeth filing, dehorning) and tend to lack the opportunity to behave naturally (grazing, free ranging, grubbing).

Due to population growth and changing consumption patterns in emerging markets the worldwide demand for livestock products - meat, dairy products, eggs - is increasing rapidly. To meet this demand in a way that pays attention to animal welfare standards is a major challenge.<sup>17</sup> Intensification of livestock production under current circumstances will almost certainly result in the suffering of even more animals.<sup>18</sup>

Ignoring animal welfare and animal health in the livestock industry also leads to increasing health risks for humans. Bacteria in humans, food and animals continue to show resistance to the most widely used antibiotics. A 2017 report from three EU agencies – European Food Safety Authority, the European Medicines Agency and the European Centre for Disease Prevention – confirms the link between antibiotic consumption and antibiotic resistance in both humans and food-producing animals. Reducing the unnecessary use of antibiotics will have an impact on the occurrence of resistance.<sup>19</sup> The routine use of antibiotics is instrumental to livestock rearing in densely packed,

unhygienic conditions and is often practiced as a way of hiding bad living conditions. Therefore, a change in animal housing and husbandry practices is necessary to effectively eliminate or reduce the use of antibiotics.<sup>20</sup>

Other animal welfare aspects in the livestock sector deserving urgent attention are the conditions during the transport of animals over long distances and the conditions prior to, and during, the slaughter of animals. During transportation animals may have to deal with bad ventilation, too little space, shortage of food and water, bad treatment during the loading and unloading procedures, bad health conditions of the animals prior to the transport and exposure to germs. Animal transport may therefore result in exhaustion, dehydration, anxiety, injury, diseases and may even lead to the death of the animals involved.<sup>21</sup> Slaughter methods in many countries pose severe concerns. Problematic slaughter methods include CO<sub>2</sub> stunning for pigs, electrical stunning for poultry via the water bath method and unstunned slaughter.<sup>22</sup>

Animal welfare is also of importance in economic sectors outside the livestock industry:

- The pharmaceutical and cosmetics industries, as well as scientific institutions, regularly make use of laboratory animals. The animals are used for the development of medicines and vaccines, for studying animals' and humans' bodily functions, and for testing the safety of various types of chemicals. Depending on the context, animals may be exposed to various kinds of suffering, even as the exact need, effectiveness and justification for animal testing is debated;<sup>23</sup>
- Relatedly, techniques for genetically altering animals are increasingly applied in both laboratory and farming settings. Genetic modification can serve various goals, from using laboratory animals as models for studying human diseases to increasing the nutritional value of farm animals. Aside from socio-economic and environmental concerns (threats to biodiversity, the proprietisation of genetic information), the potential for animal suffering due to genetic alteration is significant;<sup>24</sup>
- Breeding and trading pets (dogs, cats, etc.) to be sold to households has grown into an important industry in many countries. According to animal protection organisations, for every lucky companion animal treated as a family member in a household, many others experience nothing but suffering, abuse, and sadness. Pet breeders, traders and pet shops further contribute to the overpopulation of companion animals in shelters and on the streets;<sup>25</sup>
- The fur and leather industry, including farmers, trappers, auction houses, brokers and buyers, design centres, dressers and dyers, manufacturers and retailers, is increasingly facing legal bans.<sup>26</sup> Especially in Europe, the industry is responding to the criticism from animal protection organisations that it is morally unacceptable to keep animals solely for their fur, by launching animal welfare assessment programs and certification systems;<sup>27</sup>
- In the recreation industry, animals are deployed for sports and entertainment: equestrianism, circuses, zoos and tourist attractions like elephant riding and shows with birds of prey. Finally, in pleasure pursuits such as hunting, hunting tourism, as well as in fishing and fighting games with pets, the welfare of animals is profoundly at stake.<sup>28</sup>

The United Nations' 2030 Agenda for Sustainable Development, of which the Sustainable Development Goals (SDGs) are part, envisions a world in which humanity lives in harmony with nature and in which wildlife and other living species are protected.<sup>29</sup> Although animal welfare is not directly mentioned in the SDGs, it is crucial for achieving many targets set by some SDGs. For example, various targets under SDG: 2 Zero Hunger and SDG: 3 Good Health and Well-being cannot be achieved without ensuring animal welfare in the food production systems.<sup>30</sup> Similarly, SDG: 12 Responsible Consumption and Production cannot be possible without ensuring animal welfare in the production of food.<sup>31</sup> It also covers animal welfare in other sectors such as leather

goods and healthcare. Further, SDG: 14 Life Below Water and SDG: 15 Life of Land also mentions protecting biodiversity. These goals cannot be achieved without adopting responsible practices while dealing with oceans and forests and protecting any form of cruelty on animals.<sup>32</sup>

The investment and finance policies of financial institutions should take the welfare of animals into account when investing in or financing of companies in all the industries mentioned (livestock, fisheries, fur and leather, pharmaceuticals, cosmetics, pet breeding, recreation, sports and entertainment). This moral obligation follows from recognizing animals as sentient beings capable of feeling pain and stress, as humans do. Furthermore, neglecting the welfare of animals may also have consequences for human health and the environment. When developing policies in this respect, financial institutions can make use of the international standards described in the following section. They should be aware however, that they may not be sufficient to safeguard animal welfare at an appropriate level - either because norms are open for interpretation or requirements are not yet stringent enough.

### 2.1.2 International standards and initiatives

Standards concerning animal welfare differ in scope, application and the level of protection they offer. It is possible to differentiate between generally accepted principles, international standards, EU legislation, national law and (inter)national private standards. The main standards on animal welfare are summarised per topic, followed by assessment elements which are formulated by the FFGI as a result:

- **In general**

The Five Freedoms are often taken as a principle for preparing standards on animal welfare. This concept arose from the Brambell Report published in Great Britain in 1965 and the following request of the UK Minister of Agriculture to the Farm Animal Welfare Council (FAWC) to revise the *Welfare Codes* for cattle, pigs, domestic fowl and turkeys. This has led to the following list of five freedoms that are relevant for all animals.

An animal has to live free from:

- Hunger, thirst and malnutrition (direct access to fresh water and solid food to stay healthy and strong).
- Any thermal or physical discomfort (having suitable, comfortable housing that offers tranquillity).
- Pain, injury and diseases (by means of prevention or diagnosing and treating quickly).
- Fear and chronic stress (by circumstances that avoid suffering and stress).
- The denial of natural (species-specific) behaviour (by supplying sufficient space, sufficient and proper provisions and company from animals of the same species).

In a protocol at the Amsterdam Treaty (1997), the European Union officially recognises animals as sentient beings and indicates that European civilians and institutions in the field of agriculture, fishery and science have to take the welfare of animals into account. This protocol has also been fully included as Article 6b in the successor of the *Amsterdam Treaty*, the Lisbon Treaty (2007), which came into force on December 1, 2009.

The World Trade Organization (WTO) Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement) encourages its members to base their sanitary measures on international standards, guidelines and recommendations, where they exist.

The [World Organisation for Animal Health \(OIE\)](#) is the WTO reference organisation for standards relating to animal health and zoonoses. Its standards are intended to safeguard the hygienic safety in the trade in animals and animal products. The [Terrestrial Animal Health Code](#), published in 1968, and the [Aquatic Animal Health Code](#), published in 1995, aim to assure the sanitary safety of international trade in terrestrial animals and aquatic animals, and their products. The Codes traditionally addressed animal health and zoonoses, but have in recent years expanded to cover other animal welfare aspects, mainly with respect to transport, slaughter, and killing animals to prevent the spread of diseases and stray animals. This is consistent with the expanded mandate of the OIE which is 'to improve animal health worldwide'. The OIEs [Manual of Diagnostic Tests and Vaccines for Terrestrial Animals](#) and [Manual of Diagnostic Tests for Aquatic Animals](#) provide a harmonised approach to disease diagnosis by describing internationally agreed laboratory diagnostic techniques.

[ISO 26000:2010 Guidance on social responsibility](#) recognises the importance of animal welfare in the principle 'Ethical behaviour'. The underlying values - fairness, justice and integrity - imply caring for people, animals and the environment. Ethical behaviour encompasses respecting the welfare of animals, including providing effective resolutions if an organisation affects the life and the existence of animals.<sup>33</sup>

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**This leads to assessment elements**

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1	Companies respect the Five Freedoms of animals.
13	Companies integrate animal welfare criteria into their procurement and operational policies.
14	Companies include clauses on the compliance with criteria on animal welfare in their contracts with subcontractors and suppliers.

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- **Genetic modification of animals**

The [UN Convention on Biological Diversity \(CBD\)](#) demands that companies that want to have access to genetic material from abroad have to obtain prior permission from the exporting country and have to make clear agreements for the use of the material. The [Bonn Guidelines](#) are recognized as a useful first step in the implementation of relevant provisions of the [UN Convention on Biological Diversity \(CBD\)](#) and are meant to assist stakeholders in developing access to genetic resources and benefit-sharing strategies.

The [Cartagena Protocol on Biosafety to the Convention on Biological Diversity \(Cartagena Protocol\)](#) speaks about Living Modified Organisms (LMOs) which are in every day usage known as Genetically Modified Organisms (GMOs). These are defined as any living organism that possesses a novel combination of genetic material obtained through the use of modern biotechnology. The Cartagena Protocol does not prohibit the use of GMOs in itself but has developed a framework for the safe handling, transport and use of GMOs that may have a harmful effect on biodiversity and human health and entail trans-boundary risks. The protocol also requires permission from the importing country before it is permitted to import GMOs.

These standards aim to protect genetic material and lack provisions on animal welfare when producing and using GMOs. In 2015 the European Parliament voted to adopt [regulation prohibiting the cloning of animals for farming purposes](#), because this is considered not to be in line with general minimum welfare standards for animals bred or kept for farming purposes (as laid down in Council Directive 98/59/EC). It takes into account that the health and welfare of a significant proportion of cloned animals is seriously affected and mortality is considerably higher than with sexually reproduced animals.<sup>34</sup>

Furthermore, a [resolution issued by the Trans Atlantic Consumer Dialogue \(TACD\)](#) in 2016, expresses consumer concerns about amongst other topics, animal welfare issues related to new genetic engineering technologies for farm animals. The resolution urges US and EU governments to: “Fully consider the welfare of animals altered using new genetic engineering techniques prior to approval.”

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**This leads to assessment element**

4	Genetic modification of animals for food and the production of derived food products is unacceptable, unless clear animal welfare benefits can be demonstrated
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• **Laboratory animals**

The European [Convention for the protection of vertebrate animals](#) for experimental and other scientific purposes concerns the use of animals in experiments. There is also European legislation on the housing of, and caring for [laboratory animals](#) and there are rules for assessing animal tests. [EU Regulation 1223/2009](#) bans animal testing for [cosmetics](#) and the use of great apes for testing purposes.

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**This leads to assessment element**

2	Non-medical animal testing (including but not limited to cosmetics testing) is unacceptable.
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When planning and conducting animal experiments, one can strive for improvement as described already in 1959 by the researchers W.M.S. Russel and R.L. Burch, in their 3R-strategy *Replacement, Reduction and Refinement*. This suggests to apply three strategies with regard to animal testing: <sup>35</sup>

- Replacement: laboratory animals are replaced by non-animal alternative test objects as much as possible.
- Reduction: the number of animals used is reduced as much as possible.
- Refinement: discomfort (pain/inconvenience) of laboratory animals is prevented as much as possible, both prior to, as well as after testing.

[Directive 2010/63/EU](#) of 2010 “spells out the principle of the ‘Three Rs’ and makes it a firm legal requirement. The principles of Replacement, Reduction and Refinement must be considered systematically at all times when animals are used for scientific purposes in the EU”.<sup>36</sup>

There are initiatives from the industry as well. For example in the Netherlands, research institutions have signed the [Animal Experiments Openness Codes](#) in which they oblige themselves “to systematically shift to Replacement, Reduction, and Refinement of animal testing (3 Rs)”.

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**This leads to assessment element**

3	Requirements are set for the use of laboratory animals for testing medical products in order to limit animal suffering and the number of animals used as much as possible and demonstrably look for alternatives to animal testing (the so-called 3R-strategy).
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- **Farm animals**

The Council of Europe (CoE) has adopted several conventions to protect farm animals.<sup>i</sup> In the [European Convention for the Protection of Animals kept for Farming Purposes](#) (adopted in 1976 and amended in 1992) minimum guidelines for livestock farming with respect to welfare have been included. In addition, conventions on transport ([ETS No. 193](#)) and on slaughter ([ETS No. 102](#)) have been adopted. These conventions are further elaborated in specific rules for certain animal species and topics.

Distinct from conventions by the CoE, European Union directives are binding to all members. [Council Directive 98/58/EC concerning the protection of animals](#) applies to all farm animals and lays out several general animal welfare requirements with respect to, amongst others, freedom of movement, accommodation, feed and breeding practices. Furthermore, directives from the Council have been adopted on animal [transport \(EC No 1/2005\)](#), as well as on the keeping of specific species of animals ([broilers](#), [laying hens](#), [pigs](#), [calves](#)). Regulations on [slaughter \(EU Regulation 2018/723\)](#) have also been issued by the European Commission.

In the long run, some abuses in intensive livestock farming are phased out, such as keeping calves in crates (prohibited since 2007), hens in bare battery cages (prohibited as of 2012) and keeping sows in feeding cubicles (prohibited as of 2013). Note that no specific EU legislation exists for widely farmed animals such as dairy cows, rabbits, ducks, turkeys, trout and salmon. In recent years, out of discontent with the inability of EU standards to safeguard animal welfare, private standard initiatives have emerged.

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**This leads to assessment element**

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6	Extremely restricted housing methods including calves in crates, hens in battery cages and sows in feeding cubicles are unacceptable.
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The International Finance Corporation (IFC) states in its [Good Practice Note](#) that businesses "that address or enhance animal welfare are likely to win or retain a competitive advantage in the global marketplace".<sup>37</sup> and presents some best practices and recommendation for farmers and meat producing companies.

The [Business Benchmark on Farm Animal Welfare](#) is an annual benchmark of food companies' performance on farm animal welfare, supported by World Animal Protection (WAP), Compassion in World Farming (CIWF) and private equity firm Coller Capital. "Its aims are:<sup>38</sup>

- To provide investors with the information they need to understand the business implications of farm animal welfare for the companies in which they are invested.
- To provide investors, governments, academics, CSOs, consumers and other stakeholders with an independent, impartial and reliable assessment of individual company efforts to adopt higher farm animal welfare standards and practices.
- To provide guidance to companies interested in improving their management and reporting on farm animal welfare issues.

The benchmark assesses food producers, restaurants and bars and food retailers and wholesalers, covering the entire food supply chain".

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<sup>i</sup> The Council of Europe (CoE) is not to be confused with the European Council (EC) or the Council of the European Union. The former is a distinct, consultative body outside of the European Union in which 47 countries participate, and has no binding legislative powers. The latter are integral parts of the European Union's institutional structure.

Coller Capital also initiated the [Farm Animal Investment Risk and Return \(FAIRR\)](#) initiative, which aims to improve investor's understanding of risks related to factory farming. FAIRR states that "animal factory farming is exposed to at least twenty-eight environmental, social and governance issues that could significantly damage financial value over the short or long-term. Many of these risks are currently hidden from investors".<sup>39</sup>

The *International Federation of Organic Agricultural Movements* (IFOAM) has developed the [Norms for Organic Production and Processing](#). The IFOAM norms consist of the [IFOAM Standard](#) and the corresponding [Accreditation Criteria](#). All producers worldwide adhering to the IFOAM norms are included in the [Organic Guarantee System](#). With respect to animal welfare, the certification standard includes detailed requirements for housing, freedom of movement, feed, pest and disease management, transport and slaughter.

The *Sustainable Agriculture Network* (SAN) published the [Sustainable Agriculture Standards](#). The norms are based on guidelines of, among others, the United Nations, the European Union and the International Labour Organization and comprise of ten criteria for sustainable agriculture, of which one is about dealing with wild animals on farms.

The Dutch Society for the Protection of Animals has introduced the [Better Life Label](#) in 2007 for animal products. It is specifically aimed at so-called intermediate segments (farming systems that operate in between the intensive and the organic livestock farming systems regarding the welfare of animals). This three-star system (the more stars, the better the animal welfare) has been developed to challenge the corporate world to improve the wellbeing of animals in livestock farming. The quality requirements that the Dutch Society for the Protection of Animals has set for wellbeing are recorded in agreements with suppliers of meat and are checked by independent bodies.

The Global Animal Partnership (GAP) has defined animal welfare in order to improve farming and ranching systems and practices. Under its [GAP 5-Step Animal Welfare Rating Program](#) it has customized standards for each species, including beef cattle, broiler chickens, turkey, sheep, pigs, goats, bison and laying hens. As part of its program for broilers chickens, GAP aims to replace fast-growing chicken breeds by 2024.

The [Farm Animal Responsible Minimum Standards \(FARMS\)](#) were developed in 2019 by a coalition of animal welfare organizations, and emphasize the role of financial institutions in advancing animal welfare in farm animals. Based on the Five Freedoms, the OIE Terrestrial Health Code, existing EU legislation and the IFC's Good Practice Note, the FARMS initiative identifies a number of 'welfare risks' and mitigation strategies that apply to all farm animals, covering a range of topics including:

- Space;
- Stocking density;
- Living environment;
- Diet;
- Breeding practices;
- Painful procedures;
- Transport;
- Slaughter.

Additionally, the FARMS initiative defines a host of minimum standards specific to five of the most commonly farmed animals (dairy cows, beef cattle, broiler chickens, laying hens and pigs).<sup>40</sup> By combining previous governmental regulations and private initiatives, the Responsible Minimum Standards (RMS) provide a comprehensive set of principles for improving welfare in farm animals.

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**This leads to assessment elements**

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7	Companies shift from intensive livestock farming to animal friendly production.
8	Livestock farming companies are certified according to the criteria of certification schemes that include animal welfare requirements (mentioned in section 2.1.2).

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- **Fish**

In contrast to other major forms of livestock agriculture, there is a paucity of scientific information on the welfare of fish raised under intensive aquaculture conditions. This reflects an adherence to the belief that these animals have not evolved the salient biological characteristics that are hypothesised to permit sentience. However, there is scientific evidence for the existence of sentience in fish, and in particular, their ability to experience pain, fear and psychological stress. Anatomical, pharmacological and behavioural data suggest that affective states of pain, fear and stress are likely to be experienced by fish in similar ways as in tetrapods. This means that fish have the capacity to suffer, and that welfare considerations for farmed fish should take these states of pain into account.<sup>41</sup>

The Global Aquaculture Alliance (GAA), an initiative from a number of American companies, has developed the Best Aquaculture Practices (BAP) facility certification standards, monitored and controlled by ISO 65-accredited certification bodies. BAP certification defines the most important elements of responsible aquaculture and provides quantitative guidelines by which to evaluate adherence to those practices for processing plants, farms, hatcheries and feed mills. The BAP includes standards for shrimp, tilapia and channel catfish cultivation, as well as for the fish processing industries. A number of animal welfare criteria are included in the BAP, particularly regarding pain and anxiety. The number of BAP-certified facilities worldwide grows daily. BAP is mainly active in the Americas, South East Asia, Australia and New Zealand; within Europe only in Iceland, Norway and the United Kingdom.

In 2010, WWF and IDH (Dutch Sustainable Trade Initiative) founded the Aquaculture Stewardship Council (ASC). The ASC aims to be the world's leading certification and labelling programme for responsibly farmed seafood, by managing the global standards for responsible aquaculture, which were developed by the WWF Aquaculture Dialogues.

ASC collaborates with aquaculture producers, seafood processors, retail and foodservice companies, scientists, conservation groups and consumers in order to:<sup>42</sup>

- “Recognise and reward responsible aquaculture through the ASC aquaculture certification programme and seafood label;
- Promote best environmental and social choice when buying seafood; and
- Contribute to transforming seafood markets towards sustainability.”

Other issues related to fish and fisheries are discussed in section 3.3.

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**This leads to assessment element**

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9	Fish farms are certified according to the criteria of certification schemes that include animal welfare requirements (mentioned in section 2.1.2).
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- **Fur and leather**

Within the European Union, there are rules for the use of traps to catch animals for their fur ([Council Regulation 3254/91/EEC](#)). There is a ban on the trade in cat and dog fur ([Regulation 1523/2007/EC](#)) and an import ban on seal fur ([Council Directive 83/129/EEC](#) and [Regulation 1007/2009/EC](#)).

In several European countries the farming of animals for fur production has been prohibited.<sup>43</sup> As of January 2013 it is illegal in the Netherlands to keep or kill animals if the only objective is using their fur. All existing activities in this sector must be phased out before 2024.<sup>44</sup>

In the Netherlands, the [Nature Conservation Act](#) contains rules on hunting, the authorised means of hunting and damage control.

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**This leads to assessment element**

5	Capturing and/or keeping animals for their skin or fur and manufacturing, trading and selling (derived) fur products is unacceptable.
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- **Entertainment sector**

According to animal protection organisations, circuses and dolphinariums that deploy animals for entertainment purposes do not meet the Five Freedoms criteria. Animals are unable to express their natural behaviour and suffer fear and chronic stress. Moreover, often use is made of animals that were captured in the wild. According to animal protection organisations, such activities are unacceptable.<sup>45</sup>

Various countries have implemented legislation to prohibit the use of (wild) animals in circuses. Below, we will limit the information to the countries currently represented in the Fair Finance International network:

- Belgium has a national ban on the use of wild animals in circuses as of March 2014.
- In Brazil, a national ban on the use of wild animals in circuses was adopted in 2009 by the Commission of Education and Culture. In several districts there is a ban on the use of all kinds of animals in circuses.
- In France there is a national ban on the use of certain wild animals in circuses, by means of a positive list, effective from 18 March 2011. Several cities prohibit circuses that use wild animals.
- In the [Netherlands](#), the prohibition of the use of wild animals in circuses is effective from September 15, 2015.
- In Sweden there is a national ban on the use of certain species of wild animals in circuses, effective from 1994. There is a ban on the use of monkeys, carnivores, rhinos, giraffes, kangaroos, hippos, seals, birds of prey, ostriches, crocodiles, deer, elephants and sea lions.

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**This leads to assessment element**

10	Entertainment activities in which wild animals are involved or animals are hurt (including circuses and other entertainment shows with wild animals, dolphinariums, elephant rides, fighting games with animals) are unacceptable.
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- **Transport**

[Council Regulation EC 1/2005](#) of the European Union lays down rules for livestock transport. In September 2017, the European Commission published [five guides to good practices for the transport of the main livestock species](#). Implementation and enforcement continue to be a grave concern. Welfare risks are exacerbated by the long transport times.<sup>46</sup>

After the release of shocking footage material in a ZDF documentary and over 1 million signatures from EU citizens, the European Commissioner for Health and Food Safety, Vytenis Andriukaitis, put animal transport high on the agenda in September 2017. He announced the setup of a sub-group dedicated to live transport within the [EU Platform for Animal Welfare](#) focusing on the need to revise the current system and rules governing long distance animal transport, and put in place a long term strategy to replace this inhumane trade. Ministers from Austria, Belgium, Denmark, Germany, The Netherlands and Sweden have joined the Ministerial Animal Welfare Alliance's call on the European Commission to significantly shorten journey times for live animals and improve transport conditions. The Commission reiterated the need to have more Member States on board.<sup>47</sup>

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#### This leads to assessment element

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11 Companies reduce the time limit of animal transport to a maximum of 8 hours.

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- **Antimicrobial resistance**

According to the World Health Organisation (WHO), antimicrobial resistance (AMR) is one of the biggest threats to global health, food security, and development today. As antibiotics become less effective a growing list of infections are becoming difficult and sometimes impossible to treat. The WHO [Global Action Plan on Antimicrobial Resistance](#), endorsed at the World Health Assembly and adopted by the assemblies of the FAO and the World Organisation for Animal Health (OIE) in 2015, has five strategic objectives:<sup>48</sup>

1. "to improve awareness and understanding of antimicrobial resistance through effective communication, education and training;
2. to strengthen the knowledge and evidence base through surveillance and research;
3. to reduce the incidence of infection through effective sanitation, hygiene and infection prevention measures;
4. to optimize the use of antimicrobial medicines in human and animal health;
5. to develop the economic case for sustainable investment that takes account of the needs of all countries and to increase investment in new medicines, diagnostic tools, vaccines and other interventions."

The objectives are also aimed at the use of antimicrobials in food-producing animals, for which the WHO has developed specific [guidelines](#). The [OIE Strategy on Antimicrobial Resistance and the Prudent Use of Antimicrobials](#) is aligned with the Global Action Plan. The FAO has also drafted an [Action Plan](#) to support the food and agriculture sector in implementing WHO's Global action plan.

Guidelines on AMR in the [Codex Alimentarius](#) aim to assess the risk to human health associated with the presence in food and animal feed and the transmission through food and animal feed, of AMR micro-organisms and determinants and to provide advice on appropriate risk management.

As the majority of antibiotics produced are given to livestock,<sup>49</sup> the Farm Animal Investment Risk and Return (FAIRR) initiative has brought together a coalition of investors that call upon companies to end the routine non-therapeutic use of antibiotics in their [Global investor statement on antibiotic stewardship](#). As part of their engagement, FAIRR has drafted a best practice policy on antibiotics stewardship that includes a number of commitments based on the following principles:<sup>50</sup>

- Antibiotics should only be used to treat the diagnosed presence of disease in animals, and in limited circumstances to control disease outbreaks. Antibiotics should not be used to promote animal growth or for routine disease prevention.
- Antibiotic use should be supervised by a veterinarian familiar with the premises and the animals.
- Livestock producers should report their use of antibiotics so that oversight agencies and the public can track progress in meeting use-reduction goals and identify resistance risks and trends.
- Livestock producers should rely on better husbandry practices to improve animal health and welfare, and to minimize the need for routine antibiotics use on farms.

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**This leads to assessment element**

12	Companies apply a prudent use of antimicrobial medicines (antibiotics) in food-producing animals in order to minimize antimicrobial resistance.
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- **Procurement and supply chains**

Companies are often part of long production chains. They can monitor one another and question how they respect local and national legislation and international norms on animal welfare. The requirements that companies set for their suppliers can be included in contractual agreements. The importance of this also recognised in the [OECD Guidelines for Multinational Enterprises](#). However, these guidelines do not cover the topic of animal welfare.

The importance of this also recognised in the [OECD Guidelines for Multinational Enterprises](#). However, these guidelines do not cover the topic of animal welfare. The importance of animal welfare is recognized in the [OECD/FAO Guidance on Responsible Agricultural Supply Chains, which is part of a series of sectoral guidance on the OECD Due Diligence Guidance for Responsible Business Conduct](#). This provides practical support to companies on the implementation of the OECD Guidelines for Multinational Enterprises by providing plain language explanations of its due diligence recommendations. Implementing these recommendations can help companies avoid and address adverse impacts that may be associated with their operations, supply chains and other business relationships.

But [ISO 26000:2010 Guidance on social responsibility](#) does acknowledge animal welfare as part of an organisation’s responsibility to behave ethically and connects the topic with multiple core subjects. It also recognises the importance of supply chain responsibility, because “the impacts of an organization's decisions or activities can be greatly affected by its relationships with other organizations”.<sup>51</sup> A company’s sphere of influence includes relationships within and beyond an organization’s supply chain. Moreover, ISO 26000:2010 Guidance on social responsibility recommends setting contractual provisions or incentives as a means of exercising influence.<sup>52</sup>

In addition, [ISO 20400:2017 Sustainable procurement – Guidance](#) provides guidelines for organizations, independent of their activity or size, on integrating sustainability within procurement, as described in ISO 26000:2010 Guidance on social responsibility. It is intended for stakeholders involved in, or impacted by, procurement decisions and processes.

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**This leads to assessment elements**

13	Companies integrate animal welfare criteria into their procurement and operational policies.
14	Companies include clauses on the compliance with criteria on animal welfare in their contracts with subcontractors and suppliers.

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### 2.1.3 Assessment elements

Financial institutions can influence the welfare of animals if they finance or invest in industries where animals are used, captured and/or (re)produced, such as fishery, livestock farming, the pharmaceutical industry and other companies with an animal testing facility like the cosmetics industry, the recreation industry, the fur industry and pet breeding.

The following elements are crucial for a policy regarding the companies a financial institution invests in or finances:

1. Companies respect the Five Freedoms of animals.
2. Non-medical animal testing (including but not limited to cosmetics testing) is unacceptable.
3. Requirements are set for the use of laboratory animals for testing medical products in order to limit animal suffering and the number of animals used as much as possible and demonstrably look for alternatives to animal testing (the so-called 3R-strategy).
4. Genetic modification of animals for food and the production of derived food products is unacceptable, unless clear animal welfare benefits can be demonstrated
5. Capturing and/or keeping animals for their skin or fur and manufacturing, trading and selling (derived) fur products is unacceptable.
6. Extremely restricted housing methods including calves in crates, hens in battery cages and sows in feeding cubicles are unacceptable.
7. Companies shift from intensive livestock farming to animal friendly production.
8. Livestock farming companies are certified according to the criteria of certification schemes that include animal welfare requirements (mentioned in section 2.1.2).
9. Fish farms are certified according to the criteria of certification schemes that include animal welfare requirements (mentioned in section 2.1.2).
10. Entertainment activities in which wild animals are involved or animals are hurt (including circuses and other entertainment shows with wild animals, dolphinariums, elephant rides, fighting games with animals) are unacceptable.
11. Companies reduce the time limit of animal transport to a maximum of 8 hours.
12. Companies apply a prudent use of antimicrobial medicines (antibiotics) in food-producing animals in order to minimize antimicrobial resistance.
13. Companies integrate animal welfare criteria into their procurement and operational policies.
14. Companies include clauses on the compliance with criteria on animal welfare in their contracts with subcontractors and suppliers.

## 2.2 Climate change

### 2.2.1 What is at stake?

The climate on earth is changing: globally the temperature is increasing. Due to this, ecosystems are changing, extreme weather (hurricanes, heatwaves, drought, floods, etc.) will occur more often and societies around the world are likely to suffer significant negative consequences. This process is a direct result of human activities that increase the concentration of greenhouse gases (GHG) in the atmosphere.<sup>53</sup> The importance of climate change as a global phenomenon and problem is widely accepted by the international community. Since the UN Framework Convention on Climate Change (UNFCCC) was adopted in 1992, a Conference of the Parties to the UNFCCC (COP) has been organised almost every year to try to agree on climate change mitigation and adaptation measures. During the landmark 21st session of the Conference of the Parties (COP21) in Paris in 2015, 195 nations decided to aim for keeping the global temperature rise well below 2°C above the pre-industrial average, and preferably below 1.5 °C, in 2100.<sup>54</sup>

Already in 2006, the influential research report Stern Review on the Economics of Climate Change projected that the concentration of greenhouse gases in the atmosphere would be twice as much in 2035 (550 parts CO<sub>2</sub> per million) as it was before the industrial revolution, which in turn would cause a rise in global temperatures of 2°C or more. This is likely to have an enormous impact on the world, especially considering that average global atmospheric temperatures are currently only 5°C warmer than during the last ice age, which ended about 10,000 years ago.<sup>55</sup>

The leading international authority on this topic, the Intergovernmental Panel on Climate Change (IPCC), regularly publishes scientific research on the causes and impacts of climate change. In its Fifth Assessment Report the IPCC concluded that the average global temperature increase since the mid twentieth century has been largely caused by the observed increase of greenhouse gases concentrations (such as carbon dioxide, methane, nitrogen oxide and some other gases), released by human activity. The main greenhouse gas is carbon dioxide (CO<sub>2</sub>), which is released with the combustion of fossil fuels.

The report, published in 2014, states that it is *highly likely* that human activities have caused more than 50% of the noticed temperature increase between 1951 and 2010.<sup>56</sup> The IPCC estimates that, depending on future developments, global temperatures will increase between 0.3°C and 4.8°C in the 21<sup>st</sup> century. This will increase the likelihood of severe, pervasive and irreversible impacts for people and ecosystems.

Recent climate changes have had widespread impacts on human and natural systems:<sup>57</sup>

- The globally average land and ocean surface temperatures show a rise of 0.85 °C over the period from 1880 to 2012;
- Across the world, glaciers have continued to shrink, spring snow cover has continued to decrease, and permafrost temperatures have increased;
- Over the period 1901 to 2010, the global mean sea level rose by 19 cm.

The IPCC assesses that it is very likely that:<sup>58</sup>

- heat waves will occur more often and last longer;
- extreme precipitation events will become more intense and frequent in many regions;
- the ocean will continue to warm and acidify; and
- global mean sea levels will rise - in ranges of 26 to 82 cm.

These developments not only lead to extraordinary and unprecedented risks for the global environment, but can also have profound and disastrous consequences for human economies, societies, and health. The *Stern Review* as well as IPCC reports project the following climate change consequences:<sup>59</sup>

- Melting glaciers will cause a steep increase in the average water level of some rivers. The availability of water will increase in some areas, while elsewhere drought and a lack of drinking water will occur.
- Of all plant and animal species globally, 15 to 40% are at risk of extinction if the average temperature increases by more than 2°C. This will lead to a rapid degradation of ecosystems and the acidification of oceans, which in turn will have major consequences for marine ecosystems. Global climate belts will shift, with drastic consequences for flora and fauna.
- Climate change undermines food security. While the global food production will increase with local temperatures that increase between 1-2°C, it in turn will decrease as soon as the temperature increases further. Higher frequencies of periods of drought, floods, hurricanes and heat waves will also affect the production of local crops; mainly in areas close to the equator that already produce little food.
- Climate change will increase the risk of peat fires worldwide, leading to substantial and sustained CO<sub>2</sub> emissions as peat fires can smoulder for years and have the highest CO<sub>2</sub> production of all fires. Haze caused by peat fires also causes serious long-term health problems.<sup>60</sup>
- Coastal areas will be exposed to higher risks by the increasing sea level and coastal erosion. Not only coral reefs and *wetlands* are at risk, but also huge cities in developed and developing countries. The melting or breaking down of ice floes will ultimately threaten the residential areas of 1 in every 20 people.
- If the existing climate change scenario becomes a reality, almost half the world's population will be living in areas of high water stress by 2030. This is including between 75 million and 250 million people in Africa. Furthermore, water scarcity in some arid and semi-arid places will cause the displacement of between 24 million and 700 million people.<sup>61</sup>
- Poor communities are even more vulnerable because their adaptability is limited and because they are more dependent for their livelihood on climate sensitive provisions such as local water and food supplies.<sup>62</sup>
- Climate change will influence the health of millions of people, mainly of those who have difficulty in adapting. Those groups already physically weakened by malnutrition are the most vulnerable for the expected increase in heat waves, floods, storms, fires and droughts, accompanied by an increase in metabolic diseases and parasitic diseases such as malaria or dengue.<sup>63</sup>

To reduce climate change risks both mitigation and adaptation are necessary. Mitigation in the first place requires a global reduction of GHG emissions. The IPCC's Fifth Assessment Report calculated that, in order to limit global temperature rise to 2°C, it is necessary that average global emissions of GHG should be reduced by 40 to 70% in 2050 compared to 2010 emissions levels.<sup>64</sup>

While in 2020 the energy related emission of CO<sub>2</sub> should not exceed 32 Gigatons, in 2018 global energy related emissions already reached a historic 33.1 Gt. According to the International Energy Agency (IEA), the objective not to increase the average temperature on earth by more than 2°C will be very difficult to realise if CO<sub>2</sub>-emissions keep increasing at this rate.<sup>65</sup>

The 2015 Paris Agreement recognized that much greater emission reduction efforts will be required than submitted by the countries in their intended nationally determined contributions (NDC).<sup>66</sup> Calculations by Climate Action Tracker confirm that current NDCs would result in around 2.9 °C of global warming in 2100.<sup>67</sup> If only a few countries would increase their reduction targets, this would already reduce the 1.5°C gap by 20-34%.<sup>68</sup>

In 2018 the IPCC published a Special Report on Global Warming of 1.5°C. Expanding on earlier reports through a review of over 6,000 peer-reviewed scientific articles, the main findings of the report include:<sup>69</sup>

- Climate change is already affecting people, ecosystems and livelihoods all around the world.
- There are clear benefits to keeping warming to 1.5°C rather than 2°C or higher. The negative consequences for human and natural systems are projected to be significantly worse for a warming of 2°C than for 1.5°.
- Limiting warming to 1.5°C is possible within the laws of chemistry and physics but would require unprecedented transitions in all aspects of society.
- Limiting warming to 1.5°C can go hand in hand with achieving other global goals such as the Sustainable Development Agenda. Every year matters and every choice matters.
- Recent trends in emissions and the level of international ambition indicated by nationally determined contributions, within the Paris Agreement, deviate from a track consistent with limiting warming to well below 2°C.

The overall implications of these findings are summed up in the report's foreword: "without increased and urgent mitigation ambition in the coming years, leading to a sharp decline in greenhouse gas emissions by 2030, global warming will surpass 1.5°C in the following decades, leading to irreversible loss of the most fragile ecosystems, and crisis after crisis for the most vulnerable people and societies".<sup>70</sup>

Companies in many industries will be confronted with climate change consequences and risks. Climate change itself creates *physical risks*, for instance because agricultural operations will suffer from drought, mines will lose access to sufficient water sources, air transport will be hampered significantly by storms, and factories and various forms of infrastructure will be destroyed by floods or hurricanes.

Separately, the different responses to climate change by consumers, markets, and governments (including new legislation on mitigating emissions), also create *transition risks*. Companies in different sectors need to grasp opportunities to develop new, carbon-free products, services and production processes, requiring innovations. If companies are not able to live up to these challenges and reinvent their business models fast enough, they run the risk that their production facilities and other assets turn in to stranded assets which can no longer be used for economic benefit in the changing regulatory and market circumstances.

Companies that produce, process, transport, or use fossil fuels in large volumes will certainly be required to consider changing their *business model*. Research has indicated that up to eighty per cent of the world's coal reserves, thirty per cent of known oil reserves and fifty per cent of gas reserves can not be used for energy production anymore if the world is to stay below the goal of a maximum of 2°C of global warming, which does not even address the goal of limiting warming to 1.5°C.<sup>71</sup> Many in this sector put their hopes on projects for CO<sub>2</sub>-storage and CO<sub>2</sub>-removal from the atmosphere, but research shows that many of these types of projects do not lead to concrete greenhouse gas reductions and moreover may have negative consequences for other sustainability aspects.<sup>72</sup>

While the world is still struggling with the challenge to mitigate climate change, the topic of adaptation to climate change also deserves urgent attention. The Sendai Framework for Disaster Risk Reduction 2015-2030, adopted in March 2015, considers climate change as one of the drivers of disaster risk. Investing in disaster reduction for economic, social, cultural, and environmental resilience of persons, communities and countries and the environment, is one of the four top priorities. "Such measures are cost effective and instrumental to save lives and prevent and reduce losses", the United Nations report argues.<sup>73</sup>

To be able to adapt to the consequences of climate change, large scale investments are required, particularly in developing countries.<sup>74</sup> At the COP15 negotiations in Copenhagen in 2009, developed countries set a goal of mobilizing USD 100 billion in climate finance towards developing countries by 2020. This commitment was reiterated in the Paris Agreement in 2015 and collective mobilisation of climate finance from developed countries has increased to USD 71 billion in 2017.<sup>75</sup> However, in 2018 Oxfam International estimated that net climate-specific assistance is likely to be much lower, and that assistance for climate adaptation, as well as to Least Developed Countries (LDC), remains too low.<sup>76</sup> Nor is it clear that financial goals set in earlier agreements will not be sufficient to close the climate finance gap.<sup>77</sup> It will be vital to negotiate a finance package that recognises the true scale of the climate change challenge, while remaining responsive to the needs and specific circumstances in given countries. For example, for sub-Saharan Africa alone by 2050 an additional USD 60 billion is needed per annum for a 2°C-consistent international agreement on finance for climate change adaptation.<sup>78</sup> To win the battle against climate change, the most CO<sub>2</sub>-intensive industries - energy, construction, food, heavy industry and transport - have to change structurally.<sup>79</sup>

According to conservative estimations by Eurodad and other civil society organizations (CSOs), developing countries' climate finance needs are thought to be between USD 27 and USD 66 billion per year by 2030 for adaptation and USD 177 billion per year for mitigation. Global civil society organizations call upon financial institutions to play a major role in financing climate adaptation.<sup>80</sup>

The issue of climate change is central to the Sustainable Development Goals (SDGs). Climate change is dealt with in SDG: 13 Climate Action and includes targets such as strengthening capacity towards climate related hazards, integrating climate change in policies, strategies, and planning.<sup>81</sup> Climate change is also reflected in other SDGs such as SDG 11: Sustainable Cities and Communities, which includes a target to reduce per capita adverse environmental impact of cities by 2030. It also includes making cities resource efficient and mitigating and adapting to climate change.<sup>82</sup> SDG 2: Zero Hunger includes a target to ensure sustainable food production systems that helps maintain ecosystems, that strengthens capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improves land and soil quality.<sup>83</sup> Similarly, one of the targets of SDG: 3 Good Health and Well-being is to reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination.<sup>84</sup>

Integrating climate change in financial decision making has evolved from being seen as part of 'extra-financial criteria' or ESG-criteria to a potential major financial risk threatening the business models of companies, and financial stability in general. In 2015, the Financial Stability Board (FSB) created an industry-led Task Force on Climate-Related Financial Disclosures (TCFD) to identify which financial assets will lose value due to climate related risks and to "develop voluntary, consistent climate-related financial disclosures for use by companies in providing information to lenders, insurers, investors and other stakeholders".<sup>85</sup> In June 2017 the TCFD published its Recommendations of the Task Force on Climate-related Financial Disclosures.<sup>86</sup>



The United Nations Environment Programme (UNEP) has initiated an Inquiry into the Design of a Sustainable Financial System (UNEP Inquiry) and published its final report in October 2015. It presents policy options to deliver a step change in the financial system's effectiveness in mobilizing capital towards a green and inclusive economy that also addresses climate change risks.<sup>87</sup>

For financial institutions, the challenge is to deal with climate change risks in a proactive way, by measuring and reporting the carbon footprint of their financial portfolios and presenting strategies to make their portfolio's consistent with the internationally agreed 2°C limit of global temperature increase and preferably also with a 1.5°C scenario. This also requires having a strategy for the transition to a low-carbon economy, including the switch from using fossil fuel to renewable energy sources. Besides encouraging companies in which they invest to measure, disclose and reduce emissions, financial institutions should also phase-out investments in and financing of activities with unacceptably high GHG emissions. Furthermore an investment and finance policy regarding climate change should include criteria on compensation, adaptation and lobbying against governmental climate change regulation.

When developing policies in this respect, financial institutions can make use of the international standards described below.

### 2.2.2 International standards and initiatives

The main international standards on climate change are summarised per topic, followed by the assessment elements that are formulated by the FFGI as a result:

- **Setting measurable reduction objectives**

The climate problem is global by nature and therefore requires an internationally coordinated set of answers. The world community has worked on this since the 1990s through several international conventions on climate change:

- The 1992 [UN Framework Convention on Climate Change \(UNFCCC\)](#) formulates global objectives and principles and asks all member states to annually report their emission of greenhouse gases. Virtually all countries in the world take part in the UNFCCC, including the United States.
- The 1997 [Kyoto Protocol](#) is based on the principles and objectives of the UNFCCC and establishes objectives and timelines for industrialised countries to limit their emissions. On average, the Kyoto Protocol demands an emission reduction (during the period 2008-2012) of 5.2% of the greenhouse gases in comparison to the level of 1990. Because of differences in levels of economic and social development, not all countries are expected to contribute to the same extent to this goal. Hence, Nationally Determined Contributions (NDCs) are agreed for all signatories of the protocol.
- The 2015 [Paris Agreement](#) is considered historic, since it brings 195 nations together in their aim to keep global temperature rise below 2°C, and preferably below 1,5°C, in 2100. The Paris Agreement also noted that the estimated aggregate greenhouse gas emission levels in 2025 and 2030 resulting from the intended Nationally Determined Contribution (NDC) plans of individual countries do not fall within 2°C scenarios. The Paris Agreement therefore requires signatory countries therefore to submit updated NDCs every five years that are no less ambitious than existing ones.

Although the Kyoto Protocol was a first step in reducing global emissions of greenhouse gases, scientists argued that the established reduction objectives were far too low to halt climate change, let alone undo it. To even limit the global temperature increase to 2 to 2.4°C - which

will in any way lead to drastic social, economic, and environmental problems - according to the IPCC, the annual global emission of greenhouse gases should be 40% to 70% lower in 2050 than in the year 2010, on average.<sup>88</sup>

Of specific importance for the financial sector is that the Paris Agreement, in Article 2, point 1, bullet c, states that it aims to strengthen the global response to climate change by, inter alia: “Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development”.<sup>89</sup>

The [Climate Action 100+](#) initiative was launched in 2017 and is an investor initiative that seeks to pressure the 100 largest corporate GHG emitters – accounting for two-thirds of annual global emissions – to take action on climate change.<sup>90</sup> The initiative aims to encourage boards and senior management of major corporate GHG emitters to:<sup>91</sup>

- Implement a strong governance framework which clearly articulates the board’s accountability and oversight of climate change risk and opportunities;
- Take action to reduce greenhouse gas emissions across their value chain, consistent with the Paris Agreement’s goal of limiting global average temperature increase to well below 2 degrees Celsius above pre-industrial levels; and
- Provide enhanced corporate disclosure in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

As of January 2020, the [Climate Action 100+ Sign-on Statement](#) has been signed by over 370 investors globally, representing a total of over USD 35 trillion in assets under management.

The [Net-Zero Asset Owner Alliance](#) (AOA) was convened in 2019 by UNEP FI and PRI. It is a network of institutional investors committing to “transitioning their investment portfolios to net-zero GHG emissions by 2050 consistent with a maximum temperature rise of 1.5°C above pre-industrial temperatures, taking into account the best available scientific knowledge including the findings of the IPCC, and regularly reporting on progress, including establishing intermediate targets every five years in line with Paris Agreement Article 4.9”.<sup>92</sup> As of January 2020, it had 12 members with a combined total of USD 4 trillion in assets under management.

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**This leads to assessment elements**

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1	For its own direct and indirect greenhouse gas emissions, the financial institution establishes measurable reduction objectives that are aligned with limiting the maximum global temperature increase of 1.5°C.
2	For its own internal operations, the financial institution is committed to using only renewable energy sources.
5	For large scale project financing, the financial institution makes environmental impact assessments that include data on greenhouse gas emissions and climate risks.
6	For its financed greenhouse gas emissions the financial institution establishes measurable reduction objectives that are aligned with limiting the maximum global temperature increase to 1.5°C.
12	Companies disclose their direct and indirect greenhouse gas emissions.
13	Companies reduce their direct and indirect greenhouse gas emissions.

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- **Measuring and reporting greenhouse gas emissions**

In order to be able to set reduction objectives it is necessary to first measure and report on emissions. Globally, the standards of the [Greenhouse Gas Protocol \(GHG Protocol\)](#) are the most used standards to measure and manage greenhouse gas emissions. Amongst others the GHG Protocol has developed a standard for the emissions of [products](#) and the [corporate value chain](#). The GHG Protocol is consistent with the IPCC guidelines for reporting CO<sub>2</sub>-emissions.

The [Carbon Disclosure Project \(CDP\)](#) is a coalition of institutional investors that asks the world's largest companies to release their annual emissions and other information on climate change. The CDP also acts as the Secretariat for the [Climate Disclosure Standards Board \(CDSB\)](#), established at the annual meeting of the World Economic Forum in 2007, as a response to the increased demand for standardised reporting guidelines for financial information related to climate change. Its [Climate Change Reporting Framework](#) was launched in September 2010 and last edited in 2012.

The [Portfolio Decarbonisation Coalition \(PDC\)](#), by the UNEP, CDP and the UNEP Finance Initiative, also strives to encourage financial markets to drive economic decarbonisation.

The [Montréal Carbon Pledge](#), launched in September 2014, commits investors to measure and publicly disclose the carbon footprint of their investment portfolios on an annual basis.

The [Asset Owners Disclosure Project \(AODP\)](#) encourages asset managers, insurance groups and pension funds to be transparent about the CO<sub>2</sub>-emissions and identifying climate change risks concerning their portfolios. The AODP will publish rankings on asset managers, insurance groups and pension funds in 2018. The methodology is "fully aligned to the TCFD recommendations for the sector".<sup>93</sup>

In 2017 the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD) published its [recommendations](#) for financial institutions and companies.<sup>94</sup> The recommendations provide a consistent categorization of the financial impacts of climate-related risks and opportunities. The Task Force has also issued a [guidance for the implementation of the recommendations](#), which include sector specific recommendations for the financial sector, as well as other sectors.<sup>95</sup>

The TCFD includes four "widely adoptable recommendations tied to:

- Governance: Disclose the organization's governance around climate-related risks and opportunities;
- Strategy: Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material;
- Risk management: Disclose how the organization identifies, assesses, and manages climate-related risks; and
- Metrics and targets: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material."<sup>96</sup>

The TCFD expects companies and financial institutions to disclose direct and indirect emissions and the related risks. In addition, banks "should describe significant concentrations of credit exposure to carbon-related assets. Additionally, banks should consider disclosing their climate-related risks (transition and physical) in their lending and other financial intermediary business activities".<sup>97</sup>

The recommendations of the TCFD have seen significant take-up from public as well as private organisations. In 2018, the UN Environment Programme Finance Initiative (UNEP FI) convened 16 banks to pilot the implementation of the TCFD recommendations and published a [report and guidance](#) for understanding and managing climate related risks and opportunities.

The European Commission published its own [Guidelines on reporting climate-related information](#) in 2019, as part of the EU 2030 Climate & Energy Framework.<sup>98</sup> These guidelines integrate the recommendations of the TCFD with the EU’s guidance and policy on non-financial disclosure.

Some financial institutions have developed initiatives to standardise and encourage the measurement of carbon footprints by banks and investors. The Dutch [Platform Carbon Accounting Financials \(PCAF\)](#) published its [methodology for carbon accounting](#) of mortgages, listed equity, project finance, commercial real estate, corporate debt, corporate loans (including SMEs) and government bonds in 2017.<sup>99</sup>

The [2degrees Investing Initiative](#) launched the [Paris Agreement Climate Transition Assessment \(PACTA\)](#) project in 2018. The PACTA methodology allows financial institutions to assess exposure to climate risks in their financing and enables them to compare their portfolios to the requirements of science-based transition pathways that are in line with a 2°C rise in global temperatures.

The [Science Based Targets \(SBT\)](#) initiative is a collaboration between CDP, the United Nations Global Compact (UNGC), World Resources Institute (WRI), and the World Wide Fund for Nature (WWF). The initiative enables companies to develop emissions targets in line with the most recent scientific insights. Companies can submit a target for validation to SBT, which is then tested against what climate science indicates is required to keep global temperature increase below 1.5 or 2°C.

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**This leads to assessment elements**

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3	For its financed greenhouse gas emissions, i.e. the emissions of the companies in which the financial institution invests, the financial institution discloses its share of the emissions of a selection of companies and/or a specific sector it invests in.
4	For its financed greenhouse gas emissions, the financial institution discloses its share of all the companies and projects it invests in.
5	For large scale project financing, the financial institution makes environmental impact assessments that include data on greenhouse gas emissions and climate risks.
7	The financial institution measures and discloses climate-related impacts in line with the recommendations by the Task Force on Climate-related Financial Disclosures.
12	Companies disclose their direct and indirect greenhouse gas emissions.

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- **Transition to a low-carbon economy**

The third working group that contributed to the IPCC’s [Fifth Assessment Report](#), published in 2014, focused on mitigating climate change, and showed that the world must significantly reduce its reliance on fossil fuels in the coming decades, thus transitioning to a low-carbon economy. The IPCC projected that over the next two decades (2010 to 2029), annual investment in conventional fossil fuel technologies for electricity supply sector would decline, with a median projected rate of decline being around 20%. At the same time, annual investment in low-carbon electricity supply (including renewable energy, nuclear power and electricity generation with carbon capture and storage) is projected to rise by 100% compared to 2010 on

the same median basis.<sup>100</sup>

There are various initiatives within the corporate world and the financial industry to make agreements and to exchange experiences on stimulating the transition to a low-carbon economy:

- The [Ceres Investor Network on Climate Risk \(INCR\)](#);
- the [Institutional Investors Group on Climate Change \(IIGCC\)](#); and
- the [Global Business Leadership Platform on Climate Change](#).

Fossil fuel-fired power generation and especially coal-fired power generation, causes high carbon emissions. According to the [Institute for New Economic Thinking of Oxford School](#) the carbon reduction goal of the [Paris Agreement](#) can only be met by complete decarbonisation of the electricity sector: "even under the very optimistic assumption that other sectors reduce emissions in line with a 2°C target, no new emitting electricity infrastructure can be built after 2017 for this target to be met, unless other electricity infrastructure is retired early or retrofitted with CCS".<sup>101</sup>

Similarly, in its 2018 [Special Report](#) the IPCC emphasizes that even though limiting global warming to 1.5°C is technically feasible, all of the modelled emission pathways consistent with such a target require rapid decarbonisation of the global energy infrastructure.<sup>102</sup>

The [UN Environment Programme Emissions Gap Report 2019](#) emphasizes that the world is on the brink of missing the opportunity to limit global warming to 1.5°C, and that meeting that target would require global emissions cuts of 7.6% per year on average.<sup>103</sup> A rapid transition of the global energy sector is considered key to meeting these targets and requires at least:<sup>104</sup>

- "Expanding Renewable Energy for electrification;
- Phasing out coal for rapid decarbonization of the energy system;
- Decarbonizing transport with a focus on electric mobility;
- Decarbonizing energy-intensive industry; and
- Avoiding future emissions while improving energy access."

This is in line with earlier iterations of the Emissions Gap Report, which in 2017 had asserted that "between 80 and 90% of coal reserves worldwide will need to remain in the ground, if climate targets are to be reached. This compares with approximately 35% for oil reserves and 50% for gas reserves".<sup>105</sup>

The [World Energy Outlook 2019](#) of the International Energy Agency charts a possible scenario which would be in line with the target of keeping global temperature increases well below 2°C. While the scenario would be fully aligned with the goals outlined in the Paris Agreement, the report stresses that it requires "rapid and widespread changes across all parts of the energy system", and that "the breadth of the world's energy needs means that there are no simple or single solutions. Sharp cuts are achieved across the board thanks to multiple fuels and technologies providing efficient and cost-effective energy services for all".<sup>106</sup>

[Oil Change International](#) and a coalition of CSOs argued in 2016 that "the reserves in currently operating oil and gas fields alone, even with no coal, would take the world beyond 1.5°C". The organisations therefore recommend that:

- "No new fossil fuel extraction or transportation infrastructure should be built, and governments should grant no new permits for them.

- Some fields and mines – primarily in rich countries – should be closed before fully exploiting their resources, and financial support should be provided for non-carbon development in poorer countries.
- This does not mean stopping using all fossil fuels overnight. Governments and companies should conduct a managed decline of the fossil fuel industry and ensure a just transition for the workers and communities that depend on it”.<sup>107</sup>

In 2017, Urgewald and partners published the [Coal Exit Database](#), which “provides key statistics on over 770 companies whose activities range from coal exploration and mining, coal trading and transport, to coal power generation and the manufacturing of coal plants”,<sup>108</sup> because “investments in new coal power capacity are incompatible with the Paris climate goals as each new coal plant locks-in high CO2 emissions for decades to come”.<sup>109</sup>

WWF published an [Asset Owner Guide to Oil & Gas Producers](#) in 2019, outlining the growing financial risks of continued investment in the oil and gas industries, as well as providing recommendations for asset owners seeking to align their portfolio with the Paris agreement.

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**This leads to assessment elements**

14	Companies switch from using fossil fuels to using renewable energy sources.
15	Unabated coal-fired power generation (i.e. without operational carbon capture and storage) is unacceptable.
16	Coal-fired power generation is unacceptable.
17	Fossil fuel-fired power generation is unacceptable.
18	Thermal coal mining is unacceptable.
19	Extracting oil from tar sands is unacceptable.
20	Extracting oil and gas is unacceptable.

Shifting towards a low-carbon economy requires moving away from economic activities with high GHG emissions to low emission generating activities. From this perspective, activities such as extracting fossil fuels and using them for power generation are considered unacceptable (even if they would have operational carbon capture and storage technology). An investment and finance policy that makes such statements is more credible if it is not followed by all kinds of exceptions and thresholds.

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**This leads to assessment elements**

8	The financial institution does not finance, or invest in, companies which are active in coal-fired power generation and/or coal mining for more than 30% of their activities .
9	The financial institution does not finance, or invest in, companies which are active in fossil fuel-fired power generation and/or extraction of oil and gas for more than 30% of their activities.
10	The financial institution does not finance, or invest in, companies which are active in coal-fired power generation and/or coal mining for more than 0% of their activities.
11	The financial institution does not finance, or invest in, companies which are active in fossil fuel-fired power generation and/or extraction of oil and gas for more than 0% of their activities.

- **Biomass for energy generation**

Whether biofuels could be helpful in reducing greenhouse gas reduction emissions ultimately depends on the conditions under which the biomass used for biofuel production is grown. As such, biomass crops are typically grown on agricultural land that was already used for growing food or feed. Agricultural production is consequently displaced to other areas, leading to conversion of forests or natural grasslands to agricultural lands elsewhere.

This process is called Indirect Land Use Change (ILUC). ILUC is crucially important for assessing the sustainability impacts of the expansion of growing crops for biofuels. ILUC especially concerns first generation biofuels, as second- or third generation biofuels can also be made from waste of feedstock used for food or feed, and hence do not directly require cropland. Because of the ILUC problem, no real positive climate impact can be achieved through first-generation biofuels.<sup>110</sup>

The [Roundtable on Sustainable Biomaterials \(RSB\)](#) offers [Global Standards](#) that apply to any type of bio-based feedstock worldwide and [EU-RED Standards](#) that apply to feedstock entering the EU market and comply with the [EU Renewable Energy Directive \(RED\)](#) regarding land-use and GHG criteria.<sup>111</sup> The global RSB Principles are:<sup>112</sup>

1. Biofuel operations shall follow all applicable laws and regulations.
2. Sustainable biofuel operations shall be planned, implemented, and continuously improved through an open, transparent, and consultative impact assessment and management process and an economic viability analysis.
3. Biofuels shall contribute to climate change mitigation by significantly reducing lifecycle GHG emissions as compared to fossil fuels.
4. Biofuel operations shall not violate human rights or labour rights, and shall promote decent work and the well-being of workers.
5. In regions of poverty, biofuel operations shall contribute to the social and economic development of local, rural and indigenous people and communities.
6. Biofuel operations shall ensure the human right to adequate food and improve food security in food insecure regions.
7. Biofuel operations shall avoid negative impacts on biodiversity, ecosystems, and conservation values.
8. Biofuel operations shall implement practices that seek to reverse soil degradation and/or maintain soil health.
9. Biofuel operations shall maintain or enhance the quality and quantity of surface and ground water resources, and respect prior formal or customary water rights.
10. Air pollution from biofuel operations shall be minimized along the supply chain.
11. The use of technologies in biofuel operations shall seek to maximize production efficiency and social and environmental performance, and minimize the risk of damages to the environment and people.
12. Biofuel operations shall respect land rights and land use rights.

The RSB standards are accompanied by a set of guidelines such as the RSB-Impact Assessment Guidelines and the RSB-Screening Tool.<sup>113</sup>

The European Parliament intends to reduce the CO<sub>2</sub> emissions of the cultivation for biofuels. For instance, by 2020 the EU aims to have 10% of the transport fuel of every EU country coming from renewable sources such as biofuels. Fuel suppliers are also required to reduce the greenhouse gas intensity of the EU fuel mix by 6% by 2020 in comparison to 2010.<sup>114</sup> Moreover, [Directive EU 2015/1513](#) and the revised 2018 [Renewable Energy Directive \(RED\)](#) have introduced measures to reduce the risk of ILUC, including phasing out the use of unsustainable palm oil as a basis for biofuels.

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**This leads to assessment element**

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22	The production of biomass for energy generation complies with the 12 principles of the Roundtable on Sustainable Biomaterials (RSB).
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- **CO<sub>2</sub>-compensation**

CO<sub>2</sub>-compensation is a mechanism developed to compensate the CO<sub>2</sub> emissions caused by certain economic activities by investing in other activities which would reduce global CO<sub>2</sub> emissions. Investments in tree planting and crops are most popular in this respect (since plants sequester carbon), but investments in energy saving measures or in renewable energy can serve the same purpose.

Some companies make CO<sub>2</sub>-compensating investments themselves, to compensate for some CO<sub>2</sub> emissions made during their production processes. Other companies, such as airlines, for example offer their customers the option to voluntarily pay more for their services, thereby promising to use the extra income for CO<sub>2</sub>-compensation. Many airlines have their own CO<sub>2</sub>-compensation price calculation for a *green* seat. The amount of CO<sub>2</sub>-emissions is often wrongly estimated, and not all the greenhouse gases that are emitted during flights are mentioned.<sup>115</sup>

To guarantee the accuracy and quality of CO<sub>2</sub>-compensation efforts, a number of independent certification schemes has been developed:

- The [Gold Standard](#) for CO<sub>2</sub>-compensating investments - developed by WWF - identifies investments that contribute to sustainable development. The Gold Standard contains strict criteria for certification. These criteria are maintained by means of monitoring, reporting and processes of verification.
- The [Fairtrade Climate Standard](#) is the result of a strategic partnership between Gold Standard and Fairtrade International. Its Fairtrade Carbon Credits are in essence Gold Standard verified emissions reductions (VERs) generated by producer organisations that meet Fairtrade eligibility criteria and achieve a Fairtrade minimum price and premium in the market. The Fairtrade Minimum Price ensures producers receive prices that cover the average cost of setting up a sustainable carbon project. It is calculated according to the project type and related costs and is the starting point for price negotiations between the producer and/or the Facilitator with the Fairtrade buyer. The selling price may differ from the minimum price, depending on how much a buyer is willing to pay at the end of the value chain.<sup>116</sup>
- The [Verified Carbon Standard \(VCS\)](#) is voluntary standard for CO<sub>2</sub>-compensation, developed and administered by the non-profit organization Verra. In order to guarantee the adequacy of a CO<sub>2</sub>-compensation programme, projects are required to adhere to a set of rules and requirements and are subject to audits by independent third-party experts and Verra staff. The VCS programme can be combined with the [Climate, Community and Biodiversity Standards](#), which includes additional requirements and monitoring of the ecological and social aspects of CO<sub>2</sub>-compensation projects.



- The [Plan Vivo Standard](#) is another certification framework for CO<sub>2</sub>-compensation, focused on community land use and forestry projects. The standard puts strong emphasis on improving the livelihoods of the participants of compensation projects as well as local ecosystems.

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**This leads to assessment element**

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23	CO <sub>2</sub> -compensation is certified according to the criteria of relevant certification schemes for CO <sub>2</sub> compensation (mentioned in section 2.2.2).
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- **Lobbying practices**

To achieve the reduction targets for GHG emissions agreed in the Kyoto Protocol, the European Union has for a long time tried to reduce the emission of certain industries consuming high volumes of fossil fuels, by creating the Emissions Trading System (ETS). Under the ETS, companies receive an amount of “carbon credits”, corresponding to their present GHG emission levels. These carbon credits can be traded with other companies, for instance in case other company has expansion plans. This mechanism should make increasing GHG emissions more expensive for companies, while simultaneously making investments in clean energy and energy saving measures and technologies more profitable – as the excess carbon credits could then be sold. Once this mechanism would work properly, the European Union would be able to stimulate further reductions by taking carbon credits out of the market.

In practice ETS has never worked properly, also because various companies (such as steel company Arcelor Mittal) have successfully lobbied against European intervention in the emissions market. Arcelor Mittal’s top executive wrote a letter to the European Commission in 2006, in which he threatened to close down its factories if the Commission would put restrictions on the issuing of carbon credits.<sup>117</sup>

Similar lobbying efforts were undertaken by the European steel and chemical industries’ branch organizations. In 2013 they wrote a letter to the European Parliament, stating that the emission market should not be changed as this would only increase the costs and aggravate the competition between the industries in Europe.<sup>118</sup> The Parliament then voted for a proposal, in which the plans had been diluted, as late as July 2013. In October 2014, the Indian-owned Dutch steel company Tata Steel wrote a letter to the Dutch government, urging it to consider the competitive position of the company, as well as its role as employer, in the discussions with the European Commission about European climate and energy policy.

In 2012 Sandbag published a report with an overview of Belgian companies that benefit from the *loopholes* in Europe’s Emissions Trading System (ETS). According to Sandbag these are all companies that (through their branch organisations) actively lobby against improving the climate policy.<sup>119</sup>

In 2016 [Influence Map published a report](#) estimating five oil and gas companies and trade associations “spent almost USD 115 million per year combined on obstructive climate influencing activities”.<sup>120</sup>

In its official [Guidelines for Multinational Enterprises](#), the OECD recommends that “in general, enterprises avoid making efforts to secure exemptions not contemplated in the statutory or regulatory framework related to human rights, environmental, health, safety, labour, taxation, and financial incentives among other issues, without infringing on an enterprise’s right to seek changes in the statutory or regulatory framework”.<sup>121</sup>

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**This leads to assessment element**

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24	Companies do not participate in lobbying (attempting to influence decisions made by regulators) aimed at weakening climate policies.
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- **Procurement and supply chains**

Companies are often part of long procurement and supply chains. This offers companies that are linked together in these chains the opportunity to monitor one another and to question how their trading partners respect local and national legislation and international norms on climate change. The requirements that companies set for their suppliers can be included in contractual agreements.

The importance of this also recognised in the [OECD Guidelines for Multinational Enterprises](#) since its revision in 2011. The [OECD Due Diligence Guidance for Responsible Business Conduct](#) provides practical support to companies on the implementation of the OECD Guidelines for Multinational Enterprises by providing plain language explanations of its due diligence recommendations. Implementing these recommendations can help companies avoid and address adverse impacts that may be associated with their operations, supply chains and other business relationships.

Also [ISO 26000:2010 Guidance on social responsibility](#) recognises the importance of supply chain responsibility, because “the impacts of an organization's decisions or activities can be greatly affected by its relationships with other organizations”.<sup>122</sup> A company's sphere of influence includes relationships within and beyond an organization's supply chain. Moreover, [ISO 26000:2010 Guidance on social responsibility](#) recommends setting contractual provisions or incentives as a means of exercising influence.<sup>123</sup>

In addition, [ISO 20400:2017 Sustainable procurement – Guidance](#) provides guidelines for organizations, independent of their activity or size, on integrating sustainability within procurement, as described in [ISO 26000:2010 Guidance on social responsibility](#). This procurement guideline is intended for stakeholders involved in, or impacted by, procurement decisions and processes.

The [Climate Action 100+](#) investor initiative seeks to encourage companies to “take action to reduce greenhouse gas emissions across their value chain, consistent with the Paris Agreement's goal of limiting global average temperature increase to well below 2 degrees Celsius above pre-industrial levels”.<sup>124</sup>

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**This leads to assessment elements**

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25	Companies integrate climate change criteria in their procurement and operational policies.
26	Companies include clauses on the compliance with criteria on climate change in their contracts with subcontractors and suppliers.

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### 2.2.3 Assessment elements

Investments that take place today determine the CO<sub>2</sub>-intensity of all future activities. Therefore, it is crucial that strict reduction objectives are set now and companies are stimulated to emit less CO<sub>2</sub>. Being important financiers of energy projects, financial institutions can play a leading role in shifting investments to a less CO<sub>2</sub>-intensive economy. Hereby, financial institutions should apply CO<sub>2</sub>-avoiding standards in line with the UN-objectives, in order to limit global warming.

The following elements are crucial for a policy regarding the financial institution's internal operations:

1. For its own direct and indirect greenhouse gas emissions, the financial institution establishes measurable reduction objectives that is aligned with limiting the maximum global temperature increase of 1.5°C.
2. For its own internal operations, the financial institution is committed to using only renewable energy sources.

The following elements are crucial for a policy regarding the financial institution's management of its portfolio of corporate loans and investments:

3. For its financed greenhouse gas emissions, i.e. the emissions of the companies in which the financial institution invests, the financial institution discloses its share of the emissions of a selection of companies and/or a specific sector it invests in.
4. For its financed greenhouse gas emissions, the financial institution discloses its share of the emissions of all the companies and projects it invests in.
5. For large scale project financing, the financial institution makes environmental impact assessments that include data on greenhouse gas emissions and climate risks.
6. For its financed greenhouse gas emissions the financial institution establishes measurable reduction objectives that are aligned with limiting the maximum global temperature increase to 1.5°C.
7. The financial institution measures and discloses climate-related impacts in line with the recommendations by the Task Force on Climate-related Financial Disclosures.
8. The financial institution does not finance, or invest in, companies which are active in coal-fired power generation and/or thermal coal mining for more than 30% of their activities.
9. The financial institution does not finance, or invest in, companies which are active in fossil fuel-fired power generation and/or extraction of oil and gas for more than 30% of their activities.
10. The financial institution does not finance, or invest in, companies which are active in coal-fired power generation and/or thermal coal mining for more than 0% of their activities.
11. The financial institution does not finance, or invest in, companies which are active in fossil fuel-fired power generation and/or extraction of oil and gas for more than 0% of their activities.

The following elements are crucial for a policy regarding the companies a financial institution invests in or finances:

12. Companies disclose their direct and indirect greenhouse gas emissions.
13. Companies reduce their direct and indirect greenhouse gas emissions.
14. Companies switch from using fossil fuels to using renewable energy sources.
15. Unabated coal-fired power generation (i.e. without operational carbon capture and storage) is unacceptable.
16. Coal-fired power generation is unacceptable.
17. Fossil fuel-fired power generation is unacceptable.
18. Thermal coal mining is unacceptable.
19. Extracting oil from tar sands is unacceptable.
20. Extracting oil and gas is unacceptable.
21. Conversion of peatland and high-carbon stocks for agricultural development is unacceptable.
22. The production of biomass for energy generation complies with the 12 principles of the Roundtable on Sustainable Biomaterials (RSB).
23. CO<sub>2</sub>-compensation is certified according to the criteria of relevant certification schemes for CO<sub>2</sub>-compensation (mentioned in section 2.2.2).

24. Companies do not participate in lobbying (attempting to influence decisions made by regulators) aimed at weakening climate policy.
25. Companies integrate climate change criteria in their procurement and operational policies.
26. Companies include clauses on the compliance with criteria on climate change in their contracts with subcontractors and suppliers.

## 2.3 Corruption

### 2.3.1 What is at stake?

Corruption has significant negative political, social and environmental consequences. Politically, corruption forms a large obstacle to developing the rule of law. Government representatives lose their legitimacy when many abuse their office for personal gain. Bribery and corruption undermine the trust of the people in the political system, which leads to frustration and apathy. It clears the way for leaders, whether chosen democratically or not, to appropriate national assets for themselves without supervision. And if corruption is the norm, honest and capable civilians will leave the country.<sup>125</sup>

The Transparency International (TI) Corruption Perceptions Index shows that corruption mainly occurs in poorer countries.<sup>126</sup> In many countries, the tax system suffers from corrupt practices. Corruption lowers tax revenues and limits the possibilities of governments to meet their obligations.<sup>127</sup>

Corruption also has negative economic consequences. It leads to capital flight and to expenditure of scarce public funds on unprofitable prestige projects, instead of necessary investments in vital infrastructure and services like schools, hospitals or drinking water supplies. It also hinders the development of markets and disturbs free competition. In addition, corruption leads to large scale plundering of natural resources, such as wood, gemstones and minerals. Large scale, strongly polluting projects are given free rein in a climate of corruption, often leading to public money ending up in private hands.<sup>128</sup>

However, corruption is not limited to poorer countries only. In the Netherlands, the Dutch National Bank (DNB) investigated corruption risks at Dutch banks and insurers in 2014. The DNB found that corruption risks, both connected to internal operations as to clients and investee companies, are sufficiently identified, but are not adequately taken care of.<sup>129</sup>

Lobbying practices can have similar effects as corruption. Although lobbying as such cannot be regarded as corruption per se, sometimes lobbyists will go so far in striving to influence legislators and regulators, for instance by treating them to sponsored conferences or other events, that it can almost be considered corruption. The influence of the corporate world on the development of international norms is often large and is an important reason for lagging legislative progress.<sup>130</sup>

Policy measures to prevent corruption are often stronger than those to avoid unwanted lobbying practices. On the one hand, public institutions have formulated clear rules for their employees to which they must comply in order to prevent bribery and unwanted influence of particular interests in public activities. On the other hand, the participation of social and commercial organisations in the decision-making process is far from transparent. Canada, the United States (USA) and the European Union (EU) have over time adopted measures to improve the transparency of lobbying practices. Canada and the United States have for instance created mandatory registers for organisations wishing to participate in decision-making processes. In the EU, a voluntary register has been created.

Corruption is covered by Sustainable Development Goal (SDG) 16: Peace, Justice and Strong Institutions. One of the targets of this goal is to substantially reduce corruption and bribery in all their forms. Another target is to develop effective, accountable and transparent institutions at all levels, which also underpins the importance of corruption-free institutions.<sup>131</sup> Further, SDG 10: Reduced Inequalities is based on the premises of reducing corruption for increasing equality amongst people and countries.<sup>132</sup> SDG 1: No Poverty indirectly targets the reduction of corruption to completely eradicate poverty.<sup>133</sup>

Money laundering is the practice of making illegally gained sums and flows of money appear legal, and of a wide variety of strategies to conceal the true source of the money. This is obviously problematic since it enables individuals and organizations that have not obtained their money through legal means to participate in the wider economy through regular channels.

One can expect from responsibly operating financial institutions that they do not deliberately assist clients in money laundering and paying or receiving bribes, and that they do not accept or pay bribes themselves. Moreover, financial institutions have the responsibility to only grant financial services to companies that do not engage in corruption and negatively influencing the development of international norms. When developing policies on corruption, financial institutions can make use of the international standards described below.

### 2.3.2 International standards

The main international standards on corruption are summarised per topic, followed by the assessment elements that are formulated by the FFGI as a result:

- **Anti-money laundering and beneficial ownership**

The international standard in the field of money laundering is set by the [Financial Action Task Force \(FATF\)](#), a working group established by the OECD in 1989. The FATF comprises 37 members, mostly governments of OECD-member states. The FATF aims to promote the successful implementation of legal, regulatory and operational procedures for combating money laundering, the financing of terrorists and other associated threats to the integrity of the international financial system.

The FATF has developed a set of [Forty Recommendations](#) that are considered to be the international standards for the combating of money laundering. These recommendations offer guidelines and tools to governments and financial institutions to fight money laundering and criminal earnings at all levels. The recommendations were first published in 1990 and the latest update stems from June 2019. The FATF has also published several Interpretative Notes, which provide guidance on the application of the guidelines in practice.

Recommendation 12 deals with *Politically Exposed Persons (PEPs)* and their relatives. When dealing with PEPs, financial institutions are required to have enhanced due diligence and risk-management systems in place.

The [Forty Recommendations](#) have been adopted by numerous international institutions, such as the World Bank and the International Monetary Fund (IMF), as well the governments of many countries. In May 2015, the European Union included the latest edition of the Forty Recommendations in the [Fourth AMLD \(EU Directive 2015/849\)](#).

In December 2014 the European Parliament and Council agreed on listing the ultimate owners of companies on central public registers. In May 2018 the EU's [Fifth Anti-Money Laundering Directive \(AMLD\)](#) was adopted, further strengthening the measures laid out in the earlier EU anti-money laundering directives. Any company and trust registered in an EU member state is now required to provide information about its "beneficial owner" including: name, month and year of birth, nationality, country of residence and as well as the nature and extent of the beneficial interest held.

In a [2011 report](#) the World Bank's [Stolen Asset Recovery Initiative](#) developed a guidance on how to prevent corruption via the hiding of stolen assets. The report examines the links between large-scale corruption by high-level public officials and the concealment of stolen assets through opaque shell companies, foundations, and trusts. The initiative urges all financial institutions to collect beneficial ownership information about the company and continue to monitor whether this information is accurate.<sup>134</sup>

The [Wolfsberg Group](#), a group of 11 international banks that undertake many activities in the field of *private banking* (banking for rich private clients), published a revised edition of the [Wolfsberg Anti-Money Laundering Principles on Private Banking](#) in May 2012. In these principles, the Forty Recommendations are further elaborated on asset management and private banking. In addition, the Wolfsberg Group has also published various other principles in the field of money laundering, financing of terrorism and corruption.

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#### **This leads to assessment elements**

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2	The financial institution has an anti-money laundering policy.
3	The financial institution has a policy to prevent terrorist financing and financing of proliferation.
4	The financial institution properly verifies the ultimate beneficial owner(s) of a company.
7	Companies publicly disclose their ultimate beneficial owner or owners including full name, date of birth, nationality, jurisdiction of residence, number and categories of shares, and if applicable the proportion of shareholding or control.

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- **Corruption and bribery**

The 2004 [UN Convention against Corruption \(UNCAC\)](#) contains minimum standards in order to prevent corruption as well as money laundering. It explains what states would have to do to prevent, and bring to trial, corruption and money laundering and provides recommendations on international cooperation and recovery of capital. As of November 2019, the convention has been signed by 140 nations.<sup>135</sup> In 2011, these nations agreed to establish a [Mechanism for the Review of Implementation of the UNCAC](#).

The main international standard with respect to fighting international corruption is the [OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions](#), which came into force in February 1999. The convention obliges countries to make paying bribes to foreign public officials a criminal offence. As of November 2019, all OECD member countries and eight other countries have ratified the convention, which obliges them to implement this convention in their national legislation.<sup>136</sup>

The 2011 [OECD Guidelines for Multinational Enterprises](#) state: "Enterprises should not, directly or indirectly, offer, promise, give, or demand a bribe or other undue advantage to obtain or retain business or other improper advantage." This is further elaborated in seven detailed guidelines.

In 2013 Transparency International published the [Business Principles for Countering Bribery](#), a framework that can help companies to draft an effective anti-corruption policy. The report stresses the importance of implementing principles and policies in anti-bribery programmes. Although a lot of large companies have an anti-corruption policy, the implementation often leaves much to be desired and in practice bribes are still regularly being paid.<sup>137</sup> In addition, Transparency International published an edition of the business principles specifically for [small and medium enterprises \(SMEs\)](#). To help companies with the implementation of their anti-corruption policy, TI provides the [Corruption Fighters' Tool Kit](#).

The 2017 [Wolfsberg Anti-Bribery and Corruption Guidance](#), a revised, extended and renamed version of the Wolfsberg Statement against Corruption, includes measures with which financial institutions can prevent corruption in their own organisation and protect themselves against abuse of their institutions for corruption practices.

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**This leads to assessment elements**

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1	Offering, promising, giving and requiring, either directly or indirectly, bribes and other undue advantages in order to acquire and to maintain assignments and other undue advantages, is unacceptable.
8	Offering, promising, giving and requiring, either directly or indirectly, bribes and other undue advantages in order to acquire and to maintain assignments and other undue advantages, is unacceptable.
9	Companies have a management system which results in immediate actions if suspicions arise that employees or suppliers are guilty of corruption.

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- **Lobbying practices**

Non-transparent lobbying practices can have similar effects as corruption. Various national and regional initiatives try to provide insight into the interests of organisations within legislation processes. The European Commission has drafted a voluntary register for interest representatives in 2008 within the framework of the [European Transparency Initiative](#). It aims to inform the public which general or specific interests groups influence the decision-making process of the European institutions and what budget they have. Organisations that register can make clear that they work in a transparent and legitimate way. By registering, they promise to comply with the [Transparency Register Code of Conduct](#). Because the register is voluntary, social organisations call upon the European Commission to adopt the example set by the [United States](#) and [Canada](#) where registration is obliged.

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**This leads to assessment elements**

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6	The financial institution reports on its participation in the decision-making processes of international norms and legislation (lobby practices).
10	Companies report on their participation in the decision-making processes of international norms and legislation (lobby practices).

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- **Procurement and supply chains**

Companies are often part of long procurement and supply chains. They can monitor one another and question how they respect local and national legislation and international norms on tax and corruption. The requirements that companies set for their suppliers can be included in contractual agreements.



The importance of this also recognised in the [OECD Guidelines for Multinational Enterprises](#) since its revision in 2011. The [OECD Due Diligence Guidance for Responsible Business Conduct](#) provides practical support to companies on the implementation of the OECD Guidelines for Multinational Enterprises by providing plain language explanations of its due diligence recommendations. Implementing these recommendations can help companies avoid and address adverse impacts that may be associated with their operations, supply chains and other business relationships.

Also [ISO 26000:2010 Guidance on social responsibility](#) recognises the importance of supply chain responsibility, because “the impacts of an organization's decisions or activities can be greatly affected by its relationships with other organizations”.<sup>138</sup> A company’s sphere of influence includes relationships within and beyond an organization’s supply chain. Moreover, the ISO 26000 Guidance recommends setting contractual provisions or incentives as a means of exercising influence.<sup>139</sup>

In addition, [ISO 20400:2017 Sustainable procurement – Guidance](#) provides guidelines for organizations, independent of their activity or size, on integrating sustainability within procurement practices, as described in ISO 26000:2010 Guidance on social responsibility. It is intended for stakeholders involved in, or impacted by, procurement decisions and processes.

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**This leads to assessment elements**

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11	Companies integrate criteria on corruption in their procurement policies and operational policies.
12	Companies include clauses on the compliance with criteria on corruption in their contracts with subcontractors and suppliers.

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### 2.3.3 Assessment elements

For financial institutions, the issue of corruption is relevant in two ways. Firstly, international financial institutions are multinational corporations themselves and therefore can be expected to have a policy to prevent them from paying or receiving bribes, or becoming involved in any other corruption practice. Secondly, the possible involvement in corruption practices is an issue on which financial institutions should assess all companies they invest in or finance, even if the financial institution does not actively facilitate the corrupt payments made by the company.

The following elements are crucial for a policy regarding the financial institution's internal operations:

1. Offering, promising, giving and requiring, either directly or indirectly, bribes and other undue advantages in order to acquire and to maintain assignments and other undue advantages, is unacceptable.
2. The financial institution has an anti-money laundering policy.
3. The financial institution has a policy to prevent terrorist financing and financing of proliferation.
4. The financial institution properly verifies the ultimate beneficial owner(s) of a company.
5. The financial institution applies additional safeguards when it enters into indirect or direct business relations with Politically Exposed Persons.
6. The financial institution reports on its participation in the decision-making processes of international norms and legislation (lobby practices).

The following elements are crucial for a policy regarding the companies a financial institution invests in or finances:

7. Companies publicly disclose their ultimate beneficial owner or owners including full name, date of birth, nationality, jurisdiction of residence, number and categories of shares, and if applicable the proportion of shareholding or control.
8. Offering, promising, giving and requiring, either directly or indirectly, bribes and other undue advantages in order to acquire and to maintain assignments and other undue advantages, is unacceptable.
9. Companies have a management system which results in immediate actions if suspicions arise that employees or suppliers are guilty of corruption.
10. Companies report on their participation in the decision-making processes of international norms and legislation (lobby practices).
11. Companies integrate criteria on corruption in their procurement policies and operational policies.
12. Companies include clauses on the compliance with criteria on corruption in their contracts with subcontractors and suppliers.

## 2.4 Gender equality

### 2.4.1 What is at stake?

Gender refers to socially constructed identities, attributes and roles for women and men.<sup>140</sup> In short, gender determines what is expected, allowed and valued in a woman or a man in a given context. Gender equality refers to the equal rights, responsibilities and opportunities of women and men.<sup>141</sup> Equality between women and men requires that women's and men's rights, responsibilities and opportunities do not depend on whether they are born male or female.

While gender inequalities also affect men and transgenders and can be applied also at the level of sexual orientation (lesbian, gay, bisexual), this chapter focuses on gender inequalities in relation to women. The gendered construction of women's identities, attributes and roles in society has historically produced an imbalance of power between men and women. To offer some examples:

- Poverty rates are higher for women than for men, particularly when it comes to non-partnered women with children in developed and developing regions and older women in one-person households;<sup>142</sup>
- Women have less access to formal financial systems: in 2017, only 65 per cent of women had an individual or joint payments or savings account at a formal financial institution, compared to 72 per cent of men. This shows a persistent gender gap of 7 percentage points worldwide. In developing economies the gender gap remained at 9 percentage points.<sup>143</sup>
- Legal rights of women remain unequal compared to the rights of men in most countries: a 2019 World Bank's study concluded that while there has been significant progress over the last decade, only in six out of the 187 studied countries women are on a completely equal legal standing.<sup>144</sup>
- Women are less likely to be employed than men and, when they are employed, they are more likely to be paid less than their male colleagues or receive insufficient parental leave;<sup>145</sup>
- Gender-based violence affects at least 35% of women globally, according to 2013 figures by the World Health Organisation (WHO).<sup>146</sup> Moreover, in the majority of countries, less than half of the women who experience violence seek help.<sup>147</sup>
- Women remain a minority among senior managers in the private sector: a 2019 Equileap study of over 3,000 companies found that only 10% had gender-balanced boards and only 6% had gender-balanced executive teams.<sup>148</sup>

Companies can impact the entire range of gender issues and have an enormous impact on people's lives and the communities in which they operate. For example, the fact that one billion women still do not use or have access to the financial system creates difficulties for women in collecting and saving income, makes women more vulnerable to economic and social exclusion and challenges the effective enjoyment of their economic, social and cultural rights.<sup>149</sup> Moreover, the highly visible inequality between women and men in leadership and decision-making positions both in public and private institutions, may infringe the right to equal access to public services and the right to equality and non-discrimination. These situations also serve to illustrate how business activities may create or exacerbate gender inequalities.<sup>150</sup>

The impacts that businesses have on gender equality have largely been documented by civil society organisations (CSOs).<sup>151</sup> The Gender, Business and Human Rights Reference Group for the Office of the High Commissioner on Human Rights (OHCHR) emphasizes that an ostensibly gender-neutral approach to policymaking renders invisible important gender issues, and marginalizes women's experiences.<sup>152</sup> Many CSOs instead suggest adopting a gender mainstreaming approach.<sup>153</sup>

Gender mainstreaming refers to the process of assessing the implications for women and men of any planned action, including legislation, policies or programmes, in all areas and at all levels.<sup>154</sup> This is a strategy for making women's as well as men's concerns and experiences an integral dimension of the design, implementation, monitoring and evaluation of policies and programmes. If, for example, a community is resettled as a result of a large-scale infrastructure project, a gender mainstreaming approach would require companies to consider whether such resettlement may have different, disproportionate or unforeseen impacts on women and men, including familial responsibilities, economic opportunities and child care.

Gender equality is addressed in many of the Sustainable Development Goals (SDGs). SDG: 5 on Gender Equality focuses on improving gender balance in countries. The ambitious targets under this goal include eliminating all forms of gender discrimination, violence, sexual exploitation, early marriages, improving equal rights to economic resources, and strengthening legislation to promote gender equality and empowerment of women.<sup>155</sup> SDG: 10 on Reduced Inequalities also aims to empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status by 2030.<sup>156</sup>

SDG: 1 on No Poverty focuses on eradicating poverty. One of the targets is to ensure that all men and women have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance by 2030. Another target is to create sound policy frameworks at the national, regional and international levels, based on pro-poor and gender-sensitive development strategies.<sup>157</sup>

SDG: 4 on Quality Education, focusing on ensuring good education to every child, also includes a gender approach: "By 2030, eliminate gender disparities in education and ensure equal access to all levels of education and vocational training for the vulnerable, including persons with disabilities, indigenous peoples and children in vulnerable situations."<sup>158</sup> SDG: 8 on Decent Work and Economic Growth includes a target to achieve decent work for all men and women with equal pay for work of equal value by 2030.<sup>159</sup>

While gender mainstreaming for policies and programmes is a specific focus of international organizations, such as the International Labour Organisation (ILO) and the United Nations (UN), this is not the case for the private sector. For businesses, considering gender specific impact is still an emerging issue. Corporate governance codes and guidelines, including responsible investment and finance policies, rarely adopt a 'gender perspective' or 'gender mainstreaming approach'.<sup>160</sup> Moreover, Marston Consulting concludes in a research paper that "as of the most recent research, there is little or no systematic guidance to help companies mainstream and report on gender-sensitive practices globally".<sup>161</sup> Since 2016, Equileap has been publishing one of the few tools that exist for measuring gender equality in the private sector.<sup>162</sup>

Gender equality relates to the other cross-cutting themes in the FFG methodology not only because of the inherent gender-based human rights risks associated with environmental, social and governance issues. A number of studies have pointed out that increased board diversity in companies is associated with better performance on corporate sustainability and social responsibility indicators.<sup>163</sup> Hence, promoting gender equality in companies and financial institutions' operations provides the potential for indirectly advancing positive change throughout the different sectors and themes analysed in the FFG Methodology.

As shown in section 2.4.2, a large number of international standards exist which could help companies – including financial institutions – to promote gender equality. The policies of financial institutions, both as a direct employer and as an influencer of the companies they are financing or investing in, can have a great impact on achieving gender equality.

### 2.4.2 International Standards and initiatives

Equality between women and men has been widely recognized in specific human rights and sustainability standards. The main international standards on gender are summarised below, followed by the assessment elements that are formulated by the FFGI as a result:

- **United Nations Charter, the Universal Declaration of Human Rights and the International Bill of Rights**

Gender equality is at the very heart of human rights and United Nations values.<sup>164</sup> The [United Nations Charter](#) was adopted in 1945 and establishes as a fundamental principle the "equal rights of men and women".<sup>165</sup>

Moreover, the 1948 United Nations' [Universal Declaration of Human Rights](#) formulates the right to equality and non-discrimination: "Everyone is entitled to all the rights and freedoms set forth in this Declaration, without distinction of any kind, such as race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status".<sup>166</sup> The right to equality and non-discrimination is also recognized in the United Nations' [International Covenant on Civil and Political Rights](#) and the [International Covenant on Economic, Social and Cultural Rights](#).

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#### This leads to assessment elements

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1	The financial institution has an explicitly gender-sensitive zero tolerance policy commitment towards all forms of gender-based discrimination in employment and occupation, including psychological harm and verbal, physical and sexual harassment.
8	Companies have an explicitly gender-sensitive zero tolerance policy towards all forms of gender-based discrimination, including psychological harm and verbal, physical and sexual harassment.

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- **Convention on the Elimination of all forms of Discrimination against Women**

The [Convention on the Elimination of all forms of Discrimination against Women \(CEDAW\)](#) is the main international treaty for women's rights. Adopted by the United Nations in 1979, it defines what constitutes discrimination against women and sets up an agenda for national action to end such discrimination.<sup>167</sup>

CEDAW provides the legal basis for developing international legal regulation on women, business and human rights when imposing the obligations to prevent violations by private individuals and actors:

- According to the Committee on the Elimination of all forms of Discrimination against Women (CCEDAW) state parties must "protect women from discrimination by private actors".<sup>168</sup> In that sense, state parties must "react actively against discrimination against women, regardless of whether such acts or omissions are perpetrated by the State or by private actors."<sup>169</sup>
- In addition, state parties must "formulate and implement a policy that is targeted as clearly as possible towards the goal of fully eliminating all forms of discrimination against women and achieving women's substantive equality with men."<sup>170</sup> The policy "must be comprehensive" and "apply to both public and private economic spheres".<sup>171</sup> Moreover, this

“policy must engage the private sector, including business enterprises, the media, organizations, community groups and individuals, and enlist their involvement in adopting measures that will fulfil the goals of the Convention in the private economic sphere”.<sup>172</sup>

- Finally, “the full implementation of the Convention requires States to take positive measures to eliminate all forms of violence against women”.<sup>173</sup>

Although the state party is ultimately responsible for carrying out the obligations under CEDAW, non-state actors, including business entities, play a critical role in ensuring that women enjoy their rights to non-discrimination and substantive equality. For example, in the concluding observations, CEDAW has made recommendations directly to the media and health care providers.<sup>174</sup>

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#### This leads to assessment elements

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1	The financial institution has an explicitly gender-sensitive zero tolerance policy commitment towards all forms of gender-based discrimination in employment and occupation, including psychological harm and verbal, physical and sexual harassment.
7	Companies have made a policy commitment to mitigate the human rights risks faced by people as a result of their gender.
8	Companies have an explicitly gender-sensitive zero tolerance policy towards all forms of gender-based discrimination, including psychological harm and verbal, physical and sexual harassment.

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- **International Labour Organization conventions**

Gender equality is a main element for the International Labour Organization (ILO) in reaching its primary goal of promoting opportunities for women and men to obtain decent work.<sup>175</sup> This is reflected in relevant international labour standards, but also in the increasing research focus of the ILO on gender equality.<sup>176</sup> The four key ILO gender equality Conventions are the following:

- [The 1951 Equal Remuneration Convention \(No. 100\)](#);
- [The 1958 Discrimination \(Employment and Occupation\) Convention \(No. 111\)](#);
- [The 1981 Workers with Family Responsibilities Convention \(No. 156\)](#); and
- [The 2000 Maternity Protection Convention \(No. 183\)](#).

Conventions 100 and 111 are also among the [ILO Declaration on Fundamental Principles and Rights at Work](#), making clear that equality and non-discrimination are also at the very heart of the ILO.

In addition, the ILO has specifically addressed multinationals and the private sector in the 2017 fifth edition of its [Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy \(MNE Declaration\)](#). The MNE Declaration contains two relevant references to gender equality that are aligned with ILO Conventions 100 and 111. These are the following:

- Multinational enterprises should be guided by the principle of “equality of opportunity and treatment” throughout their operations.<sup>177</sup>
- Multinational enterprises should base hiring procedures on qualifications, skills and experience, and offer staff training on all levels and to avoid discrimination of employees (based on ethnicity, gender or social background).<sup>178</sup>

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### This leads to assessment elements

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1	The financial institution has an explicitly gender-sensitive zero tolerance policy commitment towards all forms of gender-based discrimination in employment and occupation, including psychological harm and verbal, physical and sexual harassment.
1	The financial institution has systems in place to actively manage pay equity.
2	The financial institution has systems in place to prevent and mitigate gender discrimination of its customers.
8	Companies have an explicitly gender-sensitive zero tolerance policy towards all forms of gender-based discrimination, including psychological harm and verbal, physical and sexual harassment.
9	Companies have systems in place to actively manage pay equity.

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#### • **United Nations Guiding Principles on Business and Human Rights**

The United Nations Guiding Principles on Business and Human Rights (UNGPs) make brief, but valuable mention of the principle of non-discrimination and the unique risks women and men face in the context of business activities:

- The preamble reads: “These Guiding Principles should be implemented in a non-discriminatory manner, (···) and with due regard to the different risks that may be faced by women and men”.<sup>179</sup>
- In addition, when conducting human rights due diligence “business enterprises should pay special attention to any particular human rights impacts on individuals from groups or populations that may be at heightened risk of vulnerability or marginalization, and bear in mind the different risks that may be faced by women and men”.<sup>180</sup>

The Gender, Business and Human Rights Reference Group has elaborated how to integrate a gender perspective into the business responsibility to respect human rights.<sup>181</sup> Its main recommendations are the following:<sup>182</sup>

- Include gender mainstreaming within policies and procedures;
- Collect and analyse sex-disaggregated data for assessing and addressing human rights impacts;

In 2019, the Human Rights Council (HRC) published a report on the gender dimensions of the UNGPs. Drawing on the principle on non-discrimination and the need for special attention to the human rights risks faced by women, the report provides guidance on how to include a gender framework in the implementation of the Guiding Principles. In line with the UNGPs’ emphasis on the three elements of policy, due diligence and remedy (see section 2.6.1), the report suggests that addressing gender through the UNGPs requires:<sup>183</sup>

- Gender-responsive assessment, capable of responding to “differentiated, intersectional and disproportionate adverse impacts on women’s human rights”;
- Gender-transformative measures, capable of “bringing change to patriarchal norms and unequal power relations that underpin discrimination, gender-based violence and gender stereotyping”; and
- Gender-transformative remedies, similarly capable of mitigating and altering discriminatory and unequal power relations.

This provides an opportunity to further elaborate the meaning of the UNGPs for women’s rights issues in the context of business and how they can be applied.

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**This leads to assessment element**

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7	Companies have made a policy commitment to mitigate the human rights risks faced by people as a result of their gender.
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- **Beijing Declaration and Platform for Action**

The [Beijing Declaration and Platform for Action](#) was produced after the 1995 United Nations' Fourth World Conference on Women. The Beijing Declaration contains a standard for gender balance in decision-making positions. According to the Beijing Declaration, "removing all the obstacles to women's active participation in all spheres of public and private life through a full and equal share in economic, social, cultural and political decision-making", is fundamental for the achievement of gender equality.<sup>184</sup> In that regard, the Beijing Declaration calls on governments and the private sector to "take measures to ensure women's equal access to and full participation in power structures and decision-making".<sup>185</sup>

This objective has been operationalized by, among other indicators, requiring gender quotas for senior level positions and corporate boards. In this context, the European Commission has repeatedly proposed directives to set a minimum objective of 40% of the under-represented sex in non-executive board-members position in publicly listed companies in Europe.<sup>186</sup> Moreover, a number of EU member states, including Belgium, France, the Netherlands, and Sweden have adopted (before the European Commission's Directive proposal) different types of laws, including binding and voluntary gender quotas, for company boards.<sup>187</sup>

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**This leads to assessment elements**

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3	The financial institution guarantees at least 30% participation and equal access of women and men at senior level positions. <sup>i</sup>
4	The financial institution guarantees at least 40% participation and equal access of women and men at senior level positions.
11	Companies guarantee at least 30% participation and equal access of women and men at senior level positions.
12	Companies guarantee at least 40% participation and equal access of women and men at senior level positions.

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- **OECD Guidelines for Multinational Enterprises**

The [OECD Guidelines for Multinational Enterprises](#) also contain relevant standards for responsible enterprise behaviour on gender equality:

- Enterprises are expected to "promote equal opportunities for women and men with special emphasis on equal criteria for selection, remuneration, and promotion, and equal application of those criteria, and prevent discrimination or dismissals on the grounds of marriage, pregnancy or parenthood".<sup>188</sup>
- Moreover, business enterprises should pay special attention to any particular human rights impacts on individuals from groups or populations that may be at heightened risk in particular industry and context, as for example women.<sup>189</sup>

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i 'Senior level positions' in this methodology implies the Board of Directors, executive positions and senior management. In absolute numbers this percentage means that for a Board of Directors consisting of two or three members, at least one is female, and for a BoD consisting of five members, at least two are female.



- The OECD Guidelines recognizes that companies are often part of long production chains. They can monitor one another and question how they respect local and national legislation and international norms on gender equality. The requirements that companies set for their suppliers can be included in contractual agreements.<sup>190</sup>

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**This leads to assessment elements**

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1	The financial institution has an explicitly gender-sensitive zero tolerance policy commitment towards all forms of gender-based discrimination in employment and occupation, including psychological harm and verbal, physical and sexual harassment.
1	The financial institution has systems in place to actively manage pay equity.
2	The financial institution has systems in place to prevent and mitigate gender discrimination of its customers.
6	The financial institution provides targeted professional development for employees to promote equal access for women to senior level positions.
7	Companies have made a policy commitment to mitigate the human rights risks faced by people as a result of their gender.
8	Companies have an explicitly gender-sensitive zero tolerance policy towards all forms of gender-based discrimination, including psychological harm and verbal, physical and sexual harassment.
9	Companies have systems in place to actively manage pay equity.
10	Companies have systems in place to prevent and mitigate gender discrimination of its customers.
13	Companies provide targeted professional development, and where necessary also education and training, for employees to promote equal access for women to senior level positions.

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- **IFC Performance Standards**

The relevant IFC Performance Standards on gender equality are the following:

- "The client will base the employment relationship on the principle of equal opportunity and fair treatment, and will not discriminate with respect to any aspects of the employment relationship, such as recruitment and hiring, compensation (including wages and benefits), working conditions and terms of employment, access to training, job assignment, promotion, termination of employment or retirement, and disciplinary practices".<sup>191</sup>
- "The client will take measures to prevent and address harassment, intimidation, and/or exploitation, especially in regard to women".<sup>192</sup>

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**This leads to assessment elements**

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1	The financial institution has an explicitly gender-sensitive zero tolerance policy commitment towards all forms of gender-based discrimination in employment and occupation, including psychological harm and verbal, physical and sexual harassment.
1	The financial institution has systems in place to actively manage pay equity.
6	The financial institution provides targeted professional development for employees to promote equal access for women to senior level positions.
8	Companies have an explicitly gender-sensitive zero tolerance policy towards all forms of gender-based discrimination, including psychological harm and verbal, physical and sexual harassment.
9	Companies have systems in place to actively manage pay equity.
13	Companies provide targeted professional development, and where necessary also education and training, for employees to promote equal access for women to senior level positions.

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- **Women's empowerment principles**

The Women's Empowerment Principles (WEP) are a joint undertaking of the Global Compact and UN Women. These principles provide a tool for business to assess and benchmark their own business policies and practices against gender equality international standards. The principles are the following:<sup>193</sup>

- Establish high-level corporate leadership for gender equality. Relevant organizational goals are:
  - Ensure that all policies are gender-sensitive.
- Treat all women and men fairly at work - respect and support human rights and non-discrimination. Relevant organizational goals are:
  - Pay equal remuneration, including benefits, for work of equal value and strive to pay a living wage to all women and men.
  - Ensure that workplace policies and practices are free from gender-based discrimination.
  - Implement gender-sensitive recruitment and retention practices and proactively recruit and appoint women to managerial and executive positions and to the corporate board of directors.
- Ensure the health, safety and well-being of all women and men workers. Relevant organizational goals are:
  - Establish a zero-tolerance policy towards all forms of violence at work, including verbal and/or physical abuse and prevent sexual harassment.
- Promote education, training and professional development for women.
- Implement enterprise development, supply chain and marketing practices that empower women. Relevant organizational goals are:
  - Support gender-sensitive solutions to credit and lending barriers.
  - Ask business partners and peers to respect the company's commitment to advancing equality and inclusion.
  - Ensure that company products, services and facilities are not used for human trafficking and/or labour or sexual exploitation.
- Promote equality through community initiatives and advocacy.
- Measure and publicly report on progress to achieve gender equality. Relevant organizational goals are:
  - Make public the company policies and implementation plan for promoting gender equality.
  - Establish benchmarks that quantify inclusion of women at all levels.
  - Measure and report on progress, both internally and externally, using data disaggregated by sex.
  - Incorporate gender markers into ongoing reporting obligations.

As to the implementation of these principles and the tools for measuring progress, the WEP's recommend:<sup>194</sup>

- Define clearly company's strategic case for advancing gender equality within the organization and in its field.
- Prominently publicize an explicit company statement that prohibits gender-based discrimination in hiring, retention policies, promotion, salaries and benefits.

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**This leads to assessment elements**

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1	The financial institution has an explicitly gender-sensitive zero tolerance policy commitment towards all forms of gender-based discrimination in employment and occupation, including psychological harm and verbal, physical and sexual harassment.
1	The financial institution has systems in place to actively manage pay equity.
2	The financial institution has systems in place to prevent and mitigate gender discrimination of its customers.
6	The financial institution provides targeted professional development for employees to promote equal access for women to senior level positions.
8	Companies have an explicitly gender-sensitive zero tolerance policy towards all forms of gender-based discrimination, including psychological harm and verbal, physical and sexual harassment.
9	Companies have systems in place to actively manage pay equity.
10	Companies have systems in place to prevent and mitigate gender discrimination of its customers.
13	Companies provide targeted professional development, and where necessary also education and training, for employees to promote equal access for women to senior level positions.

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- **The UN Declaration on the Rights of Indigenous Peoples**

The [UN Declaration on the Rights of Indigenous Peoples](#) adopted by the UN General Assembly in 1997 calls on States to pay particular attention to the rights and special needs of indigenous women when measures are taken to ensure continuing improvement of economic and social conditions. It also calls for full protection and guarantees against all forms of violence and discrimination against women.<sup>195</sup>

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**This leads to assessment elements**

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1	The financial institution has an explicitly gender-sensitive zero tolerance policy commitment towards all forms of gender-based discrimination in employment and occupation, including psychological harm and verbal, physical and sexual harassment.
8	Companies have an explicitly gender-sensitive zero tolerance policy towards all forms of gender-based discrimination, including psychological harm and verbal, physical and sexual harassment.

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- **Other guidelines for companies**

The Gender Equality Global Report and Ranking is a private initiative developed by Equileap that aims to accelerate gender equality in the workplace. The ranking is part of a comprehensive tool-kit designed to make the gender performance of public companies transparent and comparable, and to enable corporations to understand how they can improve performance. Equileap scores companies in four categories:

- A: Gender Balance in Leadership and Workforce
- B: Equal Compensation and Work/Life Balance
- C: Policies Promoting Gender Equality
- D: Commitment to Women's Empowerment

Within category A, Equileap measures the percentage of male and female in the Board of Directors, executive positions and senior management.<sup>196</sup>

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**This leads to assessment elements**

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3	The financial institution guarantees at least 30% participation and equal access of women and men at senior level positions. <sup>i</sup>
5	The financial institution guarantees at least 40% participation and equal access of women and men at senior level positions.
11	Companies guarantee at least 30% participation and equal access of women and men at senior level positions.
12	Companies guarantee at least 40% participation and equal access of women and men at senior level positions.

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- **Procurement and supply chains**

Companies are often part of long procurement and supply chains. They can monitor one another and question how they respect local and national legislation and international norms on labour rights. The requirements that companies set for their suppliers can be included in contractual agreements.

The importance of this has also been recognised in the [OECD Guidelines for Multinational Enterprises](#) since its revision in 2011. The [OECD Due Diligence Guidance for Responsible Business Conduct](#) provides practical support to companies on the implementation of the OECD Guidelines for Multinational Enterprises by providing plain language explanations of its due diligence recommendations. Implementing these recommendations can help companies avoid and address adverse impacts that may be associated with their operations, supply chains and other business relationships.

Furthermore, [ISO 26000:2010 Guidance on social responsibility](#) recognises the importance of supply chain responsibility, because “the impacts of an organization’s decisions or activities can be greatly affected by its relationships with other organizations”.<sup>197</sup> A company’s sphere of influence includes relationships within and beyond an organization’s supply chain. Moreover, [ISO 26000:2010 Guidance on social responsibility](#) recommends setting contractual provisions or incentives as a means of exercising influence.<sup>198</sup>

In addition, [ISO 20400:2017 Sustainable procurement – Guidance](#) provides guidelines for organizations, independent of their activity or size, on integrating sustainability within procurement, as described in [ISO 26000:2010 Guidance on social responsibility](#). It is intended for stakeholders involved in, or impacted by, procurement decisions and processes.

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**This leads to assessment elements**

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14	Companies include gender and women’s rights criteria in their procurement and operational policies.
15	Companies include clauses on the compliance with gender and women’s rights criteria in their contracts with subcontractors and suppliers.

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i ‘Senior level positions’ in this methodology implies the Board of Directors, executive positions and senior management. In absolute numbers this percentage means that for a Board of Directors consisting of two or three members, at least one is female, and for a BoD consisting of five members, at least two are female.

### 2.4.3 Assessment elements

The following elements are crucial for a policy regarding the financial institution's internal operations:

1. The financial institution has an explicitly gender-sensitive zero tolerance policy commitment towards all forms of gender-based discrimination in employment and occupation, including psychological harm and verbal, physical and sexual harassment.
2. The financial institution has systems in place to actively manage pay equity.
3. The financial institution has systems in place to prevent and mitigate gender discrimination of its customers.
4. The financial institution guarantees at least 30% participation and equal access of women and men at senior level positions.<sup>i</sup>
5. The financial institution guarantees at least 40% participation and equal access of women and men at senior level positions.
6. The financial institution provides targeted professional development for employees to promote equal access for women to senior level positions.

The following elements are crucial for a policy regarding companies a financial institution invests in or finances:

7. Companies have made a policy commitment to mitigate the human rights risks faced by people as a result of their gender.
8. Companies have an explicitly gender-sensitive zero tolerance policy towards all forms of gender-based discrimination, including psychological harm and verbal, physical and sexual harassment.
9. Companies have systems in place to actively manage pay equity.
10. Companies have systems in place to prevent and mitigate gender discrimination of its customers.
11. Companies guarantee at least 30% participation and equal access of women and men at senior level positions.
12. Companies guarantee at least 40% participation and equal access of women and men at senior level positions.
13. Companies provide targeted professional development, and where necessary also education and training, for employees to promote equal access for women to senior level positions.
14. Companies include gender and women's rights criteria in their procurement and operational policies.
15. Companies include clauses on the compliance with gender and women's rights criteria in their contracts with subcontractors and suppliers.

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i 'Senior level positions' in this methodology implies the Board of Directors, executive positions and senior management. In absolute numbers this percentage means that for a Board of Directors consisting of two or three members, at least one is female, and for a BoD consisting of five members, at least two are female.

## 2.5 Health

### 2.5.1 What is at stake?

Good health is of great value, for individuals as well as for economies. Globally, health care costs are rapidly increasing and for many developing countries these costs are hard to bear.<sup>199</sup> Furthermore, illness or handicap decrease labour productivity and also limits the abilities of individuals to contribute to the society in which they live. For this reason it is of great social and economic importance that companies put health on the agenda.

The right to health is an acknowledged human right, first formulated in 1946 at the foundation of the World Health Organisation (WHO) as “the enjoyment of the highest attainable standard of health”.<sup>200</sup> The right to health is also recognized in the International Covenant on Economic, Social and Cultural Rights (ICESCR) as “the right to enjoy the highest possible standard of physical and mental health”.<sup>201</sup> The right to health is also mentioned in Article 25 of the Universal Declaration of Human Rights.

The right to health is broader than merely access to healthcare. It includes access to safe drinking water, proper sanitary provisions, safe food, housing, healthy working conditions, education and information on health, and gender equality. In addition, healthcare provisions have to be accessible to everyone both physically as well as economically. This interpretation of the right to health has been endorsed by the WHO, the Office of the High Commissioner of Human Rights (OCHCR) and the Committee on Economic, Social and Cultural Rights (CESCR).<sup>202</sup>

The WHO points out that, while governments must take responsibility for protecting the right to health, companies have a responsibility to do so as well. However, there is not yet (scientific and political) agreement as to the extent and the exact interpretation of this responsibility.<sup>203</sup> According to ISO 26000:2010 Guidance on social responsibility, companies should first prevent affecting the health of their employees, clients, and nearby residents with their products and production processes.<sup>204</sup>

Furthermore, companies should ensure that their employees and employees of their suppliers are not exposed to hazardous substances, that they do not incur diseases during their work, and that they do not have to work in dangerous circumstances.<sup>205</sup> According to the International Labour Organisation (ILO), 2.8 million people die every year as a result of occupational accidents or work-related diseases. The number of non-fatal accidents at work, many of these resulting in extended absences from work, is estimated by the ILO at 374 million each year globally.<sup>206</sup>

Unsafe or inadequate water, sanitation, and hygiene are linked to transmission of diseases such as cholera, diarrhoea and dysentery. Drinking contaminated water causes approximately 485.000 deaths annually. Almost 1 billion people lack access to safe drinking water. Sharp geographic, sociocultural and economic inequalities persist. Women, children, and the economically disadvantaged are the most severely affected by water quality impacts. Sectors such as agriculture, fishing, and animal husbandry all rely on the presence of sufficient and clean water, while climate change, population growth, demographic changes and urbanization pose challenges for water supply systems. Moreover, by 2025, half of the world’s population will be living in water-stressed areas. Management of all water resources will need to be improved to ensure provision and quality.<sup>207</sup>

Air pollution is a major health problem, with WHO data showing that air pollution kills an estimated seven million people worldwide every year.<sup>208</sup> The WHO has emphasized that reduction of emissions of greenhouse gases (GHGs) through better transport, food and energy-use choices

can also result in improved health.<sup>209</sup> The harmful health effects of pollution caused by transport have also been recognized by the European Environment Agency. Especially in cities, air quality levels are a fundamental issue for public health.<sup>210</sup> Moreover, air quality is at risk from an increase of peat fires. Haze caused by peat fires can cause serious long-term health problems. The WHO estimates that each year around 110,000 deaths associated with particulate matter exposure in Southeast Asia can be attributed to peat fires.<sup>211</sup>

Globally, tens of thousands of chemical compounds are released into the environment every year. Such chemicals can spread far over land and oceans and may be absorbed by plants, animals, and humans, including through the skin or the mouth. This carries significant risks, because information about consequences for the environment and human health is available for only around 14% of the most widely used chemical compounds.<sup>212</sup> The use of these chemicals often precedes scientific insight into their environmental and health effects, and legislation in turn tends to lag behind the latest scientific insights. This implies a clear responsibility on the part of companies to apply precaution in their use and handling of chemicals. Parties involved have to do more than merely comply with the existing rules: as a precautionary measure, the use of any toxic substance of which the consequences are unknown should be avoided. This precautionary principle can be applied widely but certainly has to be applied to two specific groups of chemicals:<sup>213</sup>

- *Endocrine Disrupting Chemicals (EDCs)*: these are chemicals such as BPA, phthalates and BFRs, that block, imitate, or otherwise disturb naturally produced hormones. Hormones are the chemical messengers of the body that control how organisms develop and function.
- *Persistent Organic Pollutants (POPs)*: these are chemicals that degrade slowly in nature or do not degrade at all. Once they enter into a human being or animal they accumulate in the body.

As well as preventing health damage to employees, consumers and nearby residents, companies should consider how they can support access to essential health provisions, clean drinking water and adequate sanitation. Furthermore, it is important to pay attention to improving health, such as stimulating a healthy lifestyle, discouraging the consumption of unhealthy products and substances and contributing to accessible medication and vaccinations. Special attention should be paid to food for children.<sup>214</sup>

One in every four humans has insufficient access to essential, reliable and affordable health care.<sup>215</sup> According to the Access to Medicine Foundation, better access to medication could save the lives of ten million people that die of avoidable or treatable diseases such as HIV/Aids, malaria and tuberculosis every year.<sup>216</sup> The fight against HIV/Aids, malaria and other diseases is one of the seventeen Sustainable Development Goals (SDGs).<sup>217</sup> Pharmaceutical companies could play an important role in developing vaccines or medication for common tropical diseases, but since people suffering from these diseases do not represent a group with significant purchasing power, investment in that field is severely lagging. Moreover, some pharmaceutical companies tend to stick to their patents as long as possible, which makes it impossible to bring existing medication to the market at an affordable price.<sup>218</sup>

Microorganisms in humans, food and animals continue to show resistance to the most widely used antimicrobials for treatment of amongst others tuberculosis, malaria, HIV, and influenza. Antimicrobial resistant-microbes are found in people, animals, food, and the environment (in water, soil and air) and they can spread between people and animals.<sup>219</sup> In Europe, 7% of all antibiotics used in 2016 were taken without prescription, with two main sources being over-the-counter (OTC) sales and use of leftover antibiotics. Lack of knowledge among patients and pressure on healthcare professionals to provide antibiotics without prescription were highlighted as two key factors contributing to this issue.<sup>220</sup>

Reports also confirm the link between antibiotics use and antibiotic resistance in both humans and food-producing animals. Reducing the unnecessary use of antibiotics will have an impact on the occurrence of resistance.<sup>221</sup> The WHO considers antimicrobial resistance as a complex problem that endangers achievement of the SDGs and requires coordinated action. Therefore it works closely with member states, the Food and Agriculture Organisation (FAO) and the World Organisation for Animal Health (OIE).

Breastfeeding is demonstrably better for the health of infants than bottle-feeding.<sup>222</sup> However, the number of women who are breastfeeding is low: only around 40% of children under 6 months of age are exclusively breastfed. Among the causes for declining breastfeeding rates are societal beliefs that breast milk is insufficient, lack of adequate knowledge and support for breastfeeding mothers and the aggressive promotion of infant formula and other breast-milk substitutes. According to figures by the WHO, around 820,000 children under five years old could be saved annually if all children were properly breastfed.<sup>223</sup>

Tobacco is widely known to cause various forms of cancer and heart disease, as well as other diseases. It kills up to half of its users and is characterized by the WHO as “the only legal drug that kills many of its users when used exactly as intended by manufacturers”.<sup>224</sup> In total, around 7 million people die every year from tobacco use, and second-hand smoking is estimated to cause another 1.2 million deaths annually.<sup>225</sup> Around 80% of the world’s 1.1 billion smokers live in lower- and middle income countries.<sup>226</sup> While anti-smoking legislation has been effective in lowering tobacco consumption in some countries, in many places such legislation is often still lacking – often in part due to extensive lobbying efforts by the tobacco industry.<sup>227</sup>

SDG 3: Good Health and Well-being lays out the overall importance of health to sustainable development. It includes targets to reduce the global maternal mortality ratio, end preventable deaths of new-borns and children under five years of age, end the epidemics of AIDS, tuberculosis, malaria and neglected tropical diseases and combat hepatitis, water-borne diseases and other communicable diseases, achieve universal health coverage, and many more.<sup>228</sup>

SDG 6: Clean Water and Sanitation aims to improve health conditions by targeting to achieve access to adequate and equitable sanitation and hygiene for all. It also seeks to improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally.<sup>229</sup>

Financial institutions should take all these aspects into account when developing policies on health. To do this, financial institutions can make use of the international standards described below.

### 2.5.2 International standards and initiatives

The main international standards on health are summarised per topic, followed by the assessment elements that are formulated by the FFGI as a result:

- **Adequate standard of living**

According to Article 25 of the Universal Declaration of Human Rights (UNDHR), “everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control”.



These rights have also been protected by [The International Covenant on Economic, Social and Cultural Rights \(ICESCR\)](#). Article 12 of this Covenant guarantees the right to an adequate standard of living including adequate food, clothing, housing and continuous improvement of living conditions. This Article has also been interpreted as including access to sufficient water and sanitation.

An important indication of the standard of living for countries is life expectancy. To compare countries, the United Nations developed the [Human Development Index \(HDI\)](#), a combination of per capita income, life expectancy and illiteracy percentage.

Another important indication of the standard of living for countries is if and how the [Human Right to Water and Sanitation](#) is respected. The Institute for Human Rights and Business has published a report in 2011 to help business integrate human rights consideration in relation to water into business policies and practices.<sup>230</sup> In 2015 the UN Global Compact launched [the CEO Water Mandate](#) initiative on water and sanitation, which is intended to help companies translate their responsibility to respect these rights into their existing water management policies and practices.

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#### This leads to assessment element

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1	Companies prevent the health of employees, clients and nearby residents to be deteriorated by their products or production processes (according to the precautionary principle).
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- **Health and safety at work**

Employers are responsible for the health and safety of their employees and this responsibility is recognized in various international standards. The [Occupational Health and safety Convention \(No. 155\)](#) adopted in June 1981 by the United Nations International Labour organisation (the ILO) is the main international standard on health and safety at work. The treaty clarifies what responsibilities companies have in this respect and what rights employees have. Over the course of time this convention has been completed and solidified with ILO-conventions that concern specific dangers for the health and safety of employees, such as the [Asbestos Convention \(No. 162\)](#) and the [Chemicals Convention \(No.170\)](#), as well as on specific industries such as the [Safety and Health in Agriculture Convention \(No. 184\)](#), the [Safety and Health in Mines Convention \(No. 176\)](#) and the [Safety and Health in Construction Convention \(No. 167\)](#). Moreover, the ILO publishes the so-called *Codes or Practice* for 35 various industries and issues with concrete measures to improve health and safety.<sup>231</sup>

However, maintaining minimum standards on health and safety proves not to be sufficient. According to the ILO, a continuous and systematic pursuit to improve the health and safety of employees is necessary. With that objective in mind, in 2006 the [Promotional Framework for Occupational Safety and Health Convention \(No. 187\)](#) was adopted. In this convention, countries and companies are encouraged to do more to systematically improve the health and safety of employees and develop a preventive culture in the field of health and safety.<sup>232</sup>

The United Nations Food and Agriculture Organisation (FAO) published the [International Code of Conduct on the Distribution and Use of Pesticides](#), which sets the standard on the application, processing, and disposal of pesticides.

The international standard [ISO 45001:2018 Occupational health and safety](#) provides globally applicable requirements for management systems regarding occupational health and safety. This standard provides requirements for a risk management system. It applies to all kinds of organisations and it serves to guarantee the health and safety of both employees and external

stakeholders, for example contractors' staff and visitors. With such a management systems risks can be structurally surveyed and evaluated.

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**This leads to assessment elements**

1	Companies prevent the health of employees, clients and nearby residents to be deteriorated by their products or production processes (according to the precautionary principle).
2	Companies respect labour rights concerning health and safety at work, as described in the ILO conventions and the MNE Declaration.
3	Companies work on systematically improving the health and safety of employees and develop a preventive culture in the field of health and safety.

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- **Ban on production and use of certain toxic substances**

There are various international agreements that prohibit or phase out the production and use of various hazardous or toxic substances. The main examples are:

- The [Montreal Protocol on Ozone Depleting Substances](#) was drafted in September 1987 and has been repeatedly tightened since. The protocol prohibits the production and the use of products that affect the ozone layer, such as chlorofluorocarbons (CFKs and HCFKs), halons and methyl bromide.
- The [Stockholm Convention on Persistent Organic Pollutants](#) was drafted in May 2001. This convention focuses on banning Persistent Organic Pollutants (POPs). POPs are chemicals that remain in the environment for a long period of time and that spread over large areas, accumulate in the fat of living organisms and are highly toxic for human beings and animals. POPs that have been prohibited globally include DDT, dieldrin, dioxins and PCBs. Many of these substances have been used in pesticides. The list is updated regularly and the latest change dates from May 2019.<sup>233</sup>

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**This leads to assessment elements**

4	Companies respect international agreements on the production and the use of hazardous or toxic substances as described in the Montreal Protocol (on substances that deplete the ozone layer).
5	Companies respect international agreements on the production and the use of hazardous or toxic substances as described in the Stockholm Convention (on POPs).

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- **International trade in chemicals and chemical waste**

The international trade in chemicals and chemical waste, which carries the risk that chemical waste and chemicals prohibited in one country are dumped in another, less developed country, is constrained by two international conventions:

- In the 1989 [Basel Convention on the Control or Transboundary Movements of Hazardous Wastes and their Disposal](#), clear agreements have been made on the international trade in, and safe processing of, hazardous (chemical) waste. The [178 signatory countries](#) oblige themselves to restrict the international trade in hazardous waste as much as possible, to process hazardous waste as close as possible to the place where it is created and to limit hazardous waste as much as possible. In December 2019 the [Basel Ban Amendment](#), initially adopted by the parties to the second Basel Convention in 1995, entered into force as international law.<sup>234</sup> This effectively prohibits the export of hazardous wastes from countries that have ratified the Basel Convention to all other countries.

- The [Rotterdam Convention on the Prior Informed Consent Procedure for Certain Hazardous Chemicals and Pesticides in International Trade](#) was established in 1998. The convention determines that certain pesticides and other hazardous chemicals prohibited in their own country may not be exported to other (developing) countries.

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**This leads to assessment elements**

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6	Companies respect international agreements on trade in chemicals and chemical waste as stated in the Basel convention.
7	Companies respect international agreements on trade in chemicals and chemical waste as stated in the Rotterdam convention.

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- **Control of the environment and health consequences of chemicals**

The international community increasingly acknowledges the need to understand the possible long-term consequences of chemicals to human health and the environment in advance. The *precautionary principle* entails that companies need to be responsible and proactive in avoiding certain risks. When the risks involved with the use of a substance cannot be satisfactorily quantified and removed, even if a cause and effect relationship has not been fully proven scientifically, then this substance should not be used. The burden of proof for the safety of a chemical should lie with the company and not with the public. This is also the case when a substance is not restricted or regulated by the government. Furthermore, the principle also entails considering alternatives and considering the full impacts of a substance over time.<sup>235</sup>

Various agreements focus on a better analysis of the possible consequences and on a more cautious approach to introducing, producing, and using chemicals of which the effects are uncertain.

- In 1980, the [International Programme on Chemical Safety \(IPCS\)](#) was established by the WHO, the ILO, and the United Nations Environment Programme (UNEP). The IPCS disseminates scientific knowledge on the environment and health consequences of chemicals and helps governments to enhance their capacity in this field. The IPCS publishes an authoritative classification of pesticides based on the health risks they pose, the [WHO Recommended Classification of Pesticides by Hazard](#).
- During the World Summit for Sustainable Development in Johannesburg in August 2002, it was decided that the [Globally Harmonized System of Classification and Labelling of Chemicals \(GHS\)](#) be introduced, which was revised in 2007. With the GHS system that is now implemented and led by the United Nations Economic Commission for Europe, chemical substances all over the world are classified in the same way. In this way, rapid exchange of information on environmental and health effects is improved.
- In February 2006, the [Strategic Approach to International Chemicals Management \(SAICM\)](#) was adopted by the International Conference on Chemicals Management (ICCM). SAICM, which operates under the flag of the UNEP, provides governments with a policy framework for dealing with chemicals, including chemical waste and by-products, in a safe and sustainable way.
- In June 2007, the European regulation for the [Registration, Evaluation, Authorisation and Restriction of Chemicals \(REACH\)](#) came into force. This regulation was adopted in order to better protect people's health and the environment from the risks of chemical substances. Simultaneously, it should enhance the competitive position of the chemical industry in the EU. It should also ensure a decrease in animal testing. The [European Chemicals Agency \(ECHA\)](#) is in charge of implementing REACH.<sup>236</sup>

REACH requires companies to identify and control the risks related to the substances they produce or introduce on the market within the EU. They must show how the substance can be used safely and they must announce to their users how the risks are reduced. If the risks cannot be prevented, the authorities may limit the use of these substances in line with the precautionary principle. Member States or ECHA can also propose a substance to be identified as a substance of very high concern (SVHC). In REACH, compounds known as Endocrine Disrupting Chemicals (EDC) are considered at levels of concern similar to SVHCs.<sup>237</sup> In the long term the most dangerous substances must be replaced. Under REACH all companies in a supply chain of chemical substances (producers, importers, users, buyers) are responsible. REACH relies on the precautionary principle and is an example of how this can be operationalised.<sup>238</sup>

- The European Union has various reference documents for emissions of harmful substances to water and air for several industries, for example regarding the Ceramic Manufacturing Industry or for the Manufacture of Organic Fine Chemicals. These dictate the use of the Best Available Technology (BAT). European companies are also expected to comply with European standards outside the EU and other companies may be expected to follow the example of these European standards.

The OECD Guidelines for Multinational Enterprises recommend companies to educate and train their employees in issues concerning the environment and health and safety, including the handling of toxic substances. In addition, companies should ensure that their products and services meet all health and safety standards for consumers. Companies also have to inform consumers on this.

While both legislation and scientific insight tend to lag behind the use of potentially dangerous chemicals, ISO 26000:2010 Guidance on social responsibility stresses that this cannot be used as an excuse to delay measures that prevent harm to the environment and to people's health.<sup>239</sup> In addition to avoiding the use of banned chemicals, ISO 26000:2010 therefore advises companies to systematically identify and avoid the use of chemicals "identified by scientific bodies or any other stakeholder with reasonable and verifiable grounds as being of concern. An organization should also seek to prevent use of such chemicals by organizations within its sphere of influence".<sup>240</sup>

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**This leads to assessment elements**

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8	Companies reduce the emission of harmful substances (to soil, water, and air) by making use of the best available technologies (BAT).
9	Companies restrict the use of chemicals suspected to be harmful to health in scientific literature and, if necessary, only in a responsible way (precautionary principle).

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- **Access to medicine**

The standard on access to medicine is set by the Access to Medicine Index. The Access to Medicine Index is supported by 60 leading global investment institutions that together manage assets with a value over USD 5.31 trillion. The index shows that the 20 largest pharmaceutical companies significantly vary in their efforts to give patients in developing countries more access to affordable medication and vaccines. The last edition of the index was published in 2018 and found moderate progress since the 2016 edition. All companies pursued improved access to medicine in some degree, although the bulk of activity was accounted for by only a handful of companies.<sup>241</sup>

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**This leads to assessment element**

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10	Pharmaceutical companies ensure that patients with avoidable and treatable diseases have the right to access to medication.
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- **Antimicrobial resistance**

According to the WHO, antimicrobial resistance is one of the biggest threats to global health, food security, and development today. As important antimicrobial medicines such as antibiotics become less effective, a growing number of infections is becoming difficult and sometimes impossible to treat. The WHO [Global action plan on antimicrobial resistance](#), endorsed at the World Health Assembly and adopted by the assemblies of the Food and Agriculture Organization (FAO) and the Organization for Animal Health (OIE) in 2015, has five strategic objectives:<sup>242</sup>

1. "to improve awareness and understanding of antimicrobial resistance through effective communication, education and training;
2. to strengthen the knowledge and evidence base through surveillance and research;
3. to reduce the incidence of infection through effective sanitation, hygiene and infection prevention measures;
4. to optimize the use of antimicrobial medicines in human and animal health;
5. to develop the economic case for sustainable investment that takes account of the needs of all countries and to increase investment in new medicines, diagnostic tools, vaccines and other interventions."

The plan involves various industrial sectors (agriculture and food, pharmaceutical industry, finance, healthcare), but also regulatory bodies and consumers. Regarding antimicrobial medicines for humans, it is particularly important to promote a prudent use of antibiotics, in line with the recommendations from the European Commission report [Antimicrobial Resistance and causes of non-prudent use of antibiotics in human medicine in the EU](#).

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**This leads to assessment element**

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11	Companies apply a prudent use of antimicrobial medicines (antibiotics) in human beings in order to minimize antimicrobial resistance.
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- **Bottle feeding**

Since 1981 the WHO's [International Code of Marketing of Breast-milk Substitutes](#) has prohibited advertising breast-milk substitutes. Virtually all countries in the world have signed this code, but not all countries have included the code and in their own legislation.

The [International Baby Food Action Network](#) (IBFAN) is therefore committed to realise that manufacturers always and everywhere comply with the WHO-code and the additional resolutions.

The [Access to Nutrition Index](#) provides a ranking of companies that produce breast-milk substitutes (BMS), in which the compliance of manufacturers of BMS manufacturers with the WHO Code and subsequent World Health Assembly resolutions is assessed.<sup>243</sup>

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**This leads to assessment element**

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12	Manufacturers of bottle-feeding comply with the WHO-code and additional resolutions on advertisements for breast-milk substitutes.
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- **Tobacco**

The [Framework Convention on Tobacco Control](#) of the [World Health Organisation \(WHO\)](#) is ratified by 168 states. Governments, but also companies, can make use of the recommendations in this framework to reduce the demand and supply of tobacco and passive smoking.

A number of governments however, has not yet developed relevant legislation regarding this topic. WHO reports on the tobacco epidemic have repeatedly revealed that the tobacco industry continues to hamper government efforts to implement measures to prevent and combat tobacco use.<sup>244</sup> Subsequently, the [UN Global Compact](#) has excluded the tobacco industry from its initiative, citing the incompatible nature of the industry with the goals of sustainable development.<sup>245</sup> This decision aligns with the UNGC's policy with the WHO Framework Convention on Tobacco Control and was lauded by a coalition of health CSOs: "Tobacco products are fundamentally misaligned with UNGC's commitment to advancing business action towards 2030 Agenda's Sustainable Development Goal 3 (SDG 3) to "ensure healthy lives and promote well-being for all at all ages", and is in direct conflict with the right to public health".<sup>246</sup>

While the Fair Finance Guide International methodology expects companies to comply with the WHO Framework Convention on Tobacco Control, it also rewards policies that avoid investments in the tobacco industry.

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**This leads to assessment elements**

13	Tobacco manufacturers comply with the WHO Framework Convention on Tobacco Control and additional resolutions on the protection of current and future generations against the health, social, environmental and economic consequences of (passive) smoking.
14	Production of tobacco and tobacco-based products is unacceptable.

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- **Procurement and supply chains**

Companies are often part of long procurement and supply chains. They can monitor one another and question how they respect local and national legislation and international norms on labour rights. The requirements that companies set for their suppliers can be included in contractual agreements.

The importance of this has also been recognised in the [OECD Guidelines for Multinational Enterprises](#) since its revision in 2011. The [OECD Due Diligence Guidance for Responsible Business Conduct](#) provides practical support to companies on the implementation of the OECD Guidelines for Multinational Enterprises by providing plain language explanations of its due diligence recommendations. Implementing these recommendations can help companies avoid and address adverse impacts that may be associated with their operations, supply chains and other business relationships.

Furthermore, [ISO 26000:2010 Guidance on social responsibility](#) recognises the importance of supply chain responsibility, because "the impacts of an organization's decisions or activities can be greatly affected by its relationships with other organizations".<sup>247</sup> A company's sphere of influence includes relationships within and beyond an organization's supply chain. Moreover, ISO 26000:2010 Guidance on social responsibility recommends setting contractual provisions or incentives as a means of exercising influence.<sup>248</sup>

In addition, [ISO 20400:2017 Sustainable procurement – Guidance](#) provides guidelines for organizations, independent of their activity or size, on integrating sustainability within procurement, as described in ISO 26000:2010 Guidance on social responsibility. It is intended for stakeholders involved in, or impacted by, procurement decisions and processes.

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**This leads to assessment elements**

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15	Companies integrate health criteria in their procurement and operational policies.
16	Companies include clauses on the compliance with criteria on health in their contracts with subcontractors and suppliers.

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### 2.5.3 Assessment elements

A solid policy on health should ensure that financial institutions only finance or invest in companies that take their responsibility towards health seriously and act based on the precautionary principle. The following elements are crucial for a policy regarding the companies a financial institution invests in or finances:

1. Companies prevent the health of employees, clients and nearby residents to be deteriorated by their products or production processes (according to the precautionary principle).
2. Companies respect labour rights concerning health and safety at work, as described in the ILO conventions and the MNE Declaration.
3. Companies work on systematically improving the health and safety of employees and develop a preventive culture in the field of health and safety.
4. Companies respect international agreements on the production and the use of hazardous or toxic substances as described in the Montreal Protocol (on substances that deplete the ozone layer)
5. Companies respect international agreements on the production and the use of hazardous or toxic substances as described in the Stockholm Convention (on POPs).
6. Companies respect international agreements on trade in chemicals and chemical waste as stated in the Basel convention.
7. Companies respect international agreements on trade in chemicals and chemical waste as stated in the Rotterdam convention.
8. Companies reduce the emission of harmful substances (to soil, water, and air) by making use of the best available technologies (BAT).
9. Companies restrict the use of chemicals suspected to be harmful to health in scientific literature and, if necessary, only in a responsible way (precautionary principle).
10. Pharmaceutical companies ensure that patients with avoidable and treatable diseases have the right to access to medication.
11. Companies apply a prudent use of antimicrobial medicines (antibiotics) in human beings in order to minimize antimicrobial resistance.
12. Manufacturers of bottle-feeding comply with the WHO-code and additional resolutions on advertisements for breast-milk substitutes.
13. Tobacco manufacturers comply with the WHO Framework Convention on Tobacco Control and additional resolutions on the protection of current and future generations against the health, social, environmental and economic consequences of (passive) smoking.
14. Production of tobacco and tobacco-based products is unacceptable.
15. Companies integrate health criteria in their procurement and operational policies.
16. Companies include clauses on the compliance with criteria on health in their contracts with subcontractors and suppliers.

## 2.6 Human rights

### 2.6.1 What is at stake?

Human rights are rights and freedoms inherent to all human beings, whatever their nationality, place of residence, sex, national or ethnic origin, colour, religion, language, or any other status.<sup>249</sup> The rights and freedoms that are generally considered as human rights comprise of civil and political rights – such as the right to life, freedom of expression and equality before the law – and economic, social and cultural rights – such as the right to an adequate standard of living, the right to food, work and education. Human rights also include collective rights, such as the rights to development and self-determination.

On 10 December 1948, the United Nations General Assembly adopted the Universal Declaration of Human Rights (UDHR) that for the first time in human history spelled out 30 basic civil, political, economic, social and cultural rights that all human beings should enjoy. It has over time been widely accepted as the fundamental principles of human rights that everyone should adhere to. Through a series of international human rights treaties and other instruments these human rights have developed into a body of legal international human rights. While international treaties and customary law form the backbone of international human rights law, other instruments, such as declarations, guidelines and principles adopted at the international level contribute to its understanding, implementation and development.

There are particular groups who, for various reasons, are vulnerable or have traditionally been victims of violations and consequently require special protection for the equal and effective enjoyment of their human rights, such as women and girls, children, disabled persons, migrant workers and indigenous peoples. Specific human rights instruments, such as the Convention on the Rights of the Child (UNCRC) or the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), have been developed to set out additional guarantees for persons belonging to these groups.<sup>250</sup> Descent-based discrimination, including discrimination against members of communities based on forms of social stratification such as caste and analogous systems of inherited status, is a concern in a number of countries.<sup>251</sup>

Globalisation presents new and complex challenges for the protection of human rights. Economic actors, especially multinational companies that operate across national borders, have gained unprecedented power and influence across the world. Companies have an enormous impact on people's lives and the communities in which they operate. Sometimes their impact is positive - jobs are created, new technology improves lives and investment in the community translates into real benefits for those who live there. But there are also countless instances when corporations have a negative impact, such as when they exploit weak or poorly enforced domestic regulations.<sup>252</sup>

In some economic sectors, such as the mining, oil & gas, and agriculture sectors, the risks for human rights abuses are particularly high. Traditional livelihoods can be destroyed through land acquisition (land grabs), land contamination and water pollution.<sup>253</sup> In these scenarios, economic, social and cultural rights at stake are for example the right to food, work, housing, health and a healthy environment. Moreover, the impact can be particularly severe for certain specific groups, such as indigenous peoples, because their way of life and their identity is often closely related to their land. Far too often, companies operating across borders are involved in severe abuses, such as child labour, forced labour or forced evictions. In addition, affected communities are frequently denied access to information about the impact of company operations. This means that they are excluded from participating in decisions that affect their lives. And, often when communities attempt to get justice, they are thwarted by ineffective legal systems, corruption or powerful state-



corporate alliances. Worryingly, when the poor cannot secure justice, companies learn that they can exploit poverty without consequences.<sup>254</sup>

In 2018, 321 human rights defenders were killed for peacefully speaking out to defend human rights. 77% of activists killed were working on land-related issues: defending land, environmental or Indigenous peoples' rights.<sup>255</sup> The killings of land defenders is frequently linked to global industries: agribusiness is now the most deadly industry, followed by mining, logging, poaching and dams.<sup>256</sup> Similarly, the UN Special Rapporteur on the rights of Human Rights Defenders has recognised defenders working on land-related issues as among of the world's most vulnerable of Human Rights Defenders.<sup>257</sup> This establishes land-related human rights abuses as some of the most urgent and dire to address. Forced evictions constitute a gross violation of human rights.<sup>258</sup> In 2016 the International Criminal Court released a statement that land grabs and environmental crime were among the least prosecuted in the world and identified this as a priority area.<sup>259</sup>

Banks have recognised land as a key issue – for example, with Free, Prior, and Informed Consent (FPIC) being a key issue raised leading into the Equator Principles' current review. FPIC is constituted as a commitment under the Equator Principles, but only for "designated countries" (i.e. developing countries). Equator Principles banks have raised the need to have a more coherent approach to FPIC.<sup>260</sup>

Human rights risks are particularly prevalent in situations of armed conflict and in territories under occupation. International human rights law (IHL) therefore prohibits various kinds of activities in occupied territories, such as population transfer, forcible displacement and confiscation of private land. Given these prohibitions, companies have a special responsibility to prevent their activities from contributing to or exacerbating human rights violations in occupied territories.

Under international human rights law, states have an obligation to protect human rights, which requires them to take measures to ensure that other actors, including companies, do not undermine or violate human rights. However, government failure to protect human rights does not absolve non-state actors from responsibility for their own adverse human rights impacts. As described in section 2.6.2, it is now widely accepted that companies have a responsibility to respect human rights.

The corporate responsibility to respect human rights was formulated in 2008 as part of the *Protect, Respect and Remedy Framework* by professor John Ruggie, the former UN Special Representative of the Secretary-General on Business and Human Rights. This framework rests on three pillars:<sup>261</sup>

- the state duty to protect against human rights abuses by third parties, including business enterprises;
- the corporate responsibility to respect human rights; and
- the need for greater access by victims to effective remedy, both judicial and non-judicial.

At the request of the UN Human Rights Council (HRC), the Protect, Respect and Remedy Framework has been operationalised as the United Nations Guiding Principles on Business and Human Rights (UNGPs), which were unanimously endorsed by the HRC in June 2011.<sup>262</sup> The UNGPs are currently considered the main global standard addressing the risks of adverse impacts on human rights that are linked to business activities. It is well established that this corporate responsibility also applies to the entire range of financial institutions and actors, including commercial banks, retail banks, investment banks, rating agencies, financial service providers, and institutional investors.<sup>263</sup>

In 2014 the HRC adopted resolution 26/9 “to establish an open-ended intergovernmental working group on transnational corporations and other business enterprises with respect to human rights, whose mandate shall be to elaborate an international legally binding instrument to regulate, in international human rights law, the activities of transnational corporations and other business enterprises.”<sup>264</sup> The fifth session to discuss the elements for a draft legally binding instrument was held in 2019.<sup>265</sup>

Human rights are central to the Sustainable Development Goals (SDGs) as well. They form the basis of many goals such as SDG 1: No Poverty, SDG 2: Zero Hunger, SDG 3: Good Health and Well-being, SDG 4: Quality of Education, SDG 5: Gender Equality, SDG 6: Clean Water and Sanitation, SDG 10: Reduce Inequalities, and SDG 16: Peace, Justice and Strong Institutions.<sup>266</sup> Additionally, SDG 8: Decent Work and Economic Growth also aims to: “eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms.”<sup>267</sup> SDG 8 also includes a target on protecting labour rights and promoting safe and secure working environment for all workers, including migrant workers, in particular women migrants, and those in precarious employment. An extensive discussion of labour rights is found in section 2.7

### 2.6.2 International standards and initiatives

The main international standards on human rights are summarised per topic, followed by the assessment elements that are formulated by the FFGI as a result:

- **United Nations Human Rights Conventions**

Because companies can have an impact on the entire spectrum of internationally recognized human rights, their responsibility to respect applies to all such rights. In practice, some human rights may be at greater risk than others in particular industries or contexts, and therefore these should be the focus of heightened attention. However, situations may change, so all human rights should be the subject of periodic review.

An authoritative list of the core internationally recognized human rights is contained in the [International Bill of Human Rights](#), consisting of the [Universal Declaration of Human Rights \(UDHR\)](#) and the main instruments through which it has been codified: the [International Covenant on Civil and Political Rights \(ICCPR\)](#) and the [International Covenant on Economic, Social and Cultural Rights \(ICESCR\)](#), coupled with the principles concerning fundamental rights in the eight ILO core conventions as set out in the Declaration on Fundamental Principles and Rights at Work (for the latter, see section 2.7).

On 10 December 1948, the UN General Assembly adopted the Universal Declaration of Human Rights (UDHR), including civil, political, economic, social and cultural rights and freedoms in a single international human rights instrument. Examples include the right to life, to freedom of movement, to peaceful assembly, to thought, conscience and religion. According to the UDHR, everyone is entitled to all these rights and freedoms without distinction of any kind, such as race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth, or other status.<sup>268</sup>

The [International Covenant on Civil and Political Rights \(ICCPR\)](#) was adopted in 1966 and comprises 55 articles that focus on civil and political rights and freedoms, such as the freedom of religion and expression, the freedom from torture, right to privacy, the right to a fair trial, or the rights participate in political and public life.

The International Covenant on Economic, Social and Cultural Rights (ICESCR) was adopted in 1966 and comprises of 31 articles related to the workplace, social security, family life, participation in cultural life, or access to housing, food, water, health care and education. The content of the rights protected by the ICESCR has been elaborated by the Committee on Economic, Social and Cultural Rights. According to this committee, State Parties to the Covenant have to make sure that water and food are available, accessible and of good quality.<sup>269</sup> The right to health refers to the right to a healthy living environment as well as the right to physical and mental health.<sup>270</sup>

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**This leads to assessment elements**

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1	The financial institution respects all human rights as described in the United Nations Guiding Principles on Business and Human Rights.
2	Companies respect all human rights as described in the United Nations Guiding Principles on Business and Human Rights.

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• **United Nations Guiding Principles on Business and Human Rights**

The 2011 United Nations Guiding Principles on Business and Human Rights (UNGPs) establish that companies, including financial institutions, should respect human rights. The responsibility to respect human rights is a global standard of expected conduct for all companies wherever they operate. It exists independently of states' abilities and/or willingness to fulfil their own human rights obligations, and does not diminish those obligations. Furthermore, this responsibility exists over and above compliance with national laws and regulations protecting human rights.

The responsibility to respect human rights requires that companies:<sup>271</sup>

- Avoid causing or contributing to adverse human rights impacts through their own activities, and address such impacts when they occur; and
- Seek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or services by their business relationships, even if they have not contributed to those impacts.

According to Principle 15 of the UNGPs, in order to meet the responsibility to respect human rights, companies should have in place:

- A *policy commitment* to meet their responsibility to respect human rights;
- A *human rights due-diligence process* to identify, prevent, mitigate and account for how they address their impacts on human rights; and
- Processes to enable the *remediation* of any adverse human rights impacts.

UNGPs 16 to 24 provide operational guidance on how the required policies and processes should be put into practice.

The UNGPs instead expect companies, including financial institutions, to identify general areas where the risk of adverse impacts is most significant and to prioritize due-diligence on their clients accordingly, through screening and monitoring clients when the risk is high, and/or when a risk is brought to the attention of the company (e.g. by an external stakeholder).

According to the UNGPs, if a company identifies a risk that it will *cause* an adverse impact, it is within its powers to cease or prevent that impact and should make sure to do so. If a company identifies a risk of *contributing* to an adverse impact, it has control over its contribution and should therefore cease or prevent its contribution and use its leverage with other entities also

contributing to the adverse impact to persuade them to cease or prevent any further impacts and to mitigate any remaining impacts to the greatest extent possible. In both cases, the enterprise should provide or *contribute to a remedy*.<sup>272</sup>

If a company identifies a risk or is made aware of adverse impacts being *directly linked* to its operations, products, and services through its business relationships, it should seek to use its leverage to influence the entity causing the adverse impact to prevent or mitigate that impact and future impacts. This can be done by the company itself or in co-operation with other entities, as appropriate.<sup>273</sup>

In July 2017, the [Office of the High Commissioner for Human Rights](#) (OHCHR) published an interpretative advice note on the banking sector's responsibilities for managing the human rights impacts of its finance. The OHCHR stressed that banks can contribute to adverse human rights impacts through their finance. In such circumstances, the bank may be responsible for remediating the human rights impact together with its client. The OHCHR also stated that a bank may be directly linked to a human rights impact through its finance, without contributing to it, in which case it would not be responsible for remedying the impact, although it may take a role in doing so.<sup>274</sup>

The [OECD Guidelines for Multinational Enterprises](#) and the fourth version of the [Equator Principles](#) have both aligned their human rights recommendations with the UNGPs.

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#### This leads to assessment elements

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1	The financial institution respects all human rights as described in the United Nations Guiding Principles on Business and Human Rights.
2	Companies respect all human rights as described in the United Nations Guiding Principles on Business and Human Rights.
3	Companies have a policy commitment to meet their responsibility to respect human rights.
4	Companies have a human rights due diligence process to identify, prevent, mitigate and account for how they address their impact on human rights.
5	Companies have processes to enable the remediation of any adverse human rights impact which they cause or to which they contribute.

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#### • **Grievance mechanisms**

In the [UNGPs](#), the lack of grievance procedures is mentioned as a weak point of companies. In an earlier report the Special Representative for Business and Human Rights had indicated that "In the absence of an effective grievance mechanism, the credibility of such initiatives and institutions may be questioned."<sup>275</sup>

Guiding Principle 29 therefore expects companies to establish or participate in effective operational-level grievance mechanisms for individuals and communities who may be adversely impacted. Guiding Principle 31 details the criteria to ensure the effectiveness of grievance mechanisms. It also includes expectation that mechanisms must be:<sup>276</sup>

- Legitimate;
- Accessible;
- Predictable;
- Equitable;
- Transparent;
- Rights-compatible;

- A source of continuous learning, and
- Based on engagement and dialogue.

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**This leads to assessment element**

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6	Companies establish or participate in effective operational-level grievance mechanisms for individuals and communities who may be adversely impacted.
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- **Land rights, conflicts and forced evictions**

Human rights, particularly Economic, Social and Cultural (ESC) rights, play a central role in land-related issues. Those who face threats to their land are being denied many rights such as the right to food, the right to water, the right to housing and the right to work. These rights are included in the above-mentioned [International Covenant on Economic, Social and Cultural Rights \(ICESCR\)](#).<sup>277</sup> Land is thus a critical cross-cutting issue at the nexus of social, environmental and governance rights. The links between land human rights, environmental issues and governance challenges such as corruption and extrajudicial violence are rendered invisible if land-related responsibilities are not articulated specifically. This principle has been well established in the business sector for several years.

The right to adequate housing encompasses the right to live in security, peace and dignity. To realize this right, governments have an obligation to guarantee security of tenure, which essentially means a set of arrangements in the context of housing and land that will protect the occupants from forced evictions and other threats and harassment.<sup>278</sup>

As noted by the UN Special Rapporteur on Adequate Housing Raquel Rolnik: "Involuntary resettlement amounts to a forced eviction when it occurs without the provision of, and access to, appropriate forms of legal or other protection."<sup>279</sup> The effects of forced evictions can be very serious, especially for people who are already living in poverty. The former UN Commission on Human Rights (currently the Human Rights Council) has described forced evictions as a "gross violation of human rights, particularly the right to adequate housing."<sup>280</sup>

The protection measures that should be applied to all evictions have been clearly articulated in the [Basic Principles and Guidelines on Development-based Evictions](#) (2007) developed by the former UN Special Rapporteur on Adequate Housing, Miloon Kothari. The principles reflect existing standards and jurisprudence on this issue and include detailed guidance on steps that should be taken prior to, during and following evictions in order to ensure compliance with relevant principles of international human rights law.

The former UN Special Rapporteur on the right to food, Olivier de Schutter, has developed a set of [core principles and measures to address the human rights challenge of large-scale land acquisition and leases](#). Outlined in 2009, these principles include the notion that any shifts in land use can only take place with the [Free, Prior and Informed consent \(FPIC\)](#) of the local communities concerned.<sup>281</sup> This is particularly important for indigenous communities, in view of the discrimination and marginalization they have been historically subjected to.<sup>282</sup>

The FAO developed the [Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security \(VGGT\)](#) in 2012, to improve the governance of tenure of land, fisheries and forests with the overarching goal of achieving food security for all and to support the progressive realization of the right to adequate food in the context of national food security.

In May 2011, the [Tirana Declaration](#) was adopted by over 150 representatives of civil society organisations, social movements, grassroots organizations, international agencies, and governments - including the members and strategic partners of the [International Land Coalition \(ILC\)](#) such as the World Bank, the Food and Agriculture Organization (FAO), the International Institute for Environment and Development (IIED) and the International Fund for Agricultural Development (IFAD). The Declaration defines land grabbing as: "acquisitions or concessions that are one or more of the following:

1. in violation of human rights, particularly the equal rights of women;
2. not based on free, prior and informed consent of the affected land-users;
3. not based on a thorough assessment, or are in disregard of social, economic and environmental impacts, including the way they are gendered;
4. not based on transparent contracts that specify clear and binding commitments about activities, employment and benefits sharing, and;
5. not based on effective democratic planning, independent oversight and meaningful participation."<sup>283</sup>

The extension of FPIC beyond merely indigenous communities (see next paragraph) to all affected communities, including communities with customary tenure rights, is an emerging good practice.<sup>284</sup> A large majority of local communities in Africa and developing countries, often depending on land and natural resources for their livelihoods and food security and most at risk of losing access to the land they use, are still left insufficiently protected.<sup>285</sup> FPIC has the advantage to correspond to a well-established definition with clear steps for the consultation.

A company should not acquire land, natural resources or associated licenses which – in their provenance – have been acquired illegally or in violation of local peoples' rights, even where formal land titles have been issued, creating confusion with legitimate land rights holders.<sup>286</sup> The issue of land-related rights violations means that these need to be seen as ongoing criminal acts until such time as land is returned to the rightful owners and custodians. This has been raised, for example, by groups such as the Interlaken group.<sup>287</sup>

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**This leads to assessment elements**

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| 7 | Companies prevent conflicts over land rights and acquire natural resources only by engaging in meaningful consultation with local communities and obtaining free, prior and informed consent (FPIC) when it concerns indigenous peoples. |
| 8 | Companies prevent conflict over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of peoples with customary tenure rights.   |
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- **Indigenous peoples' rights**

Indigenous peoples often face a number of land related challenges. Some of the most common include forced evictions due to development projects, discrimination, failure to respect and support indigenous modes of production such as pastoralism and subsistence hunting/gathering, dismissal of their customary systems of governing land and other natural resources, or disregard of their sacred sites and the spiritual relationship with their lands. Moreover, indigenous peoples' traditional lands are often located in remote areas that have fragile ecosystems which makes them more vulnerable to natural disasters.<sup>288</sup>

The [UN Declaration on the Rights of Indigenous Peoples \(UNDRIP\)](#), adopted in 2007, sets out the individual and collective rights of indigenous peoples, including their right to self-determination and to maintain and strengthen their distinct political, legal, economic, social and cultural institutions. The Declaration also prohibits discrimination against indigenous

peoples. Moreover, it recognizes the rights of indigenous peoples to their land, habitat and other resources that they traditionally own, cultivate or otherwise use. In addition, indigenous people are guaranteed in the Declaration the right not to be forcibly removed from their lands or territories, and that no relocation shall take place without their free, prior and informed consent (FPIC) and after agreement on just and fair compensation and, where possible, with the option of return.<sup>289</sup>

Additionally, article 8(j) of the [Convention on Biological Diversity \(CBD\)](#), adopted in 1992, considers the fair and equal use and the advantages of biological diversity, and requires that traditional knowledge of indigenous and local communities can only be used with their permission. According to the related [Nagoya Protocol on Access and Benefit-Sharing](#), adopted in 2010, this also applies to access to and utilization of genetic resources. Furthermore, the 2004 [Akwé: Kon Voluntary Guidelines](#) set out a guidance for the conduct of cultural, environmental and social impact assessments regarding developments proposed to take place or which are likely to impact on sacred sites and on lands and waters traditionally occupied or used by indigenous and local communities.

The International Labour Organisation (ILO) has also developed relevant international standards for indigenous peoples. The [Convention concerning Indigenous and Tribal Peoples \(No. 169\)](#) protects countries and habitats of indigenous peoples. The convention describes measures to protect the rights of these peoples on the use of areas they had traditionally access to and that are important for their livelihood and traditional activities. It includes the right of indigenous peoples to Free, Prior and Informed Consent (FPIC) on decisions that can influence their habitats and natural resources.<sup>i</sup>

The [Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security \(VGGT\)](#) refer the need for states and other actors to recognize the “social, cultural, spiritual, economic, environmental and political value” of lands, fisheries and forests to indigenous peoples.<sup>290</sup> The VGGT refer to the [UN Declaration on the Rights of Indigenous Peoples](#) and require participation, meaningful consultation and FPIC when indigenous lands or territories are affected.

At the regional level, it is relevant to highlight that the Inter-American Development Bank recognises in its 2006 multisectoral [Operational Policy on Indigenous Peoples and Strategy for Indigenous Development](#) that the life and the culture of peoples that live in voluntary isolation or have not yet been in contact with the outside world have to be protected against potential investments. The bank obliges itself not to invest in or finance any project that may have negative consequences for these peoples.<sup>291</sup>

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i In its Working Paper on FPIC the United Nations Workgroup Indigenous Peoples of the Sub-Commission on the Promotion and Protection of Human Rights describes the right of indigenous peoples to Free, Prior Informed Consent (FPIC) on decisions that can influence their habitats and natural resources. The FPIC-principle requires the full and timely publication of information on the potential consequences of proposed investment plans. Communities have the right to respond to this in a negotiation process. This gives them more influence in decision-making processes, offers them the opportunity to negotiate any direct advantages and to speak out in favour of or against the plans.

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**This leads to assessment elements**

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7	Companies prevent conflicts over land rights and acquire natural resources only by engaging in meaningful consultation with local communities and obtaining free, prior and informed consent (FPIC) when it concerns indigenous peoples.
8	Companies prevent conflict over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of peoples with customary tenure rights.

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- **Children's rights**

The Convention on the Rights of the Child, adopted in 1989, contains the fundamental rights of children that State Parties need to respect, protect and fulfil, including the rights to survival, to be able to fully develop, to be protected from harmful influences, abuse and exploitation and to fully participate in the family and in social and cultural life.

In 2012, UNICEF, UN Global Compact and Save the Children released the Children's Rights and Business Principles, which is the first comprehensive set of principles to guide companies on the full range of actions they can take in the workplace, marketplace and community to respect and support children's rights.

Moreover, the UN Declaration on the Rights of Indigenous Peoples calls on States to pay particular attention to the rights and special needs of indigenous children when measures are taken to ensure continuing improvement of economic and social conditions. It also calls for full protection and guarantees against all forms of violence and discrimination against children.<sup>292</sup>

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**This leads to assessment element**

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9	Companies have special attention for respecting the rights of children.
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- **Activities in occupied territories**

International Humanitarian Law (IHL) applies in situations of armed conflict. It seeks to limit the effects of armed conflict by protecting persons who are not participating in hostilities, for example civilians, and by restricting and regulating the means and methods of warfare by combatants. IHL is inspired by considerations of humanity and aims to mitigate human suffering. IHL also includes provisions for situations of occupation and sets out obligations for the party occupying an area to ensure the rights of the population in that area.

IHL regulating occupation is described in the Fourth Geneva Convention from 1949, most of which has become customary international law. Among others, this convention prohibits transfer of the occupying country's population into the territory, forcible transfer and confiscation of private land and property of the protected population, and changing the laws of the occupied territories. It also sets out that some of these violations (e.g. forcible transfer) amount to war crimes.

Settlements in occupied territories are consequences of, maintain and constitute various violations of IHL and customary international law. Beyond that, settlements and the infrastructure that enables settlements also violate human rights of the protected population, triggering human rights responsibilities of enterprises.<sup>293</sup>

The UNGPs prescribe that enterprises should respect human rights and IHL. Therefore, companies that endorsed the UNGPs are expected to have knowledge of both human rights and IHL, to ensure that the conduct of the businesses they support is in line with it. Companies need to make sure they do not enable settlements, including their economic activities, in occupied territories.



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**This leads to assessment element**

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10	Companies do not enable settlements, including their economic activities, in occupied territories in respect of International Humanitarian Law.
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- **Other guidelines for companies**

The [OECD Guidelines for Multinational Enterprises](#) are recommendations by governments to multinational corporations. They contain voluntary guidelines and standards for responsible enterprise behaviour in line with relevant legislation. According to the guidelines, companies have to respect the human rights of people affected by their activities. In the 2011 update, the recommendations were entirely aligned with the UNGPs.

The [OECD Due Diligence Guidance for Responsible Business Conduct](#) provides practical support to companies on the implementation of the OECD Guidelines for Multinational Enterprises by providing plain language explanations of its due diligence recommendations. Implementing these recommendations can help companies avoid and address adverse impacts that may be associated with their operations, supply chains and other business relationships.

The various [IFC Performance Standards](#) consider human rights as a cross-cutting theme and stress the importance of avoiding human rights violations and addressing all negative human rights impacts that companies may have.

The fourth version of the [Equator Principles](#), published in November 2019, have also aligned their guidelines on human rights with the UNGPs.

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**This leads to assessment elements**

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1	The financial institution respects all human rights as described in the United Nations Guiding Principles on Business and Human Rights.
2	Companies respect all human rights as described in the United Nations Guiding Principles on Business and Human Rights.
11	Companies integrate human rights criteria into their procurement and operational policies.

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The [ISO 26000:2010 Guidance on social responsibility](#) recognise the importance of human rights. In this guideline for social responsibility of organisations, 'respect for human right is one of the seven principles. In the core issue, the main underlying topics – risk situations, due diligence, avoiding complicity, solving grievances, discrimination and vulnerable groups, civil and political rights, economic, social and cultural rights and fundamental principles and labour rights – are elaborated further into actions and expectations.<sup>294</sup>

ISO 26000:2010 also recognize the importance of integrating human rights criteria in procurement. The guidelines state that companies are often part of long production chains, and ask companies to monitor one another as well as question how they respect local and national legislation and international norms on labour rights. The requirements that companies set for their suppliers can be included in contractual agreements.<sup>295</sup>

In addition, [ISO 20400:2017 Sustainable procurement – Guidance](#) provides guidelines for organizations, independent of their activity or size, on integrating sustainability within procurement, as described in ISO 26000:2010 Guidance on social responsibility. It is intended for stakeholders involved in, or impacted by, procurement decisions and processes.

The [UN Global Compact](#) also contains relevant principles, such as the following:

- Businesses should support and respect the protection of internationally proclaimed human rights.
- Businesses should make sure that they are not complicit in human rights abuses.

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**This leads to assessment elements**

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1	The financial institution respects all human rights as described in the United Nations Guiding Principles on Business and Human Rights.
2	Companies respect all human rights as described in the United Nations Guiding Principles on Business and Human Rights.
4	Companies have a human rights due diligence process to identify, prevent, mitigate and account for how they address their impact on human rights.
11	Companies integrate human rights criteria into their procurement and operational policies.
12	Companies include clauses on compliance with human rights criteria in their contracts with subcontractors and suppliers.

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### 2.6.3 Assessment elements

Although financial institutions are usually not directly involved in violations of human rights, they can be held jointly responsible if the companies or governments in which they invest violate human rights. After all, the responsibility to respect human rights requires companies not only not to cause, or contribute to, a negative impact on human rights with their own activities, but also to try to prevent or mitigate a negative impact on human rights made by their business relationships, when such is directly linked to their own operations, products or services, even if they did not contribute to this impact directly.<sup>296</sup>

The following elements are crucial for a policy regarding the financial institution's internal operations:

1. The financial institution respects all human rights as described in the United Nations Guiding Principles on Business and Human Rights.

The following elements are crucial for a policy regarding the companies a financial institution invests in or finances:

2. Companies respect all human rights as described in the United Nations Guiding Principles on Business and Human Rights.
3. Companies have a *policy commitment* to meet their responsibility to respect human rights.
4. Companies have a *human rights due diligence process* to identify, prevent, mitigate and account for how they address their impact on human rights.
5. Companies have processes to enable the *remediation* of any adverse human rights impact which they cause or to which they contribute.
6. Companies establish or participate in effective operational-level grievance mechanisms for individuals and communities who may be adversely impacted.
7. Companies prevent conflicts over land rights and acquire natural resources only by engaging in meaningful consultation with local communities and obtaining free, prior and informed consent (FPIC) when it concerns indigenous peoples.
8. Companies prevent conflict over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of peoples with customary tenure rights.
9. Companies have special attention for respecting the rights of children.

10. Companies do not enable settlements, including their economic activities, in occupied territories in respect of International Humanitarian Law.
11. Companies integrate human rights criteria into their procurement and operational policies.
12. Companies include clauses on compliance with human rights criteria in their contracts with subcontractors and suppliers.

## 2.7 Labour rights

### 2.7.1 What is at stake?

Protecting people in their working environment is a fundamental responsibility of companies and governments. According to the International Labour Organisation (ILO), companies should engage in fair recruitment practices and should be able to prove that their employees have a safe work environment, that they are not discriminated against or mistreated, that they can deal freely with colleagues, labour unions and representative organisations, and that they are remunerated in a fair way for their services. These basic rights apply to all employees, without distinction of any kind, such as race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth, or other status. Meeting these conditions helps when developing a strong work force that can contribute to the development of sustainable *human capital*. In addition, ensuring labour rights can contribute to the democratisation of societies, which leads to a more favourable investment climate for the corporate world.

A living wage and more stringent maximum working hours, investments in professional training and respect for equality lead to better trained and more satisfied employees. In addition, safety requirements are essential to prevent accidents and to minimise the number of people that need health care. Protection of employment agreements can encourage employees to think innovatively and choose new paths. Furthermore, developing direct communication channels between employees and employers and setting up grievance and mediation procedures can contribute to productivity growth and to a greater stability of the labour market.<sup>297</sup>

Special attention for the position of women in the labour market is important. If women earn an income, this contributes strongly to the health and productivity of families and even communities, as well as to improved prospects for their children and future generations.<sup>298</sup> The UN Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) endorses the right of women not to be discriminated against regarding education, labour relations, and economic and social activities.<sup>299</sup> Working environments where men and women are treated equally are of great importance in helping to reduce poverty and improve standards of living. In addition, it is important that such factors are also considered for women during and around the period of pregnancy. Sustainable Development Goal 5 is aimed at ending discrimination against women and girls and eliminating all forms of violence against women and girls.<sup>300</sup>

Special attention is also needed for the position of migrant workers. With globalisation, the number of people moving abroad to work is rapidly increasing. A 2018 ILO report estimates that migrant workers account for 164 million out of 258 million international migrants.<sup>301</sup> While this may provide migrant workers with significant opportunities to improve their livelihoods, in the absence of proper regulations they are also vulnerable to a host of violations, from unfair recruitment practices to outright exploitation and horrific working conditions.<sup>302</sup>

The financial and economic crises the last decade have had a significant impact on the job market: there is less security and more precarious work for employees. In 2018 – ten years after the global financial crisis – the rate of global unemployment had finally recovered to its pre-crisis level of around 5.0% (172 million people). However, even among wage and salaried workers, job insecurity is a major problem, as less than half have a permanent contract. The ILO concludes that the world community is facing a challenge to strengthen labour market institutions and ensure the proper design of social protection systems. In particular, financial reform is required to ensure that financial institutions perform their role of channelling resources into the real economy and into investments for sustainable enterprise expansion and job creation.<sup>303</sup>

This is also the aim of SDG 8: Decent Work and Economic Growth: “Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all”.<sup>304</sup> One of the targets aims to: “eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms.” A 2019 joint report by the ILO, the OECD, UNICEF and the International Organization for Migration (IOM) estimated that 152 million children are in child labour, while around 25 million adults were in forced labour, including in global supply chains. While this indicates a clear responsibility for states to step up efforts, the report also emphasizes the need to foster and incentivize responsible business conduct in global supply chains.<sup>305</sup>

The Sustainable Development Goals also include targets on protecting labour rights and promoting safe and secure working environment for all workers, including migrant workers, in particular women migrants, and those in precarious employment.<sup>306</sup> SDG 10: Reduced Inequalities is also related to labour rights and working conditions as it focuses on adopting and improving fiscal, wage and social protection policies for achieving greater equality.<sup>307</sup>

The policies of financial institutions have to ensure they only invest in or finance companies that respect labour rights and provide decent jobs, ensuring proper working conditions. When developing policies in this respect, financial institutions can make use of the international standards described below.

### 2.7.2 International standards and initiatives

The main international standards on labour rights are summarised per topic, followed by the assessment elements that are formulated by the FFGI as a result:

- **ILO fundamental principles**

The body that establishes international labour standards is the United Nations International Labour Organisation (ILO) in which governments, employers, and employees cooperate. As of 2019, the ILO has adopted 190 conventions and 206 recommendations that together deal with a wide spectrum of labour issues.<sup>i</sup>

With the adoption of the ILO Declaration on Fundamental Principles and Rights at Work in 1998, the ILO identified eight of its conventions as “fundamental” conventions. These eight cover four topics that are considered as the fundamental principles and rights at work:<sup>308</sup>

- The freedom of association and the effective recognition of the right to collective bargaining;<sup>309</sup>
- The elimination of all forms of forced and compulsory labour;<sup>310</sup>
- The effective abolition of child labour;<sup>311</sup> and
- The elimination of discrimination in respect of employment and occupation.<sup>312</sup>

In some countries, some of these principles and rights are not yet guaranteed within financial institutions’ internal operations and supply chain policies. Therefore, it is necessary to have policies in place regarding the relevant ILO principles that apply to financial institutions themselves.<sup>313</sup>

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i For a complete overview see the NORMLEX database, online: [www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:1:0::NO::](http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:1:0::NO::), viewed in November 2019.

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**This leads to assessment elements**

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1	The financial institution respects the ILO Declaration on Fundamental Principles and Rights at Work.
2	The financial institution integrates at least the labour standards of the ILO Declaration on Fundamental Principles and Rights at Work in its procurement and operational policies.
3	Companies uphold the freedom of association and the effective recognition of the right to collective bargaining.
4	All forms of forced and compulsory labour are unacceptable.
5	Child labour is unacceptable.
6	Discrimination in respect of employment and occupation is unacceptable.

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- **Working conditions**

Another leading ILO document is the [Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy \(MNE Declaration\)](#), adopted in 1977. The MNE Declaration focuses on the responsibility of companies and specifically on their dealings with labour issues. The revision of 2017 takes into account new labour standards adopted by the International Labour Conference, the UN Guiding Principles on Business and Human Rights and the 2030 Agenda for Sustainable Development, in particular on SDG 8: Decent Work and Economic Growth.<sup>314</sup> The MNE Declaration emphasizes the responsibilities of both governments and companies regarding the following topics:<sup>315</sup>

- General policies
- Employment promotion
- Social security
- Elimination of forced or compulsory labour
- Effective abolition of child labour: minimum age and worst forms
- Equality of opportunity and treatment
- Security of employment
- Training
- Wages, benefits and conditions of work
- Safety and health
- Freedom of association and the right to organize
- Collective bargaining
- Consultation
- Access to remedy and examination of grievances
- Settlement of industrial disputes

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**This leads to assessment elements**

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6	Discrimination in respect of employment and occupation is unacceptable.
8	Companies pay a living wage to their employees.
9	Companies apply a maximum of working hours.
10	Companies have a comprehensive health and safety policy.
11	Companies ensure equal treatment and working conditions for migrant workers.
12	Companies have a clear management system to monitor and, if needed, correct compliance with norms on labour law.

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- **Fair recruitment**

Aside from fundamental principles and working conditions, recruitment is an area of particular interest. As the ILO mentions, while private employment agencies may serve an important function in ensuring an efficient and equitable (international) labour market, in the absence of a proper regulatory framework the potential for abuse is significant.<sup>316</sup> This is especially the case for workers seeking jobs outside of their communities or countries. With growing numbers of internal and international labour migrants, fostering fair recruitment practices is an area of increasing relevance. In the context of the [Fair Recruitment Initiative](#), the ILO published its [General Principles and Operational Guidelines for Fair Recruitment](#) in 2019.<sup>317</sup>

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**This leads to assessment element**

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7	Companies are committed to fair recruitment practices.
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- **Living wage**

The ILO describes a living wage as “the level of wages sufficient to meet the basic living needs of an average-sized family in a particular economy.”<sup>318</sup> ILO documents referring to living wage include the ILO Constitution and its preamble, the 2017 [ILO Tripartite Declaration on Principles concerning Multinational Enterprises and Social Policy \(MNE Declaration\)](#) and the 2008 [ILO Declaration on Social Justice for a Fair Globalization](#).

The [Universal Declaration of Human Rights \(UDHR\)](#) states that “everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity”.<sup>319</sup> In addition, the 2011 [OECD Guidelines for Multinational Enterprises](#) recommend paying a wage that “should be at least adequate to satisfy the basic needs of the workers and their families”.<sup>320</sup>

Standards on workers’ rights and conditions such as those put forth by the organisations [Ethical Trading Initiative](#) and [Fair Wear Foundation](#), [Global Living Wage Coalition](#) also mention that a living wage should provide discretionary income in addition to cover the family’s basic needs and be earned within a standard working week.

The common ground of the above definitions is that a ‘living wage’ is regarded as a family income earned within a standard working week, should be sufficient to meet basic needs, usually conceived of as the ability to obtain adequate food, clean water, shelter, clothes, education, healthcare, transport and energy, and provide some discretionary income.<sup>321</sup>

Workers in many producing countries are not paid enough to support themselves and their families. While some of these countries do have a legal minimum wage, it is often much lower than a living wage.

The [Platform Living Wage Financials](#) is a coalition of financial institutions committed to encourage and monitor investee companies to “address the non-payment of living wage in global supply chains”.<sup>322</sup> The coalition is particularly focused on sectors that rely on manual labour, such as the garment and footwear industries, food retail, and companies in the food and agricultural supply chain. As of January 2020, the coalition counted 13 members, representing around EUR 2.6 trillion in assets under management (AUM).

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**This leads to assessment element**

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8	Companies pay a living wage to their employees.
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- **Children’s rights**

The United Nations [Convention on the Rights of the Child](#) supports the appeal for the effective abolition of child labour.

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**This leads to assessment element**

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5	Child labour is unacceptable.
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- **Women’s rights**

The [UN Convention on the Elimination of All Forms of Discrimination Against Women](#) endorses the right of women not to be discriminated against regarding education, labour relations and economic and social activities.

See for more information on this topic the theme Gender equality (section 2.4) and the theme Human rights (section 2.6).

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**This leads to assessment element**

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6	Discrimination in respect of employment and occupation is unacceptable.
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- **Migrant workers**

The [United Nations Convention on the Protection of the Rights of All Migrant Workers and Their Families](#) adopted in 1990 emphasises the connection between migration and human rights and aims to protect migrant workers and their families. The Convention does not bring any new rights for migrants into existence, but intends to guarantee equal treatment and working conditions for migrants and nationals.

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**This leads to assessment element**

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11	Companies ensure equal treatment and working conditions for migrant workers.
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- **Occupational Health and safety**

The [ISO 45001:2018 Occupational health and safety](#) provides globally applicable guidelines for management systems regarding occupational health and safety. It applies to all kinds of organisations and it serves to guarantee the health and safety of both employees and external stakeholders, such as contractors’ staff and visitors. The IFC has included occupational health and safety requirements in both its [Performance Standards](#) and its [Environmental Health and Safety Guidelines](#). The ILO has asserted the right to a safe and healthy work environment first in its 1981 [Occupational Safety and Health Convention](#) and most recently in the 2017 [Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy \(MNE Declaration\)](#).

For more information on this topic, see the theme Health (section 2.5).

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**This leads to assessment element**

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10	Companies have a comprehensive health and safety policy.
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- **Other guidelines for companies**

Various guidelines for companies endorse the four fundamental ILO principles and rights at work, as well as the MNE Declaration:



- According to the [United Nations Guiding Principles on Business and Human Rights \(UNGPs\)](#), the responsibility of companies includes the fundamental principles of the ILO, together with the International Bill of Human Rights;
  - The [UN Global Compact](#) has added the four fundamental ILO principles and rights at work to the ten principles of responsible business;
  - The [IFC Performance Standards](#) are used in decision-making on financing by the International Finance Corporation;
  - After the revision in 2011, the [OECD Guidelines for Multinational Enterprises](#) are entirely aligned with the UNGPs and also contain principles for supply chain responsibility;
  - The [ISO 26000:2010 Guidance on social responsibility](#) recognise the importance of labour rights and good working conditions by the so-called core issue on labour practice and make various actions and expectations on a variety of related topics.<sup>323</sup>
  - International companies can conclude an [International Framework Agreement \(IFA\)](#) with an international umbrella trade union. In an IFA, set agreements can be established on labour conditions, working conditions, and labour rights for all employees, and sometimes also subsidiaries and suppliers of the enterprise. The international employer's organisation IOE has written papers about drafting an IFA.
- **Procurement and supply chains**

Companies are often part of long procurement and supply chains. They can monitor one another and question how they respect local and national legislation and international norms on labour rights. The requirements that companies set for their suppliers can be included in contractual agreements.

The importance of this has also been recognised in the [OECD Guidelines for Multinational Enterprises](#) since its revision in 2011. The [OECD Due Diligence Guidance for Responsible Business Conduct](#) provides practical support to companies on the implementation of the OECD Guidelines for Multinational Enterprises by providing plain language explanations of its due diligence recommendations. Implementing these recommendations can help companies avoid and address adverse impacts that may be associated with their operations, supply chains and other business relationships.

Furthermore, [ISO 26000:2010 Guidance on social responsibility](#) recognises the importance of supply chain responsibility, because "the impacts of an organization's decisions or activities can be greatly affected by its relationships with other organizations".<sup>324</sup> A company's sphere of influence includes relationships within and beyond an organization's supply chain. Moreover, ISO 26000:2010 Guidance on social responsibility recommends setting contractual provisions or incentives as a means of exercising influence.<sup>325</sup>

In addition, [ISO 20400:2017 Sustainable procurement – Guidance](#) provides guidelines for organizations, independent of their activity or size, on integrating sustainability within procurement, as described in ISO 26000:2010 Guidance on social responsibility. It is intended for stakeholders involved in, or impacted by, procurement decisions and processes.

The [United Nations Guiding Principles on Business and Human Rights](#) include a due diligence process in order to identify, prevent, mitigate and account for how companies address their adverse human rights impacts. The process "should cover adverse human rights impacts that the business enterprise may cause or contribute to through its own activities, or which may be directly linked to its operations, products or services by its business relationships."<sup>326</sup>

Usable standard regarding labour rights and supply chain responsibility are the [SA8000:2014](#), the [FTSE4 Good Supply Chain Labour Standards Criteria](#) and [Fair Labour Association's Workplace Code of Conduct](#).

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**This leads to assessment elements**

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14	Companies integrate labour rights criteria in their procurement and operational policies.
15	Companies include clauses on the compliance with criteria on labour rights in their contracts with subcontractors and suppliers.

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### 2.7.3 Assessment elements

Like other companies, financial institutions are expected to respect local, national, and international labour-related legislation and legal systems, and to endorse the four fundamental ILO principles, labour rights and the MNE Declaration in all their spheres of influence (as employers, in investees and in their production chains).

The following elements are crucial for a policy regarding the financial institution's internal operations:

1. The financial institution respects the ILO Declaration on Fundamental Principles and Rights at Work.
2. The financial institution integrates at least the labour standards of the ILO Declaration on Fundamental Principles and Rights at Work in its procurement policies.

The following elements are crucial for a policy regarding the companies a financial institution invests in or finances:

3. Companies uphold the freedom of association and the effective recognition of the right to collective bargaining.
4. All forms of forced and compulsory labour are unacceptable.
5. Child labour is unacceptable.
6. Discrimination in respect of employment and occupation is unacceptable.
7. Companies are committed to fair recruitment practices.
8. Companies pay a living wage to their employees.
9. Companies apply a maximum of working hours.
10. Companies have a comprehensive health and safety policy.
11. Companies ensure equal treatment and working conditions for migrant workers.
12. Companies have a clear management system to monitor and, if needed, correct compliance with norms on labour law.
13. Companies establish procedures on how to deal with and process employee complaints and how to solve violations and conflicts, preferably in consultation with the relevant trade union.
14. Companies integrate labour rights criteria in their procurement policies.
15. Companies include clauses on the compliance with criteria on labour rights in their contracts with subcontractors and suppliers.

## 2.8 Nature

### 2.8.1 What is at stake?

The biological diversity of planet earth - its ecosystem diversity, species diversity and genetic diversity - forms a complex web of life that is of great importance to the economic and social development of our society, for our culture and for our leisure facilities. The accelerating decline of the global biodiversity (nature) is one of the most urgent environmental concerns.<sup>327</sup> The loss of biodiversity imposes huge potential costs and risks, such as the destruction of habitats, the loss of the functions of ecosystems, the threat of the food supply and the loss of medicinal plants.<sup>328</sup> The care for the natural riches of the world is a moral and ethical responsibility for all mankind.

In 2016, the UNEP released the Global Environmental Outlook (GEO-6): Regional Assessments. These are six separate reports that offer detailed examinations of the environmental issues affecting each of the world's six regions: the Pan-European region, North America, Asia and the Pacific, West Asia, Latin America and the Caribbean, and Africa. The reports find that the world shares a host of common environmental threats that are quickly becoming worse in many parts of the world. For example, in almost every region, the combination of population growth, rapid urbanization, rising levels of consumption, desertification, land degradation and climate change lead to countries suffering from severe water scarcity. These worrying trends are also making it increasingly hard for the world to feed itself, warn the reports. Despite the negative outlook, the reports conclude that there is still time to change course on several issues.<sup>329</sup>

According to the Intergovernmental Panel on Climate Change (IPCC) "impacts from recent climate-related extremes, such as heat waves, droughts, floods, cyclones and wildfires, reveal significant vulnerability and exposure of some ecosystems and many human systems to current climate variability".<sup>330</sup> IPCC argues that climate change will alter the structure and functioning of most ecosystems, it will reduce biodiversity and therefore compromise the ecosystem services required by life on earth: "A large fraction of species faces increased extinction risk due to climate change during and beyond the 21st century, especially as climate change interacts with other stressors (high confidence). Most plant species cannot naturally shift their geographical ranges sufficiently fast to keep up with current and high projected rates of climate change in most landscapes; most small mammals and freshwater molluscs will not be able to keep up at the rates projected under RCP4.5 and above in flat landscapes in this century (high confidence). Future risk is indicated to be high by the observation that natural global climate change at rates lower than current anthropogenic climate change caused significant ecosystem shifts and species extinctions during the past millions of years."<sup>331</sup>

Preserving nature is adequately recognized by the Sustainable Development Goals (SDGs) and specifically by the SDGs 14 and 15, which focus on targets to preserve nature. SDG 14: Life Below Water includes targets to reduce marine pollution, sustainably manage and protect marine and coastal ecosystems, minimize and address the impacts of ocean acidification, effectively regulate harvesting and end overfishing, illegal and destructive fishing practices, and many more.<sup>332</sup> Similarly, SDG 15: Life on Land promotes the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation, restore degraded land and soil, reduce the degradation of natural habitats, halt the loss of biodiversity and many more.<sup>333</sup>

Furthermore, SDG 2: Zero Hunger focuses on ensuring food security to everyone without compromising on nature.<sup>334</sup> SDG 3: Good Health and Well-being targets to substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination, which indirectly safeguard nature, not only the well-being of people.<sup>335</sup> SDG 6: Clean Water and Sanitation includes a target to improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally. This target also contributes in preserving the nature.<sup>336</sup>

According to the Partnership for European Environmental Research, *greening* the economy requires "that natural assets continue to provide the resources and ecosystem services on which our well-being relies".<sup>337</sup> A study of this group of European academics concluded: "transitioning to green economies is never purely based on win-win solutions, but requires taking into account potential trade-offs among multiple goals, across sectors and international leakage. The case studies indicate the need for far-sighted and multiple-source planning of funding of green economy initiatives".<sup>338</sup> This highlights the need for financial institutions to take into account natural assets in their financing policies.

The investment policy of financial institutions should ensure that financial institutions are only involved in investments in companies and governments that aim to prevent further loss to natural riches and also put this principle into systematic practice. When developing policies in this respect, financial institutions can make use of the international standards described in section 2.8.2.

### 2.8.2 International standards and initiatives

The main international standards on nature are summarised per topic, followed by the assessment elements that are formulated by the FFGI as a result:

- **Protection of ecosystems and habitats**

Various international agreements require the protection of ecosystems and natural habitats:

- The 1992 UN Convention on Biological Diversity (CBD) demands that each member state establishes a system to preserve the biodiversity in protected areas, or ensure the protection of ecosystems in other ways. Virtually all countries in the world have signed the convention.<sup>339</sup> In April 2002, the signatory countries of the CBD agreed that they will "achieve by 2010 a significant reduction of the current rate of biodiversity loss at the global, regional and national level as a contribution to poverty alleviation and the benefit of all life on Earth". In November 2010, the CBD achieved a new agreement, in which it was agreed that 10% of the oceans are marked as natural areas, more stringent laws have to be created to protect fish and that the amount of protected land will grow from 13% to 17%.
- The 1982 UN Convention on the Law of the Sea (UNCLOS) obliges all signatory countries to protect and preserve the biodiversity in ocean areas. The protection of specific ocean areas is dealt with in the Regional Seas Conventions, which falls under the UN Environmental Programme (UNEP). Also, the International Coral Reef Initiative focuses on specific ocean areas.
- The biodiversity in areas that are important on environmental and cultural grounds falls under the protection of the UNESCO World Heritage Convention.
- For *wetlands* (swamps and bogs), which are rich in biodiversity, the Ramsar Convention on Wetlands ensures protection and proper management.

- The [International Union for Conservation of Nature \(IUCN\)](#) has developed a system that categorises natural areas in six categories and indicates in which areas biodiversity has to be protected (category I to IV). In addition, the IUCN provides guidelines for companies on how to deal with fields that fall within these [Protected Area Management Categories](#). In 2000, a resolution was adopted on the IUCN World Conservation Congress that calls upon all states not to allow investments in oil, gas and extractive industry projects in the protected areas (categories I to IV).
- The [United Nations Environmental Assembly](#) adopted a [resolution on pollution mitigation by mainstreaming biodiversity into key sectors](#) in 2017: “The resolution aims at strengthening efforts to integrate conservation and sustainable use of biodiversity in various sectors such as agriculture, fisheries and aquaculture, tourism, mining and energy, infrastructure and manufacturing among others. It also points to the need to prevent and reduce pollution from these sectors”.<sup>340</sup>

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**This leads to assessment elements**

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1	Companies prevent negative impacts on High Conservation Value (HCV) areas within their business operations and the areas they manage.
2	Companies prevent negative impacts on protected areas that fall under the categories I-IV of the International Union for Conservation of Nature (IUCN) within their business operations and the areas they manage.
3	Companies prevent negative impacts on UNESCO World Heritage sites within their business operations and the areas they manage.
4	Companies prevent negative impacts on protected areas that fall under the Ramsar Convention on Wetlands within their business operations and the areas they manage.

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- **Protection of plant and animal species**

The most obvious step for the preservation of biodiversity is the protection of endangered species of flora and fauna. A leading report of endangered species is the [IUCN Red List of Threatened Species](#). The habitat of these endangered species is protected by the [Convention on the Conservation of Migratory Species of Wild Animals](#) (1979). This treaty also aims to restrict exploitation of areas where wild and endangered migratory animal species reside. Other global and regional conventions prohibit or restrict the commercial exploitation of whales, migratory birds, polar bears, sea turtles and seals.<sup>341</sup> Companies should have policies in place to avoid negative consequences to the habitats of endangered species.

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**This leads to assessment element**

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5	Companies prevent negative impacts for the populations or the number of animal species that are on the IUCN Red List of Threatened Species.
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- **Trade in endangered species**

The [Convention on International Trade in Endangered Species of Wild Fauna and Flora \(CITES\)](#) sets stringent conditions for the international trade in all endangered species with demands for national legislation from the countries that have ratified the convention. CITES applies three lists with species that are more or less threatened with extinction. Animal and plant species included in Appendix I may only be traded in exceptional situations, while the trade in species included in Appendix II is monitored to ensure that they are not endangered. Appendix III concerns species that are endangered in at least one country and where other countries are asked for help in monitoring the trade.<sup>342</sup>

Companies should at least adhere to the conditions of CITES, but preferably refrain from trade in species on all appendices of the CITES list.

Except for the protection of endangered animal species, conservation of nature requires that animal species that are not (yet) endangered are not unduly captured. The CBD demands that countries “restore habitats and use their resources in a sustainable way to ensure species diversity”.<sup>343</sup> This topic is also dealt with in section 3.4.2 on Food and section 3.5.2 on Forestry.

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**This leads to assessment elements**

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6	Trade in endangered plant and animal species complies with the CITES conditions.
7	Trade in endangered plant and animal species that are on the CITES lists is unacceptable.

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- **Protection of genetic material**

The [UN Convention on Biological Diversity \(CBD\)](#) demands that companies that want to have access to genetic material from abroad have to obtain prior permission from the exporting country and have to make clear agreements for the use of the material.

The [Bonn Guidelines](#) are recognized as a useful first step in the implementation of relevant provisions of the CBD and are meant to assist stakeholders in developing access to genetic resources and benefit-sharing strategies.

The [Cartagena Protocol on Biosafety to the Convention on Biological Diversity \(Cartagena Protocol\)](#) speaks about Living Modified Organisms (LMOs) which are in every day usage known as Genetically Modified Organisms (GMOs). These are defined as any living organism that possesses a novel combination of genetic material obtained through the use of modern biotechnology. The Cartagena Protocol does not prohibit the use of GMOs in itself but has developed a framework for the safe handling, transport and use of GMOs that may have a harmful effect on biodiversity and human health and entail trans-boundary risks. The protocol also requires permission from the importing country before it is permitted to import GMOs.

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**This leads to assessment elements**

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8	Activities in the field of genetic materials and genetic engineering only take place if they meet the permission and processing requirements as described in the UN Convention on Biological Diversity and the related Bonn Guidelines or Nagoya Protocol.
9	Production of, or trade in, living genetically modified organisms can only take place if permission has been obtained from the importing country and all requirements of the Cartagena Protocol have been met.

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- **Invasive alien species**

Nature is also threatened by the intended and unintended introduction of [invasive alien species](#). When these are outside their natural habitat, they can drive off indigenous species and take over their habitat. *Exotic invaders* can be found all over the world, but mainly pose a problem for the ecosystems of islands. Therefore, the UNCLOS and the CBD both require that member states prevent the import and introduction of alien species in order to keep it under strict control.

On 1 January 2015 the [EU Regulation 1143/2014 on Invasive Alien Species](#) entered into force. This Regulation seeks to address the problem of invasive alien species in a comprehensive manner so as to protect native biodiversity and ecosystem services, as well as to minimize and mitigate the human health or economic impacts that these species can have. Amongst others,

Member States will have to draw up a list of invasive species, perform risk assessment and set up early detection measures.<sup>344</sup>

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**This leads to assessment element**

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10	Companies prevent the introduction of invasive alien species in ecosystems.
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- **Water use**

Given the growing challenge of water scarcity in many regions of the world, it is vital that companies and financial institutions become aware of their own influence on water related problems. First of all, companies should engage with stakeholders in order to learn how to avoid negative impacts and limit their water use wherever possible. However, this alone is not sufficient, commitments to improve practices are necessary. Companies should be aware of the possible negative effects their operations could have in a possible location for business operations.

This should consider effects both in the short term and in the long term, in order to, for example, prevent competing with communities for water, now and in the foreseeable future. Companies should measure and calculate their water use. Furthermore, serious efforts to curb pollution of water resources and negative effects on other water users are also required. Finally, companies should be able to demonstrate that they are saving water and set goals to improve this. Various initiatives, guidelines and standards have emerged in recent years, to help companies address water risk.

Initiatives companies could participate in and learn from are:

- The UN Global Compact’s [CEO Water Mandate](#) is a public-private initiative designed to assist companies in the development, implementation and disclosure of water sustainability policies and practices;
- The UNEP and CEO Water Mandate [Guidance on Corporate Water Accounting](#);
- The [European Water Partnership](#); and
- The [Water Footprint Network](#), which also has a standard on assessing a global water footprint.

There are several guidelines and water ‘footprinting’ methods as well as voluntary disclosure initiatives for calculating water use, water risk, understanding water issues and creating a sound water strategy, such as:

- The [CDP’s Water Program](#), to calculate and publish corporate water use throughout the supply chain;
- The [GEMI Water Sustainability Tool](#);
- The [WBCSD Global Water Tool](#);
- The [AWS International Water Stewardship Standard](#) is supported by a verification process, that defines a set of water stewardship criteria and indicators for how water should be stewarded at a site and catchment level in an environmentally, socially, and economically beneficial manner.

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**This leads to assessment elements**

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11	Companies conduct water scarcity impact assessments in water scarce regions.
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12	Companies have comprehensive mitigation measures in place to address community and ecosystem water requirements in areas where environmental impact assessments identify that significant impacts to water resources are likely.
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- **Other guidelines for companies**

The High Conservation Value (HCV) concept was initially conceived within the framework of certification of forest management and wood products (High Conservation Value Forests or HCVF), but can be applied to all ecosystems and natural living environments. The [HCV Resource Network](#) has developed national implementation guidelines, local projects, training and workshops.

In April 2006, the [Voluntary Guidelines on Biodiversity-Inclusive Impact Assessments](#) were published by the CBD. These guidelines include clear instructions on how nature criteria can be included in environmental impact assessments.

In Great Britain the [EarthWatch Institute](#) and others are working on involving companies in the preservation of biodiversity. They have drafted a road map specifically for companies, based on [10 principles of engagement](#), including the preparation of a strategic biodiversity plan, the integration of biodiversity standards in regular quality measurements and the protection of nature in the procurement policy. The [Wildlife Trust](#) has developed a [biodiversity benchmark](#). Both initiatives mainly focus on companies that own land or are responsible for land management.

The IUCN manages a website with approaches and conservation tools for companies: [Conservation tools](#).

The [ISO 26000:2010 Guidance on social responsibility](#) states that organisations behave socially responsible if they value and protect biodiversity; value, protect and restore ecological services; use land and natural resources in a sustainable way and develop areas in an environmentally responsible way.<sup>345</sup>

In recent years, drafting a sustainability report has become commonplace. The best known guideline for this is the [Global Reporting Initiative \(GRI\) Reporting Framework](#), of which the latest edition has been presented in 2016: "The G4 Guidelines have been superseded by the [GRI Sustainability Reporting Standards \(GRI Standards\)](#). The GRI Standards will be required for all reports or other materials published on or after 1 July 2018 – the G4 Guidelines remain available until this date".<sup>346</sup> GRI encourages financial institutions to not only describe their sustainability policy, but to also measure the respective implementation. The GRI Standards holds specific disclosures on biodiversity, [GRI 304: Biodiversity 2016](#).

The [International Finance Corporation's \(IFC\) Performance Standard 6 concerning Biodiversity Conservation and Sustainable Management of Living Natural Resources](#) determines how companies should operate in order to avoid negative consequences on areas of high biodiversity value, including impact on natural habitats as well as endangered and endemic species. The requirements in the standard have been guided by the Convention on Biological Diversity.

The UNEP FI has introduced the [Natural Capital Declaration](#) on the Rio + 20 Earth Summit in June 2012. Signatories of this initiative will show their commitment to integrate natural capital (natural resources and the ecosystem services the earth produces from them) and criteria into their financial products.

In 1994, the [Global Ecolabelling Network \(GEN\)](#) was founded. This non-profit association aims to improve, promote and develop the eco-labelling of products and the creditability of eco-labelling programs worldwide. It associates third-party, environmental performance recognition and certification and labelling organizations.



A useful methodology to quantify the biodiversity impact of companies and sectors is provided by the [Dutch Benchmark Biodiversity](#) of research agency CE Delft.

In 2017, the ISO developed an [environmental management standard](#) to guide the development of proper practices in combating land degradation and desertification. The first part of the standard, [ISO 14055-1:2017](#), elaborates the good practices framework. An accompanying document (ISO/TR 14055-2), which is currently under development, will be launched to provide supportive regional case studies on how to apply the framework to a range of land degradation cases.

Several very large companies, notably traders in the palm oil sector such as Archer Daniels Midland and Wilmar International (the latter controls roughly 45% of the global market in palm oil), have adopted 'No Deforestation, No Peat, No Exploitation' (NDPE) policies in recent years. These policies set a high benchmark, often allowing no deforestation, no peat development and no conflicts, in their own operations or in their supply chain. Although in these first cases directed at the palm oil sector, financial institutions may apply the policies to other sectors causing deforestation, peat loss and conflicts as well.<sup>347</sup>

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**This leads to assessment element**

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13	Companies make an environmental impact assessment on the total consequences of a large scale project on biodiversity, at least according to GRI 304: Biodiversity 2016 or other relevant standards (mentioned in section 2.8.2).
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- **Procurement and supply chains**

Companies are often part of long procurement and supply chains. They can monitor one another and question how they respect local and national legislation and international norms on labour rights. The requirements that companies set for their suppliers can be included in contractual agreements.

The importance of this has also been recognised in the [OECD Guidelines for Multinational Enterprises](#) since its revision in 2011. The [OECD Due Diligence Guidance for Responsible Business Conduct](#) provides practical support to companies on the implementation of the OECD Guidelines for Multinational Enterprises by providing plain language explanations of its due diligence recommendations. Implementing these recommendations can help companies avoid and address adverse impacts that may be associated with their operations, supply chains and other business relationships.

Furthermore, [ISO 26000:2010 Guidance on social responsibility](#) recognises the importance of supply chain responsibility, because "the impacts of an organization's decisions or activities can be greatly affected by its relationships with other organizations".<sup>348</sup> A company's sphere of influence includes relationships within and beyond an organization's supply chain. Moreover, ISO 26000:2010 Guidance on social responsibility recommends setting contractual provisions or incentives as a means of exercising influence.<sup>349</sup>

In addition, [ISO 20400:2017 Sustainable procurement – Guidance](#) provides guidelines for organizations, independent of their activity or size, on integrating sustainability within procurement, as described in ISO 26000:2010 Guidance on social responsibility. It is intended for stakeholders involved in, or impacted by, procurement decisions and processes.

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**This leads to assessment elements**

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14	Companies integrate criteria on nature into their procurement and operational policies.
15	Companies include clauses on the compliance with criteria on nature in their contracts with subcontractors and suppliers.

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### 2.8.3 Assessment elements

Financial institutions can influence the protection of nature, especially if they invest in or finance industries with a potentially large influence on nature, such as forestry, the extractive industry, the oil and gas industry, fishery, water supply and infrastructure and industries that make use of genetic material, such as agriculture, biotechnology, the medical industry and the cosmetic industry.

For companies there are various grounds for putting biodiversity high on the agenda. This includes more stringent rules to protect ecosystems and more stringent supervision, increased costs in product chains that depend on certain ecosystems, changes in consumption patterns and pressure from society and social organisations. Moreover, new commercial chances for companies arise in situations where commerce and nature management go hand in hand. Financial institutions can capitalise on this development.<sup>350</sup>

In order to address the risks for natural areas and other threats to biodiversity, financial institutions have to draft an investment policy in line with international conventions and national legislation. The following elements are crucial for a policy regarding the companies a financial institution invests in or finances:

1. Companies prevent negative impacts on High Conservation Value (HCV) areas within their business operations and the areas they manage.
2. Companies prevent negative impacts on protected areas that fall under the categories I-IV of the International Union for Conservation of Nature (IUCN) within their business operations and the areas they manage.
3. Companies prevent negative impacts on UNESCO World Heritage sites within their business operations and the areas they manage.
4. Companies prevent negative impacts on protected areas that fall under the Ramsar Convention on Wetlands within their business operations and the areas they manage.
5. Companies prevent negative impacts for the populations or the number of animal species that are on the IUCN Red List of Threatened Species.
6. Trade in endangered plant and animal species complies with the CITES conditions.
7. Trade in endangered plant and animal species that are on the CITES lists is unacceptable.
8. Activities in the field of genetic materials and genetic engineering only take place if they meet the permission and processing requirements as described in the UN Convention on Biological Diversity and the related Bonn Guidelines or Nagoya Protocol.
9. Production of, or trade in, living genetically modified organisms can only take place if permission has been obtained from the importing country and all requirements of the Cartagena Protocol have been met.
10. Companies prevent the introduction of invasive alien species in ecosystems.
11. Companies conduct water scarcity impact assessments in water scarce regions.
12. Companies have comprehensive mitigation measures in place to address community and ecosystem water requirements in areas where environmental impact assessments identify that significant impacts to water resources are likely.

13. Companies make an environmental impact assessment of the total consequences of a large scale project on biodiversity, at least according to GRI 304: Biodiversity 2016 or other relevant standards (mentioned in section 2.8.2).
14. Companies integrate criteria on nature into their procurement and operational policies.
15. Companies include clauses on the compliance with criteria on nature in their contracts with subcontractors and suppliers.

## 2.9 Tax

### 2.9.1 What is at stake?

For each democratic society, tax revenues are essential to finance public provisions such as health care, education, infrastructure and social security. Research shows that a fair system of taxation contributes more to the development of a healthy, democratic society than revenues from development aid or from the export of raw materials. After all, in order to raise taxes, the development of a capable and reliable public administration is required, while conversely civilians that have to pay tax expect a lot more of, and are more involved with, the public administration. Following the adage "No taxation without representation", a development towards more democracy is often closely related to the striving for higher tax revenues.<sup>351</sup>

All companies benefit from the public provisions in the countries where they operate and therefore have responsibility to pay tax in every country and to be open about it. Yet, a lot of international operating financial institutions, companies and rich private clients benefit from international differences in tax percentages and loopholes in national tax legislation to significantly reduce their overall tax burden (tax planning). To hide this tax planning behaviour, multinational enterprises (MNEs) often lack transparency on their tax payments to the governments of the different countries they operate in.<sup>352</sup>

MNEs, but also smaller companies and rich individuals, often make use of shell companies in tax havens that are not only known for their low tax rates but also for their lack of financial transparency. How much tax is ultimately paid, and in which country, quickly eludes everybody. A lot of international financial institutions have branches in tax havens to help their clients *and* to limit their own tax payments. If these type of constructions violate the laws of a certain country these practices are labelled as *tax evasion*. But even if this is not the case - when they are labelled as *tax avoidance* - this type of behaviour is contrary to *Corporate Social Responsibility* principles: it is socially irresponsible to deprive governments of the revenues they need to develop their country socially and economically.<sup>353</sup>

The Tax Justice Network (TJN) estimated in 2012 that the 'super rich' have channelled between USD 21 and USD 32 trillion of untaxed capital to tax havens.<sup>354</sup> In addition, TJN also estimated that in 2012 US multinationals alone shifted between USD 500 and USD 700 billion of revenues, "mostly to countries where these profits are not taxed, or taxed at very low rates".<sup>355</sup>

Developing countries annually lose more than USD 100 billion in tax revenues through tax evasion and avoidance by companies.<sup>356</sup> A 2014 report by the IMF explored the "broader macroeconomic and development impact of corporate tax spill-overs, including wider issues of tax competition between national governments". The IMF argues that national tax laws and international tax arrangements should be transformed to prevent base erosion and profit shifting (BEPS). "Our technical assistance work in developing countries frequently encounters large revenue losses through gaps and weaknesses in the international tax regime", the IMF argues. Relative to all tax revenues, this can be up to 10-15%.<sup>357</sup> The IMF has indicated that developing countries are more vulnerable to BEPS activities of multinational companies than OECD countries.<sup>358</sup>

The annual USD 100 billion developing countries' governments lose due to tax avoidance by MNEs, is more than the amount that developing countries, according to the United Nations Sustainable Development Goals, need to install a global safety net to eradicate extreme poverty in all countries.<sup>359</sup> It also corresponds with the OECD estimation that developing countries annually lose more than three times the development aid received to tax revenues in tax havens.<sup>360</sup>

Tax is not directly addressed in the SDGs, however there are many goals that cannot be achieved without effective and corruption free tax policies and practices. For example SDG 16: Peace, Justice and Strong Institutions focuses on reducing corruption and bribery in all forms. This would also mean transparent and just tax practices for companies.<sup>361</sup> SDG 17: Partnerships for the Goals encourages strengthening of domestic resource mobilization, including through international support to developing countries to improve domestic capacity for tax and other revenue collection. Additionally, SDG 1: No Poverty and SDG 10: Reduced Inequalities can not be achieved without the tax revenues paid by companies as they are essential to finance public provisions.<sup>362</sup>

One can expect from responsibly operating financial institutions that they do not deliberately assist clients in avoiding taxes and that they do not avoid taxes themselves. Moreover, financial institutions have the responsibility to only grant financial services to companies that pay the taxes owed in the countries where they operate. When developing policies on taxes, financial institutions can make use of the international standards described below.

### 2.9.2 International standards and initiatives

The main international standards on tax are summarised per topic, followed by the assessment elements that are formulated by the FFGI as a result:

- **Harmful tax practices by governments**

Tax havens are often very small countries that almost entirely depend of the revenues from activities related to tax avoidance and tax evasion.<sup>363</sup> The EU published a [blacklist of non-cooperative tax jurisdictions](#) (tax havens) outside the EU in late 2017. This list is updated several times per year.<sup>364</sup> Most EU member states apply countermeasures to countries on the blacklist. For this purpose, they use the status of the blacklist at the end of a calendar year and revise the countries to which countermeasures apply once per year. The [OECD's Forum on Harmful Tax Practices](#) has a similar assessment system that also covers corporate tax regimes in EU countries.<sup>365</sup> The OECD and EU work closely together and their assessment criteria are largely the same, but there are some differences in scope and the EU does not always follow the conclusion of the OECD Forum on Harmful Tax Practices.

Countries with harmful preferential tax regimes try to lure corporate investments offering fiscal advantages to certain groups of companies. These measures stimulate tax avoidance by multinational corporations and decrease the tax revenues of other states.<sup>366</sup> The OECD monitors countries within the [Global Forum on Transparency and Exchange of Information for Tax Purposes](#). To this effect, OECD and non-OECD countries cooperate in the implementation of an internationally accepted standard for taxes.<sup>367</sup> However, civil society organisations have outlined several weaknesses of the Global Forum process and called for a more inclusive process under the auspices of the UN.<sup>368</sup>

In 2018, the Tax Justice Network published its latest [Financial Secrecy Index](#), on which 112 locations or so-called global *secrecy jurisdictions* have been identified and listed by their level of transparency. The term 'secrecy jurisdictions' can be interchanged with the term tax haven, but emphasizes suspension from disclosure (of information). The Tax Justice Network furthermore recognizes the large amount of illicit financial flows in poor countries, but at the same time recalls 'the other side of the coin', namely 'those jurisdictions that encourage and facilitate illicit financial flows, by providing an environment of secrecy that allows these outflows to remain hidden, and largely untaxed. Contrary to OECD, Tax Justice Network has not suspended its list of secrecy jurisdictions'.<sup>369</sup>

For the purposes of this methodology, jurisdictions with harmful tax practices refer to the non-EU countries on the EU blacklist that fail the EU's fair tax criterion 2.2, plus any additional countries listed in the latest update of the OECD Forum on Harmful Tax Practices as having (potentially) harmful tax practices.

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**This leads to assessment elements**

1	For at least 75% of the countries in which the financial institution operates and/or 75% of its total revenue, it reports country-by-country on its revenues, profit, FTEs, subsidies received from governments and tax payments to governments in a way that matches with the consolidated accounts.
4	The financial institution does not advise clients to set up international structures with the main purpose to avoid or evade taxes.
7	The financial institution does not have subsidiaries, branches or associates in jurisdictions with no or zero corporate tax or in jurisdictions with harmful corporate tax practices, unless they have substance and their profits are generated from local economic activities.
8	The financial institution does not provide financial services to companies in tax havens, unless the company has substance and its profits are generated by from local economic activities.
9	Companies publish their full group structure, including indirectly and jointly-owned entities.
10	Companies publish an explanation of the activities, functions and ultimate shareholder of every subsidiary, branch, joint venture or affiliate located in jurisdictions with no or zero corporate tax practices or in jurisdictions with harmful corporate tax practices.

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- **Tax disputes**

If a company is involved in a adjudication or arbitration case regarding a tax dispute, it should publish information on this dispute, Christian Aid, Oxfam and ActionAid argue: "Resolving unsettled disputes between corporate taxpayers and tax authorities increasingly happens outside court settings, particularly where it involves more than one tax authority and the taxpayer invokes the growing number of arbitration clauses in tax treaties. While there may be advantages to arbitration, as with tax settlements, a key challenge it presents is a potential lack of accountability about how both taxpayer and tax authorities have behaved over disputes often involving millions of dollars of tax revenues (especially in the case of transfer pricing disputes). A voluntary commitment to publishing the results of arbitration, where it is used as an alternative to court, would compensate for this potential accountability deficit and help to build the reputation of a company among its stakeholders as a transparent and responsible taxpayer".<sup>370</sup>

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**This leads to assessment elements**

14	Companies make public, to the extent legally and practically possible, the decision of any adjudication or arbitration to which it, or any of its subsidiaries, is a party, undertaken to resolve a tax dispute, whether in a court or in an arbitration setting.
15	Companies have a management system which results in immediate actions if suspicions arise that employees or suppliers are guilty of facilitating tax evasion.

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- **Tax planning by multinational companies**

The [OECD Guidelines for Multinational Enterprises](#) expect companies to have a responsible tax policy. On taxes, the guidelines mention that "It is important that enterprises contribute to the public finances of host countries by making timely payment of their tax liabilities. In particular, enterprises should comply with both the letter and spirit of the tax laws and regulations of the

countries in which they operate. Complying with the spirit of the law means discerning and following the intention of the legislature.”<sup>371</sup>

In 2015 the UN PRI has drafted an [Engagement Guidance on Corporate Tax Responsibility](#), providing guidance to investors on why and how to engage with investees involved in tax planning. The UN PRI argues tax planning risks for investors can be severe and cover a large number of portfolio companies. Aggressive corporate tax planning can:<sup>372</sup>

- create earnings risk and lead to governance problems;
- damage reputation and brand value;
- cause macroeconomic and societal distortions.

Investors can also use the [Investor Guide: Integration of tax in responsible investment](#) of VBDO and PwC to design and implement a responsible tax strategy. The report urges investors to apply their own tax principles to investee companies as well.

In June 2017 the European Commission proposed new transparency rules for intermediaries that design or sell potentially harmful tax schemes: “Intermediaries will have to report any cross-border arrangement that contains [...] characteristics, which might indicate that the arrangement is set up to avoid paying taxes”.<sup>373</sup> The characteristics are listed in the [Council Directive amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements](#).

A 2018 report by the [Financial Accountability and Corporate Transparency Coalition \(FACT\)](#) found that disclosure practices and requirements have not kept pace with the growing role of international tax strategies for multinational companies. This increasingly puts investors at risk, since the lack of proper disclosure hampers their ability to “(1) accurately determine a company’s value, or (2) appropriately assess risks of, among other things, government enforcement actions, (...) high-risk strategies employed by company management, or reputational damage arising from growing societal and political focus on these issues”.<sup>374</sup>

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**This leads to assessment elements**

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4	The financial institution does not advise clients to set up international structures with the main purpose to avoid or evade taxes.
5	The financial institution does not participate in transactions with international structures of which the main purpose is to avoid or evade taxes.
7	The financial institution does not have subsidiaries, branches or associates in jurisdictions with no or zero corporate tax or in jurisdictions with harmful corporate tax practices, unless they have substance and their profits are generated from local economic activities.
8	The financial institution does not provide financial services to companies in tax havens, unless the company has substance and its profits are generated by from local economic activities.
9	Companies publish their full group structure, including indirectly and jointly-owned entities.
10	Companies publish an explanation of the activities, functions and ultimate shareholder of every subsidiary, branch, joint venture or affiliate located in jurisdictions with no or zero corporate tax practices or in jurisdictions with harmful corporate tax practices.
11	For each country in which companies operate, they report country-by-country on their revenues, profit, FTEs, subsidies received from governments and payments to governments (e.g. withholding taxes, payments for concessions and company tax).

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12	Companies focus their international enterprise structure and their international transactions in a way that reflects the economic substance of the activities and transactions undertaken, without any steps made primarily to secure a tax advantage.
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- **Tax rulings**

[OECD BEPS Action 5](#) provides for an international system for exchange of international tax rulings between tax authorities. A framework to transmit rulings to other jurisdictions is not sufficient to be transparent. CSOs argue that “in line with the general principle that tax-responsible companies will be able to justify the key determinants of their tax position to public stakeholders as well as to revenue authorities, a tax-responsible company should be able to publish such rulings”.<sup>375</sup>

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**This leads to assessment elements**

6	The financial institution publishes key information of any company-specific tax ruling it has obtained from tax authorities.
13	Companies publish key information of any company-specific tax ruling it has obtained from tax authorities.

- **Country-by-Country reporting**

There have been various other steps to improve the *Country-by-Country* (CbC) reporting of multinational companies. CbC reporting makes it possible to determine how much taxes and other payments are made by companies to governments and to which extent companies relocate revenues to other countries to avoid or evade tax payment.

In the [G4 Sustainability Reporting Guidelines](#) of the Global Reporting Initiative (GRI) the breakdown of tax payments per country is also included. *Economic Performance Indicator EC1* asks companies to report on the “Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.” In this last category it is requested to report on: “all company taxes and related penalties paid at the international, national, and local levels. (..) Report taxes paid by country for organisations operating in more than one country.” In the new [GRI Sustainability Reporting Standards \(GRI Standards\)](#), GRI Disclosure 201-4 requires companies to report on the “total monetary value of financial assistance received by the organization from any government during the reporting period”, while GRI Disclosure 201-1 requires companies to report on “payments to government by country”.<sup>376</sup>

During the G20 conference in Moscow in July 2013 the OECD presented an [Action Plan on Base Erosion and Profit Shifting \(BEPS\)](#), resulting in a 2015 report introducing fifteen guidelines for modernising tax systems and to prevent tax avoidance by multinationals.<sup>377</sup>

In 2015 the OECD published a [Country-By-Country Reporting Implementation Package](#), containing a model legislation for reporting of country-by-country data on tax, profits, other key financials and employment to tax authorities. These data are considered key to assess tax risks. However, the OECD system involves confidential reporting to a home country tax authority only, followed by exchange of information between tax authorities.

The EU already adopted the [EU Capital Requirements Directive IV \(2013/36/EU\)](#) in 2013, which applies to credit institutions and investment firms with their residence in one or more of the EU Member States. This obliges financial institutions to provide full Country-by-Country (CbC)



reporting on the following topics:<sup>378</sup>

- name(s), nature of activities and geographical location
- turnover
- number of employees on a full time equivalent basis
- profit or loss before tax
- tax on profit or loss
- public subsidies received

Some banks also provide other relevant data per country, such as total assets. Oxfam International analysis shows that data on assets per country provides useful additional information. Furthermore, the analysis shows that the country-by-country data are difficult to interpret if they do not match with the consolidated financial accounts.<sup>379</sup>

In 2016 the EU Commission “adopted a proposal for a directive which requires multinational groups to publish a yearly report on profits and tax paid in each country where they are active (country-by-country reporting). This report will enable citizens to assess multinationals' tax strategies and to see how much they contribute to welfare in each country”.<sup>380</sup> In July 2017 the European Parliament voted in favour of [a proposal](#) for public country-by-country reporting, arguing that: “The proposal aims at adding geographical information linking corporate taxes and actual profits, in line with the principle that enterprises should pay tax where they actually make profits.

This objective, which can be broadened to the dimensions of corporate social responsibility and fair taxation, is distinct from the reporting obligation aimed at protecting shareholders, investors and other stakeholders. The existing requirement to publish financial statements meets the latter objective, which is specifically directed at the public at large. Under EU law it covers limited liability companies established in the EU. However, this publicly available information does not always make it possible for outsiders to construct a breakdown on a country-by-country basis, hence the reason for CBC reporting.”<sup>381</sup>

After the European Parliament adopted a position, the Council needs to take a position and then triologue negotiations would need to take place to reconcile these positions for the directive to be adopted. However, a minority in the Council opposed to public CBC reporting refuses to start triologue negotiations, arguing that CBC reporting is not a reporting measure but a tax measure. Therefore no agreement is reached yet on the proposed directive.

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#### **This leads to assessment elements**

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| 1  | For at least three quarters of the countries in which the financial institution operates, it reports country-by-country on its revenues, profit, FTEs, subsidies received from governments and tax payments to governments in a way that matches with the consolidated accounts. |
| 2  | For each country in which the financial institution operates, it reports country-by-country on its revenues, profit, FTEs, subsidies received from governments and tax payments to governments in a way that matches with the consolidated accounts.                             |
| 3  | For each country in which the financial institution operates, it reports country-by-country on its total assets in a way that matches with the consolidated accounts.  |
| 9  | Companies publish their full group structure, including indirectly and jointly-owned entities.   |
| 10 | Companies publish an explanation of the activities, functions and ultimate shareholder of every subsidiary, branch, joint venture or affiliate located in jurisdictions with no or zero corporate tax practices or in jurisdictions with harmful corporate tax practices.        |
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11	For each country in which companies operate, they report country-by-country on their revenues, profit, FTEs, subsidies received from governments and payments to governments (e.g. withholding taxes, payments for concessions and company tax).
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- **Procurement and supply chains**

Companies are often part of long procurement and supply chains. They can monitor one another and question how they respect local and national legislation and international norms on tax. The requirements that companies set for their suppliers can be included in contractual agreements.

The importance of this also recognised in the [OECD Guidelines for Multinational Enterprises](#) since its revision in 2011. The [OECD Due Diligence Guidance for Responsible Business Conduct](#) provides practical support to companies on the implementation of the OECD Guidelines for Multinational Enterprises by providing plain language explanations of its due diligence recommendations. Implementing these recommendations can help companies avoid and address adverse impacts that may be associated with their operations, supply chains and other business relationships.

Also [ISO 26000:2010 Guidance on social responsibility](#) recognises the importance of supply chain responsibility, because “the impacts of an organization's decisions or activities can be greatly affected by its relationships with other organizations”.<sup>382</sup> A company’s sphere of influence includes relationships within and beyond an organization’s supply chain. Moreover, ISO 26000:2010 Guidance on social responsibility recommends setting contractual provisions or incentives as a means of exercising influence.<sup>383</sup>

In addition, [ISO 20400:2017 Sustainable procurement – Guidance](#) provides guidelines for organizations, independent of their activity or size, on integrating sustainability within procurement, as described in ISO 26000:2010 Guidance on social responsibility. It is intended for stakeholders involved in, or impacted by, procurement decisions and processes.

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**This leads to assessment elements**

16	Companies integrate criteria on tax in their procurement policies and operational policies.
17	Companies include clauses on the compliance with criteria on tax in their contracts with subcontractors and suppliers.

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### 2.9.3 Assessment elements

For financial institutions, the issue of taxes is relevant in three ways. Primarily, international financial institutions are multinational corporations themselves and therefore they have to pay the owed taxes by the letter of the law as well as in the spirit of the countries in which they operate. Financial institutions can be expected to be transparent in their tax payments.

Secondly, virtually all financial services that financial institutions grant to companies and rich private clients have a tax component. Because large amounts are involved in business loans, financing projects and investments, tax planning can often result in significant savings for clients. Thirdly, taxes is an issue on which financial institutions should assess all their investees, even if the financial institution does not actively cooperate with tax avoidance of the company.

The following elements are crucial for a policy regarding the financial institution's internal operations:

1. For at least three quarters of the countries in which the financial institution operates and/or 75% of its total revenue, it reports country-by-country on its revenues, profit, FTEs, subsidies received from governments and tax payments to governments in a way that matches with the consolidated accounts.
2. For each country in which the financial institution operates, it reports country-by-country on its revenues, profit, FTEs, subsidies received from governments and tax payments to governments in a way that matches with the consolidated accounts.
3. For each country in which the financial institution operates, it reports country-by-country on its total assets in a way that matches with the consolidated accounts.
4. The financial institution does not advise clients to set up international structures with the main purpose to avoid or evade taxes.
5. The financial institution does not participate in transactions with international structures of which the main purpose is to avoid or evade taxes.
6. The financial institution publishes key information of any company-specific tax ruling it has obtained from tax authorities.
7. The financial institution does not have subsidiaries, branches or associates in jurisdictions with no or zero corporate tax or in jurisdictions with harmful corporate tax practices, unless they have substance and their profits are generated from local economic activities.
8. The financial institution does not provide financial services to companies in tax havens, unless the company has substance and its profits are generated by from local economic activities.

The following elements are crucial for a policy regarding the companies a financial institution invests in or finances:

9. Companies publish their full group structure, including indirectly and jointly-owned entities.
10. Companies publish an explanation of the activities, functions and ultimate shareholder of every subsidiary, branch, joint venture or affiliate located in jurisdictions with no or zero corporate tax practices or in jurisdictions with harmful corporate tax practices.
11. For each country in which companies operate, they report country-by-country on their revenues, profit, FTEs, subsidies received from governments and payments to governments (e.g. withholding taxes, payments for concessions and company tax).
12. Companies focus their international enterprise structure and their international transactions in a way that reflects the economic substance of the activities and transactions undertaken, without any steps made primarily to secure a tax advantage.
13. Companies publish key information of any company-specific tax ruling it has obtained from tax authorities.
14. Companies make public, to the extent legally and practically possible, the decision of any adjudication or arbitration to which it, or any of its subsidiaries, is a party, undertaken to resolve a tax dispute, whether in a court or in an arbitration setting.
15. Companies have a management system which results in immediate actions if suspicions arise that employees or suppliers are guilty of facilitating tax evasion.
16. Companies integrate criteria on tax in their procurement policies and operational policies.
17. Companies include clauses on the compliance with criteria on tax in their contracts with subcontractors and suppliers.

## Chapter 3 Sector themes

### 3.1 Arms

#### 3.1.1 What is at stake?

Arms can kill, maim and destroy. Therefore, they are a threat to the most fundamental human right: the right to life. Arms are deployed in wars and armed conflicts between and within states, by government forces as well as armed groups that do not belong to a state (also known as non-state actors). Armed conflicts threaten the safety of millions of people around the world. Moreover, small arms are not only used in armed conflicts but also in conflicts between individuals, within families and between groups and gangs. Nowadays, there are about 875 million small arms in circulation.<sup>384</sup>

States have the right - and indeed the obligation - to protect their citizens and individually or collectively defend security interests. States' responsibilities towards public security include regulating, checking and monitoring the manufacture, transfer, possession, stockpiling and use of arms. Yet, in practice there has been a lack of expediency to governments and multilateral bodies (such as the United Nations Security Council) to monitor the international arms trade. Research reports show how the arms industry, despite existing regulatory regimes, continues to sell arms to human rights abusing regimes and conflict zones.<sup>385</sup>

In 2018, total global military expenditure had an estimated value of USDUSD 1,822 billion. On average, military expenditure was about 2.1% of Gross Domestic Product (GDPD). The United States spent USD 649 billion, accounting for 36% of global military expenditure, and was followed at a large distance by China (13.7%), Saudi Arabia (3.7%), India (3.6%), France (3.5%) and Russia (3.4%).<sup>4</sup> Military expenditure increased in Asia, Europe, North and South America.<sup>386</sup>

There seems to be a relationship between military expenditure and the socio-economic development of poor countries. Globally, military expenditure counts for about 9% of total public spending. In developing countries - where there is a large need for investments in agriculture and food, education, health care and infrastructure - military expenditure is often a significant barrier to reaching the Sustainable Development Goals (SDGs).<sup>387</sup> According to the 2018 figures of the SIPRI Military Expenditure Database, Myanmar (15.2%), Chad (14.6%) and the DRC (10.4%) are examples of developing countries that spend a significant amount of their total government budget on the military.<sup>388</sup>

The harmful effect of military expenditure on human development is further aggravated by debts made for purchasing military equipment. An estimated 15 to 20% of global indebtedness is related to military spending. In many developing countries, interest payments on military debts surpass the expenditures on health care and education.<sup>389</sup>

Perhaps more than any other legal trade, international arms trade is also strongly connected to corruption.<sup>390</sup> Despite the fact that arms trade only constitutes for 1% of global trade, studies by SIPRI suggest that corruption in the arms trade contributes roughly to 40% of all corruption in global transactions.<sup>391</sup> Transparency International estimates that corruption in the arms trade leads to a loss of USD 20 billion annually.<sup>392</sup> A large part of arms exports goes to developing countries and emerging economies<sup>393</sup> and through corruption, public funds are diverted from spending on economic and social development and may end up fuelling conflict.

While one of the targets of SDG 16: Peace, Justice and Strong Institutions is to reduce illicit financial and arms flows by 2030, the arms industry also poses a serious threat to other SDG goals, such as SDG 1: No Poverty, SDG 2 Zero Hunger, SDG 3: Good Health and Well-being, and SDG 10:

Reduced Inequalities.<sup>394</sup> High military spending clearly undermines these goals by attracting investments that could have been used otherwise and by depriving the affected population of many basic needs.

The arms industry needs to ensure, as a minimum, that:

- No arms are produced which are prohibited by an international treaty or do not distinguish between combatants and non-combatants (i.e. which violate International Humanitarian Law);
- Arms are not supplied to repressive regimes, fragile states, and non-state actors;
- Corruption is strictly forbidden and transparency on arms transfers is improved;
- Products and services supplied/sold do not affect the sustainable development of poor countries.

As long as these structural changes do not occur in the arms industry, investing in this industry imposes large corporate social responsibility (CSR) risks. Financial institutions could finance or invest in companies that are involved in corrupt practices or in trade with oppressive regimes. Hence, it is of great importance that financial institutions implement a policy for this industry that is based on the international standards described below.

### 3.1.2 International standards and initiatives

The main international standards on arms are summarised per topic, followed by the assessment elements that are formulated by the FFGI as a result:

- **International humanitarian law**

International Humanitarian Law (IHL) is a collection of leading international agreements that constitute the rules concerning armed conflicts. The objective of IHL is to limit civilian suffering from armed conflicts. It protects people who do not participate in hostilities and limits the means and methods of warfare. An important principle is that distinction has to be made during warfare (including with the use of arms) between soldiers and civilians: civilians should not be a target in warfare.<sup>395</sup> Weapon systems which violate this principle are, among others: landmines, cluster munitions, nuclear weapons, chemical weapons and biological weapons.

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**This leads to assessment elements**

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1	Use, production, development, maintenance, testing, stockpiling of and trade in anti-personal landmines, including key components of landmines, is unacceptable.
2	Use, production, development, maintenance, testing, stockpiling of and trade in cluster munitions, including key components of cluster munitions, is unacceptable.
3	Use, production, development, maintenance, testing, stockpiling of and trade in, including key components of nuclear weapons, in or to countries that have not ratified the Non-proliferation Treaty is unacceptable.
4	Use, production, development, maintenance, testing, stockpiling of and trade in nuclear weapons, including key components of nuclear weapons, is unacceptable.
5	Use, production, development, maintenance, testing, stockpiling of and trade in chemical weapons, including key components of chemical weapons, is unacceptable.
6	Use, production, development, maintenance, testing, stockpiling of and trade in biological weapons, including key components of biological weapons, is unacceptable.

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- **Specific weapon systems**

There are various international conventions that aim to ban or restrict the use, production, development, maintenance, testing, trade and/or stockpiling of specific weapon systems:

- The 1970 [Nuclear Non-proliferation Treaty](#) (NPT) aims to prevent the spread of nuclear arms and requires their negotiated disarmament.
- The 1975 [Biological and Toxin Weapons Convention](#) (BWC) prohibits the use of biological and toxin weapons.
- The 1980 [Convention on Certain Conventional Weapons](#) (CCW) aims to prohibit or restrict the use of weapons that are considered to cause unnecessary or unjustifiable suffering to combatants or to affect civilians indiscriminately.
- The 1997 [Chemical Weapons Convention](#) (CWC) prohibits chemical arms.
- The 1997 [Mine Ban Treaty](#) prohibits anti-personnel landmines.
- The 2008 [Convention on Cluster Munitions](#) (CCM) prohibits cluster munitions.
- The 2017 [Treaty on the Prohibition of Nuclear Weapons](#) prohibits nuclear weapons.

International conventions and national legislation on arms rarely explicitly include prohibitions on financial investments. However, civil society organisations and a growing group of states interpret investments in cluster munitions as banned under the CCM. Article 1 (1) c of this convention reads: "Each State Party undertakes never under any circumstances to assist, encourage or induce, in any way, anyone to engage in any activity prohibited to a State Party under this Convention".<sup>396</sup>

An increasing group of countries has expressed that article 1.1c, according to their understanding, also includes a ban on financial assistance. Australia, Bosnia and Herzegovina, Cameroon, Canada, Colombia, Congo DR, the Republic of Congo, Costa Rica, Croatia, the Czech Republic, France, Ghana, Guatemala, the Holy See, Hungary, Lao PDR, Lebanon, Madagascar, Malawi, Malta, Mexico, Niger, Norway, Rwanda, Senegal, Slovenia, the United Kingdom and Zambia have all said to interpret the article in such a way that investments in companies involved in the production of cluster munitions are, or can be seen as, prohibited under the convention. Belgium, Ireland, Italy, Liechtenstein, Luxembourg, the Netherlands, New Zealand, Samoa, Spain and Switzerland have adopted laws to prohibit (different kinds of) investments in producers of cluster munitions.<sup>397</sup>

Similarly, The Treaty on the Prohibition of Nuclear Weapons, in article 1(e) also prohibits 'assistance' to the production of nuclear weapons.<sup>398</sup>

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**This leads to assessment elements**

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1	Use, production, development, maintenance, testing, stockpiling of and trade in anti-personal landmines, including key components of landmines, is unacceptable.
2	Use, production, development, maintenance, testing, stockpiling of and trade in cluster munitions, including key components of cluster munitions, is unacceptable.
3	Use, production, development, maintenance, testing, stockpiling of and trade in nuclear weapons, including key components of nuclear weapons, in or to countries that have not ratified the Non-proliferation Treaty is unacceptable.
4	Use, production, development, maintenance, testing, stockpiling of and trade in nuclear weapons, including key components of nuclear weapons, is unacceptable.
5	Use, production, development, maintenance, testing, stockpiling of and trade in chemical weapons, including key components of chemical weapons, is unacceptable.

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6	Use, production, development, maintenance, testing, stockpiling of and trade in biological weapons, including key components of biological weapons, is unacceptable.
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- **Lethal Autonomous Weapon Systems**

The United Nations' [Convention on Certain Conventional Weapons](#) (CCW) also prohibits non-detectable fragments, boobytraps and blindable laser weapons. In addition, the CCW is considering how to address concerns related to lethal autonomous weapon systems (LAWS). As of October 2019, [30 countries support a prohibition on LAWS](#). The [Campaign to Stop Killer Robots](#), a coalition of civil society organizations, defines LAWS as fully autonomous weapons, that can select and engage targets without meaningful human control over individual attacks.

There are various legal, ethical and security concerns regarding LAWS.<sup>399</sup> A legal concern is that LAWS are unlikely to be able to adhere to International Humanitarian Law and Human Rights Law. They would also create an accountability vacuum regarding who is responsible for an unlawful act. A security concern is that the deployment of LAWS could lower the threshold for the use of force and reduce the incentive to find political solutions to end conflicts. LAWS could lead to a new international arms race, which would have destabilising effects and threaten international peace and security. The proliferation of LAWS could enable dictators, non-state armed actors or terrorists to acquire these weapons. A fundamental ethical concern is that a machine should never be allowed to make the decision over life and death. This decision cannot be reduced to an algorithm.

Due to these concerns the Campaign to Stop Killer Robots calls on states to install a legally binding instrument that pre-emptively prohibits the development, production and deployment of LAWS.<sup>400</sup> Likewise, [over 3,000 artificial intelligence and robotics experts](#) and [116 industry leaders](#) call for regulation of LAWS, but also [religious leaders](#), [Nobel peace Laureates](#) and the [European Parliament](#) are in favour of a ban. In the financial sector, the [Norwegian Government Pension Fund Global](#) gives the example of how to develop expertise and understanding of this upcoming issue.

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**This leads to assessment element**

7	Use, production, development, maintenance, testing, stockpiling of and trade in lethal autonomous weapons systems (LAWS), including key components of LAWS, is unacceptable.
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- **International arms trade**

The international trade arms can create and exacerbate serious human rights issues, especially when to countries where people lack basic freedoms or where armed conflicts rage, is undesirable. Likewise, in countries most receptive to corruption, in fragile states, or where a relatively high share of public spending is for the military, there is a serious risk that delivering arms enhances violations of human rights and/or contribute to creating more poverty.<sup>401</sup>

There are various initiatives to regulate arms trade in order to, for instance, prevent arms from being delivered to repressive regimes or countries in conflict.

Organisations such as the United Nations Security Council and other multilateral organisations have the (international) authority to establish arms embargoes against certain countries or non-state actors. Most [embargoes](#) are established following conflicts involving serious violations of human rights.

Some arms embargoes are partial in nature. For example, the EU embargo against China is understood to ban the export of "lethal" goods<sup>402</sup>, whereas the only politically binding EU embargo against Egypt relates to goods that might be used for internal repression.<sup>403</sup> This research does not make such distinctions, because in most cases, transferring arms to countries under a partial embargo means supporting repressive regimes or the continuation of armed conflicts.

Other embargoes only apply to so-called non-government forces (NGF's). In this research, the countries' territories, within which the NGF's under an embargo operate, are also considered controversial with regard to arms trade. These countries should by definition be considered as weak or fragile states, as the government does not have a monopoly on the use of violence within its own territory. Consequently, it is not uncommon that arms supplied to government forces of fragile states end up with NGF's.<sup>404</sup>

The Arms Trade Treaty (ATT) is a multilateral treaty that regulates the international trade in conventional arms. It was adopted on 2 April 2013 by the General Assembly of the United Nations with a large majority of votes. After obtaining the required 50 ratifications, the treaty entered into force on 24 December 2014.<sup>405</sup> The ATT describes how it regulates the conventional weapons trade: "At the heart of the ATT is the obligation on countries that have joined it to make an assessment of how the weapons they want to transfer will be used. They must determine if the arms would commit or facilitate genocide, crimes against humanity, war crimes and serious human rights violations. Each state must assess if there is an overriding risk that a proposed arms export to another country will be used for or contribute to serious human rights abuses. If so, those arms must not be sent. [...] The Treaty [also] sets out guidelines for states that are importing weapons, and requires importers and exporters to cooperate in sharing information necessary to make the above assessment. It also includes obligations for countries that have weapons transiting through their borders and for brokering activities. [...] The Treaty covers conventional weapons (meaning not nuclear, chemical or biological). The arms specifically mentioned in the Treaty are battle tanks, armoured combat vehicles, large-calibre artillery systems, combat aircraft, attack helicopters, warships, missiles and missile launchers and small arms and light weapons. Ammunition, as well as the parts and components that make up weapons systems, also fall under its regulation".<sup>406</sup> The treaty is open to additional regulations on future military technologies.<sup>407</sup>

Taken into account that the humanitarian principles that form the basis of the ATT, the Control Arms Campaign interprets the term *overriding risk* in the ATT to mean that states are not allowed to export in case of a 'substantial or clear' risk of the arms being used for violations of human rights or humanitarian law.<sup>408</sup>



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**This leads to assessment elements**

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9	Supply of arms and weapon systems, military transport systems, and other military goods to countries that are under a United Nations or relevant multilateral arms embargo, is unacceptable.
10	Supply of arms and weapon systems, military transport systems, and other military goods is unacceptable if there is an overriding risk that the arms will be used for serious violations of international human rights and humanitarian law.
11	Supply of arms and weapon systems, military transport systems, and other military goods to countries that severely violate human rights, is unacceptable.

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- **Trade in dual-use products**

The European Union (EU) has also recognized the need for a system to control arms transfers. Its 2008 Common Position “defining common rules governing control of exports of military technology and equipment” contains eight criteria, aimed at, among others, preventing military exports likely to be used in the country of final destination for internal repression, in internal or international conflicts. The EU arms export policy also contains measures to facilitate implementation by the member states and improve cooperation between the member states. The EU criteria are summarized below:<sup>409</sup>

- Respect for international commitments of Member States, in particular sanctions decreed by the UN Security Council and the EU, as well as agreements on non-proliferation and other international obligations;
- The respect of human rights and international humanitarian law in the country of destination;
- The internal situation in the country of final destination, as a function of the existence of tensions or armed conflicts;
- Preservation of regional peace, security and stability;
- The national security of the Member States and of territories whose external relations are the responsibility of a Member State, as well as that of friendly and allied countries;
- The behaviour of the buyer country with regard to the international community, as regards in particular its attitude to terrorism, the nature of its alliances and respect for international law;
- The risk that equipment will be diverted within the buyer country or re-exported under undesirable conditions;
- The compatibility of the arms exports with the technical and economic capacity of the recipient country, taking into account the desirability that states should achieve their legitimate needs of security and defence with the least diversion for armaments of human and economic resources, e.g. through considering the recipient country’s relative levels of military and social spending.

The [EU Common Military List](#) should be used to define if a product should be considered as military equipment. Equipment that can be used for both civilian and military applications, should be considered as military equipment when they have a non-civilian purpose.

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**This leads to assessment element**

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8	Goods that are essential for military purposes, but can also be used for civilian products (‘dual-use’ goods), are considered as military goods when they have a non-civilian purpose.
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- **High-risk countries**

Several lists and initiatives can serve to illustrate which countries are high-risk as recipients of arms trade, based on the criteria mentioned in earlier sections:

- Most of the countries where people lack freedom can be looked up in the index of the Freedom House. This is an independent American non-profit organisation that ever since 1941 has stood up for democracy and freedom all over the world. The Freedom House annually publishes [Freedom in the World](#). This publication assesses 195 countries and 14 related and disputed territories with regard to Political Rights and Civil Rights.
- In addition, the [Economist's Democracy Index](#) provides a snapshot of the state of democracy worldwide. The report covers almost the entire population of the world and the vast majority of the world's states (micro states are excluded). The Democracy Index is based on five categories:<sup>410</sup>
  - electoral process and pluralism;
  - civil liberties;
  - the functioning of government;
  - political participation; and
  - political culture.

Countries are placed within one of four types of regimes: full democracies, flawed democracies, hybrid regimes, and authoritarian regimes.

- Countries that have been caught up in armed conflicts are ranked in the [Uppsala Conflict Data Program](#). The [Global Peace Index](#) by Vision of Humanity, an Australian research institute, is a useful tool as well. It assesses the extent to which countries live in peace or are caught up in conflicts, using 23 indicators.
- [The Government Defence Anti-Corruption Index](#) [Corruption Perception Index](#) of Transparency International is the first global analysis of corruption risk within military establishments worldwide. It assesses and compares levels of corruption risk and vulnerability across countries.
- The [Fragile States Index](#) can be used for identifying fragile states. This Index is published by the American journal Foreign Policy and the Fund for Peace, an American research institute. The Fragile States Index assesses 178 states, using 12 social, economic, political and military indicators to assess which states are most vulnerable to violent internal conflicts and social decline.
- In order to indicate which countries spend a large share of their government budget on arms, the publications of the [Stockholm International Peace Research Institute \(SIPRI\)](#) may be used. SIPRI is an independent Swedish research institute for peace and security. Among many other things, they publish data on levels of relative military spending.

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**This leads to assessment elements**

12	Supply of arms and weapon systems, military transport systems, and other military goods to parties involved in conflict is unacceptable, unless to parties acting in accordance with a UN Security Council resolution.
13	Supply of arms and weapon systems, military transport systems, and other military goods to countries that are sensitive to corruption, is unacceptable.
14	Supply of arms and weapon systems, military transport systems, and other military goods to countries having a failed or fragile state, is unacceptable.

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15	Supply of arms and weapon systems, military transport systems, and other military goods to countries that spend a disproportionate part of their budget on purchases of arms, is unacceptable.
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### 3.1.3 Assessment elements

Even more so than in other sectors, financial institutions should carefully consider their investments in and financing of arms manufacturers and traders. First of all, because it concerns lethal products with potentially devastating effects, but also because the industry is hardly transparent and has a history of corruption and violations of the law. With outstanding loans and/or investments in this industry, financial institutions can get involved in transactions related to very serious violations of human rights, armed conflicts, corruption, and the production of controversial or banned weapons.

The following elements are crucial for a policy regarding the companies a financial institution invests in or finances:

1. Use, production, development, maintenance, testing, stockpiling of and trade in anti-personal landmines, including key components of landmines, is unacceptable.
2. Use, production, development, maintenance, testing, stockpiling of and trade in cluster munitions, including key components of cluster munitions, is unacceptable.
3. Use, production, development, maintenance, testing, stockpiling of and trade in nuclear weapons, including key components of nuclear weapons, in or to countries that have not ratified the Non-proliferation Treaty is unacceptable.
4. Use, production, development, maintenance, testing, stockpiling of and trade in nuclear weapons, including key components of nuclear weapons, is unacceptable.
5. Use, production, development, maintenance, testing, stockpiling of and trade in chemical weapons, including key components of chemical weapons, is unacceptable.
6. Use, production, development, maintenance, testing, stockpiling of and trade in biological weapons, including key components of biological weapons, is unacceptable.
7. Use, production, development, maintenance, testing, stockpiling of and trade in lethal autonomous weapons systems (LAWS), including key components of LAWS, is unacceptable.
8. Goods that are essential for military purposes, but can also be used for civilian products ('dual-use' goods), are considered as military goods when they have a non-civilian purpose.
9. Supply of arms and weapon systems, military transport systems, and other military goods to countries that are under a United Nations or relevant multilateral arms embargo, is unacceptable.
10. Supply of arms and weapon systems, military transport systems, and other military goods is unacceptable if there is an overriding risk that the arms will be used for serious violation of international human rights and humanitarian law.
11. Supply of arms and weapon systems, military transport systems, and other military goods to countries that severely violate human rights, is unacceptable.
12. Supply of arms and weapon systems, military transport systems, and other military goods to parties involved in conflict is unacceptable, unless to parties acting in accordance with a UN Security Council resolution.
13. Supply of arms and weapon systems, military transport systems, and other military goods to countries that are sensitive to corruption, is unacceptable.
14. Supply of arms and weapon systems, military transport systems, and other military goods to countries having a failed or fragile state, is unacceptable.

15. Supply of arms and weapon systems, military transport systems, and other military goods to countries that spend a disproportionate part of their budget on purchases of arms, is unacceptable.

Financial institutions that publicly state they exclude the arms industry (both upstream and downstream companies) from their financing and investment universe because of the sustainability risks involved, but that do not publish a detailed policy document with all the expectations covered by the above assessment elements, will receive a score of 10. If this commitment is made for one or more but not all four FFGI investment categories, a content score and scope score for the relevant categories will be given for all assessment elements.

## 3.2 Financial sector

### 3.2.1 What is at stake?

In an increasingly globalised world, financial institutions play a crucial role in the global distribution of financial means. Most governments and companies depend on financial institutions to invest and to provide products and services. The investments of financial institutions take place in a global marketplace where their financing and investment funds can be deployed in all industries and on all continents in virtually any social activity, including financial institutions that only have offices in their own country.

This ubiquity creates both opportunities and risks. Financial institutions are in a unique position to play a role in the social changes that are necessary to enable a sustainable and socially just future. They can invest in or finance new products and production processes through which energy is saved and sustainable energy provision is encouraged, through which income and development opportunities are offered in developing countries or through which millions of people can get access to healthcare. In order to reach all of the Sustainable Development Goals (SDGs), an active role for financial institutions is indispensable.<sup>411</sup>

The 2016 publication of UNEP and the Institute for Human Rights and Business, *Human Rights and Sustainable Finance*, states: "the international human rights framework is an integral part of defining the purpose of the financial system in serving society. The framework calls for the financial system at systemic, client, and consumer levels to avoid harming people's rights, make finance accessible to all, and create innovative financial policies, regulations, products, and services to help build a resilient economy and society".<sup>412</sup>

However, this important role also has a downside: often investments by financial institutions are used for activities that harm the environment, human rights and development opportunities. There are countless examples of financial institutions that, often without sufficiently realising it, enable large-scale deforestation with their investments, as well as the construction of polluting mines, supplying arms to oppressive regimes and factories where labour rights are violated.<sup>413</sup> Moreover, the 2008 financial crisis showed that many financial institutions had been led by purely financial motives, neglecting proper assessment of the risks of their investments – for the financial institution itself as well as for society.<sup>414</sup>

The role of financial institutions is also well recognised in relation to the SDGs. While many SDGs focus on increasing financial inclusion, the overall economic growth and prosperity can't be achieved without responsible investments and lending decisions by the financial institutions. For instance, goals such as SDG 1: No Poverty, SDG 2: Zero Hunger, SDG 7: Affordable and Clean Energy, and SDG 13: Climate Action require responsible investing and financing decisions by the financial institutions.<sup>415</sup>

Existing regulations, such as those about the fiduciary duties of investors, need reinterpretation. Many governments and banking regulators are currently launching guidelines and initiatives to push banks in their country to invest more responsibly. Specific national initiatives include China's [Green Credit Guidelines](#), Indonesia's [Sustainable Finance Roadmap](#) and Brazil's regulations on environmental and social responsibility (CMN Resolution No. 4,327 and [CMN Resolution No. 4,557](#)).

On an international scale, the Sustainable Banking Network, created by the International Finance Corporation (IFC), is a group of banking regulators and associations that are interested in sustainable banking policies, guidelines and practices and collective learning by its members.<sup>416</sup> UN

Environment and the World Bank published a Roadmap for a sustainable financial system in 2017, outlining the steps necessary for creating a more sustainable financial system.<sup>417</sup> In 2016 UNEP FI, PRI and the Generation Foundation launched a three-year programme to integrate sustainability into investors' fiduciary duties. The goal of the project was "to mobilise investors to uphold the full remit of fiduciary duty and take full account of material sustainability factors in investment practices".<sup>418</sup> The final report, including recommendations, was published in 2019.<sup>419</sup>

Another important initiative is the Network of Central Banks and Supervisors for Greening the Financial System (NGFS), set up in 2017. The NGFS published a report in 2019 recognizing that climate change is a source of financial risk and that "It is therefore within the mandates of central banks and supervisors to ensure the financial system is resilient to these risks".<sup>420</sup> Among the recommendations of the report is the notion that climate-related risks should be integrated into financial stability monitoring and micro-supervision.

A 2013 OECD-report on environmental and social risk due diligence in the financial sector indicates that financial institutions themselves increasingly establish sustainability conditions for the companies and governments in which they invest.<sup>421</sup> Complementary to this, financial institutions should also set conditions to the loans they supply to other financial institutions, to prevent that, via a detour, their capital ends up at the companies and governments in which they do not want to invest. The investment policy of financial institutions should ensure that financial institutions only lend money to other financial institutions that also take their social responsibilities seriously. When developing policies for this industry, financial institutions can make use of the international standards described below.

### 3.2.2 International standards and initiatives

The main international standards on the financial sector are summarised per topic, followed by the assessment elements that are formulated by the FFGI as a result:

- **Business operations**

As for other international companies, financial institutions may be expected to comply with general guidelines for responsible business operations in their relations with employees, clients, governments, and the wider society. The most well-known examples are the [UN Global Compact](#), which formulates ten principles of responsible business, the [OECD Guidelines for Multinational Enterprises](#), in which a wide range of social and environmental topics are addressed, and [ISO 26000:2010 Guidance on social responsibility](#), in which the social responsibility of organisations is described in 7 principles and 7 core issues.

Sustainability reporting is also important. The framework [GRI Sustainability Reporting Standards \(GRI Standards\)](#), and the [GRI G4 Financial Services Sector Disclosures](#), may, amongst others, be used for such reporting. For small and medium enterprises (SMEs), less elaborate sustainability reporting is required. SMEs can report on the GRI disclosures that are relevant to their operations, for example by following the [High5! Approach](#).

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#### This leads to assessment elements

1	Financial institutions report on their tax payments to governments for each country where they operate.
2	Financial institutions do not participate in transactions nor provide advice for safeguarding tax advantages as the main objective.
5	Financial institutions endorse the UN Global Compact principles.

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6	Financial institutions endorse the OECD Guidelines for Multinational Enterprises
13	Financial institutions publish a sustainability report that may contain (a number of) disclosures from the GRI Standards.
14	Financial institutions publish a sustainability report that is set up in accordance with the (Core or Comprehensive option of the) GRI Standards.

- **Management of social and environmental risks**

There are various guidelines that stimulate financial institutions to pay more attention to the possible social and environmental risks of their investments. In 1992 the [United Nations Environment Programme](#) established the [UNEP Finance Initiative \(UNEP FI\)](#). As of 2019, more than 230 [banks, insurance companies and other financial institutions](#) from all over the world have joined the [UNEP FI Statement of Commitment by Financial Institutions of Sustainable Development](#), in which they commit to integrate social and environmental criteria in all of their business activities.

UNEP FI organises meetings and working groups to help the members bring this objective into practice. The organisation has launched a guidance note to help the financial institutions with developing their policies and published the [Roadmap for a Sustainable Financial System](#) in 2017 and launched the [Principles for Responsible Banking](#) in 2018.

In order to promote the effective observance of the OECD Guidelines for Multinational Enterprises, the OECD has developed sectoral guidance for different types of financial institutions.

- In 2017 the OECD published [Responsible Business Conduct for Institutional Investors](#), which “explains the application of the OECD Guidelines for Multinational Enterprises in the context of institutional investors. The paper highlights key considerations for institutional investors in carrying out due diligence that will help to identify and respond to environmental and social risks.”<sup>422</sup>
- In 2019, the [Due Diligence for Responsible Corporate Lending and Securities Underwriting](#) was published by the OECD, providing a common global framework for financial institutions to identify, respond to and publicly communicate on environmental and social risks associated with their clients.

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**This leads to assessment elements**

6	Financial institutions endorse the OECD Guidelines for Multinational Enterprises
7	Financial institutions endorse the UNEP FI Statement and/or the Principles for Responsible Banking.

- **Asset management**

Through the UNEP Finance Initiative, in April 2006 an international group of asset management companies, investment funds and pension funds launched the [Principles for Responsible Investment \(PRI\)](#). The signatories commit to “integrate environmental, social and governance issues in their investment decisions”.<sup>423</sup> The PRI make various suggestions on how to take these topics into consideration, such as purchasing sustainability analysis and developing active voting and engagement policies. As of December 2019, the PRI have been signed by 2,477 institutional investors (pension funds, insurance companies and asset management companies) and service providers. Many of the signatories are subsidiaries and sister companies of large international banks.<sup>424</sup>

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**This leads to assessment element**

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8	Financial institutions endorse the Principles for Responsible Investment (PRI).
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- **Money laundering and terrorist financing**

The international standard in the field of money laundering is set by the [Financial Action Task Force \(FATF\)](#), a working group established by the OECD in 1989. The FATF comprises of 37 members, mostly governments of OECD-member states. The FATF aims to promote the successful implementation of legal, regulatory and operational procedures for combating money laundering, the financing of terrorists and other associated threats to the integrity of the international financial system.

The FATF has developed a set of [Forty Recommendations](#) that are considered as the international standards for the combating of money laundering. These recommendations offer guidelines and tools to governments and financial institutions to fight money laundering and criminal earnings at all levels. The recommendations were first published in 1990 and were last updated in October 2019. The FATF has also published several Interpretative Notes, which provide guidance on the application of the guidelines in practice.

The Forty Recommendations have been taken over by numerous international institutions, such as the World Bank and the International Monetary Fund (IMF), as well as by the governments of many countries. In February 2013, the European Union processed the latest edition of the Forty Recommendations in the [Fourth AMLD \(EU Directive 2015/849\)](#).

The [Wolfsberg Group](#), a group of 11 international banks that undertake a lot of activities in the field of *private banking* (banking for rich private clients), published a revised edition of the [Wolfsberg Anti-Money Laundering Principles on Private Banking](#) in May 2012. In these principles, the Forty Recommendations are further elaborated on asset management and private banking. In addition, the Wolfsberg Group has also published various other principles in the field of money laundering, financing of terrorism and corruption.

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**This leads to assessment elements**

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9	Financial institutions comply with the FATF recommendations.
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10	Financial institutions comply with the Wolfsberg Principles.
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- **Project financing**

In June 2003, a group of leading banks on the project financing market launched the [Equator Principles](#), together with World Bank subsidiary [International Finance Corporation \(IFC\)](#). The principles relate to project financing, a specific type of company financing intended for large, complicated projects. This is one of the ways in which mines, oil and gas plants, chemical factories, roads, railways, dams and other types of infrastructure are financed. The Equator Principles have been signed by 101 financial institutions.<sup>425</sup> Jointly, these financial institutions represent a large part of the global project financing market.

The Equator Principles are intended to recognise, assess and control the social and environmental risks of project financing. For this purpose, the IFC's risk assessment procedures and its [Performance Standards](#) are followed. This means that all financing requests for projects with a value of over USD10 million are divided into three categories based on the potential for significant negative environmental or social impacts. Depending on the category, an environmental impact assessment and an environment management plan are requested. Social and environment conditions can be included in financing contracts and regular reporting from



clients on these topics is required.<sup>426</sup>

The principles have been regularly updated since their first publication. The [fourth update of the Equator Principles \(EP4\)](#) was published in November 2019. The most important changes in relation to the previous version include:<sup>427</sup>

- The scope of applicability has been widened to include Project-Related Corporate Loans (PRCLs) over USD 50 million, Project-related Refinancing and Project-related Acquisition Financing. Furthermore, the exception for sovereign borrowers for PRCLs has been removed for projects in Category A, and for Category B where appropriate;
- A clarification as to when financial institutions should evaluate the specific risks and apply one or more of the IFC Performance Standards in addition to host country laws;
- Full alignment with the United Nations Guiding Principles on Business and Human Rights (UNGPs); and
- Additional reporting requirements regarding projects with greenhouse gas (GHG) intensive projects.

The Equator Principles 4 will go into effect in June 2020.<sup>428</sup>

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**This leads to assessment element**

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11	For project financing, financial institutions apply the Equator Principles.
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- **Bond issuances**

The [International Capital Market Association \(ICMA\)](#) created the [Green Bond Principles \(GBP\)](#) in 2014. The last update stems from June 2018. The principles are voluntary guidelines that recommend transparency and disclosure, and promote integrity in the development of the fast growing Green Bond market by clarifying the approach for issuance of a Green Bond.

According to the GBP, Green Bonds are defined as projects and activities that follow four principles:<sup>429</sup>

- Use of Proceeds: projects promote progress on activities with clear environmental benefits, which are assessed and, if possible, quantified by the issuer (Principle 1);
- Process for Project Evaluation and Selection: issuers should communicate the sustainability objectives, eligibility and possible exclusion criteria to investors (Principle 2);
- Management of Proceeds: management of Green Bond proceeds should be traceable within the issuing organization (Principle 3); and
- Reporting: issuers should report at least annually on use of proceeds (Principle 4).

For the current market situation, four types of Green Bonds can be defined: Green Use of Proceeds Bonds, Green Use of Proceeds Revenue Bonds, Green Project Bonds and Green Securitized Bonds.<sup>430</sup>

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**This leads to assessment element**

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12	For bonds issuances, financial institutions apply the Green Bond Principles.
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- **Sustainable banking**

In January 2003, the civil society organizations network [BankTrack](#) launched the [Collevocchio Declaration on Financial Institutions and Sustainability](#). The declaration calls upon financial institutions to accept six obligations that explain the expectations of society regarding the role and responsibilities of financial institutions. It concerns the obligation for sustainability, not causing any harm, responsibility, accountability, transparency and sustainable markets and

regulations.<sup>431</sup>

In November 2006, the Collevchio Declaration was further elaborated in the handbook: [The do's and don'ts of Sustainable Banking](#). This handbook provides concrete and practical advice to banks that want to make their business activities sustainable: where banks have to start, what they have to pay attention to, which challenges they face and what has to be avoided.

The [Global Alliance for Banking on Values \(GABV\)](#) was founded in 2009 as a network of banks seeking to “change the banking system so that it is more transparent, supports economic, social and environmental sustainability, and is composed of a diverse range of banking institutions serving the real economy”.<sup>432</sup> It has developed six [Principles of Value-based Banking](#) and engages in research and advocacy on advancing value-based banking practices. As of 2020 it comprises of 55 financial institutions, with a combined total of USD 197 billion assets under management.

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#### **This leads to assessment elements**

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2	Financial institutions do not participate in transactions nor provide advice for safeguarding tax advantages as the main objective.
3	Financial institutions are not active in risky trade and investment activities (trade in options, futures and other derivatives) on their own account, other than covering the financial risks of their credit provision.
4	Financial institutions have drafted investment policies on sensitive industries and crucial issues, based on international treaties and conventions.

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### **3.2.3 Assessment elements**

To prevent that the monies of a financial institution still end up at companies, governments, and other parties that do not trade according to the principles of the financial institution via detours, it is important to establish rules for financial relations with other commercial banks and multilateral banks. This mainly concerns loans to other banks and investments in shares and bonds of other banks.

The following elements are crucial for a policy regarding the companies a financial institution invests in or finances:

1. Financial institutions report on their tax payments to governments for each country where they operate.
2. Financial institutions do not participate in transactions nor provide advice for safeguarding tax advantages as the main objective.
3. Financial institutions are not active in risky trade and investment activities (trade in options, futures and other derivatives) on their own account, other than covering the financial risks of their credit provision.
4. Financial institutions have drafted investment policies on sensitive industries and crucial issues, based on international treaties and conventions.
5. Financial institutions endorse the UN Global Compact principles.
6. Financial institutions endorse the OECD Guidelines for Multinational Enterprises
7. Financial institutions endorse the UNEP FI Statement and/or the Principles for Responsible Banking.
8. Financial institutions endorse the Principles for Responsible Investment (PRI).
9. Financial institutions comply with the FATF recommendations.
10. Financial institutions comply with the Wolfsberg Principles.

11. For project financing, financial institutions apply the Equator Principles.
12. For bonds issuances, financial institutions apply the Green Bond Principles.
13. Financial institutions publish a sustainability report that may contain (a number of) disclosures from the GRI Standards.
14. Financial institutions publish a sustainability report that is set up in accordance with the (Core or Comprehensive option of the) GRI Standards.

## 3.3 Fisheries

### 3.3.1 What is at stake?

Over three quarters of the world's waters have already been fished up to or beyond their biological limits.<sup>433</sup> The Food and Agriculture Organization (FAO) 2018 State of Fisheries and Aquaculture report estimates that 33.11% of fish stocks were overfished, with 59.99% as fully fished and 77% as underfished.<sup>434</sup> In 2016, the twenty most productive fish species accounted for 84.22% of the world's marine capture.<sup>435</sup> Many of these stocks are fully fished and, therefore, do not show much potential for increases in production. Some stocks are overfished and need to be restored in order to show increases in production.<sup>436</sup> Besides the potential collapse of fisheries, impacts of ecosystem changes can affect many species. For example, research shows that a shortage of krill leads to a decrease in the penguin population.<sup>437</sup> Fisheries can be located in the sea, in freshwater bodies or even on land, including many different forms of fishing and aquaculture. The sector has a wide variety of issues including land tenure, tax evasion, environmental problems, labour risks, water use and quality, health management, food safety, disease control, animal welfare and genetic engineering.<sup>438</sup>

The following problems lead to the depletion of fish stocks:

- Various fishing techniques - such as drift nets - have a large impact on the survival of fish species and other animals that are captured by accident. Examples of these are turtles, seabirds and marine mammals. Other ways of fishing - such as trawling - destroy the natural sea environment and change the composition of the seabed, a composition that is desperately needed to maintain and restore the biodiversity in our oceans.<sup>439</sup>
- Overfishing deprives local fishing communities of their source of food and income. Communities depending on small-scale fishing are already suffering serious consequences, such as the loss of food sovereignty and security.<sup>440</sup>
- Globally, governments grant between EUR 27 billion and EUR 35 billion in annual subsidies to the fishing industry.<sup>441</sup> These government subsidies lead to undue investments in the fishing fleet, stimulating overfishing. In the long term, such subsidy policies also lead to major economic damage for the fishing industry itself. A 2013 report by the New Economics Foundation (NEF) estimated that EUR 3.2 billion is lost annually in the EU due to overfishing.<sup>442</sup> The main reason for this is that the reduced fish stock will impact the fishing companies' turnover and leads to job loss in the industry.<sup>443</sup> Another NEF report estimated that if fish were caught in a sustainable way in Europe, this would provide 100,000 jobs annually.<sup>444</sup>
- Bycatch occurs where fish (or other animal species) are captured inadvertently during fishing and are afterwards mostly thrown back into the ocean. On average, at least 7.3 million tons of marine life are caught incidentally, in some industries the percentage of bycatch is far higher than that of the target catch.<sup>445</sup>
- Fishing gear lost or left behind at sea (so-called ghost fishing) can cause unintended catch and entanglement of fish and other marine animals and is environmentally polluting, with the fish catch getting wasted as well.<sup>446</sup>
- A significant problem for the sustainable management of fisheries is the *illegal, unregulated and unregistered* (IUU) fishing that violates international and national protective measures for fishing. It often concerns boats that use so-called *flags of convenience*: the boats are registered in countries that do not monitor their fishing industry, or do so ineffectively.<sup>447</sup> Many communities that rely on fishing as a source of income and food also suffer from IUU. It is estimated that losses from illegal catch alone cost West-Africa as much as USD 1.3 billion annually. In Senegal, for instance, IUU loss was estimated at around USD 272 million in 2015.<sup>448</sup>

Recent increases in fish production are mainly due to the development of aquaculture or fish farming.<sup>449</sup> Aquaculture is often praised because it could be of importance for the diversification of revenues and the diet of poor coastal communities. Yet, aquaculture can also have negative environmental effects, for example on mangroves and coastal *wetlands*, on water quality and on genetic variation of local fish species. Furthermore, aquaculture is associated with a number of socio-economic problems, such as conflicts around land rights, loss of employment and revenue sources, and poor working conditions.<sup>450</sup> The FAO developed a code of conduct in 1995 to ensure that the harmful consequences of fish farms on the environment are quantified and minimised.<sup>451</sup>

The fishery sector has a large role to play in the Sustainable Development Goals (SDGs). Some of the issues related to fisheries are targeted in the SDG 14: Life Below Water. This goal aims to regulate harvesting and end overfishing, illegal, unreported and unregulated fishing and destructive fishing practices and implement science-based management plans, in order to restore fish stocks in the shortest time feasible by 2020. The other targets aim to cut fisheries subsidies that contribute to overcapacity and overfishing, illegal, unreported and unregulated fishing by 2020. SDG 14: Life Below Water also targets increasing the economic benefits to small island developing states and least developed countries from the sustainable use of marine resources, including through sustainable management of fisheries, aquaculture and tourism.<sup>452</sup> Besides, SDG 14: Life Below Water, there are other SDGs that are directly linked to sustainable fishing practices such as SDG 1: No Poverty, SDG 2: Food Security, SDG 3: Good Health and Well-being, SDG 12: Responsible Consumption and Production and SDG 13: Climate Action.<sup>453</sup>

In order to make the fishing industry sustainable, the following changes are necessary:

- Abrogation of harmful fishing techniques such as drift nets and trawls;
- Fishing more selectively, making use of equipment that prevents the catch of other species - such as other fish, birds and mammals;
- A strong reduction in the fish quota for many fish species; and
- Respecting the rights of population groups that depend on small-scale fisheries.

Although the latter two changes have to be driven by national and international legislation, the investment policy of financial institutions can offer support to the first two changes. The policy of the financial institution has to ensure that financial institutions only invest in or finance fishing companies that do not use harmful fishing techniques or have untargeted bycatch. Investments in fish processing companies can only take place if it is ensured that no harmful fishing techniques are being used or untargeted bycatch takes place in the supply chain. When developing policies for this industry, financial institutions can make use of the international standards described in the following section.<sup>454</sup>

### 3.3.2 International standards and initiatives

International conventions and codes of conduct agreed to under the supervision of the Food and Agriculture Organisation of the United Nations (FAO), show clear agreement with respect to the management of fish stocks. The 1982 [UN Convention on the Law of the Sea \(UNCLOS\)](#), the 1995 [UN Straddling Stocks Agreement](#) and the 1995 [FAO Code of Conduct for Responsible Fisheries](#), contain clear objectives to safeguard international fishing waters. The FAO Code of Conduct was established as a framework for international efforts to encourage fishing activity that is sustainable and in harmony with the environment. It provides principles and standards for the conservation, management and development of fisheries around the world. In July 2009, the [World Conservation Union](#) published a [report](#) in which the UNCLOS has been evaluated and in which case studies and recommendations for a sustainable fishing policy and its respective implementation are presented.

In March 2018, WWF, the EU Commission, the International Sustainability Unit (ISU) and the European Investment Bank (EIB) published the [Sustainable Blue Economy Finance Principles](#), which emphasize the role of financial institutions in maintaining the oceans' natural capital and the "shared social, ecological and economic functions that are dependent upon it".

Within the agreements and initiatives mentioned above there is broad agreement on the principles and measures necessary to realise sustainable use and management of international fishing waters. The main international standards on fisheries are summarised per topic, followed by the assessment elements that are formulated by the FFGI as a result:

- **Endangered fish species**

The [FAO Code of Conduct for Responsible Fisheries](#) recognises the importance of protecting endangered fish species. Therefore, trade in several fish species, also of some important commercial species, is presently prohibited or is under the strict supervision of the [Convention on International Trade in Endangered Species of Wild Fauna and Flora \(CITES\)](#).

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**This leads to assessment elements**

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|---|--|
| 1 | Fishing for and trade in endangered animal species complies with the CITES conditions.       |
| 2 | Fishing for and trade in endangered animal species that are on CITES lists, is unacceptable. |

- **Protected areas**

The critical importance of protected marine areas is acknowledged - the so-called [Marine Protected Areas \(MPAs\)](#)- for the maintenance and recovery of the biodiversity of fish and other marine life. In some MPAs, fishing is entirely prohibited (so-called *no-take zones*), in order to allow the ecosystem to restore itself and over time be able to serve as a *reservoir* for the rest of the ocean. These MPAs are part of the classification, amongst others. However, the IUCN itself has no jurisdiction regarding the implementation of MPAs or no-take zones. Governments, fishery authorities and communities do have this jurisdiction. Furthermore, a local government of a fishing community may, independent of the IUCN advice, decide to identify a no-take zone or an MPA for the protection of marine ecosystems, bottom of the sea fauna, breeding areas for fish and fish populations. No-take zones, for example, are a normal method for managing the fish stock (of commercial types of fish) in the fisheries industry.

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**This leads to assessment element**

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|---|--|
| 3 | Fishers respect Marine Protected Areas and especially no-take zones. |
|---|--|

- **Harmful fishing and processing techniques**

The [FAO Code of Conduct for Responsible Fisheries](#) sets a clear priority for the use of selective and environmentally friendly fishing gear and techniques.<sup>455</sup> The Code proposes to prohibit the use of irresponsible fishing techniques<sup>456</sup> and in addition requires that the effects of new fishing techniques on living environments are assessed before they are marketed. Also, international standards are drafted that restrict or prohibit the use of certain methods and materials, such as the use of explosives and cyanide,<sup>457</sup> the use of drift nets,<sup>458</sup> the use of trawls in deep seas and so-called *shark-finning*, where shark fins are cut off and the sharks are thrown back into the ocean.<sup>459</sup>

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**This leads to assessment element**

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|---|---|
| 4 | Harmful fishing techniques (such as trawls, drift nets and shark-finning) are unacceptable. |
|---|---|

- **Minimising bycatch**

The [FAO Code of Conduct for Responsible Fisheries](#) establishes that “waste, non-target species, both fish and non-fish species, and impacts on associated or dependent species are minimized.” Action plans are drafted that reduce the by catch of certain species, mainly seabirds and sharks.

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**This leads to assessment element**

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5	Fishers minimise their bycatch.
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- **Banning overfishing and restoring fish stocks**

Under the [UN Straddling Stocks Agreement](#) countries are obliged “to prevent or prohibit overfishing”. Governments and other fisheries management organizations have to do their utmost to restore endangered habitats.<sup>460</sup> Decisions on these fisheries have to be based on recent scientific evidence and have to be aimed at maintaining and restoring the fish stocks.<sup>461</sup> Also, governments have agreed with the FAO to take action to, amongst others, “review the capacity of fishing fleets in relation to sustainable yields of fishery resources and where necessary reduce these fleets”.<sup>462</sup>

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**This leads to assessment element**

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6	Fishers prevent overfishing.
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- **Ghost fishing**

The [MARPOL 73/78 Agreement](#) (1973) first regulated the problem of ghost fishing by prohibiting lowering or sinking fishing gear into the sea. In 1991, the FAO published a series of recommendations for the so-called Marking of Fishing Gear.<sup>463</sup> Under 2011 [EU regulations for compliance with the Common Fisheries Policy](#), fishing boats are obliged to mark passive fishing gear with the registration number of the boat.

In 2016, FAO published a [Report of the Expert consultation on the Marking of Fishing Gear](#). In the same year, the [Best Practice Framework for the Management of Fishing Gear](#) was published by the [Global Ghost Gear Initiative](#), a cross-sectoral alliance of NGOs and businesses.

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**This leads to assessment element**

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7	Fishers do not engage in ghost fishing or they comply with MARPOL or EU regulations.
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- **Illegal, unregulated and unreported fishing (IUU)**

The FAO [IUU Plan of Action](#) seeks to prohibit illegal, unregulated and unreported fishing practices by convincing countries not to do business with companies that are guilty of IUU fishing. This includes regulations with regard to sailing under ‘flags of convenience’ (FOCs). FOCs enable IUU fishing and also present major labour rights problems. So-called ‘FOC countries’ allow fishing vessels to fly their country’s flag for no charge, without taxation, and do not address any violations of international fisheries laws.<sup>464</sup>

FOC fleets are especially active in fishing for commercially valuable species and are also involved in poaching fish in waters of developing coastal countries, which do not have the means to patrol their waters, resulting in negative impacts on local fish stocks, employment and food security.<sup>465</sup> In terms of labour issues, FOC fleets typically have very low wages and very bad labour and safety conditions on board. Furthermore, FOC registries make it much more difficult for unions, industry stakeholders and the public to hold ship owners to account.<sup>466</sup>

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**This leads to assessment elements**

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|---|---|
| 8 | Fishers do not operate under flags of convenience.                                      |
| 9 | Fishers carefully document their catch so the origin of the total catch can be checked. |
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- **Fishery management based on ecosystems**

While the former international standards on fishing were developed based on the fish stocks of certain species, the current rules are more often based on entire ecosystems. For example, the [UN Straddling Stocks Agreement](#) not only requires that the fish stocks of the targeted species are maintained, but also that the fish stocks of other fish species that live in the same ecosystem are monitored and protected.

The [FAO Code of Conduct for Responsible Fisheries](#) obliges fishermen to preserve marine ecosystems so that not only the species being fished, but all fish species that depend on this species or are part of the same ecosystem are protected. This is further elaborated in FAOs [Ecosystem-Based Management](#) (EBM) framework for fisheries, developed by the [World Wildlife Fund](#) (WWF). With respect to small-scale fishing in poor countries, the [FAO Code of Conduct for Responsible Fisheries](#) contains guidelines to protect the food security and the livelihoods of fish-dependent communities in the poorest countries of the world.

In order to identify sustainable fisheries and fish farms, financial institutions can make use of the Greenpeace [‘Red-Grade’ Criteria for Unsustainable Fisheries](#) and the Greenpeace [‘Red-Grade’ Criteria for Unsustainable Aquaculture](#). In these fact sheets, a number of questions are included, enabling one to establish whether a given company in the fishing industry is sustainable. The indicators are based on the [FAO Code of Conduct for Responsible Fisheries](#).

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**This leads to assessment element**

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| 10 | Fishers comply with all elements of the <a href="#">FAO Code of Conduct for Responsible Fisheries</a> . |
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- **Certification of sustainable fisheries**

The leading organisation on certifying sustainable fisheries is the [Marine Stewardship Council](#) (MSC). The MSC certification standards are based on the [FAO Code of Conduct for Responsible Fisheries](#) and are the only global standards that are consistent with the 2009 [FAO Guidelines for the Ecolabelling of Fish and Fishery Products from Marine Capture Fisheries](#).

The MSC principles and criteria were established in 1999 in an international multi-stakeholder process. At the end of 2016, 296 fisheries in 35 countries were certified as sustainable to the [MSC Fisheries Standard](#). Combined, the MSC certified fisheries account for 12% of the global marine catch.<sup>467</sup> As MSC does not provide certification for all types of fisheries, MSC certification for those fisheries cannot be required. Besides standards to certify fisheries, the MSC has also developed a traceability system, the [MSC Chain of Custody Standard](#), through which the origin of certified fish products can be traced throughout the entire production chain.

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**This leads to assessment elements**

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| 11 | Fishers are certified according to the <a href="#">Marine Stewardship Council</a> (MSC) criteria or comparable standards for at least one fishery in which they operate. |
| 12 | Fishers are certified according to the <a href="#">Marine Stewardship Council</a> (MSC) criteria or comparable standards for all fisheries in which they operate.        |
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**This leads to assessment elements**

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13	Fish traders and other companies in the production chains for fish and shellfish are certified according to the MSC Chain of Custody standard.
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- **Sustainable aquaculture**

In August 2006, the [International Principles for Responsible Shrimp Farming](#) were launched. After a process of five years, in which various organisations - such as the [Network for Aquaculture Centres for the Asia-Pacific](#), the WWF, the World Bank and the United Nations Environment Programme (UNEP) - were involved, an international framework was established that seeks to guarantee sustainability within the shrimp industry.<sup>468</sup>

The [Global Aquaculture Alliance \(GAA\)](#), an initiative of a number of American companies, has developed the [Best Aquaculture Practices \(BAP\)](#) facility certification standards, monitored and controlled by ISO 65-accredited certification bodies. BAP certification defines the most important elements of responsible aquaculture and provides quantitative guidelines by which to evaluate adherence to those practices for processing plants, farms, hatcheries and feed mills. The BAP includes standards for shrimp, tilapia and Channel catfish cultivation, as well as for the fish processing industries. In this system animal welfare criteria have been incorporated, applying mainly to pain and anxiety. BAP is mainly active in the Americas, South East Asia, Australia and New Zealand; within Europe only in Iceland, Norway and the United Kingdom.

In 2010, WWF and IDH (Dutch Sustainable Trade Initiative) founded the [Aquaculture Stewardship Council \(ASC\)](#). The ASC aims to be the world's leading certification and labelling programme for responsibly farmed seafood, by managing the global standards for responsible aquaculture, which were developed by the WWF Aquaculture Dialogues.

ASC collaborates with aquaculture producers, seafood processors, retail and foodservice companies, scientists, conservation groups and consumers in order to:<sup>469</sup>

- Recognise and reward responsible aquaculture through the ASC aquaculture certification programme and seafood label;
- Promote best environmental and social choice when buying seafood; and
- Contribute to transforming seafood markets towards sustainability.

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**This leads to assessment elements**

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14	Shrimp farms comply with the International Principles for Responsible Shrimp Farming.
15	Fish farms are certified according to the Aquaculture Stewardship Council (ASC) criteria.

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- **Sustainability reporting**

The Global Reporting Initiative (GRI) has drafted guidelines for reporting on sustainability issues. Aside from the general [G4 Sustainability Reporting Guidelines](#) it also provides sectoral guidance for a number of industrial sectors. In the [G4 Food Processing Sector Disclosures \(FSSD\)](#), recommended by GRI to use with its new [GRI Sustainability Reporting Standards \(GRI Standards\)](#), includes guidelines regarding reporting on animal welfare, fair trade, health and the wellbeing of consumers, impact on natural resources and the use of packaging. The guideline has been specifically developed for companies involved in processing food and drinks.

For small and medium enterprises (SMEs), less elaborate sustainability reporting is required. SMEs can report on the GRI indicators that are relevant to their operations, for example by following [the High5! Approach](#).

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**This leads to assessment elements**

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16	Companies publish a sustainability report that may contain (a number of) disclosures from the GRI Standards.
17	Large enterprises and multinational enterprises publish a sustainability report that is set up in accordance with the (Core or Comprehensive option of the) GRI Standards.

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- **Procurement and supply chains**

Companies are often part of long procurement and supply chains. They can monitor one another and question how they respect local and national legislation and international norms regarding social, economic and environmental issues. The requirements that companies set for their suppliers can be included in contractual agreements. The importance of this is also recognised in the [OECD Guidelines for Multinational Enterprises](#) since its revision in 2011.

[ISO 26000:2010 Guidance on social responsibility](#) recognises the importance of supply chain responsibility, because “the impacts of an organization's decisions or activities can be greatly affected by its relationships with other organizations”.<sup>470</sup> A company's sphere of influence includes relationships within and beyond an organization's supply chain. Moreover, ISO 26000:2010 Guidance on social responsibility recommends setting contractual provisions or incentives as a means of exercising influence.<sup>471</sup>

In addition, [ISO 20400:2017 Sustainable procurement – Guidance](#) provides guidelines for organizations, independent of their activity or size, on integrating sustainability within procurement, as described in ISO 26000:2010 Guidance on social responsibility. It is intended for stakeholders involved in, or impacted by, procurement decisions and processes.

The [United Nations Guiding Principles on Business and Human Rights](#) include a due diligence process in order to identify, prevent, mitigate and account for how companies address their adverse human rights impacts. The process “should cover adverse human rights impacts that the business enterprise may cause or contribute to through its own activities, or which may be directly linked to its operations, products or services by its business relationships”..<sup>472</sup>

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**This leads to assessment elements**

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18	Companies integrate environmental, social and governance criteria in their procurement and operational policies.
19	Companies include clauses on the compliance with environmental, social and governance criteria in their contracts with subcontractors and suppliers.

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### 3.3.3 Assessment elements

Financial institutions that invest in or finance the fishing industry should ensure that their investments contribute to the internationally accepted objectives for the sustainable management of fisheries. It is important that the investment policy of financial institutions include the entire production chain of fish and shellfish. Sustainable investments in this industry are important on all levels of the chain, from the catch to the processing and the sale.

The following elements are crucial for a policy regarding the companies a financial institution invests in or finances:

1. Fishing for and trade in endangered animal species complies with the CITES conditions.
2. Fishing for and trade in endangered animal species that are on CITES lists, is unacceptable.
3. Fishers respect Marine Protected Areas and especially no-take zones.

4. Harmful fishing techniques (such as trawls, drift nets and *shark-finning*) are unacceptable.
5. Fishers minimise their bycatch.
6. Fishers prevent overfishing.
7. Fishers do not engage in ghost fishing or they comply with MARPOL or EU regulations.
8. Fishers do not operate under *flags of convenience*.
9. Fishers carefully document their catch so the origin of the total catch can be checked.
10. Fishers comply with all elements of the FAO Code of Conduct for Responsible Fisheries.
11. Fishers are certified according to the Marine Stewardship Council (MSC) criteria or comparable standards for at least one fishery in which they operate.
12. Fishers are certified according to the Marine Stewardship Council (MSC) criteria or comparable standards for all fisheries in which they operate.
13. Fish traders and other companies in the production chains for fish and shellfish are certified according to the MSC Chain of Custody standard.
14. Shrimp farms comply with the International Principles for Responsible Shrimp Farming.
15. Fish farms are certified according to the Aquaculture Stewardship Council (ASC) criteria.
16. Companies publish a sustainability report that may contain (a number of) disclosures from the GRI Standards.
17. Large enterprises and multinational enterprises publish a sustainability report that is set up in accordance with the (Core or Comprehensive option of the) GRI Standards.
18. Companies integrate environmental, social and governance criteria in their procurement and operational policies.
19. Companies include clauses on the compliance with environmental, social and governance criteria in their contracts with subcontractors and suppliers.

## 3.4 Food

### 3.4.1 What is at stake?

The right to food is one of the most basic human rights and is enshrined in the Universal Declaration of Human Rights (UDHR).<sup>473</sup> According to the Food and Agriculture Organisation of the United Nations (FAO), food security exists when “all people, at all times, have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life”.<sup>474</sup> The food sector has an obvious and major role to play in safeguarding this right. The right to adequate food is also a key factor in achieving the second of the Sustainable Development Goals (SDGs): to end hunger, achieve food security and improved nutrition and promote sustainable agriculture.<sup>475</sup>

The food sector consists of agricultural companies, including small-scale family producers, food processing companies and retail companies. This diverse group of companies forms the food supply chain. The food processing sector “[i]ncludes all companies that are engaged in processing food, as well as food commodity trading related to food processing and fish processing, and beverage companies. [T]he food processing industry includes a diverse group of companies involved in the processing of products like fish, meat, milk, crops and water. It includes millions of Small and Medium Enterprises (SMEs) worldwide and also some of the largest companies in the world. Many of these companies deliver products directly to consumers, while others specialise in Business-to-Business activities (ingredients, commodity markets). Some companies directly participate in all areas of food production, from farming activities through to final production and retail. Others are concentrated more at the top end of the production chain or buy through commodity markets”.<sup>476</sup>

The demand for agricultural products is growing more rapidly than the world population. Consumption patterns in emerging markets (such as the BRICS-countries: Brazil, Russia, India, China and South Africa) increasingly resemble those in industrialised countries, with an increase in meat and dairy consumption globally. These changing consumption patterns drive up demand for raw agricultural materials used in livestock feed. Another cause of the growing demand for agricultural raw materials is the development of biofuel production. Biofuel is produced using palm oil, corn and sugar cane as well as other food and feed crops.<sup>477</sup>

The sharp increase in the global demand for agricultural products is related to a host of significant economic, social and environmental problems, which means that companies operating in food supply chains are facing major sustainability challenges.

One significant issue is that many agricultural companies do not comply with internationally recognised labour rights. For instance, according to estimates by the International Labour Organisation (ILO), around 60% of all child labourers work in agriculture.<sup>478</sup> Aside from child labour, there are countless examples in agriculture of forced labour, low wages and insufficient protection of the health and safety of employees.<sup>479</sup>

Land rights conflicts and forced evictions are another significant issue concerning food production and food security. Land grabbing occurs when foreign companies, countries, or investors buy or rent land for large-scale industrial and/or commercial agriculture production oriented on the export market at the expense of land rights of the local communities concerned. The lack of consultation and transparency for the allocation of land is a serious problem in developing countries. Evictions and conflicts over land are often paired with a violation of basic human rights and principles. As a result, people are not only deprived of their property and the right to use their land, but also of their familiar habitat, cultural riches and sources of food and income.<sup>480</sup> The

reduced availability of land for local actors also shifts local economies away from traditionally sustainable modes of peasant agriculture towards a dependence on commercial agriculture for global markets in feed, food and biofuels.<sup>481</sup>

The growing demand for agricultural products is also a significant cause of biodiversity loss and the destruction of natural ecosystems worldwide.<sup>482</sup> Through the conversion of forests and other natural environments to commercial agricultural land, areas of high biodiversity that provide key ecosystem services and natural habitat for a wide array of species, are under increasing stress.<sup>483</sup> To make way for agricultural activities, forests are cut on a large scale, after which the remaining vegetation is burnt. This system is commonly known as *slash-and-burn*. It is mostly conducted by farmers, however these activities are sometimes connected to large industry players.<sup>484</sup> Major drivers include the livestock industry – with around 80% of global agricultural land dedicated to grazing land or cropland for animal feed<sup>485</sup> – and the growing market for biofuels.

The development of infrastructure such as roads, railways and waterways that goes hand in hand with the development of an export-oriented agriculture industry and can have very negative effects on ecosystems and local societies. The construction of roads in forest areas facilitates, for example, access for poachers and illegal loggers. The construction of infrastructure can also lead to land rights conflicts and rising land prices for the original inhabitants.<sup>486</sup>

There are several concerns about potential unintended health and environmental impacts of genetically modified organisms (GMOs). Examples include negative impacts on beneficial insects, weed tolerance, new allergens and toxins. Furthermore, concerns also exist about the spreading of harmful traits to weeds and non-GM crops.<sup>487</sup> While there is an active debate about the safety of GMOs, it is the position of the Fair Finance Guide International methodology that at this time GMOs should be avoided, as risks of contamination of other cultivated or wild varieties, as well as side-effects from the crossing of genes from entities that do not belong to the same natural category, cannot be excluded given the current state of scientific knowledge.

The intensive livestock industry is responsible for a large share of animal suffering worldwide. The welfare of animals in intensive farming systems is under pressure because the animals are kept in circumstances that are not suitable for the species and are not worthy of the animal's dignity. Intensively farmed animals, including pigs, poultry, beef and dairy cattle, rabbits, goats and fish farmed in intensive aquaculture, are kept in high concentrations, often undergo un-anaesthetised surgery (cutting tails, clipping beaks, teeth filing, dehorning) and tend to lack the opportunity to behave naturally (grazing, free ranging, grubbing). Intensive large-scale husbandry also increases the risk of spreading diseases.<sup>488</sup>

Other animal welfare aspects in the livestock sector deserving urgent attention are the conditions during the transport of animals over long distances and the conditions prior to, and during, the slaughter of animals. During transportation animals may have to deal with bad ventilation, too little space, shortage of food and water, bad treatment during the loading and unloading procedures, bad health conditions of the animals prior to the transport and exposure to germs. Animal transport may therefore result in exhaustion, dehydration, anxiety, injury, diseases and may even lead to the death of the animals involved.<sup>489</sup> Slaughter methods in many countries pose severe concerns. Problematic slaughter methods include CO<sub>2</sub> stunning for pigs, electrical stunning for poultry via the water bath method and unstunned slaughter.<sup>490</sup>

Ignoring animal welfare and animal health also leads to increasing health risks for humans. Bacteria in humans, food and animals continue to show resistance to the most widely used antimicrobials. A 2017 report from the European Food Safety Authority, the European Medicines Agency and the European Centre for Disease Prevention confirms the link between antibiotic consumption and

antibiotic resistance in both humans and food-producing animals. Reducing the unnecessary use of antibiotics will have an impact on the occurrence of resistance.<sup>491</sup> Because the routine use of antibiotics is instrumental for livestock being reared in densely packed and often unhygienic conditions, a change in animal housing and husbandry practices is necessary to effectively eliminate or reduce the use of antibiotics.<sup>492</sup>

According to the Intergovernmental Panel on Climate Change (IPCC), agriculture and deforestation (which is in turn largely driven by the expansion of agricultural land) are responsible for around a quarter of global greenhouse gas (GHG) emissions.<sup>493</sup> A 2012 joint study by two of the world's leading research groups estimated that deforestation alone contributes around 3.0 billion tons of carbon dioxide a year, accounting for 10% of global emissions.<sup>494</sup>

Peatlands are frequently drained and burned to make room for plantations, often for the production of palm oil. This generates substantial greenhouse gas emissions and serious health risks for local and regional populations.<sup>495</sup> Emissions from peatland fires are equivalent to over a third of the mean annual global carbon emissions from fossil fuels.<sup>496</sup> Deforestation plays a crucial role in the discussion about biofuels. Biofuel production is responsible for deforestation, not only directly but also through the process of indirect land use change (ILUC), where biofuel crops are typically grown on land normally used for food production, displacing primary food production to previously unused areas.<sup>497</sup> Several studies have indicated that when ILUC is taken into account, there is no positive climate impact from first-generation biofuels. Especially those pushing the rangeland frontier into the Amazonian forests, could offset the carbon savings from biofuels.<sup>498</sup>

The livestock sector is another important source of agriculture-related direct and indirect GHG emissions. The rising demand for animal protein is a significant driver of emissions from land use change, as forests are converted to cropland for feed production or grazing. The animals themselves, especially cattle, emit methane (CH<sub>4</sub>) as they digest their food. The FAO calculated in 2013 that a significant reduction of greenhouse gas emissions is possible if farmers adopt so-called best practices.<sup>499</sup> Other sources of agricultural GHG emissions include nitrous oxides (N<sub>2</sub>O) from the application of manure and nitrogen fertilizers and CH<sub>4</sub> from rice paddies.

Particularly through the impacts of their supply chains on deforestation and land use change, the world's ten largest food companies are responsible for the annual emissions of hundreds of millions of tons GHGs. The implementation of best practices by these companies in their procurement policies, and the promotion of best practices to their suppliers, therefore has significant climate change mitigation potential.<sup>500</sup>

The widespread use of pesticides presents a series of environmental and health risks, such as pollution of water sources and ecosystems by agricultural runoff, the development of pesticide-resistance, and potential health risks for agricultural workers. One particularly significant problem is the impact of broad-spectrum pesticides on beneficial insects and pollinator species. Along with other factors such as loss of biodiversity, habitat change and the varroa mite, pesticide use forms a serious threat to the honeybee. In the last few years, the number of bee colonies has decreased by up to a third and a further decrease could lead to a shortage in pollination with large consequences for agriculture harvest. About ninety agricultural products, accounting for a third of the global food production, depend on animal pollination. Honeybees are the main animal pollinator and are responsible for the majority of this pollination.<sup>501</sup> Research shows that some insecticides can cause a decrease in the production of the number of queen bees and other insecticides negatively influence the number of bees that find their way to their beehive.<sup>502</sup>

Agriculture is also the largest user of freshwater resources, using up to 90% of available freshwater in developing countries. The production of animal-based foods alone accounts for almost half of global freshwater withdrawals.<sup>503</sup> At the same time, the contribution of the livestock industry to water pollution through antibiotics, hormones, sediments, fertilisers, pesticides and other chemicals is very high. Research has shown that some meat and poultry producers are responsible for a higher rate of water pollution than large companies in the fossil fuel industry.<sup>504</sup> Population growth is also expected to drive up water demand, while availability is decreasing.<sup>505</sup>

The macroeconomic effects of the international trade in agriculture and livestock products are often detrimental for developing countries due to the often unfavourable terms of trade for these countries, the agriculture subsidies in richer countries and the dumping of subsidised agricultural products in developing countries. This leads to an unfair balance of power in the entire production, distribution and consumption chain. Due to a strong increase in food prices in recent years, more and more people in developing countries are living below the poverty line.<sup>506</sup> To counter this practice, in 2015 the member states of the World Trade Organization agreed the Nairobi Ministerial Declaration on export competition, which commits them "to exercise utmost restraint with regard to any recourse to all forms of export subsidies and all export measures with equivalent effect".<sup>507</sup> Developing country members "shall eliminate their export subsidy entitlements by the end of 2018".<sup>508</sup>

While the number of people suffering from hunger significantly decreased over the period from 1990-2015, in recent years this trend has seen a reversal. FAO figures indicate that in 2019, over 820 million people were undernourished.<sup>509</sup> Population growth and climate change are expected to put significant additional stress on global food security. By 2050, the agricultural sector will have to produce 60% more food globally and 100% more in developing countries. Substantial changes in policy and management throughout the entire agricultural production chain are required to ensure that the available water resources are used in the best way possible, to meet growing demands for food and other agricultural products.

To offer a sufficient and nutritious diet to global populations and to enable socio-economic development of poorer countries, unfavourable terms of trade in agricultural products for developing countries have to be addressed and distorting subsidies and dumping practices have to be prohibited.<sup>510</sup> In addition, the use of agricultural fields for the production of biofuels and animal feed has to be discouraged, as it displaces food production for the local population and poses a threat to their right to food security.<sup>511</sup>

The topic of food is central to SDG 2: Zero Hunger. The goal targets to ensuring everyone has access to nutritious and sufficient food. It further targets to double the agricultural yield and income of small scale food producers by providing access to productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment. Another target is to ensure sustainable food production systems that help maintain ecosystems and strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality.<sup>512</sup> SDG 3: Good Health and Well-being is also related to good quality, nutritious food for everyone. Further, as mentioned in earlier paragraphs, agriculture as a part of food sector has many issues that directly impact SDG 1: No Poverty, SDG 10: Reduced Inequalities, SDG 12: Ensure Sustainable Consumption and Production Patterns, SDG 13: Climate Action, SDG 14: Life Below Water, and SDG 15: Life on Land.<sup>513</sup>

Feeding a growing world population - reaching 9-10 billion people in 2050 - in a sustainable way is one of the major challenges the world is facing. Food security is not only based on global production volumes, but also on access, equality and absence of conflict.<sup>514</sup> All parts of the chain within the food industry - from farmers, middlemen, transporters and processing companies to supermarkets - will have to make an effort in this. Financial institutions that invest in or finance companies at all stages of food chains will have to develop policies that take all above mentioned problems into account. When developing an investment policy for this sector, financial institutions can make use of the international standards described in the following section.

### 3.4.2 International standards and initiatives

In recent years, various initiatives have been set up to develop standards for the agriculture and livestock sectors and the food (processing) industry. Some initiatives focus on general, sector-wide agreements, while others focus on specific crops. The main international standards on food and agriculture are summarised per topic, followed by the assessment elements that are formulated by the FFGI as a result:

- **Right to adequate food**

According to Article 25 of the [Universal Declaration of Human Rights](#) "everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control".<sup>515</sup>

These rights have also been protected by [The International Covenant on Economic, Social and Cultural Rights](#). Article 11 of this Covenant guarantees the right to an adequate standard of living including adequate food, clothing, housing and continuous improvement of living conditions.

The UN Special Rapporteur on the Right to Food stated that achieving the right to food could be pursued much more effectively if host-states, financiers and investors could agree on certain conditions for investments.<sup>516</sup> The FAO could provide guidance in this respect, as they further show how non-state actors could work on this issue.

The FAO [Voluntary Guidelines to Support the Progressive Realization of the Right to Adequate Food in the Context of National Food Security](#) further specify the right to adequate food and link that right to the concept of food security. While the Voluntary Guidelines are written for states, it presents an overview of all the factors affecting the realization of the right to food and can therefore be valuable for non-state actors as well.

The influence of food producers on the food patterns of consumers is large. Companies can support the right to adequate food by improving the nutritional value of the food they produce, process and/or distribute. Obesity, malnutrition and chronic diseases related to dietary patterns are influencing the health of one third of the world's population. This also leads to high healthcare costs. Malnutrition and obesity are related to the quantity and quality of food.<sup>517</sup> The [Access to Nutrition Index \(ATNI\)](#) is a benchmark of the world's largest food companies that encourages companies to provide consumers access to affordable food and beverages with high nutritional value. The ATNI also encourages companies to "responsibly exercise their influence on consumers' choices and behaviour by improving marketing, labelling and the use of claims that promote healthy diets and active lifestyles".<sup>518</sup>



Companies can also support the right to adequate food by improving smallholders' access to seeds. [The Access to Seeds Index](#), launched in 2016, is a useful tool for investors. It benchmarks the policies and activities of companies in the seed industry with regard to the availability of seeds to smallholder farms in developing countries. Smallholder farms are crucial in fulfilling the increasing demand for food in developing countries. Currently, only a small percentage of the seed used by smallholders in sub-Saharan Africa comes from seed companies.<sup>519</sup> The Index encourages seed companies to provide smallholders access to high quality seeds, so as to increase yields, improve nutritional quality and cope with climate change.<sup>520</sup>

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**This leads to assessment element**

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1	Companies respect the right to adequate food.
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- **Labour rights**

The circumstances for health and safety in the agriculture and food industry are often below standard due to the use of huge amounts of pesticides that are used. Wages are generally low and negotiating rights are often not respected. It is therefore of great importance that agriculture and food companies adhere to the main ILO conventions, summarized in section 2.7.2, such as the 1998 [ILO Declaration on Fundamental Principles and Rights at Work](#) and the [Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy \(MNE Declaration\)](#).

For more information and relevant international standards and initiatives see the theme Labour rights (section 2.7.2).

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**This leads to assessment element**

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2	Companies respect the ILO Declaration on Fundamental Principles and Rights at Work.
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- **Land rights conflicts and forced evictions**

Human rights, particularly economic, social and cultural (ESC) rights, play a central role in land-related issues. However, there is no explicit recognition of a 'human right to land' within international human rights instruments. Those who face threats to their land rely on other rights, such as the right to food, the right to water, the right to housing and the right to work. These rights are included in the 1976 [International Covenant on Economic, Social and Cultural Rights \(ICESCR\)](#).<sup>521</sup> Other standards related to land rights conflicts and forced evictions are:

- The 1997 [Basic Principles and Guidelines on Development-based Evictions](#);
- The 2009 [Core Principles and Measures on Large-scale land acquisitions and leases](#) of the United Nations Special Rapporteur on the right to food;
- The FAO's 2012 [Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security \(VGGT\)](#); and
- The 2011 [Tirana Declaration](#) of the International Land Coalition.

For more information and relevant international standards and initiatives see the theme Human rights (section 2.6.2).

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**This leads to assessment elements**

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3	Companies prevent conflicts over land rights and acquire natural resources only by engaging in meaningful consultation with local communities and obtaining free, prior and informed consent (FPIC) when it concerns indigenous peoples.
4	Companies prevent conflict over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of peoples with customary tenure rights.

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- **Areas of high biodiversity and protected areas**

Agricultural activities may not take place in areas listed in the categories I to IV of the [International Union for Conservation of Nature \(IUCN\)](#), in the [UNESCO World Heritage Convention](#), or in the [Ramsar Convention on Wetlands](#). Furthermore, developing new agricultural activities in areas that are identified by one of the following classifications is to be avoided:

- Forests identified with the [High Carbon Stock Approach](#);
- [Marine Protected Areas](#); and
- [High Conservation Value areas](#).

How to deal with these different biodiversity standards is described in [International Finance Corporation's \(IFC\) Performance Standard 6](#) concerning Biodiversity Conservation and Sustainable Management of Living Natural Resources. Performance Standard 6 determines how companies should operate in order to avoid negative consequences on areas of high biodiversity value, including negative impacts on natural habitats as well as on endangered and endemic species. The requirements in Performance Standard 6 have been guided by the [Convention on Biological Diversity](#).

The [United Nations Environmental Assembly](#) adopted a [resolution on pollution mitigation by mainstreaming biodiversity into key sectors](#) in 2017, aiming at "strengthening efforts to integrate conservation and sustainable use of biodiversity in various sectors such as agriculture, fisheries and aquaculture, tourism, mining and energy, infrastructure and manufacturing among others. It also points to the need to prevent and reduce pollution from these sectors".<sup>522</sup>

The 2014 United Nations Climate Summit [New York Declaration on Forests](#) (NYDF) is a non-legally binding political declaration, which aims to cut natural forest loss with 50% by 2020 and to ultimately end deforestation by 2030. Furthermore, it also promotes the restoration of forests and croplands of an area larger than India. The Declaration has been endorsed by dozens of governments, 50 of the world's largest companies and over 50 influential civil society and indigenous organisations. The associated voluntary [Action Agenda](#) serves as a guide for governments, companies, and organisations regarding the diverse set of actions that can achieve these transformational goals.<sup>523</sup> The five-year assessment of the Declaration was published in 2019 and stressed that "there is little evidence that these goals are on track, and achieving the 2020 NYDF targets is likely impossible".<sup>524</sup> The report further emphasizes the need for larger scale action both on halting deforestation and on restoring forest ecosystems.

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**This leads to assessment elements**

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5	Companies prevent negative impacts on protected areas that fall under the categories I-IV of the International Union for Conservation of Nature (IUCN) within their business operations and the areas they manage.
6	Companies prevent negative impacts on UNESCO World Heritage sites within their business operations and the areas they manage.
7	Companies prevent negative impacts on protected areas that fall under the Ramsar Convention on Wetlands within their business operations and the areas they manage.

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- **Protection of genetic material**

The [FAO's Commission on Genetic Resources for Food and Agriculture](#) has observed that the management of genetic resources, the primary biological capital for livestock development and vital to food security and sustainable rural development, has been neglected. This has resulted in a substantial erosion of genetic diversity. The FAO's [Second Report on the State of the World's Animal Genetic Resources for Food and Agriculture](#) provides a "comprehensive assessment of the state of livestock biodiversity and its management".<sup>525</sup> The key findings of the report include:

- "Livestock diversity facilitates the adaptation of production systems to future challenges and is a source of resilience in the face of greater climatic variability; [...]"
- The roles and values of animal genetic resources remain diverse, particularly in the livelihoods of poor people; and [...]"
- Emerging technologies are creating new opportunities and challenges in animal genetic resources management".<sup>526</sup>

The [UN Convention on Biological Diversity \(CBD\)](#) demands that companies that want to have access to genetic material from abroad have to obtain prior permission from the exporting country and have to make clear agreements for the use of the material.

The [Bonn Guidelines](#) are recognized as a useful first step in the implementation of relevant provisions of the CBD and are meant to assist stakeholders in developing access to genetic resources and benefit-sharing strategies.

The [Cartagena Protocol on Biosafety to the Convention on Biological Diversity \(Cartagena Protocol\)](#) defines Living Modified Organisms (LMOs, in every day usage also called Genetically Modified Organisms, GMOs) as any living organism that possesses a novel combination of genetic material obtained through the use of modern biotechnology. The Cartagena Protocol does not prohibit the use of LMOs in itself but has developed a framework for the safe handling, transport and use of LMOs that may have a harmful effect on biodiversity and human health and entail trans-boundary risks. The protocol also requires permission from the importing country before it is permitted to import LMOs.

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**This leads to assessment elements**

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8	Activities in the field of genetic materials and genetic engineering only take place if they meet the permission and processing requirements described in the UN Convention on Biological Diversity and the related Bonn Guidelines or Nagoya Protocol.
9	Production of, or trade in, living genetically modified organisms can only take place if permission of the importing country has been obtained and all requirements of the Cartagena Protocol have been met.

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- **Animal welfare**

The concept of the Five Freedoms are often taken as a starting point for preparing standards on animal welfare. This concept arose from the Brambell Report published in Great Britain in 1965 and the following request of the UK Minister of Agriculture to the Farm Animal Welfare Council (FAWC) to revise the *Welfare Codes* for cattle, pigs, domestic fowl and turkeys. This has led to the following list of five freedoms that are relevant for all animals.

An animal has to live free from:

- Hunger, thirst and malnutrition (direct access to fresh water and solid food to stay healthy and strong);
- Any thermal or physical discomfort (having suitable, comfortable housing that offers tranquillity);
- Pain, injury and diseases (by means of prevention or diagnosing and treating quickly).
- Fear and chronic stress (by circumstances that avoid suffering and stress); and
- The denial of natural (species-specific) behaviour (by supplying sufficient space, sufficient and proper provisions and company from animals of the same species).

In the European Union, Council Directive 98/58/EC concerning the protection of animals applies to all farm animals and lays out several general animal welfare requirements with respect to, amongst others, freedom of movement, accommodation, feed and breeding practices. Furthermore, directives from the Council have been adopted on animal transport (EC No 1/2005), as well as on the keeping of specific species of animals (broilers, laying hens, pigs, calves). Regulations on slaughter (EU Regulation 2018/723) have also been issued by the European Commission. In recent years, out of discontent with the inability of EU standards to safeguard animal welfare, private standards and initiatives have emerged.

The International Finance Corporation (IFC) states in its Good Practice Note that businesses "that address or enhance animal welfare are likely to win or retain a competitive advantage in the global marketplace".<sup>527</sup> and presents some best practices and recommendation for farmers and meat producing companies.

Coller Capital also initiated the Farm Animal Investment Risk and Return (FAIRR) initiative, which aims to improve investor's understanding of risks related to factory farming. FAIRR states that "animal factory farming is exposed to at least twenty-eight environmental, social and governance issues that could significantly damage financial value over the short or long-term. Many of these risks are currently hidden from investors".<sup>528</sup>

The Farm Animal Responsible Minimum Standards (FARMS) were developed in 2019 by a coalition of animal welfare organizations, and emphasize the role of financial institutions in advancing animal welfare in farm animals. Based on the Five Freedoms, the OIE Terrestrial Health Code, existing EU legislation and the IFC's Good Practice Note, the FARMS initiative identifies a number of 'welfare risks' and mitigation strategies that apply to all farm animals, covering a range of topics including:

- Space;
- Stocking density;
- Living environment;
- Diet;
- Breeding practices;
- Painful procedures;
- Transport;

- Slaughter.

Additionally, the FARMS initiative defines a host of minimum standards specific to five of the most commonly farmed animals (dairy cows, beef cattle, broiler chickens, laying hens and pigs).<sup>529</sup> By combining previous governmental regulations and private initiatives, the Responsible Minimum Standards (RMS) provide a comprehensive set of principles for improving welfare in farm animals.

For more information and relevant international standards and initiatives see the theme Animal Welfare (section 2.1.2).

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**This leads to assessment elements**

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10	Companies respect the <i>Five Freedoms</i> of animals.
11	Very restricted housing methods for calves (in crates), hens (in battery cages) and sows (in feeding cubicles) are unacceptable.
12	Companies reduce the time limit of animal transport to a maximum of 8 hours.

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- **Antimicrobial resistance**

According to the World Health Organisation (WHO), antimicrobial resistance (AMR) is one of the biggest threats to global health, food security, and development today. As antibiotics become less effective a growing list of infections are becoming difficult and sometimes impossible to treat.

For more information and relevant international standards and initiatives see the theme Animal welfare and the theme Health (sections 2.1.2 and 2.5.2).

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**This leads to assessment element**

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13	Companies apply a prudent use of antimicrobial medicines (antibiotics) in food-producing animals in order to minimize antimicrobial resistance.
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- **Emissions reduction**

Agriculture strongly contributes to the emission of greenhouse gases (GHGs), in particular through conversion of peatland and high-carbon stock (HCS) areas, as well as indirect land use change (ILUC). Other sources of GHG emissions are CH<sub>4</sub> produced by animals and rice paddies, and N<sub>2</sub>O emissions from animal manure and fertilizers.

Globally, the [Greenhouse Gas Protocol \(GHG Protocol\)](#) is the most widely used standard to measure and manage greenhouse gas emissions. Among others, the GHG Protocol has developed a standard for the emissions of specific [products](#) and the [corporate value chain \(scope 3\)](#).

For more information and relevant international standards and initiatives see the theme Climate change and the theme Health (sections 2.2.2 and 2.5.2).

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**This leads to assessment elements**

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14	Companies reduce their direct and indirect greenhouse gas emissions.
15	Companies reduce their direct and indirect emissions of harmful substances, such as particulate matter, nitrogen oxide and ammonia.
16	Conversion of peatland and high-carbon stocks for agricultural development is unacceptable.
17	Companies contribute to an ambitious, time-bound shift from animal protein to plant and alternative proteins in order to decrease animal protein consumption.

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- **Pesticides**

With respect to the use of pesticides, the FAO released an [International Code of Conduct on the Distribution and Use of Pesticides](#) in 2003. This code of conduct includes voluntary, internationally accepted norms for the treatment, storage, use and the disposal of pesticides.

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**This leads to assessment element**

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18	Companies minimise use of pesticides.
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- **Water use**

Given the immense amounts of freshwater being used to produce food globally, amidst growing shortages, it is important that this is done as efficiently as possible. It is vital that companies and financial institutions become aware of their own influences on water related problems. Various initiatives, guidelines and standards have emerged in recent years, to help companies address water risk.

Initiatives companies could participate in and learn from are:

- The UN Global Compact's [CEO Water Mandate](#) is a public-private initiative designed to assist companies in the development, implementation and disclosure of water sustainability policies and practices;;
- UNEP and CEO Water Mandate [Guidance on Corporate Water Accounting](#);
- The [European Water Partnership](#); and
- The [Water Footprint Network](#), which also has a standard on assessing a global water footprint.

There are several guidelines and water 'footprinting' methods as well as voluntary disclosure initiatives for calculating water use, water risk, understanding water issues and creating a sound water strategy, such as:

- The [CDP's Water Program](#), to calculate and publish corporate water use throughout the supply chain;
- The [GEMI Water Sustainability Tool](#);
- The [WBCSD Global Water Tool](#); and
- The [AWS International Water Stewardship Standard](#) is supported by a verification process, that defines a set of water stewardship criteria and indicators for how water should be stewarded at a site and catchment level in an environmentally, socially, and economically beneficial manner.

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**This leads to assessment elements**

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19	Companies minimise use of water.
20	Companies prevent water pollution.
21	Companies conduct water scarcity impact assessments in water scarce regions.
22	Companies have comprehensive mitigation measures in place to address community and ecosystem water requirements in areas where environmental impact assessments identify that significant impacts to water resources are likely.

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- **Certification and eco-labels**

While demand for sustainable agricultural products is growing, there has not yet been general agreement on the definition of what counts as *sustainable* agriculture. However, *eco-labelling* is taking place on a large scale: granting voluntary and binding sustainability labels to agricultural products. A lot of labels are issue specific (for example *organic* or *fair trade* or *GMO-free*) and therefore make use of different standards. As a result, the market for sustainable agricultural products is somewhat opaque.

In February 2008, the Sustainable Agriculture Network (SAN) published the [Sustainable Agriculture Standards](#). The norms are based on the United Nations guidelines, the European Union and the International Labour organisation and are endorsed by the Rainforest Alliance. The standards contain fourteen criteria for sustainable agriculture (on waste management, working conditions, health and safety, the use of chemical and biological additives and genetically manipulated seeds). For certification purposes SAN has developed the [Farm Certification](#) and Chain-of-Custody certification. Both are used in the certification process of sustainable agricultural companies. The SAN also works on an additional sustainable standard for keeping cattle, in which specific topics are dealt with and previous SAN standards for water and waste management are applied to livestock farms.

With respect to organic farming, the International Federation of Organic Agricultural Movements (IFOAM) has developed the Norms for Organic Production and Processing. The IFOAM norms consist of the [IFOAM Standard](#) and the corresponding [Accreditation Criteria](#). All producers worldwide that adhere to the IFOAM norms are included in the [Organic Guarantee System](#).

With respect to fair trade, the [Fair trade Labelling Organizations International](#) (FLO) is industry leading. FLO is a cooperation of twenty certification initiatives that *market* the Fair trade label in their own country. Goods that carry the Fair trade label meet the [Fair trade Production and Trade Standards](#), which include both general norms (on investments in local economies and reducing waste) as well as product specific norms (minimum prices and quality standards).

Through [The 2050 criteria](#), WWF provides an overview of the investment criteria for several agricultural resources. By referring to the best practices in the different sectors, WWF provides guidance in the search for certification schemes and trends and developments in the environmental and social field.

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**This leads to assessment element**

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23	Companies work with relevant standards and initiatives for raw materials (mentioned in section 3.4.2).
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- **Standards for specific crops**

Recently, guidelines have been developed for sustainable production and trade for a number of important agricultural products. These guidelines, with the objective to reduce social and environmental problems, are preferably drafted by so-called multi-stakeholder initiatives and roundtables, in which researchers, companies from industries involved, financial institutions, social organisations, and other stakeholders participate. In recent years, the roundtables have defined more and clear standards for the sustainable production of specific crops. Until now multi-stakeholder initiatives for some agricultural products are still lacking, but norms are being drafted by the industry itself. Until these norms have been developed further in consultation with all stakeholders, they are not to be considered as real sustainability norms; but they do offer some guidance in the assessment of companies that produce these agricultural products.

The main examples of norms for specific agriculture crops are:

- **Soy:** If not managed adequately, large scale soy farming causes huge social and environmental damage, particularly in Latin America. Clear norms and guidelines are described in the 2004 [Basel Criteria for Responsible Soy Production](#), developed by the WWF and Coop Switzerland. The Basel Criteria require certified, non-GMO soy to be farmed and traded separately, so as long as the largest part of the market does not comply with these requirements. The Basel Criteria are also followed in the globally used [ProTerra Standard](#).

In 2006, private companies and stakeholders came together to sign the Amazon Soy Moratorium, a voluntary agreement to ensure that Brazilian soy is only grown on existing agricultural land and does not drive further deforestation in the Amazon. The agreement has been credited with drastically reducing deforestation due to soy production in the Amazon, and was renewed indefinitely in 2016.<sup>530</sup> A similar approach was called for in the 2017 [Cerrado Manifesto](#), which brought together many CSOs and several large companies in advocating measures to prevent destruction of the Brazilian Cerrado region due to soy production.

The [Roundtable on Responsible Soy Association](#) (RTRS), established by organisations and companies in the soy industry, aims to stimulate 'more responsible' production of soy but has less strict requirements. The first RTRS Standard came into force in June 2010 and recognises the environmental and social problems in the soy chain. The [third version of the RTRS Standard](#) dates from 2017.

Other standards include the [Sustainable Agriculture Network Standard](#), [Fairtrade Production and Trade Standards](#), standards for organic farming and the [Social Responsibility Criteria for Companies that Purchase Soy and Soy Products](#) — developed in 2004 by the Brazilian Soy Platform. The latter document also places a clear responsibility on financial institutions and other lenders that are involved in financing soy producers. Civil society organizations (CSOs) united in the [Dutch Soy Coalition](#) believe that sustainable soy production cannot be achieved without a significant reduction in meat and dairy consumption in Europe, as well as a shift towards European farmed crops as cattle feed instead of imported soy.



- **Palm oil:** The [Roundtable on Sustainable Palm Oil \(RSPO\)](#) - a multi-stakeholder initiative with more than one hundred members that represent more than one third of the global palm oil trade - adopted the first version of its Principles and Criteria for Sustainable Palm Oil Production (P&C) in October 2007. The P&C is comprised of clear norms on environmental aspects (use of soil, water, chemicals) and social environment (land rights, working conditions, etc.). The norms are based on United Nations, the FAO and the ILO guidelines.

In 2013, the [Palm Oil Innovators Group \(POIG\)](#) was established. Within POIG a couple of CSOs (amongst whom WWF and Greenpeace) work together with palm oil companies in order to improve the RSPO standards. In 2016, RSPO introduced additional criteria under the name [RSPO NEXT](#). The latest version of the [RSPO Principles and Criteria](#) was adopted in 2018 and includes new criteria aimed at halting deforestation, planting on peat, and enhancing human rights protection.<sup>531</sup>

In recent years, several large companies, notably traders in the palm oil sector such as Archer Daniels Midland (ADM) and Wilmar International (the latter controls roughly 45% of the global market in palm oil), have adopted '[no deforestation](#)' policies. These policies set a high benchmark, often allowing no deforestation, no peat development and no conflicts, in their own operations or in their supply chain. Financial institution may apply the policies to the palm oil sector, as well as to other sectors related to deforestation, peat loss and conflicts.<sup>532</sup>

The 2015 [Free and Fair Labor in Palm Oil Production: Principles and Implementation Guidance](#) urges companies to ensure the rights of palm oil workers. It is not intended as a new code of conduct but as a resource that provides companies with detailed implementation guidance. The publication expects companies to adhere to the following seven principles throughout their supply chain:

- The International Labour Organization (ILO) Core Conventions are upheld;
  - Ethical hiring and responsible employment are practiced;
  - Reasonable production targets, working hours, and leave entitlements are established;
  - A living wage is paid;
  - Worker health and safety and the welfare of workers and their families are prioritized;
  - Access to remedy is guaranteed; and
  - Commit to meaningful due diligence, transparency, and disclosure of human rights policies, procedures, and data, with a focus on labour and employment.
- **Sugar cane:** Beside its use in the food industry, sugar cane is increasingly being used as a raw material for biofuel ethanol. Besides huge areas of agricultural land, the sugar industry also uses large quantities of water. The multi-stakeholder group Bonsucro unites a number of large companies and other stakeholders in the industry. Bonsucro's objective is to develop international guidelines for sustainable production of sugar cane that can be used by companies and investors worldwide, as well as a certification system. The latest update of the Bonsucro Production Standard dates from 2016. The standard is comprised of social, environmental and economic norms, focusing on labour rights, the production process and the environment. Fairtrade International also has a Product Standard for Cane Sugar, which certifies small-scale producer organizations.

- **Biofuels:** Palm oil, soy and sugar cane are increasingly often being used as a raw material for biofuels. The [Roundtable on Sustainable Biofuels](#) (RSB) is a multi-stakeholder initiative in which companies, scientists and social organisations cooperate. In November 2010, the RSB published the first Global Principles and Criteria for Sustainable Biofuels Production based on the international guidelines of the UN and ILO. The RSB offers [Global Standards](#) (last updated in 2016) that apply to any type of bio-based feedstock worldwide, as well as [EU-RED Standards](#) (last updated in 2018) that apply to feedstock entering the EU market and comply with the [EU Renewable Energy Directive](#) (RED) regarding land-use and GHG criteria.<sup>533</sup> The [Sustainable Food Laboratory](#) also works on the development of a comprehensible assessment of the most sustainable raw materials for biofuels that enables a useful comparison between the different agriculture raw materials.
- **Cocoa:** In 2001, the [Harkin Engel Protocol](#) was drafted to prevent the worst types of child labour on cocoa plantations. Yet, in recent years various examples of child labour on African cocoa plantations have come to light. The chain also suffers from unequal power relations, which leads to small cocoa farmers not receiving reasonable prices. In October 2007 the first meeting of the [Roundtable on a Sustainable World Cocoa Economy](#) was held in which farmers, traders, processing companies, governments and social organisations talked about the development of sustainability norms for the cocoa industry. Other initiatives are the [World Cocoa Foundation \(WCF\)](#), which supports programmes for sustainable cocoa farming, and the [Sustainable Tree Crops Programme](#) for the development of the sustainable harvest of cocoa, coffee and cashews in Africa. Some certification labels for sustainable cocoa are: Fairtrade International's [Product Standard for Cocoa](#), the [IFOAM Organic Standard](#), [Utz](#) and Sustainable Agriculture Network's (SAN) [Additional Criteria and Indicators for cocoa](#). Rainforest Alliance and Utz announced a merger in 2017 and are due to publish a joint certification scheme in 2020.<sup>534</sup>
- **Coffee:** Organizations like [Fairtrade International](#) and [Utz Certified](#) have been involved in the certification of coffee for many years. Fairtrade International particularly focuses on small coffee producers and establishes minimum prices for these farmers. The Global Coffee Platform (GCO), a group of over 150 stakeholders in the coffee supply chain, drafted the [Common Code for the Coffee Community \(4C\)](#) in 2014. The 4C code provides an extensive framework in which both environmental aspects as well as social problems within the coffee industry are covered. For 50 years, the International Coffee Organisation (ICO) has developed standards for responsible coffee. The last ICO agreement was the [International Coffee Agreement 2007](#). There is also a [Rainforest Alliance certification for coffee](#). Fairtrade International has a [Product Standard for Coffee](#), aimed at small coffee producers. Rainforest Alliance and Utz announced a merger in 2017 and are due to publish a joint certification scheme in 2020.<sup>535</sup>
- **Tea:** Tea production is labour intensive and the industry creates jobs in very remote rural areas. Globally, millions of people depend on the production of tea for their income. The price of tea on the world market has fallen dramatically in the past twenty years and, partly due to this, large social problems have arisen in the production of tea. Since 1997 the [Ethical Tea Partnership](#), a joint industry initiative of traders and packers, monitors working conditions on large plantations. Other certification systems are [Fairtrade](#), [Rainforest Alliance](#) and [Utz Certified](#) (the latter two have merged and will publish a joint certification program in 2020).

- **Other norms:** Fairtrade International has [Product Standards](#) for other products, including vanilla, fresh fruit and cereals. The [Sustainable Agriculture Initiative Platform](#), founded by multinationals in the agricultural industry, develops tools and guidance to support global and sustainable sourcing and agricultural practices. The certification mark [Fair Produce](#) is a initiative of Dutch mushroom producers and trading companies toto improve the competitive situation in the mushroom industry.

The [Soft Commodities Compact](#) initiative of the Banking Environment Initiative (BEI) and the Consumer Goods Forum (CGF) aims “to lead the banking industry in aligning with the CGF’s resolution to help achieve zero net deforestation by 2020”.<sup>536</sup> The commitments of the banks include: “Alongside their own due diligence processes, by 2020 Compact banks will confirm that these customers’ operations have achieved the same internationally-recognised means of verification that the CGF is prioritising. For each commodity, the starting point is:<sup>537</sup>

- Roundtable on Sustainable Palm Oil (RSPO) certification for palm oil;
- Round Table on Responsible Soy (RTRS) certification for soy.

The list described above is not an exhaustive overview of all the certification schemes and agricultural crops. The initiatives are in various stages of development and have gained different levels of support. In most industries, effective verification and control systems still have to be developed so that progress can be measured. Some initiatives already offer reliable norms on which a policy of financial institutions can be based and others provide starting points.

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**This leads to assessment elements**

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23	Companies work with relevant standards and initiatives for raw materials (mentioned in section 3.4.2).
24	Companies are certified according to the criteria of the certification schemes for raw materials(mentioned in section 3.4.2).

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- **Sustainability reporting**

The Global Reporting Initiative has drafted guidelines on how to write sustainability reports. Besides the general [G4 Sustainability Reporting Guidelines](#) it also provides sector guidance for a number of industrial sectors. In the [G4 Food Processing Sector Disclosures \(FSSD\)](#), not yet updated but still recommended by GRI to use with its new [GRI Sustainability Reporting Standards \(GRI Standards\)](#), includes guidelines regarding animal welfare, fair trade, health and the wellbeing of consumers, impact on natural resources and the use of packaging. The guideline has been specifically developed for companies involved in processing food and drinks. Parts of the guideline are also suitable for companies involved on the side, such as suppliers of pesticides, and take all links in the production chain into account.

For small and medium enterprises (SMEs), less elaborate sustainability reporting is required. SMEs can report on the GRI indicators that are relevant to their operations, for example by following [the High5! Approach](#).

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**This leads to assessment element**

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25	Companies publish a sustainability report that may contain (a number of) disclosures from the GRI Standards.
26	Large enterprises and multinational enterprises publish a sustainability report that is set up in accordance with the (Core or Comprehensive option of the) GRI Standards.

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- **Procurement and supply chains**

Companies are often part of long procurement and supply chains. They can monitor one another and question how they respect local and national legislation and international norms regarding social, economic and environmental issues. The requirements that companies set for their suppliers can be included in contractual agreements. The importance of this also recognised in the [OECD Guidelines for Multinational Enterprises](#) since its revision in 2011, and more specifically in the [OECD Due Diligence Guidance for Responsible Agricultural Supply Chains](#). It establishes a common understanding of due diligence in the sector to help companies meet the due diligence expectations laid out in the OECD Guidelines for Multinational Enterprises. It includes a model enterprise policy outlining the company standards, a framework for risk-based due diligence, a description of the major risks faced by enterprises and guidance for engaging with indigenous peoples.

The [ISO 26000:2010 Guidance on social responsibility](#) recognises the importance of supply chain responsibility, because “the impacts of an organization's decisions or activities can be greatly affected by its relationships with other organizations”.<sup>538</sup> A company's sphere of influence includes relationships within and beyond an organization's supply chain. Moreover, the ISO 26000:2010 Guidance on social responsibility recommends setting contractual provisions or incentives as a means of exercising influence.<sup>539</sup>

In addition, [ISO 20400:2017 Sustainable procurement – Guidance](#) provides guidelines for organizations, independent of their activity or size, on integrating sustainability within procurement, as described in ISO 26000:2010 Guidance on social responsibility. It is intended for stakeholders involved in, or impacted by, procurement decisions and processes.

The [United Nations Guiding Principles on Business and Human Rights](#) include a due diligence process in order to identify, prevent, mitigate and account for how companies address their adverse human rights impacts. The process “should cover adverse human rights impacts that the business enterprise may cause or contribute to through its own activities, or which may be directly linked to its operations, products or services by its business relationships.”<sup>540</sup>

A useful tool for companies is the [FAO-OECD Guidance for Responsible Agricultural Supply Chains](#). The Guidance “has been developed to help enterprises observe existing standards for responsible business conduct along agricultural supply chains. These standards include the OECD Guidelines for Multinational Enterprises, the Principles for Responsible Investment in Agriculture and Food Systems, and the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security. Observing these standards helps enterprises mitigate their adverse impacts and contribute to sustainable development”.<sup>541</sup> Furthermore, the Guidance contains a step-by-step model for implementing supply chain due diligence in the agricultural sector.

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### This leads to assessment elements

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27	Companies integrate environmental, social and governance criteria in their procurement and operational policies.
28	Companies include clauses on the compliance with environmental, social and governance criteria in their contracts with subcontractors and suppliers.

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### 3.4.3 Assessment elements

A reform of the global food and agriculture sector is badly needed in order to improve its contribution to sustainable development and to meeting its responsibility to respect peoples' right to food. Only through sustainable practices the massive deforestation that presently takes place as a result of the growth of agricultural activities can be reduced. This would protect biodiversity and ecosystems, climate change and fight desertification as well as preventing social problems with respect to the land rights of the local populations. Financial institutions play an important role in the food and agriculture sector as they finance producers, processors and traders of agricultural products. On these grounds, financial institutions carry a shared responsibility for improving the sustainability of this sector.

The following elements are crucial for a policy regarding the companies a financial institution invests in or finances:

1. Companies respect the right to adequate food.
2. Companies respect the ILO Declaration on Fundamental Principles and Rights at Work.
3. Companies prevent conflicts over land rights and acquire natural resources only by engaging in meaningful consultation with local communities and obtaining free, prior and informed consent (FPIC) when it concerns indigenous peoples.
4. Companies prevent conflict over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of peoples with customary tenure rights.
5. Companies prevent negative impacts on protected areas that fall under the categories I-IV of the International Union for Conservation of Nature (IUCN) within their business operations and the areas they manage.
6. Companies prevent negative impacts on UNESCO World Heritage sites within their business operations and the areas they manage.
7. Companies prevent negative impacts on protected areas that fall under the Ramsar Convention on Wetlands within their business operations and the areas they manage.
8. Activities in the field of genetic materials and genetic engineering only take place if they meet the permission and processing requirements described in the UN Convention on Biological Diversity and the related Bonn Guidelines or Nagoya Protocol.
9. Production of, or trade in, living genetically modified organisms can only take place if permission of the importing country has been obtained and all requirements of the Cartagena Protocol have been met.
10. Companies respect the *Five Freedoms* of animals.
11. Very restricted housing methods for calves (in crates), hens (in battery cages) and sows (in feeding cubicles) are unacceptable.
12. Companies reduce the time limit of animal transport to a maximum of 8 hours.
13. Companies apply a prudent use of antimicrobial medicines (antibiotics) in food-producing animals in order to minimize antimicrobial resistance.
14. Companies reduce their direct and indirect greenhouse gas emissions.

15. Companies reduce their direct and indirect emissions of harmful substances, such as particulate matter, nitrogen oxide and ammonia.
16. Conversion of peatland and high-carbon stocks for agricultural development is unacceptable.
17. Companies contribute to an ambitious, time-bound shift from animal protein to plant and alternative proteins in order to decrease animal protein consumption.
18. Companies minimise use of pesticides.
19. Companies minimise use of water.
20. Companies prevent water pollution.
21. Companies conduct water scarcity impact assessments in water scarce regions.
22. Companies have comprehensive mitigation measures in place to address community and ecosystem water requirements in areas where environmental impact assessments identify that significant impacts to water resources are likely.
23. Companies work with relevant standards and initiatives for raw materials (mentioned in section 3.4.2).
24. Companies are certified according to the criteria of the certification schemes for raw materials(mentioned in section 3.4.2).
25. Companies publish a sustainability report that may contain (a number of) disclosures from the GRI Standards.
26. Large enterprises and multinational enterprises publish a sustainability report that is set up in accordance with the (Core or Comprehensive option of the) GRI Standards.
27. Companies integrate environmental, social and governance criteria in their procurement and operational policies.
28. Companies include clauses on the compliance with environmental, social and governance criteria in their contracts with subcontractors and suppliers.

## 3.5 Forestry

### 3.5.1 What is at stake?

About 30% of the Earth's land surface - almost 4 billion hectares - is covered with forests.<sup>542</sup> Of this, about 271 million hectares are timber plantations, which have an entirely different function.<sup>543</sup> The term 'forest' includes, but is not limited to, natural forests and forest plantations as described by the Convention on Biological Diversity (CBD).

The forestry sector consists of all companies that manage forests and the companies that process timber (lumber, pulp, paper, and other wood products). The forestry industry is also comprised of all companies that are involved in trade and the further processing of these products, such as furniture and paper, and therefore includes long supply chains with many different companies.

Forests and plantations play an important role in the Earth system and provide people with a variety of goods and services:

- Hundreds of millions of people consider the forest to be their home: their social, cultural, and economic wellbeing is inextricably connected with the forest and the products they find there.<sup>544</sup> While it is difficult to estimate exactly how many people depend on forests for their livelihoods, some estimates place this number at over 1.5 billion people.<sup>545</sup> Important differences exist between those who live inside forests, those who live near forests and those who are engaged in commercial activities that rely on forests. These categories also overlap and vary along with the definition of 'forest'.<sup>546</sup>
- Forest ecosystems are the most biodiverse ecosystems on earth, offering shelter to more than two thirds of all animals and plants living on land.<sup>547</sup>
- Since trees grow by extracting CO<sub>2</sub> from the atmosphere, untouched forests serve as carbon storage and are therefore invaluable with regard to climate protection.<sup>548</sup> A 2012 joint study by two of the world's leading research groups estimated that deforestation provides 3.0 billion tons of carbon dioxide a year, accounting for 10% of global emissions.<sup>549</sup> The IPCC in 2014 estimated the net CO<sub>2</sub> emissions produced by agriculture, forestry and other land use (AFOLU) at 12% of global emissions between 2000 and 2009.<sup>550</sup>
- Forests provide important ecosystem services by enhancing the fertility of the soil, protecting reservoirs and reducing the risk of natural disasters such as floods and avalanches because they hold water resources and prevent soil erosion. These properties have a positive effect on global agricultural productivity and human health.<sup>551</sup>
- Forests provide valuable products for the world economy, as it provides timber and other products, such as edible nuts and fruit, medicinal plants, fibres and rubber.<sup>552</sup> The economic importance of the informal, local trade in timber and other forest products is likely to be much higher. Hence, the loss of forests implies significant costs for the world economy, with some estimates putting the cost of deforestation and forest deterioration in the trillions of US dollars for the world economy.<sup>553</sup>
- Small scale and informal forestry and agroforestry are usually an important source of employment. However, there is a great deal of variation between types of forestry work, within different kinds of forestry work and also between regions.<sup>554</sup>

Despite their importance for human beings and nature, forests are still being destroyed at unprecedented speed. Experts estimate that during the 1990s, about sixteen million hectares of natural forest was lost annually.<sup>555</sup> Besides outright deforestation, the overexploitation of forests also drives *forest degradation*, whereby forests lose their richness in biodiversity and parts of their social and ecological functions.

Deforestation and forest degradation deprive local communities of their territory and livelihood, lead to loss of biodiversity, soil erosion and a decrease in the surface and groundwater table. In addition, deforestation activities sometimes cause horrible forest fires. Due to air pollution caused by these fires, people can suffer from respiratory problems - such as asthma, bronchitis and pneumonia - as well as other consequences of the fires, such as eye and skin problems. Most forest fires are caused by the destruction of forests for the purpose of expansion of the large-scale pulp industry and palm oil plantations.<sup>556</sup>

Important causes of deforestation and forest degradation are:

- **Non-sustainable and illegal logging.** Non-sustainable logging occurs when forests are cut down so fast that recovery is impossible. Not all unsustainable logging is illegal, because forestry regulations in many countries fail to take sustainability into account. At the same time, not all types of illegal logging are non-sustainable, such as the small-scale logging by population groups that live in the forest and depend on small-scale agricultural activities (shifting cultivation).

Illegal logging and forest crime has an estimated annual cost of billions of USD. It is estimated that 50 to 90 % of timber in some tropical countries has been logged illegally or originates from illegal sources.<sup>557</sup> Governments would have been able to use this money for the improvement of health provisions, education, and other public services or for the improvement of sustainable forest management systems.

Non-sustainable logging often causes great damage to the environment. Due to the conversion of forests and other bio-diverse areas into timber plantations and secondary (degenerating) forests, biodiversity is lessened.<sup>558</sup> In addition, legal (but non-sustainable) logging exposes the forest to illegal logging and poaching when infrastructure is created.

Non-sustainable logging has negative consequences for the livelihood of population groups that depend on forests. Many of these groups are among the poorest and most oppressed communities in the world. In some forest-rich countries, the forestry industry is very corrupt. Private allocations of licenses and payment for these services by large scale logging companies have increased to such an extent that national legislation is being undermined. As a result, democratic governance and attention to human rights have come under pressure. In some cases the illegal exploitation of forests has been directly linked to large-scale violent conflicts (such as in the Democratic Republic of Congo).<sup>559</sup>

The sale of illegal wood within the EU remains a serious problem. A 2016 report by the European Commission stresses that private sector companies had “not consistently implemented the [due diligence] requirements”, that compliance remains “uneven and insufficient” and much more needs to be done to combat the trade in illegal timber.<sup>560</sup>

- **Conversion of natural forests into timber and pulp plantations.** One of the main causes of non-sustainable logging is the establishment of large-scale pulp, paper and veneer factories. These companies generally fail to make sure their timber supply comes from sustainably managed sources. Often, large areas of natural forests are cut down to make room for timber plantations that use fast-growing types of tree. Although timber plantations are sometimes classified as forests - for example in the annual [FAO report on the state of the world's forests](#) - they do not offer the same social and ecological functions as natural forests.



A large share of global logging is destined for industrial paper use and pulp factories are becoming increasingly controversial. The huge monoculture plantations needed to supply modern pulp factories with raw material have serious consequences for biodiversity, water quality, land rights and income provision. Moreover, the factories themselves are very polluting. Stimulated by financial institutions, the industry constructs larger factories than needed, as it is easier to obtain financing for a large factory than for a small one. Financial institutions can therefore exert significant influence in determining which projects ultimately go ahead.<sup>561</sup>

- **Conversion of forests for agriculture.** Agricultural activities in livestock farming and the production of palm oil, soy and corn (for food, feed and biofuel) increasingly use larger and larger land areas. To make way for agricultural activities, forests are cut on a large scale, after which the remaining vegetation is burnt. This system is commonly known as *slash-and-burn*. It is mostly conducted by farmers, however these activities are sometimes connected to large industry players.<sup>562</sup>
- **Conversion of mangroves for fish farming.** Mangrove forests in tropical coastal regions are often destroyed to enable large-scale fish and shellfish growing.<sup>563</sup>
- **Development of large-scale industrial and infrastructure projects.** Forests are destroyed for the development of industry and infrastructure such as roads, railways, channels, dams, mines, oil and gas plants and pipelines.<sup>564</sup>

The [United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries \(UN-REDD\)](#) is an initiative financially stimulating developing countries to reduce the emission of greenhouse gases due to deforestation and to invest more in sustainable development. During the [15th United Nations Climate Change Conference \(COP15\)](#) in Copenhagen in December 2009, the Copenhagen Accord agreement was achieved on the need to stop deforestation and forest degradation.

The issues related to forestry are central to SDG 15: Life on Land. It aims to implement sustainable forest management practices, stop all kinds of deforestation and promote reforestation by 2020. It also aims to reduce the degradation of natural habitats, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened species. SDG 15: Life on Land also encourages mobilising resources to finance sustainable forest management practices in developing countries.<sup>565</sup> Forestry as an industrial sector is also a hurdle in achieving SDG 13: Climate Action. Indirectly, land issues can be a threat to SDG 1: No Poverty and SDG 10: Reduced Inequalities.<sup>566</sup>

Given the socio-economic and ecosystem value of the world's forests and the outsized influence of the forestry sector on it, financial institutions should have an investment policy specifically dedicated to forestry in addition to investment policies for other industries related to deforestation and forest degradation (such as agriculture, fishing and mining). Financial institutions should develop a stringent investment policy to ensure that they only invest in or finance companies and governments that manage their forests in a way that is not only ecologically sound but also beneficial to local societies. When developing a policy for this industry, financial institutions can make use of the international standards described below.

### 3.5.2 International standards and initiatives

The main international standards on the forestry industry are summarised per topic, followed by the assessment elements that are formulated by the FFGI as a result:

- **Protected areas and High Conservation Value Forests**

Forestry activities in all protected areas that fall within the categories I-IV of the [World Conservation Union](#), the [UNESCO World Heritage Convention](#) and the [Ramsar Convention on Wetlands](#) require special attention and protection. These areas are dealt with extensively in the chapter on nature (see section 2.8.2). Policies of financial institutions have to be aimed at avoiding investments in forestry activities in these areas.

Many of these areas are also included in the analyses for investments by [International Finance Corporation's \(IFC\) Performance Standard 6](#) concerning Biodiversity Conservation and Sustainable Management of Living Natural Resources. It determines how companies should operate in order to avoid negative consequences on areas of high biodiversity value, including impact on natural habitats as well as endangered and endemic species. The requirements in the standard have been guided by the [Convention on Biological Diversity](#).

In addition, the Forest Stewardship Council (FSC) has developed the [High Conservation Value Forests](#) (HCVFs) concept. HCVFs are forest areas with biological, ecological, social or cultural attributes that make them particularly valuable for biodiversity and/or local people.<sup>567</sup> The objective of assigning an HCVF-label to certain forest areas is to be able to better identify valuable forests, developing suitable protection so important ecological and social economic bl remain preserved.<sup>568</sup> The [Global HCVF Toolkit](#), developed by IKEA and ProForest, provides starting points for applying the concept and implementation on a national scale. Organisations supporting the HCV Resource Network [HCV Charter](#) can register.

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**This leads to assessment element**

- |   |   |
|---|---|
| 1 | Companies prevent negative impacts on High Conservation Value (HCV) areas within their business operations and the forests they manage. |
|---|---|

- **High Carbon Stock**

Different forests have different degrees of carbon storage. The [High Carbon Stock \(HCS\) Approach](#) is a methodology to identify areas of land suitable for plantation development and forest areas that can be protected in the long term. The methodology distinguishes natural forest areas from degraded lands (former forest) that now contain only small trees, shrubs or grasses. HCS forests store carbon that would be released if they were converted into plantations, as well as having rich biodiversity values. The methodology was originally developed by Greenpeace, The Forest Trust (TFT) and Golden Agri-Resources (GAR), and is now governed and will be further refined by a multi-stakeholder body called the [High Carbon Stock Approach Steering Group](#). The HCS Approach is now used by plantation companies that have made a commitment to exclude deforestation from their supply chains.

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**This leads to assessment element**

- |   |   |
|---|---|
| 2 | Companies prevent negative impacts on High Carbon Stock (HCS) areas within their business operations and the forests they manage. |
|---|---|

- **Illegal logging and deforestation**

Since 2002, governments of wood producing and consuming countries have organised a number of conferences together with the World Bank. These [Ministerial Conferences on Forest Law Enforcement and Governance](#) (FLEG) processes are aimed at reducing illegal logging, trading and corruption in the forestry industry. In order to reach these objectives producers, consumers and donor governments are held accountable to international commitments to

increase their efforts. Up to now, FLEG-meetings have taken place in South-East Asia and Australia, Africa, Europe and in North Asia.

In 2004 the EU adopted the [Forest Law Enforcement, Governance and Trade \(FLEGT\) Action Plan](#), which established a new and innovative approach to prevent illegal logging. Legal agreements within the EU concerning trade and exploitation of raw materials are linked to the governance of the developing countries where these raw materials come from. The action plan describes a series of measures - such as supporting the private industry by keeping illegal timber out of the chain - and it supports measures to prevent investments in illegal logging.

In 2008, the United States were the first to ban the import, sale and trade of illegal timber and other related products. According to the [2008 amendment to the Lacey Act](#), importers have to indicate the wood species and the country of origin of most wood species, with heavy fines on importing wood products from illegal sources, regardless of whether this is done intentionally or unintentionally.

Following [EU regulation 995/2010](#), the [EU Timber Regulation \(EUTR\)](#) came into force in 2013: "Placing illegally harvested timber and products derived from such timber on the EU market for the first time, is prohibited. EU operators – those who place timber products on the EU market for the first time – are required to exercise 'due diligence'. Traders – those who buy or sell timber and timber products already on the market – are required to keep information about their suppliers and customers to make timber easily traceable".<sup>569</sup> Companies can develop their own Due Diligence System or make use of the services of monitoring organisations across the EU.

The 2014 United Nations Climate Summit [New York Declaration on Forests](#) (NYDF) is a non-legally binding political declaration, which aims to cut natural forest loss with 50% by 2020 and to ultimately end deforestation by 2030. Furthermore, it also promotes the restoration of forests and croplands of an area larger than India. The Declaration has been endorsed by dozens of governments, 50 of the world's largest companies and over 50 influential civil society and indigenous organisations. The associated voluntary [Action Agenda](#) serves as a guide for governments, companies, and organisations regarding the diverse set of actions that can achieve these transformational goals.<sup>570</sup> The five-year assessment of the Declaration was published in 2019 and stressed that "there is little evidence that these goals are on track, and achieving the 2020 NYDF targets is likely impossible".<sup>571</sup> The report further emphasizes the need for larger scale action both on halting deforestation and on restoring forest ecosystems.

The [Soft Commodities Compact](#) initiative of the Banking Environment Initiative (BEI) and the Consumer Goods Forum (CGF) aims "to lead the banking industry in aligning with the CGF's resolution to help achieve zero net deforestation by 2020".<sup>572</sup> The commitments of the banks include: "Alongside their own due diligence processes, by 2020 Compact banks will confirm that these customers' operations have achieved the same internationally-recognised means of verification that the CGF is prioritising. For each commodity, the starting point is (...) Forest Stewardship Council (FSC) verification or that of a national scheme endorsed against the 2010 Programme for the Endorsement of Forest Certification (PEFC) meta standard for timber products".<sup>573</sup>

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**This leads to assessment element**

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3	Companies throughout the wood supply chain prevent the use of illegally cut and traded timber.
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- **Pulp and paper production**

In 2014 the Environmental Paper Network (EPN), a group of over 120 non-profit organizations endorsed a new [Global Paper Vision](#), to improve sustainability in the paper supply chain. The Global Paper Vision encompasses seven principles, addressing the entire paper life-cycle:<sup>574</sup>

- reduce global paper consumption and promote fair access to paper;
- maximise recycled fibre content;
- ensure social responsibility;
- source fibre responsibly;
- reduce greenhouse gas emissions;
- ensure clean production; and
- ensure transparency and integrity.

The [Global Paper Vision](#) emphasises the importance of responsible sourcing “from forest managers that have credible, independent, third-party certification for employing the most environmentally and socially responsible forest management and restoration practices”.<sup>575</sup>

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**This leads to assessment element**

4	Pulp and paper factories restrict the use of chemicals and the pollution of soil, water and air by making use of the best available techniques.
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- **Fair and equal use of forests**

In article 8(j), the [Convention on Biological Diversity \(CBD\)](#) considers the fair and equal use and the advantages of biological diversity and requires that traditional knowledge of indigenous and local communities can only be used with their permission. The [Akwé: Kon Guidelines](#) require the conduct of cultural, environmental and social impact assessments regarding developments proposed to take place or which are likely to impact on sacred sites and on lands and waters traditionally occupied or used by indigenous and local communities.

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**This leads to assessment element**

5	Companies respect the rights of local and indigenous communities on the fair and equal use of forests.
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- **Land rights, conflicts and forced evictions**

Human rights, particularly economic, social and cultural (ESC) rights, play a central role in land-related issues. However, there is no explicit recognition of a ‘human right to land’ within international human rights instruments. Those who face threats to their land rely on other rights, such as the right to food, the right to water, the right to housing and the right to work. These rights are included in the [International Covenant on Economic, Social and Cultural Rights \(ICESCR\)](#).<sup>576</sup> Other standards related to land rights conflicts and forced evictions are:

- The 1997 [Basic Principles and Guidelines on Development-based Evictions](#);
- The 2009 [Core Principles and Measures on Large-scale land acquisitions and leases](#) of the United Nations Special Rapporteur on the right to food; and
- The 2011 [Tirana Declaration](#) of the International Land Coalition (ILC).

For more information and relevant international standards and initiatives see the theme Human rights (section 2.6.2).

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### This leads to assessment elements

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6	Companies prevent conflicts over land rights and acquire natural resources only by engaging in serious consultation with local communities and obtaining free, prior and informed consent (FPIC) when it concerns indigenous peoples.
7	Companies prevent conflict over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of peoples with customary tenure rights.

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- **Certification of forest management and the wood product chain**

The [Forest Stewardship Council \(FSC\)](#) is an international multi-stakeholder organization committed to developing certification standards for sustainably managed forests. The FSC was established in 1993 and includes forest owners, forest construction companies, labour unions, social and environmental organisations. The latest version of the [FSC Principles and Criteria \(P&C\) for Forest Stewardship](#) dates from 2015 and outlines ten principles with respect to environmental and social aspects of sustainable forest management. These principles include requirements on labour rights, FPIC and other rights of indigenous peoples, the preservation of ecosystem services and protection of HCV areas.<sup>577</sup> The P&C form the basis of all FSC standards for forest and plantation management. In addition, thousands of wood products carry the [FSC Chain of Custody-certificate](#), which guarantees that the entire production chain complies with FSC conditions.

The [Programme for the Endorsement of Forest Certification \(PEFC\)](#) is an international alliance of national forest certification schemes and is traditionally more dominated by large forestry companies than FSC. PEFC has developed an international benchmark for forest management that national certification schemes need to apply in order to receive PEFC endorsement. The latest version of the [Sustainable Forest Management Standard](#) dates from 2018 and includes requirements on compliance with fundamental ILO conventions, FPIC and other rights of indigenous peoples, as well as maintenance and enhancement of forest ecosystems under management.<sup>578</sup> PEFC has also developed [Chain of Custody Certification](#) to guarantee that forest-based materials in a product originate from sustainably managed forests. PEFC certificates are mainly issued in Europe. Most PEFC-certified wood comes from North America, followed by Europe.<sup>579</sup>

A 2019 [report on labour rights and human rights in forest certification standards](#) found that human rights risks were addressed properly in both the FSC and PEFC standard. Both standards also address environmental and labour rights risks, although room for improvement remains. The Chain of Custody standards for both systems do not adhere fully to key international standards (such as the OECD Guidelines for Multinational Enterprises or ILO Fundamental Conventions), and significant differences remain between national standards, especially in the PEFC system.<sup>580</sup>

Over the years, PEFC has been subject to significant criticism from civil society organizations (CSOs). As PEFC certification takes place on the basis of national standards, it is difficult to derive clear criteria from a PEFC certificate. WWF's [Forest Certification Assessment Tool \(CAT\)](#) pointed out in 2015 that while the international PEFC-benchmark "performs well in areas such as water and soil management, it scores less on several important criteria, such as biodiversity, and workers' rights", and "the credibility of the PEFC system would benefit from more active and formally balanced participation from a wide range of stakeholders in its governance system, and greater transparency".<sup>581</sup> In 2009 Friends of the Earth Netherlands found unsustainable forestry practices in the United States, Australia and Slovakia in PEFC-certified

forests.<sup>582</sup> In addition there are, according to WWF and Greenpeace, among others, the following weaknesses of PEFC compared to FSC:<sup>583</sup>

- Woodlands can be converted to monoculture plantations;
- No need to protect endangered plant and animal species; and
- The organization is dominated by the timber industry and there is too little involvement of other stakeholders.

Criticisms on social or environmental grounds have also been delivered about the Malaysian Timber Certification Scheme (MTCS) and the Sustainable Forestry Initiative (SFI), both PEFC-endorsed national or regional certification systems.<sup>584</sup>

In conclusion, there is consensus among CSOs that PEFC standards do not ensure sustainable forestry, especially outside Europe. The Global Paper Vision, likewise, considers FSC the only international certification programme meeting their requirements of a good certification programme.<sup>585</sup>

The Fair Finance Guide International methodology considers PEFC certification and other certification schemes not a sufficient requirement from companies. As these certification schemes do not meet the standards to ensure production of sustainable wood, FSC certification is the only acceptable certification system.

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**This leads to assessment elements**

8	Production forests and timber plantations are certified according to the Forest Stewardship Council (FSC) forest management certification.
9	Supply chains of timber traders and companies in the wood product chain (including pulp, paper, veneer, furniture) are certified according to the FSC chain of custody certification.

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- **Sustainability reporting**

In September 2003 the World Wildlife Fund (WWF) published Guidelines for Investment in Operations that Impact Forests. These guidelines help financial institutions to identify critical problems in the forestry industry and to develop a forestry policy.

The Carbon Disclosure Project (CDP) Forest Program tries to help investors in identifying links between tropical deforestation and the activities and chains of the companies in which they invest. Questionnaires are sent on behalf of institutional investors. The results - which indicate whether a company has developed 'best in class' in innovative risk control strategies, or did not respond to the request to make its forest footprint public - are collected in an annual report.<sup>586</sup>

The best known guideline for sustainability reporting in general is the Global Reporting Initiative (GRI) Reporting Framework, of which the GRI Sustainability Reporting Standards (GRI Standards) have been in effect since July 2018.

For small and medium enterprises (SMEs), less elaborate sustainability reporting is required. SMEs can report on the GRI indicators that are relevant to their operations, for example by following the High5! Approach.

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**This leads to assessment elements**

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10	Companies in industries with a large impact on forests (including in any case the forestry and paper industry), report their forest related information to the Carbon Disclosure Project (CDP) Forest Program.
11	Companies publish a sustainability report that may contain (a number of) disclosures from the GRI Standards.
12	Large enterprises and multinational enterprises publish a sustainability report that is set up in accordance with the (Core or Comprehensive option of the) GRI Standards.

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- **Procurement and supply chains**

Companies are often part of long procurement and supply chains. They can monitor one another and question how they respect local and national legislation and international norms regarding social, economic and environmental issues. The requirements that companies set for their suppliers can be included in contractual agreements.

The importance of this is also recognised in the [OECD Guidelines for Multinational Enterprises](#) since its revision in 2011, and more specifically in the [OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector](#). It establishes a common understanding of due diligence in the sector to help companies meet the due diligence expectations laid out in the OECD Guidelines for Multinational Enterprises.

[ISO 26000:2010 Guidance on social responsibility](#) recognises the importance of supply chain responsibility, because “the impacts of an organization's decisions or activities can be greatly affected by its relationships with other organizations”.<sup>587</sup> A company's sphere of influence includes relationships within and beyond an organization's supply chain. Moreover, ISO 26000:2010 Guidance on social responsibility recommends setting contractual provisions or incentives as a means of exercising influence.<sup>588</sup>

In addition, [ISO 20400:2017 Sustainable procurement – Guidance](#) provides guidelines for organizations, independent of their activity or size, on integrating sustainability within procurement, as described in ISO 26000:2010 Guidance on social responsibility. It is intended for stakeholders involved in, or impacted by, procurement decisions and processes.

The [United Nations Guiding Principles on Business and Human Rights](#) (UNGP) include a due diligence process in order to identify, prevent, mitigate and account for how companies address their adverse human rights impacts. The process “should cover adverse human rights impacts that the business enterprise may cause or contribute to through its own activities, or which may be directly linked to its operations, products or services by its business relationships.”<sup>589</sup>

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**This leads to assessment elements**

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13	Companies integrate environmental, social and governance criteria in their procurement and operational policies.
14	Companies include clauses on the compliance with environmental, social and governance criteria in their contracts with subcontractors and suppliers.

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### 3.5.3 Assessment elements

Financial institutions can use their influence to prevent deforestation and forest degradation, by establishing a strict policy for investments in the forestry sector. This policy applies to the entire forestry sector, being forestry, logging, pulp, paper and furniture production as well as other wood processing and trade companies.

The following elements are crucial for a policy regarding the companies a financial institution invests in or finances:

1. Companies prevent negative impacts on High Conservation Value (HCV) areas within their business operations and the forests they manage.
2. Companies prevent negative impacts on High Carbon Stock (HCS) areas within their business operations and the forests they manage.
3. Companies throughout the wood supply chain prevent the use of illegally cut and traded timber.
4. Pulp and paper factories restrict the use of chemicals and the pollution of soil, water and air by making use of the best available techniques.
5. Companies respect the rights of local and indigenous communities on the fair and equal use of forests.
6. Companies prevent conflicts over land rights and acquire natural resources only by engaging in serious consultation with local communities and obtaining free, prior and informed consent (FPIC) when it concerns indigenous peoples.
7. Companies prevent conflict over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of peoples with customary tenure rights.
8. Production forests and timber plantations are certified according to the Forest Stewardship Council (FSC) forest management certification.
9. Supply chains of timber traders and companies in the wood product chain (including pulp, paper, veneer, furniture) are certified according to the FSC chain of custody certification.
10. Companies in industries with a large impact on forests (including in any case the forestry and paper industry), report their forest related information to the Carbon Disclosure Project (CDP) Forest Program.
11. Companies publish a sustainability report that may contain (a number of) disclosures from the GRI Standards.
12. Large enterprises and multinational enterprises publish a sustainability report that is set up in accordance with the (Core or Comprehensive option of the) GRI Standards.
13. Companies integrate environmental, social and governance criteria in their procurement and operational policies.
14. Companies include clauses on the compliance with environmental, social and governance criteria in their contracts with subcontractors and suppliers.



## 3.6 Housing and real estate

### 3.6.1 What is at stake?

The United Nations estimates that 230 billion m<sup>3</sup> of new buildings will be constructed over the next 40 years, and that 6 out of 10 people will reside in urban areas by 2030.<sup>590</sup> Cities face many demographic, environmental, economic, social and spatial challenges and without effective urban planning, the consequences of the expected urbanization in the next decades will be dramatic. The built environment has direct and indirect, positive and negative impacts on social wellbeing and the livelihoods and prosperity of local communities and individuals. It provides homes, jobs, education and recreational facilities for communities, but lack of proper housing and inadequate and out-dated infrastructure can also lead to escalating poverty and unemployment, safety and crime problems, pollution and health issues.<sup>591</sup>

With respect to the environmental impact of real estate, the United Nations Environment Programme (UNEP) estimates that, throughout their life-cycle, buildings account for roughly 40% of global energy consumption as well as 25% of all water resource withdrawals. Buildings are also responsible for 30% of worldwide and 36% of European Union greenhouse gas emissions.<sup>592</sup> The UNEP Global Status Report 2018 on buildings and construction reconfirms the significance of the buildings and construction sector in global energy consumption and related emissions. It further states that while efforts to decarbonise the sector are progressing, accelerated energy-efficiency and a shift away from fossil fuels is needed to achieve net-zero emissions in the buildings sector before 2060. This will require a major shift in financing and investments.<sup>593</sup> As a consequence, the real estate sector has the potential to play a significant role in mitigating climate change through reduction of GHG emissions in the built environment.<sup>594</sup>

For real estate investors, improving sustainability can be very profitable. The operating costs of buildings are exposed to fluctuations in energy prices and possible tax effects, due to future regulations regarding energy use and the emission of greenhouse gases. If buildings are constructed or adapted to be energy efficient, this can reduce the operating costs by 14%. This also helps respond to market developments. The market for sustainable building and real estate is growing worldwide. In addition, energy efficient buildings tend to have a higher economic value.<sup>595</sup>

In terms of environmental sustainability and resource efficiency, it is important to consider the entire life-cycle of a building, from siting, design, construction, operation and renovation to demolition.<sup>596</sup> The housing and real estate sector can have an important impact in working towards a circular economy. Not only by using sustainable construction materials, but also by re-using, repairing, refurbishing and recycling construction materials and waste in the most sustainable and responsible way possible. The impact of construction projects on ecosystems should be minimised and where possible damage to nature should be restored.<sup>597</sup> As the built environment can last for decades, real estate needs to be designed for multiple and flexible use in order to avoid vacancy. Financial institutions can also contribute to transformation of vacant buildings.<sup>598</sup>

The housing and real estate sector is intertwined with several human rights issues and labour practices. Human rights violations can occur through the (in)voluntary displacement and resettlement of people living on - or nearby - land that is to be developed for buildings. Potential impacts may include loss of productive land, loss of employment and income, loss of housing, loss of access to common resources and public services, and social fragmentation. During the construction stage, issues include health and safety considerations, fair wages, reasonable working hours, indentured or forced labour and other workers' rights violations for construction workers.<sup>599</sup>

The right to adequate housing, initially recognized as part of the right to an adequate standard of living in the 1948 Universal Declaration on Human Rights (UNDHR)<sup>600</sup>, requires that health and safety standards are respected in design, construction, maintenance, renovation and demolition of buildings, in order to protect the occupants and users of buildings. When planning new buildings and living areas, companies should not only consider how to make sustainable buildings but also how urban areas can be designed in such a way that shops are within walking distance, that there is sufficient green space and that there is enough space for vehicles, bicycles and pedestrians.

The right to adequate housing is recognized in Sustainable Development Goal (SDG) 11: Sustainable Cities and Communities. One of the targets is to ensure access to adequate, safe and affordable housing for all. Another target is to support least developed countries through financial and technical assistance in building sustainable and resilient buildings.<sup>601</sup> SDG 9: Industry, Innovation and Infrastructure is relevant as it targets amongst others developing quality, reliable, sustainable and resilient infrastructure to support economic development and human well-being, including in urban areas. Other SDGs such as SDG 1: No Poverty, SDG 8: Decent Work and Economic Growth, and SDG 13: Climate Action are also impacted by the housing and real estate sector.<sup>602</sup>

In 2016, the UN Conference on Housing and Sustainable Urban Development (Habitat III), adopted the New Urban Agenda.<sup>603</sup> This blueprint for UN Habitat and partners supports the 2030 Agenda on Sustainable Development, especially SDG 11: Sustainable Cities and Communities, to make cities inclusive, safe, resilient and sustainable and can serve as a starting point for investing and financing in real estate and housing.

### 3.6.2 International standards and initiatives

The main international standards on housing and real estate are summarised per topic, followed by the assessment elements that are formulated by the FFGI as a result:

- **Circular economy in real estate**

Companies active in the housing and real estate sector are expected to take into account the concept of circular economy into their business activities. In collaboration with the World Economic Forum (WEF), the [Ellen MacArthur Foundation](#) was amongst the first to define the principles of the circular model:<sup>604</sup>

- Design out waste and pollution;
- Keep products and materials in use; and
- Regenerate natural systems.

According to the cooperative [Circle Economy](#), the concept of a *circular economy* is based on the following principles:<sup>605</sup>

- Prioritise Regenerative Resources: Ensure renewable, reusable, non-toxic resources are utilised as materials and energy in an efficient way;
- Preserve and Extend What's Already Made: While resources are in-use, maintain, repair and upgrade them to maximise their lifetime and give them a second life through take back strategies when applicable;
- Use Waste as a Resource: Utilise waste streams as a source of secondary resources and recover waste for reuse and recycling;
- Rethink the Business Mode: Consider opportunities to create greater value and align incentives through business models that build on the interaction between products and services;

- Design for the Future: Account for the systems perspective during the design process, to use the right materials, to design for appropriate lifetime and to design for extended future use;
- Incorporate Digital Technology: Track and optimise resource use and strengthen connections between supply chain actors through digital, online platforms and technologies that provide insights; and
- Collaborate to Create Joint Value: Work together throughout the supply chain, internally within organisations and with the public sector to increase transparency and create joint value.

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**This leads to assessment elements**

4	Construction companies use recycled and recyclable materials and recycle materials in case of demolition.
9	New buildings are designed as such that they are suitable for multiple tenants, or can be easily adapted to suit multiple tenants.
10	Owners of real estate have a policy on transformation of vacant buildings in their portfolio.

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- **Sustainable wood**

In the construction industry a lot of wood is used. The use of certified responsible and sustainable wood guarantees that the wood is produced in a sustainable way, with preservation of biodiversity and good social criteria. Also, the role of forests for carbon sequestration is protected. It is therefore important that construction companies are certified according to the [Forest Stewardship Council \(FSC\)](#) criteria.

For more information see also the sector theme Forestry in section 3.5.2.

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**This leads to assessment element**

3	Construction companies only use wood certified according to the Forest Stewardship Council (FSC) forest management certification.
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- **Sustainable cement**

Cement is an important component of concrete and is used extensively in the construction industry. Cement and concrete production has a large environmental footprint, accounting for roughly 8% of global CO<sub>2</sub> emissions.<sup>606</sup> Concrete and cement production companies can cooperate with the [Global Cement and Concrete Association \(GCCA\)](#) through its [Cement Sustainability Charter](#). Member companies measure and report emissions following the [GCCA Sustainability Guidelines for the monitoring and reporting of emissions from cement manufacturing](#).

Companies can also choose to buy cement from producers who have obtained an [Environmental Product Declaration \(EPD\)](#) for unreinforced concrete. An EPD is a voluntary declaration that provides quantitative information about the environmental impact of a product, using life-cycle assessment (LCA) methodology and verified by an independent third party.

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**This leads to assessment element**

5	Construction companies implement the Cement Action Plan of the Cement Sustainability Initiative.
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- **Energy efficiency**

Energy saving in housing and real estate contributes to mitigating climate change. Energy saving measures also reduce energy costs and improves the comfort of houses and other real estate. According to UNEP’s [Emissions Gap Report 2017](#), buildings account for annual energy-related greenhouse gas emissions of 12.6 Gt CO<sub>2</sub> in 2030, of which 29% is direct (heating an hot water production) and 71% is indirect (electric appliances and lighting). The report also presents estimates for avoiding emissions in 2030 by constructing near-zero energy buildings and retrofitting existing buildings. The [Emissions Gap Report 2019](#), moreover, points out that significant emissions reductions can be attained both by increasing the efficiency of energy use in buildings and by enhancing the efficiency of material use in construction and housing.

In February 2016, UN Principles for Responsible Investment (PRI) and the United Nations Environment Programme Finance Initiative (UNEP FI), together with stakeholders from the real estate sector and real estate investment community, launched the [Sustainable Real Estate Investment Action Framework Implementing The Paris Climate Agreement](#). It requires real estate investment managers, property owners, asset owners and investors in real estate to set quantitative and material targets to reduce energy, to use clean energy, to improve energy efficiency and monitor results.<sup>607</sup>

In the EU, the 2010 [Energy Performance of Buildings Directive \(EPBD\)](#) and the 2012 [Energy Efficiency Directive \(EED\)](#) are the most important forms of legislation regarding energy consumption of buildings. In December 2017, an agreement was made to update the EPBD aimed at accelerating the renovation of buildings and to introduce smart technologies. The 2010 EPBD directive already requires all new buildings to be nearly zero-energy by December 2020. The EU EPBD requires member states to develop legislation regarding the following:<sup>608</sup>

- Energy performance certificates are to be included in all advertisements for the sale or rental of buildings;
- EU countries must establish inspection schemes for heating and air conditioning systems or put in place measures with equivalent effect;
- EU countries must set minimum energy performance requirements for new buildings, for the major renovation of buildings and for the replacement or retrofit of building elements (heating and cooling systems, roofs, walls, etc.); and
- EU countries have to draw up lists of national financial measures to improve the energy efficiency of buildings.

The EU EED is aimed at increasing energy efficiency and decreasing energy use in national buildings in member states:<sup>609</sup>

- EU countries make energy efficient renovations to at least 3% of buildings owned and occupied by central government;
- EU governments should only purchase buildings which are highly energy efficient; and
- EU countries must draw-up long-term national building renovation strategies which can be included in their National Energy Efficiency Action Plans.

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**This leads to assessment elements**

11	New buildings are designed according to the highest energy efficiency standards, in line with the EU Energy Performance Directive.
12	Energy reduction measures and greenhouse reduction targets are part of the multi-year maintenance plans with regard to the real estate property portfolios of the financial institution.

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13	Each year, the energy performance of at least 10% of the total real estate portfolio is enhanced, using the best available and viable technologies regarding energy reduction measures and avoidance of greenhouse gas emissions.
22	The financial institution reports on the energy efficiency of the houses and buildings financed with mortgages.
23	The financial institution implements a policy to improve the energy efficiency of the houses and buildings financed with mortgages.
27	Financial institutions that issue mortgage-backed securities are transparent about the sustainability aspects of the building stock (e.g. energy efficiency).
28	The financial institution only invests in mortgage-backed securities if there is sufficient transparency concerning the sustainability aspects of the building stock (e.g. energy efficiency).

- **Sustainable reconstruction after disasters**

The UNEP Sustainable Buildings and Climate Initiative (SBCI)'s [Sustainable Reconstruction in Disaster-Affected Countries Practical Guidelines](#) main objective is to help improve the design and construction of houses in disaster-affected countries and minimise the negative impacts of poorly constructed houses on the environment. The mitigation of natural disaster risks is key, but it takes into account the emissions of greenhouse gases and energy efficiency as well. It also points out the social and economic dimensions of sustainable reconstruction. This involves, amongst others, jobs for the local populations and the affordability of houses.

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**This leads to assessment element**

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7	Construction companies act responsibly when reconstructing homes by following the guidelines of UNEP SBCI's guidelines on Sustainable Reconstruction in Disaster-Affected Countries.
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- **Sustainable neighbourhoods**

Real estate and housing projects should be geared towards creating sustainable and liveable neighbourhoods. This means that in developing real estate and housing projects, attention is paid to green zones and connection to public transport and facilities, such as stores, libraries and hospitals.

In the initial phase of a real estate project, developers and housing corporations are expected to take into account the UN Habitat's [Five Principles of sustainable neighbourhood planning](#). They are meant to encourage sustainable urban development by creating liveable and efficient neighbourhoods. The Five Principles are:<sup>610</sup>

- Adequate space for streets and an efficient street network: The street network should occupy at least 30 per cent of the land and at least 18 km of street length per km<sup>2</sup>;
- High density: At least 15,000 people per km<sup>2</sup>, that is 150 people/ha;
- Mixed land-use: At least 40 per cent of floor space should be allocated for economic use in any neighbourhood;
- Social mix: The availability of houses in different price ranges and tenures in any given neighbourhood to accommodate different incomes; 20 to 50 per cent of the residential floor area should be for low cost housing; and each tenure type should be no more than 50 percent of the total. Furthermore, the availability of suitable houses for elderly and disabled peoples should be part of the social mix; and
- Limited land-use specialisation: this is to limit single function blocks or neighbourhoods; single function blocks should cover less than 10 per cent of any neighbourhood.

The objectives of these five principles are to:<sup>611</sup>

- Promote high density urban growth, alleviate urban sprawl and maximise land efficiency;
- Promote sustainable, diversified, socially equal and thriving communities in economically viable ways;
- Encourage walkable neighbourhoods and reduce car dependency;
- Optimise use of land and provide an interconnected network of streets which facilitate safe, efficient and pleasant walking, cycling and driving;
- Foster local employment, local production and local consumption; and
- Provide a variety of lot sizes and housing types to cater for the diverse housing needs of the community, at densities which can ultimately support the provision of local services.

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**This leads to assessment element**

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8	Construction companies, project developers and housing corporations are expected to take into account the Five Principles of sustainable neighbourhood planning.
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- **Certification of sustainability performance**

To measure performance regarding sustainability, the real estate industry increasingly uses certifications schemes. The following list is far from exhaustive and presents some of the most used schemes:

- [Building Research Establishment Environmental Assessment Method \(BREEAM\)](#) is a methodology for assessing the sustainability achievement of buildings and fields. In this certification process not only the energy consumption of premises is considered, but also land use, ecology, the construction process, water use, waste, pollution, transport, materials, health and comfort. Within BREEAM, country-specific certification schemes are available in some European countries. There are schemes for existing buildings (refurbishment and fit-out), in-use buildings, new buildings and for communities.<sup>612</sup>
- [Leadership in Energy & Environmental Design \(LEED\)](#) is an initiative from the United States promoting environmentally sound construction. The non-profit organisation [U.S. Green Building Council](#) applies this certification system globally: "LEED provides a framework to create healthy, highly efficient and cost-saving green buildings. LEED certification is a globally recognized symbol of sustainability achievement".<sup>613</sup> The rating systems address construction and renovation of (among others) schools, retail buildings, healthcare buildings, commercial interiors, homes and neighbourhood development. Projects can earn points in the ranking system by satisfying green building requirements: sustainable building sites, water efficiency, energy performance, using sustainable material and waste reduction.
- The [DGBN Certification System](#), designed by the [German Sustainable Building Council](#) (DGBN), provides an objective description and assessment of the sustainability of buildings and urban districts. Quality is assessed over the entire life cycle of the building. The DGBN Certification System can be applied internationally.
- The [Global Real Estate Sustainability Benchmark \(GRESB\)](#) is made for assessing real estate portfolios, infrastructure assets and funds.
- The Urban Land Institute (ULI) Greenprint Center regularly presents the [Greenprint Performance Report](#) with the largest global collection of transparent, verifiable, and comprehensive property data that provides aggregate benchmarks and performance trends for the real estate industry. Investors can measure their progress and portfolio's performance against the Greenprint Performance Report.

- GPR software delivers various certifications and assessment for the Dutch real estate sector. GPR Gebouw (GPR Building) can be used to design or assess the sustainability of buildings or the built environment. GPR Urban Planning measure sustainability of urban developments. GPR Maintenance measures the quality of maintenance scenarios. Assessment are built on five themes: Energy, Environment, Health, Quality of use and Future Value.

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#### This leads to assessment elements

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11	New buildings are designed according to the highest energy efficiency standards, in line with the EU Energy Performance Directive.
12	Energy reduction measures and greenhouse reduction targets are part of the multi-year maintenance plans with regard to the real estate property portfolios of the financial institution.
13	Each year, the energy performance of at least 10% of the total real estate portfolio is enhanced, using the best available and viable technologies regarding energy reduction measures and avoidance of greenhouse gas emissions.
14	New real estate score within the top 50% of sustainability certification systems.
15	Redeveloped real estate and renovated houses score within the top 50% of sustainability certification systems.
16	Real estate funds score at least 50 points in the Global Real Estate Sustainability Benchmark.

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- **Labour rights**

Observing fundamental labour rights is a big challenge in the construction industry. The most important standard in this field is the ILO Declaration on Fundamental Principles and Rights at Work from 1998, in which the ILO stated four fundamental principles and rights at work:

- Freedom of association and the right to collective bargaining;<sup>614</sup>
- Banning of all types of forced labour;<sup>615</sup>
- Banning child labour;<sup>616</sup> and
- Banning discrimination (based on ethnicity, gender, and social background) with respect to offering work or specific positions.<sup>617</sup>

Another leading ILO document is the Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (MNE Declaration), adopted in 1977. The MNE Declaration focuses on the responsibility of companies and specifically on their dealings with labour issues. The revision of 2017 takes into account new labour standards adopted by the International Labour Conference, the UN Guiding Principles on Business and Human Rights (UNGPs) and the 2030 Agenda for Sustainable Development, in particular on SDG 8: Decent Work and Economic Growth.<sup>618</sup>

For the housing and real estate sector, of special importance are ILO conventions concerning excessive working hours and health and safety risks for labourers in the building sector:

- The 1919 Hours of Work (Industry) Convention (No. 1);
- The 1981 Occupational Safety and Health Convention (No. 155); and
- The 1988 Safety and Health in Construction Convention (No. 167).

Within the European Union, the Health and Safety at Work Directives are the framework for national legislation on occupational health and safety.

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**This leads to assessment elements**

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|---|---|
| 1 | Companies respect the ILO Declaration on Fundamental Principles and Rights at Work.   |
| 2 | Companies work towards the systematic improvement of safety and health of employees and develop a preventative culture in the field of health and safety. |
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- **Land rights conflicts and forced evictions**

Human rights, particularly economic, social and cultural (ESC) rights, play a central role in land-related issues. However, there is no explicit recognition of a 'human right to land' within international human rights instruments. Those who face threats to their land rely on other rights, such as the right to food, the right to water, the right to housing and the right to work. These rights are included in the [International Covenant on Economic, Social and Cultural Rights \(ICESCR\)](#). The right to adequate housing encompasses the right to live in security, peace and dignity. To realize this right, governments have an obligation to guarantee security of tenure, which essentially means a set of arrangements in the context of housing and land that will protect the occupants from forced evictions and other threats and harassment.<sup>619</sup>

The protection measures that should be applied to all evictions have been clearly articulated in the [Basic Principles and Guidelines on Development-based Evictions](#) (2007) developed by the former UN Special Rapporteur on Adequate Housing, Miloon Kothari. The principles reflect existing standards and jurisprudence on this issue and include detailed guidance on steps that should be taken prior to, during and following evictions in order to ensure compliance with relevant principles of international human rights law.

Construction companies and real estate corporations should take into account the relocation of people who lose their homes as a result of new building activities. It is important that not only companies that are involved in real estate construction live up to these standards but also companies that are involved in the demolition of houses. Construction companies that demolish existing homes or that build on places where homes were torn down, must also comply with the UN standard.

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**This leads to assessment element**

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| 17 | Real estate developers respect the rights of local communities living in project areas before project development and do not evict and relocate them without free, prior and informed consent. |
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- **Landlord-tenant relationship**

Financial institutions and real estate companies involved in rental housing can be expected to comply with basic notions of good landlordship and sound rental arrangements. [UN Habitat](#) considers security of tenure, adequate basic infrastructure, such as water supply, sanitation and waste-management facilities, as well as adequate security (all of which should be available at an affordable cost), to be a part of the human right to adequate housing.

From the perspective of considering rental housing as an option to improve housing in African cities, [UN Habitat's Quick Guide 7: Rental Housing](#) gives suggestions for policymakers on amongst others on how to improve landlord-tenants relationships.

The [Tenants Charter](#) of the International Unit of Tenants (IUT) calls for participation in decision-making for tenants and this way have an influence on the quality of the building, collective services and the neighbourhood.



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**This leads to assessment elements**

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18	Real estate developers respect the rights of tenants living in their real estate projects and do not evict and relocate them without free, prior and informed consent.
19	Real estate owners and managers respect the rights of tenants to participate in decisions regarding renovation and maintenance.

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- **Sustainability reporting**

The Global Reporting Initiative (GRI) has drafted guidelines on how to write sustainability reports. Besides the general [G4 Sustainability Reporting Guidelines](#) it also provides sector guidance for a number of industrial sectors. In the [G4 Construction and Real Estate Sector Disclosures \(CRESD\)](#), not yet updated but still recommended by GRI to use with its new [GRI Sustainability Reporting Standards \(GRI Standards\)](#), includes recommendations for reporting on CO<sub>2</sub> emissions, the management and the remediation of polluted soil and the outsourcing of work.

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**This leads to assessment element**

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6	Large enterprises and multinational enterprises publish a sustainability report that is set up in accordance with the (Core or Comprehensive option of the) GRI Standards.
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- **Procurement and supply chains**

Companies are often part of long production chains. They can monitor one another and question how they respect local and national legislation and international norms regarding social, economic and environmental issues. The requirements that companies set for their suppliers can be included in contractual agreements. The importance of this has also been recognised in the [OECD Guidelines for Multinational Enterprises](#) since its revision in 2011.

Furthermore, [ISO 26000:2010 Guidance on social responsibility](#) recognises the importance of supply chain responsibility, because “the impacts of an organization's decisions or activities can be greatly affected by its relationships with other organizations.” ISO 26000:2010 recognizes that a companies’ sphere of influence includes relationships within and beyond an organization’s supply chain.<sup>620</sup>

In addition, [ISO 20400:2017 Sustainable procurement – Guidance](#) provides guidelines for organizations, independent of their activity or size, on integrating sustainability within procurement, as described in ISO 26000:2010 Guidance on social responsibility. It is intended for stakeholders involved in, or impacted by, procurement decisions and processes.

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**This leads to assessment elements**

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20	Companies integrate environmental, social, and governance criteria in their procurement and operational policies.
21	Companies include clauses on the compliance with environmental, social, and governance criteria in their contracts with subcontractors and suppliers.

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- **Mortgage loans and securities**

Many financial institutions provide mortgage loans to households and small businesses. The subprime mortgage crisis in the United States in 2008 showed how the consequences of over-indebtedness are shared among all stakeholders of financial institutions. [Directive 2014/17/EU \(Mortgage Credit Directive\)](#) of the European Union on credit agreements for consumers relating to residential immovables aims to create a Union-wide mortgage credit market with a

high level of consumer protection.<sup>621</sup> It applies to both secured credit and home loans. Member States will have to transpose its provisions into their national laws by March 2016. In the Netherlands, the [Code of Conduct for Mortgage Loans \(Gedragscode Hypothecaire Financieringen\)](#) provides requirements on the responsibilities of financial institutions towards consumers when issuing mortgage loans.

Financial institutions can also contribute to mitigating climate change by improving the energy efficiency of their mortgage portfolio. They can offer attractive loans for the financing of energy-saving measures (isolation, high-efficient glass, etc.) and renewable energy installations. According to the World Green Building Council, under a [green mortgage](#) a bank or mortgage lender offers a house buyer preferential terms if they can demonstrate that the property for which they are borrowing meets certain environmental standards. The [Energy efficient Mortgages Action Plan \(EeMAP\) Initiative](#) aims to create a standardised energy efficient mortgage. In order to decrease emissions in Europe's building stock, the European Commission is considering to lower [capital requirements](#) for banks in order to help reward consumers investing in energy efficient buildings.<sup>622</sup>

Financial institutions can also offer investment opportunities by issuance of mortgage-backed securities and other financial institutions can then invest in these securities. In both cases, all parties should have sufficient policies for the issuance of, or investments in securities, in terms of transparency and sustainability. This also includes other avenues of participating in the real estate portfolios of other financial institutions.

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#### **This leads to assessment elements**

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22	The financial institution reports on the energy efficiency of the houses and buildings financed with mortgages.
23	The financial institution implements a policy to improve the energy efficiency of the houses and buildings financed with mortgages.
24	The financial institution has an ambitious time bound target to improve their mortgage portfolio.
25	The financial institution actively offers mortgage loans and services to clients to enable them to make their property more sustainable.
26	The financial institution applies the Code of Conduct for Mortgage Loans based on the EU Mortgage Credit Directive.
27	Financial institutions that issue mortgage-backed securities are transparent about the sustainability aspects of the building stock (e.g. energy efficiency).
28	The financial institution only invests in mortgage-backed securities if there is sufficient transparency concerning the sustainability aspects of the building stock (e.g. energy efficiency).

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### **3.6.3 Types of financing and asset classes**

Financial institutions can be involved in various ways in financing the housing and real estate sector. They can:

- Provide general corporate loans to, and invest in the shares and bonds of, construction companies, contractors and their suppliers, project developers and housing corporations. Such companies generally fall under the NACE industry classification sections F: Construction and L: Real Estate Activities.<sup>623</sup>
- Finance specific home construction and real estate projects.

- Manage real estate investment funds for external investors. These funds usually make direct investments in rental properties and office and commercial space for institutional investors, but also invest in publicly traded equities of real estate investment funds and in mortgage-backed securities.
- Invest in real estate investment funds managed by other asset managers.
- Provide mortgage loans to private clients and small entrepreneurs.
- Resell packages of mortgage loans via securitisations or otherwise.
- Invest in securitisations of mortgage loans that are provided by other financiers.

For financial institutions operating in the housing and real estate sector, a solid policy on housing, construction and real estate is of great importance. In Table 1 the types of financing listed above are related to the various asset classes that financial institutions have on their balance sheet, or have under management for external investors.

**Table 1 Asset classes of financial institutions**

Asset class	Investment objects
Corporate credits	Loans to construction companies Loans to housing corporations Loans to project developers
Project finance	Loans to real estate projects
Investments own account	Real estate objects, e.g. rental properties and office and commercial space Shares and bonds of construction companies, housing corporations and project developers Real estate funds
Asset management	Shares and bonds of construction companies, housing corporations and project developers Real estate objects, e.g. rental properties and office and commercial space Real estate funds managed by other asset managers Mortgage-backed securities
Mortgages	Mortgage loans to private clients and small businesses Issuance of mortgage-backed securities

### 3.6.4 Assessment elements

The Fair Finance Guide International methodology has defined a number of elements to assess the policies of financial institutions investing in or lending to real estate. The assessment elements are listed in Table 2. FFGI expects financial institutions to apply these elements to all investments in, and loans to, the real estate sector. The assessment elements do not apply to office buildings owned by the financial institutions for their own operations.

Not all assessment elements are applicable for all asset classes, as specified in Table 1. In Table 2 the relevance of each asset class for every assessment element is therefore also specified. When an assessment is deemed not relevant, this is indicated with *not applicable (n.a.)*. This means that the FFGI does not expect the financial institution to apply this element when investing in this specific asset class.

In case reference is made to “new real estate”, this refers to buildings in development, in construction or recently completed. The term “new buildings” should not be confused with newly acquired real estate by financial institutions, as this real estate could have been developed some time ago.

In case a financial institution’s real estate portfolio is limited to countries within the European Union, assessment elements 01, 2, 7, 11, 017 and 18 are considered *not applicable*, as these elements are part of legislation or not relevant in a EU context.

**Table 2 Assessment elements for Housing and Real estate**

Assessment element	Corporate credits	Project finance	Asset management for own account	Asset management for the account of clients	Mortgages
1 Companies respect the ILO Declaration on Fundamental Principles and Rights at Work	yes	yes	yes	yes	n.a.
2 Companies work towards the systematic improvement of safety and health of employees and develop a preventative culture in the field of health and safety	yes	yes	yes	yes	n.a.
3 Construction companies only use wood certified according to the Forest Stewardship Council (FSC) forest management certification.	yes	yes	yes	yes	n.a.
4 Construction companies use recycled and recyclable materials and recycle materials in case of demolition.	yes	yes	yes	yes	n.a.
5 Construction companies implement the Cement Action Plan of the Cement Sustainability Initiative.	yes	yes	yes	yes	n.a.
6 Large enterprises and multinational enterprises publish a sustainability report that is set up in accordance with the (Core or Comprehensive option of the) GRI Standards.	yes	yes	yes	yes	n.a.
7 Construction companies act responsibly when reconstructing homes by following the guidelines of UNEP SBCI’s guidelines on Sustainable Reconstruction in Disaster-Affected Countries.	yes	yes	yes	yes	n.a.

	<b>Assessment element</b>	<b>Corporate credits</b>	<b>Project finance</b>	<b>Asset management for own account</b>	<b>Asset management for the account of clients</b>	<b>Mortgages</b>
8	Construction companies, project developers and housing corporations are expected to take into account the Five Principles of sustainable neighbourhood planning.	yes	yes	yes	yes	n.a.
9	New buildings are designed such that they are suitable for multiple tenants, or can be easily adapted to suit multiple tenants.	yes	yes	yes	yes	n.a.
10	Owners of real estate have a policy on transformation of vacant buildings in their portfolio.	yes	n.a.	yes	yes	n.a.
11	New buildings are designed according to the highest energy efficiency standards, in line with the EU Energy Performance Directive.	yes	yes	yes	yes	n.a.
12	Energy reduction measures and greenhouse reduction targets are part of the multi-year maintenance plans with regard to the real estate property portfolios of the financial institution.	yes	n.a.	yes	yes	n.a.
13	Each year, the energy performance of at least 10% of the total real estate portfolio is enhanced, using the best available and viable technologies regarding energy reduction measures and avoidance of greenhouse gas emissions.	yes	n.a.	yes	yes	n.a.
14	New real estate score within the top 50% of sustainability certification systems.	yes	yes	yes	yes	n.a.
15	Redeveloped real estate and renovated houses score within the top 50% of sustainability certification systems.	yes	n.a.	yes	yes	n.a.
16	Real estate funds score at least 50 points in the Global Real Estate Sustainability Benchmark.	n.a.	n.a.	yes	yes	n.a.

	<b>Assessment element</b>	<b>Corporate credits</b>	<b>Project finance</b>	<b>Asset management for own account</b>	<b>Asset management for the account of clients</b>	<b>Mortgages</b>
17	Real estate developers respect the rights of local communities living in project areas before project development and do not evict and relocate them without free, prior and informed consent.	yes	n.a.	yes	yes	n.a.
18	Real estate developers respect the rights of tenants living in their real estate projects and do not evict and relocate them without free, prior and informed consent.	yes	n.a.	yes	yes	n.a.
19	Real estate owners and managers respect the rights of tenants to participate in decisions regarding renovation and maintenance.	yes	n.a.	yes	yes	n.a.
20	Companies integrate environmental, social, and governance criteria in their procurement and operational policies.	yes	yes	yes	yes	n.a.
21	Companies include clauses on the compliance with environmental, social, and governance criteria in their contracts with subcontractors and suppliers.	yes	yes	yes	yes	n.a.
22	The financial institution reports on the energy efficiency of the houses and buildings financed with mortgages.	n.a.	n.a.	n.a.	n.a.	yes
23	The financial institution implements a policy to improve the energy efficiency of the houses and buildings financed with mortgages.	n.a.	n.a.	n.a.	n.a.	yes
24	The financial institution has an ambitious time bound target to improve their mortgage portfolio.	n.a.	n.a.	n.a.	n.a.	yes
25	The financial institution actively offers mortgage loans and services to clients to enable them to make their property more sustainable.	n.a.	n.a.	n.a.	n.a.	yes

	<b>Assessment element</b>	<b>Corporate credits</b>	<b>Project finance</b>	<b>Asset management for own account</b>	<b>Asset management for the account of clients</b>	<b>Mortgages</b>
26	The financial institution applies the Code of Conduct for Mortgage Loans based on the EU Mortgage Credit Directive.	n.a.	n.a.	n.a.	n.a.	yes
27	Financial institutions that issue mortgage-backed securities are transparent about the sustainability aspects of the building stock (e.g. energy efficiency).	n.a.	n.a.	n.a.	n.a.	yes
28	The financial institution only invests in mortgage-backed securities if there is sufficient transparency concerning the sustainability aspects of the building stock (e.g. energy efficiency).	n.a.	n.a.	yes	yes	n.a.

## 3.7 Manufacturing industry

### 3.7.1 What is at stake?

The manufacturing industry includes all industries that process materials into new products. Therefore, the manufacturing industry is comprised of various industries, such as the automotive industry, the chemical industry, the plastics industry, the clothing industry, shipbuilding, the electronics industry, the metallurgical industry, the graphic industry and many others. The differences between these industrial activities are often large. The chemical industry, for example, is characterised by a higher capital and knowledge intensity while other industries are characterised by low capital and knowledge intensity.<sup>624</sup> What these industries generally have in common is complex chains in which a multitude of suppliers of raw materials, components and semi-finished products play a role.

A large part of the global workforce is employed in the manufacturing industry, either for the manufacturers of finished products or for their suppliers. In 2018 about 14% of the global workforce worked in the manufacturing industry.<sup>625</sup> Therefore, the development of the manufacturing industry in a country or region also plays an important role in creating employment and economic growth.

At the same time, the manufacturing industry can have considerable negative social and environmental impacts. Globalisation and increased international competition ensure that labour conditions and labour rights are under continuous pressure: to be able to compete and ensure employment, employees have little power to resist. This applies to both wealthier, industrialised countries and less developed countries.<sup>626</sup>

Some governments create special economic zones (SEZs) where the existing labour legislation does not apply, in order to attract manufacturing industry companies. In these zones, companies often pay very little tax. In these cases, the added value for the local economy, besides creating poor employment, is virtually nil. Parts are imported; they are assembled and then exported again. Although these zones hardly produce significant added economic value, many governments still participate in this process under pressure from international companies that threaten to relocate to another location. There is effectively a *race to the bottom* where countries try to outdo each other by offering the lowest tax rates but also the worst labour rights.<sup>627</sup>

In some branches of the manufacturing industry characterized by low skilled labour, such as the garment and footwear industries, child labour, extremely long working days, poor health and safety conditions, poor remuneration and the denial of union rights are commonplace.<sup>628</sup> Also, some manufacturing industry branches are highly polluting due to the use of toxic substances in products or production processes. These substances usually end up in the environment sooner rather than later, where pollution of the soil, water and air threatens flora and fauna as well as human health. Examples are the chlorine that is used in the production of the well-known plastic PVC and the many heavy metals that are used in the production of electronics.<sup>629</sup>

Plastic is a product of the oil and gas industry and currently consumes an estimated 8% of global oil production. Plastic waste in the environment accumulates and fragments into smaller pieces rather than decomposes. The growing global use of plastic, especially single use packaging plastic, contaminates both oceans and land. With an estimated 100 million tonnes of plastic waste now found in the oceans, plastic pollution has been widely recognized as a new global environmental issue with many negative impacts.<sup>630</sup> Plastic pollution might trigger tipping points, risking irreversible consequences for human health and ecosystems. Plastic waste is found everywhere and has been suggested as a geological indicator of the Anthropocene era.<sup>631</sup>



Current investments of billions of dollars by major integrated oil companies are compromising international agreements on the reduction of plastic. The natural gas boom, especially in the United States, has made plastic feedstocks cheap and abundant. Ethane, originating from shale gas sources, has become the new cheap feedstock for the petrochemical ethylene which is used to make a variety of plastic products, including the most common ones; polyethylene (PE), polyvinylchloride (PVC), polystyrene (PS) and polyethylene terephthalate (PET). This development has led to a significant drop in the costs of production of new virgin plastic, an increase in the production and use of plastic and, consequently, more plastic waste.

As large, well-known manufacturers of finished products are becoming increasingly focused on product development and marketing, the rest of the production process is frequently outsourced. As a result, social and environmental problems in the manufacturing sector often do not occur directly within these companies themselves, since the problems have been moved to earlier steps in the supply chain.<sup>632</sup>

It is possible to distinguish between suppliers of semi-finished products and suppliers of raw materials. The factories of direct suppliers of semi-finished products and components are often located in export zones or in countries with less strict social and environmental regulations and a less strongly developed supervision and enforcement system. Issues occurring at these types of suppliers include labour issues and problems with air, soil and water pollution around the factory.

Suppliers of raw materials include metals and minerals manufacturers, suppliers of oil and gas (for the chemical and plastics industry), timber companies, cotton producers and producers of other agricultural products. In addition to labour issues these industries are characterized by local environmental pollution, deforestation and deterioration of biodiversity as well as land rights conflicts with local populations. The manufacturing industry is also a major water user, with expected global increases in demand for water of 400% between 2000 and 2050, leading all other sectors.<sup>633</sup>

Throughout the entire chain there are negative consequences of flexible labour relations. Employees are increasingly hired by means of agents, labour brokers, temporary employment agencies and subcontractors. As a result of this, employees generally have fewer rights, worse working conditions, less security and worse labour conditions.<sup>634</sup>

As the issues related to the manufacturing sector can be broad depending upon what is being produced, the varied scope of the industry also impacts nearly all of the Sustainable Development Goals (SDGs). Questionable labour conditions are directly linked with SDG 8: Decent Work and Economic Growth. One of the target of this goal is to achieve employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value by 2030. It further targets to eradicate all forms of forced labour, modern slavery and human trafficking, and child labour.<sup>635</sup> Other issues such as environmental pollution, deforestation, deterioration of biodiversity and land conflicts related to the manufacturing of various products pose threats to other SDGs such as SDG 1: No Poverty, SDG 6: Clean Water and Sanitation, SDG 13: Climate Action, SDG 14: Life Below Water and SDG 15: Life on Land.<sup>636</sup>

The investment policy of financial institutions has to ensure that financial institutions are only involved in investments in companies in the manufacturing industry that take the responsibility to prevent social and environmental problems in their own branches, but also in the branches of their suppliers.<sup>637</sup> When developing policies for this industry, financial institutions can make use of the international standards described below.

### 3.7.2 International standards and initiatives

The main international standards on the manufacturing industry are summarised per topic, followed by the assessment elements that are formulated by the FFGI as a result:

- **Harmful substances**

The EU Regulation on [Registration, Evaluation, Authorisation and Restriction of Chemicals \(REACH\)](#) protects people's health and protects the environment against the risks of chemicals. In order to comply with the regulation companies must identify and control the risks connected to the chemicals they produce in Europe or which they launch in the European market. They must show how the chemical may be safely used and they must report measures which reduce risks to the users. If the risks cannot be prevented, the authorities may reduce the use of chemicals. Under REACH all companies in the supply chain of chemicals (producers, importers, users and buyers) are responsible.

REACH is based on the precautionary principle, which entails that companies need to be responsible and proactive in avoiding certain potential risks. In relation to chemicals, when the risks involved with the use of a substance cannot be satisfactorily quantified and removed, even if a cause and effect relationship has not been fully proven scientifically, then this substance should not be used. The burden of proof for the safety of a chemical should lie with the company and not with the public. A lack of scientific consensus on the possible harmfulness of a chemical is not a sufficient reason to avoid precaution. This is also the case when a substance is not restricted or regulated by the government. Furthermore, the principle also entails considering alternatives and considering the full impacts of a substance over time.<sup>638</sup>

[ISO 45001:2018](#) Occupational health and safety is an international standard that provides guidelines for a management system with regard to health and safety risks in the workplace. It applies to every type of organisation and serves to safeguard the health and safety of employees and stakeholders outside the organisation, such as contractors' staff and visitors. ISO 45001:2018 Occupational health and safety means that risks are structurally surveyed and evaluated.

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**This leads to assessment elements**

- |   |   |
|---|---|
| 1 | Companies reduce their direct and indirect greenhouse gas emissions.  |
| 2 | Companies reduce their direct and indirect emissions of harmful substances, such as sulphur dioxide and ammonia.  |
| 3 | Companies restrict the use of chemicals of which it is suspected in scientific literature that they are harmful to human health and, if necessary, only in a responsible way (precautionary principle). |

- **Plastics**

In July 2017, the United Nations met on the implementation of [Sustainable Development Goal 14](#): Preserve and make sustainable use of oceans, seas and marine resources, and adopted the resolution [Our ocean, Our future: call for action](#). All countries agreed to "implement long term and robust strategies to reduce the use of plastics and microplastics, in particular plastic bags and single use plastics, including by partnering with stakeholders at relevant levels to address their production, marketing and use".<sup>639</sup> In 2018, the EU Commission proposed a [Directive on the reduction of the impact of certain plastic products on the environment](#), which included a ban on many types of single-use plastics, consumption reduction and collection targets, and labelling requirements. In May 2019, the [Basel Convention](#) was amended to include plastic waste "in a legally-binding framework which will make global trade more transparent and

better regulated, whilst also ensuring that its management is safer for human health and the environment".<sup>640</sup>

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**This leads to assessment elements**

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|---|--|
| 4 | Enlarging plastics production capacity is unacceptable.  |
| 5 | Companies commit to reduce their plastic footprint and publicly report their plastic footprint disclosure, which includes the amount in units of plastic used and what kinds of plastic are used for what purpose. |
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• **Water use**

Given the growing challenge of water scarcity in many regions of the world, it is vital that companies and financial institutions become aware of their own influences on water-related problems. Various initiatives, guidelines and standards have emerged in recent years, to help companies address water risk.

Initiatives companies could participate in and learn from are:

- The UN Global Compact’s [CEO Water Mandate](#) is a public-private initiative designed to assist companies in the development, implementation and disclosure of water sustainability policies and practices.
- The guidance by the UNEP and CEO Water Mandate on [Corporate Water Accounting: An Analysis of Methods and Tools for Measuring Water Use and Its Impacts](#).
- The [European Water Partnership](#); and
- The [Water Footprint Network](#), which also has a standard on assessing a global water footprint.

There are several guidelines and water ‘footprinting’ methods as well as voluntary disclosure initiatives for calculating water use, water risk, understanding water issues and creating a sound water strategy, such as:

- The [CDP’s Water Program](#), to calculate and publish corporate water use throughout the supply chain;
- The [GEMI Water Sustainability Tool](#);
- The [WBCSD Global Water Tool](#);
- The [AWS International Water Stewardship Standard](#) is supported by a verification process, that defines a set of water stewardship criteria and indicators for how water should be stewarded at a site and catchment level in an environmentally, socially, and economically beneficial manner.

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**This leads to assessment elements**

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- |   |  |
|---|--|
| 6 | Companies use as little water as possible.   |
| 7 | Companies prevent water pollution.   |
| 8 | Companies conduct water scarcity impact assessments in water scarce regions.   |
| 9 | Companies have comprehensive mitigation measures in place to address community and ecosystem water requirements in areas where environmental impact assessments identify that significant impacts to water resources are likely. |
-

- **Risk management**

The [ISO 14000 Family - Environmental Management](#) helps companies reduce negative impacts of their production processes on the environment and structure their business process in such a way that these comply with existing environmental regulations. ISO 14001:2015 Environmental Management and its supporting standards provide guidance and criteria for establishing an effective management system. Certification will be done by an independent third party.

The ISO 14000 Family is an integrated part of the EU's [Eco-Management and Audit Scheme \(EMAS\)](#). However, EMAS makes heavier demands on improving performance, reporting and compliance with the law.

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**This leads to assessment element**

10	Companies apply an Environment and Social Risk Management System.
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- **Labour rights**

Complying with fundamental labour rights is a large challenge for a lot of branches of the manufacturing industry. The main standard in this field is the 1998 [ILO Declaration on Fundamental Principles and Rights at Work](#), in which the ILO established four fundamental principles and rights at work:

- Freedom of association and the right to collective bargaining;<sup>641</sup>
- Banning of all types of forced labour;<sup>642</sup>
- Banning child labour;<sup>643</sup> and
- Banning discrimination (based on ethnicity, gender, and social background) with respect to offering work or specific positions.<sup>644</sup>

Another leading ILO document is the [Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy \(MNE Declaration\)](#). The MNE Declaration focuses on the responsibility of companies and specifically on their dealings with labour issues. Besides the reaffirmation of the rights on freedom of association and collective bargaining and the ban on discrimination and forced labour, the agreement calls upon companies to improve working conditions, develop opportunities to improve equal chances and treatment to provide the best possible wages and fringe benefits for employees.

The [Platform Living Wage Financials](#) is a coalition of financial institutions committed to encourage and monitor investee companies to "address the non-payment of living wage in global supply chains".<sup>645</sup> The coalition is particularly focused on sectors that rely on manual labour, such as the garment and footwear industries, food retail, and companies in the food and agricultural supply chain. As of January 2020, the coalition counted 13 members, representing around EUR 2.6 trillion in assets under management (AUM).

For more information and relevant international standards and initiatives see the theme Labour rights (section 2.7.2).

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**This leads to assessment elements**

11	Companies respect the ILO Declaration on Fundamental Principles and Rights at Work.
12	Companies pay a living wage to their employees.
13	Companies work towards the systematic improvement of safety and health of employees and develop a preventative culture in the field of health and safety.

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- **Standards and initiatives for specific products**

In recent years, a number of initiatives and standards have been developed to promote sustainable supply chains for specific manufacturing products:

- **Clothing:** The Clean Clothes Campaign (CCC) is a coalition of social organisations in 16 European countries that strives for improvement of the working conditions in the global clothing and sports shoes industry. The campaign has developed the [CCC Model Code](#), which companies in this industry can use. The CCC also has published a road map for companies that want to improve the working conditions in their supply chain: preparing a code of conduct for suppliers, implementing the code, organising a credible participation of stakeholders in the initiative, freedom of association and respect of the right to collective bargaining. Following a fire in a clothing factory in Bangladesh, the CCC concluded an agreement with a number of large multinational clothing producers in November 2012. Its [Bangladesh Fire and Building Safety Agreement](#) calls on all the companies to invest in (fire) safety in their factories.

[Fair Wear Foundation](#) is a multi-stakeholder initiative made up of companies, trade unions and NGOs. The participants are bound to a [code of conduct](#) that is based on the ILO Principles and the Universal Declaration of Human Rights. The code of conduct states that the participants are responsible for the working conditions in the factories with which they cooperate. Each participant therefore regularly checks the working conditions in the chain and, if needed, introduces improvement plans. The Fair Wear Foundation ensures independent monitoring of the implementation of the code of conduct by participating companies.

The [Better Cotton Initiative \(BCI\)](#) is a global multi-stakeholder network of stakeholders from the entire cotton and textile chain. In July 2009, the second edition of the BCI Global Principles, Criteria and Enabling Mechanisms was published, which provides guidelines for the sustainable and fair production of cotton.

- **Toys:** The global production of toys mainly takes place in East Asia in companies that are forced by their clients to produce as cheaply as possible. This leads to poor working conditions, low wages, no recognition of labour unions and other violations of labour rights. The [International Council of Toy Industries \(ICTI\)](#) uses labour guidelines in the toy industry.
- **Chemical industry:** In February 2006, organisations of chemical companies from all over the world jointly presented the [Responsible Care Global Charter](#). In this document, the chemical industry formulates objectives with respect to health, safety, the environment and communication with all stakeholders in their products and processes.
- **Electronics:** The Responsible Business Alliance (RBA), a group of companies from the electronics industry, drafted the [RBA Code of Conduct](#) in 2015 and the latest update was in 2018. This code of conduct sets norms with respect to the environment, labour, health and safety, management systems and business ethics and is aimed at companies in the electronics industry or companies for which electronics is an important part of their business.

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**This leads to assessment elements**

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14	Companies in the manufacturing industry work with relevant standards and initiatives for certain products (mentioned in section 3.7.2).
15	Companies in the manufacturing industry are certified according to the criteria of the certification schemes for certain products (mentioned in section 3.7.2).

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- **Sustainability reporting**

The best known guideline for sustainability reporting in general is the [Global Reporting Initiative \(GRI\) Reporting Framework](#), of which the [GRI Sustainability Reporting Standards \(GRI Standards\)](#) have been in effect since July 2018.

For small and medium enterprises (SMEs), less elaborate sustainability reporting is required. SMEs can report on the GRI indicators that are relevant to their operations, for example by following [the High5! Approach](#).

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**This leads to assessment elements**

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16	Companies publish a sustainability report that may contain (a number of) disclosures from the GRI Standards.
17	Large enterprises and multinational enterprises publish a sustainability report that is set up in accordance with the (Core or Comprehensive option of the) GRI Standards.

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- **Procurement and supply chains**

Companies are often part of long procurement and supply chains. They can monitor one another and question how they respect local and national legislation and international norms regarding social, economic and environmental issues. The requirements that companies set for their suppliers can be included in contractual agreements.

The importance of this also recognised in the [OECD Guidelines for Multinational Enterprises](#) since its revision in 2011, and more specifically in the [OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector](#). It establishes a common understanding of due diligence in the sector to help companies meet the due diligence expectations laid out in the OECD Guidelines for Multinational Enterprises.

[ISO 26000:2010 Guidance on social responsibility](#) recognises the importance of supply chain responsibility, because “the impacts of an organization’s decisions or activities can be greatly affected by its relationships with other organizations”.<sup>646</sup> A company’s sphere of influence includes relationships within and beyond an organization’s supply chain. Moreover, ISO 26000:2010 Guidance on social responsibility recommends setting contractual provisions or incentives as a means of exercising influence.<sup>647</sup>

In addition, [ISO 20400:2017 Sustainable procurement – Guidance](#) provides guidelines for organizations, independent of their activity or size, on integrating sustainability within procurement, as described in ISO 26000:2010 Guidance on social responsibility. It is intended for stakeholders involved in, or impacted by, procurement decisions and processes.

The [United Nations Guiding Principles on Business and Human Rights](#) include a due diligence process in order to identify, prevent, mitigate and account for how companies address their adverse human rights impacts. The process “should cover adverse human rights impacts that the business enterprise may cause or contribute to through its own activities, or which may be directly linked to its operations, products or services by its business relationships.”<sup>648</sup>

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**This leads to assessment elements**

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18	Companies integrate environmental, social and governance criteria in their procurement and operational policies.
19	Companies include clauses on the compliance with environmental, social and governance criteria in their contracts with subcontractors and suppliers.

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### 3.7.3 Assessment elements

Before a financial institution invests in or finances a company in the manufacturing industry, a financial institution has to ensure whether the company, as well as its suppliers, act in accordance with the relevant international guidelines and agreements on social and environmental issues. This means that in the responsible investment and credit policy of financial institutions on the manufacturing industry, clear norms have to be drafted.

The following elements are crucial for a policy regarding the companies a financial institution invests in or finances:

1. Companies reduce their direct and indirect greenhouse gas emissions.
2. Companies reduce their direct and indirect emissions of harmful substances, such as sulphur dioxide and ammonia.
3. Companies restrict the use of chemicals of which it is suspected in scientific literature that they are harmful to human health and, if necessary, only in a responsible way (precautionary principle).
4. Enlarging plastics production capacity is unacceptable.
5. Companies commit to reduce their plastic footprint and publicly report their plastic footprint disclosure, which includes the amount in units of plastic used and what kinds of plastic are used for what purpose.
6. Companies use as little water as possible.
7. Companies prevent water pollution.
8. Companies conduct water scarcity impact assessments in water scarce regions.
9. Companies have comprehensive mitigation measures in place to address community and ecosystem water requirements in areas where environmental impact assessments identify that significant impacts to water resources are likely.
10. Companies apply an Environment and Social Risk Management System.
11. Companies respect the ILO Declaration on Fundamental Principles and Rights at Work.
12. Companies pay a living wage to their employees.
13. Companies work towards the systematic improvement of safety and health of employees and develop a preventative culture in the field of health and safety.
14. Companies in the manufacturing industry work with relevant standards and initiatives for certain products (mentioned in section 3.7.2).
15. Companies in the manufacturing industry are certified according to the criteria of the certification schemes for certain products (mentioned in section 3.7.2).
16. Companies publish a sustainability report that may contain (a number of) disclosures from the GRI Standards.
17. Large enterprises and multinational enterprises publish a sustainability report that is set up in accordance with the (Core or Comprehensive option of the) GRI Standards.
18. Companies integrate environmental, social and governance criteria in their procurement and operational policies.

19. Companies include clauses on the compliance with environmental, social and governance criteria in their contracts with subcontractors and suppliers.



## 3.8 Mining

### 3.8.1 What is at stake?

Mining and ore refining are highly polluting activities that affect soil, air and water quality. Many of extractive industry activities take place in open quarries, which contributes to the destruction of large areas of natural habitat of plants and animals. In addition, mining companies use huge amounts of water to separate the minerals in excavated mud or to dump acidic, toxic and even radioactive waste. Rivers that supply people, animals and forests with water are severely polluted, as are the seas into which these rivers flow. In addition, pollution of waterways leads to erosion. A lot of mines are located in hilly or mountainous areas and when forest vegetation disappears - mainly after rainfall - the soil can start to slide, ending up in local waterways. Erosion can even lead to landslides and fatal floods.<sup>649</sup>

The consequences of the extractive industry have an effect long after industrial activities have been finished. Repair work is generally insufficient to restore nature in the extractive industry areas. Long-term problems - such as the leaking of acid from the mines - can pollute the waterways in the vicinity for decades or even centuries.<sup>650</sup> Furthermore, mining ore and also ore refining - even with the use of modern technologies - causes air pollution over a large area.<sup>651</sup>

Both the near environment and the economic, social and cultural rights of local communities are affected by mining. A common problem in the extractive industry is that mining companies do not respect the land rights of indigenous communities and other local inhabitants. The companies deprive these communities of large areas of land and forest on which they depend for their food and livelihood.<sup>652</sup> Traditional livelihoods can be destroyed through land acquisition (land grabs), land contamination and water pollution.<sup>653</sup> The pollution of the mines can lead to an accumulation of heavy metals in the soil, the water and the air in the vicinity. These metals cause serious health problems if the drinking water supplies of local communities are polluted or destroyed, or if the air is inhaled. Also, the heavy metals harm the health of the local population indirectly, because the crops and animals they need to survive have absorbed the heavy metals.<sup>654</sup>

Work in the mining industry is often is very dangerous, with poor labour conditions, many accidents and poor safety conditions. Moreover, fundamental labour rights are often not respected and child labour also occurs frequently.<sup>655</sup>

Finally, the extractive industry disturbs the macro-economic development in many resource-rich developing countries. This is also referred to as the resource curse.<sup>656</sup> In developing countries with no stable political or legal system, the exploitation of metals and minerals from the soil often leads to corruption, irreducible revenues, bad management of the supplies and the unequal division of the revenues within the local communities. The costs related to protecting the environment and to ensuring social cohesion will be borne by the population, or in other words: by those that have gained little or nothing from the exploitation. As a result, the extractive industry leaves a lot of countries even poorer than prior to the development of the industry. The African Development Bank has calculated that African countries miss out on USD 50-60 billion due to the resource curse. Moreover, the industry regularly leaves countries with conflicts between local population groups, the mining companies and the government.<sup>657</sup>

Some mining companies operate in developing countries yet the related subsidiaries are located in tax havens in order to pay as little tax as possible. After the US state Delaware, the Netherlands is the favourite hosting country for mining companies.<sup>658</sup> The ten largest oil companies and mining companies globally that own natural resources in developing countries have hundreds of subsidiaries in the Netherlands. However, under Dutch legislation it is impossible to investigate the fiscal and financial data of these subsidiaries. Therefore, it has proven very difficult to determine how much revenue companies make from the activities in these countries and how much tax local governments lose.<sup>659</sup>

Some minerals extracted by the mining industry are sourced from areas in which conflict is taking place and the mining and trade of these minerals is involved in the fuelling and financing of this conflict, leading to serious human rights abuses. Important areas to consider are the Democratic Republic of Congo (DRC), Afghanistan, Colombia and Zimbabwe.<sup>660</sup>

Besides industrial mining by large mining companies, artisanal and small-scale mining (ASM) is a common practice in many developing countries. With rising mineral prices, ASM has seen explosive growth over the last decade and as of 2017, an estimated 40,5 million people were directly engaged in ASM.<sup>661</sup> People engaged in ASM often belong to the most vulnerable population groups. Since ASM often takes place in fragile ecosystems with large degrees of cultural and biological diversity, small-scale extractive industry activities can cause environmental problems, enhance material poverty and harm human health.<sup>662</sup>

In these scenarios, economic, social and cultural rights at stake are for example the right to food, work, housing, health and a healthy environment. Moreover, the impact can be particularly severe for certain specific groups, such as indigenous peoples, because their way of life and their identity is often closely related to their land. Far too often, companies operating across borders are involved in severe abuses, such as child labour, forced labour or forced evictions. In addition, affected communities are frequently denied access to information about the impact of company operations. This means that they are excluded from participating in decisions that affect their lives. And, often when communities attempt to get justice, they are thwarted by ineffective legal systems, corruption or powerful state-corporate alliances. Worryingly, when the poor cannot secure justice, companies learn that they can exploit poverty without consequences.<sup>663</sup>

Sustainable Development Goal (SDG) 3: Good Health and Wellbeing is impacted by dangerous working conditions in the mines. Further, the health and well-being of local communities can be compromised when the waste from the mining activities is not properly treated and disposed in the environment. While energy from coal can be affordable and help developing nations to fulfil their energy requirements, it is not a clean form of energy and adversely impacts SDG 7: Affordable and Clean Energy and SDG 13: Climate Action. The labour conditions in the mining sector affect SDG 8: Decent Work and Economic Growth, water pollution impacts SDG 6: Clean Water and Sanitation, and unequal distribution of wealth threatens achieving SDG 10: Reduced Inequalities.<sup>664</sup>

The extractive industry consists of companies that extract, transport, purify and store minerals. The products are then processed and used in several other industries on a large scale, such as the electronics industry, the construction industry and the automotive industry. These industries strongly depend on the extractive industry and hence are, to a certain extent, involved in the negative effects of the mines and refineries on the environment and local communities.

In order to contribute to a more sustainable and socially just world, the extractive industry will have to change course drastically. The policy of financial institutions has to be aimed at only engaging in financial relations with mining companies that are willing to do so. When developing policies for this industry, financial institutions can make use of the international standards described in the following section.

### 3.8.2 International standards and initiatives

Various international initiatives are involved in the risks that extractive industry pose for human beings and the environment; globally there is increasing interest for applying standards to this industry. In addition, there are some international conventions and multi-stakeholder processes that set standards for specific extractive industry activities. The main international standards on the mining industry are summarised per topic, followed by the assessment elements that are formulated by the FFGI as a result:

- **Areas of high biodiversity and protected areas**

Extractive industry activities may not take place in areas listed in the categories I to IV of the [International Union for Conservation of Nature \(IUCN\)](#), or included in the [UNESCO World Heritage Convention](#) or in the [Ramsar Convention on Wetlands](#). Furthermore, extractive industry projects in areas that fall under the following conventions and initiatives are to be expressly avoided: forests identified with the [High Carbon Stock Approach](#), [Marine Protected Areas](#), [High Conservation Value areas](#) and [IUCN protected areas](#).

Many of these areas are also included in the analyses for investments by [International Finance Corporation's \(IFC\) Performance Standard 6](#) concerning Biodiversity Conservation and Sustainable Management of Living Natural Resources. It determines how companies should operate in order to avoid negative consequences on areas of high biodiversity value, including impact on natural habitats as well as endangered and endemic species. The requirements in the standard have been guided by the [Convention on Biological Diversity](#).

The [United Nations Environmental Assembly](#) adopted a [resolution on pollution mitigation by mainstreaming biodiversity into key sectors](#) in 2017, aiming at "strengthening efforts to integrate conservation and sustainable use of biodiversity in various sectors such as agriculture, fisheries and aquaculture, tourism, mining and energy, infrastructure and manufacturing among others. It also points to the need to prevent and reduce pollution from these sectors".<sup>665</sup>

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#### This leads to assessment elements

1	Companies prevent negative impacts on protected areas that fall under the categories I-IV of the International Union for Conservation of Nature (IUCN) within their business operations and the areas they manage.
2	Companies prevent negative impacts on UNESCO World Heritage sites within their business operations and the areas they manage.
3	Companies prevent negative impacts on protected areas that fall under the Ramsar Convention on Wetlands within their business operations and the areas they manage.

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- **Crisis response and crisis prevention**

The [International Council on Mining and Metals \(ICMM\) Principle 4](#) requires companies to "develop, maintain and test effective emergency response procedures in collaboration with potentially affected parties." [International Finance Corporation's \(IFC\) Performance Standard 1](#) also requires companies to have a solid roadmap for crisis situations and develop a contingency plan.

The FFGI expects companies to refrain from operating in locations where the consequences of an accident for the environment are unmanageable.

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**This leads to assessment elements**

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4	Companies mitigate the chance of accidents by making use of the best available techniques and have a solid road map for crisis situations (a 'contingency plan').
5	Companies do not operate in locations where the consequences of an accident for the environment are unmanageable.

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- **Waste management**

Many environmental problems in the extractive industry concern the way extractive waste is dealt with. In this respect, the management of tailings storage systems is especially relevant. According to the Responsible Mining Foundation, the increasing number of failures in tailings storage facilities in recent years highlights that mining companies still insufficiently monitor and address the risks associated with tailings dams.<sup>666</sup> The existing standards and guidelines with regard to waste management are:

- The [Convention on the Prevention of Marine Pollution by Dumping of Wastes and other Matter \(1972\)](#), of the United Nations [International Maritime Organization \(IMO\)](#). The convention prohibits the direct dumping of mercury and mercury compounds into the sea and makes special permits a requirement to dump cyanide and other heavy metals.
- The [World Bank Extractives Industries Review \(EIR\)](#) advises companies to avoid waste dumping in the sea and in rivers and to look for safer alternatives to the use of cyanide and mercury. The most recent update for this advice is from 2016.
- The 2006 EU Commission [Directive on the Management of waste from the extractive industries](#) requests European Union member states to ensure that extractive waste is managed without endangering human health or the environment, especially water, air, soil, flora and fauna. The member states also need to take the necessary precautions to prohibit the uncontrolled abandonment, dumping and disposal of extractive waste. In 2017, an [assessment of Member States' performance](#) regarding the implementation of the Directive was published.
- [GRID-Arendal](#), a Norwegian support organisation of UN Environment, published recommendations for a responsible approach to [Mine Tailings Storage](#) in 2017.
- The [Global Tailings Review](#) is an initiative by the ICMM, UNEP and PRI, convened to develop an international standard to prevent catastrophic damage from failures at tailings storage facilities. The standard is to become an ICMM company member commitment. A draft version of the [Global Tailings Standard](#) was published in November 2019, with the final version expected in 2020.

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**This leads to assessment elements**

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|---|--|
| 6 | Companies reduce extractive waste and manage and process this in a responsible way by adequately tracking, reviewing and acting to improve their tailings risk management and by adopting a zero-failure objective to tailings storage facilities. |
| 7 | Riverine tailings disposal and sub-marine tailings disposal is unacceptable.   |
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- **Water use**

Given the growing challenge of water scarcity, it is vital that companies and financial institutions become aware of their own influences on water related problems. Various initiatives, guidelines and standards have emerged in recent years, to help companies address water risk. See for more information the theme Nature (section 0).

Initiatives companies could participate in and learn from are:

- The UN Global Compact's [CEO Water Mandate](#) is a public-private initiative designed to assist companies in the development, implementation and disclosure of water sustainability policies and practices.
- The guidance by the UNEP and CEO Water Mandate on [Corporate Water Accounting: An Analysis of Methods and Tools for Measuring Water Use and Its Impacts](#).
- The [European Water Partnership](#); and
- The [Water Footprint Network](#), which also has a standard on assessing a global water footprint.

There are several guidelines and water 'footprinting' methods as well as voluntary disclosure initiatives for calculating water use, water risk, understanding water issues and creating a sound water strategy, such as:

- The [CDP's Water Program](#), to calculate and publish corporate water use throughout the supply chain;
- The [GEMI Water Sustainability Tool](#);
- The [WBCSD Global Water Tool](#);
- The [AWS International Water Stewardship Standard](#) is supported by a verification process, that defines a set of water stewardship criteria and indicators for how water should be stewarded at a site and catchment level in an environmentally, socially, and economically beneficial manner.

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**This leads to assessment elements**

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- |   |  |
|---|--|
| 8 | Companies conduct water scarcity impact assessments in water scarce regions.   |
| 9 | Companies have comprehensive mitigation measures in place to address community and ecosystem water requirements in areas where environmental impact assessments identify that significant impacts to water resources are likely. |
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- **Closing depleted mines**

The condition in which exhausted mines are left behind has large consequences for the populations and ecosystems in the vicinity. Negative environmental and health effects can have an impact for years - perhaps even centuries. The Mining, Minerals and Sustainable Development (MMSD) project asks companies to take the environment and health effects after closing mines into consideration in the plans for the development of the mine and in the assessment of the effects on local communities. This means the future destination of the mine, the provisions to be made and the responsibilities of the mining company need to be taken

into account.

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**This leads to assessment elements**

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10	Companies include the environmental and health effects of a mine after its closure in plans for the development of new mines.
11	Companies ensure the recovery of ecosystems after commercial activities have been completed, for all extractive industry projects (i.e. this is included as an activity in the planning and the budget of the project).

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- **Small scale and artisanal extractive industry**

Small-scale and artisanal extractive industry projects - provided they are well managed - can enhance sustainable economic and social development on a local level. The [Alliance for Responsible Mining \(ARM\)](#) is an independent multi-stakeholder initiative that aims to enhance social justice and wellbeing in the small scale extractive industry by improving social, environmental and working conditions, solid management of the mines and conducting repair work for the ecosystem. In November 2013 the ARM started cooperation with the Swiss Institute for Market Ecology in order to develop an independent certification and auditing system for the Fairmined Standard. In 2014 the [Fairmined Standard for Gold and Associated Precious Metals](#) was launched.

While investment in mining activities may not include direct investment in artisanal or small-scale mining, investment in industrial mining operations does still have consequences for small-scale and artisanal mining. As [International Council on Mining and Metals \(ICMM\) Principle 9](#) states, companies should contribute to the social, economic and institutional development of the communities in which they operate. This includes the communities of artisanal and small-scale miners, which often live and work around or near large-scale mines. Large-scale mining operations already engage with artisanal miners and their dependents through community development programs, but certain issues, such as security and human rights, still require attention. In 2010 the ICMM published the report [Working together: How large-scale mining can engage with artisanal and small-scale miners](#), discussing a sound engagement approach with small-scale miners, as key stakeholders for large-scale mining companies.

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**This leads to assessment element**

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12	Companies respect small scale and artisanal mining and improve sustainable economic and social development on a local level.
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- **Labour rights**

Besides respecting human rights, it is of great importance that mining companies adhere to the United Nations International Labour Organisation's (ILO) main codes of conduct. These are the 1998 [ILO Declaration on Fundamental Principles and Rights at Work](#) and the [Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy \(MNE Declaration\)](#). In addition, specifically for the extractive industry, the [Convention concerning Safety and Health in Mines \(No. 176\)](#) should be taken into account. The rights of women in the extractive industry are recognised in the 2013 [Iroco Declaration](#).

For more information and relevant international standards and initiatives see the theme Labour rights (section 2.7.2).

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**This leads to assessment element**

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13 Companies respect the ILO Declaration on Fundamental Principles and Rights at Work.

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- **Land rights conflicts and forced evictions**

Human rights, particularly economic, social and cultural (ESC) rights, play a central role in land-related issues. However, there is no explicit recognition of a 'human right to land' within international human rights instruments. Those who face threats to their land rely on other rights, such as the right to food, the right to water, the right to housing and the right to work. These rights are included in the [International Covenant on Economic, Social and Cultural Rights \(ICESCR\)](#).<sup>667</sup> Other standards related to land rights conflicts and forced evictions are:

- The 1997 [Basic Principles and Guidelines on Development-based Evictions](#);
- The 2009 [Core Principles and Measures on Large-scale land acquisitions and leases](#) of the United Nations Special Rapporteur on the right to food; and
- The 2011 [Tirana Declaration](#) of the International Land Coalition.

For more information and relevant international standards and initiatives see the theme Human rights (section 2.6.2).

In 2013 the [International Council on Mining and Metals \(ICMM\)](#) issued guidelines for its member companies. The [Indigenous Peoples and Mining Position Statement](#) deals with the obligations of extractive companies with regard to the indigenous peoples and emphasizes that companies are expected to commit to work to obtain the free, prior and informed consent (FPIC) of indigenous peoples for new projects located on lands traditionally owned by or under customary use of indigenous peoples.

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**This leads to assessment elements**

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14 Companies prevent conflicts over land rights and acquire natural resources only by engaging in serious consultation with local communities and obtaining free, prior and informed consent (FPIC) when it concerns indigenous peoples.

15 Companies prevent conflicts over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of peoples with customary tenure rights.

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- **Security and law enforcement**

Companies can get involved in violations of human rights when (private or public) company security officers use violence against nearby residents of the company. This issue is dealt with in the [UN Code of Conduct for Law Enforcement Officials](#) and the [UN Basic Principles on the Use of Force and Firearms by Law Enforcement Officials](#). Based on this code of conduct and principles, in a multi-stakeholder process the [Voluntary Principles on Security and Human Rights](#) have been developed that set guidelines for companies for their security methods.

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**This leads to assessment element**

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16 Companies follow the Voluntary Principles on Security and Human Rights for the security of their employees and company premises.

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- **Access to remedy**

Companies should respect the rights of local communities affected by mining. The responsibility to respect requires that companies avoid causing or contributing to adverse human rights impacts through their own activities and seek to prevent or mitigate impacts that are directly linked to their operations by their business relationships. According to the [United](#)

Nations Guiding Principles on Business and Human Rights (UNGPs), if a company identifies a risk or is contributing to an adverse impact, it should cease or prevent its contribution and to mitigate any remaining impacts to the greatest extent possible. Finally, the enterprise should provide for or cooperate in their remediation through legitimate processes. According to Guiding Principle 29 of the UNGP's, companies should establish or participate in effective operational-level grievance mechanisms for individuals and communities who may be adversely impacted.<sup>668</sup> Guiding Principle 31 details the criteria to ensure the effectiveness of grievance mechanisms. It also includes the expectation that mechanisms must be.<sup>669</sup>

- Legitimate;
- Accessible;
- Predictable;
- Equitable;
- Transparent;
- Rights-compatible;
- A source of continuous learning, and
- Based on engagement and dialogue.

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**This leads to assessment element**

17	Companies have processes to enable the remediation of any adverse human rights impact which they cause or to which they contribute.
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- **Transparency of financial flows**

In the Extractive Industries Transparency Initiative (EITI) a coalition of governments, companies, social organisations and investors have drafted criteria for governments of countries where extractive industry activities take place. The governments are expected to fully publish all revenues they receive from these activities.

The Publish What You Pay (PWYP) coalition, in which more than over 300 CSOs collaborate, advocates that mining companies make their payments to governments publicly known. This means that companies have to report on their tax payments, royalties and payments for concessions in the countries where they operate. In addition, PWYP insists that important contracts and agreements between governments and mining companies and all bank loans related to the exploitation of raw materials should be made public.

The best known guideline for sustainability reporting in general is the Global Reporting Initiative (GRI) Reporting Framework, of which the GRI Sustainability Reporting Standards (GRI Standards) have been in effect since July 2018. These guidelines state that organisations should report on the payments they make to governments country-by-country (EC1). GRI Disclosure 201-4 requires companies to report on the "total monetary value of financial assistance received by the organization from any government during the reporting period", while GRI Disclosure 201-1 requires companies to report on "payments to government by country".<sup>670</sup> According to GRI G4 Mining and Metals Sector Disclosures (MMSD), mining companies have to report countries of operation that are candidate to or compliant with the EITI and the payments to local communities as part of land use agreements (not purchases).

In the United States, the Dodd-Frank Act (Dodd-Frank Wall Street Reform and Consumer Protection Act) came into force in 2010 (see also section on conflict minerals). Section 1504 concerns reporting requirements payments to government institutions in relation to the mining of oil, gas and minerals.<sup>671</sup>



The EU Commission adopted [Directive 2013/34/EU](#) in 2013, which obliges big European companies - both listed and non-listed companies - active in the extractive industries and in the logging of primary forests to publicly report on their payments to governments, broken down per country.

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**This leads to assessment elements**

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18	Companies pay the taxes owed in each country where they operate.
19	For each country in which companies operate, they report country-by-country on their revenues, profit, FTEs, subsidies received from governments and payments to governments (e.g. withholding taxes, payments for concessions and company tax).
20	Offering, promising, giving and requiring, either directly nor indirectly, bribes or other undue advantages in order to acquire or to maintain assignments or other undue advantages, is unacceptable.

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- **Good governance**

In order to minimise the negative consequences of the *resource curse*, it is important that the development of the extractive industry is combined with the development of capable and reliable governance. The World Bank [Extractive Industries Review \(EIR\)](#) advises against stimulating private investments in the extractive industry in countries where governance is ineffective. It also states that the quality of governance has to meet explicit conditions before an extractive industry project can be financed by the World Bank.

The [United Nations General Principles on Business and Human Rights \(UNGP\)](#) points to heightened risks of involvement in gross human rights abuses in conflict-affected areas. A company should manage its own impact in order to prevent involvement in human rights violations.

The [OECD Risk Awareness Tool for Multinational Enterprises in Weak Governance Zones](#) could be helpful in detecting areas where strong governance is needed to avoid human rights abuses or to refrain from doing business.

The [Natural Resource Charter](#) of the [Natural Resource Governance Institute](#) is a set of "principles to guide governments' and societies' use of natural resources so these economic opportunities result in maximum and sustained returns for a country's citizens. It outlines tools and policy options designed to avoid the mismanagement of diminishing natural riches, and ensure their ongoing benefits".<sup>672</sup> Although the Charter is primarily aimed at governments and societies, the document also describes responsibilities of state-owned extractive companies and private companies.

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**This leads to assessment element**

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21	Companies only operate in weak governance zone or conflict-affected areas if they are able to demonstrate that they are not causing or contributing to human rights abuses.
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- **Conflict minerals and diamonds**

The problem of proceeds from mineral mining fuelling conflict and civil war has been well-documented for many years, particularly in the Democratic Republic of Congo (DRC) but also in parts of Afghanistan, Colombia, Zimbabwe and elsewhere. Minerals which risk fuelling conflict include gold, coltan (or tantalum), tin (or cassiterite) and wolframite (or tungsten). These resources can enter global supply chains and end up in mobile phones, laptops, jewellery and other products. It is important to note that this includes [blood diamonds or conflict diamonds](#)

and other minerals sourced from conflict zones outside the DRC.

Significant legislation includes the Section 1502 of the 2010 Dodd Frank Act in the United States, which requires US-listed companies to carry out due diligence on tantalum, tin, gold or tungsten sourced from DRC and neighbouring countries. It also concerns reporting requirements on the use of conflict raw materials from the Democratic Republic of Congo (DRC) and neighbouring countries. Companies that are listed on the New York Stock Exchange and use minerals from this region have to provide insight into the financial flows and research of whether they contribute to the financing of armed groups.<sup>673</sup>

EU Regulation 2017/821 was passed in 2017 and is intended to stop.<sup>674</sup>

- "conflict minerals and metals from being exported to the EU;
- global and EU smelters and refiners from using conflict minerals; and
- mine workers from being abused."

In order to support the development of local communities, the regulation also requires EU companies to ensure they import these minerals and metals only from responsible sources.<sup>675</sup> The EU regulation applies to tin, tantalum, tungsten and gold and enters into force on 1 January 2021. Importers in the EU will be required to report annually on supply chain due diligence to comply with the law.

To prepare for the 2021 EU regulation, the multi-stakeholder (governments, companies and civil society actors) European Partnership for Responsible Minerals (EPRM) "provides a crucial opportunity for coordinating existing schemes and initiatives for responsible production of 3TG. [...] EPRM will take the lead in activities that make mineral production and trade responsible, increase stability and promote development in vulnerable areas".<sup>676</sup>

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**This leads to assessment element**

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22	Mining and trading in conflict minerals is unacceptable.
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- **Unacceptable mining practices**

As almost all mined uranium is used for electricity production in nuclear power stations (discussed in section 3.10), this can be considered a strategic service to the nuclear power sector. The World Nuclear Association claims that in most respects the environmental impacts of an uranium mine are the same as those of other metal mines, although civil society organizations such as Greenpeace have identified levels of radioactive materials in the air, water and soil above internationally accepted limits around some uranium mines<sup>677</sup>.

Asbestos is a group of fibrous materials that has historically been used in a variety of settings, including as insulation in building, in roofing shingles, and fire blankets. Asbestos is widely known to be highly carcinogenic, causing cancer of the lung, larynx and cervix, as well as a host of other diseases, and is responsible for about half of the deaths from occupational cancer.<sup>678</sup>

As of 2019, 55 countries have put in place either full or partial bans on the production and use of asbestos.<sup>679</sup> The WHO emphasizes that "the most efficient way to eliminate asbestos-related diseases is to stop the use of all types of asbestos" and works together with the ILO and civil society organizations towards this goal. Given the carcinogenic quality of all types of asbestos at all levels of exposure, the mining of asbestos can be considered an unacceptable practice.

The goal of the 2015 [Paris Agreement](#) is to “strengthen the global response to the threat of climate change by keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius”.<sup>680</sup> The 2016 report [The Sky’s Limit](#) by Oil Change International argues that:<sup>681</sup>

- The potential carbon emissions from the currently operating oil, gas, and coal fields and mines would take us beyond 2°C of warming; and
- The reserves in currently operating oil and gas fields alone, even with no coal, would take the world beyond 1.5°C.

This means that:<sup>682</sup>

- No new fossil fuel extraction or transportation infrastructure should be built, and governments should grant no new permits for them; and
- Some fields and mines – primarily in rich countries – should be closed before fully exploiting their resources, and financial support should be provided for non-carbon development in poorer countries.

Fossil fuel-fired power generation and especially regarding coal power, causes high carbon emissions. According to the [Institute for New Economic Thinking of Oxford School](#) the carbon reduction goal of the [Paris Agreement](#) can only be met by complete decarbonisation of the electricity sector: “even under the very optimistic assumption that other sectors reduce emissions in line with a 2°C target, no new emitting electricity infrastructure can be built after 2017 for this target to be met, unless other electricity infrastructure is retired early or retrofitted with CCS [carbon capture and storage]”.<sup>683</sup>

The [UN Environment Programme Emissions Gap Report 2019](#) emphasizes that the world is on the brink of missing the opportunity to limit global warming to 1.5°C, and that meeting that target would require global emissions cuts of 7.6% per year on average.<sup>684</sup> A rapid transition of the global energy sector is considered key to meeting these targets and requires at least:<sup>685</sup>

- “Expanding Renewable Energy for electrification;
- Phasing out coal for rapid decarbonization of the energy system;
- Decarbonizing transport with a focus on electric mobility;
- Decarbonizing energy-intensive industry; and
- Avoiding future emissions while improving energy access.”

This is in line with earlier iterations of the Emissions Gap Report, which in 2017 had asserted that “between 80 and 90% of coal reserves worldwide will need to remain in the ground, if climate targets are to be reached. This compares with approximately 35% for oil reserves and 50% for gas reserves”.<sup>686</sup>

Besides the need to move away from fossil fuel extraction in general, there are certain mining extraction techniques that are considered both by private actors and civil society organisations to be particularly damaging in terms of their impacts on the environment and local populations. For example, mountaintop removal mining (MTR) is considered an unacceptable practice by several financial institutions. MTR mining is associated with extreme environmental and health risks, that cannot be fully mitigated.<sup>687</sup> For this reason it is often listed on financial institutions’ exclusion lists.<sup>688</sup>

In 2017, Urgewald and partners published the [Coal Exit List](#), which “provides key statistics on over 770 companies whose activities range from coal exploration and mining, coal trading and transport, to coal power generation and the manufacturing of coal plants”,<sup>689</sup> because “investments in new coal power capacity are incompatible with the Paris climate goals as each new coal plant locks-in high CO2 emissions for decades to come”.<sup>690</sup>

Taking into account the huge impact of coal mining on the environment and local communities, especially extreme mining, and its contribution to climate change once the coal is burned, these activities are considered unacceptable by the Fair Finance Guide International methodology.<sup>691</sup>

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**This leads to assessment elements**

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23	Uranium mining is unacceptable.
24	Asbestos mining is unacceptable.
25	Mountaintop removal mining is unacceptable.
26	Establishing new coal mines is unacceptable.
27	Thermal coal mining is unacceptable.

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- **Standards for a sustainable extractive industry**

The [Framework for Responsible Mining](#), drafted by the WWF, provides a clear analysis of environmental, social and governance problems that should be included in a sector policy for the extractive industry.

The [Sustainable Development Framework: ICMM Principles of the International Council on Minerals & Metals \(ICMM\)](#) is based on the [Mining, Minerals and Sustainable Development \(MMSD\)](#) project. The Framework comprises of 10 principles for sustainable development in the extractive industry, it obliges the participants of ICMM to report according to GRI Standards, including the [GRI G4 Mining and Metals Sector Disclosure](#), and it requires external verification of this reporting. Also, a grievance mechanism has been set up for dealing with grievances of ICMM participants.<sup>692</sup>

In 2015, ICMM released a [best practice guidance on water management](#): “member companies have come to understand that even the most water-efficient operations that stringently manage water discharges can still be subject to significant water risks manifesting outside the operational fence line at the catchment level”. The guidance calls for wide stakeholder engagement and expects companies to consider risks outside its own operations. In March 2017 the ICMM also published a [Practical guide to consistent water reporting](#). The guidance accompanies ICMM’s 2014 [Water stewardship framework](#).

The OECD has written recommendations on respecting human rights and avoiding involvement in conflicts in extractive industry areas in its [OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas](#). In 2016 the OECD launched a project to “develop and pilot test an assessment methodology for evaluating the extent to which industry programmes align with the detailed recommendations of this OECD Guidance”.<sup>693</sup> The 2018 [Alignment Assessment Report](#) presents the findings of the pilot project.

Although the [OECD Due Diligence Guidance for Responsible Mineral Supply Chains](#) identifies the worst forms of child labour as a serious human rights abuse, there is little detail available on how companies can conduct due diligence of child labour-related risks. Therefore, the [Practical actions for companies to identify and address the worst forms of child labour in mineral supply chains](#), released in 2017, helps companies to identify, mitigate and account for the risks of child labour in their mineral supply chains.

In 2017, OECD released the [OECD Due Diligence Guidance for Meaningful Stakeholder Engagement in the Extractive Sector](#). It intends to provide guidance to mining, oil and gas enterprises in addressing the challenges related to stakeholder engagement and is part of a series of sectoral guidance for the application of the recommendation found in the OECD Guidelines for Multinational Enterprises.

For some minerals there are specific standards, or they are being developed, including:

- The [OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas](#) also contains specific guidelines for tin, tantalum, and tungsten.
- The involvement of the diamond industry in armed conflicts has led to the [Kimberley Process Certification Scheme](#). The system forces governments to certify diamonds that are not being used for financing conflict groups. The certification process has proven to be a useful first step to make conflict diamonds recognisable, but it still lacks an independent supervisor.
- The [Council for Responsible Jewellery Practices](#) (CRJP) is also working on a certification scheme similar to the Kimberley Process. The council consists of more than 450 companies operating in the product chains of gold, diamonds, jewellery and watches. In November 2013, the CRJP published the third edition of [Principles and Code of Practice](#), together with certification manuals and assessment guidelines. All participating companies are expected to produce a human rights report and they must (in relevant cases) take into account the Free and Prior Informed Consent and the extraction of raw materials in conflict areas.
- The gold industry has developed various initiatives:
  - the [International Management Code for the use of Cyanide](#), a voluntary agreement on reducing the use of cyanide, on improving safety in transport and on taking measures that guarantee the miners health and safety. The code also contains plans for crisis management, but lacks guidelines for waste processing;
  - The World Gold Council has developed the [Conflict-Free Gold standard](#). Voluntary participation involves submitting to an audit, of which the results are made public, to assess whether gold has been responsibly extracted;
  - [Fairtrade Gold and Precious Metals](#) is a certification scheme for responsibly sourced gold and precious metals from artisanal and small-scale sources that comply with social, environmental, labour and traceability requirements;
  - Another option is [Fairmined Gold](#), a third party assurance scheme developed by the ARM;
  - The [Initiative for Responsible Mining Assurance \(IRMA\) Standard for Responsible Mining](#), which outlines requirements based on business integrity and social and environmental criteria;
  - The International Conference on the Great Lakes Region ([ICGLR](#)) [Regional Certification Mechanism](#) has set standards for traceability and certification of minerals in the conflict-prone Great Lakes area;

- The London Bullion Market Association (LBMA) [Responsible Gold Guidance](#) is mandatory for all LBMA accredited refiners and ensures that all gold feed stock and all gold produced by refiners is conflict-free. The guidance was last updated in September 2017; and
- The [Responsible Mining Foundation \(RMF\)](#) has created the [Responsible Mining Index](#), an assessment of mining companies' policies and practices on key economic, environmental, social, and governance (EESG) indicators. By assessing and comparing mining companies' efforts and policies it seeks to promote adoption of best practices and a 'race to the top'.<sup>694</sup>

Many of these initiatives are still under development and haven't yet developed specific certification schemes that financial institutions can take over literally in their investment policy. Financial institutions have been advised to closely follow the developments of these initiatives and/or actively participate in them.

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**This leads to assessment elements**

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28	Companies work with relevant standards and initiatives for certain minerals (mentioned in section 3.8.2).
29	Companies are certified according to the criteria of certification schemes for certain minerals (mentioned in section 3.8.2).

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- **Sustainability reporting**

The best known guideline for sustainability reporting in general is the [Global Reporting Initiative \(GRI\) Reporting Framework](#), of which the [GRI Sustainability Reporting Standards \(GRI Standards\)](#) have been in effect since July 2018. The [G4 Mining and Metals Sector Disclosures \(MMSD\)](#) includes guidelines on companies active in exploration, mining and primary metal processing (including smelting, recycling and basic fabrication).

For small and medium enterprises (SMEs), less elaborate sustainability reporting is required. SMEs can report on the GRI indicators that are relevant to their operations, for example by following [the High5! Approach](#).

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**This leads to assessment elements**

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30	Companies publish a sustainability report that may contain (a number of) disclosures from the GRI Standards.
31	Large enterprises and multinational enterprises publish a sustainability report that is set up in accordance with the (Core or Comprehensive option of the) GRI Standards.

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- **Procurement and supply chains**

Companies are often part of long procurement and supply chains. They can monitor one another and question how they respect local and national legislation and international norms regarding social, economic and environmental issues. The requirements that companies set for their suppliers can be included in contractual agreements.

The importance of this also recognised in the [OECD Guidelines for Multinational Enterprises](#) since its revision in 2011. The [OECD Due Diligence Guidance for Responsible Business Conduct](#) provides practical support to companies on the implementation of the OECD Guidelines for Multinational Enterprises by providing plain language explanations of its due diligence recommendations. Implementing these recommendations can help companies avoid and address adverse impacts that may be associated with their operations, supply chains and other

business relationships.

ISO 26000:2010 Guidance on social responsibility recognises the importance of supply chain responsibility, because “the impacts of an organization’s decisions or activities can be greatly affected by its relationships with other organizations”.<sup>695</sup> A company’s sphere of influence includes relationships within and beyond an organization’s supply chain. Moreover, ISO 26000:2010 Guidance on social responsibility recommends setting contractual provisions or incentives as a means of exercising influence.<sup>696</sup>

In addition, ISO 20400:2017 Sustainable procurement – Guidance provides guidelines for organizations, independent of their activity or size, on integrating sustainability within procurement, as described in ISO 26000:2010 Guidance on social responsibility. It is intended for stakeholders involved in, or impacted by, procurement decisions and processes.

The UNGPs include a due diligence process in order to identify, prevent, mitigate and account for how companies address their adverse human rights impacts. The process “should cover adverse human rights impacts that the business enterprise may cause or contribute to through its own activities, or which may be directly linked to its operations, products or services by its business relationships.”<sup>697</sup>

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**This leads to assessment elements**

32	Companies integrate environmental, social and governance criteria in their procurement and operational policies.
33	Companies include clauses on the compliance with environmental, social and governance criteria in their contracts with subcontractors and suppliers.

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### 3.8.3 Assessment elements

When financial institutions invest in or finance mining companies, they have to be aware of whether the company complies with the relevant international guidelines and agreements on the social and environment fields. This means that in the investment policy of financial institutions, clear norms need to be drafted.

The following elements are crucial for a policy regarding the companies a financial institution invests in or finances:

1. Companies prevent negative impacts on protected areas that fall under the categories I-IV of the International Union for Conservation of Nature (IUCN) within their business operations and the areas they manage.
2. Companies prevent negative impacts on UNESCO World Heritage sites within their business operations and the areas they manage.
3. Companies prevent negative impacts on protected areas that fall under the Ramsar Convention on Wetlands within their business operations and the areas they manage.
4. Companies mitigate the chance of accidents by making use of the best available techniques and have a solid road map for crisis situations (a ‘contingency plan’).
5. Companies do not operate in locations where the consequences of an accident for the environment are unmanageable.
6. Companies reduce extractive waste and manage and process this in a responsible way by adequately tracking, reviewing and acting to improve their tailings risk management and by adopting a zero-failure objective to tailings storage facilities.
7. Riverine tailings disposal and sub-marine tailings disposal is unacceptable.
8. Companies conduct water scarcity impact assessments in water scarce regions.

9. Companies have comprehensive mitigation measures in place to address community and ecosystem water requirements in areas where environmental impact assessments identify that significant impacts to water resources are likely.
10. Companies include the environmental and health effects of a mine after its closure in plans for the development of new mines.
11. Companies ensure the recovery of ecosystems after commercial activities have been completed, for all extractive industry projects (i.e. this is included as an activity in the planning and the budget of the project).
12. Companies respect small scale and artisanal mining and improve sustainable economic and social development on a local level.
13. Companies respect the ILO Declaration on Fundamental Principles and Rights at work.
14. Companies prevent conflicts over land rights and acquire natural resources only by engaging in serious consultation with local communities and obtaining free, prior and informed consent (FPIC) when it concerns indigenous peoples.
15. Companies prevent conflicts over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of peoples with customary tenure rights.
16. Companies follow the Voluntary Principles on Security and Human Rights for the security of their employees and company premises.
17. Companies have processes to enable the *remediation* of any adverse human rights impact which they cause or to which they contribute.
18. Companies pay the taxes owed in each country where they operate.
19. For each country in which companies operate, they report country-by-country on their revenues, profit, FTEs, subsidies received from governments and payments to governments (e.g. withholding taxes, payments for concessions and company tax).
20. Offering, promising, giving and requiring, either directly nor indirectly, bribes or other undue advantages in order to acquire or to maintain assignments or other undue advantages, is unacceptable.
21. Companies only operate in weak governance zone or conflict-affected areas if they are able to demonstrate that they are not causing or contributing to human rights abuses.
22. Mining and trading in conflict minerals is unacceptable.
23. Uranium mining is unacceptable.
24. Asbestos mining is unacceptable.
25. Mountaintop removal mining is unacceptable.
26. Establishing new coal mines is unacceptable.
27. Thermal coal mining is unacceptable.
28. Companies work with relevant standards and initiatives for certain minerals (mentioned in section 3.8.2).
29. Companies are certified according to the criteria of certification schemes for certain minerals (mentioned in section 3.8.2).
30. Companies publish a sustainability report that may contain (a number of) disclosures from the GRI Standards.
31. Large enterprises and multinational enterprises publish a sustainability report that is set up in accordance with the (Core or Comprehensive option of the) GRI Standards.
32. Companies integrate environmental, social and governance criteria in their procurement and operational policies.
33. Companies include clauses on the compliance with environmental, social and governance criteria in their contracts with subcontractors and suppliers.



## 3.9 Oil and gas

### 3.9.1 What is at stake?

Several processes within the oil and gas industry may harm the environment. Drilling platforms, oil and gas production facilities, flaring plants, and refineries pollute the land, air and water. The urge to fill reserves, leads to oil companies penetrating deeper and deeper into ecologically vulnerable regions, from the Amazon to the Polar Regions. Cracks in pipelines caused by earthquakes, other natural causes and sabotage can lead to soil and water pollution and even to fatal explosions and fires. Moreover, oil spilled from tankers that were involved in accidents has polluted many marine areas and coastlines.<sup>698</sup>

The social consequences of the oil and gas industry can be extremely detrimental, affecting the economic, social and cultural rights of local communities. Pollution and contagious diseases cause harm to the health, food safety and the culture of indigenous (sometimes isolated) population groups. Often, oil and gas companies take the land of local communities and expropriate them from their source of food or revenues. Due to pollution, nearby residents can lose their source of income and food supply to the activities of oil and gas companies. Moreover, the mining and transport of oil and gas have regularly contributed to the emergence of armed conflicts, the coming to power of, and remaining in power of, oppressive regimes and the violation of human rights. Especially in situations where companies cooperated with the army or local militias for the security of their operations, great humanitarian harm has occurred.<sup>699</sup>

The oil and gas industry often disturbs the macro-economic development of countries. The term *resource curse* is used for the development of corruption, irreducible revenues, bad management of oil supplies and an unequal division of the revenue to the population, in countries that are rich in natural raw materials.<sup>700</sup> Mainly in developing countries where there is no stable political or legal system, the resource curse is a well-known phenomenon. In these countries conflicts regularly arise between the local population, the oil companies and the government.<sup>701</sup>

According to the United Nations Environment Programme (UNEP), "at least 40 per cent of all internal armed conflicts over the past 65 years have had an important natural resource dimension. Since 1989, more than 35 major armed conflicts have been financed by revenues from conflict resources, and there are fears that in the coming years, extreme climate stresses could double the risk of violent conflict".<sup>702</sup> In such countries, companies ignore both the local legislation as well as internationally accepted highest standards for safe business operations, while operating to the letter of the law in industrialised countries where the highest standards are laid down by law. This double standard was clearly shown in a 2010 Friends of the Earth report about the business operations of Shell in Nigeria.<sup>703</sup>

Some oil and gas companies operate in developing countries but the related subsidiaries are located in tax havens to pay as little tax as possible. According to Publish What You Pay Norway, after the US state Delaware, the Netherlands is the favourite hosting country for oil companies.<sup>704</sup> The ten largest oil companies and mining companies globally that own natural resources in developing countries have 365 subsidiaries in the Netherlands. However, under Dutch legislation it is impossible to investigate the fiscal and financial data of these subsidiaries. Therefore, it has proven to be very difficult to determine how much revenue companies make from the activities in these countries and how much tax the governments lose.<sup>705</sup>

A relatively new form of extracting gas is drilling for shale gas. This is a controversial way of gas extraction and there is a heavy debate on the pros and cons. The risks for people and environment include:<sup>706</sup>

- Pollution of water sources with methane and chemicals;
- Enormous clean water use;
- Infringement on landscape and nature;
- Higher chances of accidents with drilling pits and transport;
- Risk of earthquakes caused by hydraulic fracturing (*fracking*);
- Climate impacts due to greenhouse gas (GHG) emissions of shale gas and coal gas;
- Relatively small economic effects of shale gas and coal gas.

Vewin, the association for drinking water companies in the Netherlands, has expressed concern about the risks of shale gas extraction: (test) drilling can pollute the groundwater. According to Vewin, Dutch regulations are not sufficient to exclude the risks of groundwater pollution.<sup>707</sup> In December 2014 the Dutch parliament voted against shale gas extraction and arctic drilling.<sup>708</sup> Other countries, such as Scotland, South Africa, France and Wales, as well as several states and cities in Canada and the United States have also chosen to ban shale gas fracking.<sup>709</sup> The United States instated a ban on oil and gas drilling in large parts of the Arctic Ocean in 2016, which remains in place despite several attempts at reversing the ban since 2017.<sup>710</sup>

The oil and gas industry plays an important role in climate change. Climate change is largely caused by the combustion of fossil fuels, many of which are supplied by companies in the oil and gas industry. In a world where sustainable energy sources are becoming more important, there is less and less room for the oil and gas industry. Therefore, the largest challenge for this industry is to use its knowledge of energy markets and technologies to develop a supply of clean energy. In preparation for this, oil and gas companies have to minimise the risks of oil and gas production, transport and processing throughout the entire chain in the fields of environment, safety, health and biodiversity.

All of the issues mentioned above directly or indirectly relate to the Sustainable Development Goals (SDGs.) The oil and gas industries' long-term climate impacts strongly affect SDG 13: Climate Action and SDG 7: Affordable and Clean Energy. At the same time, the immediate environmental impacts of drilling activities affect SDG 6: Clean Water and Sanitation, SDG 14: Life Below Water, and SDG 15: Life on Land.<sup>711</sup>

The investment policy of financial institutions has to ensure that financial institutions are only involved with investments in companies in the oil and gas industry that meets these objectives. When developing policies for this industry, financial institutions can make use of the international standards described below.

### 3.9.2 International standards and initiatives

The main international standards on the oil and gas industry are summarised per topic, followed by the assessment elements that are formulated by the FFGI as a result:

- **Areas of high biodiversity and protected areas**

Oil and gas activities are not permitted in areas that are listed in the categories I to IV of the International Union for Conservation of Nature (IUCN), or listed in the UNESCO World Heritage Convention or in the Ramsar Convention on Wetlands.

These areas are also included in the analyses for investments by the International Finance Corporation's (IFC) Performance Standard 6 concerning Biodiversity Conservation and Sustainable Management of Living Natural Resources. It determines how companies should operate in order to avoid negative consequences on areas of high biodiversity value, including impact on natural habitats as well as endangered and endemic species. The requirements in the

standard have been guided by the [Convention on Biological Diversity](#).

Furthermore, forests identified according to the [High Carbon Stock Approach](#), [Marine Protected Areas](#) and [High Conservation Value areas](#) should be recognised and protected.

The [United Nations Environmental Assembly](#) adopted a [resolution on pollution mitigation by mainstreaming biodiversity into key sectors](#) in 2017, aiming at “strengthening efforts to integrate conservation and sustainable use of biodiversity in various sectors such as agriculture, fisheries and aquaculture, tourism, mining and energy, infrastructure and manufacturing among others. It also points to the need to prevent and reduce pollution from these sectors”.<sup>712</sup>

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#### This leads to assessment elements

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1	Companies prevent negative impacts on protected areas that fall under the categories I-IV of the International Union for Conservation of Nature (IUCN) within their business operations and the areas they manage.
2	Companies prevent negative impacts on UNESCO World Heritage sites within their business operations and the areas they manage.
3	Companies prevent negative impacts on protected areas that fall under the Ramsar Convention on Wetlands within their business operations and the areas they manage.

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#### • Crisis management

After the disastrous Exxon Valdez oil spill in 1989, where more than 40 million litres of oil covered the coastal areas of Alaska, the United Nations [International Maritime Organization](#) (IMO) adapted the requirements for oil transport. The 2003 amendment to the [MARPOL Convention](#) demands that new oil tankers need to have a double hull and all large tankers with a single hull have been taken out of circulation between 2005 and 2010.

The [Protocol on Preparedness, Response and Co-operation in pollution Incidents by Hazardous and Noxious Substances](#) (OPRC-HNS Protocol, 2000), drafted by IMO, aims to establish a global framework for international cooperation in order to prevent large scale incidents and the threat of maritime pollution. Parties that have ratified the HNS Protocol are expected to establish measures for polluting incidents or cooperate on a national level with other countries. Ships are obliged to have an emergency plan on board for specific incidents with Hazardous and Noxious Substances.

Globally, the development of norms and regulations concerning the management of oil pipelines follows the standards originating from the United States. US regulation on [Integrity Management \(IM\)](#) is used all over the world as a ‘best practice’. In Alaska there is the additional requirement that the ‘Best Available Technology’ (BAT) has to be applied to all oil and gas activities. An important part of such standards is that a company also has to be able to adequately respond to incidents. Globally recognised standards are:<sup>713</sup>

- [API 1160](#) (American Petroleum Institute) for the implementation of Integrity Management (IM) programmes for High Consequence Areas;
- [ASME B31.4](#) (American Society of Mechanical Engineers) standard for the design and construction of oil pipelines; and
- [API RP 1130](#) standard to detect leakages (*Leak Detection Systems*).

The '[Oil Spill Working Group](#)' of the International Petroleum Industry Environmental Conservation Association (IPIECA) has written guidelines for crisis planning and response in case of oil disasters at sea (Oil Spill Contingency Planning and Response). These guidelines are meant for the industry and for government organisations and is based on Industry Best Practices and on the expertise of IPIECA members the International Maritime Organisation (IMO) and the International Tanker Owners Pollution Federation (ITOPF).

In the European Union, directive [2013/30/EU on safety of offshore oil and gas operations](#) was introduced in 2013 to improve safety on oil rigs. The directive should prevent pollution of water and coastal areas by means of strong demands regarding safety. Moreover, companies are expected to use adequate response mechanisms in order to reduce the consequences of accidents.

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**This leads to assessment elements**

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4	Companies mitigate the chance of accidents (oil spills, leakages) by making use of the best available techniques and have a solid road map for crisis situations (a so called 'contingency plan').
5	Companies do not operate in locations where the consequences of an accident for the environment are unmanageable.

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- **Waste management**

The [Convention for the protection of the Marine Environment of the North-East Atlantic](#) (OSPAR) regulates the disposal and processing of waste from offshore oil and gas extraction and mining and serves as a basis for national legislation in the countries that have signed the OSPAR. Norway has drafted an even more stringent national standard for waste processing from offshore-oil production, the so-called [Zero environmentally hazardous discharges](#) standard. This standard requires that a large part of the drilled mud is purified so it can be injected back into the oil field.

A special type of waste is natural gas that in some cases surfaces when oil is extracted. This gas is often vented, or it is burnt (flaring). Both venting and flaring result in huge losses of energy and emit large amounts of GHGs. The [Global Gas Flaring Reduction Public-Private Partnership](#) (GGFR), established by the World Bank, has drafted guidelines to minimise the flaring and venting of natural gas. In cooperation with GGFR and GHG Emissions Task Force, IPIECA developed a [guideline](#) in 2011 for governments and companies that wish to try and reduce gas flaring.

The 2006 EU [Guideline with respect to the management of waste of mining industries](#) requests that EU member states ensure extractive waste is managed without endangering human health or the environment. The member states also need to take the necessary precautions to prohibit the uncontrolled abandonment, dumping and disposal of extractive waste.

Standards for the disposal of offshore drilling platforms are drafted by the OSPAR Convention in [OSPAR Decision 98/3 on the Disposal of Disused Offshore Installations](#). This decision states that oil companies have to choose the method of dismantling that causes the least harm to the environment. In addition, companies have to make adequate provisions to overcome any environmental problems involved in dismantling. They have to take responsibility for the dismantling of their production capacity and the waste they produce and can no longer leave this to governments.

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**This leads to assessment elements**

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6	Companies reduce waste from oil and gas extraction and mining, especially the flaring of natural gas, and manage and process this in a responsible way.
7	Companies include the environmental and health effects of the dismantling of production facilities, especially of offshore drilling platforms, in plans for the development of new projects.

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- **Water use**

Given the growing challenge of water scarcity in many regions of the world, it is vital that companies and financial institutions become aware of their own influences on water related problems. Various initiatives, guidelines and standards have emerged in recent years, to help companies address water risk. See for more information the theme Nature (section 2.8).

Initiatives companies could participate in and learn from are:

- The UN Global Compact's [CEO Water Mandate](#) is a public-private initiative designed to assist companies in the development, implementation and disclosure of water sustainability policies and practices.
- The guidance by the UNEP and CEO Water Mandate on [Corporate Water Accounting: An Analysis of Methods and Tools for Measuring Water Use and Its Impacts](#).
- The [European Water Partnership](#); and
- The [Water Footprint Network](#), which also has a standard on assessing a global water footprint.

There are several guidelines and water 'footprinting' methods as well as voluntary disclosure initiatives for calculating water use, water risk, understanding water issues and creating a sound water strategy, such as:

- The [CDP's Water Program](#), to calculate and publish corporate water use throughout the supply chain;
- The [GEMI Water Sustainability Tool](#);
- The [WBCSD Global Water Tool](#);
- The [AWS International Water Stewardship Standard](#) is supported by a verification process, that defines a set of water stewardship criteria and indicators for how water should be stewarded at a site and catchment level in an environmentally, socially, and economically beneficial manner.

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**This leads to assessment elements**

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8	Companies conduct water scarcity impact assessments in water scarce regions.
9	Companies have comprehensive mitigation measures in place to address community and ecosystem water requirements in areas where environmental impact assessments identify that significant impacts to water resources are likely.

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- **Effects on marine life**

In the offshore oil and gas industry, seismological research causes harm to whales and other marine mammals. To curb these effects, the Joint Nature Conservation Committee of the UK government (JNCC) published [guidelines for minimising the risk of injury to marine life by geophysical surveys](#) in August 2017. These comprise of a number of minimum requirements that reduce harm to marine life off the coast of the United Kingdom.

The 2015 IFC [Environmental, Health, and Safety Guidelines for Offshore Oil and Gas Development](#) also include guidelines on reducing noise from seismic operations.

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**This leads to assessment element**

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10	Companies reduce the effects of seismological research on whales and other marine mammals.
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• **Labour rights**

As part of respecting human rights, it is of great importance that oil and gas companies adhere to the United Nations International Labour organisation's (ILO) main codes of conduct. These are the 1998 [ILO Declaration on Fundamental Principles and Rights at Work](#) and the [Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy \(MNE Declaration\)](#). In addition, specifically for the extractive industry, the [Convention concerning Safety and Health in Mines \(No. 176\)](#) should be taken into account. The rights of women in the extractive industry are recognised in the 2013 [Iroco Declaration](#).

For more information and relevant international standards and initiatives see the theme Labour rights (section 2.7.2).

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**This leads to assessment elements**

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11	Companies respect the ILO Declaration on Fundamental Principles and Rights at Work.
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• **Land rights conflicts and forced evictions**

Human rights, particularly economic, social and cultural (ESC) rights, play a central role in land-related issues. However, there is no explicit recognition of a 'human right to land' within international human rights instruments. Those who face threats to their land rely on other rights, such as the right to food, the right to water, the right to housing and the right to work. These rights are included in the [International Covenant on Economic, Social and Cultural Rights \(ICESCR\)](#).<sup>714</sup> Other standards related to land rights conflicts and forced evictions are:

- The 1997 [Basic Principles and Guidelines on Development-based Evictions](#);
- The 2009 [Core Principles and Measures on Large-scale land acquisitions and leases](#) of the United Nations Special Rapporteur on the right to food; and
- The 2011 [Tirana Declaration](#) of the International Land Coalition.

For more information and relevant international standards and initiatives see the theme Human rights (section 2.6.2).

According to [GRI's G4 Oil and Gas Sector Disclosures \(OGSD\)](#), not yet updated but still recommended by GRI to use with its new [GRI Sustainability Reporting Standards \(GRI Standards\)](#), oil and gas companies have to produce a sustainability report that addresses the rights of indigenous peoples.<sup>715</sup>

- the locations where indigenous peoples live or are influenced by business activities and where an engagement has been made (OG9);
- the number of conflicts and a respective description with local communities and indigenous peoples (OG10); and
- business activities where forced relocation of people has occurred and the number of households involved in this (OG12).

In 2017, OECD released the [OECD Due Diligence Guidance for Meaningful Stakeholder Engagement in the Extractive Sector](#). It intends to provide guidance to mining, oil and gas enterprises in addressing the challenges related to stakeholder engagement and is part of a

series of sectoral guidance for the application of the recommendations found in the OECD Guidelines for Multinational Enterprises.

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**This leads to assessment elements**

12	Companies prevent conflicts over land rights and acquire natural resources only by engaging in meaningful consultation with local communities and obtaining free, prior and informed consent (FPIC) when it concerns indigenous peoples.
13	Companies prevent conflicts over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of peoples with customary tenure rights.

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- **Security and law enforcement**

Companies can get involved in violations of human rights when (private or public) company security officers use violence against nearby residents of the company. This issue is dealt with in the [UN Code of Conduct for Law Enforcement Officials](#) and the [UN Basic Principles on the Use of Force and Firearms by Law Enforcement Officials](#). Based on this code of conduct and principles, in a multi-stakeholder process the [Voluntary Principles on Security and Human Rights](#) have been developed that set guidelines for companies for their security methods.

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**This leads to assessment element**

14	Companies follow the Voluntary Principles on Security and Human Rights for the protection of their employees and de company sites.
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- **Access to remedy**

Companies need to respect the rights of local communities affected by their operations. The responsibility to respect requires that companies avoid causing or contributing to adverse human rights impacts through their own activities and seek to prevent or mitigate impacts that are directly linked to their operations by their business relationships. According to the [United Nations Guiding Principles on Business and Human Rights \(UNGPs\)](#), if a company identifies a risk or is contributing to an adverse impact, it should cease or prevent its contribution and to mitigate any remaining impacts to the greatest extent possible. Finally, the enterprise should provide for or cooperate in their remediation through legitimate processes. According to Guiding Principle 29 of the UNGP's, companies should establish or participate in effective operational-level grievance mechanisms for individuals and communities who may be adversely impacted.<sup>716</sup> Guiding Principle 31 details the criteria to ensure the effectiveness of grievance mechanisms. It also includes the expectation that mechanisms must be:<sup>717</sup>

- Legitimate;
- Accessible;
- Predictable;
- Equitable;
- Transparent;
- Rights-compatible;
- A source of continuous learning, and
- Based on engagement and dialogue.

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**This leads to assessment element**

15	Companies have processes to enable the remediation of any adverse human rights impact which they cause or to which they contribute.
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- **Transparency of financial flows**

In the [Extractive Industries Transparency Initiative \(EITI\)](#), a coalition of governments, companies, CSOs and investors has drafted criteria for governments of countries where oil and gas extraction and mining take place. Governments are expected to publish all revenues they receive from these activities.

The [Publish What You Pay](#) coalition, in which over 300 social organisations cooperate, advocates that the oil companies also make their payments to governments publicly known. This means that companies have to report their tax payments in the countries where they operate, but also on royalties, payments for concessions and such. Also, the important contracts and agreements between governments and oil companies and all bank loans related to oil and gas extraction and mining should be made public.

The best known guideline for sustainability reporting in general is the [Global Reporting Initiative \(GRI\) Reporting Framework](#), of which the [GRI Sustainability Reporting Standards \(GRI Standards\)](#) have been in effect since July 2018. These guidelines state that organisations should report on the payments they make to governments country-by-country (EC1). GRI Disclosure 201-4 requires companies to report on the “total monetary value of financial assistance received by the organization from any government during the reporting period”, while GRI Disclosure 201-1 requires companies to report on “payments to government by country”.<sup>718</sup> In disclosure G4-EC1 of the GRI [Oil and Gas Sector Disclosures \(OGSD\)](#) it has been added that oil companies have to report the payments to governments for every country where they operate, including host government’s production entitlements, national state-owned company production entitlement, profits taxes, royalties, dividends, bonuses, license fees, rental fees, entry fees and other considerations for licenses and/or concessions and other significant benefits to host governments.<sup>719</sup>

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**This leads to assessment elements**

16	Companies pay the taxes owed in each country where they operate.
17	For each country in which companies operate, they report country-by-country on their revenues, profit, FTEs, subsidies received from governments and payments to governments (e.g. withholding taxes, payments for concessions and company tax).
18	Offering, promising, giving, or requiring, either directly nor indirectly, bribes or other undue advantages in order to acquire or to maintain assignments or other undue advantages, is unacceptable.

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- **Good governance**

In order to minimise the negative consequences of the *resource curse*, it is important that the development of the oil and gas extraction and mining is combined with the development of capable and reliable governance. The World Bank [Extractives Industries Review \(EIR\)](#) advises that private investments in oil and gas extraction and mining are not encouraged in countries where governance is weak. It also establishes that the quality of the governance has to meet explicit conditions before any oil and gas project can be financed by the World Bank.

The [UNGP](#)s point to heightened risks of involvement in gross human rights abuses in conflict-affected areas. A company should manage its own impact in order to prevent involvement in human rights violations.



The [OECD Risk Awareness Tool for Multinational Enterprises in Weak Governance Zones](#) could be helpful detecting areas where strong governance is needed to avoid human rights abuses or to refrain from doing business.

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**This leads to assessment element**

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19	Companies only operate in weak governance zone or conflict-affected areas if they are able to demonstrate that they are not causing or contributing to human rights abuses.
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• **Unconventional oil and gas sources**

Due to the continuing increase in demand for fossil fuels, unconventional oil sources - such as the Canadian tar sand fields, oil shale in the United States and the extraction of shale gas or coal gas – have become economically attractive, although extracting these unconventional oil supplies is highly polluting, CO<sub>2</sub>-intensive and uses vast amounts of water.<sup>720</sup>

The goal of the 2015 [Paris Agreement](#) is to “strengthen the global response to the threat of climate change by keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius”.<sup>721</sup> The 2016 report [The Sky’s Limit](#) by Oil Change International argues that:<sup>722</sup>

- The potential carbon emissions from the currently operating oil, gas, and coal fields and mines would take us beyond 2°C of warming; and
- The reserves in currently operating oil and gas fields alone, even with no coal, would take the world beyond 1.5°C.

This means that:

- No new fossil fuel extraction or transportation infrastructure should be built, and governments should grant no new permits for them; and
- Some fields and mines – primarily in rich countries – should be closed before fully exploiting their resources, and financial support should be provided for non-carbon development in poorer countries.

[WWF reports](#) that “new Arctic Ocean oil and gas leases would pave the way for the release of millions of tons of CO<sub>2</sub> into the atmosphere”. In addition, “major oil spills are a near certainty for Arctic drilling”, while “there is no proven technology to contain or clean up oil spilled in the Arctic marine environment”.<sup>723</sup> WWF also published an [Asset Owner Guide to Oil & Gas Producers](#) in 2019, outlining the growing financial risks of continued investment in the oil and gas industries, as well as providing recommendations for asset owners seeking to align their portfolio with the Paris agreement.

The [UN Environment Programme Emissions Gap Report 2019](#) emphasizes that the world is on the brink of missing the opportunity to limit global warming to 1.5°C, and that meeting that target would require global emissions cuts of 7.6% per year on average.<sup>724</sup> A rapid transition of the global energy sector is considered key to meeting these targets and requires at least:<sup>725</sup>

- “Expanding Renewable Energy for electrification;
- Phasing out coal for rapid decarbonization of the energy system;
- Decarbonizing transport with a focus on electric mobility;
- Decarbonizing energy-intensive industry; and
- Avoiding future emissions while improving energy access.”

This is in line with earlier iterations of the Emissions Gap Report, which in 2017 had asserted that "between 80 and 90% of coal reserves worldwide will need to remain in the ground, if climate targets are to be reached. This compares with approximately 35% for oil reserves and 50% for gas reserves".<sup>726</sup>

The [World Energy Outlook 2017](#) by the International Energy Agency (IEA) considers natural gas to be a transition fuel, but only if the industry is "stepping up action to tackle methane leaks along the oil and gas value chain", because "securing clear climate benefits from gas use depends on credible action to minimise leaks of methane – a potent greenhouse gas – to the atmosphere".<sup>727</sup>

[Oil Change International](#) and a coalition of CSOs argued in 2016 that "the reserves in currently operating oil and gas fields alone, even with no coal, would take the world beyond 1.5°C". The organisations therefore recommend that:<sup>728</sup>

- "No new fossil fuel extraction or transportation infrastructure should be built, and governments should grant no new permits for them.
- Some fields and mines – primarily in rich countries – should be closed before fully exploiting their resources, and financial support should be provided for non-carbon development in poorer countries.
- This does not mean stopping using all fossil fuels overnight. Governments and companies should conduct a managed decline of the fossil fuel industry and ensure a just transition for the workers and communities that depend on it".

The transition towards a low-carbon economy requires in practice a move away from high emission activities to low emission activities. Extracting fossil fuels, particularly from unconventional sources, for power generation is considered unacceptable (even with operational carbon capture and storage technology). The Fair Finance Guide network therefore considers the extraction of oil from tar sand fields, from oil shale, from liquefied coal as well as extraction of shale gas and arctic drilling for oil and gas to be unacceptable activities.

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**This leads to assessment elements**

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20	Extracting oil from tar sands is unacceptable.
21	Extracting oil from oil shale is unacceptable.
22	Extracting fuel from liquefied coal is unacceptable.
23	Extracting shale gas is unacceptable.
24	Arctic drilling for oil and gas is unacceptable.

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- **Sustainability reporting**

The best known guideline for sustainability reporting in general is the [Global Reporting Initiative \(GRI\) Reporting Framework](#), of which the [GRI Sustainability Reporting Standards \(GRI Standards\)](#) have been in effect since July 2018. The [G4 Oil and Gas Sector Disclosures \(OGSD\)](#) includes guidelines on companies active in exploration, extraction, production, refining, and transport and sale of oil, gas and petrochemicals.

For small and medium enterprises (SMEs), less elaborate sustainability reporting is required. SMEs can report on the GRI indicators that are relevant to their operations, for example by following [the High5! Approach](#).

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**This leads to assessment elements**

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25	Companies publish a sustainability report that may contain (a number of) disclosures from the GRI Standards.
26	Large enterprises and multinational enterprises publish a sustainability report that is set up in accordance with the (Core or Comprehensive option of the) GRI Standards.

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- **Procurement and supply chains**

Companies are often part of long procurement and supply chains. They can monitor one another and question how they respect local and national legislation and international norms regarding social, economic and environmental issues. The requirements that companies set for their suppliers can be included in contractual agreements. The importance of this also recognised in the [OECD Guidelines for Multinational Enterprises](#) since its revision in 2011.

[ISO 26000:2010 Guidance on social responsibility](#) recognises the importance of supply chain responsibility, because “the impacts of an organization's decisions or activities can be greatly affected by its relationships with other organizations”.<sup>729</sup> A company's sphere of influence includes relationships within and beyond an organization's supply chain. Moreover, ISO 26000:2010 Guidance on social responsibility recommends setting contractual provisions or incentives as a means of exercising influence.<sup>730</sup>

In addition, [ISO 20400:2017 Sustainable procurement – Guidance](#) provides guidelines for organizations, independent of their activity or size, on integrating sustainability within procurement, as described in ISO 26000:2010 Guidance on social responsibility. It is intended for stakeholders involved in, or impacted by, procurement decisions and processes.

The [UNGPs](#) include a due diligence process in order to identify, prevent, mitigate and account for how companies address their adverse human rights impacts. The process “should cover adverse human rights impacts that the business enterprise may cause or contribute to through its own activities, or which may be directly linked to its operations, products or services by its business relationships.”<sup>731</sup>

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**This leads to assessment elements**

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27	Companies integrate environmental, social and governance criteria in their procurement and operational policies.
28	Companies include clauses on the compliance with environmental, social and governance criteria in their contracts with subcontractors and suppliers.

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### 3.9.3 Assessment elements

The investment policy of financial institutions on the oil and gas sector has to emphasise that the main challenge for the oil and gas sector is the further development of sustainable energy provisions. In addition, the policies of financial institutions have to include social and environmental norms for the oil and gas sector.

The following elements are crucial for a policy regarding the companies a financial institution invests in or finances:

1. Companies prevent negative impacts on protected areas that fall under the categories I-IV of the International Union for Conservation of Nature (IUCN) within their business operations and the areas they manage.

2. Companies prevent negative impacts on UNESCO World Heritage sites within their business operations and the areas they manage.
3. Companies prevent negative impacts on protected areas that fall under the Ramsar Convention on Wetlands within their business operations and the areas they manage.
4. Companies mitigate the chance of accidents (oil spills, leakages) by making use of the best available techniques and have a solid road map for crisis situations (a so called 'contingency plan').
5. Companies do not operate in locations where the consequences of an accident for the environment are unmanageable.
6. Companies reduce waste from oil and gas extraction and mining, especially the flaring of natural gas, and manage and process this in a responsible way.
7. Companies include the environmental and health effects of the dismantling of production facilities, especially of *offshore* drilling platforms, in plans for the development of new projects.
8. Companies conduct water scarcity impact assessments in water scarce regions.
9. Companies have comprehensive mitigation measures in place to address community and ecosystem water requirements in areas where environmental impact assessments identify that significant impacts to water resources are likely.
10. Companies reduce the effects of seismological research on whales and other marine mammals.
11. Companies respect the ILO Declaration on Fundamental Principles and Rights at Work.
12. Companies prevent conflicts over land rights and acquire natural resources only by engaging in meaningful consultation with local communities and obtaining free, prior and informed consent (FPIC) when it concerns indigenous peoples.
13. Companies prevent conflicts over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of peoples with customary tenure rights.
14. Companies follow the Voluntary Principles on Security and Human Rights for the protection of their employees and de company sites.
15. Companies have processes to enable the *remediation* of any adverse human rights impact which they cause or to which they contribute.
16. Companies pay the taxes owed in each country where they operate.
17. For each country in which companies operate, they report country-by-country on their revenues, profit, FTEs, subsidies received from governments and payments to governments (e.g. withholding taxes, payments for concessions and company tax).
18. Offering, promising, giving, or requiring, either directly nor indirectly, bribes or other undue advantages in order to acquire or to maintain assignments or other undue advantages, is unacceptable.
19. Companies only operate in weak governance zone or conflict-affected areas if they are able to demonstrate that they are not causing or contributing to human rights abuses.
20. Extracting oil from tar sands is unacceptable.
21. Extracting oil from oil shale is unacceptable.
22. Extracting fuel from liquefied coal is unacceptable.
23. Extracting shale gas is unacceptable.
24. Arctic drilling for oil and gas is unacceptable.
25. Companies publish a sustainability report that may contain (a number of) disclosures from the GRI Standards.
26. Large enterprises and multinational enterprises publish a sustainability report that is set up in accordance with the (Core or Comprehensive option of the) GRI Standards.
27. Companies integrate environmental, social and governance criteria in their procurement and operational policies.

28. Companies include clauses on the compliance with environmental, social and governance criteria in their contracts with subcontractors and suppliers.

Financial institutions that publicly state they exclude the oil and gas industry (both upstream and downstream companies) from their finance and investment universe because of the sustainability risks involved, but that do not publish a detailed policy document with all the expectations covered by the above assessment elements, will receive a score of 10. If this commitment is made for one or more but not all four FFGI investment categories, a content score and scope score for the relevant categories will be given for all assessment elements.

## 3.10 Power generation

### 3.10.1 What is at stake?

Power generation is essential to meet society's demands for energy and is central to efforts to achieve sustainable development and poverty reduction. There are many pressures on energy suppliers to generate power in a manner that offers security of supply, is affordable for consumers, and has a minimal level of negative environmental impacts.

A crucial concern regarding power generation is its impact on climate change. Electricity and heat production is the largest source of anthropogenic greenhouse gas emissions, accounting for roughly 25% of all global emissions.<sup>732</sup> Research has indicated that up to eighty per cent of the world's coal reserves, thirty per cent of known oil reserves and fifty per cent of gas reserves are not burnable if the world is to stay below the goal of a maximum of 2°C of climate warming, which does not even address the goal of limiting warming to 1.5°C.<sup>733</sup>

According to the Intergovernmental Panel on Climate Change (IPCC), most scenarios in which dangerous climate change is avoided require low carbon sources of power to reach around 80% of global power generation by 2050. In such a scenario, power generation from fossil fuels such as oil, coal and gas would have to be phased out almost entirely by 2100, unless accompanied by carbon capture and storage (CCS). Despite many years of research, CCS is not yet available at a commercial scale. The IPCC also notes that such mitigation scenarios would lead to devaluation of fossil fuel assets and reduced revenues for the coal and oil trade, providing a financial incentive for financial institutions to decrease their exposure to fossil fuels.<sup>734</sup>

Climate change is not the only environmental or social issue arising from power generation from fossil fuels. Coal-fired power plants have particularly egregious impacts. As well as releasing carbon dioxide, burning coal emits pollutants including sulphur dioxide, nitrogen oxides, and mercury compounds. Fine particles from coal-fired power plants cause an estimated 22,900 deaths each year in the European Union alone, according to CAN Europe, HEAL, WWF European Policy Office and Sandbag.<sup>735</sup> Coal plants also use large quantities of water, which becomes polluted with heavy metals such as lead and arsenic during use. Soil at coal-fired power plant sites can become contaminated with various pollutants and take a long time to recover, even after the power plant closes down.<sup>736</sup> Gas plants are also associated with emissions of air pollutants including carbon dioxide and nitrous oxides, although these are lower than for coal.<sup>737</sup>

Nuclear power is considered a low carbon power source by the IPCC, but its use remains highly controversial. The dangers of nuclear power were illustrated by accidents including those at Chernobyl, Ukraine in 1986, at Tokaimura, Japan, in 1999, and at Fukushima, Japan in 2011. Nuclear power also produces a legacy of radioactive nuclear waste, for which the issue of long-term safe storage remains unsolved. For these reasons, as well as for economic reasons (in particular the cost of decommissioning nuclear power stations at the end of their useful life), major environmental groups including Greenpeace and WWF continue to oppose nuclear power.<sup>738</sup>

Among power generation technologies considered "renewable", large dams are the most controversial. According to the final report of the World Commission on Dams (WCD), published in November 2000, the construction of large dams had driven between 40 and 80 million people away from their homes worldwide.<sup>739</sup> Besides these direct impacts of displacement, communities' livelihoods can be impacted by flooding (upstream), disturbing of water streams and fishery (downstream), violations of indigenous land rights and disruption of local food production.<sup>740</sup> In addition, dams (including dams for water management) have interrupted or reclaimed 60% of the world's rivers, with often huge and irreversible effects on the natural environment and ecosystems.

Research also shows that hydropower plants may produce large volumes of methane gas, a very potent greenhouse gas that arises from the decay of vegetation on the bottom of the reservoir. The methane gas is released when the water is led through the turbines. In some cases, hydropower plants produce more greenhouse gas than a power plant of comparable scope running on fossil fuel.<sup>741</sup>

Given the serious, irreversible ecological impacts of dams, civil society organizations such as International Rivers say that dam-based hydropower cannot be considered a renewable source of power. However, this does not mean that all hydropower is problematic: many smaller ('micro' and 'pico') hydropower projects operate without damming rivers, and these projects can offer low-emissions energy without substantial negative impacts.<sup>742</sup>

The importance of power generation is addressed in Sustainable Development Goal (SDG) 7: Affordable and Clean Energy. It aims to improve access to affordable, reliable and modern energy services and to increase the share of renewable energy in the global energy mix by 2030. Another target is to double the rate of energy efficiency by 2030. Further, the SDG 7 aims to enhance international cooperation to facilitate access to clean energy research and technology, including renewable energy, energy efficiency and advanced and cleaner fossil-fuel technology, and promote investment in energy infrastructure and clean energy technology.<sup>743</sup> Clean energy is also important for achieving many other SDGs such as SDG 1: No Poverty, SDG 8: Decent Work and Economic Growth, SDG 9: Industry, Innovation and Infrastructure, SDG 10: Reduced Inequalities and SDG 11: Sustainable Cities and Communities. At the same time, power generation, if not done responsibly, can hinder SDG 13: Climate Action, SDG 14: Life Below Water and SDG 15: Life on Land.<sup>744</sup>

In general, power generation using other forms of renewable energy, including wind power, solar power, geothermal power, smaller scale hydroelectric power as well as tidal marine power, are responsible for much lower emissions of greenhouse gasses than fossil fuels (although due to the emissions from the construction, maintenance and decommissioning of technologies like solar panels and wind farms, these technologies are not completely free of harmful emissions). It is generally agreed by environmental groups and climate scientists that a substantial increase in investments in renewable energy is needed, alongside investment in energy efficiency, to decarbonize the energy sector and meet emissions reduction targets.<sup>745</sup>

Financial institutions financing power generation from renewable energy must also be mindful of its potential impacts on land use, wildlife and local communities. When developing policies for the power generation sector, financial institutions can make use of the international standards described below.

### 3.10.2 International standards and initiatives

The main international standards on power generation are summarised per topic, followed by the assessment elements that are formulated by the FFGI as a result:

- **Transition to low carbon economy**

The third working group that contributed to the IPCC's Fifth Assessment Report, published in 2014, focused on mitigating climate change, and showed that the world must significantly reduce its reliance on fossil fuels in the coming decades, thus transitioning to a low-carbon economy. The IPCC projected that over the next two decades (2010 to 2029), annual investment in conventional fossil fuel technologies for electricity supply sector would decline, with a median projected rate of decline being around 20%. At the same time, annual investment in low-carbon electricity supply (including renewable energy, nuclear power and electricity

generation with carbon capture and storage) is projected to rise by 100% compared to 2010 on the same median basis.<sup>746</sup>

There are various initiatives within the corporate world and the financial industry to make agreements and to exchange experiences on stimulating the transition to a low-carbon economy:

- The [Ceres Investor Network on Climate Risk \(INCR\)](#);
- the [Institutional Investors Group on Climate Change \(IIGCC\)](#); and
- the [Global Business Leadership Platform on Climate Change](#).

Fossil fuel-fired power generation and especially coal-fired power generation, causes high carbon emissions. According to the [Institute for New Economic Thinking of Oxford School](#) the carbon reduction goal of the [Paris Agreement](#) can only be met by complete decarbonisation of the electricity sector: “even under the very optimistic assumption that other sectors reduce emissions in line with a 2°C target, no new emitting electricity infrastructure can be built after 2017 for this target to be met, unless other electricity infrastructure is retired early or retrofitted with CCS”.<sup>747</sup>

Similarly, in its 2018 [Special Report](#) the IPCC emphasizes that even though limiting global warming to 1.5°C is technically feasible, all of the modelled emission pathways consistent with such a target require rapid decarbonisation of the global energy infrastructure.<sup>748</sup>

The [UN Environment Programme Emissions Gap Report 2019](#) emphasizes that the world is on the brink of missing the opportunity to limit global warming to 1.5°C, and that meeting that target would require global emissions cuts of 7.6% per year on average.<sup>749</sup> A rapid transition of the global energy sector is considered key to meeting these targets and requires at least:<sup>750</sup>

- “Expanding Renewable Energy for electrification;
- Phasing out coal for rapid decarbonization of the energy system;
- Decarbonizing transport with a focus on electric mobility;
- Decarbonizing energy-intensive industry; and
- Avoiding future emissions while improving energy access.”

This is in line with earlier iterations of the Emissions Gap Report, which in 2017 had asserted that “between 80 and 90% of coal reserves worldwide will need to remain in the ground, if climate targets are to be reached. This compares with approximately 35% for oil reserves and 50% for gas reserves”.<sup>751</sup>

The [World Energy Outlook 2019](#) of the International Energy Agency charts a possible scenario which would be in line with the target of keeping global temperature increases well below 2°C. While the scenario would be fully aligned with the goals outlined in the Paris Agreement, the report stresses that it requires “rapid and widespread changes across all parts of the energy system”, and that “the breadth of the world’s energy needs means that there are no simple or single solutions. Sharp cuts are achieved across the board thanks to multiple fuels and technologies providing efficient and cost-effective energy services for all”.<sup>752</sup>

In 2017, Urgewald and partners published the [Coal Exit Database](#), which “provides key statistics on over 770 companies whose activities range from coal exploration and mining, coal trading and transport, to coal power generation and the manufacturing of coal plants”,<sup>753</sup> because “investments in new coal power capacity are incompatible with the Paris climate goals as each new coal plant locks-in high CO2 emissions for decades to come”.<sup>754</sup>



WWF published an [Asset Owner Guide to Oil & Gas Producers](#) in 2019, outlining the growing financial risks of continued investment in the oil and gas industries, as well as providing recommendations for asset owners seeking to align their portfolio with the Paris agreement.

The transition towards a low-carbon economy requires in practice a move away from high emission activities to low emission activities. Extracting fossil fuels for power generation is irreconcilable with long term climate goals (even with operational carbon capture and storage technology).

Nuclear energy is not a sustainable alternative to fossil fuel-fired power generation. Aside from the risk of catastrophic meltdowns (as in the 2011 Fukushima case), Greenpeace argues “there is still no safe, reliable solution for dealing with the radioactive waste produced by nuclear plants”.<sup>755</sup>

Large-scale hydroelectric dams, while officially considered a renewable source of energy, are associated with considerable negative social and environmental impacts. Construction of new dams can displace local populations or deprive them of sources of water and income. Large hydroelectric dams can have disastrous consequences for local ecosystems, biodiversity, and under certain conditions emit significant amounts of greenhouse gases.<sup>756</sup>

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**This leads to assessment elements**

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1	The financial institution finances companies involved in renewable energy generation (wind, solar, small and medium scale hydro power, geothermal power, tidal power, etc.).
2	The financial institution has a measurable target to increase its finance for renewable energy generation.
3	The financial institution has a measurable target to reduce either its total amount of finance for fossil fuel-fired power generation, or to reduce finance for fossil fuel-fired power generation, relative to its finance for renewable energy generation.
4	Unabated coal-fired power generation (i.e. without operational carbon capture and storage) is unacceptable
5	Coal-fired power generation is unacceptable.
6	Fossil fuel-fired power generation is unacceptable.
7	Nuclear energy is unacceptable.
8	Large scale hydropower generation is unacceptable.

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- **Areas of high biodiversity and protected areas**

Various international agreements require the protection of ecosystems and natural habitats:

- The biodiversity in areas that are important on environmental and cultural grounds falls under the protection of the [UNESCO World Heritage Convention](#).
- For *wetlands* (swamps and bogs), which are rich in biodiversity, there is the [Ramsar Convention on Wetlands](#) that ensures protection and proper management of these areas.
- The [International Union for Conservation of Nature \(IUCN\)](#) has developed a system that categorises natural areas in six categories and indicates in which areas biodiversity has to be protected (category I to IV). In addition, the IUCN provides guidelines for companies on how to deal with fields that fall within these [Protected Area Management Categories](#). In 2000, a resolution was adopted on the IUCN World Conservation Congress that calls upon all states not to allow investments in oil, gas and extractive industry projects in the protected areas (categories I to IV).

- The [United Nations Environmental Assembly](#) adopted a [resolution on pollution mitigation by mainstreaming biodiversity into key sectors](#) in 2017, aiming at “strengthening efforts to integrate conservation and sustainable use of biodiversity in various sectors such as agriculture, fisheries and aquaculture, tourism, mining and energy, infrastructure and manufacturing among others. It also points to the need to prevent and reduce pollution from these sectors”.<sup>757</sup>

These areas are also included in the analyses for investments by [International Finance Corporation’s \(IFC\) Performance Standard 6](#) concerning Biodiversity Conservation and Sustainable Management of Living Natural Resources. It determines how companies should operate in order to avoid negative consequences on areas of high biodiversity value, including impact on natural habitats as well as endangered and endemic species. The requirements in the standard have been guided by the [Convention on Biological Diversity](#).

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**This leads to assessment elements**

9	Companies prevent negative impacts on protected areas that fall under the categories I-IV of the International Union for Conservation of Nature (IUCN) within their business operations and the areas they manage.
10	Companies prevent negative impacts on UNESCO World Heritage sites within their business operations and the areas they manage.
11	Companies prevent negative impacts on protected areas that fall under the Ramsar Convention on Wetlands within their business operations and the areas they manage.

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- **Land rights conflicts and forced evictions**

Human rights, particularly economic, social and cultural (ESC) rights, play a central role in land-related issues. However, there is no explicit recognition of a ‘human right to land’ within international human rights instruments. Those who face threats to their land rely on other rights, such as the right to food, the right to water, the right to housing and the right to work. These rights are included in the [International Covenant on Economic, Social and Cultural Rights \(ICESCR\)](#).<sup>758</sup> Other standards related to land rights conflicts and forced evictions are:

- The 1997 [Basic Principles and Guidelines on Development-based Evictions](#);
- The 2009 [Core Principles and Measures on Large-scale land acquisitions and leases](#) of the United Nations Special Rapporteur on the right to food;
- The 2011 [Tirana Declaration](#) of the International Land Coalition.

For more information and relevant international standards and initiatives see the theme Human rights (section 2.6.2).

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**This leads to assessment elements**

12	Companies prevent conflicts over land rights and acquire natural resources only by engaging in serious consultation with local communities and obtaining free, prior and informed consent (FPIC) when it concerns indigenous peoples.
13	Companies prevent conflicts over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of peoples with customary tenure rights.

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- **Access to remedy**

Companies need to respect and guarantee the rights of local communities affected by the construction and activities of power generation operations. Companies may not directly, indirectly, or implicitly cooperate in violating human rights. According to the [United Nations Guiding Principles on Business and Human Rights \(UNGPs\)](#), if a company identifies a risk or is contributing to an adverse impact, it should cease or prevent its contribution and mitigate any remaining impacts to the greatest extent possible. Finally, the enterprise should provide or contribute to a remedy. According to Guiding Principle 29 of the UNGP's, companies should establish or participate in effective operational-level grievance mechanisms for individuals and communities who may be adversely impacted.<sup>759</sup> Guiding Principle 31 details the criteria to ensure the effectiveness of grievance mechanisms. It also includes the expectation that mechanisms must be:<sup>760</sup>

- Legitimate;
- Accessible;
- Predictable;
- Equitable;
- Transparent;
- Rights-compatible;
- A source of continuous learning, and
- Based on engagement and dialogue.

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**This leads to assessment element**

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14	Companies have processes to enable the remediation of any adverse human rights impact to which they cause or to which they contribute.
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- **Standards for dams and hydropower**

The most authoritative international guidelines for dam projects were drafted in November 2000 by the [World Commission on Dams \(WCD\)](#). The WCD was established by the [World Bank](#) and the [International Union for Conservation of Nature](#) and has raised many environmental and social issues associated with large dam construction. In its [final report](#), the committee provided a series of recommendations on which future dam projects can base their environmental and social plans. Financial institutions can use these guidelines as a base for their investment policies.<sup>761</sup>

The recommendations are centred around the issue of who carries the rights and who is responsible for the risks in dam projects. The recommendations themselves comprise of seven strategic priorities and supported principles:<sup>762</sup>

- obtaining public consent;
- solid assessment of alternatives;
- standard for existing dams;
- the preservation of rivers as a source of livelihood;
- respect of rights and sharing revenues;
- focus on compliance; and
- sharing rivers for peace, development and safety.

Any problems that occur during the construction of dams also occur in similar water infrastructure projects, such as navigation work, pumping water between reservoirs and large irrigation projects. Therefore, the above described principles should also apply to the development of these types of projects.

In 2008, the [International Hydropower Association \(IHA\)](#) launched the [Hydropower Sustainability Assessment Forum](#), a multi-stakeholder forum that has developed three key tools to assess the sustainability of hydropower projects:<sup>763</sup>

- The [Hydropower Sustainability Guidelines on Good International Industry Practice \(HGIIP Guidelines\)](#) provide general guidance on good practice and expected performance in promoting hydropower sustainability;
- The [Hydropower Sustainability Assessment Protocol \(HSAP\)](#) provides a benchmarking tool to assess sustainability performance against the HGIIP Guidelines through comparison with basic good practice and proven best practice; and
- The [Hydropower Sustainability ESG Gap Analysis \(HESG\)](#) is used to identify gaps compared to good practice on environmental, social and governance (ESG) performance, and provides guidance on gap management in hydropower sustainability.

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**This leads to assessment elements**

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8	Large scale hydropower generation is unacceptable.
15	The construction of dams complies with the 7 principles of the World Commission on Dams.
16	The construction of all water infrastructure projects complies with the 7 principles of the World Commission on Dams.

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- **Standards for biofuels**

Whether biofuels could be helpful in reducing greenhouse gas reduction emissions ultimately depends on the conditions under which the biomass used for biofuel production is grown. As such, biomass crops are typically grown on agricultural land that was already used for growing food or feed. Agricultural production is consequently displaced to other areas, leading to conversion of forests or natural grasslands to agricultural lands elsewhere.

This process is called Indirect Land Use Change (ILUC). ILUC is crucially important for assessing the sustainability impacts of the expansion of growing crops for biofuels. ILUC especially concerns first generation biofuels, as second- or third generation biofuels can also be made from waste of feedstock used for food or feed, and hence do not directly require cropland. Because of the ILUC problem, no real positive climate impact can be achieved through first-generation biofuels.<sup>764</sup>

The [Roundtable on Sustainable Biomaterials \(RSB\)](#) offers [Global Standards](#) that apply to any type of bio-based feedstock worldwide and [EU-RED Standards](#) that apply to feedstock entering the EU market and comply with the [EU Renewable Energy Directive \(RED\)](#) regarding land-use and GHG criteria.<sup>765</sup> The global RSB Principles are:<sup>766</sup>

1. Biofuel operations shall follow all applicable laws and regulations.
2. Sustainable biofuel operations shall be planned, implemented, and continuously improved through an open, transparent, and consultative impact assessment and management process and an economic viability analysis.
3. Biofuels shall contribute to climate change mitigation by significantly reducing lifecycle GHG emissions as compared to fossil fuels.

4. Biofuel operations shall not violate human rights or labour rights, and shall promote decent work and the well-being of workers.
5. In regions of poverty, biofuel operations shall contribute to the social and economic development of local, rural and indigenous people and communities.
6. Biofuel operations shall ensure the human right to adequate food and improve food security in food insecure regions.
7. Biofuel operations shall avoid negative impacts on biodiversity, ecosystems, and conservation values.
8. Biofuel operations shall implement practices that seek to reverse soil degradation and/or maintain soil health.
9. Biofuel operations shall maintain or enhance the quality and quantity of surface and ground water resources, and respect prior formal or customary water rights.
10. Air pollution from biofuel operations shall be minimized along the supply chain.
11. The use of technologies in biofuel operations shall seek to maximize production efficiency and social and environmental performance, and minimize the risk of damages to the environment and people.
12. Biofuel operations shall respect land rights and land use rights.

The RSB standards are accompanied by a set of guidelines such as the RSB-Impact Assessment Guidelines and the RSB-Screening Tool.<sup>767</sup>

The European Parliament intends to reduce the CO<sub>2</sub> emissions of the cultivation for biofuels. For instance, by 2020 the EU aims to have 10% of the transport fuel of every EU country coming from renewable sources such as biofuels. Fuel suppliers are also required to reduce the greenhouse gas intensity of the EU fuel mix by 6% by 2020 in comparison to 2010.<sup>768</sup> Moreover, [Directive EU 2015/1513](#) and the revised 2018 [Renewable Energy Directive \(RED\)](#) have introduced measures to reduce the risk of ILUC, including phasing out the use of unsustainable palm oil as a basis for biofuels.

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**This leads to assessment element**

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17	The production of biofuels complies with the 12 principles of the Roundtable on Sustainable Biomaterials.
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- **Sustainability reporting**

The best known guideline for sustainability reporting in general is the [Global Reporting Initiative \(GRI\) Reporting Framework](#), of which the [GRI Sustainability Reporting Standards \(GRI Standards\)](#) have been in effect since July 2018. The [G4 Electric Utilities Sector Disclosures \(EUSD\)](#) includes guidelines on the construction of the infrastructure of power generation companies.

For small and medium enterprises (SMEs), less elaborate sustainability reporting is required. SMEs can report on the GRI indicators that are relevant to their operations, for example by following [the High5! Approach](#).

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**This leads to assessment elements**

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18	Companies publish a sustainability report that may contain (a number of) disclosures from the GRI Standards.
19	Large enterprises and multinational enterprises publish a sustainability report that is set up in accordance with the (Core or Comprehensive option of the) GRI Standards.

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- **Procurement and supply chains**

Companies are often part of long procurement and supply chains. They can monitor one another and question how they respect local and national legislation and international norms regarding social, economic and environmental issues. The requirements that companies set for their suppliers can be included in contractual agreements. The importance of this also recognised in the [OECD Guidelines for Multinational Enterprises](#) since its revision in 2011.

[ISO 26000:2010 Guidance on social responsibility](#) recognises the importance of supply chain responsibility, because “the impacts of an organization’s decisions or activities can be greatly affected by its relationships with other organizations”.<sup>769</sup> A company’s sphere of influence includes relationships within and beyond an organization’s supply chain. Moreover, ISO 26000:2010 Guidance on social responsibility recommends setting contractual provisions or incentives as a means of exercising influence.<sup>770</sup>

In addition, [ISO 20400:2017 Sustainable procurement – Guidance](#) provides guidelines for organizations, independent of their activity or size, on integrating sustainability within procurement, as described in ISO 26000:2010 Guidance on social responsibility. It is intended for stakeholders involved in, or impacted by, procurement decisions and processes.

The [UNGP](#)s include a due diligence process in order to identify, prevent, mitigate and account for how companies address their adverse human rights impacts. The process “should cover adverse human rights impacts that the business enterprise may cause or contribute to through its own activities, or which may be directly linked to its operations, products or services by its business relationships.”<sup>771</sup>

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**This leads to assessment elements**

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20	Companies integrate environmental, social and governance criteria in their procurement and operational policies.
21	Companies include clauses on the compliance with environmental, social and governance criteria in their contracts with subcontractors and suppliers.

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### 3.10.3 Assessment elements

Financial institutions investing in, or financing companies in the energy sector should carefully consider how they can orient their investments to support the transition to a low-carbon economy, in line with the pathways suggested by the IPCC. This may be through choosing to support exclusively renewable energy generation, or by setting out a clear pathway to reduce finance for fossil fuels and other controversial energy sources and replace this with low-carbon finance.

Financial institutions investing in, or financing companies in the construction of dam projects should develop sector policies for these investments in which the recommendations of the World Commission on Dams (WCD) are included.<sup>772</sup> This policy should at least be applicable to all large dam projects, but ideally includes all important water infrastructure projects.

The following elements are crucial for a policy regarding the financial institution’s internal operations:

1. The financial institution finances companies involved in renewable energy generation (wind, solar, small and medium scale hydro power, geothermal power, tidal power, etc.).
2. The financial institution has a measurable target to increase its finance for renewable energy generation.

3. The financial institution has a measurable target to reduce either its total amount of finance for fossil fuel-fired power generation, or to reduce finance for fossil fuel-fired power generation, relative to its finance for renewable energy generation.

The following elements are crucial for a policy regarding the companies a financial institution invests in or finances:

4. Unabated coal-fired power generation (i.e. without operational carbon capture and storage) is unacceptable
5. Coal-fired power generation is unacceptable.
6. Fossil fuel-fired power generation is unacceptable.
7. Nuclear energy is unacceptable.
8. Large scale hydropower generation is unacceptable.
9. Companies prevent negative impacts on protected areas that fall under the categories I-IV of the International Union for Conservation of Nature (IUCN) within their business operations and the areas they manage.
10. Companies prevent negative impacts on UNESCO World Heritage sites within their business operations and the areas they manage.
11. Companies prevent negative impacts on protected areas that fall under the Ramsar Convention on Wetlands within their business operations and the areas they manage.
12. Companies prevent conflicts over land rights and acquire natural resources only by engaging in serious consultation with local communities and obtaining free, prior and informed consent (FPIC) when it concerns indigenous peoples.
13. Companies prevent conflicts over land rights and acquire natural resources only with free, prior and informed consent (FPIC) of peoples with customary tenure rights.
14. Companies have processes to enable the *remediation* of any adverse human rights impact to which they cause or to which they contribute.
15. The construction of dams complies with the 7 principles of the World Commission on Dams.
16. The construction of all water infrastructure projects complies with the 7 principles of the World Commission on Dams.
17. The production of biofuels complies with the 12 principles of the Roundtable on Sustainable Biomaterials.
18. Companies publish a sustainability report that may contain (a number of) disclosures from the GRI Standards.
19. Large enterprises and multinational enterprises publish a sustainability report that is set up in accordance with the (Core or Comprehensive option of the) GRI Standards.
20. Companies integrate environmental, social and governance criteria in their procurement and operational policies.
21. Companies include clauses on the compliance with environmental, social and governance criteria in their contracts with subcontractors and suppliers.

## Chapter 4 Operational themes

### 4.1 Consumer protection

#### 4.1.1 What is at stake?

Consumers are essential actors in the financial market, and as such, their problems require attention. A major part of financial services and products are addressed to consumers: current and saving accounts, personal loans, debit and credit cards, mortgage loans, insurance, pensions and annuities and investment products. In general, these kind of transactions are the domain of retail banks and insurance companies.

The characteristics of these services and their impact on consumers' lives reinforce the need for financial institutions to be responsible in their relationship with consumers. With this objective in mind, financial institutions must take into account the importance of consumer rights on development, governance and commercialization of financial services.

Both the trend towards financial inclusion and the increasing sophistication of financial markets have important implications for financial institutions. These factors drive changes in the behaviour of consumers and banks and can affect the stability of the system. The international financial crisis of 2008 motivated a serious reflection on the behaviour of financial market agents. The effects of the crisis have shown that weak consumer protection resulted in a high risk to the entire financial system. As underlined by the European Commission, the crisis led to a lack of confidence among all actors, in particular consumers.<sup>773</sup> Abusive loan products and practices reduced the reliability and the safety of the system and consumers lost confidence in the financial services.

The world economic crisis that followed the collapse of Lehman Brothers in September 2008 also revealed the risks involved in mixing global financial markets with the real economy. Basic needs like housing and retail bank products like mortgage loans were fixed into complex and risky financial products, leading to the subprime mortgage crisis, foreclosures and the devaluation of housing-related securities.<sup>774</sup>

The Global Financial Inclusion (Global Findex) database, launched by the World Bank, estimates that between 2014 and 2017 515 million adults became accountholders with some type of financial institution. As of 2017, 69% of adults worldwide had a bank account, many in countries with low levels of consumer protection.<sup>775</sup> However, according to Consumers International (CI), "weak financial consumer protection is a problem shared by consumers in countries with well-established financial services as well as consumers in countries where the sector is relatively new".<sup>776</sup> The high number of complaints reported by CI members in all regions is a strong indicator that the violation of consumer rights is a concern not only in the countries where financial services have a low level of maturity.<sup>777</sup>

According to CI, consumer education is a necessary but rather insufficient response to the problem. Protecting the interests of consumers in the financial sector creates a great responsibility not only for the national regulatory agencies but also for the financial sector, in particular for national and international banks.<sup>778</sup>

Moreover, financial services have become a basic need to individuals in modern society, since they enable consumers to solve current and unexpected necessities by providing payment services, access to loans, money transfers, investment solutions and insurance against risk. Financial services must be considered 'credence goods': even though they are repeatedly purchased, their utility is difficult for the consumer to define, and their features are not easily assessed. Indeed, the financial



sector is characterised by a number of critical factors, which, according to CI, include:<sup>779</sup>

- the complexity of the products, and of product information;
- the high risks associated with many products;
- the fast changing nature of many of the products;
- their 'virtual' non-tangible nature, and
- the long-term nature of many transactions which means that consumers do not make regular purchases, and therefore do not develop an expertise in the market.

The lack of consumer protection in the financial sector can have severe social and economic consequences, including the risk of financial crisis due to the lack of transparency of banks in relation to the market and the growth of debt and over-indebtedness of customers. Because of the impact on the lives of individual people and society as a whole, consumers must be aware of and understand the risks and particular conditions of each financial product.

Consumers International has therefore defined the responsibility of financial service providers to provide "clear, sufficient, reliable, comparable and timely information, suitable in these respects for the consumer to compare and contrast and to make an informed decision".<sup>780</sup>

In order to provide sufficient information, financial institutions should firstly be transparent when advertising their products. Contractual terms and conditions must be clear during the purchase phase. Consumers then need to be aware of risks and implications throughout the lifetime of products. Regarding some products such as pensions and mortgages, consumers require continuous monitoring, since they must control their disbursements and identify eventual required changes (e.g. early repayment or debt renegotiation).<sup>781</sup>

Below, we identify the most recurrent practices committed by financial institutions that violate consumers' rights.<sup>782</sup>

- **Complaint mechanisms**
  - Financial institutions show a lack of transparency by not informing how many consumer complaints they receive;
  - Financial institutions do not commit on a policy to reduce consumer complaints;
- **Quality and transparency of services**
  - Large commercial banks do not offer efficient customer services at bank branches;
  - Financial institutions usually try to push services onto consumers that they don't need or that are inappropriate for their financial risk profile. It is very common to observe tie-in sales (for example: a person wants to open an account but is obliged to also buy insurance);
  - Consumers are often not properly informed about changes of fees values or additional charges for bank services;
  - Financial institutions do not provide accessibility for customers with disabilities and special needs at all physical agencies, electronic services and electronic devices such as mobile apps, or for internet banking;
- **Protection against fraud**
  - Banks do not assume their responsibilities regarding clients' safety in case of robbery, theft and fraud involving customers in bank branches, ATM or internet and authorized agents' malpractices;

- Banks delegate the operation of some bank services to third parties, like drugstores, supermarkets or lottery stores (so-called banks correspondents). Banks do not assume their responsibilities regarding customers' safety on financial operations taken place at the correspondents and authorized agents;
- **Protection against over-indebtedness**
  - Financial institutions do not have a policy to avoid over-indebtedness and to promote conscious credit. Many of them have a lack of transparency on granting credit conditions, and products requirements, guarantees and criteria of contracting. This results in over-indebted customers, a very dramatic issue in developing countries;
  - There is a lack of transparency by financial institutions about their policies/procedures regarding debt collection. These procedures must be clear and avoid practices of coercion and embarrassment.

Consumer protection in the financial sector is not directly mentioned in the Sustainable Development Goals (SDGs). SDG 12: Responsible Consumption and Production focuses on the health of consumers and the sustainable management and efficient use of natural resources and on waste management, rather than protection of bank customers. However, consumer protection is addressed indirectly through SDG 10: Reduced Inequalities and SDG 16: Peace, Justice and Strong Institutions. Without ensuring consumer protection, inequalities cannot be reduced. Moreover, consumer protection is key to social justice.<sup>783</sup>

The aim of the Fair Finance Guide is to compare the policies of financial service providers, address internationally recognized standards as a framework for the development of policies and codes of conduct, and as such contribute to improving consumer protection measures and procedures. In order to ensure the financial stability and fair practices of financial institutions, they should integrate financial consumer protection with financial inclusion policies. The theme Financial Inclusion therefore should preferably be researched in combination with the theme Consumer protection, as this theme also includes some aspects that must be taken into account when we assess financial inclusion policies.

#### 4.1.2 International standards and initiatives

Consumers have some basic and internationally recognized rights, such as the right to information, to prior knowledge of contracts, to choose services with freedom and proper information, to security, privacy and data protection, the right to financial education, to over-indebtedness prevention mechanisms and to have free and effective conflict resolution solutions.

The main international standards on consumer rights and protection in the financial sector are summarised per topic, followed by the assessment elements that are formulated by the FFGI as a result:

- **Transparency on services, risks and fees**

According to the OECD, the complexity of financial services is growing rapidly. "The availability of information has grown both in quantity and complexity and the pace of change, in terms of new product developments, product innovations, and technological advances, has increased dramatically. Building and maintaining consumer confidence and trust in financial markets promotes efficiency and stability and helps to create positive outcomes for both financial institutions and their customers".<sup>784</sup>

The OECD, the Financial Stability Board (FSB) and other relevant international organisations have worked together to develop common principles on consumer protection in the field of financial services, as a response to the G20 Finance Ministers and Central Bank Governors call in February 2011. As result, the organizations launched the [G20 High-Level Principles on Financial Consumer Protection](#), designed to assist the efforts to enhance financial consumer protection.<sup>785</sup>

Regarding Principle 4 on Disclosure and Transparency, the updated report on the implementation of the principles describes that consumers should be provided with key information about the product or service: "Financial services providers and authorised agents should provide consumers with key information that informs the consumer of the fundamental benefits, risks and terms of the product. They should also provide information on conflicts of interest associated with the authorised agent through whom the product is sold. In particular, information should be provided on material aspects of the financial product. Appropriate information should be provided at all stages of the relationship with the customer. Standardised pre-contractual disclosure practices (e.g. forms) should be adopted where applicable and possible to allow comparisons between products and services of the same nature. (...)All financial promotional material should be accurate, honest, understandable and not misleading".<sup>786</sup>

The importance of transparency was also recognised in the [OECD Guidelines for Multinational Enterprises](#) on consumer interests. The guidelines identify two points that enterprises should take into account to give more transparency for products and services and which to some extent also apply to financial services. They should:<sup>787</sup>

- "Provide accurate, verifiable and clear information that is sufficient to enable consumers to make informed decisions, including information on the prices and, where appropriate, content, safe use, environmental attributes, maintenance, storage and disposal of goods and services;
- Where feasible this information should be provided in a manner that facilitates consumers' ability to compare products;
- Not make representations or omissions, nor engage in any other practices, that are deceptive, misleading, fraudulent or unfair;
- Support efforts to promote consumer education in areas that relate to their business activities, with the aim of, inter alia, improving the ability of consumers to:
  - make informed decisions involving complex goods, services and markets;
  - better understand the economic, environmental and social impact of their decisions and
  - support sustainable consumption."

The general objective of the [UN Guidelines for Consumer Protection](#) is "taking into account the interests and needs of consumers in all countries, particularly those in developing countries; recognizing that consumers often face imbalances in economic terms, educational levels and bargaining power; and bearing in mind that consumers should have the right of access to non-hazardous products, as well as the right to promote just, equitable and sustainable economic and social development and environmental protection".

In order to achieve such objectives, two principles that frame the guidelines are directly related to transparency on the relationship with consumers:<sup>788</sup>

- The promotion and protection of the economic interests of consumers; and

- Access by consumers to adequate information to enable them to make informed choices according to individual wishes and needs.

The [UN Guidelines for Consumer Protection](#) establish that Member States should work towards establishing, among other requirements.<sup>789</sup>

- A regulatory framework that promotes cost efficiency and transparency for remittances, such that consumers are provided with clear information on the price and delivery of the funds to be transferred, exchange rates, all fees and any other costs associated with the money transfers offered, as well as remedies if transfers fail;
- Fair treatment and proper disclosure, ensuring that financial institutions are also responsible and accountable for the actions of their authorized agents. Financial services providers should have a written policy on conflict of interest to help detect potential conflicts of interest. When the possibility of a conflict of interest arises between the provider and a third party, that should be disclosed to the consumer to ensure that potential consumer detriment generated by conflict of interest be avoided; and
- Improved financial education strategies that promote financial literacy.

The European Union has developed several directives in order to promote legislation or voluntary codes of conducts on responsible money lending. The so-called "[Consumer Credit Directive](#)" (Directive 2008/48/EC on credit agreements for consumers) was adopted on 23 April 2008 and aims to foster the integration of the consumer credit market in the EU and ensure a high level of consumer protection by focusing on transparency and consumer rights. It stipulates that a comprehensible set of information should be given to consumers at a proper time, before the contract is concluded and also as part of the credit agreement.<sup>790</sup>

In order to allow consumers to compare the various offers and to better understand the information provided, creditors have to provide pre-contractual information in a standardised form (Standard European Consumer Credit Information, [2001/193/EC](#), annex 2).<sup>791</sup> Moreover, they have to inform consumers on the Annual Percentage Rate of Charge ("APR"), which is a single figure, harmonised at EU level, representing the total cost of the credit. [Directive 2011/90/EU](#) has amended the assumptions for its calculation.<sup>792</sup>

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**This leads to assessment elements**

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1	The financial institution has a policy to disclose client's rights and the risks of products and services.
9	The financial institution has developed and implemented risk profiles with regard to investment products.
14	The financial institution has procedures and policies to avoid tie-in sales or inappropriate sales practices.
15	The financial institution provides consumers with key information that informs the consumer of the fundamental benefits, risks and terms of the product and changes in fees.

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- **Quality of consumer service**

Financial institutions have to ensure that the quality of their consumer services are provided in accordance with consumer rights and protection policies and practices.<sup>793</sup> [G20 High-Level Principles on Financial Consumer Protection](#) Principle 6: Responsible Business Conduct of Financial Services Providers and their Authorised Agents presents guidelines on this aspect.<sup>794</sup>

- **Best Interest:** Financial services providers and authorised agents should have as an objective to work in the best interest of their customers and be responsible for upholding financial consumer protection.
- **Assessing Consumer Needs:** Depending on the nature of the transaction and based on information primarily provided by customers, financial services providers should assess the related financial capabilities, situation and needs of their customers before agreeing to provide them with a product, advice or service.
- **Staff Training:** Staff of financial services providers and authorised agents (especially those who interact directly with customers) should be properly trained and qualified.
- **Remuneration Structure:** The (internal) remuneration structure for staff of both financial services providers and authorised agents should be designed to encourage responsible business conduct, fair treatment of consumers and to avoid conflicts of interest. The remuneration structure should be disclosed to customers where appropriate, such as when potential conflicts of interest cannot be managed or avoided.
- **Responsibility for authorised agents:** Financial services providers should also be responsible and accountable for the actions of their authorised agents.

Consumers International (CI) includes in its 2013 report on responsible lending a principle to avoid conflicts of interest caused by remuneration structure for staff: “Lenders’ business practices should incentivise customer service not sales”.<sup>795</sup>

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**This leads to assessment elements**

17	The financial institution remuneration structure for staff of both financial services providers and authorized agents is designed to encourage responsible business conduct, fair treatment of consumers and to avoid conflicts of interest.
18	The financial institution has a program to properly train and qualify employees and authorized agents on consumer rights and protection policies and practices.
19	The financial institution has a program to properly train and qualify employees and authorized agents on products and services to consumers.

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- **Non-discriminatory treatment**

In the context of their responsibility to respect human rights, financial institutions have to provide access to their services and products fairly and without discrimination.

The commitment to provide accessibility for customers with disabilities and special needs is included in the guidelines defined by the 2006 UN Convention on the Rights of Persons with Disabilities. The guidelines define a general obligation for states to “ensure and promote the full realization of all human rights and fundamental freedoms for all persons with disabilities without discrimination of any kind on the basis of disability” and include the following particular goals.<sup>796</sup>

- “To take all appropriate measures to eliminate discrimination on the basis of disability by any person, organization or private enterprise;
- To promote the training of professionals and staff working with persons with disabilities in the rights recognized in the present Convention so as to better provide the assistance and services guaranteed by those rights;
- To recognize that all persons are equal before and under the law and are entitled without any discrimination to the equal protection and equal benefit of the law;
- To prohibit all discrimination on the basis of disability and guarantee to persons with disabilities equal and effective legal protection against discrimination on all grounds;

- To take appropriate measures in order to ensure that private entities offer facilities and services take into account all aspects of accessibility for persons with disabilities (e.g. required training for staff, live assistance and intermediaries to facilitate accessibility and technologies and systems accessible)."

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**This leads to assessment elements**

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2	The financial institution has a policy that regulates staff ethics in serving clients in non-discriminatory way.
21	The financial institution has a policy committed to provide accessibility for customers with disabilities and special needs at all physical branches and electronic services, as at online platforms.

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Financial institutions increasingly use Information and Communication Technology (ICT) services as an essential part of their financial products and services. However, some customers do not have the digital literacy or financial means to use the technology that is required for using these financial services. Digital literacy refers to the skills and knowledge required for a complete participation in a society based on technology. For certain groups, such as the elderly or those with limited financial means, a lack of digital literacy and/or access to digital banking services can form a barrier to access new financial services. Obligating customers to use a digital service to fully access their financial services is abusive and can discriminate against customers based on income level, age and geography.<sup>797</sup>

In 2008, the [European Commission](#) already highlighted the risks for particularly those over 55 years of age, to participate fully in digital financial services. More recently, a 2017 [G20/OECD INFE report](#) highlighted the risks for certain groups, such as the elderly, women and Micro, Small and Medium Enterprises (MSME) or first time users of financial technology, as a result of increasing digitalisation.

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**This leads to assessment element**

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20	The financial institution ensures that there are no access restrictions for customers because of Information and Communication Technology (ICT) based financial services.
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- **Management of consumer complaints**

In order to reduce consumer complaints, some international standards introduce guidelines that could be followed by financial institutions. One of the objectives of [UN Guidelines for Consumer Protection](#) is to promote the availability of effective consumer redress. In the scope of measures enabling consumers to obtain redress, three guidelines are defined:<sup>798</sup>

- "Governments should establish or maintain legal and/or administrative measures to enable consumers or, as appropriate, relevant organizations to obtain redress through formal or informal procedures that are expeditious, fair, inexpensive and accessible.
- Governments should encourage all enterprises to resolve consumer disputes in a fair, expeditious and informal manner, and to establish voluntary mechanisms, including advisory services and informal complaints procedures, which can provide assistance to consumers.
- Information on available redress and other dispute-resolving procedures should be made available to consumers."

In December 2015, the [UN General Assembly Resolution](#) on the revised [UN Guidelines for Consumer Protection](#) outlined that businesses should "make available complaints-handling mechanisms that provide consumers with expeditious, fair, transparent, inexpensive, accessible,

speedy and effective dispute resolution without unnecessary cost or burden. Businesses should consider subscribing to domestic and international standards pertaining to internal complaints handling, alternative dispute resolution services and customer satisfaction codes".<sup>799</sup>

Chapter VIII on consumer interests in the [OECD Guidelines for Multinational Enterprises](#) points out that enterprises should provide consumers with access to fair, easy to use, timely and effective non-judicial dispute resolution and redress mechanisms, without unnecessary cost or burden.<sup>800</sup>

In 2012, the OECD also recognised the importance of complaints handling and redress in its [G20 High-Level Principles](#). Principle 9 presents guidelines and effective approaches to complaints handling and redress such as:<sup>801</sup>

- **Complaint Handling and Redress Mechanisms:** Jurisdictions should ensure that consumers have access to adequate complaints handling and redress mechanisms that are accessible, affordable, independent, fair, accountable, timely and efficient. Such mechanisms should not impose unreasonable cost, delays or burdens on consumers.
- **Internal Complaints Handling:** In accordance with the above, financial services providers and authorised agents should have in place internal mechanisms for complaint handling and redress.
- **Alternative Dispute Resolution (ADR) Mechanisms:** Recourse to an independent redress process should be available to address complaints that are not efficiently resolved via the financial services providers and authorised agents' internal dispute resolution mechanisms.

On responsible lending, [Consumers International \(CI\)](#) states that, in order to ensure an accessible dispute resolution, companies should provide consumers' access to effective complaint mechanisms and dispute resolution.<sup>802</sup>

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**This leads to assessment elements**

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3	The financial institution ensures that consumers have access to adequate complaints handling and redress that have a due diligence process in place.
4	The financial institution discloses the results of complaints monitoring such as number of complaints, main issues, in which institutions/body for consumers defence the complaints where registered (direct or indirect ones), and from which channels they were received (call centre, website, e-mail, phone, bank branch).
5	The financial institution has public commitments to reduce consumer complaints, fixing goals to achieve and making this information accessible to any stakeholder.
6	The financial institution has Alternative Dispute Resolution (ADR) Mechanisms, - an independent redress process available to address complaints that are not efficiently resolved via the financial services providers and authorized agents' internal dispute resolution mechanisms such as Ombudsman.

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- **Avoidance of over-indebtedness**

The United States subprime mortgage crisis in 2008 showed how the consequences of over-indebtedness are shared among all stakeholders of financial institutions. The European Union [Mortgage Credit Directive 2014/17/EU](#) aims to create an EU-wide mortgage credit market with a high level of consumer protection. It applies both to secured credit and home loans. Member States have had to transpose its provisions into their national law as of March 2016. The main provisions include consumer information requirements, principle based rules and standards for the performance of services (e.g. conduct of business obligations, competence and knowledge

requirements for staff), a consumer creditworthiness assessment obligation, provisions on early repayment, provisions on foreign currency loans, provisions on tying practices, some high-level principles (e.g. those covering financial education, property valuation and arrears and foreclosures) and a passport for credit intermediaries who meet the admission requirements in their home member state.<sup>803</sup>

This issue is also mentioned in Consumers International 2013 [report on responsible lending](#): “Information should be provided in a manner to help the consumer make an informed choice”. Two other principles are directly related to both prevention and management of over-indebtedness:<sup>804</sup>

- Principle 3: all lenders should make a proper assessment of a borrower’s ability to repay; and
- Principle 10: debt resolution should be available for consumers who have become over-indebted.

The [G20 High-Level Principles on Financial Consumer Protection](#) present two points that intend to prevent over-indebtedness, in line with its Principle 6 (Responsible Business Conduct of Financial Services Providers and Authorised Agents):

- **Best Interest:** Financial services providers and authorised agents should have as an objective, to work in the best interest of their customers and be responsible for upholding financial consumer protection
- **Assessing Consumer Needs:** Depending on the nature of the transaction and based on information primarily provided by customers, financial services providers should assess the related financial capabilities, situation and needs of their customers before agreeing to provide them with a product, advice or service.

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**This leads to assessment elements**

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7	The financial institution has a debt resolution policy available for consumers who have become over-indebted.
8	The financial institution has clear policies/ a code of conduct in order to protect consumers against over-indebtedness.
16	The financial institution has clear policies/a code of conduct on pre-contractual information regarding home loans.

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- **Consumer safety**

Customers expect their financial institutions to ensure the safety of their money and the protection of their personal information. One of the objectives of [UN Guidelines for Consumer Protection](#) is to protect of consumers from hazards to their health and safety.

The [OECD Guidelines for Multinational Enterprises](#) on consumer interests highlight the importance of protecting personal data against consumer privacy violations, including security breaches. According to the guidelines, enterprises should:

- Ensure that the goods and services they provide meet all agreed or legally required standards for consumer health and safety, including those pertaining to health warnings and safety information;
- Not make representations or omissions, nor engage in any other practices, that are deceptive, misleading, fraudulent or unfair; and



- Respect consumer privacy and take reasonable measures to ensure the security of personal data that they collect, store, process or disseminate.

In Principle 8 of the [High-Level Principles on Financial Consumer Protection](#), the OECD stresses that “Consumers’ financial and personal information should be protected through appropriate control and protection mechanisms. These mechanisms should define the purposes for which the data may be collected, processed, held, used and disclosed (especially to third parties). The mechanisms should also acknowledge the rights of consumers to be informed about data-sharing, to access data and to obtain the prompt correction and/or deletion of inaccurate, or unlawfully collected or processed data.”<sup>805</sup>

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**This leads to assessment elements**

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10	The financial institution respects client’s private data protection (it does not disclose to other parties without client’s consent).
11	Consumers’ financial and personal information is protected through appropriate control and protection mechanisms with defined and published guidelines for which the data may be collected, processed, held, used and disclosed.
12	The financial institution has a policy and a clear procedure of accountability in case of robbery, theft and fraud involving customers in bank branches, ATM or internet and by its authorized agents.
13	The financial institution publishes its policies/procedures of debts collection and companies that represent them (third parties).

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### 4.1.3 Assessment elements

In order to ensure that consumer rights are respected, financial institutions should establish policies whose scope is consistent with its diversity of products and services. Therefore, the assessment elements will be scored for the following groups of financial products:

- **Current and saving accounts:** These are the most popular personal banking products that give to customers the flexibility of deposit and withdrawals. On saving accounts usually a small interest is paid;
- **Credit cards:** Credit cards and other forms of overdraft accounts and revolving credits, provide the consumer with a flexible, instant opportunity to lend money to spend it on different expenditures. Repayment usually needs to start within a month and high interest rates are charged;
- **Personal loans:** Loans that are tied to specific forms of expenditure, such as loans for the payment of educational fees, auto loans and other consumption credits. The borrower is provided with a fixed amount to be repaid over a given period by a fixed number of instalments;
- **Housing loans:** These loans are specifically intended to finance the acquisition of a house or other form of private property. The loans are secured by a mortgage on the borrower's property; and
- **Investment:** This group of products provides individual consumers access to fixed and variable income investments.
- **Insurance:** These products include services related to pension plans and insurance products.

To conclude, we list the elements that are crucial for a policy regarding the financial institution's relationship with customers. These aspects should be covered by a financial institution when developing a consumers’ protection policy:

1. The financial institution has a policy to disclose client's rights and the risks of products and services.
2. The financial institution has a policy that regulates staff ethics in serving clients in non-discriminatory way.
3. The financial institution ensures that consumers have access to adequate complaints handling and redress that have a due diligence process in place.
4. The financial institution discloses the results of complaints monitoring such as number of complaints, main issues, in which institutions/body for consumers defence the complaints where registered (direct or indirect ones), and from which channels they were received (call centre, website, e-mail, phone, bank branch).
5. The financial institution has public commitments to reduce consumer complaints, fixing goals to achieve and making this information accessible to any stakeholder.
6. The financial institution has Alternative Dispute Resolution (ADR) Mechanisms,- an independent redress process available to address complaints that are not efficiently resolved via the financial services providers and authorized agents' internal dispute resolution mechanisms such as Ombudsman.
7. The financial institution has a debt resolution policy available for consumers who have become over-indebted.
8. The financial institution has clear policies/ a code of conduct in order to protect consumers against over-indebtedness.
9. The financial institution has developed and implemented risk profiles with regard to investment products.
10. The financial institution respects client's private data protection (it does not disclose to other parties without client's consent).
11. Consumers' financial and personal information is protected through appropriate control and protection mechanisms with defined and published guidelines for which the data may be collected, processed, held, used and disclosed.
12. The financial institution has a policy and a clear procedure of accountability in case of robbery, theft and fraud involving customers in bank branches, ATM or internet and by its authorized agents.
13. The financial institution publishes its policies/procedures of debts collection and companies that represent them (third parties).
14. The financial institution has procedures and policies to avoid tie-in sales or inappropriate sales practices.
15. The financial institution provides consumers with key information that informs the consumer of the fundamental benefits, risks and terms of the product and changes in fees.
16. The financial institution has clear policies/a code of conduct on pre-contractual information regarding home loans.
17. The financial institution remuneration structure for staff of both financial services providers and authorized agents is designed to encourage responsible business conduct, fair treatment of consumers and to avoid conflicts of interest.
18. The financial institution has a program to properly train and qualify employees and authorized agents on consumer rights and protection policies and practices.
19. The financial institution has a program to properly train and qualify employees and authorized agents on products and services to consumers.
20. The financial institution ensures that there are no access restrictions for customers because of Information and Communication Technology (ICT) based financial services.

21. The financial institution has a policy committed to provide accessibility for customers with disabilities and special needs at all physical branches and electronic services, as at online platforms.

## 4.2 Financial inclusion

### 4.2.1 What is at stake?

Access to finance and credit to individual households provides the means to secure homes, invest in education and skills, get loans for health or medicine, bridge fluctuations in income generation and expenses, and start and expand businesses. According to the Global Findex Database, in 2017, 1.7 billion people - or 31% of adults in the world - did not have access to basic financial services. Their ranks include more than half of adults in the poorest 40% of households in developing countries.<sup>806</sup>

Financial inclusion has become a burning issue related to the question of how finance can contribute to sustainable development. Financial inclusion has been suggested as an instrument of poverty reduction, as well as a means to tackle increasing worldwide inequalities. There is a growing awareness that growth with inequality has its own limit and it cannot be sustained, because aggregate demand will be limited. If inequality is intolerably high, it will result in a number of social consequences, at worst, social unrest, that will threaten economic growth and social stability.

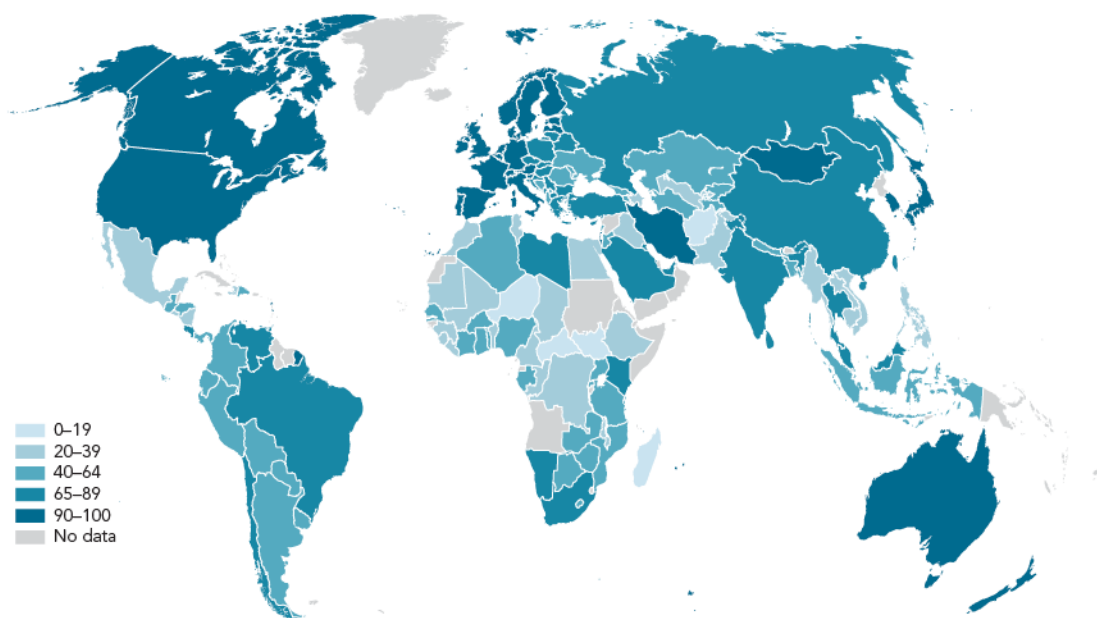
The history of financial services and institutions designed to serve low income groups can be traced back to Europe's credit union movement in the 19<sup>th</sup> century and more recently to the success of Grameen Bank, which has provided microcredit to the poor of Bangladesh since the 1980s. Since then, other Microcredit Financial Institutions (MFIs) have mushroomed, providing similar credit to low-segment clients in developing countries, mostly driven by social development purposes.<sup>807</sup>

International organizations, including the G20 and the World Bank, have formulated strategies to promote financial inclusion. More than 50 countries have set formal targets for financial inclusion. The World Bank has an ambitious goal to achieve Universal Financial Access (UFA) for working-age adults by 2020. The UFA 2020 goal envisions that adults worldwide will be able to have access to a bank account or electronic banking for savings and loans, sending payments and receiving income or remittances.<sup>808</sup>

Over the last years, the number of people with a bank account has been growing fast. Between 2014 and 2017, the number of unbanked people dropped by over half a billion. Innovations in technology, particularly mobile money, are important drivers of rapidly increasing access to financial services in Sub-Saharan Africa. Account ownership varies widely around the world. The difference in account ownership between high-income OECD economies and developing economies is significant. Among developing countries, the Middle East ranks the lowest and East Asia and the Pacific highest. See Figure 1 for an overview of account penetration around the world in 2017.

Apart from regional differences there is also a gender gap in financial inclusion. In high-income OECD economies there is virtually no gender gap in account ownership, but in developing economies, there is a persistent gender gap of roughly 9%.<sup>809</sup>

**Figure 1 Percentage of adults with a bank account around the world (2017)**



Source: Global Findex database.

Source: Demirgüç-Kunt, A., L. Klapper, D. Singer, S. Ansar and J. Hess (2018), *The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution*, Washington, DC, the United States: World Bank, p. 3.

Among the countries represented in the international Fair Finance Guide coalition, there are large differences in account penetration. The FFGI coalition countries that are also members of the OECD have a rate of nearly 100%, while in Indonesia only about half of the population has a bank account. See Table 3 for figures on financial inclusion in Fair Finance Guide member countries.

**Table 3 Account penetration in FFG member countries (2017)**

Country	Share with an account		
	All adults (%)	Women (%)	Adults in poorest 40% of households
Belgium	99	99	99
Brazil	70	68	57
France	94	91	93
Germany	99	99	98
Indonesia	49	51	37
India	80	77	77
Japan	98	98	98
Netherlands	100	100	100
Norway	100	100	99
Sweden	100	100	100

Country	Share with an account		
	All adults (%)	Women (%)	Adults in poorest 40% of households
Thailand	82	80	78

Source: World Bank (n.d.), "The Global Findex Database 2017", online: [https://globalfindex.worldbank.org/#data\\_sec\\_focus](https://globalfindex.worldbank.org/#data_sec_focus), viewed in December 2019.

Micro, small, and medium enterprises (MSMEs) which have needs to access credit, face big challenges to access formal financial institutions. According to the International Finance Corporation's Enterprise Survey, around 40% of micro-enterprises and 44% of small and medium enterprises in developing economies are fully or partially financially constrained.<sup>810</sup>

The terms financial inclusion, microfinance and microcredit are frequently used interchangeably, but have distinct meanings that should not be confused. To distinguish these terms, the following are the working definitions (yet still evolving) of financial inclusion, microfinance and microcredit from recent literature:

- **Financial inclusion** (or **inclusive finance**) is defined as "access to a full suite of financial services, provided with quality, to everyone who can use financial services, with financial capability, through a diverse and competitive marketplace."<sup>811</sup> The New Microfinance Handbook emphasises financial inclusion as a 'multidimensional, pro-client concept, encompassing increased access, better products and services, better-informed and -equipped consumers, and effective use of products and services'.<sup>812</sup>
- **Microfinance** is defined as diverse financial services (including credit, savings, insurance, remittances, money transfers, or leasing) provision for the low-income and poor. These services are used for income generation, assets building, economic securities provision, and improving these low-segment clients' livelihood.<sup>813</sup>
- **Microcredit**, a sub-category of microfinance, is defined as a small amount of money loaned to a client by a financial institution. The specific characteristics of microcredit are group lending and the absence of collateral when borrowing.<sup>814</sup>

At the global level, financial inclusion has gained prominence on the sustainable development policy agenda. The United Nations World Summit for Social Development (WSSD) in 1995 recognised access to credit and financial services as a tool for poverty alleviation. Poverty alleviation was one of the three main themes at the summit (together with productive employment and social integration).<sup>815</sup> Leaders of the G8 and G20 recognize the importance of financial inclusion to their economies. This has been reiterated at their meetings in Pittsburgh (2009) and Seoul (2010), which mandated a Global Partnership for Financial Inclusion (GPMI).<sup>816</sup> At the G20 Summit in Toronto, June 2010, G20 countries signed the Toronto Declaration on Principles for Innovative Financial Inclusion.<sup>817</sup>

Moreover, the Bank of International Settlements, based in Basel, Switzerland, and other standard setting bodies have addressed the regulatory and standardized aspects of financial inclusion.<sup>818</sup> When business leaders, head of states and governments, as well as representatives from academia, development organizations, non-profits and media gathered for the World Economic Forum in Davos, Switzerland, January 2014, they also brought up the issue of financial inclusion and inclusive

growth at the centre of the agenda.<sup>819</sup>

As an international development agenda, there has been subtle shift from the concept of microfinance to financial inclusion, which, as indicated, covers a broader range of services than the term microfinance. While financial inclusion keeps the 'development objective' to pave the way for the poor to escape poverty, the 'inclusion' aspect of the term aims to cover not just the poor but also the near poor or even the middle class, in general, to increase the penetration of financial services to the whole population.

However, a broader definition of financial inclusion also poses some risks. It is because banks, although they are not the only financial institution actors for financial inclusion, on the one hand might be pressured by their state government to provide microcredit to small enterprises and poor people, on the other hand, might see this as an opportunity to expand their credit market to broader groups of population. Such expansion might lead to financial liberalisation and the commercialisation of credits. Other challenges for banks are the profitability and risks incurred by the provision of financial services and products to yet excluded clients.<sup>820</sup>

Broader access to finance might also bring about risks to clients. For instance, banks might use the previously excluded clients' savings or remittances to be invested in something with risks the clients have no information about or the clients might be offered products or services with risks they have no knowledge about. These risks are due to problems in the financial market: asymmetrical information, low quality of information, financial sector infrastructure and low levels of financial literacy and capability. These problems are faced not just by clients in low income countries but also in middle and high income economies. Lessons learned from the financial crisis - cases of predatory lending, subprime mortgages and other financial misconduct involving consumers - indicate that there is a need for re-emphasizing a top-down and bottom-up ethical approach for the financial sector, while improving access to remedy and ensuring protection for consumers, even in the financial inclusion agenda.<sup>821</sup>

In recent years, new opportunities and challenges have arisen for financial institutions and consumers regarding mobile finance. The development of FinTech has transformed the way many consumers use financial services and it is important to be aware of the consequences of such changes. Questions can be raised on topics such as security and privacy, the challenge being to maximise the benefits while ensuring risks are kept to a minimum.<sup>822</sup> The importance of consumer protection in financial markets and a methodology to assess the policies of financial institutions regarding consumer protection is further explained in section 4.1.

The topic of financial inclusion is recognized as an instrumental factor in achieving many of the Sustainable Development goals (SDGs). For example, SDG 1: No Poverty includes a target to ensure that everyone should have access to financial services, including microfinance, by 2030.<sup>823</sup> Similarly, SDG 5: Gender Equality emphasises on providing equal rights to economic resources and services to women including financial services.<sup>824</sup> Further, SDG 8: Decent Work and Economic Growth has a target to promote policies that encourage micro-, small- and medium-sized enterprises, including through access to financial services. It also focuses on strengthening capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all to enable economic growth.<sup>825</sup> One of the targets of the SDG 9: Industry, Innovation and Infrastructure is to increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.<sup>826</sup> Financial inclusion is also an important aspect of SDG 10: Reduced Inequalities.<sup>827</sup>

While the aspect of governance and regulation is important in financial inclusion, at the same time it is important to keep financial providers like banks attracted to serve the financially excluded clients, despite the higher risks and lower profit. According to the New Microfinance Handbook (2013), balancing clients' interests and providers' viability, financial inclusion requires effective policies, legislation, industry and consumer protection standards, and financial capability.<sup>828</sup>

The inclusion of excluded, unbanked and underserved people and MSMEs will contribute significantly to global poverty reduction. At the national level, it is the role of the government as regulator and facilitator, especially to develop related policies and an enabling financial infrastructure.<sup>829</sup> Financial institutions can play a vital role in providing access to finance to all income groups in a society. The next section gives an overview of international standards with regard to financial inclusion, which serve as a basis for policies by individual financial institutions.

#### 4.2.2 International standards and initiatives

Most international principles and standards pertaining to financial inclusion are voluntary, and have so far been introduced primarily by groups of countries like G8 and G20. Dedicated organisations such as the Center for Financial Inclusion (CFI) are also involved in setting targets and principles regarding financial inclusion.<sup>830</sup> In this sub-section, we first list the major international initiatives and standards regarding inclusive finance. As a next step, a set of indicators will be provided to assess the financial inclusion policies of financial institutions.

- **Key Principles of Microfinance**

The Consultative Group to Assist the Poor (CGAP), housed at the World Bank, is a global partnership to advance financial inclusion. According to CGAP, being included in the formal financial system helps people to:<sup>831</sup>

- Make day-to-day transactions, including sending and receiving money;
- safeguard savings, which can help households manage cash flow spikes, smooth consumption and build working capital;
- finance small businesses or microenterprises, helping owners invest in assets and grow their businesses;
- plan and pay for recurring expenses, such as school fees;
- mitigate shocks and manage expenses related to unexpected events such as medical emergencies, a death in the family, theft, or natural disasters; and
- improve their overall welfare.

CGAP developed 11 Key Principles of Microfinance, which were endorsed by the G8 summit in 2004.<sup>832</sup>

- **G20 Financial Inclusion Action Plan**

The Global Partnership for Financial Inclusion (GPII) is a platform for all G20 countries, interested non-G20 countries and relevant stakeholders to carry forward work on financial inclusion, including implementation of the G20 Financial Inclusion Action Plan (FIAP), endorsed at the G20 Summit in Seoul in 2010 and updated in 2014 and 2017. Along with the FIAP, GPII developed a set of financial inclusion indicators, measuring financial inclusion in three dimensions:<sup>833</sup>

- Access to financial services;
- Usage of financial services; and
- Quality of the products and the service delivery.



- **Principles For Investors In Inclusive Finance**

The [Principles for Investors in Inclusive Finance \(PIIF\)](#) were launched in 2011 and are aligned with the UN-backed Principles for Responsible Investment (PRI) and provide investors with specific guidance on responsible investment in inclusive finance. The PIIF consists of seven principles:<sup>834</sup>

- Expanding range of services to low income people;
- Integrating client protection in investment policies and practices;
- Fair treatment of investees with appropriate financing;
- Inclusion of environmental, social and governance (ESG) issues in investment policies and reporting;
- Promotion of transparency in all aspects;
- Striving for a balanced long-term social and financial risk-adjusted return; and
- Collaboration on setting harmonised investor standards to support further development of inclusive finance.

- **Maya Declaration on Financial Inclusion**

The [Maya Declaration on Financial Inclusion](#) of the Alliance for Financial Inclusion (AFI) covers four areas, which are aligned with the G20 Principles for Innovative Financial Inclusion:<sup>835</sup>

- Create an enabling environment to harness new technology that increases access and lowers costs of financial services;
- Implement a proportional framework that advances synergies in financial inclusion, integrity, and stability;
- Integrate consumer protection and empowerment as a key pillar of financial inclusion; and
- Utilize data for informed policymaking and tracking results.

- **Financial Inclusion 2020: The Roadmap Principles**

The Center for Financial Inclusion (CFI) identifies five priority focus areas that are key to achieving financial inclusion. The [Financial Inclusion 2020 Roadmap Principles](#) are:

- Addressing customer needs;
- Technology-enabled business models;
- Financial capability;
- Client protection; and
- Credit reporting.

- **UNEP Inquiry on the Design of a Sustainable Financial System**

A premise of the 2016 [UNEP Inquiry on the Design of a Sustainable Financial System](#) is that a bold new vision is needed to put the world on a sustainable path. The financial system is the lifeblood of the economy at the local, national, and global level. As such, it has an important positive role to play in supporting poverty alleviation efforts and the realization of human rights. However, inherent conflicts of interest that can result from profit-seeking financial institutions running financial inclusion need to be addressed through appropriate safeguards.<sup>836</sup>

The main international standards on financial inclusion are summarised per topic, followed by the assessment elements that are formulated by the FFGI as a result:

- **Access of low-income and other marginal groups to financial services**

Access to financial services is the first dimension to measure financial inclusion according to the [G20 Financial Inclusion Indicators](#) developed by the GPMI (Global Partnership for Financial Inclusion).

The [Key Principles of Microfinance](#) state that “access to sustainable financial services enables the poor to increase incomes, build assets, and reduce their vulnerability to external shocks. Microfinance allows poor households to move from everyday survival to planning for the future, investing in better nutrition, improved living conditions, and children’s health and education”.<sup>837</sup> The principles also mention that “interest rate ceilings can damage poor people’s access to financial services” reminding financial institutions to keep their interest rates at bay; otherwise it would potentially damage poor people’s access to financial services.<sup>838</sup>

The [FI2020 Roadmap to Inclusion Principle 2](#) promotes the use of [enabling technology](#) such as branchless banking and mobile banking to accelerate the access of people who live in the areas where financial infrastructure is too poor and does not allow them to access financial services physically. Physical access is usually measured through the broad of coverage of bank branches (outside mainstream big cities) and service points.<sup>839</sup>

The [Principles of Investors in Inclusive Finance](#) encourage retail providers to expand their range of financial services available to low-income populations (e.g. savings, loans, insurance, payment services, remittance facilities and pension plans) and to more remote areas and more vulnerable populations.

The first focus area in the [Maya Declaration on Financial Inclusion](#) is to ‘create an enabling environment to harness new technology that increases access and lowers costs of financial services (include promotion of mobile financial services to lower the cost of services)’.

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**This leads to assessment elements**

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- |   |  |
|---|--|
| 1 | The financial institution has policies, services and products that specifically target the poor and marginal groups. |
| 2 | The financial institution has branches in rural areas, not only in cities.   |
| 3 | The financial institution provides branchless, cashless (e-money) and mobile banking services.                       |
| 4 | The financial institution’s share of loans channelled to MSMEs is above 10%.   |
| 5 | The financial institution does not require collateral for MSMEs to borrow.   |
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- **Financial capability of clients**

Often, poor people and marginal groups that are the target of financial services and microfinance have no prior knowledge and insufficient financial literacy to understand the products and services offered to them, be they loans, credit, insurance or savings.

The [G20 Principles for Innovative Financial Inclusion](#) encourage financial institutions to develop financial literacy, financial capability and adequate redress mechanisms to make sure that their clients are aware of what they are up to when agreeing to saving schemes, loan schemes, credit schemes or insurance schemes.

This is more apparent in the case of the developing countries where low levels of literacy, not to mention financial literacy, are still widespread. Lack of financial capability poses a significant barrier to access and proper use financial services. Therefore, increased financial literacy and capability will in turn increase demands for more transparent and better service from the

financial institution.

[FI2020 Roadmap to Inclusion](#) focuses on empowering clients to know their rights as consumers, and have the skills, attitudes, aspirations, and confidence to exercise those rights. Principle 1 broadens the term to financial capability, which is an effort to encourage sound financial choices and behaviour by customers. Increasing [financial capability](#) means financial institutions must promote measures to enable clients to have knowledge, skills, attitudes and behaviours needed to make sound financial decision.

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**This leads to assessment elements**

6	The financial institution has a policy to disclose client's rights, and risks of product or service (including risk of over indebtedness) offered to low-literate clients and MSMEs.
7	The financial institution's terms and conditions is available to clients in national/local language.
8	The financial institution has a policy to improve financial literacy of low-income, marginal groups and MSMEs.

- **Affordability and quality of products and services**

The poor need a variety of financial services, not just loans, but also savings, cash transfers, and insurance, according to the [Key Principles of Microfinance](#). The principles also underscore the need for financial institutions to promote product and service diversity and innovation. For instance, specific services such as assistance to migrant workers to manage remittances is also expected to be provided by financial institution.

Financial institutions must make the effort to reduce transaction costs and offer products and services that meet clients' needs and also provide services that are convenient, flexible, and reasonably priced. The [Principles of Investors in Inclusive Finance](#) recommend financial institutions to provide a broad range of services to low-income clients, and develop innovative products tailored to their needs.

The [G20 Financial Inclusion Indicators](#) describe indicators for cost of usage - average cost of opening a basic current account, average cost of maintaining a basic bank current account (annual fees), and average cost of credit transfers – and credit barriers - tightness of credit conditions (requirement for SMEs to provide collateral to get loan), getting credit: distance to service points. Overall, quality of products and services can be measured through price, cost, time as well as criteria and requirement (e.g. collateral).

The [EU Payment Accounts Directive](#) requires member states to provide access to a basic payment account from 2016. In order to ensure that payment accounts with basic features are available to the widest possible range of consumers; they should be offered free of charge or for a reasonable fee.<sup>840</sup>

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**This leads to assessment elements**

9	The financial institution does not charge clients to open a basic bank account or for a reasonable fee.
10	The financial institution does not require a minimum balance for maintaining a basic bank account.
11	The financial institution has a standard and provides information on credit processing time.
12	The financial institution has appropriate, affordable, and convenient financial products to send or receive domestic remittances through an account.
13	The financial institution provides low-income housing finance.

- **Consumer protection**

Consumer protection is more apparent in financial inclusion because the subjects of protection are most likely the poor or illiterate and therefore have no knowledge at all of any kind of information or grieving mechanism offered (or not) by the financial institution.

The [Client Protection Principles for Microfinance](#), endorsed by providers of financial services, networks and individuals working in microfinance, describes the minimum protection microfinance clients should expect from providers. The principles cover:<sup>841</sup>

- Avoidance of over-indebtedness;
- Transparent pricing;
- Appropriate collection practices;
- Ethical staff behaviour;
- Mechanism of redress of grievances; and
- Privacy of client data.

The [Maya Declaration on Financial Inclusion](#) suggests an integration of consumer protection and empowerment as a key pillar of financial inclusion as one of its four broad areas that 'has been proven to increase financial inclusion' and in line with the [G20 Principles for Innovative Financial Inclusion](#).

The [FI2020 Roadmap to Inclusion](#) emphasizes client needs and consumer protection. In its explanation on [client protection](#), the roadmap outlines that financial inclusion with client protection will occur when all clients can affirm the following five statements:<sup>842</sup>

- I have a choice of quality and affordable financial services.
- I can get information I need and understand it to make an informed decision.
- I have confidence in my provider, am treated with respect and am not discriminated against.
- I understand the risks involved in using financial services and believe they are offset by the benefits I gain.
- I know my rights and where to complain when problems arise.

Based on the OECD standard on consumer protection, the G20 countries also endorsed the [G20 High-level Principles on Financial Consumer Protection](#), that encompass the following 10 topics:

1. Legal, Regulatory and Supervisory Framework;
2. Role of Oversight Bodies;
3. Equitable and Fair Treatment of Consumers;
4. Disclosure and Transparency;
5. Financial Education and Awareness;
6. Responsible Business Conduct of Financial Services Providers and Authorised Agents;
7. Protection of Consumer Assets against Fraud and Misuse;
8. Protection of Consumer Data and Privacy;
9. Complaints Handling and redress; and
10. Competition.

The UN Principles for Responsible Investment (PRI) has developed the [Principles for Investors in Inclusive Finance \(PIIF\)](#). These principles recommend financial institutions to integrate client protection into their investment policies and practices, promoting the principle to their suppliers and to report the progress to their investor and stakeholders. The principles also highlight the importance of financial institutions to treat the low-income clients fairly.

The [ISO 12812 standards series](#) regarding mobile financial services have been available since 2016. Standards in the series include:

- [ISO 12812-1:2017 Mobile financial services – General Framework](#);
- [ISO/TS 12812-2: Security and data protection for mobile financial services](#);
- [ISO/TS 12812-3: Financial application lifecycle management](#);
- [ISO/TS 12812-4: Mobile payments-to-persons](#); and
- [ISO/TS 12812-5: Mobile payments to businesses](#).

In 2017, the Center for Financial Inclusion at Accion and the Institute of International Finance published [a report](#) regarding how FinTech and financial institutions can work together towards financial inclusion.

The assessment elements of this topic are part of the theme Consumer protection (See section 4.1.3).

### 4.2.3 Assessment elements

The elements of a good operational policy on financial inclusion covers the responsibilities of the financial institution, which is in most cases, a bank, towards its clients, which are individuals and MSMEs.<sup>i</sup> In order to ensure that financial inclusion for low-income target groups is guaranteed, financial institutions should establish policies whose scope is consistent with its diversity of products and services. The scope of the assessment elements will be scored for the same groups of financial products as in the theme Consumer protection:

- **Current and saving accounts:** These are the most popular personal banking products that give to customers the flexibility of deposit and withdrawals. On saving accounts usually a small interest is paid;
- **Credit cards:** Credit cards and other forms of overdraft accounts and revolving credits, provide the consumer with a flexible, instant opportunity to lend money to spend it on different expenditures. Repayment usually needs to start within a month and high interest rates are charged;
- **Personal loans:** Loans that are tied to specific forms of expenditure, such as loans for the payment of educational fees, auto loans and other consumption credits. The borrower is provided with a fixed amount to be repaid over a given period by a fixed number of instalments;
- **Housing loans:** These loans are specifically intended to finance the acquisition of a house or other form of private property. The loans are secured by a mortgage on the borrower's property; and
- **Investment:** This group of products provides individual consumers access to fixed and variable income investments.
- **Insurance:** These products include services related to pension plans and insurance products.

The following elements are crucial for a policy regarding the financial institution's internal operations:

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i For the purpose of the study microenterprises are defined as those with 1 to 4 employees; very small, 5 to 9 employees; small, 10 to 49 employees; and medium, 50 to 250 employees, based on IFC Advisory Services | Access to Finance (2013, August), *Access to Credit Among Micro, Small, And Medium Enterprises*, International Finance Corporation World Bank Group, p. 4.

1. The financial institution has policies, services and products that specifically target the poor and marginal groups.
2. The financial institution has branches in rural areas, not only in cities.
3. The financial institution provides branchless, cashless (e-money) and mobile banking services.
4. The financial institution's share of loans channelled to MSMEs is above 10%.
5. The financial institution does not require collateral for MSMEs to borrow.
6. The financial institution has a policy to disclose client's rights, and risks of product or service (including risk of over indebtedness) offered to low-literate clients and MSMEs.
7. The financial institution's terms and conditions is available to clients in national/local language.
8. The financial institution has a policy to improve financial literacy of low-income, marginal groups and MSMEs.
9. The financial institution does not charge clients to open a basic bank account or for a reasonable fee.
10. The financial institution does not require a minimum balance for maintaining a basic bank account.
11. The financial institution has a standard and provides information on credit processing time.
12. The financial institution has appropriate, affordable, and convenient financial products to send or receive domestic remittances through an account.
13. The financial institution provides low-income housing finance.

## 4.3 Remuneration

### 4.3.1 What is at stake?

Remuneration for employees within a company increasingly consists of a fixed part - the base salary - and a variable part. The height of this variable part can be determined in different ways, for example by linking the achievements of the employee to the financial result of (a part of) the company. In case of good achievements or good financial results, the variable remuneration for the employee can be relatively high compared to the base salary, but the reverse can also occur. The variable remuneration part is often referred to in terms of bonus, commission pay, profit sharing, performance remuneration, etc. In this methodology all these types of variable remuneration are called 'bonuses'.

Granting bonuses is often viewed as an 'honest' way of repaying exceptional efforts. Some also regard a bonus system as a way to encourage companies to become more sustainable.<sup>843</sup> However, there are negative aspects to consider.

Bonuses are in practice regularly linked to indicators in which the importance of the enterprise as a whole is not reflected and certainly not the wider social importance. In these cases, the indicators are skewed towards short term objectives, financial results and the achievements of the individual employee, while achievements coming from long term objectives and the non-financial results of the company as a whole would be better indicators. If these are left out of the equation, employees can be encouraged to take undesired and sometimes irresponsible risks that may be of personal importance, but may be detrimental to the company and society.

The often very large bonus sums lead to much social indignation when the link between personal strengths, the financial achievements of the company and the height of the bonus seems lost. Top managers receiving huge salaries and bonuses while the enterprise they work for suffers financial difficulty and even has to fire people is incomprehensible to many people. The same applies to top managers of financial institutions.

Short-term objectives and the excessive sums characterise the bonus culture in the US, UK, and other financial institutions, mainly in investment banking departments. Many people consider this bonus culture to be one of the main causes of the 2008 financial crisis.<sup>844</sup> The prospect of a very high bonus - based on short-term financial objectives - led to granting mortgages and loans to people that could not really afford them. The consequences of this risky behaviour have been felt globally.<sup>845</sup>

- Consumers are insufficiently informed about the risks of the products that were sold to them. Particularly in the United States this has led to many evictions because people could no longer afford to pay their mortgages and loans;
- A part of the receivables that financial institutions had on consumers could therefore not be resold. This not only caused financial problems for financial institutions themselves, but also for the rest of the financial system to which outstanding receivables had been sold;
- Governments have had to save financial institutions from bankruptcy and partly due to this have been faced with an economic crisis;
- Not only the countries of origin of the financial institutions, but also developing countries are experiencing the negative consequences of this economic crisis in decreased export revenues, foreign investments, currency exchange rates and budgets for development aid. Estimates of several organisations on the number of people that have fallen, and will fall, into poverty through the financial crisis are running into tens of millions.<sup>846</sup>

Due to these developments, the public and governments have frequently called for the mitigation of bonuses, for linking bonuses to long-term objectives, or for the entire abrogation of bonuses, particularly in the financial world.<sup>847</sup>

On average, the number of companies that have included sustainable objectives in their bonus policy is one third. Such objectives are related to environmental issues (reduction of emissions and energy efficiency) and social issues (client satisfaction, safety, social involvement, employees). Research also shows that companies are convinced that including sustainable criteria in their remuneration policy contributes to sustainable development.<sup>848</sup> CEOs of multinational corporations also consider this an important method for developing a new and sustainable vision of the corporate world.<sup>849</sup>

The topic of balanced remuneration is important for achieving Sustainable Development Goal (SDG) 10: Reduced Inequalities. It can also be indirectly linked to SDG 16: Peace, Justice and Strong Institutions.<sup>850</sup> Due to the increased attention to the height of bonuses and the link with sustainability and corporate social responsibility, all financial institutions should develop solid bonus policies. To this effect, financial institutions can make use of the international standards and initiatives described in the following section.

#### 4.3.2 International standards and initiatives

As far as regulation and standards concerning remuneration are concerned, there are currently no global policies in place.

In the United States, regulators have implemented mechanisms to supervise remuneration paid by banks to their employees, which are mandated by § 956 of the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act. Banking regulators have specifically targeted bank practices regarding incentive-based compensation. In undertaking this initiative, the banking regulators have jointly implemented a variety of regulatory regimes.

In the United States, three Federal Statutes are relevant in relation to remuneration:<sup>851</sup>

- The 2002 Sarbanes-Oxley Act (SOA) §304; 15 U.S.C. §7243(a);
- The 2008 Emergency Economic Stabilization Act (EESA) §111(b)(3)(B), as added by Section 7001 of the American Recovery and Reinvestment Act of 2009 (ARRA); 12 U.S.C. §5221(b)(3)(B) (applicable only to recipients of assistance under the Troubled Asset Relief Program (TARP) that have not repaid the Treasury); and
- The 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act (DFA) §954, 15 U.S.C. §78j-4(b).

In the European Union, the European Banking Authority (EBA) has set out requirements in a series of Capital Requirements Directives (CRD). There are three main Directives that regulate remuneration:<sup>852</sup>

- The 2013 Fourth Capital Requirements Directive (CRD IV) (EU Directive 2013/36);
- The 2011 Alternative Investment Fund Managers Directive (AIFMD) (EU Directive 2011/61); and
- The 2009 Undertakings for Collective Investment in Transferable Securities Directive (UCITS) (Directive 2009/65).



Under CRD III, in force since 2011, new rules on remuneration were introduced, which were elaborated in the EBA's [Guidelines on Remuneration Policies and Practices](#). A maximum of 30% of the total bonus can be paid out in *cash*, for very large bonuses there is a maximum of 20%. The payment of 40 to 60% of the bonus has to be deferred over a period of at least three years so the bonus can be recovered if the results prove to be disappointing at a later stage. At least 50% of the bonus has to be paid out as subordinated capital: funds on which the bank can first make recourse should the bank get into trouble.

The CRD IV is the fourth iteration of the EU Capital Requirements Directive and came into force in January 2014. It carried over existing provisions of the CRD III relating to remuneration, with some enhancements in relation to the bonus cap. Among the new rules is a maximum variable remuneration of 100% of the annual salary, which can be increased to 200% with shareholder approval.<sup>853</sup> The relevant provisions can be found in articles 74, 92 to 95 and 161 (in addition to recitals 62 to 69 and 83) in the CRD IV; and in article 450 on disclosure in the CRR.<sup>854</sup>

The European Banking Authority (EBA) has also published various [Regulatory Technical Standards \(RTS\)](#) for the definition of material risk takers, and for remuneration purposes set out process and criteria for the identification of staff who have an impact on the institution's risk profile, so-called 'Identified Staff'.<sup>855</sup>

The [Financial Stability Board \(FSB\)](#) – until April 2009 the Financial Stability Forum (FSF) - was established in 1999 by the G7 with the objective of improving international financial stability. In the FSB central banks, financial supervisors and financial institutions are represented.

In response to the international financial crisis of 2008, the FSF Compensation Workstream Group published the [Principles for Sound Compensation Practices](#) in 2009. The emphasis of these principles is on the relation between the degree of risk that an employee takes on behalf of the company and the height of the remuneration that is granted. According to the principles, remuneration should be corrected downwards if more risk has been taken. In practice, this means that if two employees realise the same amount of profit, but have taken various levels of risk, they should not receive similar compensation.

Other standards, reports and guidelines to consider are the UN Principles for Responsible Investment (PRI) and Global Compact's 2012 [recommendations](#) on remuneration; the G20's recommendations about remuneration at the [Pittsburgh Summit in 2009](#); Consumers International's report [Responsible Lending](#) (2013); and the 2010 [Sustainable Remuneration](#) guide of the Association of Investors for Sustainable Development (VBDO), the Hay Group, and DHV, which serves as a manual to link sustainability objectives to the bonus of company managers.

The main international standards on remuneration in the financial sector are summarised per topic, followed by the assessment elements that are formulated by the FFGI as a result:

- **Clawback schemes**

In its 2009 report FSF Principles for Sound Compensation Practices, the Financial Stability Board (FSB) states that compensation pay-out must be sensitive to the time horizon of risks. This means that if a bonus is granted that is sensitive to risk outcomes, it should be seen as a multi-year risk horizon. Otherwise employees could have an incentive to expose the firm to risks that are unlikely to be exposed for some time. To align time horizons a bonus can be subjected to a clawback.

In United States legislation 'clawback' means a repayment of previously received compensation required to be made by an executive to his or her employer. Clawbacks under [SOA §304](#) concern only clawbacks from the CEO and the CFO and apply only to cases in which there is 'misconduct' resulting in "material noncompliance of the issuer with any financial reporting requirement under the securities laws".<sup>856</sup>

The Emergency Economic Stabilization Act (EESA) of 2008 only applies to institutions receiving aid under the Troubled Asset Relief Program (TARP) and requires that institutions that are receiving assistance under TARP are obligated to maintain certain standards for executive compensation and corporate governance.<sup>857</sup> Under the Dodd-Frank Act §954 (DFA), publicly traded firms are obligated to have policies in place that enforce the repayment of specific types of overpayments made to executives, based on financial results that turn out to be false and require a restatement.<sup>858</sup> The clawback is to be carried out if the listed company is required to file a financial restatement under securities laws due to material noncompliance under those laws. The clawback applies to "incentive-based compensation (including stock options awarded as compensation) during the 3-year period preceding the date on which the issuer is required to prepare an accounting restatement, based on the erroneous data, in excess of what would have been paid to the executive officer under the accounting restatement".<sup>859</sup>

In the European Union, malus or clawback arrangements are explicit ex-post risk adjustment mechanisms where the institution itself adjusts remuneration of a staff member based on such mechanisms (e.g. by lowering awarded cash remuneration or by reducing the number or value of instruments awarded). The CRD IV pertains to banks and other financial institutions and the clawback arrangements dictate that up to 100% of variable pay will be subject to clawback or malus arrangements. Financial institutions will be required to set specific criteria for such arrangements.<sup>860</sup>

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**This leads to assessment element**

1	The financial institution maintains the right to recover bonuses if, after payment, it appears that they were paid unduly (a so-called clawback scheme).
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- **Bonus maximum**

In the United States, a maximum for bonuses or variable remuneration is officially regulated through DFA § 956. However, the language of the Act is not quantified sufficiently. For example, the banking, securities and federal housing regulators have proposed regulations that state that financial institutions are prohibited "from having incentive—based compensation arrangements that may encourage inappropriate risks (a) by providing excessive compensation or (b) that could lead to material financial loss to the covered financial institution".<sup>861</sup> However, no standards have been created to give these ambiguous regulations substance. Nevertheless, the regulators have claimed that such standards will be established.<sup>862</sup>

In the European Union, under the CRD IV "variable pay" is capped at 100% of total fixed pay or, with shareholder approval, 200% of total fixed pay. This is including performance based payments or benefits and, in exceptional circumstances, other contractual elements that do not "*form part of a routine employment package*" (examples in the Directive include healthcare, child care facilities or proportionate regular pension contributions). EU Member States have the discretion to adopt stricter standards (e.g. lower bonus caps).<sup>863</sup>

The Netherlands implemented regulation in 2013, which does not allow bonuses in the financial sector above 20% of fixed remuneration.<sup>864</sup> A 2018 review of the regulation by the Dutch government found evidence that the 20% remuneration cap further decreased risk taking by bankers, when compared with a 100% cap.<sup>865</sup>

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**This leads to assessment elements**

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|---|--|
| 2 | The bonus is a maximum of 100% of the fixed annual salary. |
| 3 | The bonus is a maximum of 20% of the fixed annual salary.  |
- 

- **Pay ratios**

In the United States, the [Dodd-Frank Act Section 953](#) requires proxy disclosure of the salary of median employees (as calculated under the SEC’s executive compensation disclosure rules) compared to the pay of the CEO. Similarly, in the United Kingdom regulations were introduced in 2019 that require large companies to disclose the pay gap between the CEO and the median employee.<sup>866</sup>

Respondents of the [2018 World Economic Forum’s Global Risks Perception Survey \(GRPS\)](#) rated “*rising income and wealth disparity* [a]s one of the most important trends in determining global developments over the next 10 years”.<sup>867</sup> In line with this study, Oxfam International argued in its 2018 report [Reward Work, Not Wealth](#) that “there is growing evidence that the current levels of extreme inequality far exceed what can be justified by talent, effort and risk-taking”.<sup>868</sup>

Oxfam therefore recommends to “limit returns to shareholders and promote a pay ratio for companies’ top executives that is no more than 20 times their median employees’ pay, and preferably less”.<sup>869</sup>

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**This leads to assessment element**

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| 4 | The fixed salary of any employee does not exceed twenty times the lowest salary or the maximum of the lowest salary scale within the financial institution. |
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- **Long-term objectives**

Another criterion to consider for sound remuneration policies is that of long-term objectives for investment practices. When granting variable remuneration as a reward for certain achievements, it is important to consider whether the achievements concern long-term or short-term objectives, for the company itself and for society at large. This can also be accomplished through clawback schemes.

The G20 has established that restructuring policy and practice on remunerations and bonuses is required to further support financial stability. At the [Pittsburgh Summit](#) in September 2009, the G20 agreed that it is necessary that a significant part of variable remunerations has to be linked to achievements and creating long term value. The G20 encourages companies to implement their agreements with immediate effect.

In the United States, the Federal Reserve, in cooperation with other banking agencies, issued a [Final Guidance on Sound Incentive Compensation Policies](#) in 2010, in which it is stated that “incentive compensation arrangements at banking organizations [should] appropriately tie rewards to longer-term performance”.<sup>870</sup>

In the European Union, regulation ([CRD IV/ RTS](#)) is aimed at stimulating a focus on long-term objectives, instead of rewarding risky activities that would offer profit in the short term. In the [EBAs Guidelines on Sound Remuneration Policies](#), it is stated that “To set the appropriate

incentives for long-term-oriented and prudent risk taking, the remuneration policy and practices need to be transparent for staff regarding the fixed remuneration, the variable remuneration and the award criteria used. Fixed remuneration should be permanent, predetermined, nondiscretionary and non-revocable".<sup>871</sup>

In cooperation with the UN Global Compact (UNGC), the UN PRI has made recommendations on taking up environmental, social and governance (ESG) criteria in the variable rewards of the employees: [Integrating ESG issues into executive pay](#). In order to make senior employees more aware of ESG issues, this initiative recommends companies to develop mechanisms that ensure that both the company's interests as well as the employee's and society's interests are connected to one another. This may be done by setting long-term goals for employees as well as the company.

The [Association of Investors for Sustainable Development](#) (VBDO), Hay Group and DHV call upon all companies to base at least 60% of the bonus on long-term objectives. To achieve this, it is important to take the activities and the industry in which a company operates into account. According to the VBDO, Hay Group and DHV, sustainable objectives for banks should comprise of integrity, responsible investment and the level of energy consumption. In the [Sustainable Remuneration](#) guide, sustainability is defined as the total of all ethical, environmental and/or social issues that influence the interests of the organisation and its stakeholders. Within this framework, a company that, besides its financial objectives, aims towards client satisfaction is considered as a company with a limited sustainable focus. A company that in addition also aims for employee satisfaction and the reduction of its CO<sub>2</sub>-emissions is considered to be more sustainable.

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**This leads to assessment element**

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5	At least 60% of the bonus is based on long term objectives (not to be confused with agreements for deferred payment of the bonus).
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- **Non-financial criteria**

The International Labour Organisation (ILO) emphasises in its World of Work Report 2013 that it is important to increase a focus on better alignment of the activities in the financial sector with the needs of the real economy, for example through linking performance-based compensation to social and environmental objectives.

In the 2012 UN Global Compact and UN PRI report [Integrating ESG issues into executive pay](#), companies are recommended to link appropriate ESG metrics to reward systems in such a way that they form a meaningful component of the overall remuneration framework. They are furthermore encouraged to develop their own definition of sustainable value creation and use it to select appropriate ESG metrics, thereby also consulting shareholders and stakeholders in order to enhance internal and external support.

In the European Union, the [CRD Remuneration requirements Articles 74 and 92 to 96 and Article 450 CRR](#) dictate that remuneration that is linked to performance should in total be based on both the assessment of the performance of an individual, the business unit concerned and the overall results of the institution. When assessing the performance of an individual, financial as well as non-financial criteria are to be taken into account. The total amount of remuneration is based on a combination of the assessment.

The Sustainable Remuneration guide calls upon all companies to base at least one third of the total bonus on sustainable objectives. To achieve this it is important to take the activities and the industry in which a company operates into account. According to the authors, VBDO, Hay Group and DHV, sustainable objectives for banks should comprise of: integrity, responsible investment and the level of energy consumption. The Dutch law on the remuneration policies of financial institutions makes it mandatory to base at least 50% of the variable remuneration on non-financial criteria.

The 2009 Dutch Banking Code provides that, besides financial achievement criteria, non-financial achievement criteria should also be an important part of the assessment of an individual for variable remuneration. Examples of these non-financial criteria include client satisfaction, risk management, investor relations, operational objectives, human resources, integrity, compliance and sustainability.

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**This leads to assessment elements**

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6	At least one third of the bonus is based on non-financial criteria.
7	At least two thirds of the bonus is based on non-financial criteria.
8	The bonus is based on employee satisfaction.
9	The bonus is based on client satisfaction.
10	The bonus is based on improving the social and environmental impact of the financial institution's management and operational practices.
11	The bonus is based on improving the social and environmental impact of the financial institution's investments and financial services.

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- **Application of remuneration policies**

A financial institution may apply its remuneration policy in various ways. One problem in banks' and financial institutions' bonus policies is the use of exceptions, so that, for instance, only the Board of Directors is covered, or only particular divisions or subsidiaries.

A solid policy on remuneration is applied to the entire financial institution (including all subsidiaries). This at least concerns the Board of Directors, the directors (in case of a 2-tier board structure), senior management and risk takers. Senior management includes the people that are ultimately responsible for certain divisions, portfolios, internal departments, etc. that operate directly under the directors and Board of Directors. Risk takers comprise of investment bankers, stock exchange traders and trading room managers.

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**This leads to assessment elements**

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12	The financial institution applies its remuneration policy to the entire group and at least concerns the Board of Directors, the directors (in case of a 2-tier board structure), the senior management and risk takers.
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### 4.3.3 Assessment elements

All forms of variable remuneration are considered a bonus. This includes profit sharing programs, except those that cover all employees and at equal terms. An ideal bonus policy would be very sober, be partly based on sustainability criteria and would also include the possibility of recovering the bonus in cases of malpractice. Banks and financial institutions should not make exceptions in their bonus policies for investment bankers or subsidiaries.

In addition to element 12, which explicitly deals with the scope of financial institutions' remuneration policies, policies will be assessed on the basis of their scope of application. All elements (with the exception of elements 1, 4 and 5) will be assessed with the following scope categories:

- The whole group;
- The Board of Directors; and
- Senior management.

The FFGI's expectations on remuneration policies only concern the financial institutions' employees that are not covered by a collective labour agreement. The following elements are crucial for a policy regarding the financial institution's internal operations:

1. The financial institution maintains the right to recover bonuses if, after payment, it appears that they were paid unduly (a so-called *clawback* scheme).
2. The bonus is a maximum of 100% of the fixed annual salary.
3. The bonus is a maximum of 20% of the fixed annual salary.
4. The fixed salary of any employee does not exceed twenty times the lowest salary or the maximum of the lowest salary scale within the financial institution.
5. At least 60% of the bonus is based on long term objectives (not to be confused with agreements for deferred payment of the bonus).
6. At least one third of the bonus is based on non-financial criteria.
7. At least two thirds of the bonus is based on non-financial criteria.
8. The bonus is based on employee satisfaction.
9. The bonus is based on client satisfaction.
10. The bonus is based on improving the social and environmental impact of the financial institution's management and operational practices.
11. The bonus is based on improving the social and environmental impact of the financial institution's investments and financial services.
12. The financial institution applies its remuneration policy to the entire group, including the Board of Directors, the directors (in case of a 2-tier board structure), the senior management and risk takers.

## 4.4 Transparency and accountability

### 4.4.1 What is at stake?

Each individual has the right to know what consequences business activities can have for his or her life and which risks he or she is exposed to in these activities. People whose lives are influenced by economic activities are unable to defend their legitimate interests if they are not fully informed on the social, economic and environmental advantages, as well as the costs and risks connected to that activity. Also, they have to be informed on the possible alternatives for the proposed activity. In order to properly defend their social, cultural and environmental interests, social organisations also need to have access to all relevant information.

For these reasons, the public right of information - with the objective to participate in a meaningful way in the decision-making process - is recorded in various international instruments. Examples are the 1948 [Universal Declaration of Human Rights](#), the 1992 [Rio Declaration on Environment and Development](#), the 1998 [Aarhus Convention](#), the 2011 [OECD Guidelines for Multinational Enterprises](#) and [ISO 26000:2010 Guidance on social responsibility](#).

Although some of these guidelines principally formulate obligations for governments, the general principles are applicable to all important social actors. This includes companies, which are obliged to be transparent on activities that can have consequences for employees, nearby residents and others. Moreover, companies have to be prepared to be accountable for it and to listen to the expectations and concerns of other stakeholders. This means that the company has to establish a formal complaints procedure.<sup>872</sup>

Transparency creates trust. More and more companies realise that transparency and accountability is not only their moral duty, but that it can also offer them an advantage. The lack of sufficient information, as well as the public perception that managers try to keep certain information secret, may cause conflicts and resistance to the activities of companies. Transparency also decreases the risk of corruption. A company that is both transparent and prepared to be accountable in this way acquires social approval for its activities.<sup>873</sup>

Transparency and accountability are particularly important for financial institutions (FIs). In contrast to other companies, which operate in particular sectors, financial institutions play an important role in virtually every field of economic activity. As capital providers, investors and financiers carry a certain responsibility for the social and environmental consequences of all these economic activities. To this effect, financial institutions not only have to inform the public of their own activities, but also have to be as transparent as possible about the companies, projects and governments in which they invest.

For financial institutions, transparency also provides a significant advantage in that it allows them to timely recognise and act upon public concerns about activities in which they want to invest, before actual conflicts arise. Therefore, many multilateral development banks and export credit insurance companies have transparency policies to ensure data is made public on all considered transactions.<sup>874</sup>

Transparency and accountability form the basis for achieving many of the Sustainable Development Goals (SDGs). In particular, SDG: 16 Peace, Justice and Strong Institutions promotes the development of effective, accountable and transparent institutions at all levels.<sup>875</sup> Similarly, SDG: 12 Responsible Production and Consumption highlights the importance for companies to adopt sustainable practices and integrate reporting on sustainable aspects in their reports.<sup>876</sup> There are many other SDGs that cannot be achieved without transparent and accountable institutions, be

it a company or a state.

When developing policies in this respect, financial institutions can make use of the international standards described below.

#### 4.4.2 International standards and initiatives

There are various international standards on transparency (both at the level of the financial institutions as a whole as well as with respect to individual investments) and accountability. The main international standards on transparency and accountability of financial institutions are summarised per topic, followed by the assessment elements that are formulated by the FFGI as a result:

- **Finance and investment framework and auditing**

In order to verify whether financial institutions meet their sustainability promises, financial institutions conduct internal audits of their credit and investment policies and framework regarding certain sectors and environmental, social and governance issues and the system put in place to implement those. This includes the due diligence processes. Based on these audits, they can establish whether their systems can be improved further.

It is even better when financial institutions conduct an external audit of their credit and investment policies and framework, including due diligence processes, regarding certain sectors and environmental, social and governance issues where they can make use of AccountAbility's [AA1000 Series of Standards](#), a combination of norms on accountability, auditing and reporting. Another system for auditing non-financial information is [ISAE 3000](#), published by the International Assurance and Accounting Standards Board.<sup>877</sup> Preferably, a summary of the results of these audits is made public, for example in the sustainability report, and discussed with stakeholders.

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##### This leads to assessment elements

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1	The financial institution describes its finance and investment framework regarding environmental and social issues and provides insight into how the financial institution ensures that investments meet the conditions set in its policies.
2	The financial institution's finance and investment performance regarding environmental and social issues is audited vis-à-vis its relevant policies by a third party and the results are published.

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- **Transparency on specific transactions**

It is not sufficient that financial institutions publish positive sounding policy statements. Such policy statements should actually lead to more sustainable investment practices. This can only be verified publicly if the financial institution provides insight into loans granted and other investments. On the financial institution's website, stakeholders have to be able to find basic information on all transactions in which a financial institution is involved. Similarly, financial institutions should publish the names of governments they invest in, as is standard practice for many financial institutions. And if available, the social and environmental impact assessments on these transactions also have to be publicly available.

The financial institution should at least specify all regions and industries in a breakdown of its portfolio. Financial institutions often claim that they are unable to publish such information about companies as it harms trust with their clients. However, when a financial institution participates in bank syndicate, it often proudly advertises it in financial magazines. Apparently, the relation of trust with the client does not play a role in these situations.



When financial institutions grant loans to individual companies, they can inform these clients in advance that their name could be published. Multilateral development banks such as the World Bank, the Asian Development bank and many others have been setting a good example in this respect for years. Since 1994, the International Finance Corporation (IFC) has a strict [Access to Information Policy \(AIP\)](#). On its website, IFC provides extensive and comprehensive information on its activities, including its investment guidelines and its investments. When IFC finances a certain project, information on that project is made available on its website, such as environmental impact assessments and environmental action plans.<sup>878</sup> Another example is the Italian [Banca Etica](#), which not only publishes information on its loans (name lender, term of the loan, amount), but also on potential transactions that are pending at an external Ethics Committee. This is in line with [the principles of the Global Alliance for Banking on Values](#).

Commercial financial institutions should follow these examples by:

- Providing an overview in their annual report of the industrial and regional breakdown of the transactions in which they are involved. Such information is required in the GRI [G4 Financial Services Sector Disclosure \(FSSD\)](#) (indicator FS6). Stakeholders also quickly gain insight in the sensitive sectors and fields in which the financial institution is active;
- Providing an overview of all companies to which it has granted more than EUR 10 million credit. The value of this threshold is derived from the [Equator Principles](#), but should not be limited to project finance;
- Providing basic information through their website on the companies in which they invest; and
- Obliging the companies in which they invest (in some situations) to provide information to involved communities on the social and environmental effects of their activities, such as those included in the [Equator Principles](#) for Category A transactions.

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**This leads to assessment elements**

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3	The financial institution publishes the names of governments in which it invests.
4	The financial institution publishes the names of companies where it invests in or to which it has granted credits.
5	The financial institution mentions and describes all companies (on its website) to which it grants new credits.
6	The financial institution mentions and describes all companies (on its website) to which it has granted credits.
7	The financial institution discloses the names of all outstanding project finance transactions and project-related corporate loans, including the information required by the Equator Principles III.

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If a financial institution does not wish to publish the names of companies it invests in or finances, it may provide insight in its investments based on at least the first two digits, but preferably the first four digits of the European Nomenclature Statistique (NACE). This standard is similar to the [United Nations International Standard Industrial Classification of All Economic Activities \(ISIC\)](#).<sup>879</sup>

Furthermore, banks in Europe can publish the outcome of the European Banking Authority's annual Transparency Exercise. The Transparency Exercise "provides detailed bank-by-bank data on capital positions, risk exposure amounts and asset quality".<sup>880</sup>

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### This leads to assessment elements

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8	The financial institution publishes a breakdown of its portfolio by region, size and industry (in line with GRIs FSSD FS6).
9	The financial institution publishes a breakdown of its portfolio in a cross table, combining industry and region data.
10	The financial institution publishes a sufficiently detailed breakdown of its portfolio, for example based on the first two digits of NACE and ISIC.
11	The financial institution publishes a sufficiently detailed breakdown of its portfolio, for example based on the first four digits of NACE and ISIC.

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- **Sustainability reporting**

The European Union's [Non-Financial Information Disclosure Directive](#) obliges European companies with more than 500 employees to publicly report on at least:<sup>881</sup>

- Environmental matters;
- Social and employee aspects;
- Respect for human rights;
- Anticorruption and bribery issues; and
- Diversity in their board of directors.

The Directive gives companies significant flexibility in disclosing this information: companies may rely on guidelines such as the OECD Guidelines on Multinational Enterprises, ISO 26000:2010, the United Nations Global Compact, Global Reporting Initiative Reporting Framework or the UN Guiding Principles on Business and Human Rights.

[ISO 26000:2010 Guidance on social responsibility](#) includes transparency as a principle and states that an organisation is responsible "for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour."<sup>882</sup>

Likewise, the [OECD Guidelines for Multinational Enterprises](#) stress the importance of the disclosure of information: companies "should ensure that timely and accurate information is disclosed on all material matters regarding their activities, structure, financial situation, performance, ownership and governance. This information should be disclosed for the enterprise as a whole, and, where appropriate, along business lines or geographic areas".<sup>883</sup>

In addition, the [United Nations Guiding Principles on Business and Human Rights \(UNGPs\)](#) also expect companies to report publicly: "In order to account for how they address their human rights impacts, business enterprises should be prepared to communicate this externally, particularly when concerns are raised by or on behalf of affected stakeholders".<sup>884</sup> Companies and financial institutions can make use of the [UNGP Reporting Framework](#) to report on their impact on human rights.

In recent years, publishing annual sustainability reports has become commonplace. The best known guideline for this is the [Global Reporting Initiative \(GRI\) Reporting Framework](#), of which the latest edition is the [GRI Sustainability Reporting Standards \(GRI Standards\)](#). GRI encourages financial institutions to not only describe their sustainability policy, but to also measure the respective implementation. In the new GRI Standards it is possible to report either in accordance with the GRI Standards: Core option or in accordance with the GRI Standards: Comprehensive option.

Besides the General Disclosures there are also Sector Disclosures that elaborate on the transparency requirements for specific types of companies and industries. In cooperation with the [UNEP Finance Initiative \(UNEP FI\)](#), GRI published the GRI Financial Services Sector Disclosure (FSSD), with specific guidelines on product portfolios, active ownership, investing in local communities and developing accessible and honest sale of financial products.<sup>885</sup>

GRI recommends financial institutions to continue using the G4 Financial Services Sector Disclosure together with the GRI Standards, even though they have not been updated yet.<sup>886</sup> Financial institutions should also have their sustainability report be verified externally.<sup>887</sup>

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**This leads to assessment elements**

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17	The financial institution publishes a sustainability report that may contain (a number of) disclosures from the GRI Standards.
18	The financial institution publishes a sustainability report that is set up in accordance with the (Core or Comprehensive option of the) GRI Standards.
19	The financial institution's sustainability report has been verified externally.

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The following requirements on transparency are laid down in the [GRI G4 Financial Services Sector Disclosures \(FSSD\)](#):

- Publication of the policy of the financial institution on specific issues and industries (FS1). If these policy documents are not publicly available, they are of less value. Because financial institutions cannot be held accountable when people that experience harm or disadvantage from the investments of a financial institution cannot verify to what standards the investments should comply with.
- Providing information on investments, divided according to region, size and sector (FS6: Percentage of the portfolio for business lines by specific region, size (e.g. micro/SME/large). This indicator provides contextual information on a financial institution's portfolio and customer base, and serves as a starting point for further engagement processes with stakeholders. It is particularly relevant when combined with information on environmental and social policies and risk assessment/screening procedures as applied to the different business lines.
- Providing information on how a financial institution deals with investments that do not (or no longer) meet the policy, the norms, or the contract conditions of the financial institution is now explicitly requested. Financial institutions have to report which action they have taken in these situations (for example engagement or exclusion), whether these actions have been successful and what further steps will be taken (FS1, FS2, FS3 and FS10).
- "Voting policy(ies) applied to environmental or social issues for shares over which the reporting organization holds the right to vote shares or advises on voting (G4-DMA and FS12)". This includes a "summary of voting practices during the reporting period including explanation of significant deviations from voting policies".<sup>888</sup>

The OECD's paper [Responsible business conduct for institutional investors](#) explains the application of the OECD Guidelines for Multinational Enterprises in the context of responsible investment and explains the obligations of investors on identification of business relationships: "An investor should account for how it has addressed adverse impacts throughout its operations and with its business relationships through (a) tracking and (b) communicating on results. [...] Public reporting may include information on the following:

- investor [Responsible Business Conduct] (RBC) Policy, including due diligence approaches;

- how investor RBC Policy and diligence approaches are implemented across different asset classes;
- engagement activities undertaken by the investor;
- companies with which the investor has engaged;
- results of engagement with specific companies;
- decisions regarding divestment;
- voting records of investor in investee company shareholder meetings and guidelines for voting in investee companies;
- investor’s future RBC plans and targets.”<sup>889</sup>

The OECD also recognizes the difficulties for financial institutions in balancing transparency and confidentiality. However, the OECD expects investors to “strive to account for their due diligence processes to the extent possible while respecting confidentiality concerns. This may involve:

- limiting access to sensitive information to those approved by the information provider.
- anonymising the source of information.
- providing a valid explanation or justification, where possible, for why the information has not been shared
- using third parties or innovative technologies that allow disclosure of key information while protecting commercially sensitive data, for example, to disclose certain information in aggregate or without identifying specific investor-investee relationships”.<sup>890</sup>

Therefore, financial institutions should publish their voting record, engagement activities regarding their investee companies, and exclusion list. This enables stakeholders to assess the sustainable investment practices of a financial institution.

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**This leads to assessment elements**

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12	The financial institution publishes the number of companies with which there has been interaction on social and environment topics (in line with GRIs G4 FSSD FS10).
13	The financial institution publishes the names of companies with which there has been interaction on social and environmental topics.
14	The financial institution publishes the results of engagement, including the topics, goals and deadlines.
15	The financial institution publishes the names of companies that are excluded from investment due to sustainability issues, including the reasons for this exclusion.
16	The financial institution publishes its voting record.

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- **Consultation**

Respecting the interests of the stakeholders is one of the principles in [ISO 26000:2010 Guidance on social responsibility](#): “an organisation should respect, consider and respond to the interests of its stakeholders.” The document also elaborates on ways to implement an effective stakeholder dialogue as part of the social responsibility of organisations.<sup>891</sup>

Through consultation mechanisms, financial institutions can also consult civil society organisations on their investment policy on certain sectors and issues. In order to make such consultations effective, it is important that financial institutions translate their policy documents into a language and jargon that is comprehensible to the communities and organisations involved. Such a consultation has to be a dialogue, a two-way process. When financial institutions do not take the concerns, sensitivities and other stakeholders’ contributions

seriously, the process is useless. Serious concerns have to lead to adaptation of the policy of the financial institution and the procedures followed.<sup>892</sup>

GRI Standards Disclosure 102-40 requires companies to publish a list of stakeholder groups. GRI Standards Disclosure 102-44 requires companies to report on key topics and concerns raised through stakeholder engagement.

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**This leads to assessment element**

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20	The financial institution reports on the consultation with civil society organisations and other stakeholders.
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- **Grievance mechanisms**

In the United Nations Guiding Principles on Business and Human Rights (UNGPs), the lack of grievances procedures is mentioned as a weak point of companies. This is lacking in all initiatives of financial institutions that want to guarantee compliance with human rights for the companies in which they invest or finance. An earlier UN report by prof. John Ruggie had indicated that "In the absence of an effective grievance mechanism, the credibility of such initiatives and institutions may be questioned."<sup>893</sup>

Financial institutions are accountable to local communities and other stakeholders for involvement in companies they invest in or finance. The companies themselves are primarily responsible for the social and environmental effects of their activities; any grievances of communities should first be directed at them. However, this does not absolve a financial institution from the obligation to ensure that all investees meet the standards set by the financial institution in its investment and finance policies.

According to the Office of the High Commissioner for Human Rights, UNGP 29 expects banks to have grievance mechanisms in place (their own, or one they participate in or cooperate with). Furthermore, in line with UNGP22 banks too are expected to take responsibility for enabling remediation to communities and individuals that have been adversely impacted by the activities of companies that are financed by the bank. While operational level grievance mechanisms (either of the bank itself or established by other entities) are one means through which remediation can be provided, some impacts may be best remediated through other legitimate mechanisms, including State-based judicial and non-judicial mechanisms. Banks should respect stakeholder preferences with respect to use of a grievance mechanism or other legitimate processes, and "engage with the latter in good faith".<sup>894</sup>

Most multilateral development banks and export credit insurance companies have a grievances procedure. Although limited in scope, the OECD National Contact Points can be considered as a grievance mechanism.<sup>895</sup> Financial institutions should therefore cooperate with OECD National Contact Points if stakeholders prefer to use it as a grievance mechanism.

For non-judicial grievance mechanisms, both State-based and non-State-based, to be effective, the UNGPs expect it to be:<sup>896</sup>

- Legitimate;
- Accessible;
- Predictable;
- Equitable;
- Transparent;
- Rights-compatible; and
- A source of continuous learning.

On the point of transparency, the guidance for UNGP 31 further stresses that a non-judicial grievance mechanism should keep parties to a grievance up-to-date about its progress, and provide sufficient information about the mechanism's performance, in order to build confidence in its effectiveness and meet any public interest at stake.<sup>897</sup>

This is also relevant for operational-level grievance mechanisms. FFGI expects financial institutions that choose to establish a grievance mechanism themselves, to report about complaints received and about the progress of the complaints that are dealt with by the financial institution.

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**This leads to assessment elements**

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21	The financial institution offers complaint mechanisms for clients and non-clients.
22	The financial institution establishes or participates in effective operational-level grievance mechanisms for individuals and communities that may be adversely impacted by activities that it is connected to.
23	The financial institution reports on the grievance mechanism process, including its progress and performance.
24	The financial institution commits to respecting and cooperating in good faith with State-based non-judicial and judicial grievance mechanisms when cases that it is connected to are brought to such a mechanism.

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#### 4.4.3 Assessment elements

For financial institutions that take social responsibility seriously, transparency and accountability is of great importance. The following elements are crucial regarding the financial institution's internal operations:

1. The financial institution describes its finance and investment framework regarding environmental and social issues and provides insight into how the financial institution ensures that investments meet the conditions set in its policies.
2. The financial institution's finance and investment performance regarding environmental and social issues is audited vis-à-vis its relevant policies by a third party and the results are published.
3. The financial institution publishes the names of governments in which it invests.
4. The financial institution publishes the names of companies in which it invests.
5. The financial institution mentions and describes all companies (on its website) to which it grants new credits.
6. The financial institution mentions and describes all companies (on its website) to which it has granted credits.
7. The financial institution discloses the names of all outstanding project finance transactions and project-related corporate loans, including the information required by the Equator Principles III.
8. The financial institution publishes a breakdown of its portfolio by region, size and industry (in line with GRI G4 FSSD FS6).
9. The financial institution publishes a breakdown of its portfolio in a cross table, combining industry and region data.
10. The financial institution publishes a sufficiently detailed breakdown of its portfolio, for example based on the first two digits of NACE and ISIC.
11. The financial institution publishes a sufficiently detailed breakdown of its portfolio, for example based on the first four digits of NACE and ISIC.

12. The financial institution publishes the number of companies with which there has been interaction on social and environment topics (in line with GRIs G4 FSSD FS10).
13. The financial institution publishes the names of companies with which there has been interaction on social and environmental topics.
14. The financial institution publishes the results of engagement, including the topics, goals and deadlines.
15. The financial institution publishes the names of companies that are excluded from investment due to sustainability issues, including the reasons for this exclusion.
16. The financial institution publishes its voting record.
17. The financial institution publishes a sustainability report that may contain (a number of) disclosures from the GRI Standards.
18. The financial institution publishes a sustainability report that is set up in accordance with the (Core or Comprehensive option of the) GRI Standards.
19. The financial institution's sustainability report has been verified externally.
20. The financial institution reports on the consultation with civil society organisations and other stakeholders.
21. The financial institution offers complaint mechanisms for clients and non-clients.
22. The financial institution establishes or participates in effective operational-level grievance mechanisms for individuals and communities that may be adversely impacted by activities that it is connected to.
23. The financial institution reports on the grievance mechanism process, including its progress and performance.
24. The financial institution commits to respecting and cooperating in good faith with State-based non-judicial and judicial grievance mechanisms when cases that it is connected to are brought to such a mechanism.

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**profundo**  
RESEARCH & ADVICE

Radarweg 505  
1043 NZ Amsterdam  
The Netherlands  
+31 (0)20 8208320  
profundo@profundo.nl  
www.profundo.nl