



# profundo

RESEARCH & ADVICE

## annual report 2014

### Fair Bank Guide

## More transparency of banks required

**At the end of 2014 the Fair Bank Guide evaluated its first five years. In this project Oxfam Novib, Friends of the Earth, Amnesty International, Dutch Society for the Protection of Animals, PAX and trade union FNV cooperate to inspire the Dutch banks to make their investments contribute to sustainability.**

Commissioned by the Fair Bank Guide, Profundo annually assesses the investment policies of the ten largest Dutch banks. The evaluation focuses on ten sustainability issues (e.g. climate, human rights, corruption and nature) and on nine sensitive sectors (e.g. mining, agriculture and manufacturing). Over these five years, the banks have improved their policies on 165

concrete points. However, with regard to issues such as climate change, animal welfare, tax avoidance and housing, the investment policies of many banks are still inadequate.

Moreover, proper policies alone are not sufficient. Therefore, Profundo carries out two case studies per year to assess how banks use their financial influence, for example by not lending to companies that do not comply with certain sustainability standards, or by imposing conditions on new loans. Private bank customers still have inadequate means to check what their bank is doing, since the banks hardly provide any information on many of their investments. The transparency case study has clearly shown that

most banks still have to do a lot to meet the transparency guidelines of the Global Reporting Initiative (GRI).

Hopefully, growing political pressure helps. In December, when Minister for Foreign Trade and Development Cooperation Lillianne Ploumen received a brochure on five years of Fair Bank Guide, she announced that within two years there should be a covenant on International Corporate Social Responsibility for the financial sector. Minister of Finance Jeroen Dijsselbloem supported her a bit later: "If possible, we will speed up the process. In case there will be no covenant, or too little progress, we are ready to lay down stricter norms in legislation".

Another initiative came from

Arnold Merkies, MP for the Socialist Party, who drafted a legislative proposal on sustainable banking - inspired by the Fair Bank Guide. It includes 11 concrete proposals, including more

transparency about investments, publishing an exclusion list, tax incentives for sustainable investments and a right to information for savers.



Minister Lillianne Ploumen receives the brochure on 5 years Fair Bank Guide from Oxfam Novib director Farah Karimi

### Fair Finance Guides

## Comparing and stimulating banks everywhere

**Following the example of the Dutch Fair Bank Guide, at least six other countries are now launching their own Fair Finance Guides (FFG).**

In each country a coalition of civil society organizations assesses the quality of the investment policies of the largest banks in their country with regard to key sustainability issues, such as nature, human rights, environment and corruption. Profundo further develops the assessment methodology, pro-

vides trainings on evaluations and ensures quality control.

In December the Japanese FFG was presented, followed by Sweden in January 2015 and Brazil in February. France, Belgium and Indonesia will follow soon. FFGs are developed in other countries as well, to enable bank customers to compare banks and to encourage them to invest in a more sustainable way - based on the same methodology everywhere.



Launching of Guia dos Bancos Responsáveis, the Brazilian Fair Finance Guide, February 2015

### Carbon bubble

## Does investing in coal make sense?

**Despite the high levels of greenhouse gas emissions, the global coal-fired power generation capacity will continue to grow strongly in the coming decades. This is only possible due to investments of banks and investors in coal mines and power plants.**

Research for Urgewald and BankTrack shows that since 2005, when the Kyoto Protocol came into force, 92 international banks, invested € 373 billion in the 65 largest coal companies and operators of coal-fired power plants. 2013 was a record year,

with € 66 billion of new financing by banks for the coal industry. US banks JP Morgan Chase and Citi, together with British bank RBS, are the main funders.

Eventually a global transition to renewable energy is, however, inevitable. This transition can be accelerated by a new international climate agreement. Untapped reserves of fossil fuels - from which many energy companies derive their value - will then become worthless. More and more banks and investors realize that this CO2 bubble creates a financial risk. Commissioned by

### Chain Reaction Research

## Ignoring sustainability creates financial risks

**When a palm oil company is responsible for deforestation, peat land development or social conflicts, it increasingly violates rules or policies set by governments, customers and banks. This may cause the company to get fined, to lose concessions, to lose customers, or to face higher costs of capital. In this way sustainability risks can also create financial risks.**

Together with Aidenvironment and Climate Advisers, Profundo has set up the Chain Reaction Research (CRR) project. This project assesses the risks to which investors and financiers of palm oil companies are exposed. Through field research, analysis of

satellite images and other sources, CRR determines whether and where a palm oil company creates sustainability risks. CRR then designs possible scenarios on how governments, buyers and financiers could respond to these risks. Using a financial model, CRR analyzes the potential impacts of these scenarios on the financial ratios of the company, to quantify the financial risks for its shareholders and lenders.

So far, CRR published four reports on palm oil companies, often prior to an IPO. These reports were well received by investors and banks. Prompted by questions from their financiers, some companies have already taken steps to address their sustainability risks. In 2015, CRR will publish more company analyses and will examine whether the approach can be extended to other sectors.

### Tax avoidance

## Banks still too credulous

**Most Dutch banks have branches in tax havens or provide services to shell companies established there. Seven banks are not clear enough about the measures they take to prevent tax avoidance through these activities.**

Worldwide the awareness is growing that developing countries miss out on billions of state revenues due to tax avoidance. These countries urgently need that money for government tasks like healthcare or education and to stimulate their economy. Banks respond to the issue with stricter tax standards for themselves and for their clients, but often they remain too credulous regarding their cus-

tomers' compliance with these rules. This was shown by Profundo research for the Fair Bank Guide.

ABN Amro, ING and Rabobank, for example, provided loans to Gunvor, a Russian oil trading company, which is linked to tax avoidance and corruption and which, according to the American government, partly belongs to Putin himself. The banks hardly seem to have addressed this issue. DNB, the regulator of the Dutch financial markets, has endorsed this conclusion in February 2015, and wrote a vivacious letter to ABN Amro: "Signals regarding this client, that are pointing at corruption, have only been partially looked into and analysed."

### Governments

For government organizations and research institutes Profundo can:

- analyse markets and sectors to identify policy options
- analyse the role of financial institutions in policy issues
- evaluate policies and financial instruments



## NGO-training

# How do you hold financiers to account?

Palm oil is widely used for food products, personal care products and biodiesel. To meet the demand, plantation companies log vast areas of forests in Indonesia and create hundreds of conflicts with local communities whose farmland is grabbed.

Local organizations that try to hold the companies to account often get no answer, and are sometimes persecuted. An alternative might be to address the domestic and foreign banks and investors, who play an important role in the financing of oil palm plantations. But how do you do that in an effective way? Which arguments are convincing and how to increase the pressure?

Regarding these questions Profundo, together with TuK Indonesia, developed trainings for local organizations. The trainings

were given in Central Sulawesi and Bengkulu (Sumatra), with the support of several international organizations.



NGO training in Central Sulawesi (photo: Brihannala Morgan)

## Commodity chains

### Livestock sector does not meet soy target

In 2013, only a quarter of the 2.4 million tons of soy used in the Netherlands - mainly for animal feed - was certified. The Dutch goal of using 100% responsibly produced soy in 2015 is unlikely to be met.

This is shown by the Soy Barometer 2013, written by Profundo for the Dutch Soy Coalition in which eight development and environmental organizations are collaborating. The dairy sector appears to meet its commitments, but the pig and

poultry sectors do not. This is of serious concern, because the cultivation of soy in many Latin American countries leads to conflicts with local communities about farmland, to deforestation, to loss of wetlands, to climate change, to environmental problems caused by pesticide use and to a loss of food security.

For various clients Profundo also investigated in 2014 international commodity chains for tuna, rubber, gold, shrimps, timber and cow leather.

## Controversial weapons

### Investments increasingly controversial

A cluster bomb distributes a large number of submunitions over a wide area, which often leads to a lot of civilian casualties. Since not all submunitions explode immediately, each year another 15 to 20 thousand deaths and injuries occur in areas where conflicts have already ceased.

In August 2010 the Convention on Cluster Munitions, which prohibits all use, transit, storage and production of cluster munitions, entered into force. Today, in several countries, including the Netherlands, investments in cluster munitions producers are also prohibited. Yet, in a study for PAX, Profundo still identified 151 financial institutions from, amongst others, the US, China, Japan and Singapore making such investments. Together they have invested, between June 2011 and September 2014, \$27 billion in seven producers of cluster munitions. A

total of 36 financial institutions, 19 from the Netherlands, were listed in the Hall of Fame because their policies do not allow investments in cluster munitions in any form.

Profundo also did a research project for PAX into investments in companies, from the US, England, France, India and China, that produce and maintain nuclear weapons. The study concluded that 411 financial institutions from all over the world invested \$402 billion in these companies. Political support for a convention on banning nuclear weapons is now growing worldwide. "The financial sector cannot ignore these developments and should immediately withdraw its investments in the nuclear weapons industry", according to PAX. At the moment, eight financial institutions, including five from the Netherlands, exclude investments in nuclear weapons completely.



Cluster bomb. Photo: Stefano Chiolo (PAX)

## Investors

For institutional investors Profundo can:

- develop responsible investment policies
- screen investment portfolios on sustainability risks
- advise on various instruments for responsible investment
- select fund managers and data providers
- identify and assess impact investment opportunities

## Fisheries

### Banks ignore sustainable fish

For WWF International Profundo identified the 25 banks which are most important in financing the 60 largest fishing companies in the world. Only two banks were found to have a policy about fisheries, of which only one demands from its customers that they will be certified by the Marine Stewardship Council (MSC) for sustainable fishing. The fisheries sector is not a priority for banks because there is less money involved than in other sectors. The great

impact that unsustainable fishing methods have on the biodiversity of the oceans does not alter this - although some banks wanted to talk to WWF after this research project.

Profundo also researched, for Greenpeace International, tax avoidance strategies of Spanish tuna fishing companies. And for Greenpeace Netherlands, Profundo examined subsidies and state support given to three large pelagic fishing companies.

## NGOs

For civil society organizations (NGOs) Profundo can:

- research the involvement of financial institutions in companies and issues
- analyse investments, supply chains and tax avoidance
- assess investment policies of financial institutions
- prepare CSR profiles of companies
- give strategic advice and training
- evaluate government policies and develop lobby proposals

## Government policies

### Land grabbing and road construction in tropical forests

Commissioned by FERN, Global Witness and Friends of the Earth Europe, Profundo explored options for including sustainability criteria to prevent land grabs in European financial regulations. The results are used to develop a concrete lobbying strategy.

For other civil society organiza-

tions Profundo has done a lot of research into the financing of companies that are involved in land grabbing. Among others, the involvement of American, German, Australian and Swiss banks was researched.

Furthermore, Profundo researched public funding and policies for the construction of roads through the

tropical forests of Africa, Asia and Latin America, on behalf of European Parliament member Kriton Arsenis' Roads Free Initiative. And for Greenpeace Profundo identified government policies and funding regarding the agricultural sector in Europe.

## Dutch Lower House

### Profundo stimulates parliamentary debate

Profundo research was regularly subject of debate in the Dutch Lower House in 2014. Five times MPs asked questions on Profundo studies, two motions were adopted, a legislative note was presented and five letters were written by ministers.

Responding to Profundo research for Oxfam Novib and Friends of the Earth Netherlands, the Socialist Party successfully filed a motion in which the government was asked to come to binding agreements with the financial sector to prevent land grabs.

And a motion of the Party for Animals has led to ethical criteria which the Ministry of Finance will use in the tender for a new state banker. Profundo research has shown that the current banker, the British bank RBS, scores poorly on the criteria used by the Fair Bank Guide.

The Dutch Labour Party asked questions about abuses taking place at the construction sites of

football stadiums and infrastructure in Brazil and Qatar, following Profundo research on this issue for trade union FNV. The Party for the Animals asked questions about pension funds' investments in meat and dairy companies abroad which confine livestock at densities which are not allowed in the Netherlands, following a Profundo report for Wakker Dier.

The Socialist Party asked the government - based on Profundo research - about the role of the development bank FMO in a controversial dam project in

Honduras and about insurance companies' investments in the pharmaceutical sector.

Finance Minister Dijsselbloem was asked by the Green Left Party to let the financial supervisor DNB examine the vulnerability of the Dutch financial sector for a carbon bubble. The Parliament also asked the Minister to give a written response to the Fair Bank Guide report on the involvement of banks in tax avoidance. In his response he largely agreed with the recommendations of the report.



Party for Animals demonstrate at RBS. (photo: Menno Herstel)

## Insurance companies

### Too little attention for access to medicine

Through their investments in equities and corporate bonds, life insurance companies are major financiers of companies all around the world. Since the end of 2013, the Fair Insurance Guide, developed by the same organizations that collaborate in the Fair Bank Guide, attempts to encourage the ten largest insurance companies in the Netherlands to draft more sustainable investment policies.

Research by Profundo showed that three insurers - Vivat, Achmea

and ASR - actively improved their investment policies in 2014, among others on tax, labour rights and nature. The large foreign insurers operating in the Netherlands - Allianz, Generali and Legal & General - clearly lag behind.

Profundo also examined the extent to which insurers take "access to medicine" into account in their investment decisions. The Access to Medicine Index annually identifies what pharmaceutical companies do to improve the

health of low-income groups, for instance by releasing patents or by doing research on tropical diseases. Although all insurers say they find this issue important, none of them proved to invest demonstrably more in companies that score better on the AtM index. They also hardly discuss the matter in conversations they have with pharmaceutical companies. With their financial impact, insurers could do much more to improve the health of the poorest part of the world's population.