

New report by SOMO outlines critical issues financial industry

Indispensable tool for campaigners

Dear CSR campaigners and BankTrackers,

Actions to stop private banks from financing projects that harm people and damage the environment have recently made progress and have resulted in various corporate social responsibility (CSR) initiatives.

For your information and to support CSR campaigners, SOMO has published a new report on the financial industry; called "**Critical issues in the financial industry**".

The report gives an overview of the many CSR initiatives at international level, including those on financial services that receive much less CSR attention (e.g. insurance, investment banking).

The most important findings for your work are:

The report indicates that the CSR initiatives still cover only a small part of company financing by banks and that these initiatives have little tools to effectively advance sustainable development.

The conclusions of chapter 4 outline the challenges for finding the best strategies to make progress on CSR initiatives in the financial sector, for instance on social aspects. Other chapters of the SOMO financial industry report point to the many critical issues for poverty eradication and sustainability related to the financial industry products, strategies and regulations, including in the WTO negotiations on services (GATS).

Project financing moving away from credit

The SOMO report (chapter 2, p. 49) finds that only a part of project financing is done through loan contracts. The open account of a company at a bank can be used to finance damaging operations and projects which is less observable to stakeholders.

Financing of big projects is increasingly done through selling **bonds to investors**. Especially US banks are interested in underwriting bonds for projects. This gives them a much higher profit margin than providing credit which is now especially done by European banks.

Authorities are increasingly replacing banks by **accountants** when seeking project **financing advice** (because banks are too expensive).

Rating agencies that assess the value of companies influence the level of financial services banks and insurers provide to companies and multinationals.

NGOs protesting against financing of damaging projects are thus faced with the challenge to target a diverse group of investment banks, bond holders, advising accountants and rating agencies and to provide them with social and environmental criteria to be taken into account.

International regulators have little interest in CSR initiatives

A worrying finding of the report is that the financial industry is constantly in close contact with the regulators and that its powerful voice contrasts dramatically with the voice of civil society groups, which is barely, if ever, heard at the international standard setting bodies.

Regulators and supervisors at international level have little interest in compelling the financial industry to support international agreements to eradicate poverty, and to promote sustainable development and corporate social responsibility. They international seem to be hugely underestimating the risks and costs from environmental degradation and unfair globalization that marginalizes the poor. The work of international financial standard setting bodies is not transparent and to date has no system to involve all stakeholders. A lot of work needs to be done to that extend.

No wonder there is not enough money for sustainable development and CSR issues; all mainstream financial instruments have no binding obligation to prioritise sustainability: not in savings, credit, investments, hedging or insurance.

Corporate financing to be scrutinized in CSR campaigning

The SOMO report describes the many ways how banks and insurance companies support multinationals and their globalising strategies. This financial backing influences corporate behaviour through the following financial services:

- loans and advances; project financing
- open account; advisory services on all kind of corporate and financial issues, including on cash management and company restructuring
- trade finance/export finance; wholesale payments
- insurance of company activities, staff and (top)management
- investment banking (issuing shares and bonds to finance of companies)
- advice on, and financing of, mergers & acquisitions
- financing instruments with derivatives; protection against currency and price fluctuations
- services for benefits to employees of companies, including leasing of cars
- corporate pension fund management
- trust services and use of tax havens (supporting tax evasion)
- advice to investors, on which shares or bonds to buy from which company
- participation in management, and ownership of shares, of companies: as managers of mutual funds, during debt restructuring when the company to

whom the bank provided loans has financial problems, or as part of the bank's investment strategy to increase its own capital, etc.

By knowing the different financing mechanisms of corporations and multinationals, CSR campaigners can assess when it is useful to target the financiers to change the behaviour of a corporation.

The SOMO report "**Critical issues in the financial industry**" is available in full, and in different chapters, at: www.somo.nl (see publications 2004).

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