FOURTH REPORT

Ethical and Sustainable Finance in Europe

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Dear Reader,

with this 4th Report on ethical finance in Europe, we confirm the commitment undertaken years ago by our Foundation, to monitor both the evolution of ethical finance within this continent, and how its action, albeit a part of a plurality of experiences, is contributing to a change in the "mainstream" financial culture.
The new EU legislation on sustainable finance is somehow a confirmation of this, even if, as we will see in this research, there are still many differences that characterize the two approaches to finance and, more generally, the different economic and social reference scenarios.
The defining feature of this report is the avoidance of any self-referential assumptions and statements, using instead, in comparison with the traditional banking system, criteria and indicators as objective as possible, from the "classic" ones referring to economic strength and efficiency to those aimed more at the social and environmental impact on communities and territories. The in-depth study on the report 'Ethical finance and human rights' should also be seen from this perspective, which is the basis for any serious reflection on corporate social responsibility.
In this fourth report, an interesting comparison is made between ethical banks and the co-operative banking model, perhaps the closest to our culture, even if in recent years it has been particularly affected by the influences and conditions of a way of thought oriented more "towards financial capital than towards the social one." Furthermore, a deeper understanding of how the institutions of ethical finance have contributed to countering the effects of the pandemic, placing themselves at the service of people and organizations for which there can be no development without human growth characterized by a great harmony between the economy and integral ecology, could not be missed.
I conclude with a brief reflection on how the practice of analyzing numbers, comparing data and benchmarks, elaborating the most sophisticated indicators, can instead drive us away from how and where those questions, to which we then try to respond with figures, arise. Mathematics, econometrics, statistics are very important in our job, but if we do not ask ourselves what world we would like to live in, what kind of relationships we would like to build, how much importance we assign to others in the pursuit of our happiness, how much our interests consider also those of others, the risk of confusing objectives with instruments remains high; and if this happens, the most immediate consequence may be that of not really contributing to those change processes for which we have been given trust and resources.

Marco Piccolo
President of Fondazione Finanza Etica

EVERYONE TALKS ABOUT ETHICAL FINANCE. FEW ARE PRACTICING IT.

Interest in sustainable finance has never been higher. However, the risks of greenwashing are equally high.

In the first three months of 2021, around two billion dollars a day were invested in so-called “sustainable” funds: half of all the money invested in funds in Europe[1]. Sustainable finance, which respects ESG (environmental, social and governance) criteria, has never been so popular. If in 2019, 39% of investment companies declared that they did not implement specific ESG policies in financial and banking activities. In 2021, financial institutions completely “indifferent” to ethics have dropped to just 28% of the total[2].
“If your ESG feelings are only of medium intensity, you don’t have to do anything,” wrote Merryn Somerset Webb, editor-in-chief of Money Week and columnist for the Financial Times. “Because for more than 70% of financial companies, ESG criteria are now the norm.” Therefore, it is very likely that, by turning to any bank, your average social or ecological aspirations are already reflected in the financial products you decide to buy.
This is the idea that is currently spreading in the banking and financial markets and against which we have fought, data in hand, in this fourth *Report on ethical and sustainable finance in Europe*.
We have done so in three ways: 1) revealing that the differences between ethical and conventional banks are, first of all, structural (Part I); 2) dismantling the first provision (EU 2019/2088) of the European Action Plan on Sustainable Finance (Part II); 3) highlighting how, in ethical report cards now attributed to the big banks, human rights violations are not assessed appropriately (Part III).

Ethical banks engines of the real economy

In part I, we have repeated the exercise of the three previous *Reports*, comparing the structure, growth and performance of the European ethical banks with those of the aggregate of the approximately 4,500 banks operating in the Euro area, based on the data provided by the European Central Bank. For the first time, we have also put the aggregate of European cooperative banks on the other side of the scale. Finally, we have analyzed the innovative ways in which European ethical banks have coped with the Covid-19 emergency.
We have found that ethical banks, proportionately, grant more credit and offer more current accounts and deposits, are closer to small savers and households and are less involved in financial market activities. In addition, they have higher profitability and less volatile results over time, and resist crises better.
Here are, in summary, the results of the comparisons:

1. in the last ten years (2009-2019) ethical and sustainable banks have had twice the return of the European banking system, with an average annual profitability (in terms of ROE) of 5.31% against 2.37%;
2. assets, deposits, loans and net equity of ethical banks have increased with percentages of around 10% per year. To give an example, from 2009 to 2019, the assets (and therefore the total of investments, credits and liquidity) of ethical banks grew on average by 9.91% per year, compared to the + 0.41% per year of European banks. The same applies to customer loans: + 10.16% per year on average for ethical banks as opposed to + 0.63% of European banks;
3. over the last ten years, the structural difference between ethical banks and systemic banks has remained almost constant. We are faced with two profoundly different types of banks: ethical banks operate as banks in a “classic” way, collecting deposits and granting loans, whereas other banks are much more dedicated to other activities (investments in securities, financial services, etc.). In 2019, the granting of loans represented on average 73.2% of total assets for ethical and sustainable banks, but only 40.8% for the European banking system;
4. the total assets of European ethical and sustainable banks continue to grow. In 2019 they rose to 55.5 billion euros, 8.3% more than in 2018;
5. the unprecedented comparison with cooperative credit banks has shown that ethical/sustainable banks are close relatives of cooperative banks, also with regard to the capital structure;
6. Banca Etica’s growth rate has been generally higher than that of European ethical and sustainable banks, in particular with regard to deposits, profits and credits;
7. European ethical banks have adopted innovative strategies to alleviate the burden of the Covid-19 pandemic on their customers, exploiting the solidarity and the solidity of their reference networks.

1 Morningstar data
2 Based on a report by Natixis

A perfectible plan on sustainable finance

Part II of the report contains an in-depth analysis of the SFDR, the "Sustainable Finance Disclosure Regulation" (EU 2019/2088), the only regulation within the "Action Plan" of the European Commission in force so far.

We have found that under the new SFDR rules, almost one in four European investment funds (24%) has been classified as "sustainable" (totally or partially). Consequently, the total assets of so-called sustainable funds in Europe have jumped suddenly from 1,300 to 2,500 billion euros. Why is this the case? Our hypothesis is that the SFDR has set a low bar in terms of the definition of "sustainability."

We have then moved on to analyze the securities in the funds that are defined as "sustainable" in Italy and Spain, discovering unpleasant surprises: for example, companies that operate in the dirtiest part of the oil sector (oil sands, gas and oil fracking) or generate much of the energy they sell by burning coal.

The latest available data to which we have been able to refer to are dating back to December 2020. Hence it is possible that, in the meantime, things have changed for the better. We will verify this in the fifth report, which we will publish in 2022.

In general, we have highlighted that the whole "Action Plan" has a "a scaffale" ("shelf-like") approach. For conventional financial companies, sustainable funds continue to "coexist" with funds that do not adopt any criteria, and can therefore find in their portfolio companies that produce nuclear weapons or that have a very high environmental impact. For ethical banks, on the other hand, the approach to ethical finance is all-encompassing, because they only and exclusively promote products that meet strict social and environmental criteria.

In Part III, we present, as an exclusive, a research by the University of Pisa ("Banking on human rights"), which has classified a sample of global banks according to human rights violations, using a new methodology.

In the last decade, attention to the issue of "business and human rights" has grown considerably. However, the focus so far has been almost exclusively on manufacturing and mining companies, while banks have been overlooked.

The "Banks HUMAN RIGHTS Index", which emerges from the research, is different from the ESG indicators with which ethical rating agencies give "ethical" scores to banks (and other companies) Because the focus is exclusively on violations ("do harm"), and not *also* on the policies put in place by banks with regard to business and human rights ("do good"). This is a fundamental element because, often, ESG indicators tend to compensate for violations with positive prevention policies, resulting in violations being underweighted in the final score.

Based on the data collected in the research work of the University of Pisa, referring to the period 2000-2015 and the randomized sample of 178 banks used, the five banks with the worst score on human rights globally were found to be Standard Chartered Banks, BNP Paribas, Société Générale, Berkshire Hathaway and Svenska Handelsbanken.

Most of these banks (and others that scored low on human rights) make explicit statements on how they intend to address current sustainability challenges. So far, however, much of the effort has been spent on the fight against climate change, while on the human rights front, they often stop at announcements. Compared to other sectors, the banking sector is severely lagging behind.

In the future, however, the banking sector could play a decisive role in the protection of human rights, because it has the power to influence (granting or not granting financing) the third parties responsible for the violations.

Mauro Meggiolaro

FIRST PART

Banking systems in comparison

1.1 ETHICAL AND COOPERATIVE BANKS, DRIVING FORCES OF THE REAL ECONOMY

In the first three reports on ethical and sustainable finance in Europe, we have compared the numbers of European ethical and sustainable banks with those of large, systemically important banks and of all banks operating in the euro area.
We have found that ethical banks are different from others, not only because of the social and environmental criteria they adopt but also because of their particular asset structure. In proportion, they grant more loans and offer more current accounts and deposits, are closer to small savers and households and are less involved in activities on the financial markets. In addition, they have greater profitability, less volatile results over time and they resist better to crises.
This year, we have updated the comparison with the aggregate of all the approximately 4,500 banks operating in the euro area[1] and we have added a new comparison. For the first time, we have placed the aggregate of European cooperative banks on the other side of the scale, based on data provided by the EACB, the European Association of Co-operative Banks[2].
We have chosen to make this new comparison because most of the main ethical and sustainable banks are also cooperative banks, based on the participation of members and on the principle of "one person, one vote".
For European ethical and sustainable banks, last year's team has been basically confirmed: all European members of Gabv (to which, in 2019, the Danish bank Folkesparekassen was added), two members of Inaise and seven members of Febea (from which, since 2019, we have removed Caisse Solidaire, now completely consolidated in the balance sheet of Crédit Coopératif)[3]. We have chosen only those who carry out banking activities (collection of savings, granting of loans and investments) with a prevalent social and environmental orientation and who have made the financial statements of at least seven of the last ten years available. The purpose of the comparison has remained the same: to understand whether ethical and sustainable banks, which finance social, environmental and cultural projects, are also sound from an economic-financial point of view and can hold up the comparison with other banks.

The Results

First of all, we have compared the weight of credit activity on total assets for ethical and sustainable banks, for European cooperative banks and for the aggregate "European banks," corresponding to the European banking system as a whole.
As can be seen (**Graph 1**), credit is by far the main activity for ethical banks (76.44% of total assets in 2019), it represents almost 60% of the assets for cooperative banks, while it corresponds to less than half of the assets for the European banking system. Ethical banks, together with cooperative banks, are hereby confirmed, even if the latter to a lesser extent, to be more devoted to traditional banking (collection of savings and granting of credits) than the European banking sector as a whole, which appears to be concentrated on other types of activities instead: investments in securities, financial services, shares in companies, etc.

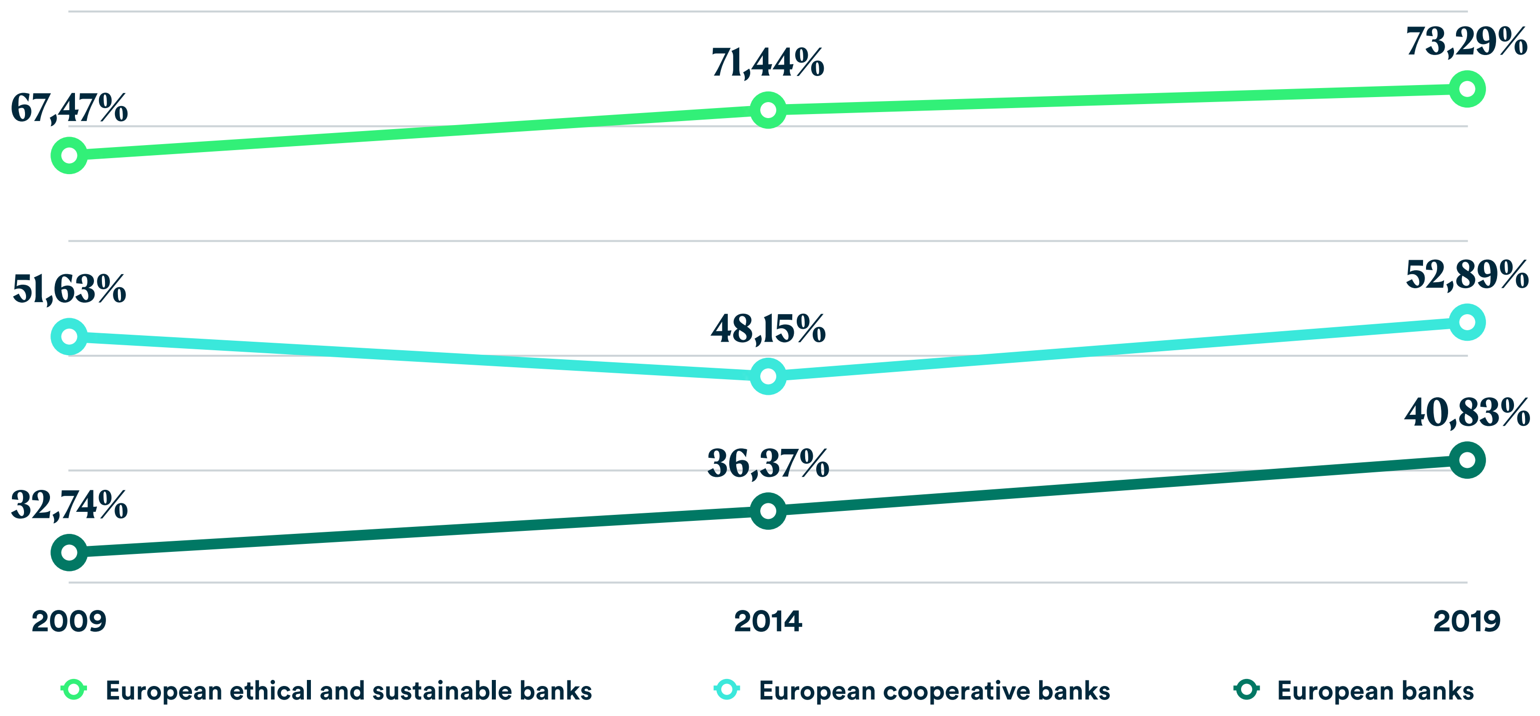
Graph 1 - Credits as % of total assets (simple averages calculated on total aggregate data).

It is important to underline that, in recent years, cooperative banks have gradually increased the share of assets committed to credit activities, growing by almost 7 percentage points from 2014 to 2019, while ethical and sustainable banks have maintained a high and stable propensity to credit activity throughout the entire period covered by the analysis.
From 2009 to 2019, the weight of credit activity on the total has increased for all three samples, although to a lesser extent for the team of "European banks" (+ 0.85%) compared to cooperative banks (+1.89 %) and ethical and sustainable banks (+ 1.36%).
Given that credit can be considered, to some extent, as a financing activity of the real economy (in the absence of more precise data in the

1 Source: European Central Bank
2 For more details on the aggregate, see the appendix.
3 Which are not, at the same time, partners of Gabv.

banks' balance sheets), we can conclude that ethical and sustainable banks, together with cooperative banks, operate more in support of the real economy (production of tangible goods and services) while the European banking system, on average, is more oriented towards the financial economy (stock market investments, sale of securities, etc.). In any case, this is an approximation, with a simple indicative value. In recent years, economic structures and paradigms have changed a lot, in fact:

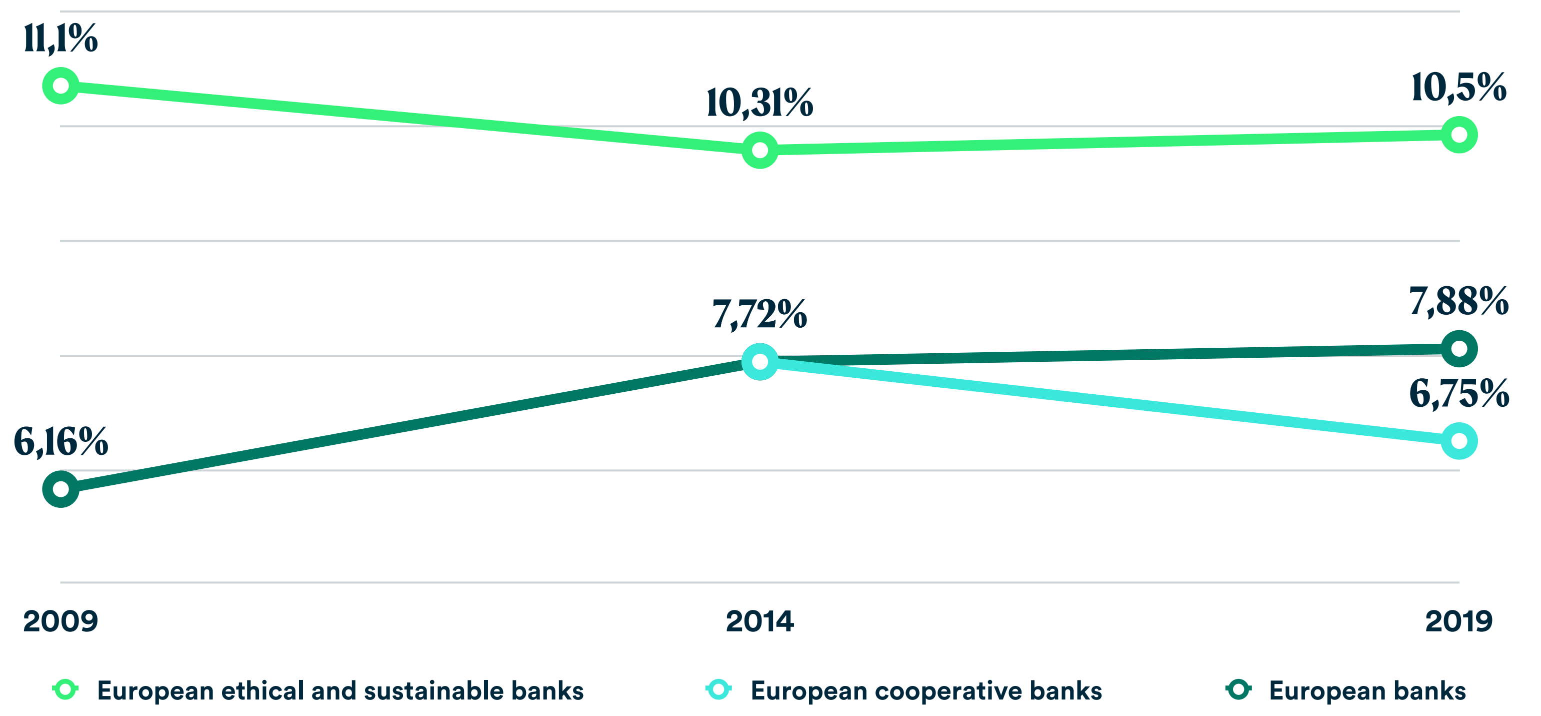
- since the 2008-2012 liquidity crisis, all the market surveillance authorities (first of all, the European Central Bank) are looking with concern at a credit/borrowing ratio of more than 70%;
- in a period, such as the present, in which interest margins (difference between lending rates, credit rates and borrowing rates, on deposits) are very compressed, mainly due to the expansionary monetary policy of the ECB, it is also important for ethical banks to have a better balance between revenues from interest and commissions (e.g., from the sale of funds or securities);
- recent history has shown that too fast credit growth (see the case of the Cooperative Credit Banks in the period 2010-2014) brings about strong risks of loss of control and an increase in impaired credit, failure to adapt skills, processes and controls at the same pace.
- impact financing, also influenced by the long phase of flat rates, has led many banks to seek "useful" finance interventions outside the traditional credit sector, for example through direct investments in corporate capital. Therefore, there may also be non-credit activities addressed to the real economy. The same investment in government bonds, if made from a long-term perspective, represents a contribution to the real economy of a given country.



Graph 2 - Deposits as % of total liabilities (simple averages calculated on total aggregate data).

The difference between the two groups of banks (ethical/sustainable and cooperative banks on one hand, and the aggregate of all European banks on the other) is also confirmed by the percentage of deposits in total liabilities[4].

As can be seen (**Graph 2**), ethical and sustainable banks and cooperative banks raise money (which they then, mainly, lend in form of loans) mainly through customer deposits while, on average, European banks raise liquidity (to be lent or invested) mainly from other channels, such as bond issuing or deposits from other banks. Only 40.83% of the liabilities of European banks are deposits: a percentage that has grown steadily over the past 10 years, and then stabilized at around 40% since 2017. There has been a steady growth in deposits (on total liabilities) over the reference period for ethical and sustainable banks as well, while cooperative banks have remained stable at around 50%.

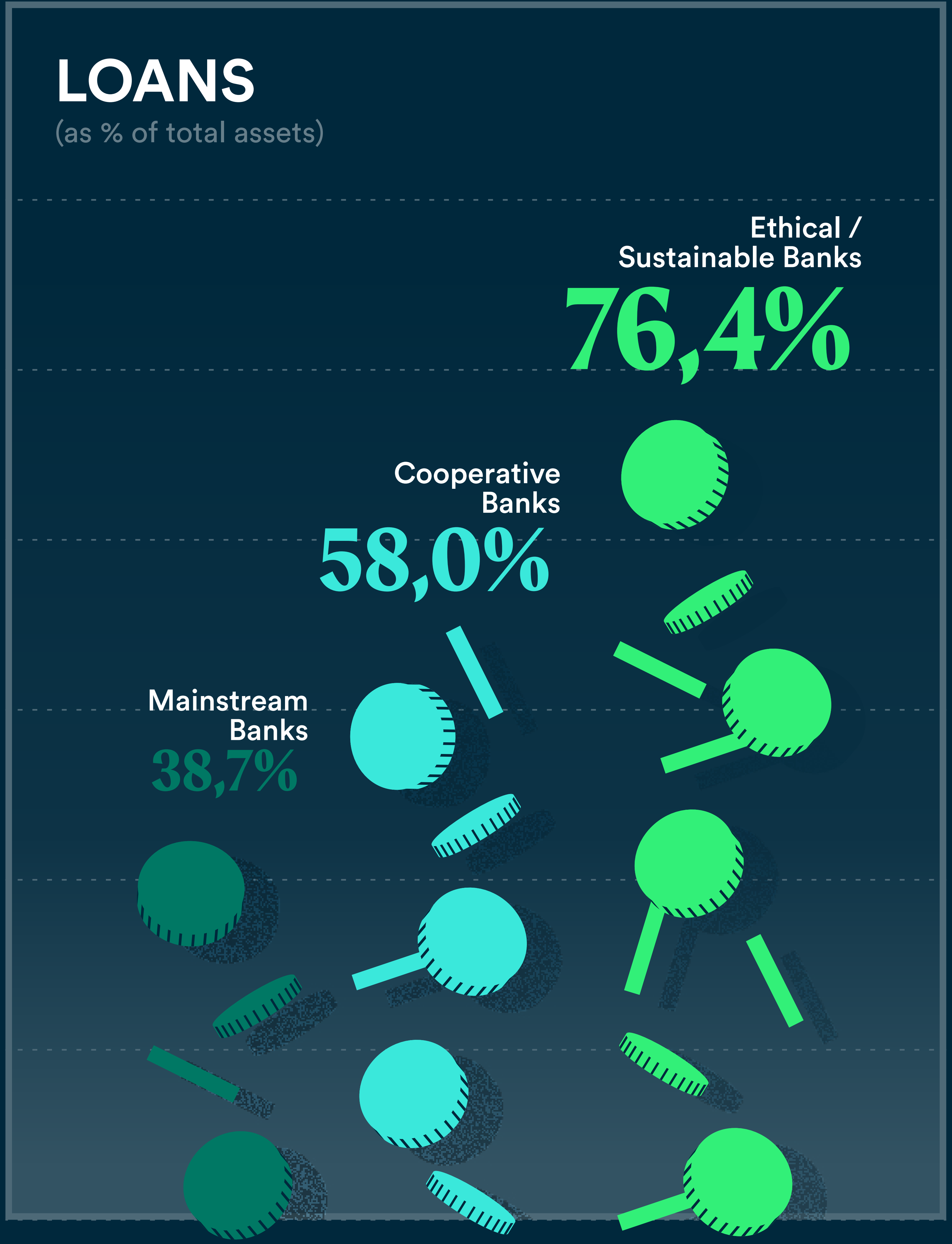


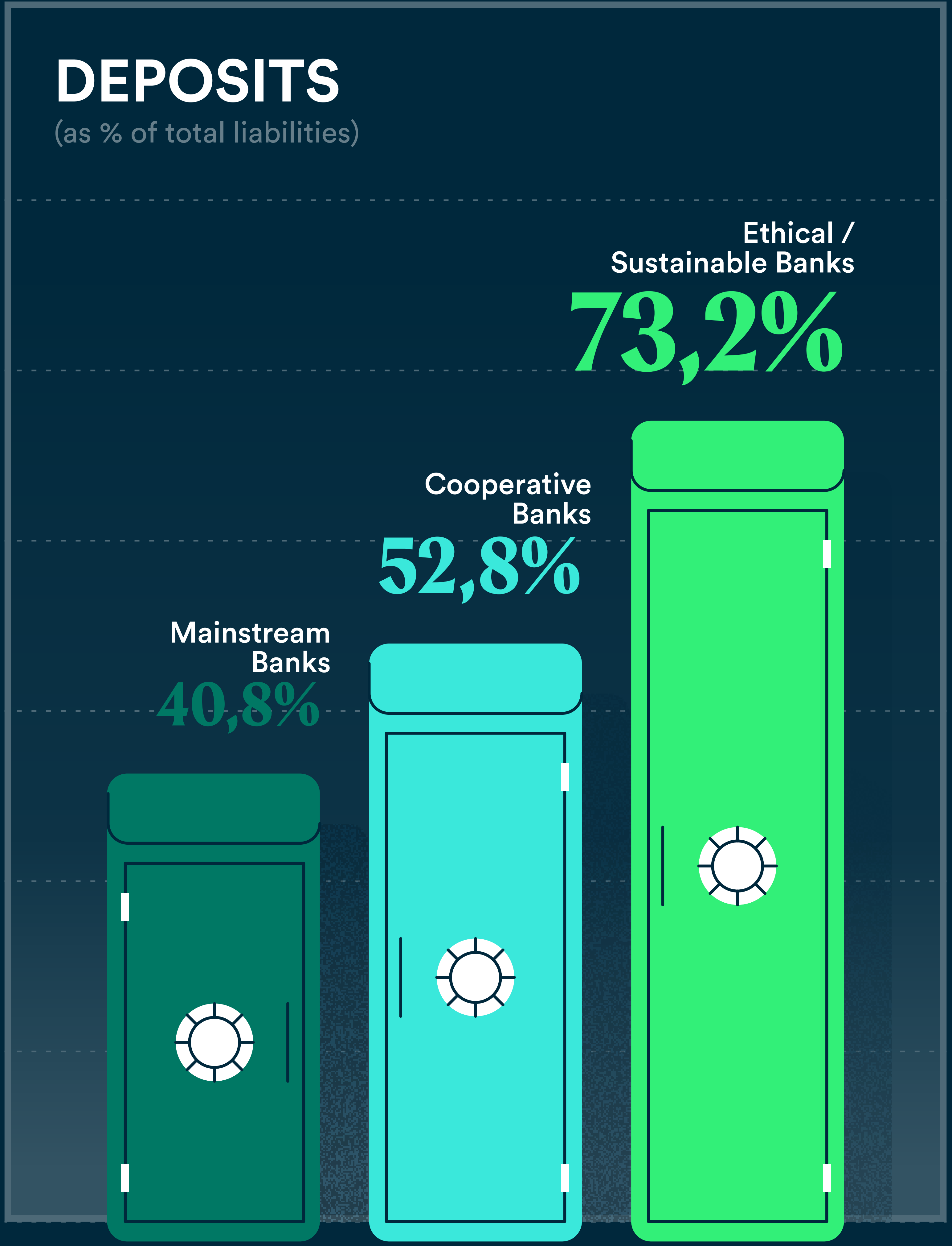
Graph 3 - Net equity as % of total liabilities (simple averages calculated on total aggregate data).

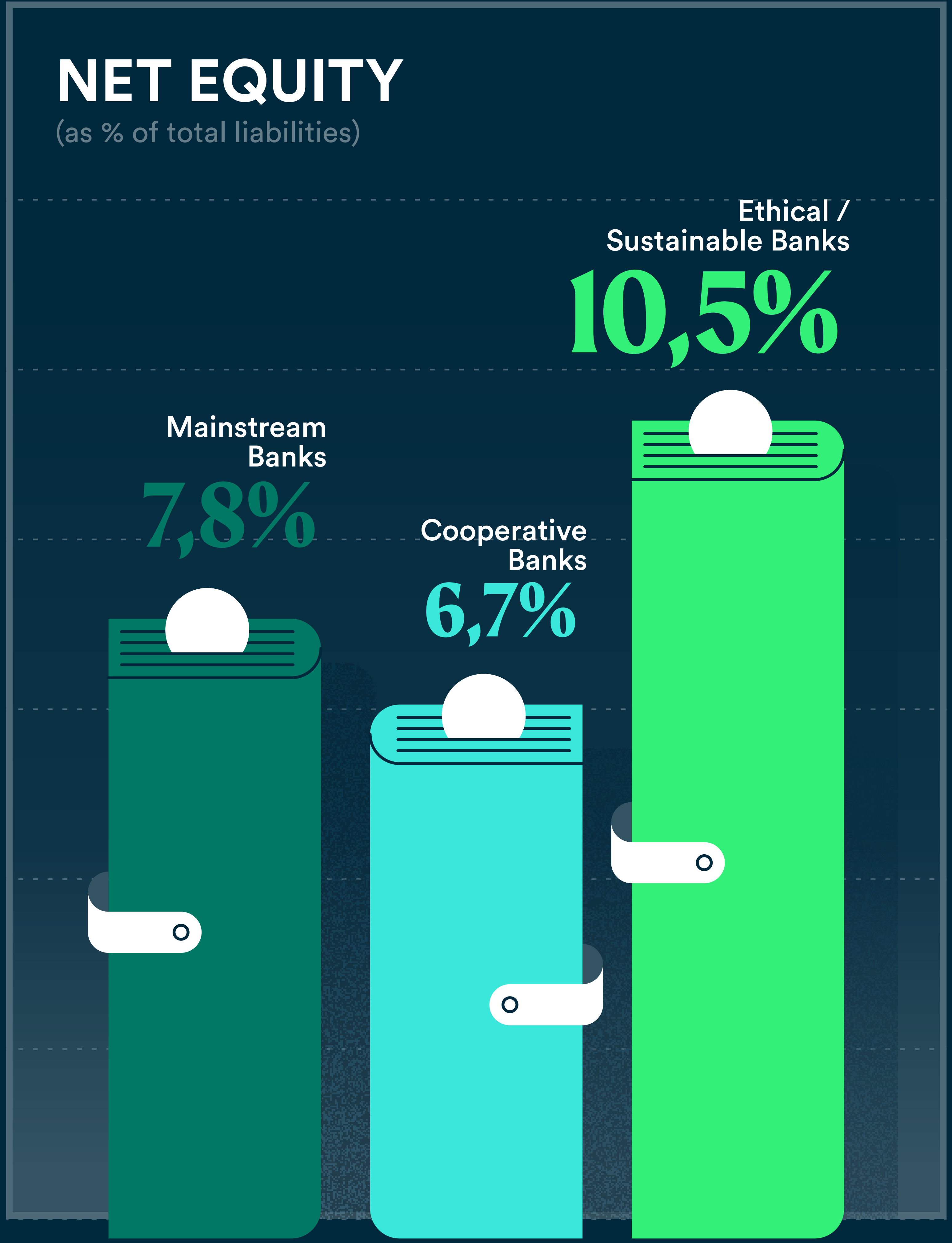
Ethical and sustainable banks have maintained a sound capital position (**Graph 3**), measured as the ratio of net equity to total liabilities, constant and around 10% from 2009 to 2019, while the European banking system as a whole has started from a relatively weaker position in 2009 (6.16%) and then has fluctuated around 8% since 2013 (7.88% in 2019). European cooperative banks are characterized by a capital position close to the average of the European banking system.

4 To compare the capital adequacy of ethical banks with that of systemic banks, it has been preferred to refer only to the ratio between net equity and total liabilities and not also to the so-called Tier 1 Ratio (ratio between Tier 1 capital and risk-weighted assets), which is today the most commonly used parameter to assess the soundness of a bank. This choice is substantially motivated by the fact that, with the rules introduced after the 2007/2008 crisis, systemic banks were obliged to have high Tier 1 capital levels, setting aside additional capital "buffers" compared to non-systemic banks. This makes the comparison with ethical banks on Tier 1 not very significant.
The indicator that we have used has a purely descriptive purpose and does not replace the official data disclosed by central banks and financial market authorities on the soundness of banks, nor does it intend to question the same data.

Ethical and cooperative banks, a driver of the real economy.





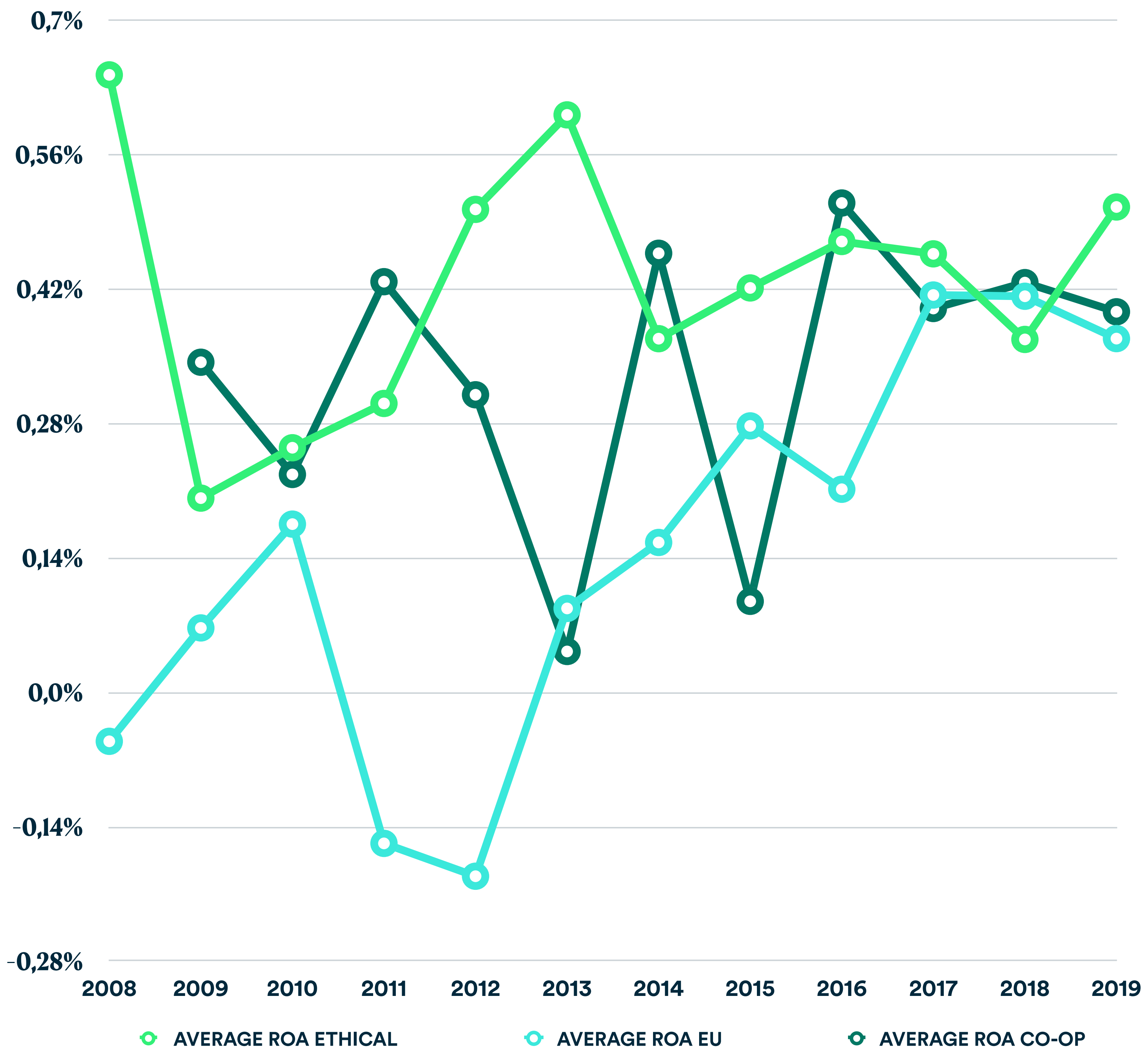


ROA - RETURN ON ASSETS

5 YEARS (2014-2019)	AVERAGE	STANDARD DEVIATION
European ethical and sustainable banks	0,43%	0,06%
European cooperative banks	0,38%	0,15%
European banks	0,31%	0,11%

10 YEARS (2009-2019)	AVERAGE	STANDARD DEVIATION
European ethical and sustainable banks	0,40%	0,12%
European cooperative banks	0,15%	0,15%
European banks	0,17%	0,21%

Table 1 - ROA. Comparison between ethical banks, cooperative banks and European banks *(Weighted averages for ethical and cooperative banks calculated from the average performance of individual banks, to provide greater representativeness. The data for European banks is provided by the ECB as ROA for the system as a whole).*



Graph 4 - ROA. Comparison between ethical banks, cooperative banks and European banks.

Moving on to the income analysis, we have compared the ROA and ROE balance sheet indices for European ethical banks with the same indices calculated for cooperative banks and for the European banking system as a whole.

ROA (Return on Assets) is the ratio of net income to total assets and is a measure of the profitability of a company's operations.

As can be seen (**Table 1**), the ROA of ethical and sustainable banks has always remained at a higher level than the ROA of the European banking system in the last ten years (on average, 0.40% as opposed to 0.17%), with a relatively low volatility, measured by the standard deviation calculated on the average value of each year (0.06% in the period 2014-2019, 0.12% over the entire analyzed period).

European ethical and sustainable banks have had a higher average return (in terms of ROA) even than European cooperative banks (0.40% vs 0.15% from 2009 to 2019). Over the past four years, the ROA of ethical and sustainable banks and that of European cooperative banks have come very close and are now on the same level. Over the past four years, the ROA of ethical and sustainable banks and that of cooperative banks have gotten closer and closer, and is now on the same level.

The 10-year ROA analysis (Graph 4) shows that ethical and sustainable European banks maintain stable and positive profitability, while cooperative banks suffer from higher volatility in results, albeit always in a positive territory. The downturns in 2013 and 2015 are explained by the negative performance of cooperative banks in Greece (in 2013 only), Lithuania and Slovenia (in 2013 and 2015). European banks have suffered the most from the long wave of the financial crisis of 2007-2008 but they have recovered vigorously since 2014, probably pushed by the European Central Bank's quantitative easing (QE), started in March 2015, which seems to help all banks significantly. As can be seen, over the past three years (2017-2019), ROA has stabilized at very similar values for all three samples analyzed.

ROE (Return on Equity) is the ratio of net income to equity and is a measure of a company's accounting performance.

As can be seen (**Table 2**), the average profitability of ethical banks was higher (in terms of ROE) than that of the European banking system in the period 2009-2019 (5,31% vs 2,37%) with a lower volatility (and therefore a lower level of risk, 1,72% vs 2,37%). European cooperative banks recorded a similar profitability (in terms of ROE) as ethical banks and, in both periods, a higher profitability than that of the whole European banking system.

Over the past five years (2014-2019), the average ROE data of the three samples are coming significantly closer, despite the presence of greater volatility for the European banking system and for cooperative banks (**Graph 5**).

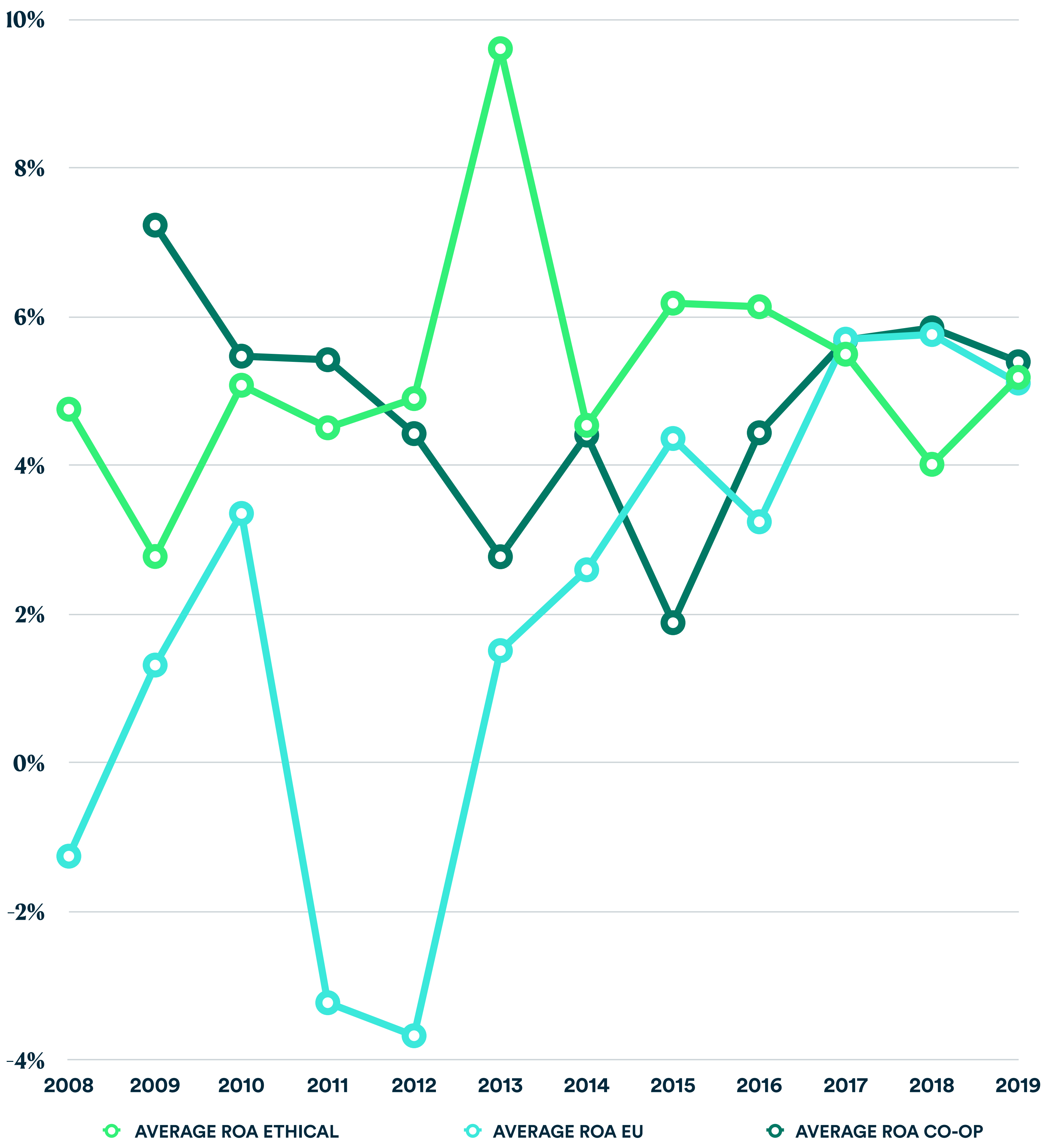
As previously pointed out for the ROA, the ROE, in the last three years (2017-2019), has seen a stabilization of the values for all three samples as well. Cooperative banks have shown the same level of performance as the "European banks" aggregate and, in 2019, the ROE values of all three groups of banks considered have ended up converging.

ROE - RETURN ON EQUITY		
5 YEARS (2014-2019)	AVERAGE	STANDARD DEVIATION
European ethical and sustainable banks	**5,26%**	**0,87%**
European cooperative banks	**4,61%**	**1,47%**
European banks	**4,46%**	**1,31%**
10 YEARS (2009-2019)	AVERAGE	STANDARD DEVIATION
European ethical and sustainable banks	**5,31%**	**1,72%**
European cooperative banks	**4,82%**	**1,48%**
European banks	**2,37%**	**3,25%**

Table 2 - ROE. Comparison between ethical banks and European banks.
Weighted averages for ethical and cooperative banks calculated from the average performance of individual banks, to provide greater representativeness. The data for European banks is provided by the ECB as the ROE of the system as a whole).

Extraordinary Growth for Ethical Banks

Finally, we have analyzed the growth trends of the measured quantities (assets, loans, deposits and net equity) for all three groups of banks. The analysis has found that ethical and sustainable banks have grown much more than the European banking system over the past decade (**Table 3**), whereas cooperative banks have placed themselves at an intermediate level of growth, in any case significantly above the banking system.In particular, for ethical banks, loans and deposits have increased dramatically: respectively by 10.16% and 10.84% on average per year, from 2009 to 2019.



Graph 5 - ROE. Comparison between ethical banks, cooperative banks and European banks.

After the last major financial crisis, ethical and sustainable banks and cooperative banks have grown significantly, probably because many savers have sought an alternative to traditional banks in subjects closer to their own needs and those of the communities in which they live.

GROWTH*	5 YEARS (2014-2019)	10 YEARS (2009-2019)
TOTAL ASSETS		
European ethical and sustainable banks	**8,90%**	**9,91%**
European cooperative banks	**2,55%**	**3,98%**
European banks	**0,82%**	**0,41%**
LOANS		
European ethical and sustainable banks	**10,18%**	**10,16%**
European cooperative banks	**5,09%**	**4,33%**
European banks	**1,44%**	**0,63%**
DEPOSITS		
European ethical and sustainable banks	**9,46%**	**10,84%**
European cooperative banks	**4,49%**	**4,23%**
European banks	**3,18%**	**2,65%**
NET EQUITY		
European ethical and sustainable banks	**9,33%**	**9,36%**
European cooperative banks	**5,44%**	n.a.
European banks	**1,24%**	**2,90%**

Table 3 - Active growth, loans, deposits, net equity (homogeneous samples for cooperative banks and ethical banks)
Growth calculated on the total values of the aggregates.
**The compound annual growth rate, or CAGR, represents the average percentage growth of a quantity over a period of time.*

Conclusions

The comparison between ethical/sustainable banks and the European banking system as a whole, updating the data to 2019, has substantially confirmed the results already highlighted in the third report, which ended in 2018. Once again, ethical banks have proved to be much more oriented towards offering services to the real economy than traditional banks. They are on average more solid from a capital point of view and more profitable, both in terms of ROA and ROE.

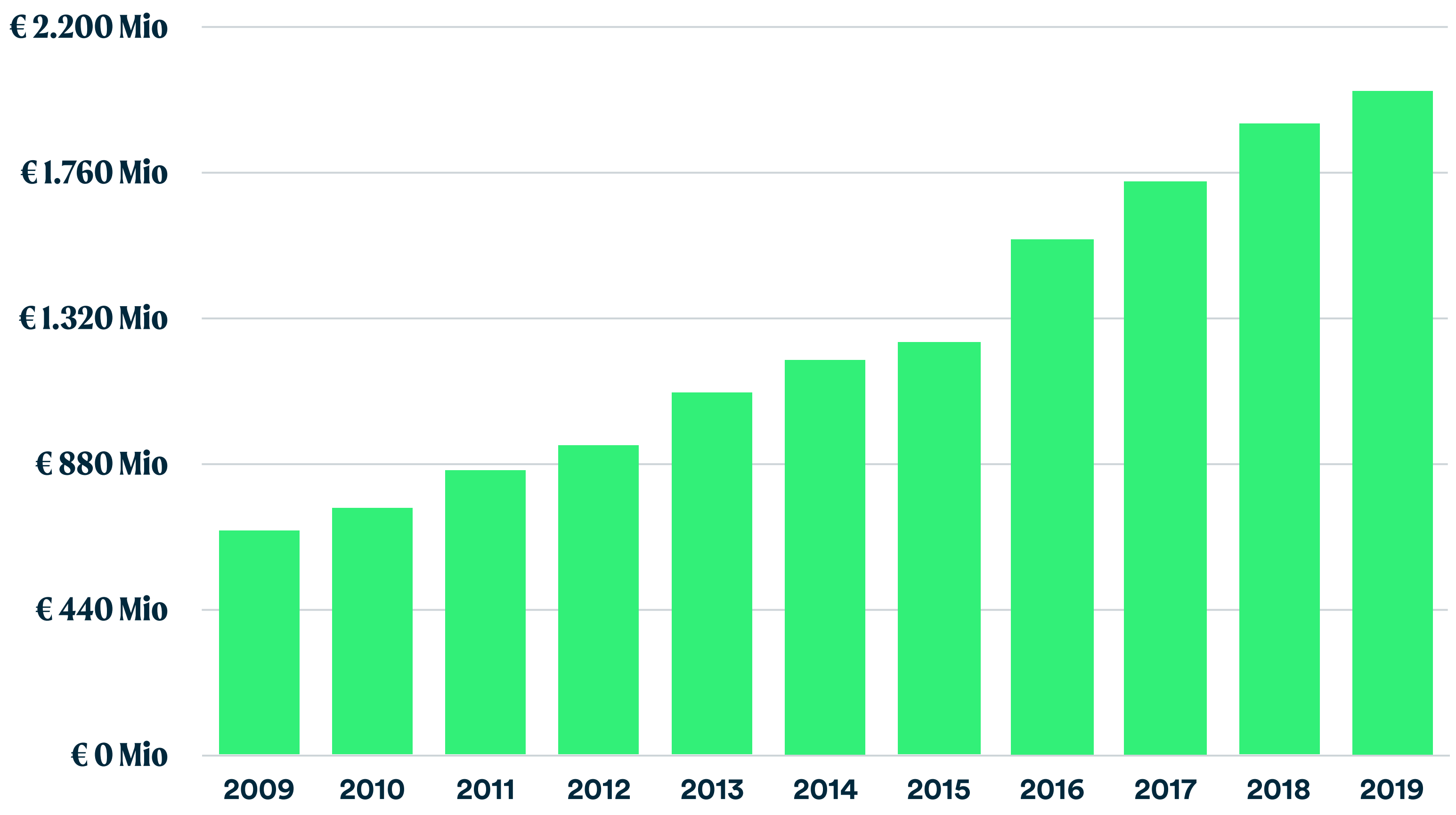
The unprecedented comparison with cooperative credit banks has shown that ethical/sustainable banks are close relatives of cooperative banks, also with regard to the capital structure. Not surprisingly, the top 10 ethical and sustainable banks by assets (with a few exceptions, such as Triodos, Umweltbank or ABS) are, first and foremost, cooperative enterprises.

As seen in the second report on ethical and sustainable finance in Europe, the cooperative organization model is a constant in the history of ethical finance. In almost 180 years, its principles have remained basically the same: free adherence, democratic control ("one person, one vote", regardless of the number of shares owned), participation, training and collaboration.

With this research we have shown that this is still a very modern model: solid, resilient and sustainable, not only from the point of view of the values it represents, but also from the equity and income point of view.

1.2 BANCA ETICA COMPARED WITH EUROPEAN ETHICAL AND SUSTAINABLE BANKS

The growth rate of Banca Etica, the only ethical bank headquartered in Italy, has been generally higher than that of other European ethical and sustainable banks, particularly in terms of deposits and profits. As seen in **Table 4**, the amount of money raised by Banca Etica through deposits has grown on average by 16.32% per year over the last ten years, compared to 10.84% for other European ethical and sustainable banks. From 2014 to 2019, profits of Banca Etica have grown on average by 14.48%, compared to 1.32% for European ethical banks: a substantial difference. Banca Etica's results were also better in the other entries, such as equity (over ten years) and assets. Only loans grew at a slightly slower pace: +8.83% on average per year as opposed to the +10.16% on average for the other ethical and sustainable banks. The gap is only 1.33 percentage points over a ten-year horizon, but with a difference of almost 5.5 percentage points in total deposits over the same period.



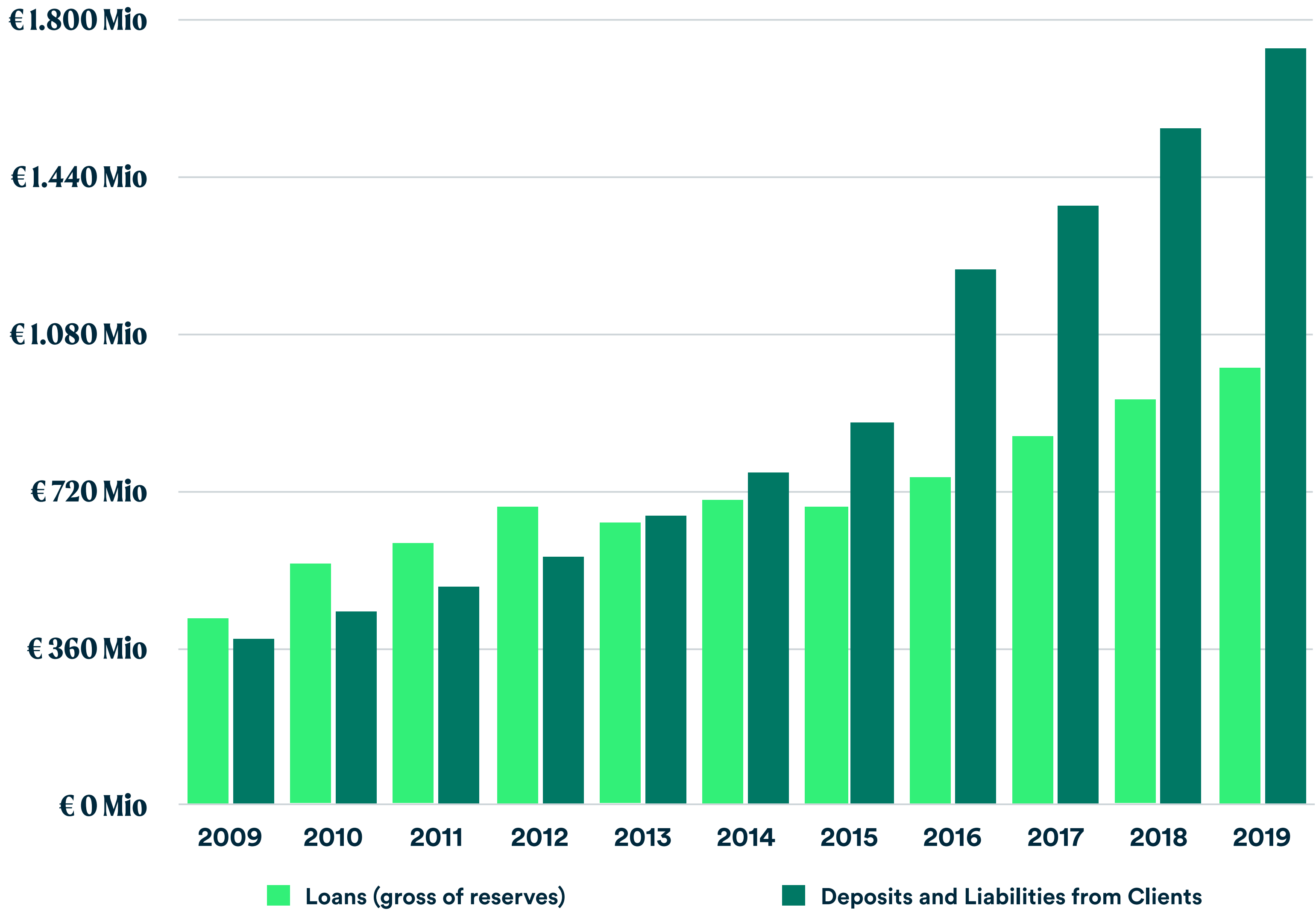
Graph 6 - Growth in Banca Etica's assets from 2009 to 2019. Data in Euro

GROWTH*

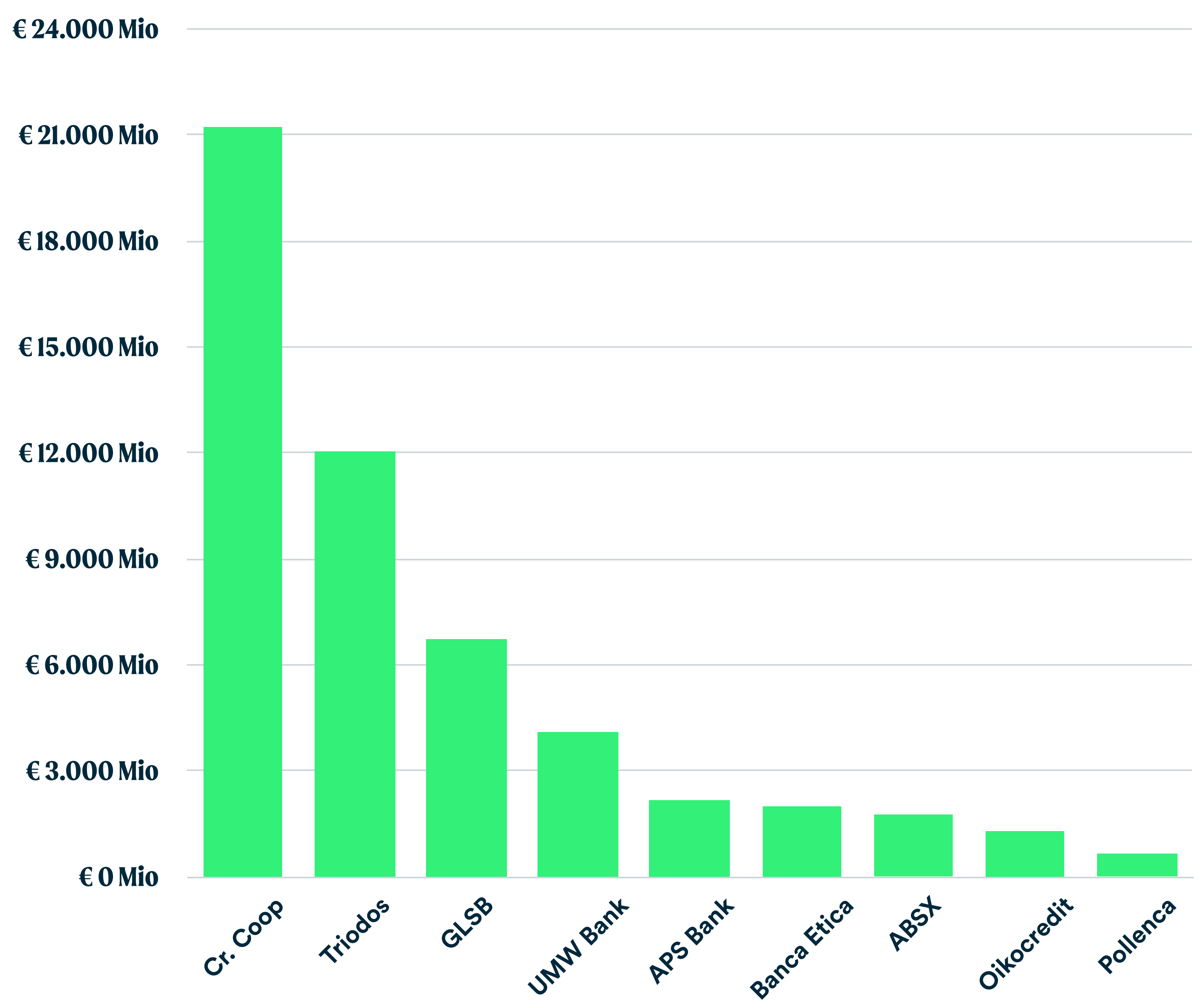
	5 YEARS (2014-2019)	10 YEARS (2009-2019)
TOTAL ASSETS		
Banca Popolare Etica	10,89%	11,50%
European ethical and sustainable banks	8,90%	9,91%
LOANS		
Banca Popolare Etica	7,41%	8,83%
European ethical and sustainable banks	10,18%	10,16%
DEPOSITS		
Banca Popolare Etica	17,82%	16,32%
European ethical and sustainable banks	9,46%	10,84%
NET EQUITY		
Banca Popolare Etica	6,99%	12,60%
European ethical and sustainable banks	9,33%	9,36%
NET PROFIT		
Banca Popolare Etica	14,48%	70,57%
European ethical and sustainable banks	1,32%	8,40%

Table 4 - Growth in assets, loans, deposits, net equity, net profit Comparison of Banca Etica with European ethical banks (growth calculated on total values of aggregates)
* Compound Annual Growth Rate, or CAGR

As can be seen (**Graph 6**), the assets of Banca Etica (and therefore the size of its balance sheet) have been in constant and sustained growth from 2009 to 2019: growth was not interrupted by the latest financial crisis. In absolute terms, assets have grown by almost 300% over the past decade.
The growth of deposits has also been steady, as seen in Graph 7. In absolute terms, deposits have grown by 453.47% from 2009 to 2019. Credits have entered a positive growth path from 2015 onwards. In absolute terms, they have grown by 233.10% from 2009 to 2019. From 2015 to 2019, loans have increased on average by 8.02% per year (CAGR) for Banca Etica, thus to a greater extent than the annual average of European ethical banks (+ 7.36%).



Graph 7 - Growth of Banca Etica's deposits and loans from 2009 to 2019. Data in euro



Graph 8 - The ten largest European ethical and sustainable banks by volume of assets

1.3 THE GROWTH OF BANCA ETICA IN SPAIN

As shown in **Table 5**, also Fiare-Banca Etica, the Spanish branch of Banca Etica, has grown significantly from 2018 to 2019 as well. Deposits, in particular, have increased by 17.48%, while the number of customers has grown by 8.96%. Credits have remained practically the same. The growth of deposits is remarkable, amounting to 17.48%, if we consider the increase in liabilities of ethical banks in Spain, which have grown on average by 1.56% (according to data from the ethical finance barometer). Fiare Banca Etica is therefore well above average in attracting new liabilities. Also, in terms of number of customers, the growth was very high, equal to + 8.96%. However, although the credit used in 2019 has remained stable with a slight growth, the volume of new concessions granted was much higher than in 2020, reaching a total of 26.1 million euros. The impact of these concessions is not evident in 2019 in the financial statements due to the fact that a significant part has been concentrated in co-housing operations, the sale of which is linked to work certifications that took place starting from 2020, as we will see in the data of the next report. In short, the business of the Spanish branch has continued to grow steadily since its inception in 2014.

	2019	2018	VARIATION %
number of customers	6.929	6.359	8,96%
total loans	44.984.699	44.855.911	0,29%
total deposits	39.959.877	34.013.570	17,48%

Table 5 - Growth of the number of customers and of total deposits and loans of Fiare - Banca Etica from 2018 to 2019. Data in euro

Appendix I. The samples ethical banks, cooperative banks and European banks in comparison

EUROPEAN ETHICAL AND SUSTAINABLE BANKS

- Alternative Bank Schweiz (Switzerland)
- APS Bank (Malta)
- Banca Popolare Etica (Italy)
- Caisse Solidaire (France) - fino al 2018
- Caixa de Pollença (Spain)
- Charity Bank (Great Britain)
- Cooperative Bank of Karditsa (Greece)
- Credal (Belgium)
- Cultura Bank (Norway)
- Ecology Building Society (Great Britain)
- Ekobanken (Sweden)
- Freie Gemeinschaftsbank (Switzerland)
- Folkesparekassen (Denmark)
- GLS Bank (Germany)
- Group Crédit Coopératif (France)
- Hefboom (Belgium)
- La Nef (France)
- Magnet Bank (Hungary)
- Merkur Cooperative Bank (Denmark)
- Oikocredit (Netherlands)
- Opportunity Bank Serbia (Serbia)
- Tise (Poland)
- Triodos Bank (Netherlands)
- UmweltBank (Germany)

COOPERATIVE BANKS

- Association of Cooperative Banks of Greece
- Banco de Crédito Cooperativo (BCC) (Spain)
- Banque Raiffeisen (Luxembourg)
- BPCE (France)
- Building Societies Association (Great Britain)
- Central Co-operative Bank (Bulgaria)
- Co-operative Financial Network (Germany)
- Crédit Agricole (France)
- Crédit Mutuel (France)
- Creditcoop (Romania)
- Credito Agricola (Portugal)
- Dezelna Banka Slovenije d.d. (Slovenia)
- Federcasse (BCC) (Italy)
- LCCU Group (Lituania)
- National Union of Co-operative Banks (KZBS) (Poland)
- Nykredit (Denmark)

EUROPEAN BANKS

Aggregate of all the approximately 4,500 banks operating in the Euro area, based on data provided by the European Central Bank.

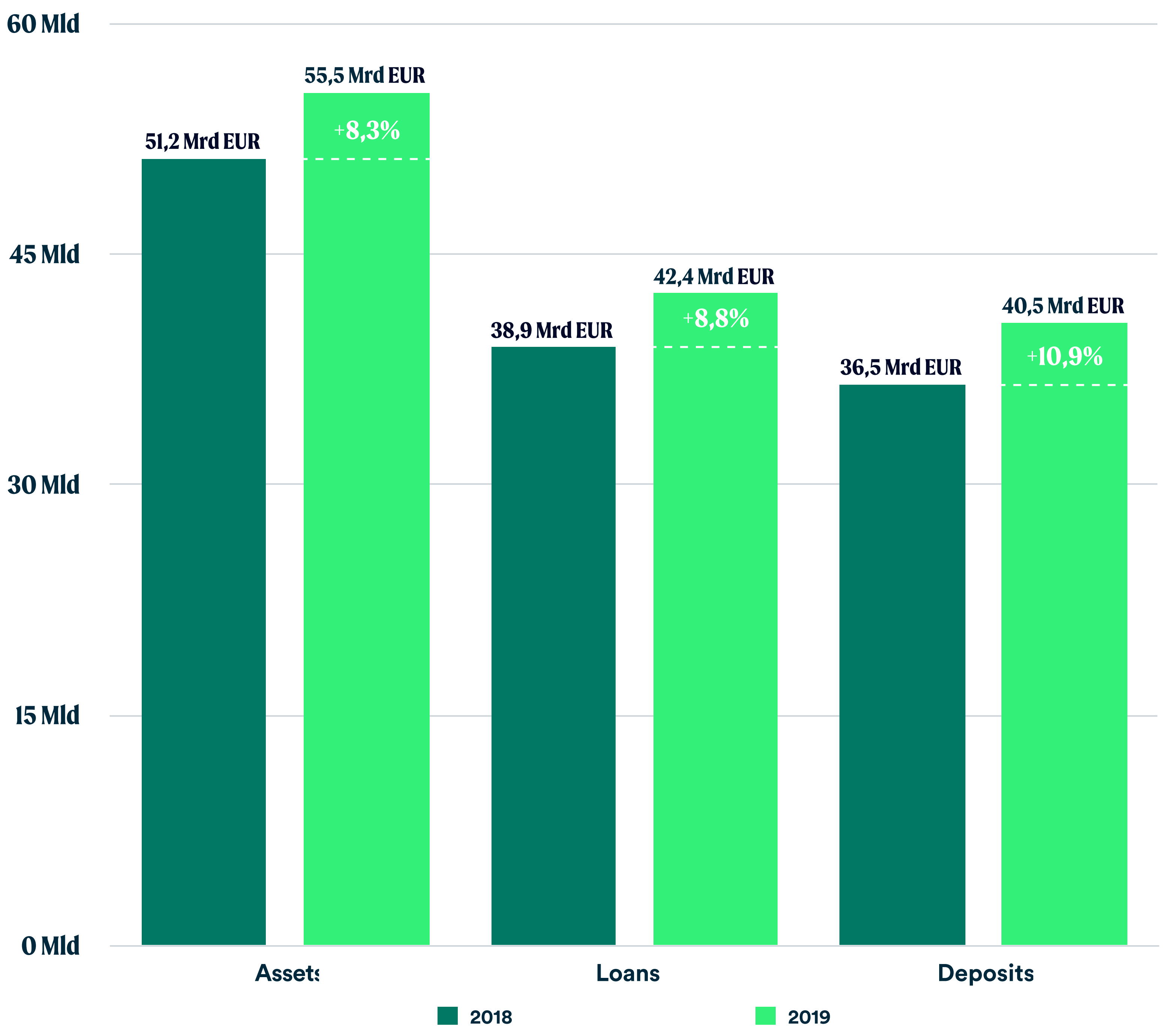
Appendix II. Summarized data on the main quantities analyzed

COMPARISON OF AVERAGES ON TOTAL VALUES	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
net equity/liabilities ETHICAL BANKS	11,10%	11,25%	10,72%	10,83%	9,90%	10,31%	10,63%	10,82%	11,01%	10,52%	10,50%
net equity/liabilities EUROPEAN BANKS	6,16%	6,35%	6,65%	7,18%	7,89%	7,72%	7,97%	8,02%	8,45%	8,18%	7,88%
net equity/ liabilities COOPERATIVE BANKS					5,62%	5,87%	6,28%	6,46%	6,67%	6,81%	6,75%
deposits/passive ETHICAL BANKS	67,47%	69,32%	69,14%	74,70%	76,95%	71,44%	73,40%	72,22%	72,38%	71,34%	73,29%
deposits/passive EUROPEAN BANKS	32,74%	33,45%	32,73%	33,83%	36,53%	36,37%	37,80%	38,63%	40,17%	40,89%	40,83%
deposits/passive COOPERATIVE BANKS	51,63%	51,87%	54,67%	53,81%	48,43%	48,15%	50,82%	51,35%	52,53%	52,62%	52,89%
credits/active ETHICAL BANKS	75,08%	76,08%	76,18%	75,68%	73,54%	72,09%	76,00%	74,15%	76,87%	75,99%	76,44%
credits/active EUROPEAN BANKS	37,89%	38,14%	36,84%	37,39%	38,65%	37,57%	38,13%	38,27%	39,30%	39,73%	38,74%
credits/active COOPERATIVE BANKS	56,16%	56,55%	57,03%	54,17%	53,24%	51,37%	57,29%	58,16%	58,70%	58,74%	58,05%

Methodological Notes

The sample "European Ethical and Sustainable Banks" was composed of all 16 European banks that adhere to GABV (Global Alliance for Banking on Values), 14 members of Febea (of which seven are also members of GABV) and two members of Inaise. We have only included institutions that carry out banking-type activities (collection of savings, granting of loans and investments) with a prevalent social and environmental orientation and that have published online (or have sent us) the financial statements of at least seven of the last ten years. The historical datasets for the banks that are part of GABV have been sent to us by GABV.
In the sample "European Cooperative Banks," the aggregate data of 16 banks or federations of cooperative banks, which have been sent to us by the EACB (European Association of Co-operative Banks), have been included.
For cooperative banks, the sample of cooperative banks in 2019 has been used: the calculations, therefore, have been carried out starting from 2009 on the same banks present in 2019 (for example, for Italy, the popular banks ('banche popolari'), which left the sample in 2015, have been excluded, whereas, for Cyprus, the aggregate of Cypriot cooperative banks, acquired over the years by commercial banks or converted into listed joint-stock companies, has been excluded).
A hybrid methodology has been used to try to represent the peculiarities of the samples available as much as possible: for ethical/sustainable banks and cooperative banks, ROA and ROE are the result of the average of the average values of individual banks, while for the "European banks" aggregate, it is the average of the total values for all banks, given that no data on individual banking institutions are available.
In general, in data processing and index calculation, we followed the methodology already used by GABV in the report - Real Economy - Real Returns: The Business Case for Values-based Banking, 2017.

Aggregate numbers of ethical and sustainable European banks (2019)[5]



Assets: 55.5 billion euros (+ 8.3% compared to 2018)
Loans: 42.4 billion euros (+ 8.8% compared to 2018)
Deposits: 40.5 billion euros (+ 10.9% compared to 2018)

Acknowledgments

The collection and systematization of all data on ethical and sustainable banks and systemic banks, as well as the calculation of balance sheet indices and growth trends, have been carried out by Leone Di Stefano. We would like to thank Adriana Kocornik-Mina from Gabv for kindly providing the data on ethical banks belonging to the Global Alliance for Banking on Values. Finally, we would like to thank Elisa Bevilacqua and Caroline Martins from EACB, and Professor Hans Groeneveld of Tilburg University (Netherlands), for providing and helping us to interpret the data on European cooperative banks.

5 The data, for 2019, refer to the financial statements of the 23 ethical and sustainable banks analyzed in the research, to which the 2019 data of Femu Qui (Corsica, France), Etika (Luxembourg), Ucit (Great Britain), Sidi (France), Sifa (France) have been added.

2.1 ETHICAL FINANCE IN THE FACE OF THE PANDEMIC CRISIS

The COVID-19 pandemic has hit companies, social economy organizations, small enterprises and the self-employed hard. Ethical and solidarity finance organizations have thus acted in response to the crisis by supporting the most important projects. In this part of the report, we want to provide an overview of the different strategies adopted by ethical finance companies in Europe to address the economic and social crisis caused by the pandemic.

All the indicators show that the coronavirus has plunged the eurozone and the whole world into an "unprecedented" recession. In 2020, GDP fell by 6.8% in the euro area and by 6.4% in the EU[1] as a whole. Even if the health situation will most likely improve in 2021, there will still be consequences for those who have failed to cope with the impact of the crisis, which has been rapid and strong, especially towards previously fragile realities.

Small projects were the hardest hit. Those who were already experiencing difficulties in accessing credit, with little initial capital, with roots in rural areas, were faced with a highly complex situation, from which it will be difficult or impossible to get out.

The Response of Ethical Finance: Solidarity and Networks

The crisis has accelerated inequalities and has made them more visible. However, solidarity and mutual support campaigns to try to redistribute savings have multiplied, as well as community networks to provide food and care to those who have had more difficulties, and crowdfunding to support projects that have run out of funds. Ethical finance is present in all of these areas: it has supported or organized networks of solidarity.

Ethical and solidarity finance in the various European territories and contexts, has found a way to put itself at the service of its partners, shareholders, customers, communities, to give a rapid and adequate response to needs. They have put their network and their creativity to work, and the network has responded. Solidarity has been the other face of this crisis.

Examples of good practices

In Europe, the contexts and consequences of the current situation have been different, and so have the responses. In Europe, there is a wide variety of realities in the financial sector that have been able to adapt and that have focused on the sustainability of the funded projects and the partners and customers of their network. Through these examples of ethical banks and ethical finance institutions,[2] it is possible to understand, on the one hand, what difficulties were to be solved, and on the other hand, that solidarity has been a common denominator among the institutions that engaged in ethical, solidarity and sustainable finance.

BANCA ETICA GROUP

Country: Italy and Spain

Type of organization: Ethical banking cooperative

Internal actions

As the crisis unfolded, Banca Etica took measures to ensure the opening of branches with all the necessary security measures for the people who "inhabit" the premises of the bank.

Shareholders, customers and the various entities of the Banca Etica Group have also been engaged in maintaining an adequate level of service. Together with the platform Produzioni dal Basso, and with the contribution of Etica Sgr and the Assimoco Group, Banca Etica has developed a series of virtual meetings for sharing and training: "Attiviamo energie positive" (Let's activate positive energies). In the first three weeks, the program has recorded 40,000 visits, 18 hours of webinars, 24 speakers involved, 3,900 attendees, 6,000 subscribers to the newsletter and 5,300 downloads of the podcast.

Economic actions

In Italy, online systems have been put in place to facilitate the request for suspension of payments for companies and organizations, regardless of government measures. These mechanisms have activated the granting of loans for the payment of salaries and taxes in advance, facilitating access to the Guarantee Fund for SMEs, for micro-loans up to 25,000 euros and for a new liquidity line on favourable terms.

By integrating the provisions of Italian law, Banca Etica has been able to offer customers, with a mortgage or a personal loan, the

1 EUROSTAT data

2 This part derives from the dossier published on valorsocial.info "Ethical finance: solidarity and the Internet in the face of the pandemic", elaborated thanks to the collaboration with FEBEA - European Federation of Ethical and Alternative Banks

possibility of requesting a suspension of payments for 6 months by providing a certificate regarding their state of suffering only. Access to a personal loan was facilitated directly through internet banking. From the beginning, Banca Etica has focused on supporting its reference network, paying particular attention to projects for the job placement of people in vulnerable situations, as well as non-banking services consistent with its mission: ethical funds, insurance, pension funds and mutual health plans.
The Spanish area of the bank, Fiare Banca Etica, has granted more than 16 million euros in the first two months of the pandemic, eight of which to entities that provide services to the most vulnerable people. These realities are also involved in the creation of jobs or in the production of materials and goods of basic necessities. The new "Inclusión Social" (Social Inclusion) fund was also launched, which has allowed customers to direct their long-term savings to this sector.
To facilitate access to credit, Fiare Banca Etica has incorporated guarantee lines with ICO[3], FEI-EASi[4] funds and the Basque government. It has also lowered the costs of the advance lines and has implemented a moratorium plan for all credit customers. This activity is carried out at cost price and without adding customer services, a practice that has been instead frequent, especially at the beginning of the crisis, in other financial institutions.
Etica Sgr has activated special consulting services to accompany customers in this phase. On the insurance side, several products have been added, such as the "Multirisk volontario" (Voluntary Multirisk), with specific coverage linked to Covid-19 for the volunteers of the contracting organizations. At the beginning of 2020, the new "ETICAPRO" was launched together with CAES[5], an insurance project for the third sector which has been strengthened by incorporating the coverage of expenses related to Covid-19.

Network support

Banca Etica has also promoted an initiative halfway between donation and online purchase to support its partners: "SOSpesa" (Suspended). This project has made it possible to purchase some products in advance which, for reasons related to current restrictions, were not immediately available. Fiare Banca Etica has promoted something similar in Spain: "La Colmena" (The Hive), to promote 20 solidarity economy projects throughout Spain, most of which in rural areas, or in sectors more exposed to the crisis. By the end of 2020, 20,000 euros in contributions had been collected.
In Italy and Spain, the virtual meeting space "Partners in the house: distant but close" has been inaugurated, "a small virtual square where to meet, learn and exchange knowledge and skills".

FRANCE ACTIVE

Country: France

Type of organization: Association that promotes "the commitment of companies to the social, environmental and economic development of their region".

Internal actions

France Active works with "8,000 entrepreneurs a year," through a local network of investors and various financing lines.
France Active has chosen immediately to suspend loan repayment terms and to implement loan restructuring. Companies benefiting from a loan guarantee from France Active were offered an extension of the maximum duration of the guarantee - in the event of a loan renegotiation, up to 6 months - which has benefited approximately 700 social entrepreneurs.

LA NEF

Country: France

Type of organization: Ethical banking cooperative

Economic actions

At the end of the first lockdown, La Nef presented a first assessment of the impact of the COVID-19 crisis on economic activity in general and on its banking activity, which targets more than 2,500 social enterprises and nearly 60,000 individual customers.
La NEF has drawn up a large number of maturity extension requests (typically 3-6 months) from more than 550 borrowers, representing almost a quarter of its loan portfolio; almost all requests made by the borrowers have been accepted. To date, La Nef has not yet registered any bankruptcy of its borrowers caused by the COVID-19 crisis.
At the same time, La Nef has negotiated with the European Investment Fund (EIF) (which has guaranteed a large part of La Nef's credit portfolio since 2015) to establish exceptional measures that

3 The *Instituto de Crédito Oficial* - ICO is a public bank that depends on the Spanish Ministry of Economy and Digital Transformation.
4 The EaSI Program is a financial instrument of the EIF - European Investment Fund that aims to promote a high level of sustainable and quality employment, to guarantee adequate and dignified social protection, to fight marginalization and poverty and to improve working conditions.
5 CAES - Consorzio Assicurativo Etico e Solidale is a multi-mandated insurance agency that mainly addresses the Third Sector.

allow to continue granting loans to social enterprises during the crisis, supporting the economic recovery and limiting the risks assumed as a counterparty.
An emergency plan called “rebond” has been launched, aimed at integrating credit activities with other levers for supporting businesses (crowdfunding, invitations to members to purchase products and services from companies entrusted by La Nef, etc.)
La NEF recorded the absolute record in the collection of savings in March 2020, at the beginning of the pandemic.

BANK OF KARDITSA

Country: Greece
Type of organization: Ethical banking cooperative

Economic actions
The crisis has hit the Greek banking sector hard in a year, 2020, in which analysts had instead predicted a significant acceleration of economic growth. The coronavirus crisis has forced banks to postpone ambitious plans to drastically reduce suffering pending the normalization of the markets.
Bank of Karditsa has suspended loan repayments (capital or interests) for all companies and private customers affected by the COVID-19 crisis. On 7 July 2020, the measures taken to support businesses and individuals directly and indirectly affected by the pandemic crisis and the moratorium on debt repayment were extended until 31 December 2020.
Karditsa Bank has also supported customers by reducing the fees for electronic banking transactions and money transfers to zero.
Network support
One of the main challenges has been to support seniors in the transition to digital transactions. In collaboration with the Association of Hellenic Banks, the use of alternative digital channels (internet and mobile banking) and credit and debit card payments has been encouraged to limit cash handling: the limit for contactless payments has been increased from 25 to 50 euros until 30 September 2020. To encourage these changes, significant investments have been made in technological infrastructures.

HEFBOOM

Country: Belgium
Type of organization: Ethical banking cooperative

Economic actions
Hefboom (which means “lever” in Dutch), in the face of the crisis, has responded by adapting to the measures approved by the federal and regional governments for the subjects of the social economy.
At the end of summer 2020, about 10% of customers belonging to the social economy and the cultural sector had submitted a request for postponement of the repayment of loans. Hefboom has kept the microcredit service active, which represents 30% of its business, aimed at individuals and legal entities in situations of extreme difficulty. The banking cooperative predicts micro-credit to become even more important after the crisis.
In the Flanders region, a general measure has been put in place to provide bridging loans to businesses and organizations to overcome the COVID-19 crisis. The legislation required organizations to be financially sound and solvent before the crisis to obtain bridging loans. Hefboom has lobbied the regional government and Europe, through the EIF, to propose accessible measures to even the most financially vulnerable projects.

TISE

Country: Poland
Type of organization: Socio-economic investment association

Economic actions
With the onset of the pandemic, natural and legal persons receiving credit have asked TISE for the possibility of obtaining a suspension of payments, a reduction in interest rates or a deferred reimbursement.
The “Panato” social cooperative in Wrocław is a significant example. It requested a loan, essential to meet the order of a very large quantity of masks in fabric for hospitals, with a total reconversion of its activity and the opening of a new production line. The same has happened to the protected labor cooperative “Chegos,” which needed a loan to purchase a machine for the disinfection of shops. The loan has enabled the cooperative to provide its services to beauty salons, hairdressers and restaurateurs upon reopening.
During the first weeks of the lockdown, many TISE customers, made up of micro, small and medium-sized enterprises and social economy entities, have experienced difficulties in repaying loans. Most of the loans are coming from European funds and other public sources. They are the ones who decide on the possibility of implementing changes to the conditions of granting and reimbursement. However, these decisions were taken in a relatively short time (no more than a month) and TISE has accompanied customers in waiting, postponing the loan repayment terms where possible, or extending the warranty period. It was thus possible to reduce Interest rates by offering a few months of deferred repayment and removing further restrictions. About 15% of the projects have benefited from it. Customers have also negotiated new loans, on fa-

vourable terms, to have more liquidity. Many of them have had to cope with outstanding bills, taxes and social security contributions. Some have been unable to pay employee salaries.

CRESAÇOR

Country: Portugal, Azores
Type of organization: Regional cooperative of solidarity economy

Economic actions

The activity of Cresaçor's is aimed at access to education, training and incubation of work in the social labour market, micro-credit, and the support of micro-enterprises for social inclusion.
The main sources of income of the Autonomous Region of the Azores are coming from the agriculture, fishing and tourism sectors, heavily affected by the COVID-19 pandemic: micro-entrepreneurs have been forced to restructure their areas of activity and implement new strategies in order to ensure the survival of their businesses.
Despite all the efforts made by the regional government to mitigate the adverse effects on the economy of the business fabric of the Azores, the unemployment rate has significantly increased.
Cresaçor has thus intensified the monitoring and support already provided to micro-enterprises, supporting them in the definition of new business strategies during the most critical phase of the pandemic.

Network support

Through partners, Cresaçor has promoted webinars on tools and strategies to be adopted by micro-entrepreneurs to overcome the difficulties caused by the COVID-19 pandemic.

The EU Action Plan From the Point of View of Ethical Finance

ETHICAL FINANCE IS MUCH MORE THAN "SUSTAINABLE"

Andrea Baranes, vice-president of Banca Etica
Editorial published on BancaNote, the Banca Etica blog

The first part of the European regulation to define and regulate sustainable finance has entered into force.
The regulation is part of the Action Plan on Sustainable Finance, an EU path to re-orient private capital flows, manage the risks arising from climate change, and promote long-term goals.
In a nutshell, the Plan includes: a classification of sustainable activities (taxonomy); the introduction of standards for green bonds; guidelines for the publication of information on climate impacts, and for environmental reporting and transparency.
This path of the EU is interesting and positive from several points of view, first and foremost because of the need to set shared parameters to determine which investments can be defined as sustainable. This is a fundamental step forward compared to the situation we have experienced so far, in which every bank or manager could declare themself "sustainable" using arbitrary criteria.
The Banca Etica Group, however, has highlighted various shortcomings and weaknesses of the European path. We believe it is important to participate and to follow it closely but, at the same time, we feel the need to clarify the many and fundamental differences between "sustainable finance" as understood by the EU and by ethical finance.
In a position paper published at the same time as the entry into force of the European regulation, we highlighted seven of these differences:

1. Fundamental objectives
The first difference is in the principles themselves.
The EU model of sustainable finance does not call into question the maximization of profit as the sole objective of financial activity. Sustainability therefore risks becoming a mere competitive factor, if not a marketing one.
Ethical finance reverses this approach: it pursues economic profits, not as an end in itself, but with the underlying objective of maximizing the benefits for society and the planet.

2. Speculation versus focus on the real economy
In the definitions of sustainable finance, no reference is made to what are probably the worst aspects of the financial system: instability, crisis, very short-term objectives, unscrupulous use of tax havens and speculative instruments.

3. "Shelf" model ('modello a scaffale') versus "holistic" model
The EU currently focuses almost exclusively on the individual financial product. Thus, many banks or managers could "put on the shelf" some products to respond to a market demand or clean up their image, while the rest of the business continues to have highly negative impacts.
Ethical finance has at its base the coherence of all activities.

4. Models of Governance
The previous discussion also concerns the behavior of the manager as a whole. At the moment, European legislation does not impose anything regarding its governance. Conversely, ethical finance is based on fully transparent models, favoring the participation of shareholders and customers, placing strict limits on the relationship between maximum and minimum pay.

5. Weight of ESG parameters
So far, the EU definition of sustainability is focused very much on environmental impacts. The issue is of fundamental importance and urgency, but it is not enough. According to the principles of ethical finance, all possible environmental, social and governance impacts of an investment or other financial transaction, as well as their respective relationships, must be taken into consideration.

6. Lobby and advocacy
The financial system is lobbying hard to influence the rules to its advantage. The attempt to dilute the definition of sustainability in the current process is an emblematic example of such practice. Ethical finance is at the forefront to ask for a system of rules not for its own benefit, but for the community as a whole (from the tax on financial transactions, to the separation between commercial and investment banks).

7. Engagement and active shareholding
Ethical finance sets itself the goal of transforming/reshaping the economic and financial system. An example of this is the activity of critical shareholding to change the behavior of large companies, as well as participation in networks and campaigns for social and environmental justice.

1.1 EUROPE HAS A (PERFECTIBLE) PLAN ON SUSTAINABLE FINANCE

On March 8, 2018, the "European Commission's Action Plan on Sustainable Finance" was published
The "Action Plan" has three main objectives:
- reorient capital flows towards companies that respect the environment and society;
- manage the financial risks deriving from climate change;
- promote transparency and a long-term vision in economic and financial activities.

The European Union's goals are clear: to combat climate change and, from 2020, to get out of the severe economic - as well as health and social - crisis unleashed by Covid-19, with public funds and private capital, oriented however towards the financing of projects that promote "sustainable economic growth". These funds will have to be raised above all from sustainable finance.
Particular reference is made to financial products such as mutual funds or pension schemes[1]
which, in addition to financial variables, also take into account factors such as environmental protection, social issues and good corporate management (governance), the so-called ESG criteria (environmental, social and governance).
Therefore, in its action plan, the EU mainly takes into consideration financial activities such as investment in securities (shares and bonds) by companies (or other entities) rather than banking in the strict sense (collection of savings and granting of credits), discussed in the first chapter of this report.

It is true, however, that many of the ethical banks analyzed in the first part have also been engaged for years in financial investment activities through funds offered to customers. In Italy, Banca Etica has founded Etica Sgr, which has been promoting ethical mutual funds since 2003. For the same reason, the Dutch ethical bank Triodos has launched the company Triodos Investment Management, and the German GLS Bank has just registered (May 2021) GLS Investments.
Funds that take ESG criteria into consideration are also promoted by conventional banks. In Italy, the first fund of this type was launched in 1997 by Sanpaolo (today Intesa Sanpaolo) and still exists today. It is called Eurizon Azionario Internazionale Etico.
In general, "conventional" banks and financial and insurance operators have placed funds that adopt ESG criteria (sometimes explicitly called "ethical", as we have seen in the case of Sanpaolo/Eurizon, or "sustainable" or "responsible") on small "shelves" in large fund supermarkets, which can invest in all kinds of businesses, similar to what happens in large distribution chains with small corners of organic products or fair trade.
Conversely, ethical banks that promote ESG funds usually sell only and exclusively products of this type, as organic shops do.

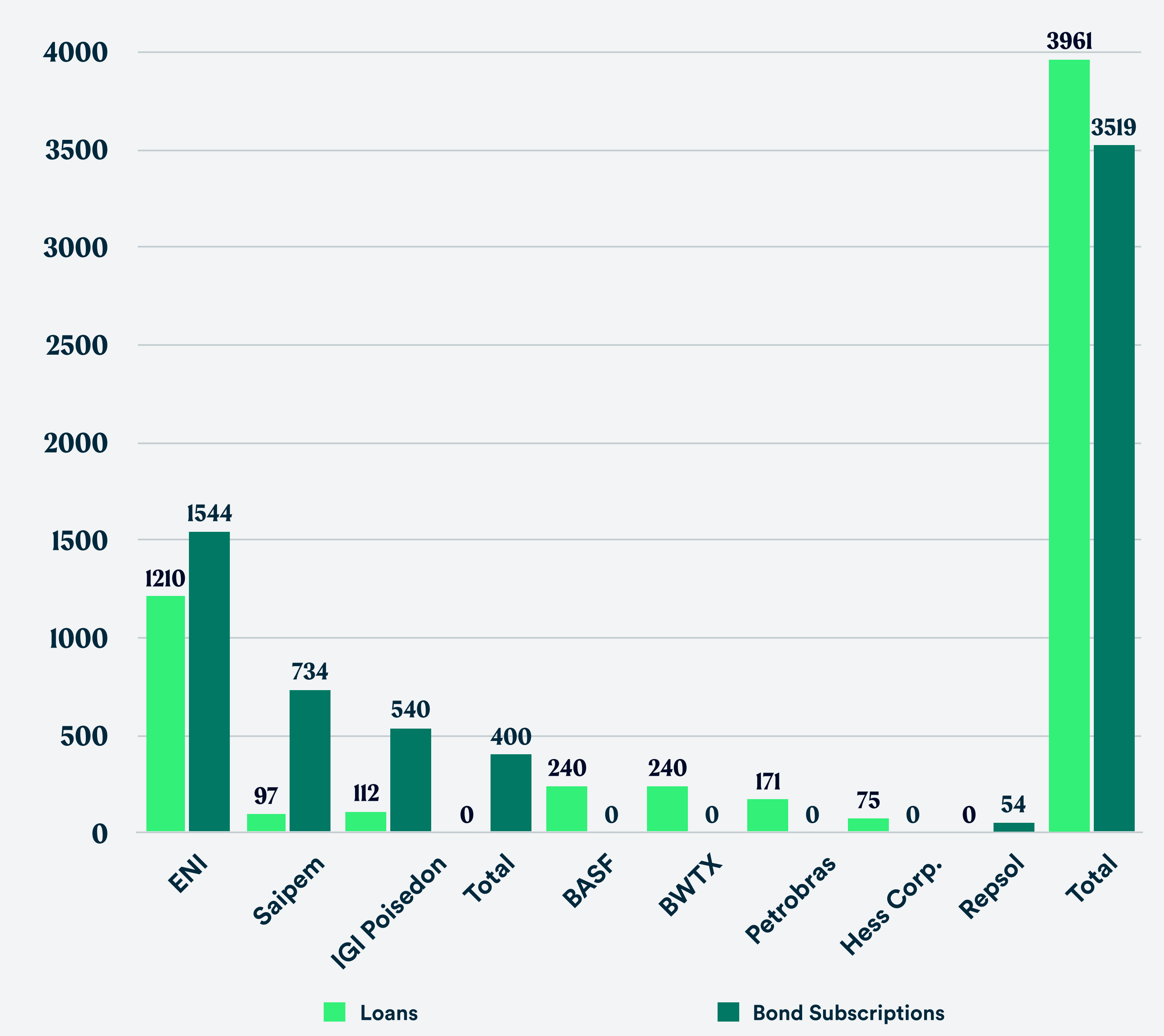
"Shelf" model ('Modello a Scaffale') Versus "Holistic" Model. The Main Problem of the EU Plan.

This is the first major difference between the financial activities of ethical banks and those promoted by conventional banks: the "shelf" ('a scaffale') approach. This is also reflected in the EU Action Plan.
In fact, the sustainable finance model promoted by the EU focuses almost exclusively on specific financial products and not on all the activities proposed by a banking group. At the moment, as mentioned above, the scope covers only the management and investment activities of financial products, not lending or other banking activities.
Ethical finance, on the other hand, is based on the coherence of all its activities. For those who do ethical finance, the idea of a bank offering its customers some sustainable products while others are not is not acceptable. An ethical bank is in a "holistic" way, a total bank.

The First Step of the Plan: Regulation 2019/2088

The first formal step of the Plan was taken on March 10, 2021, with the entry into force of EU Regulation 2019/2088 on the "sustainability-related disclosures in the financial services sector" ("Sustainable Finance Disclosure Regulation," or SFDR). At the moment (May 2021), Regulation 2019/2088 is the only provision of the "Plan" to have concrete implications for financial companies.
We are at the beginning of a long journey. In fact, the EU is also working on the governance and social aspects: the idea of a "social taxonomy" is gaining ground, a social taxonomy that would integrate the current one, mainly concerned with environmental aspects. 2019/2088 is therefore only the first step of the Action Plan, which will take shape in the coming months and years.

1 EU Regulation 2019/2088 of November 27, 2019 on information on sustainability in the financial services sector, Art. 2.12 (Definitions)



Graph 1 - Intesa Sanpaolo, loans and bond subscriptions to companies in the fossil fuel sector in millions of dollars. Source: "Five Years Lost Report"
The "Five Years Lost" report exposes banks and investors who are providing financing to fossil companies that develop large-scale expansion projects for coal, oil and gas, which are considered particularly controversial.
The 12 projects analyzed in the report highlight controversies regarding the possible violation of the rights of indigenous peoples, negative impacts on health, implications on human rights and CO2 emissions.

The Intesa Sanpaolo banking group has obtained high scores from numerous ESG rating companies, which assess companies listed on the stock exchange on the basis of compliance with environmental, social and governance criteria. Intesa Sanpaolo is, in fact, better than other listed companies in the banking sector in matters relating to environmental sustainability, attention to human resources, gender equality, revenues from green products and services, and other criteria. This is why it is part of a series of sustainability stock indices (Dow Jones Sustainability, FTSE4Good, MSCI ESG, etc.). However, Intesa Sanpaolo continues to finance the fossil sector by granting credits or subscribing to bonds, as shown, for example, by the reports "Banking on Climate Chaos" (March 2021) and Five years lost.

Regulation 2019/2088 calls for greater transparency for financial products which, based on their investment strategies, are subdivided into:

ARTICLE 6

Funds (or financial products in general) that do not follow any kind of sustainability criteria in the investment process.
The "Article 6" funds may continue to be sold in the European Union provided that it is explicitly stated that no sustainability risk assessments are adopted, and the reason for this choice is explained.

ARTICLE 8

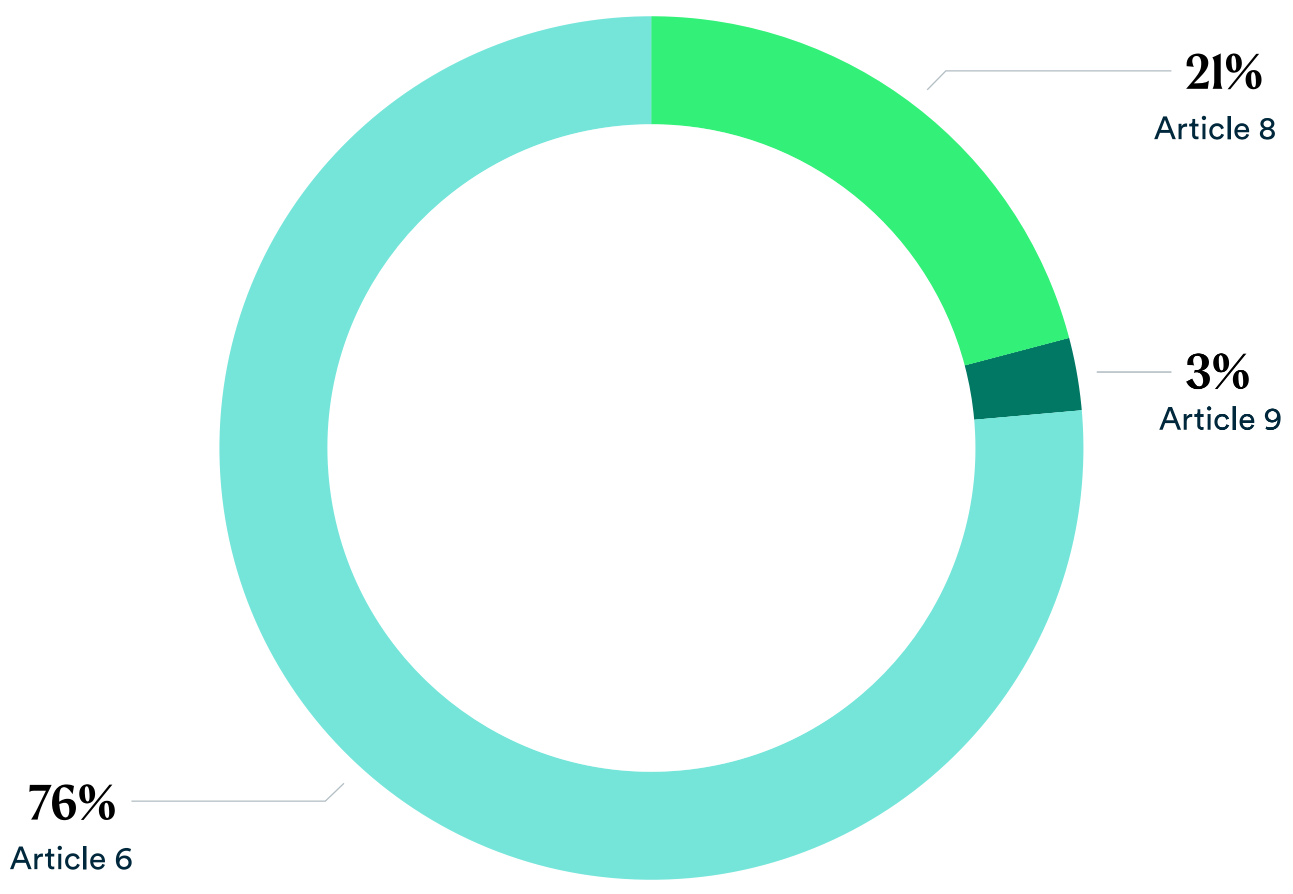
Funds that promote, among others, environmental or social characteristics, or a combination of the two, provided that the companies in which the investments are made comply with good governance practices.

ARTICLE 9

Funds that have sustainable investments as their specific objective.
For "Article 8" and "Article 9" funds, the regulation requires, with a series of technical specifications, that information is provided on how the declared ESG criteria are effectively met.
The regulation aims at creating greater transparency in the sustainable investment market, in particular to prevent "greenwashing" - that is, when financial companies claim that their products are sustainable when in fact they are not.
As will be seen below, however, there is a risk that Regulation 2019/2088 and, even more significantly, the subsequent 2020/852 (on the so-called "taxonomy") will have the opposite effect.

Europe takes ESG funds out of the niche

From the very beginning, investment funds that meet ESG criteria have always been a niche within the so-called "assets under management (AUM)". In Italy, in 2020, they represented approximately 3.3% of the total invested through funds.
With the European Union's Action Plan, it seems that things are meant to change. The offer of "sustainable" funds, as defined by the SFDR, is ready to break out of its niche, to gain significant market share.
According to an analysis by Morningstar, the leading provider of information on the global managed savings market, published at the end of April 2021, one in four European funds are classified as "sustainable" under the new EU environmental, social and governance rules. Almost



Graph 2 - Article 8 and 9 funds already account for 23.6% of total European funds.
Source: Morningstar, European Sustainable Fund Flows: Q1 2021 in Review, Data as of April 27, 2021.

24% of open-end funds and ETFs based in Europe have already declared themselves "Article 8" (partially sustainable) or "Article 9" (sustainable), reaching an estimated total (estimated) of around € 2,500 billion AUM (**graph 2**).
This is almost double the amount of sustainable fund assets identified by Morningstar analysts as at the same date (April 27, 2021), with an estimated total value of € 1,332 billion.
We are therefore faced with the same market, which is now read with two different pairs of glasses:
- those of Morningstar, which has been analyzing the development of the European sustainable funds market for at least 10 years;
- those of the new European Regulation 2019/2020 (or SFDR)
- Putting on SFDR glasses would double the size of the European sustainable funds market.

Considering that the total money managed in Europe at the end of 2020 amounted to about 25,000 billion euros according to EFAMA (European Funds and Asset Management Association) and about 34,000 billion euros according to Zeb Consulting (based on Morningstar data), the weight of sustainable funds on total funds managed in Europe, in terms of assets, would be equal to 4% -5% with Morningstar glasses and 7% -10% when wearing SFDR glasses of the European Union.
In essence, the European regulation has pushed sustainable funds towards 10% of the total, making these products move out of their niche market. How could that happen? Morningstar suggests/formulates three hypotheses:

1. the EU applies a less stringent definition of "sustainable investment" (compared to that used by Morningstar) and also includes in its universe funds that only use light exclusion criteria (of controversial sectors, ed) or that claim to formally integrate ESG criteria but do not use them in a decisive way when selecting their investments;
2. Morningstar identifies sustainable funds based primarily on fund prospectuses and on KIIDs (Key Investor Information Documents); therefore, some funds may not have been considered due to a lack of transparency and disclosure of benchmarks[2]. With the increased transparency thanks to the implementation of the SFDR, it may now be possible to identify more funds that meet Morningstar's criteria;
3. the EU includes certain types of financial products in the calculation, such as money market funds or funds of funds, which Morningstar excludes instead.

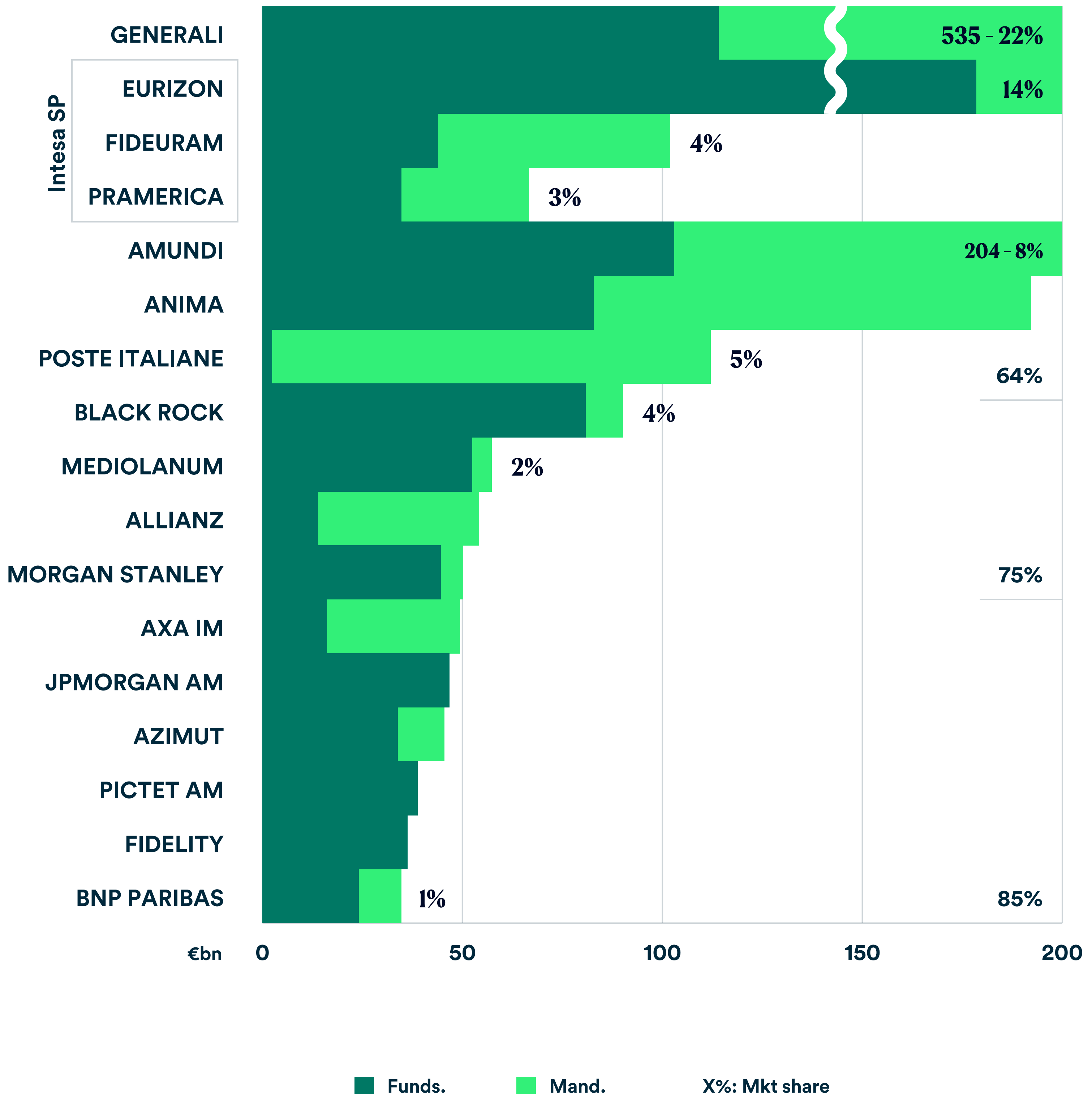
Caution is a must, but Hortense Bioy, Morningstar's Global Director of Sustainability Research, said that the percentage of funds that qualify as "sustainable" two months after the entry into force of Regulation 2019/2088, is "surprising," as many managers are still investigating what the additional transparency requirements entail. And given that, we add, Regulation 2020/852 (on the "taxonomy") is not yet fully operational, because to date (May 2021) there is still no clarity on which specific activities can be considered sustainable and which not.
However, the race to define investment funds as "green" or "sustainable" has already begun. This is because sustainability attracts new customers. For the second time in history, in the first quarter of 2021 sustainable funds sold more than conventional funds. The first time was in early 2020. Funds on the theme of "climate change" were among the best-selling products again (Morningstar data).
"A large shift in the approach to fund classification under the new European rules has resulted in a wide range of investment products being considered 'green'," Morningstar has added.
Europe's largest asset manager, Amundi, classified 530 of its funds as Article 8 or 9. BNP Paribas classifies 313, while BlackRock, the world's largest financial manager, came in at 103. According to Morningstar, BlackRock itself would have attracted 17.1 billion euros of investments in its sustainable funds between January and March 2021, "more than any other manager."
It therefore seems possible that the new European rules are making many financial products rediscover an inclination towards sustainabi-

2 Or of inaccuracies in Morningstar's reading of the data.

lity that they previously did not have or, in any case, did not value or advertise. Perhaps because, let us add (and this is Morningstar's first hypothesis), the already approved EU rules, and those expected for the future, have lowered the bar to allow a fund to define itself as "green" or "sustainable."

A New Wave of Sustainable Funds. And Many Open Questions.

With a simple exercise we tried to understand what is inside "Article 8", "Article 9" and "Article 6" funds of the three main asset management companies operating in Italy and the top two operating in Spain.
When it was not possible to clearly identify the funds for each article, we analyzed funds that defined themselves as "sustainable," "ESG" or "ethical" even before the entry into force of the new EU regulation, and others that, instead, did not apply any ESG criteria.
The sources of our research were the annual (as of December 31) and semi-annual (as of June 30) reports of the funds. We based our analysis on the most recent available report (June 30, 2020 or December 31, 2020). Reports typically feature a list of the top 50 portfolio securities or, sometimes, all securities.
It should be noted right now that these are data that may have changed in the meantime: from June or December 2020 to date some funds may have sold some securities, improving the ESG profile of their portfolios. The publicly available data, however, date back to December 31, 2020 at the latest and we therefore had to refer to those.
To identify the top three Italian management companies, we referred to data from Assogestioni, the association that represents the interests of asset management companies operating in Italy (updated to February 2021). The top three companies are Generali, Intesa Sanpaolo (with its subsidiaries Eurizon, Fideuram and Pramerica, of which we have however only analyzed the main one, Eurizon) and Amundi.
In order to identify the top two Spanish management companies, Caixabank and Santander, we referred to data from Inverco, the association that represents the interests of asset management companies operating in Spain (updated to December 2020).
Then, we have identified a list of companies that we consider "controversial" and far from sustainability objectives, and we have searched



Graph 3 - The top 15 asset management groups in Italy.
Source: Assogestioni, The Italian Asset Management Market, March 25, 2021.

for their securities within the portfolios of the analyzed funds.
We have considered companies "controversial":

- if they are included in the "Global Coal Exit List" (GCEL) published by the German NGO Urgewald and composed of the major companies worldwide which significantly extract, market or produce energy from coal and are therefore directly or indirectly responsible for high greenhouse gas emissions.
- if they operate in the oil sector and are particularly involved in the extraction of oil from tar sands or gas and oil from shale, by means of fracking. Both practices are considered to be among the most controversial from an environmental point of view.
- if they operate in the oil sector, tout court, and continue to be included in article 8 and 9 funds. We started from the assumption that, due to their high (direct and indirect) greenhouse gas emissions, the presence of oil companies is incompatible with the objectives of funds totally (Article 9) or partially (Article 8) dedicated to sustainable investments. On the other hand, we did not consider the presence of oil companies within Article 6 funds, which do not follow any type of ESG criteria, to be particularly controversial.
- if they are included in the list of nuclear weapons manufacturers, defined by the NGO Pax and by the ICAN campaign (International Campaign for the Ban of Nuclear Weapons) and used as a reference point for the annual report "Don't Bank on the Bomb ".

The research intends to provide examples only, and has no scientific ambition. The funds have been chosen in an instrumental way, to explain some of the current trends in the European market for investment management, with no claim to exhaustiveness.

Analysis of the top three Italian asset management companies

As we have seen, the top three Italian asset management companies are Generali, Intesa-Sanpaolo group and Amundi.

AMUNDI

Let's start with the third, the French company Amundi, because it is the only one of the three that, to date, makes clear and easily accessible information on the nature of its funds according to the EU Regulation 2019/2088 available on its website. If you consult the Italian website of Amundi, within the offer for private investors, there are 896 funds, of which 408 "Article 8", 37 "Article 9" and 451 "Article 6". 50% of the funds currently available to Italian private investors are therefore defined, to some extent, "sustainable" (Art. 8 and 9) as per EU regulation. The remaining 50% does not follow any sustainability criteria (Art. 6).

The Amundi "supermarket" is therefore divided equally into two sections: one that also applies ESG criteria in the choice of securities and one that does not apply any sustainability criteria.

There are also sections dedicated to ETFs (funds that replicate the performance of an index) and shelves for professional investors such as banks, insurance companies or pension funds.

So, let's see which products can be found in this supermarket.

Let's start with a shelf dedicated to ETFs for professional investors, within which we find an Amundi "Article 9" fund, which therefore has sustainable investment as its specific objective. It is called "Amundi MSCI World Climate Paris Aligned PAB", a climate fund that invests in companies aligned with the goals set by the Paris Agreement.

Within the annual report, which dates back to September 2020, we find a list of the securities of the companies in which the fund invests. Among these are:

- - **Bae Systems**, a British armaments company that is on the list of nuclear weapons manufacturers in "Don't Bank on the Bomb" report;
- - **TC Energy**, a Canadian company, that owns gas and oil pipelines, including the controversial Keystone XL oil pipeline, which was set to transport oil extracted from tar sands in Alberta (Canada) to the United States but was recently stopped by the Biden administration.

Even though Amundi may have sold these stocks since September 2020, it is difficult to understand why a company like TC Energy was included in an equity index aligned with the objectives of the Paris Agreement on climate.

From the "Professional Investors ETF" shelf we also choose an "Article 8" fund, "Amundi MSCI World ESG Leaders Select", which invests in a selection of global leaders in compliance with ESG criteria. The following titles are mentioned in the annual report (September 2020):

- oil companies **Total** (France), **Repsol** (Spain), **ConocoPhillips** (USA), particularly active in the extraction of gas and oil from shale (gas and oil fracking), **Occidental Petroleum** (USA) and **EOG Resources** (USA, gas and oil fracking).

It is true that these companies may have been chosen as "best in class" in regard to their compliance with ESG criteria in the oil sector, and we do not doubt that the fund is in line with EU regulation. However, in our opinion, it is questionable to have stocks of oil companies in a fund that defines itself, even partially, as "sustainable". However, this does not detract from the fact that some investment companies can positively assess the decarbonization plans for 2030 and 2050 that many oil companies have begun to publish in the last two years.

If we then move on to the "Article 6" section of the Amundi supermarket, we find a series of titles that we consider particularly controversial. By not applying any ESG filters in the selection of securities, Article 6 funds compose their investment portfolios mainly according to financial assessments. Nevertheless, they are required to declare whether they carry out a sustainability risk analysis and, in case they don't, they must explain why.

Furthermore, in the ETF for professional investors "Amundi Euro Istoxx Climate Paris Aligned" (classified as "Article 6") we find, for example, the securities of the German company **Rheinmetall**, which until recently - before the stop imposed by the Italian government - produced and exported bombs that the Saudis dropped on Yemen in a war without any international legitimacy and with thousands of civilian casualties.

Meanwhile, in the ETF "Amundi Index MSCI North America," the Canadian oil company Suncor Energy, one of the largest producers of oil from tar sands, was present as of September 2020.

EURIZON (INTESA-SANPAOLO)

We then move on to the Intesa-Sanpaolo group and choose to focus on Eurizon, the group's most important asset management company.

As reported by Il Sole 24 Ore on March 15, 2021, the Eurizon funds that fall into the categories "Article 8" and "Article 9" are 123 out of a total of 640 (19%).

"When our understanding of the EU regulation becomes clearer, there may be a shift in Article 9 of other funds currently in Article 8, which adopt a carbon footprint logic. It is conceivable then that the launch of new mutual funds will see almost only Article 8 or 9 funds," Eurizon's Alessandro Solina and Claudio Marchetti told Il Sole 24 Ore.

Therefore, at least for now, the Eurizon supermarket would have a sustainable sector (according to the EU regulation) made up of about one fifth of the products sold. All other products are "unsustainable" as per

EU regulation.
We start from the Luxembourg fund "Equity Europe ESG LTE", formerly registered as an "Article 8", which invests "only in shares of companies that meet minimum environmental, social and governance (ESG) standards, without sector exclusions, considering ESG assessments provided by MSCI." The minimum ESG standards, without exclusion of any product sector, allow the fund to invest (at least until June 2020, the latest available data) in:

- oil companies such as **Shell** (UK, Netherlands), **BP** (UK), **Total** (France), **Repsol** (Spain), **Eni** (Italy).
- The same can be said of the "Equity USA ESG LTE" fund, the "sustainable" American cousin of the previously analyzed fund, which, as of June 2020, invests in:
- **Xcel Energy** (USA), a company which, according to Urgenwald's "Coal Exit List," used as a reference point by many investment companies (including Generali), produces energy by burning coal for 35% of the total energy mix (while the maximum threshold for those who want to divest from coal is generally set at 30% of the production mix or of the total turnover);
- **Ppl Corporation** (USA), a company that produces 79% of its energy from coal;
- oil companies such as **Exxon** (USA), **Chevron** (USA), **ConocoPhillips** (USA) and **EOG Resources** (USA).
- By moving away from the "ESG shelves" and exploring the rest of Eurizon's "supermarket," you will find securities of all kinds, as is normal for funds that do not adopt any environmental, social or governance criteria but only criteria based on the profits expected from the investment in individual companies. For example, the "Equity North America LTE" fund, as of June 2020, invests in:
- US defense companies **Raytheon Technologies**, **Lockheed Martin**, **Textron** and **Northrop Grumman**, included in PAX / ICAN's list of nuclear weapons manufacturers;
- Canadian companies **TC Energy** and **Suncor Energy** (tar sands, see above).

GENERALI

And finally, let's take a look at Generali's "supermarket." Within an immense offer of funds, we first of all choose the Luxembourg management company BG Fund Management Luxembourg, which manages the SICAVs (investment companies with variable capital) promoted by Banca Generali SpA. It is only a small part of the investments of the "Lion of Trieste", on which we focus the spotlight for exemplary purposes.
On the BG Fund website, explicit reference is made to the EU regulation. Four different information sheets can be downloaded explaining in detail what the new legislation requires and to which sectors of the wide range of BG Fund it applies.
The branches concerned, "promoting, inter alia, social and environmental characteristics" ("Article 8"), are 9 out of a total of 75 and concern both Generali products and third-party funds (Amundi, BNP Paribas, Morgan Stanley, etc.). Once again it is a small shelf inside a fund supermarket.
The "Article 8" branches of Generali BG Fund Management Luxembourg do not seem to invest in particularly controversial securities (based on the assumptions we made at the beginning of this section), even though there are some exceptions. The Branch "ESG Morgan Stanley Global Multiasset", for example, as at December 31, 2020 invested in:

- US oil companies **Exxon Mobil, Chevron**, **ConocoPhillips**;
- US defense companies **Raytheon Technologies**, **Lockheed Martin** and **Textron** and in the British company **BAE Systems**, included in the PAX / ICAN's list of nuclear weapons manufacturers.

The story of Generali Investment Sicav's "Sustainable World Equity" is interesting. Until June 2020 (half-yearly report), it was simply called "Global Equity," and then changed its name, with the addition of the adjective "sustainable," in December 2020 (annual report), when it was also classified as an "Article 8" fund (SFDR Disclosure).
We are facing the case of a fund previously not defined as "sustainable," which now, with the entry into force of the EU regulation 2019/2088, has become "Article 8" (and therefore also promotes sustainability criteria).
As can be seen by comparing the portfolios of the fund as of June 30, 2020 (when it was still simply called "Global Equity") with those as of December 31, 2020 (when it changed its name to "Sustainable World Equity"), the fund only seems to have changed its name, while the securities in the portfolio seem to have remained practically the same.
However, it should be noted that the obligations relating to the SFDR entered into force on 10 March 2021 and, therefore, in the meantime, the securities in the portfolio may have changed.
As at December 31 2020, the following securities were part of the fund's portfolio:

- US oil companies such as **Chevron**, **ConocoPhillips**, **Exxon Mobil** and the Canadian **TC Energy** (oil pipelines/tar sands);
- European oil companies such as **BP** (UK) and **Total** (France);
- **Ppl Corporation** (USA, coal);
- **Northrop Grumman** (USA, nuclear weapons).

The same securities, apart from ConocoPhillips and Northrop Grumman (which were added to "Sustainable World Equity" - "Article 8" but were not present in "Global Equity"), were also included in the portfolio of "Global Equity."

This example seems to support the first of Morningstar's three hypotheses (see above, § 2): the sudden explosion of sustainable funds in Europe could be due to the fact that the EU Regulation 2019/2088 has lowered the bar in the definition of sustainability of investments, leading many management companies to define funds "sustainable", that were previously not. In full compliance with European legislation.

Analysis of the first two Spanish management companies

Based on data from Inverco, we have identified the top two Spanish management companies for managed assets: Caixabank and Santander. For both, we have tried to understand which securities can be found in the portfolios of sustainable and non-sustainable funds.

CAIXABANK

Let's start with Caixabank. According to the Spanish business newspaper "Cinco Dias" (March 15, 2021), for the investment fund manager "CaixaBank Asset Management," which manages nearly 50 billion euros, 53% of the assets will be classified as "Article 6" (and will therefore continue not to adopt any ESG criteria in the choice of securities) and 40.2% as "Article 8" and "Article 9" (these are still provisional data, so the percentages do not add up to 100%). As can be seen, the CaixaBank fund supermarket will also be split in two sectors: one where any types of securities can be found, and another in which at least minimum sustainability criteria will be applied.
Caixabank's website does not yet explain which funds have been classified according to the three articles of the EU Regulation 2019/2088. We have therefore selected the portfolios of some funds already defined by the company as ESG (which we imagine will fall into the "Article 8" or "Article 9" categories) and of other funds that do not explicitly refer to sustainability criteria and which, therefore, could be classified as "Article 6".
Currently, Caixabank explicitly declares to apply ESG criteria in three funds:

- MicroBank Ecological Fund;
- MicroBank Ethical Fund;
- CABK Selección Futuro Sostenible.

According to the annual report of "MicroBank Fondo Etico," as at December 31, 2020, the fund was investing in shares of the Spanish oil company **Repsol** and in bonds of the French oil company **Total**.
Instead, it is not clear in which securities the assets of the "MicroBank Fondo Ecologico" fund are invested, as it invests, in turn, in not clearly detailed funds of other investment companies (Parvest, Schroder, Nordea, etc.). The same applies to the "CABK Selección Futuro Sostenible" fund, which invests in not clearly detailed funds of other investment companies.
No particularly controversial securities (such as nuclear weapons, tar sands, coal, etc.) were identified from sample analyses carried out on non-explicitly ESG funds at Caixabank. However, it should be noted, that many funds, in turn, invest in funds from other investment companies, but these are not clearly specified. And therefore, it is not possible to reconstruct the related investment portfolios.

SANTANDER

Santander's website does not yet explain which funds have been classified within the three categories provided for by the EU Regulation 2019/2088. However, a detailed information note on the policies for integrating sustainability risks based on the regulation is available.
In particular, Santander declares to adopt a series of exclusion criteria for the oil, energy, mining and soft commodities sectors (coffee, cocoa, sugar, flour, meat, etc.). The criteria apply to both credit and savings insurance and management activities.
In particular, in the oil sector, Santander is committed to exclude investments in:

- projects located north of the Arctic Circle;
- projects relating to tar sands, fracking and "unconventional" fossil sources in general;
- companies that derive more than 30% of their turnover from unconventional fossil funds.

In the energy sector, the company will exclude, from 2030, all companies that derive more than 10% of their turnover from generating energy with coal. Criteria have also been defined for nuclear energy and the mining sector.
These are partial commitments, which focus mainly on environmental aspects and, in some cases, are moved far forward in time, but it is a first step that must be taken into account.
As for Caixabank, we have analyzed the portfolios of explicitly "ESG" funds and other funds that do not specifically refer to sustainability criteria.
We start from the "Santander Go Global Equity ESG" fund of the groups' Luxembourg Sicav. In the most recent half-yearly report, which dates back to June 30, 2020, it can be seen that the fund, explicitly oriented towards ESG criteria, also invested in a range of oil compa-

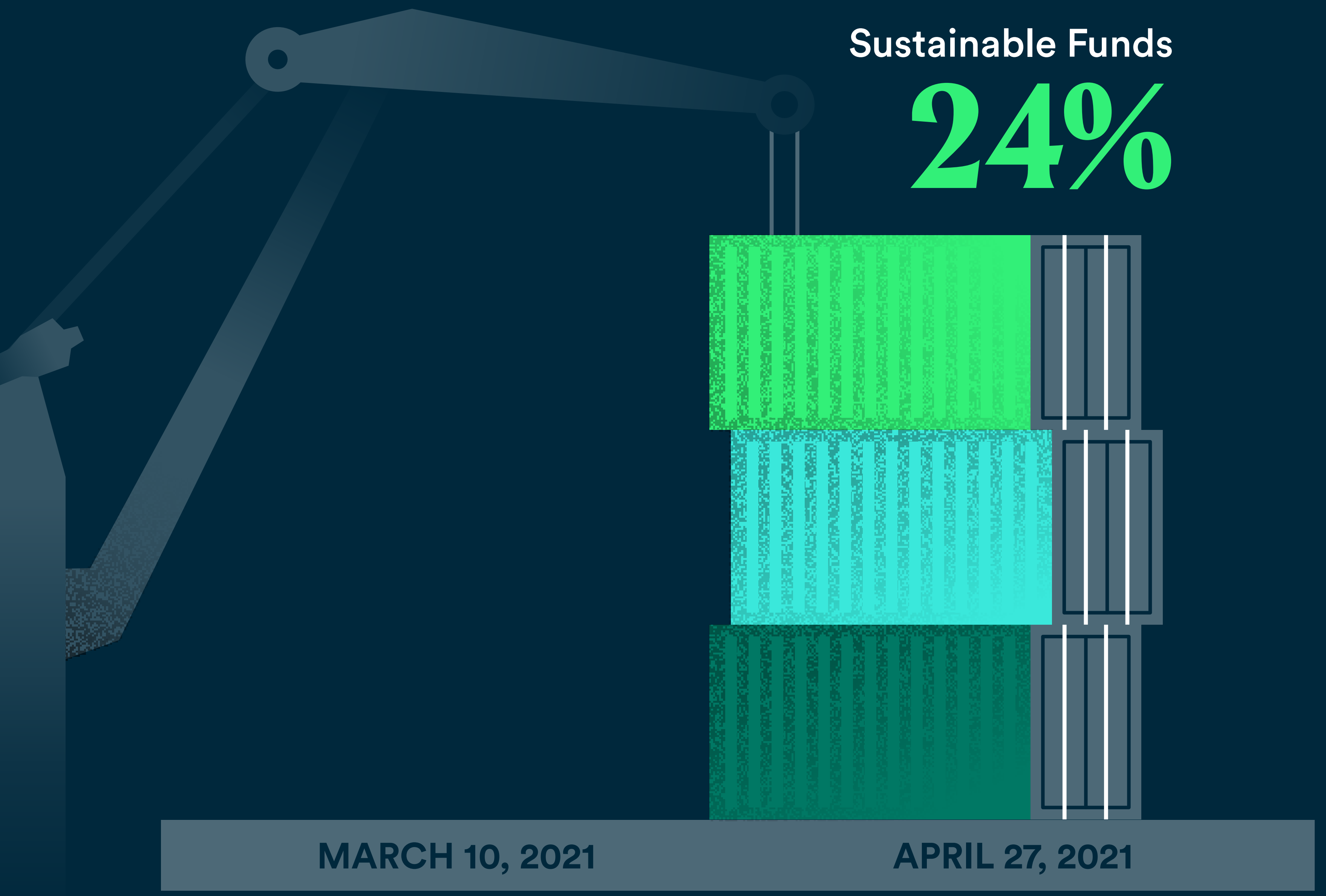
nies, certainly consistent with the investment policy of the fund but, in our opinion, no longer compatible with an investment product that would like to be called "sustainable": **Petrobras** (Brazil), **Total** (France), **Shell** (Netherlands) and **BP** (Great Britain).
Moving on to the conventional part of the Santander "supermarket", we indicate, for example, the Luxembourg SICAV's "Santander AM Euro Equity" fund which, as of June 30, 2020, did not invest in companies covered by the company's exclusion policies (tar sands , fracking, etc.) but held in its portfolio 67,529 shares of the German company Rheinmetall, for a total market value of 5.21 million euros.

Conclusions

This quick analysis seems to confirm that some of the main management companies based in Italy and Spain have rushed to declare "sustainable" or "partially sustainable" (according to articles 8 and 9 of the SFDR) a significant percentage of their funds (from 20 % to 50%), which appears to be higher than the percentage of explicitly "ESG" funds previously offered to customers.
The regulatory framework is constantly evolving. In particular, no agreement has yet been reached on which investments should be considered "sustainable" according to EU Regulation 2020/852 (the one regarding the "taxonomy"). The decision has been postponed until after the summer of 2021, mainly due to the clash with some Member States on whether or not to accept gas and nuclear energy (see, below, the interview with Greens MEP Sven Giegold).
It is possible that many of the securities which we considered controversial, included in the portfolios of the funds analyzed, will be sold in the future or have already been sold: our analysis only captures a moment (December 31 or June 30, 2020), corresponding to the most recent data available to us. It will therefore be necessary to repeat this exercise next year or in two years' time.
Because of the SFDR, all management companies will be required to clarify by December 30, 2022, for the funds Article 8 and 9, how they take into account "the main negative effects (of investments) on sustainability factors" (Regulation EU 2019/2088, Article 7). If there are still oil companies in the portfolio, for example, it will be necessary to explain why they can be considered compatible with environmental sustainability.
For all funds that do not apply sustainability criteria (Article 6), the SFDR does not impose particular transparency obligations, but it requires more effort compared to the current situation. In fact, "a reasoned explanation" will have to be provided as to why "the negative effects of investment decisions on sustainability factors" are not taken into account.
It remains to be seen how detailed the reasons will be or whether it will be just a standard statement, repeated for each fund. However, in our opinion, it is a significant step forward to recognize sustainability as a key factor in investments. If you decide to bypass it, you'll have to explain why.

The EU Action Plan and ethical finance

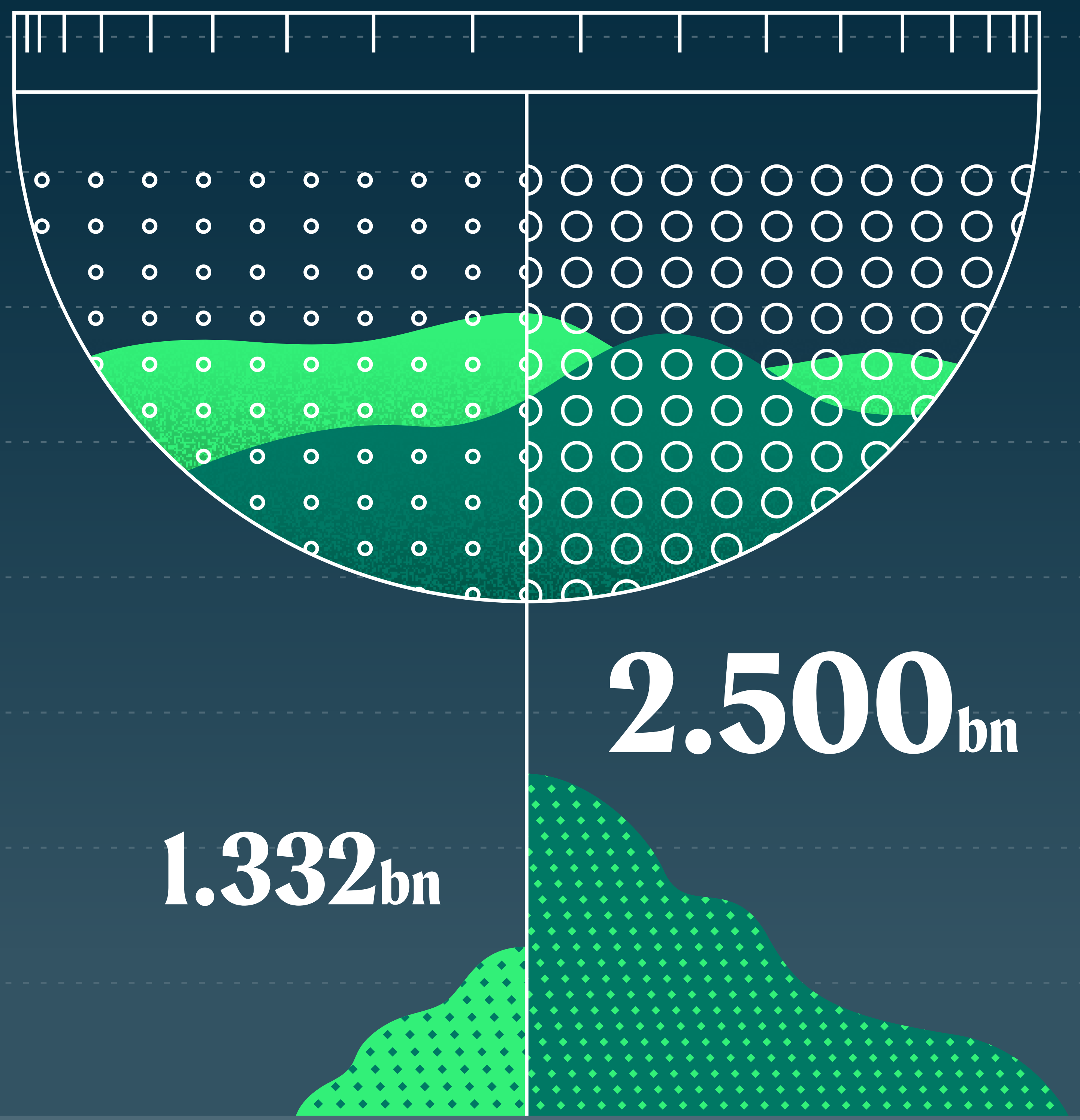
As of April 27, 2021, less than two months after the entry into force of the European SFDR regulation (March 10, 2021), almost 24% of open-end funds and ETFs based in Europe have declared themselves "sustainable", for (estimated) approximately 2,500 billion euros AUM. This corresponds to nearly twice the number of sustainable funds identified by Morningstar at the same date, with estimated total assets of €1,332 billion.



WHY?

The assets of "sustainable" funds according to the definition given by the European Union would suddenly have doubled because - this is our hypothesis - the EU would have lowered the bar in the definition of "sustainability".

- Without the criteria of the Action Plan* (*Morningstar data)
- With the criteria of the Action Plan



Basic objectives

Ethical finance: pursues economic gains to maximize the benefits for society and the planet. Mainstream economy: pursues profit maximization. The Action Plan does not question this model.

Financial speculation vs focus on the real economy

The action plan does not address the worst impacts of the financial system

Shelf model ('modello a scaffale') vs holistic model

Ethical Finance: all activities must be sustainable
Action Plan: focuses on the sustainability of individual financial products

Governance Models

Ethical Finance: transparent and participatory model. Action Plan: there are no rules

Weight of ESG parameters

Ethical Finance: takes all ESG parameters into consideration
Action Plan: focuses only on environmental sustainability

Lobby and advocacy

Ethical Finance: asks for rules for the good of the whole community
Traditional Finance: strong lobbying for rules in favor of financial profits

Engagement and active shareholding

Ethical Finance: goal of transforming the financial system
Traditional Finance: business as usual as long as it generates profits

THE INTERVIEW

Giegold: «The EU risks dumbing down sustainability. Fossil gas and nuclear remain out "

MEP Sven Giegold, leading exponent of the EU Greens and member of the Finance Committee of the European Parliament has no doubts: if the European Union, under pressure from lobbies, will accept fossil gas and nuclear energy as "green" activities, sustainability labels will lose all value. The solution? Relying on scientific expertise and data.

There is a lot of talk about the taxonomy of the European Union on sustainable finance. When will it be ready?
Good question. Probably never, because taxonomy is an evolving process. Technologies are changing, there are continuous innovations in the agricultural field, science itself is changing. Even the taxonomy will have to change at the same pace. To define taxonomy means to decide what sustainable finance is and what, instead, harms the environment. And this will grow more and more. But the first steps are finally about to be taken by the Council and the European Parliament. Perhaps already in the summer of 2021, but it is not clear yet.

Is there a risk that taxonomy will eventually present a very watered down list of economic activities?
Above all, there is a major risk that some relevant activities will be "greenwashed". The development of the taxonomy was based on scientific expertise and data. This was the proposal that the Commission has received. From then on, however, there has been unbridled lobbying by polluting industries and member states seeking to protect investments in fossil gas, nuclear energy or harmful forestry practices. And now we see the danger of a taxonomy that is not based on science, but on lobbies. The Commission will have a great responsibility if it does not strictly adhere to scientific evidence.

What do you think can't be compromised on taxonomy?
I think that investments in fossil gas, as well as nuclear power, are totally out of question. In countries such as Italy and Germany, which have made informed decisions against nuclear energy, sustainability labels on financial products financing nuclear energy would make the whole label basically a joke.
So, I am pretty sure that the whole labeling of sustainable finance will be a failure if nuclear energy, but also fossil gas, are accepted and defined as "green". That's a complete rip-off. It's like talking about organic farming with pesticides. It doesn't work like that and it represents a real danger for the financial sector that has tried to build a green ethical investment pole. All these investments are in a certain sense in danger if greenwashing does not remain just a reality of some companies, but enters fully into European law.

Sven Giegold, MEP.
Photo ©Dominik Butzmann

Here it is possible to see the complete interview.

Banks and Human Rights. A New Indicator for the Banking System

1.1 BANKS AND HUMAN RIGHTS: LET'S START SHEDDING LIGHT

A new study by the University of Pisa ranks a sample of global banks on the basis of human rights violations, an aspect. A fact that has so far been underestimated.

Premise

The "REMARC - Responsible Management Research Center" of the University of Pisa has carried out the research "Banking on human rights," coordinated by Professor Elisa Giuliani, and realized with the contribution of Fondazione Finanza Etica, thanks to the donation received in 2018 by Etica Sgr - responsible investments.

The main goal of the project, titled "Objective Accountability: How to Measure the Human Rights Impacts of the Banking and Insurance Sector," was to create a new indicator to classify companies in the banking and insurance sector (here simply referred to as "banks") based on the available evidence regarding their direct or indirect involvement in human rights abuses, in line with the Guiding Principles on Business and Human Rights (UNGP), based on the United Nations Universal Declaration of 1948 and subsequent pacts and treaties. For example, the right to health and life, the rights of indigenous communities, women and children and workers.

The violation of human rights by companies is a topic of growing international interest. This is also due to the increased availability of empirical evidence produced by numerous observers - largely non-governmental organizations (NGOs), investigative journalists and academic institutions - documenting business-to-community conflicts or other types of violations. The NGO Business and Human Rights Resource Center, for example, has been collecting information for years, and making it available on its portal, whereas the EJAtlas project keeps track of socio-environmental conflicts, including those related to businesses. Based on the available sources, the REMARC center has been working since 2013 on the codification of human rights violations associated with business activity, especially in relation to the manufacturing and mining industry, and is among the first to have carried out quantitative analysis on this type of data[1].

In the last decade, thanks also to the UNGPs, attention to business and human rights has grown a lot. However, the focus so far has been almost exclusively on manufacturing and mining companies (think of the scandals in the value chain of the technology sector - from the issues of minerals extracted in conflict zones, to the exploitation of labor in production), while much less attention has been paid to the banking-insurance sector. Today instead, this sector is very much studied on the climate change front, for example with regard to the level of investments in carbon-stranded sectors, i.e., in fossil infrastructures such as coal plants, gas pipelines and oil wells, which risk being thrown out of the market by the increasing competition from renewable sources. However, there is no systematic analysis, nor are there databases documenting the degree of involvement of banks in human rights violations. This is not surprising because, unlike other types of data (including environmental data), this information is difficult to find, because of the lack of transparency that often characterizes the contexts where violations occur, and because the data is strongly affected by the willingness and ability of victims to report abuse.

Some specialized NGOs, such as BankTrack[2], have been working for years to track or trace the violations associated with big banks, also revealing the sector's serious shortcomings in this area.

With the project *"Objective Accountability: How to Measure the Impacts on Human Rights of the Banking and Insurance Sector"*, the researchers of the REMARC center have taken a first step in creating a database that encodes events, by bank and year, of human rights violations in the period 2000-2015, for a sample of 178 banks and insurance companies from all over the world. The goal of the project was to develop an indicator (the Banks HUMAN RIGHTS Index) that measures the degree of involvement of a bank in human rights violations, also considering its propensity to be monitored by the press or by NGOs.

The indicator (now available on the bankingonhumanrights.org website) is different from the ESG indicators[3] produced by ethical rating agencies, since, unlike the latter, it is based on a transparent and replicable statistical methodology, and focuses exclusively on violations ("do harm") and not on the policies put in place by banks in the field of business and human rights ("do good"). This last element is important because, often, ESG indicators - with particular reference to the S-"social" part of the indicator - tend to blend the dimensions "do harm" and "do good" so that project activities or policies on human rights "do good" are used to counterbalance the evidence of abuse.

In doing so, ESG indices tend to positively influence the "S" social evaluation of companies (or banks) that are strongly committed to "do good" policies (for example by declaring to adhere to UNGP guidelines or setting up hotlines to favor mechanisms of "grievance", such as complaints or reports), but are not as effective in reducing violations ("do

1 Some of the works of the REMARC center have been resumed in Chapter 2 of the Mani Tese Report "Business and Human Rights" of 2019:
2 BankTrack is the international monitoring, campaigning and support organization for NGOs, which focuses on banks and on the activities they finance.
3 Environmental, Social, Governance.

harm”): a behavior that is sometimes referred to as “greenwashing,” but here should be more correctly called “rights washing” (because it concerns human rights). Since the REMARC indicator does not include the “do good” part, it is immune to this type of problem and has other important statistical properties which are described below.

Methodology

The Banking on Human Rights project includes a sample of 178 banks from 27 countries, observed from 2000 to 2015. The project has made use of various sources, including the Business and Human Rights Resource Center (BHRRC)[4].

The work began with the selection of a sample of banks, for each of which evidence of direct or indirect involvement in human rights violations was sought. Each violation event identified by the search was coded, specifying some detailed information: a brief description of the violation, the country in which it occurred, the year in which it allegedly started, ended, was reported or discovered, the victims of each violation - distinguishing between workers, communities and final consumers. Based on this first coding, a dataset was created. It identifies for each bank the number of human rights violations in which it has been involved in each year (violation-year). This variable represents the raw data for the creation of the “Banks HUMAN RIGHTS Index”, which aims at measuring the degree of involvement of a bank in human rights violations, compared to that of the other banks in the sample analyzed. With the use of statistical and econometric techniques, the “Banks HUMAN RIGHTS Index” has the advantage of “cleaning” the raw data of the violation-year from some of the factors that may influence the probability of observing the data. In particular, the REMARC center worked to “neutralize” the raw data from:

- the temporal trend with which these phenomena are reported, considering that there is an increase in violations observed in recent years, due to the growing media attention and the increasing digitalization of communication, also thanks to social media; this correction is important for comparing the data over time;
- the media exposure of banks, considering that banks are not equally exposed to the attention of the press and NGOs. In a sample there will therefore be overexposed banks, which for this reason also tend to be an easy target for NGOs, and banks underexposed to media attention, for which a violation is much less likely to be observed. The index affects the raw data of the violations-year due to the different media exposure of the banks[5].

These elements are of absolute importance for purifying - as far as possible - the raw data from distortions caused by the very nature of the data. Based on these elements[6], the REMARC project has developed the “Banks HUMAN RIGHTS Index,” which measures the relative degree of involvement of a bank in human rights violations on a scale ranging from 0 (minimum) to 100 (maximum): banks with indices closer to 100 are those that we could define as most involved in human rights violations in relation to their sample and on the basis of publicly available evidence collected in the making of the project, considering also the time factor and media exposure. The index is calculated on an annual basis over the period 2000-2015.

The Analyzed Sample

The sample definition procedure was based on the propensity score method (PSM - Propensity-score matching), which aims to obtain a matching of cases and controls, in this specific case for banks based in an emerging economy or in an advanced country, and considering a series of variables observed in the period 1998-2007 such as: the return on equity (ROE) of the bank, return on investments (ROI), primary capital (*common equity*), net profit , net sales, total assets and a set of 6 industry-specific variables. This model was estimated using a randomized sample of 56 banks from emerging economies (“the cases” - selected from the list of the largest listed companies in the world Forbes Global 2000) and 220 banks from advanced economies (“the controls”). The final match results in 178 banks, of which 123 from advanced economies.

Which Types of Human Rights Abuses Are Banks Involved in?

The raw data of violations observed for each year clearly shows the growth in violation cases over time (**Graph 1**). In the period 2000-2015, 47 of the 178 banks observed (26%) are associated with human rights abuses. This growth trend, however, refers only to the observed data, not to the real data, and may be due to increasing media attention or increasing monitoring (for example by NGOs) on business and human rights. In fact, it is important to note that, unlike other economic and social data, in the case of human rights violations related to business activity (including banking), there are no official statistics, nor tools for col-

4 The Business and Human Rights Resource Centre is an organization that collects news and complaints about the human rights impact of more than 10,000 businesses.
5 To this end, the research conditions the data on the basis of the number of press articles published in the world’s leading newspapers that mention the bank annually, using the source NexisUni, and the level of Voice and Accountability, an indicator that is part of the World Governance Indicators of the World Bank which measures the freedom of the press, of association and of thought in the bank’s country of origin).
6 For more details on the methodology, see the technical data sheet available on the website: https://bankingonhumanrights.org/wp-content/uploads/2021/01/Methodology_BanksHRIndex.pdf

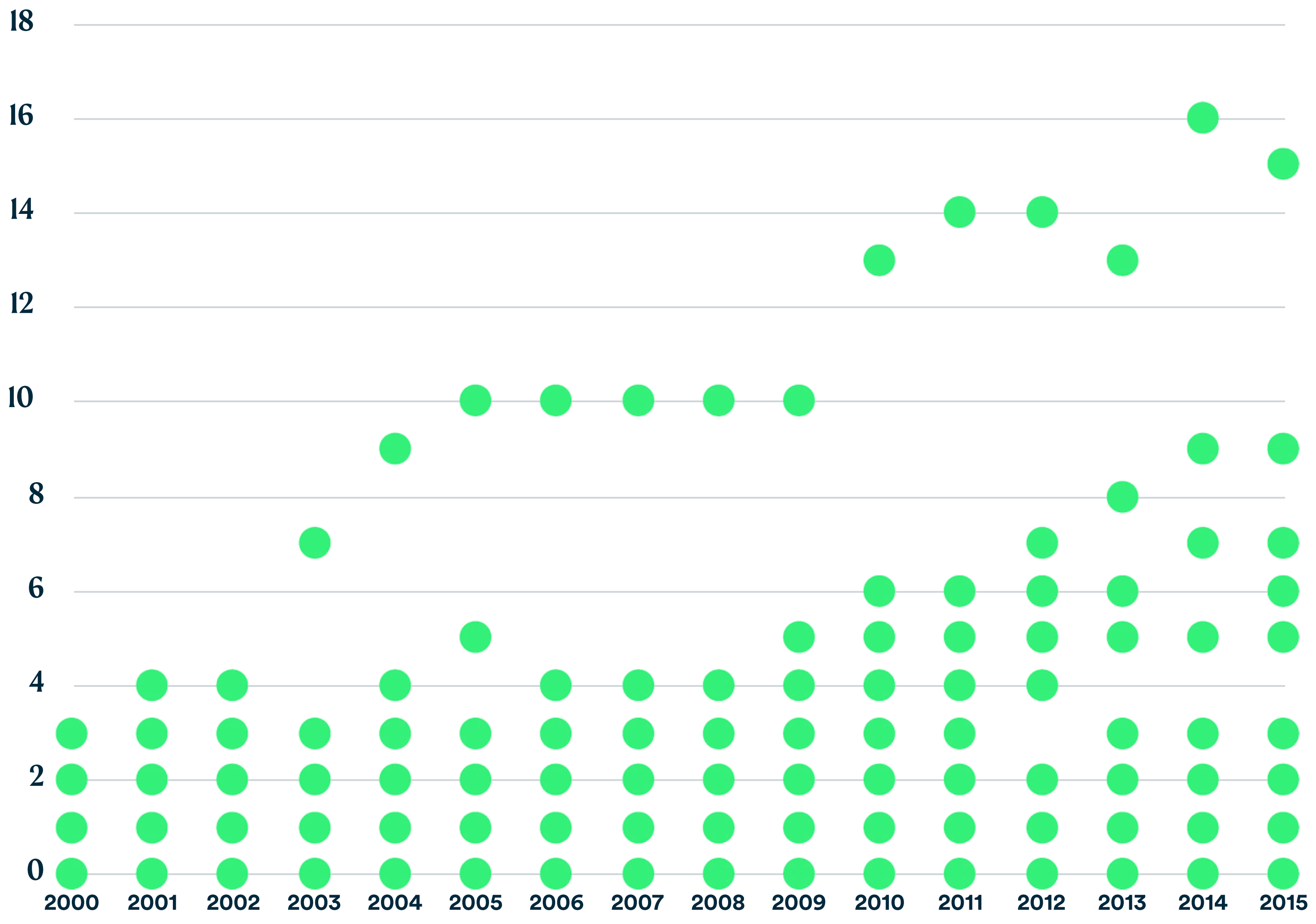
lecting and validating data in a systematic way[7]. Therefore, it is fair to say that the observed phenomenon is an underestimation of the actual phenomenon. Human rights violations related to banking-insurance activities are likely to be even more underestimated than in other sectors, given that banks are generally less monitored than manufacturing and mining companies.

In the sample analyzed, a total of 180 violations per year were observed, including repeated cases of continuous infringements which persist for several years.

The abuses have been classified according to the response document of the High Commissioner for Human Rights (OHCHR) to BankTrack, which explains the application of the UNGPs in the context of the banking sector.

The High Commissioner makes it clear that the responsibility to respect human rights, as established in the UNGPs, translates into a responsibility for banks to carry out a "Human Rights Due Diligence"[8] to identify, prevent and/or mitigate the risk of adverse impacts on human rights. This responsibility covers both the impacts (real or potential) caused by the bank through its proper activities (such as the management of personnel), and those caused by third parties having a commercial relationship with the bank itself.

Violations in this sector can be classified in two ways (one of which can be divided into two types): (i) violations with a direct causal link between the bank's actions/omissions and the negative impact (**'causes'** and **'contribute'**), and (ii) indirect impacts (**'linked to'**). These categories are defined as follows:



Graph 1 - Time trend of human rights violations observed in the banking-insurance sector (2000-2015)

IMPACT WITH DIRECT CAUSALITY LINK

- *'Causing'*

A bank may **cause** an abuse when its activities (through actions or omissions) are in themselves sufficient to remove or reduce the ability of a person (or a group of people) to enjoy human rights.

In the context of a bank's activities, these situations arise mainly among the bank's own employees, for example if the bank, at the time of recruitment, discriminates against women or race.

- *'Contributing'*

A bank can **contribute** to human rights violations through its activities (actions or omissions) - either directly, by partnering with other organizations, or through some external entity such as a customer. The contribution involves an element of "causality," such as when the bank's actions and decisions have influenced the customer or have created incentives in a way that has made the negative impact on human rights more likely. This element of causality practically excludes all activities that have only a "marginal or minor" effect on the customer, which can therefore not be considered as a fundamental "contribution" to the action infringing rights.

For example, a bank might be in a 'contributing' position by providing finance to a client for an infrastructure project and at the same time exerting pressure to contain the costs of the project itself, while being aware (or having to be aware) that this will cause negative impacts on the communities where the project is taking place - for example, in the form of less safety at work or the risk of forced displacement.

INDIRECT IMPACT

- *'Linked to'*

Many of the impacts associated with a bank's financial products and services fall, in practice, into the category of impacts caused by other parties, but related to banking operations through their business relationships. The classic case is that of minority shareholding in projects over which the bank has no operational control. In this category of responsibilities, the bank has not caused or contributed to a violation

7 The Business and Human Rights Resource Center covers many of the abuses, while other sources such as the OECD national contact points only include cases that are brought to the attention of the same points. In other cases judicial evidence is available but very often these only reveal violations that are reported by the victims, which are given visibility by NGOs.
8 This is a process of assessing the actual and/or potential adverse impacts of a bank's activities on human rights, aimed at ensuring that the bank can avoid violations, or, in cases where this is not possible, can minimize or to remedy the damage suffered by the victims.

of human rights (hence no causal link), but there is still a direct link between the bank's operations, products or services and a negative impact on human rights. This can also be the case when a bank has provided funding to a customer and the customer, in the context of using these loans, acts in such a way as to cause an adverse impact, violating health and safety regulations, or endangering the health of workers. The supply of a financial product or service creates a business relationship between the bank and the customer, falling under the so-called "*business relationship*" as defined by the United Nations Guiding Principles on Business and Human Rights. In such cases, the bank did not directly contribute to the adverse impact. However, once aware of the situation, it should have exerted pressure on the customer to try to mitigate the impact.

Many studies commissioned by NGOs, such as "Don't Bank on the Bomb" by PAX and Ican, identify investments made in shares of listed companies involved in controversial productions (e.g. nuclear weapons) through mutual funds, managed or even only promoted by saving management companies controlled by banks. It is reasonable to think that many of these cases fall into the "linked to" category, although a case-by-case assessment should be made.

In practical terms, it is often difficult to draw the line between **"contribute"** and **"linked to"**. As stated in the OHCHR document (2017, pp. 6-7), there is a continuum between "contributing to" and having a "direct connection with" a violation of human rights: a bank's involvement in a violation can change over time, depending on its actions and omissions. For example, if the bank identifies or becomes aware of an ongoing human rights violation that is directly related to its operations, products or services through a customer relationship, but fails to take reasonable measures to try to prevent or mitigate the impact, it could be seen in the end as a "facilitator" of the continuation of the situation, therefore finding itself in a situation of 'contribution' (and no longer, only, of connection).

What measures could the bank take to avoid "contributing" to a violation? Based on the guidelines on business and human rights we can suggest that in this situation, for example, the bank could report the problem to the client's managers or board of directors, convince other banks to join forces to raise the issue together with the common client, or even subordinate further funding to the remedy of the violation and, therefore, to the solution of the problem. If any attempt to exercise influence ('leverage') on the business partner fails and the violation continues despite the "Human Rights Due Diligence" actions taken by the bank, the only viable option may be to end the business relationship. The role of 'leverage', and thus of the influence exerted on business partners, is detailed in the UN OHCHR reply note to BankTrack.

This distinction and the thin line that divides the two concepts, as well as the possibility that they change over time and transform into each other, makes the coding of violations even more complex, also because the involvement of banks can be regulated by contracts and financial products for which there is neither transparency nor, as noted above, a searchable database that codifies, for each contract or financial service of a bank, the level of involvement in human rights violations.

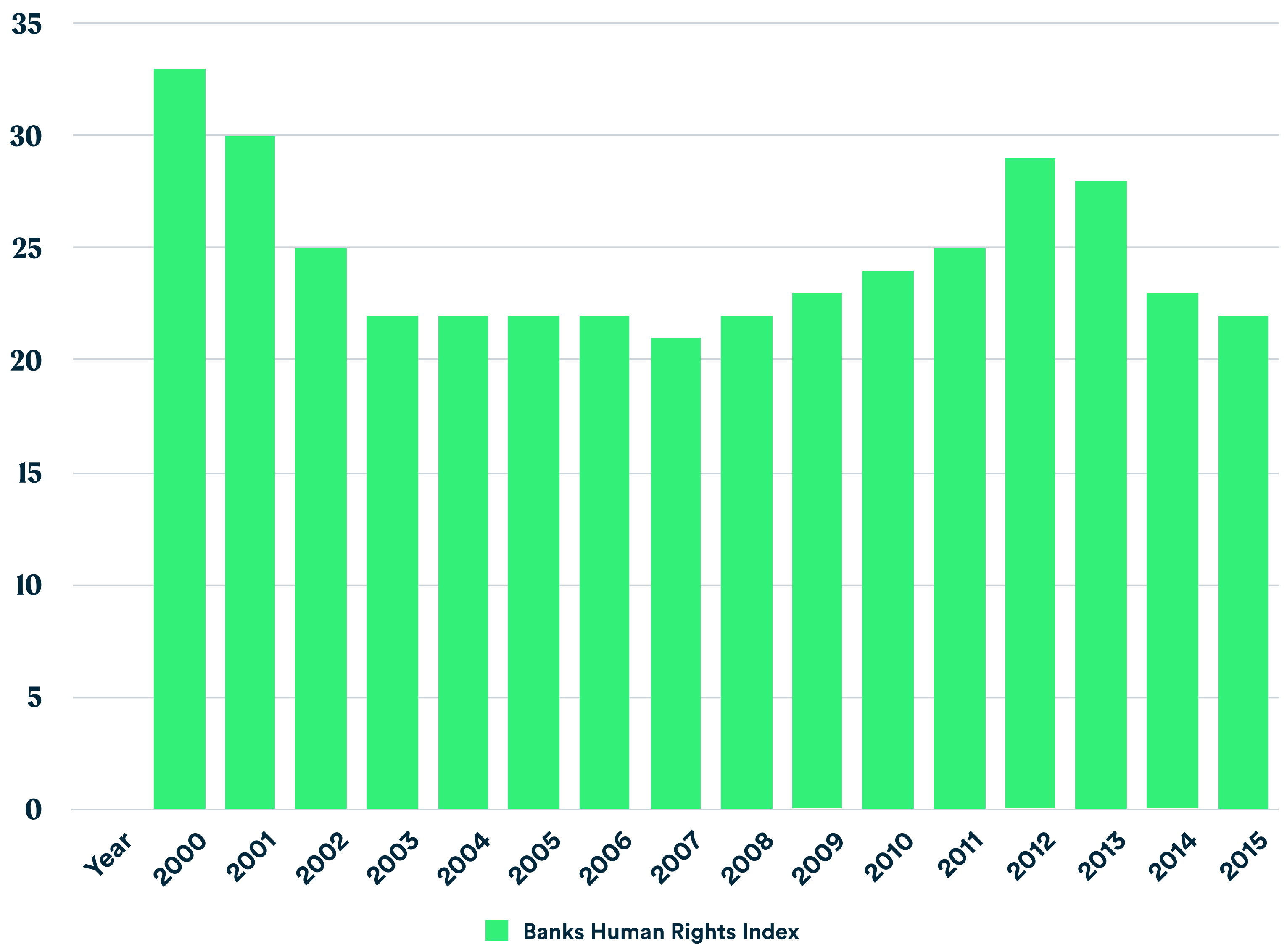
Even with these limitations, the three typologies described have been codified in the project. In the database, 41 violations-years attributable to the 'causing' category, 40 violations-years of the "contributing" type, and 99 violations-years of the "linked to" type were observed. The following table gives some concrete examples.

TYPE OF ABUSE	DEFINITION	EXAMPLE
CAUSING	A bank **causes** a negative impact when its activities (its actions or omissions), by themselves, "remove or reduce" the ability of a person (or group of people) to enjoy a human right.	*A former stock seller in the London unit of the Russian bank OAO Sberbank has sued the bank for sexual discrimination, harassment and violation of the rules of protection of whistleblowers. The woman claimed to have been persecuted after reporting a case of insider trading. The woman claimed to have been placed under surveillance by the bank and added to a list of "under-performers" due to the dispute. In 2012, she took a leave of absence due to stress, reporting that in the male-only stock sales office she found herself in a hostile environment, and she never returned to work.* *Source: Business and Human Rights Resource Center.*
CONTRIBUTING	A bank can **contribute** to a negative impact through its activities (actions or omissions) - either directly in conjunction with other entities, or through some external entity, such as a customer.	*The Indian bank ICICI Bank Ltd. owned 3.15% of the shares of the Indian group Karuturi and was the third largest shareholder of the company. In November 2010, Karuturi Global signed long-term leases with the Ethiopian government on 100,000 hectares of land in the Gambella region and another 11,000 hectares in the Oromia region to develop sugar cane, corn and palm oil plantations. The indigenous communities Anuak and Nuer were removed by force from the area leased to the company in Gambella, as part of a government program of "village settlement". According to Human Rights Watch, tens of thousands of shift farmers and herdsmen have been displaced under the program and subjected to widespread human rights violations. Large areas of forests, grazing areas and fields for itinerant crops would have been taken away from local inhabitants and cleared to make way for large-scale plantation development by Karaturi and other foreign investors, without significant consultation with local communities or compensation. The lease agreement was canceled by the Ethiopian government in December 2015 as the company would cultivate only 1,200 hectares. Karaturi responded by seeking international arbitration to secure its lease under the terms of its bilateral investment treaty.* *Source: Business and Human Rights Resource Center.*
LINKED TO	The **direct link** refers to situations where a bank has not caused or contributed to a negative impact on human rights, but where there is still a direct link between the bank's operations, products or services and a negative impact on human rights, through the bank's commercial relationships.	*The French bank BNP PARIBAS is one of the most popular banks in the world to have invested ($ 25,413,340) in Golden Veroleum (GVL), a company that produces and markets palm oil. GVL's close ties with the political world would have allowed the company to progressively expand its operations, protected by state control.* *During the 2014 Ebola outbreak in Liberia, when local community support NGOs were in lockdown to prevent the risk of spreading the virus, GVL is said to have significantly accelerated its expansion.* *The media reported that Liberians would have been violently beaten, threatened and arrested for protesting the expansion of Golden Veroleum (GVL). Community meetings in which citizens would be encouraged to cede their land to GVL would be supervised by high-level government officials. People reported that they would have no choice but to sign, and while the company stated that the communities would provide their free, prior and informed consent, UK NGO Global Witness's analysis of "Memoranda of Understanding", would have raised doubts as to whether the petitioners actually had sufficient information to make informed decisions about the sale of their land.* *Source: Business and Human Rights Resource Center.*

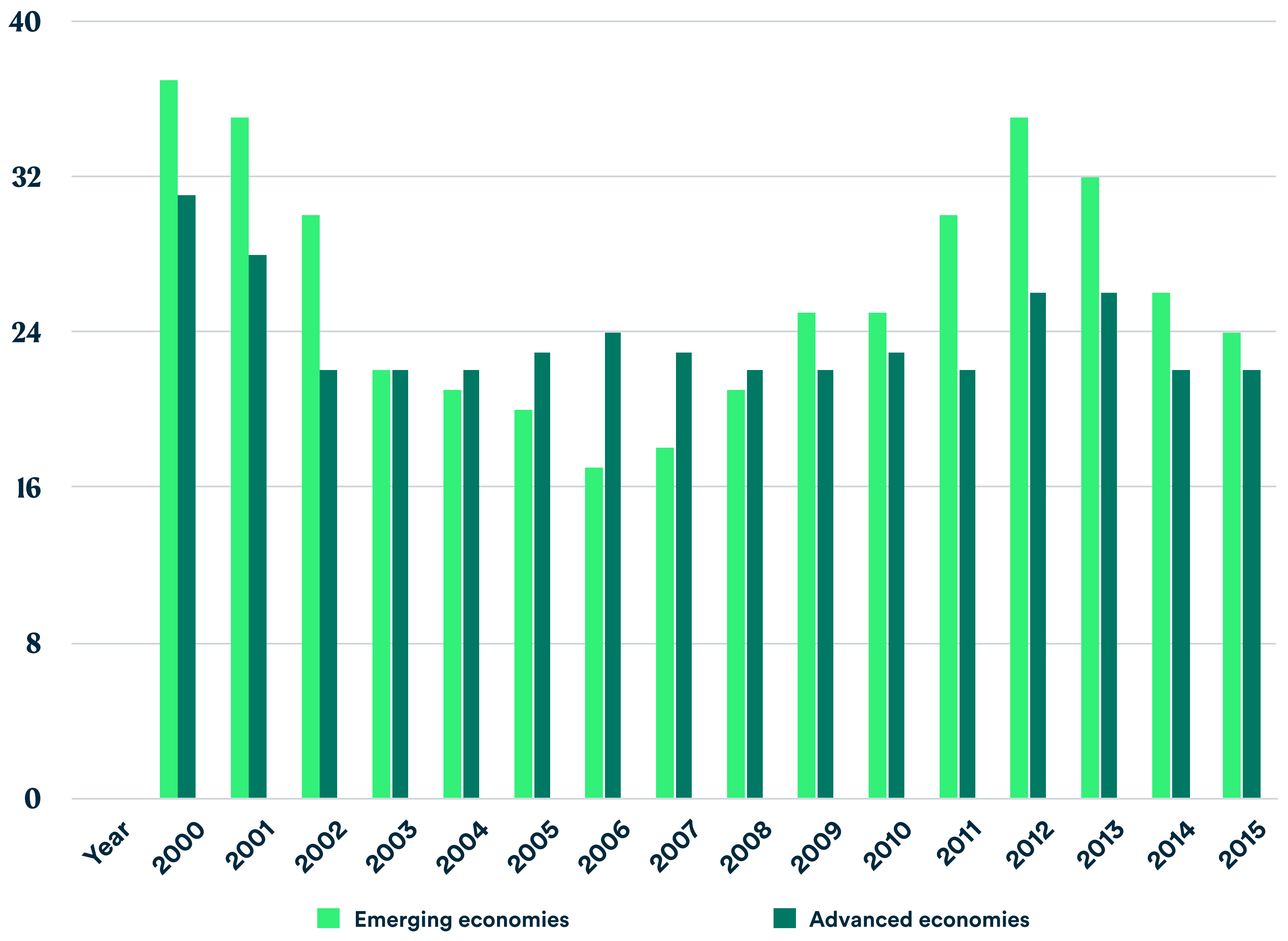
Banks HUMAN RIGHTS Index

The index developed for the project uses quantile regression methodologies (M-regression) to measure the degree of involvement of banks in human rights violations, affecting both the different exposure of banks to being monitored by the press and NGOs, and the temporal trend. The Banks HUMAN RIGHTS Index varies between 0 and 100, and rises according to the greater exposure of banks to human rights violations. In this elaboration, which has a purely illustrative purpose, all violations (causing, contributing, linked to) have been considered, weighing them in the same way. However, the index also lends itself to separate measurements based on the different types of violations. For more details, see the methodological note available at bankingonhumanrights.org.

Graph 2 shows the average performance of the Banks HUMAN RIGHTS Index over the period 2000-2015[9], while **Graph 3** shows the differences in performance between banks in so-called "advanced," or high-income, economies (USA, Austria, Denmark, Finland, France, Germany Ireland, Italy, Greece, Holland, Poland, Spain, Switzerland, Sweden, Norway, UK, Hungary) and the so-called "emerging" ones (Brazil, China, India, Malaysia, Mexico, Russia, Thailand, South Africa). **Graph 2** shows a fluctuation of the average index over time, with a peak in the second part of the period observed, corresponding to the post-2008 crisis phase, and largely driven by the trend observed for banks from emerging countries (Graph 3. Banks based in emerging economies). It is important to note that this index compiles a relative ranking of banks based on the observed sample, and should not be understood as an absolute index. Therefore, what **Graph 3** indicates is a growing relative weight in bank-related human rights violations from emerging economies, which becomes more significant especially after the crisis. The sample definition procedure was based on the propensity score method (PSM - Propensity-score matching), described above. The use of this methodology explains, for example, why not all the major European banks by capitalization are included in the sample and why, in Italy, neither Intesa Sanpaolo nor Unicredit have been analyzed. However, it is possible to build different indices, using the same methodology but starting from samples selected ad-hoc or on a size-only basis, such as that of the banks included in the international stock index MSCI World Index.

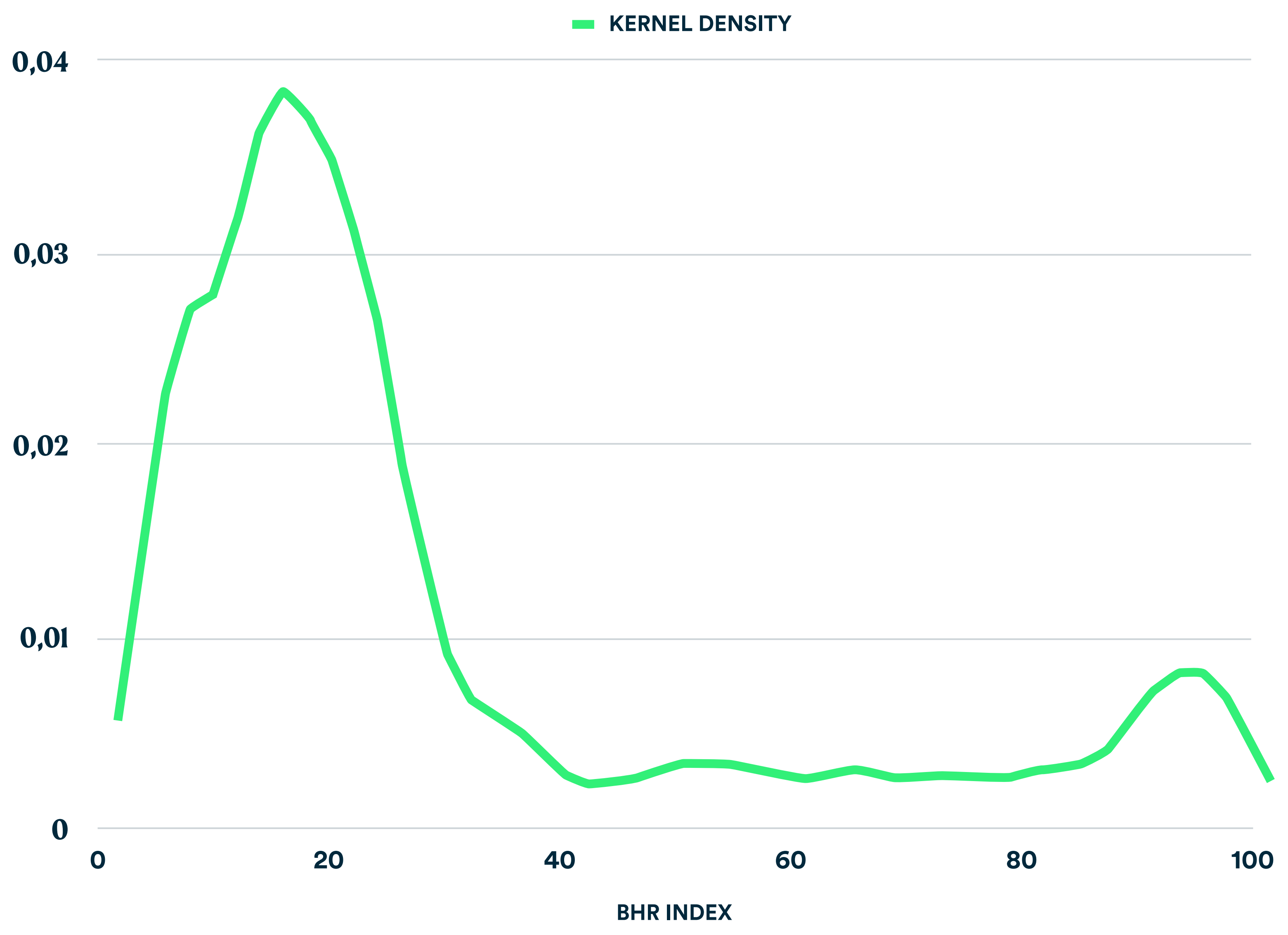


Graph 2 - Banks Human Rights Index performance over the period 2000-2015



Graph 3 - Banks Human Rights Index trend by geographical areas

9 The index is calculated up to 2015 because there is a time lag according to which violations are observed. The research was carried out in 2019 and data on human rights violations were collected up to 2018, but there is a physiological decline in the observed data as the year of data collection approaches, so bringing the index to 2018 would have distorted the result, especially in the years after 2015. This probably happens because the studies or analyzes that bring to light violations of human rights have a timing of sometimes even a few years, linked to reporting times (not always immediate) by victims and the timing with which the data or information relating to the violation are collected, processed and made known to the general public - through NGO reports or press articles. Although some violations receive immediate visibility (as in the case of a major accident), we have observed through some of the analyzes carried out in the REMARC projects on these issues, an average time lag of 2-3 years between the year in which the violation occurs, and the year in which the violation is disclosed on a large scale.



Graph 4 - Kernel distribution of the Banks HUMAN RIGHTS Index (2000-2015)

Graph 4 shows the distribution of the index over the entire sample, for the period 2000-2015. It is noted that most of the analyzed sample banks have a low human rights violation indicator (the "peak" to the left of the graph), while a smaller group has a very high violation indicator, evidenced by a relative mode (the small "bump" to the right of the graph) represented by the banks with the worst relative performance in terms of human rights violations.

The Banks HUMAN RIGHTS Index allows us to identify which banks have been most exposed to human rights violations (considering in this case all three types equally) within a sample of banks, based on the methodology described above. The sampling procedure of the banks has led to the selection of 10 Italian banks and 6 Spanish banks. None of the selected Italian banks has been associated with human rights violations, while two of the Spanish banks are involved in violations (see below). This does not imply that - in absolute terms - Italian banks are not involved in human rights violations. The empirical analysis has been carried out to illustrate the methodology used for the development of the Banks HUMAN RIGHTS Index by applying it to a sample of banks selected on a global scale, not specifically in the Italian or Spanish context.

The tables below show the ranking of banks observed over the period 2000-2015, where an indicator closer to 100 indicates a greater exposure of banks to human rights violations. **Table 1** considers the whole sample; **Table 2** classifies the European banks.

BANK	COUNTRY	BANKS HUMAN RIGHTS INDEX MEDIA (2000-2015)
1. STANDARD CHARTERED PLC	Great Britain	95
2. BNP PARIBAS	France	94
3. SOCIETE GENERALE S.A.	France	84
4. BERKSHIRE HATHAWAY INC.	USA	82
5. SVENSKA HANDELSBANKEN A.B.	Sweden	80
6. WELLS FARGO & COMPANY	USA	78
7. SUNTRUST BANKS INC.	USA	77
8. PING AN INSURANCE (GROUP) COMPANY OF CHINA LTD	China	73
9. DANSKE BANK A.S.	Denmark	70
10. U. S. BANCORP	USA	68
11. BLACKROCK INC.	USA	68
12. MORGAN STANLEY	USA	65

Table 1 - The ten most exposed banks (globally) to human rights violations according to the Banks HUMAN RIGHTS Index

BANK	COUNTRY	BANKS HUMAN RIGHTS INDEX MEDIA (2000-2015)
1. SOCIETE GENERALE	France	84
2. BNP PARIBAS	France	94
3. STANDARD CHARTERED	Great Britain	95
4. SVENSKA HANDELSBANKEN AB	Sweden	80
5. DANSKE BANK	Denmark	70
6. UBS	Switzerland	59
7. VTB BANK	Russia	55
8. SWEDBANK AB	Sweden	50
9. PRUDENTIAL PLC	Great Britain	53
10. SCHRODERS PLC	Great Britain	38

Table 2 - The ten most exposed banks (based in Europe) to human rights violations according to the Banks HUMAN RIGHTS Index

The following is a case related to two Spanish banks

BANCO SABADELL and BANCO POPULAR Español

The banks are two of the shareholders of Ferrovial, the Spanish infrastructure company that provides services to Australian refugee camps (referred to by the press as offshore detention centers for immigrants or asylum seekers) in Nauru and Manus Island in Papua New Guinea. The Spanish company is allegedly involved in several disputes concerning the treatment of refugees. In particular, according to available sources, asylum seekers and refugees have been regularly physically and sexually assaulted, and have been afraid to press charges due to a widespread culture of impunity on the island. At least 29 cases of rape and sexual assault - including against children – have been reported to the Nauru police. Based on an examination of the reported facts, it is possible that individual Ferrovial officials may be subject to criminal responsibility for crimes against humanity under the Rome Statute.

Conclusion: What Do We Need?

It is a good omen, that the UN-PRI (the international network of investors supported by the United Nations to promote responsible investment) will introduce questions on human rights in its Reporting Framework, initially on a voluntary basis by 2022, to then become mandatory during subsequent years. **Despite these openings, there is still a long way to go with regard to banking and human rights.**

In his letter to the CEOs of 2021, Larry Fink, CEO of BlackRock, talks about a sea change that has recently taken place in terms of reallocating capital in favor of companies focused on sustainability. When talking about sustainability in the banking and insurance sector, however, we still mainly refer to the environmental sector and to the need to divest from sectors with the highest risk of energy transition. If on the environmental front something seems to be moving, on the human rights front, on the other hand, we are still at an early stage of becoming aware of the problem. As has been advocated by several parties, the banking sector must also recognize responsibility for violations indirectly linked to its core business, providing its customers or business partners with standards of conduct in the field of human rights, and putting into effect the provisions of the Guiding Principles on Business and Human Rights regarding "*Human Rights Due Diligence*" and complaint and remedy measures (grievance mechanisms and access to remedy) for victims of abuse.

Certainly, systematic monitoring exercises - such as the one proposed by this project - that are able to keep track of the progress made by this sector are very useful, even with the aim of assessing the impacts of policies that both individual banks (or the whole banking-insurance sector), and national or supranational institutions, will want to implement in the future to reduce the violations of human rights caused by or linked to the banking sector. Similar to what has already been said on climate change, this sector can in fact play a role as a game changer for human rights; it can do so immediately in all contexts where it has **leverage**, or the power to influence third-party-actors who cause the violations, and can work to create a business culture that is more respectful of rights and thus influence economic decision-makers even in contexts where the level of control and **leverage** is lower.

Banks and Human Rights

BANKS ASSOCIATED WITH HUMAN RIGHTS ABUSES

26% that is 47 of the 187 banks observed in the period 2000-2015 are associated with human rights abuses

TYPE OF ABUSES

Violations are divided into: direct impact violations in turn divided into 'causes' (a bank can cause abuse) and 'contribute' (a bank can contribute to a negative impact through its activities) and indirect impact violations, i.e., 'linked to'.

direct impact

indirect impact

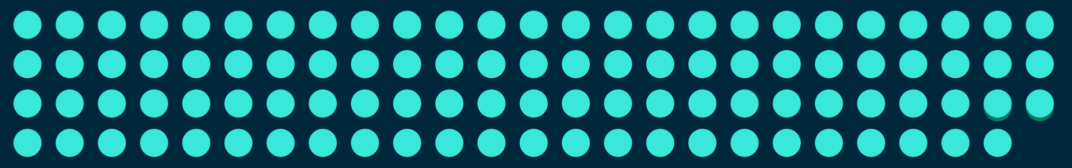
NUMBER OF ANNUAL ABUSES

A total of 180 annual violations have been detected for the period 2000-2015, of which:

41 direct impact 'causes'

40 direct impact 'contribute'

99 indirect impact 'linked to'

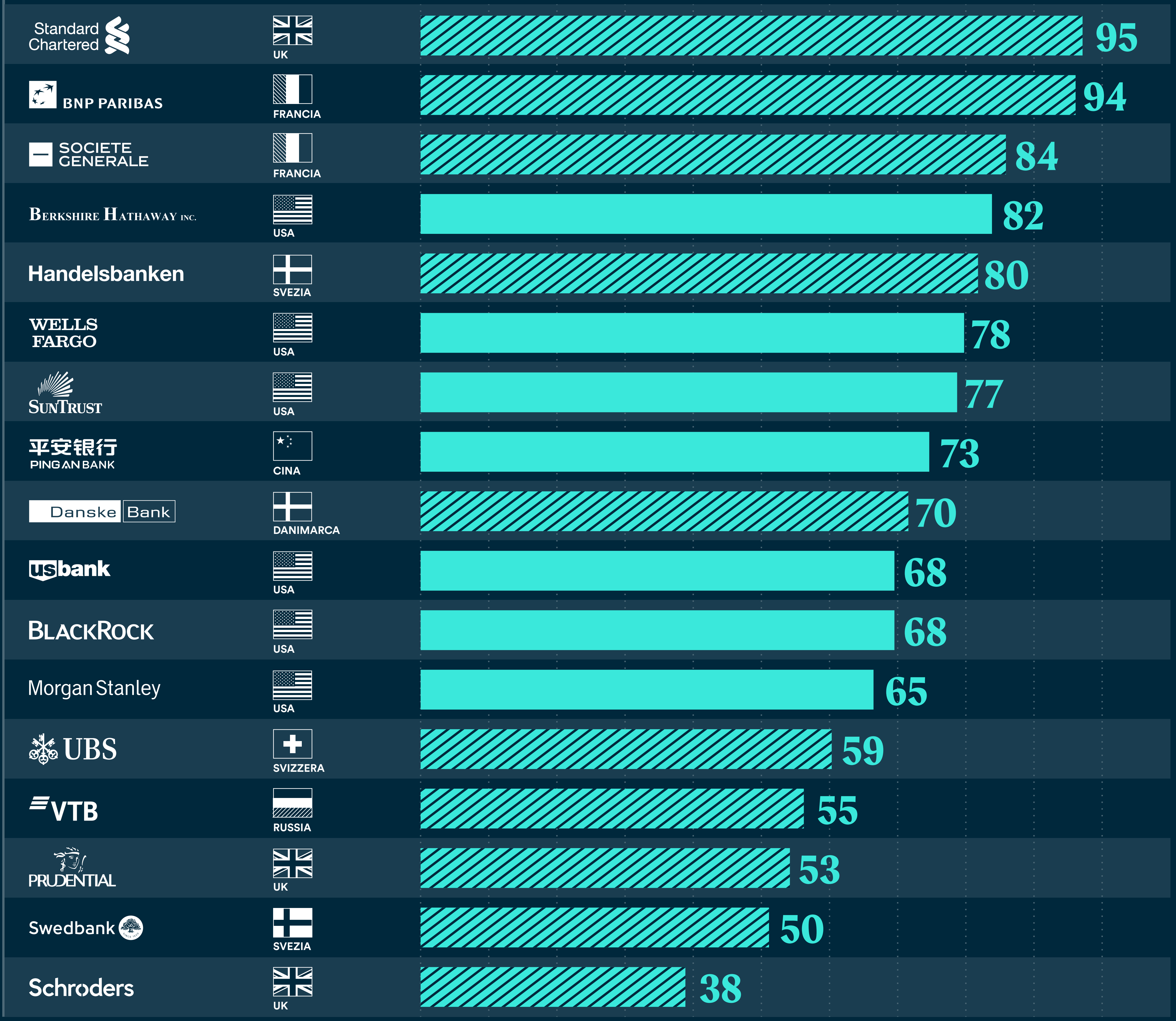


BANKS MOST EXPOSED TO HUMAN RIGHTS VIOLATIONS

The value is calculated according to the Banks Human Rights Index of our research, where 0 is the best and 100 is the worst value

BANKS BASED OUTSIDE EUROPE

BANKS BASED IN EUROPE



"A NEW METHODOLOGY, OPEN TO ALL, TO GIVE TRANSPARENCY TO THE RELATIONSHIP BETWEEN BANKS AND HUMAN RIGHTS"

Four questions to Elisa Giuliani, head of research.

Professor Giuliani, what is the goal of the research "Banking on human rights" and which sources did you use?
The goal of this project was to develop an index (Banks HUMAN RIGHTS Index) to capture the extent to which banks (and other financial and insurance institutions) are **involved** in or **linked to** human rights violations. Our index is meant to track how banks behave with respect to their involvement in human rights violations, as a way to measure progress over time or to compare different banks or the financial sector with other types of sectors.
Regarding the sources, we primarily relied on the Business and Human Rights Resource Center and for each event of violation recorded by that source, we have also checked other sources for additional data or for cross-validation, such as BankTrack, EJAtlas, NexisUni , or other sources from well-known NGOs.
One of the novelties of our index – and this is what constitutes our methodological contribution as compared to existing ESG indexes - is that, statistically speaking, measuring corporate-related human rights violations is really complex. There are no official statistics about violations, nor is there transparency in reporting all possible violations, many of which may not be reported by victims for lack of ability to do so, for fear of retaliation, or for lack of freedom of speech and of press in countries where the violations occur. Furthermore, not all businesses are monitored equally by both NGOs and journalists, so some of them are likely to be overexposed to complaints, while others are systematically under-reported. Moreover, this type of data is subject to a temporal trend in the reporting. Reports of human rights violations have undoubtedly increased over time, due to the increasing prominence of the issue, the availability of more information through social media and so on. Our index takes the information observed on the involvement of banks in human rights violations and tries to purge it of these factors - the different exposure of banks to scrutiny and monitoring and the temporal trend - from the observed human rights violations linked to banks.

What types of human rights abuses are banks involved in?
We have examined a sample of 178 banks from all over the world in both so-called advanced and emerging economies, and we have found that approximately a quarter of them (47 banks or 26% of the sample) is involved in at least one human rights violation event, for a total of 180 violations-years over the period 2000-2015.
We find that violations fall into two categories: one includes the so-called direct abuses, which occur when a bank causes a direct negative impact, as in the case of worker discrimination, for example, if a bank discriminates in its hiring practices against women or racial minorities. Out of our 180 recorded bank-year violations, 41 are of this type (22%). This means that most of them fall into a second category, which consists of all cases in which the violation is committed by a third-party actor (for example a customer of the bank) who has a business relationship with the bank. In this second category, one type of violation is represented by those that have been induced by the bank itself, for example, in the case of a bank that finances an infrastructure project and then puts pressure to reduce costs on the customer, knowing that this could have a detrimental impact on the standard of living of local communities. We have gathered evidence of approximately 40 banking violations of the latter type.

Elisa Giuliani, coordinatrice della ricerca.

Most of the cases (55% of our observed violations) fall into the group of **"linked to"** violations, i.e., situations in which a bank has neither caused nor contributed to a negative impact on human rights, but there is nevertheless a direct link between the bank's operations, products or services and a negative impact on human rights through the bank's business relationships. In other words, a bank has provided finance to a client, who uses the financial resources provided by the bank in projects with negative impacts on human rights, but as compared to the previous case, there is no evidence here that the bank has encouraged the negative impact. However, the money was used for projects that caused a negative impact.

According to your research, which are the five worst banks globally regarding human rights abuses?
According to the available evidence we could retrieve from the sources mentioned above and based on our Banks Human Rights Index, we can say that among the worst performers on our index are Standard Chartered Bank, BNP Paribas, Wells-Fargo, BlackRock, Morgan Stanley, among others.

What does this research teach us? What needs to be improved?
Most financial institutions, scoring worse on the Index, such as the ones I have mentioned earlier, are making explicit claims to address many of the current sustainability challenges. In his 2021 Letter to

CEOs, BlackRock CEO Larry Fink talks about a significant change in the reallocation of capital in favor of companies focused on sustainability that has occurred in recent years, but so far most of the efforts in this direction are about tackling the fight against climate change. On the human rights front, even BlackRock is still at the level of making announcements. I believe that human rights will become a theme of great relevance in the future but certainly, as compared to other sectors, the banking sector is still lagging behind.
In terms of what we need, I think that organizations or institutions working specifically on the business-human rights pair, among them the Office of the United Nations High Commissioner for Human Rights, have already set the ground for what we need to do in terms of policies - such as the need for banks to adopt due diligence policies in the field of human rights, and provide for complaint measures for victims: it is also important to encourage greater awareness on the part of banks and others financial institutions and of their business partners about their responsibility to respect human rights.
What I can add, based on our project, is that a worldwide platform that collects data on complaints and their outcomes, in the spirit of the OECD National Contact Points, would give greater transparency to this phenomenon, would bring to light many more abuse events and would also improve the quality of the statistical data on banks' connections with human rights violations. In this way, one could understand the extent of this phenomenon, track progress and also avoid both false negatives and false positives which, as I have mentioned, are a problem in this type of analysis.

Here it is possible to see the complete interview.

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