



SOMETHING IS A FOOT

**How human rights standards and
environmental regulations in the
footwear industry are being quietly
ignored by banks**

The aim of this investigation is to uncover and analyse financial relationships between European financial service providers and the European shoe industry and, in the process, address the following questions: Which loans and investments are being issued by which financial institutions, under what conditions, to which companies in the footwear sector? Do the financial service providers specify mandatory ecological and social guidelines or criteria for their business clients? Do financial service providers require responsible business management from their business clients, in particular with regard to the handling of social and ecological problems in supply chains?

The findings of this investigation trace back to research and analysis carried out by the German NGO Facing Finance on behalf of the Change Your Shoes campaign. A total of 23 European footwear companies¹ and their financial relationships with 23 different financial service providers² were analysed over the period from June 2012 to June 2016. The financial service providers were also invited to complete a survey explaining whether and how social and ecological norms and standards played a role in their loan and equity decisions.

INTERNATIONAL GUIDELINES

Among the most relevant social and ecological norms and standards are the *UN Guiding Principles on Business and Human Rights*, applicable to all countries and all commercial enterprises including financial service providers, requiring respect for human rights and stipulating compliance with ILO core labour standards³. The UN Guiding Principles are an important global standard for the prevention and correction of human rights infringements in commerce. Corporations' duty of care in relation to human rights, as specified in the Guiding Principles, also applies to supply chains. According to the Guiding Principles, commercial enterprises should at least identify sectors in which the risks of negative implications for human rights are most significant, whether because

of the operational environment of particular suppliers or clients, the peculiarities of the respective business operations, product or service provision or other relevant considerations. In these sectors, they should prioritise the human rights duty of care.⁴

The *OECD Guidelines* also apply to *multinational corporations*⁵, including financial service providers. The OECD Guidelines require companies to follow the guidelines in a reasonable manner and implement them successfully in their business strategies. Moreover, these guidelines require adherence to ILO core labour standards and environmental protection measures and include supply chains⁶. This means that every financial service provider must, before completing a financial transaction, meet their human rights due diligence obligations by appraising their business partner's business models including supply chains.

FINANCIAL SERVICE PROVIDERS' COMMITMENTS

In total, 11 of the 23 banks investigated have at least publicly declared either support for or effected application of the UN Guiding Principles on Business and Human Rights with reference to their investments and financing. In addition, 10 of banks investigated have made no publicly verifiable reference to support for or application of the OECD Guidelines for multinational enterprises in connection to their investments and financing. Only two of the European banks investigated (Deutsche Bank & Erste Group) by their own account assess supply chains in the textile industry according to social and ecological criteria when making financing decisions. Whether these criteria are actually applied or lead to refusal of loan applications cannot be verified.

17 of the banks investigated are members of the UN Global Compact, a voluntary and non-binding UN initiative to promote responsible business management. The UN Global Compact is not intended to be a verifiable standard or a regulatory instrument, but is instead an open forum to initiate change and share ideas.

1 Footwear companies investigated (selected from the corporate survey "Trampling workers' rights underfoot" of the Change Your Shoes project (2016): Market-listed European footwear companies: Adidas AG (GER), CCC SA (PL), Geox SpA (I), Prada SpA (I), Salvatore Ferragamo SpA (I), TOD'S SpA (I) Privately owned European footwear companies: Mango (ES), Clarks (UK), Bata (CH)

2 The financial service providers investigated are based in the following OECD countries: Denmark, Germany, the United Kingdom, Italy, Austria, Poland, Spain, Sweden, Switzerland.

3 Further information on ILO core labour standards: <http://www.ilo.org/declaration/lang--en/index.htm>

4 humanrights.org/en/un-guiding-principles

5 Further information on the OECD guidelines for multinational enterprises <http://www.oecd.org/corporate/mne>

6 OECD (2014): Scope and application of 'Business relationships' in the financial sector under the OECD Guidelines for multinational enterprises, p. 6

TOP FINANCIAL SERVICE PROVIDERS	Country	Lenders investigated (in million US dollars)	Investors investigated (in million US dollars)	Commitment to the UN Guiding Principles on Business and Human Rights	Commitment to OECD Guidelines for Multi-national Enterprises	Member of the UN Global Compact	Connection to footwear companies
Deutsche Bank	Germany	643	531			•	Adidas, Bata, CCC, Ferragamo, Prada, TOD's
DZ Bank	Germany		451			•	Adidas, CCC
UBS	Switzerland	69	279	•		•	CCC, TOD's, Geo•, Adidas, Ferragamo
Aviva	United Kingdom		181	•	•	•	Adidas, CCC, Ferragamo, Prada
Intesa Sanpaolo	Italy	235	77	•	•	•	TOD's, Adidas, CCC, Ferragamo, Geo•
Assicurazioni Generali	Italy		53			•	Adidas, CCC, Ferragamo, TOD's
Credit Suisse	Switzerland		47	•		•	Adidas, Bata India, CCC, Ferragamo, Prada, TOD's
Nordea	Sweden		38	•	•	•	Adidas, Bata, CCC
UniCredit	Italy	1,141	35	•	•	•	Adidas, CCC, Prada, TOD's
Skandinaviska Enskilda Banken	Sweden		35	•	•	•	Adidas
HSBC	United Kingdom	62	26		•	•	Adidas, CCC, Ferragamo, Prada
Raiffeisen Zentralbank	Austria	8	18	•	•	•	CCC, Adidas, Prada
Santander	Spain	136	12	•	•	•	CCC, Mango, Adidas, Ferragamo, CCC, Prada
PKO Bank Polski	Poland	160	12				CCC, Adidas
Danske Bank	Denmark		9	•	•	•	Adidas, CCC, Ferragamo, TOD's
3 Banken Group	Austria		7				Adidas
Mediobanca Banca di Credito Finanziario	Italy	347					Mango, TOD's
BayernLB	Germany	315					Adidas
Bank Pekao	Poland	179					CCC
Barclays	United Kingdom	157		•	•		Clarks, Prada
BBVA – Banco Bilbao Vizcaya Argentaria	Spain	97		•	•	•	Mango
Erste Group	Austria	78			•	•	CCC, Mango
Lloyds Banking Group	United Kingdom	64				•	Clarks
Total of all identified financial relations		4,363	2,562				
Sum of financial relations of the 23 investigated TOP f. s. providers		3,393	1,773				
Number of financial service providers investigated by sector		13 from 7 countries	15 from 9 countries				

MOST SIGNIFICANT FINANCIAL SERVICE PROVIDERS

The bulk of the loans provided to the selected companies come from Italian banks and financial institutions (over 41%), followed by German financial institutions (over 26%). The TOP lenders are UniCredit from Italy and the Deutsche Bank.

The TOP investors come from Germany. German investors comprise almost two thirds (63.7%) of the identified investments and are divided as follows: Deutsche Bank (20.72%), the cooperative DZ-Bank (17.6%), the insurance management company Allianz (14.36%) and the German branch of Commerzbank (10.85%).

Examples

Deutsche Bank

In the period selected for this investigation, financing provided to the company Adidas alone totalled some 642 million US dollars. Deutsche Bank also holds shares and bonds to the value of 531 million US dollars in six of the nine shoe companies investigated (Adidas, Bata, CCC, Ferragamo, Prada, TOD's), comprising more than 20% of identified investments. Furthermore, in terms of investment, Deutsche Bank's commitment is focused on the German sporting goods giant Adidas (473.62 million USD). According to its own publications, Deutsche Bank expects clients to comply with ILO core labour standards, in particular in regard to financing in the textile sector. Nevertheless, of all the European banks investigated, Deutsche Bank is one of only two who, by their own account, assess supply chains in the textile industry according to social and environmental criteria when making financing decisions. Whether this is applied to the terms of credit provision, however, cannot be verified. The portfolio management of Deutsche Bank's subsidiary DWS cites the application of OECD guidelines for multinational enterprises as well as the guidelines of the UN Global Compact. Both standards require adherence to ILO core labour standards and observance of environmental protection standards, including in a company's supply chain. Despite this commitment, Deutsche Bank invests in shoe companies in whose operations partial violations of labour laws and non-transparent supply chains have been detected⁷.

7 Trampling workers rights underfoot, Change Your Shoes, 2016. See: [http://cleanclothes.at/media/common/uploads/download/trampling-workers-rights-underfoot/BRAND%20ASSESSMENT%20Report%20\(1\).pdf](http://cleanclothes.at/media/common/uploads/download/trampling-workers-rights-underfoot/BRAND%20ASSESSMENT%20Report%20(1).pdf)

UniCredit

UniCredit is by far the largest lender to the footwear companies investigated. During the course of this investigation, UniCredit provided shoe manufacturers from Germany (Adidas), Italy (Prada) and Poland (CCC) with more than 1.14 billion dollars in funding. The largest borrowers were Adidas (642.55 million US dollars) and Prada (486.61 million US dollars).

While UniCredit's human rights guidelines have been "inspired" by the core standards of the International Labour Organization (ILO), the UN Guiding Principles on Business and Human Rights as well as the OECD Guidelines for Multinational Enterprises⁸, it is unclear to what extent this content is actually applied to financing and investment decisions. According to data from the company, the principles of the UN Global Compact are considered in the banking group's financing decisions. The specific assessment of supply chains for transparency are not mentioned. Despite its declared commitment, the banking group is the largest European financier of shoe companies in whose operations partial violations of labour laws and non-transparent supply chains have been detected⁹.



8 See: https://www.unicreditgroup.eu/content/dam/unicreditgroup-eu/documents/en/sustainability/our-vision-of-a-sustainable-bank/policies-and-guidelines/Human-Rights-Commitment_vers.1.pdf

9 Trampling workers rights underfoot, Change Your Shoes, 2016. See: [http://cleanclothes.at/media/common/uploads/download/trampling-workers-rights-underfoot/BRAND%20ASSESSMENT%20Report%20\(1\).pdf](http://cleanclothes.at/media/common/uploads/download/trampling-workers-rights-underfoot/BRAND%20ASSESSMENT%20Report%20(1).pdf)



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Conclusions

The provision of fresh capital to companies is the strongest possible form of economic support for companies and their business models. As a result of this, as also specified in the UN Guidelines on Business and Human Rights, banks share the responsibility for human rights. According to the UN Guidelines on Business and Human Rights, companies – and this includes financial service providers – must fulfil their responsibilities with regard to human rights in their global supply chains as well. The United Nations High Commissioner for Human Rights (OHCHR) has also affirmed that banks can, through their financing, contribute to a negative impact on the protection of human rights. Under these circumstances, the bank along with their client can be held responsible for the correction of these effects¹⁰.

All the financial service providers investigated are located in OECD countries and are therefore obliged to adhere to OECD Guidelines, to observe the Guiding Principles of Business and Human Rights and, in the event of their violation, to take adequate and effective corrective measures. A simple declared commitment to norms and standards is insufficient: instead, these declarations must be supported through the implementation of concrete measures. Before completing financial contracts with shoe manufacturers, banks must demand full disclosure of supply chains and inspection reports for the same, including evidence of adherence to the relevant social and environmental standards. Banks should therefore either adapt or create guidelines accordingly, and duly apply them.

¹⁰ See: https://www.banktrack.org/news/un_office_publishes_extensive_human_rights_guidance_for_banks



FACING FINANCE e.V. is engaged in the sustainable and responsible handling of financial resources and human rights as well as climate and resource equality. We seek to contribute to ecologically, socially and economically sustainable development of companies and demand comprehensive adherence to and effective implementation of internationally recognised standards on human rights, workers' rights and the environment. For this reason, Facing Finance promotes the consideration of social, ecological and ethical criteria when making financial investments to banking clients and small savers as well as investors both large and small.

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CHANGE YOUR SHOES is an international campaign which has been set up to work towards better social and environmental conditions in the tanneries, factories, workshops and homes where leather shoe production takes place. This campaign is a partnership of 15 European and 3 Asian organisations. Change Your Shoes believes that workers in the global shoe supply chain have a right to a living wage and safe working conditions, and that consumers have the right to safe products and transparency in the production of their shoes.

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