A Blueprint for Mobilizing Finance Against Slavery and Trafficking

Final Report of the Liechtenstein Initiative's Financial Sector Commission on Modern Slavery and Human Trafficking

SEPTEMBER 2019

LIECHTENSTEIN INITIATIVE

FOR A FINANCIAL SECTOR COMMISSION ON MODERN SLAVERY AND HUMAN TRAFFICKING

www.fastinitiative.org

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ISBN 978-92-808-6508-0

Suggested citation: *Unlocking Potential: A Blueprint for Mobilizing Finance Against Slavery and Trafficking* (United Nations University Centre for Policy Research: New York, September 2019).

THE FINANCIAL SECTOR COMMISSION ON MODERN SLAVERY AND HUMAN TRAFFICKING

The Liechtenstein Initiative for a Financial Sector Commission on Modern Slavery and Human Trafficking was formally launched in September 2018. It responds to calls from the G7, G20, United Nations General Assembly and United Nations Security Council for governments to partner with the private sector to address modern slavery and human trafficking.

The Liechtenstein Initiative is a public-private partnership between the Governments of Liechtenstein, Australia and the Netherlands, United Nations University Centre for Policy Research – acting as its Secretariat – and Liechtenstein private sector and foundations. It aims to put the financial sector at the heart of global efforts to end modern slavery and human trafficking and accelerate action in eradicating these practices.

The Prime Minister and Minister of Finance of the Principality of Liechtenstein (H.E. Mr. Adrian Hasler), and the Foreign Ministers of Australia (Senator The Hon. Marise Payne) and the Netherlands (H.E. Mr. Stef Blok) were the Convenors of the Commission. The microcredit pioneer and Nobel Prize laureate, Professor Muhammad Yunus, was Co-Convenor. The Chair of the Commission was Fiona Reynolds, Chief Executive Officer (CEO) of the United Nations-backed Principles for Responsible Investment.

The Commission consisted of 25 Commissioners, including survivors of human trafficking and child slavery; leaders from hedge funds, commercial and retail banks, global regulatory authorities, global trade unions and a development finance institution; institutional investors; a United Nations mandate-holder; and leaders in the fight against modern slavery and human trafficking. The Commission's structure highlights the need to approach this issue through collaborative, multi-stakeholder efforts. A full list of Commissioners and Secretariat members is provided below.

Over its one-year mandate (September 2018 to September 2019), the Commission held four consultations – in New York, Liechtenstein, Sydney and The Hague – to consider different ways the financial sector can accelerate its engagement in addressing and preventing these practices: from compliance and regulatory regimes, to responsible lending and investment, remedy, financial inclusion, financial technology and international cooperation.

Commissioners were briefed by over 40 experts from around the world. Six Commission-led workstreams operated between face-to-face consultations. In addition, over 100 informal consultations took place with stakeholders. Four briefing papers were produced along with internal working documents and discussion papers to inform the Commission's work, and over 100 published resources are available on the website of the Liechtenstein Initiative (www.fastinitiative.org).

This is the final report of the Financial Sector Commission on Modern Slavery and Human Trafficking. The Liechtenstein Initiative continues as Finance Against Slavery and Trafficking (FAST), an initiative to promote implementation of this Blueprint. You can learn more about FAST at www.fastinitiative.org.

The Liechtenstein Initiative for a Financial Sector Commission on Modern Slavery and Human Trafficking

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- Senator the Hon. Marise Payne, Minister for Foreign Affairs and Minister for Women, Government of Australia
- Professor Muhammad Yunus, Nobel Laureate and Founder, Grameen Foundation

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- Ambassador Christian Wenaweser (Commissioner e.o.), Permanent Representative of the Principality of Liechtenstein to the United Nations in New York
- James Cockayne (Commissioner e.o.), Director, United Nations University Centre for Policy Research, Head of Secretariat

Acknowledgements

This report was prepared by the Financial Sector Commission on Modern Slavery and Human Trafficking, working closely with a Secretariat at the United Nations University's Centre for Policy Research:

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Sincere thanks are also due to:

Nabylah Abo Dehman, Serge Akpalou, Sina Alavi, Luis Antonio de Alburquerque, Peter Aubin, Sarah Azamy Khan, Hermelo Bacani, Tarana Baghirova, Ryan Bailey, Jarrett Basedow, Beatrix Bättig-Staud, Daniel Berezowsky, Kathy Betteridge, Nicole Bigby, Rosemary Bissett, Phoebe Blagg, Anna Bligh AC, Richard Boele, Peter Bokeyar, Herman Bolhaar, Simon Bowden, Stephen Boyle, Meg Brodie, Quincy Brook-Grimes, Sascha Brunner, Clemenz Büchel, Ross Buckley, Dagmar Bühler-Nigsch, Chris Buijink, Jennifer Burn, Allard Carli, Måns Carlsson-Sweeny, Marissa Castellanos, Elisa Clark, Lori Cohen, Lauren Compere, Riky Couwenberg, Alexander Coward, Michael Cowley, Tasha Cowling, Jacqueline Cramer, Rosalind Croucher, Sara Crowe, Christine Cupitt, Minh Dang, Dominique Dauster, Rachel Davis, Stuart Davis, Ahmad Dawwas, Adam Day, Danielle de Wit, Bryttani Debro, Diana Deen, Philip DeLuca, Yvan Desmedt, Sharan Dhanoa, Francisco Diaz, Justin Dillon, Elena Dittli, Darryl Dixon, William Dodsworth, Michael Donovan, Richard Donovan, Ann-Marie Douglas, Nick Draper, Andrea Duffy, Thomas Dünser, Ivonn Ellis-Wiggan, Dominic Elsby, Tuur Elzinga, Otilia Enica, Matthew Enriquez, Chris Evans, Matt Evans, Jennifer Everett, Luis Fabiano de Assis, Valerie Farabee, Tami Farrow, Andreas Feiner, Cameron Field, Ursula Finsterwald, Ronaldo Fleury, Marcy Forman, Ashley Franssen-Tingley, Michèle Frey-Hilti, Aurelia Frick, Hans-Werner Gassner, Paul Gerrard, Danny Gilbert, Matthew Gobel, Bonnie Goldblatt, Serena Grant, Lisa Grigg, Jonathan Groom, Michelle Hall, Eric Haller, Michelle Hannan, Tom Hashemi, Maryse Hazelzet, Kate Hofmann, Julien Hunt, Elizabeth Hunter, Ina Hut, Amb. Bryce Hutchesson, Muhammad Ibrahim, Carla Ienco, Frederic Jeanjean, Tina Jelenic, Sidney Kemble, Soo Kim, Martin Kinuthia, Curt Kirschner, Pieter Kleiweg de Zwaan, Richard Kooloos, David Kovick, The Hon. Dennis Kwok MP, Paula Labao, Sam Lakesmith, Patrick Lawless, Lisa Ledbetter, Daphne Lee, Joseph Lester, H.S.H. Prince Alois of Liechtenstein, H.S.H. Prince Maximilian of Liechtenstein, Catherine E. Livingstone, Marty Lloyd, Sarah Loh, Abigaill Lovell, Lipika Majumdar Roy Choudhury, David Malone, Dan Mansfield, Joseph Mari, Allison Marshall, Larissa Maxwell, John McCarthy QC, Christina McElwaine, Sarah McGrath, Nancy McGuire Choi, Travers McLeod, Lucy McQueen, Michael Meehan, José Meijer, Benoît Merkt, Jitka Minxova, Gary Mitcalfe, Han Moraal, Amb Jonathan Muir, Aidan Muller, Stevenson Munro, Katy Murray, Brad Myles, Katrina Nakamura, Claudio Nardi, Tim Nelson, Kathrin Nescher-Stützl, Julie Neubauer, Justine Nolan, Elizabeth Oberle-Robertson, Myriam Oehri, Kornel Olsthoorn, Deanna Pacitti, Mauricio Paez, Vanessa Paez, Jessica Panikoff, Alice Parker, Sharon Parker, David Passarelli, Emma Penzo, Tobias Phan, Panagiotis Potolidis-Beck, Marloes Potten, Laura Pruitt, Joanna Radkowska, Amy Rahe, Alison Rahill, Leila Rais, Marília Ramos, Olivia Randell, Bettina Reinboth, Martina Reisner, Valiant Richey, Robin Ridsdill-Brown, Patrick Ritter, Reyne Robinson, Tami Rohrer, Rob Rowe, Christie Sawczuk, Lauri Sawyer, Daniela Schlegel, Jenny Sell, Amb. Geoffrey Shaw, Lee Shepherd, Shift, Susan Siebert, Marc Siegel, Rick Small, Duncan Smith, Prudence Smith, Tycho Sneyers, Hope Spector, Dominic Sprenger, Jenny Stanger, Brian Stanton, Désirée Stebler, Cassandra Strandlie, Joanna Sutton, Yvette Szepesi, Warner ten Kate, Harriet Territt, Siobhan Toohill, Bernd Träxler, Simon Tribelhorn, Zoe Trodd, Caroline Tutakiewicz, Olivia Tyler, Rogier van der Pluijm, Mandy van Dijk, Maria Anne van Dijk, Maaike van Groenestyn, Jasper van Mastrigt, Maartje van Putten, Rob van't Oever, Tinne Verhoeven, Lynne Walker, Natalya Wallin, Fortunat Walther, Domenik Wanger, Jennifer Waters, Felicitas Weber, Evan Weitz, Vanessa Whale, Amanda White, Michaela White, Morgan Will, Thomas Williams, Justin Windschitl, Holly Wong, Shanji Xiong, Lauren Zanetti, Jennifer Zerk, Vanessa Zimmerman, Anna Zwalve.

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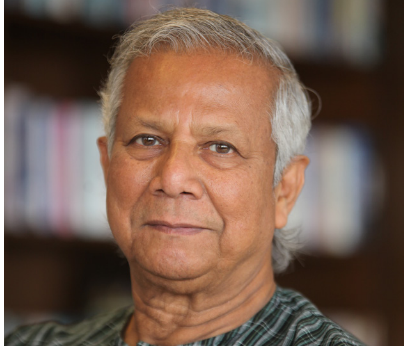
FOREWORD FROM THE CONVENORS

The Liechtenstein Initiative for a Financial Sector Commission on Modern Slavery and Human Trafficking was born out of two realizations.

H.E. Mr. Adrian Hasler

H.E. Mr. Stef Blok

Senator the Hon. Marise Payne


Professor Muhammad Yunus

First: business as usual will not end modern slavery.

The International Labour Organization (ILO) estimates that there were 40.3 million people in modern slavery in 2016, 24.9 million of them in forced labour. It is one of the largest-scale human rights violations of our time.

In 2015, Liechtenstein, Australia and the Netherlands, along with all other United Nations Member States, agreed to take immediate and effective measures to end modern slavery, forced labour and human trafficking by 2030. To bring the number of people suffering these forms of exploitation close to zero, we must reduce the number of people affected by around 10,000 individuals per day.

We cannot get there by tinkering at the margins. Instead, solutions will require change at the systemic level. We must bring modern slavery risks and human trafficking concerns from the margins into the mainstream.

Second: the financial sector will be central to any sustainable change.

The financial sector cannot end slavery alone. Nor, however, will slavery end without the active engagement of the financial sector.

The ILO has also estimated that forced labour generates USD 150 billion in earnings every year. This means it is one of the three largest criminal activities in the world, alongside drug trafficking and trade in counterfeit goods.

This figure implies that significant proceeds from modern slavery and human trafficking are passing through the global financial system.

The financial sector possesses huge potential to help end modern slavery and human trafficking. It can work to exclude the proceeds of this terrible crime from the financial system, and it can encourage the allocation of capital to businesses that prevent modern slavery and human trafficking.

This includes providing financial services to the 1.7 billion people who currently lack adequate access, many of whom are vulnerable to modern slavery and human trafficking. As the Commission explains in the first chapter of this report, lack of access to financial services is intimately connected to today's problems of modern slavery and human trafficking.

As Co-Convenor of the Commission Professor Muhammad Yunus explores further in the Annex to this report, improving access to financial services will be a central strategy in unlocking the entrepreneurial potential of young people around the world, preventing them undertaking perilous migration journeys and falling prey to modern slavers and traffickers in the first place.

So, we chose to act.

We convened the Financial Sector Commission on Modern Slavery and Human Trafficking to study this problem and come up with ways that the financial sector can act now to help end modern slavery and human trafficking.

The Commission draws together 25 leaders in their fields: remarkable survivor leaders, financial sector leaders, and leaders in the anti-slavery and anti-trafficking domains. The Commission was Chaired by Ms. Fiona Reynolds, CEO of Principles for Responsible Investment, and supported by United Nations University's Centre for Policy Research as the Commission Secretariat.

The result was a Blueprint for mobilizing finance against slavery and trafficking.

We thank the Commission for its work and for producing the Blueprint and Implementation Toolkit contained in this report. The Blueprint outlines a number of goals for the international community to work towards, together with suggestions for how these can be achieved.

We present it now to all those with an interest in strengthening the role of the financial sector in the fight against slavery and trafficking. We encourage financial institutions and stakeholders to draw on the Blueprint and work together to take this important work forward.

Together, we can end modern slavery and human trafficking.

CHAIR'S PREFACE

Modern slavery and human trafficking are terrible tragedies. But they are also a product of the complex choices we make every day in the global economy.

It is within our power to end modern slavery and human trafficking by 2030, as states committed to do in Target 8.7 of the United Nations Sustainable Development Goals. But to get there, we need to work together – and we need a clear vision of how we will get there.

It has been my honour to serve as Chair of the Financial Sector Commission on Modern Slavery and Human Trafficking for the last year. Our mandate involved figuring out what contribution the global financial sector can make to help us all achieve Target 8.7.

It was a daunting role to take on. Modern slavery and human trafficking are complex problems. They arise out of the intersection between global economic structures and value chains, on the one hand, and vulnerabilities that exist at the individual, household, community and worksite level, on the other. How could a group of 25 commissioners, all volunteering their time, hope to make a dent in this problem?

It was clear from the start that we would need to think big even as we tried to come up with concrete solutions. And it was also clear that we would need to cast the net wide.

So I am deeply grateful to all those who have helped us over the last year as we learned about the complexity of this problem, and the diverse ways in which it relates to the financial sector, and helped us to creatively explore what could be done about it.

The Commission has benefited from a huge array of inputs. The 25 Commissioners themselves were drawn from the four corners of the globe, from Brazil to Ghana to Sweden to Singapore. We drew on rich, in-depth background papers prepared and commissioned by the Secretariat to the Commission, housed at the United Nations University's Centre for Policy Research, as well as a growing literature emerging from the academia, civil society, the private sector and government. You can see some of these sources on the Resources page of the Liechtenstein Initiative's website, www.fastinitiative.org.

Fiona Reynolds, Chair
Financial Sector Commission on Modern Slavery and Human Trafficking

Thanks to the generosity of the Governments of Liechtenstein, Australia and the Netherlands we met four times in person: in New York, Liechtenstein, Sydney and The Hague. On each occasion we learned an incredible amount from the expert briefers that volunteered their time to come and speak with the Commission. We are very grateful for their generosity.

No one has taught us more, though, than the survivor leaders on the Commission: Timea Nagy Payne and James Kofi Annan. Through their insights, the Commission came to understand that promoting workers' and survivors' agency – including their economic and financial agency – is central to effective and sustainable solutions to the problem of modern slavery and human trafficking. I hope that you see that thread running throughout this final report of the Commission as you read it, and I invite you to read their reflections below.

The Commission's work ends with this report. But the Blueprint we offer here is intended to help all sorts of financial sector actors – banks, pension and sovereign wealth funds, development finance institutions, insurers, fintech, regulators and more – take action to help end modern slavery and human trafficking. As CEO of the United Nations-backed Principles for Responsible Investment (PRI), I look forward to discussing the Blueprint with institutional investors worldwide. I hope they will take up the challenge of accelerating their efforts to end modern slavery and human trafficking, and trust that the Blueprint and Implementation Toolkit will facilitate their efforts.

REFLECTIONS ON THE FINANCIAL SECTOR COMMISSION

From the moment we were invited to join the Financial Sector Commission on Modern Slavery and Human Trafficking, we could sense its potential impact on the lives of survivors all around the world.

Timea Nagy Payne, Commissioner

James Kofi Annan, Commissioner

We have both survived modern slavery and gone on to become human rights activists. And we both have experience working with the financial sector – training bankers to detect human trafficking, and managing a branch of Barclays bank, respectively. So we know first hand how important a role individual financial sector actors and organizations can play, both positive and negative, in the lives of victims and survivors of modern slavery and human trafficking.

The challenge now is to take this impact to scale. When we spoke at the first consultation of the Commission and at the launch during the United Nations General Assembly's High-Level Week in New York in September 2018, we got a sense of the potential for that scaled-up impact.

Whether operating through formal bank branches, micro loans or digital finance, the financial sector has unique global reach to impact people's lives. It can be a powerful force for good.

The Blueprint that the Commission offers in these pages provides a way for individual financial sector organizations to use that force to unlock the potential in the lives of victims and survivors, by helping them become full participants in the economy and society. The Implementation Toolkit provides the tools to get organizations started.

As the Commission acknowledges in its report, survivor leadership needs to be central to implementation of the Blueprint. As individual financial sector organizations take up the challenge of implementing the Blueprint, we encourage them to engage directly with survivors, to understand their experiences, and to see them as leaders and partners, as the Commission has over the past year.

We are delighted to have had the chance to contribute our perspectives – two different survivor perspectives – to the Financial Sector Commission, and we look forward to the positive impact that its work will have on the lives of victims and survivors in the years ahead.

EXECUTIVE SUMMARY

Slavery is illegal at all times and in all places. It is officially banned from our economic system. People can no longer be treated as capital.

Yet while states have formally abolished slavery, informally our financial and economic system continues to tolerate and even promote practices that generate similar results. Although slavery is illegal, there are currently an estimated 40.3 million people in modern slavery or victims of human trafficking. That is around 1 in every 185 people alive.

The most severe and long-lasting impacts of modern slavery and human trafficking are borne by its victims and survivors. Apart from the physical and psychological harms incurred, an estimated USD 150 billion each year is generated from the theft of their labour. This makes modern slavery and human trafficking one of the top three international crimes, alongside drug trafficking and trade in counterfeit goods.

Yet there is growing evidence that modern slavery leaves us all worse off. The profits are privatized, while the costs are socialized. By allowing people to be treated as disposable assets for short-term exploitation rather than full economic and social agents for the long-term, we permit significant economic and social potential to be locked up. Recent research suggests that every modern slavery case in the UK costs it GBP 328,720 in direct costs such as healthcare and law enforcement. On top of this, modern slavery and human trafficking cause lost productivity and diminished economic multiplier effects as a result of locking up this human and financial capital.

Modern slavery and human trafficking thus represent a tragic market failure. Our failure to effectively price-in the true social and economic costs of modern slavery leads to the inefficient allocation of capital. Businesses that tolerate or generate modern slavery and human trafficking have lower labour costs and an unfair competitive advantage over those that do not, and they consequently enjoy unfair and unsustainably reduced costs of capital.

Modern slavery also represents a failure by labour markets to provide decent work and support safe and dignified employment opportunities for all. And it is closely associated with the exclusion of many from the global financial system. Large numbers of people (1.7 billion) and micro, small and medium enterprises (200 million in emerging economies alone) lack adequate access to safe, reliable, coercion-free credit and financing. This lack of access reduces resilience to financial shocks and prevents capital accumulation, both of which push people and households into risky borrowing, labour and migration practices, increasing their vulnerability to modern slavery and human trafficking. It also encourages forced marriage as a capital accumulation strategy.

The financial sector cannot end slavery alone. Nor, however, will slavery end without the active engagement of the financial sector. As the world's bankers, investors, insurers and financial partners, financial sector actors have unparalleled influence over global business and entrepreneurialism. They have a unique role to play in investing in and fostering business practices that help to end modern slavery and human trafficking. Finance is a lever by which the entire global economy can be moved.

A Blueprint for collective action

Financial sector leadership and innovation helped formally abolish slavery in the 1830s. It was the largest syndicated loan in history that underwrote manumission (the release of slaves) in the British Empire. Two centuries later, similar leadership and innovation is needed from the financial sector to help end modern slavery and human trafficking by 2030, as called for in the United Nations Sustainable Development Goals (SDGs).

To reach that target (SDG Target 8.7), we must reduce the number of people affected by around 10,000 individuals per day. This will require system-level strategies, generated through collective and probably decentralized action. We must bring modern slavery risks and human trafficking concerns from the margins into the mainstream.

Mobilizing action across the financial sector requires shared goals, but needs to leave room for differentiated action. Different financial sector actors are connected to modern slavery and human trafficking risks in different ways, and have different roles in and responsibilities for responding. Some financial sector actors may be connected to modern slavery and human trafficking through their own operations, others through their business relationships.

They may cause, contribute to, or be linked to modern slavery and human trafficking harms. Under the prevailing standards, set out in the United Nations Guiding Principles on Business and Human Rights (UNGPs) and Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises (MNEs), what is expected from a business enterprise depends on which type of connection it has to these risks. In some cases it requires building and using leverage. In others it requires providing or enabling remedy.

To develop a flexible framework for collective action, in September 2018 the Foreign Ministers of Liechtenstein, Australia and latterly the Netherlands, working with the Nobel laureate and microfinance pioneer, Muhammad Yunus, convened the Financial Sector Commission on Modern Slavery and Human Trafficking. This brought together 25 leaders from numerous different stakeholder perspectives: survivors of human trafficking and child slavery; leaders from hedge funds, commercial and retail banks, global regulatory authorities, global trade unions and a development finance institution; institutional investors; a United Nations mandate-holder; and leaders in the fight against modern slavery and human trafficking. They were chaired by Fiona Reynolds, CEO of the United Nations-backed Principles for Responsible Investment, and supported by a Secretariat operating out of the United Nations University's Centre for Policy Research in New York.

Over its one-year mandate (September 2018 to September 2019), the Commission held four consultations – in New York, Liechtenstein, Sydney and The Hague. It was briefed by over 40 experts from around the world. Six Commission-led workstreams operated between face-to-face consultations. In addition, over 100 informal consultations took place with stakeholders. Four briefing papers were produced along with internal working documents and discussion papers to inform the Commission's work, and over 100 published resources are available on the website of the Liechtenstein Initiative (www.fastinitiative.org).

The result is the Blueprint for Mobilizing Finance Against Slavery and Trafficking. The Blueprint sets out five Goals towards which financial sector actors can work through individual and collective action:

GOALS		
	1	Compliance with laws against modern slavery and human trafficking.
	2	Knowing and showing modern slavery and human trafficking risks.
	3	Using leverage creatively to mitigate and address modern slavery and human trafficking risks.
	4	Providing and enabling effective remedy for modern slavery and human trafficking harms.
	5	Investment in innovation for prevention.

Each Goal is accompanied by three 'Act Now' measures for immediate action, and three 'Initiate' actions that may have a longer gestation. These are introduced below.

GOAL 1:

COMPLIANCE WITH LAWS AGAINST MODERN SLAVERY AND HUMAN TRAFFICKING

FAST Blueprint Goals	
	Compliance with laws against modern slavery and human trafficking
ACT NOW	**INITIATE**
Strengthen financial investigations	Develop transactions analysis tools
Involve and learn from survivors	Mobilize the insurance sector
Strengthen use of the AML/CFT and sanctions regimes	Use public financial regulatory levers – procurement, investment + lending, fiscal policy, and competition law

The prohibition of slavery is one of the strongest norms in international law. It has been translated into a wide range of international and domestic legal regimes. Laundering the proceeds of modern slavery and human trafficking is also a crime in most jurisdictions. But enforcement of that norm is weak.

Identification of victims is difficult, leading to low numbers of victim identifications (a high of just over 25,000 in 2016). Global prosecution and conviction rates are also low (highs of 11,096 and 7,481 in 2018, respectively). Financial sector actors can help enforce the ban by strengthening compliance with existing laws, in five different areas.

Anti-money laundering and countering terrorism financing

First, financial sector stakeholders (both public and private) can work to strengthen compliance with anti-money laundering (AML) and counter financing of terrorism (CFT) laws. These already extend in most jurisdictions to handling funds generated from modern slavery or human trafficking, though that is not always made explicit by regulators. Where this has been made explicit, for example through specific guidance on these risks or asking questions in Suspicious Activity Reporting forms, up to a 1,000 per cent increase in reporting has ensued.

Stronger compliance with AML/CFT rules will also come about through devoting more resources to financial investigations. Transaction analysis tools need to be developed to deal not just with forms of modern slavery in the developed world, such as cross-border sex trafficking, but also those that take place in the developing world, such as localized debt bondage and domestic servitude. The FAST Financial Investigations Tool (discussed further in the introduction of the Implementation Toolkit, later in the Executive Summary) has been developed with the Organization for Security and Co-operation in Europe (OSCE) to compile good practice from around the world and synthesize it, helping financial sector actors get started.

Other steps that financial sector actors can take to strengthen compliance with AML/CFT rules to end modern slavery and trafficking include:

- Learning from the unique expertise of survivors.
- Sharing information and analysis, and fostering public-private partnerships for that purpose.
- Using national risk assessments and Financial Action Task Force (FATF) mutual evaluation processes.
- Being careful about the unintended impacts of de-risking (terminating the relationship with a business partner in question to avoid risk exposure), which can unintentionally increase modern slavery and human trafficking risks. Engagement to encourage cessation of risky practices may be preferable, and is discussed further under Goal 3.

Sanctions

Second, financial sector actors have a key role to play in enforcing international sanctions targeting slavers and traffickers. This includes sanctions imposed in 2018 by the United Nations Security Council on six suspected human traffickers in Libya. Financial sector actors can help by identifying, freezing and facilitating the confiscation of assets. More cooperation and information-sharing between governments and financial institutions is needed to strengthen sanctions implementation. One option may be to develop a network of sanctions enforcement actors, modelled on the Egmont Group of Financial Intelligence Units, which plays a global networking, information-sharing and enforcement cooperation role in the AML/CFT space.

Insurance

Third, the insurance sector's willingness to cover – or not – slavery risks has shaped business conduct and systemic risk since at least the eighteenth century. Today, insurers can mobilize to develop exclusion language for specific policy lines – such as marine cargo insurance for goods produced with forced labour, or employers' or directors' liability insurance. The industry's role in determining systemic levels of modern slavery risk should be considered in forums such as the International Association of Insurance Supervisors and the United Nations Principles for Sustainable Insurance initiative.

The power of the public purse

Fourth, public financial actors also have a powerful role to play in enforcing anti-slavery and anti-trafficking norms, in particular by using the power of the public purse. Public procurement requirements, investment and lending choices can all nudge demand towards businesses that actively work to prevent modern slavery and human trafficking, and away from those generating risks. This has implications for sovereign investors, public pension funds, development finance institutions, export credit agencies and other public financial actors. Examples from Australia, Canada, New Zealand, the UK and the US show what is possible.

State fiscal policy and tax regulation also has a powerful role to play. By withholding subsidies or tax collection authority from companies that rely on forced labour, as has occurred in Brazil, government entities can influence business practice, rewarding companies that work to prevent and mitigate modern slavery and human trafficking risks.

Corporations and competition law

Fifth, regulators also have a key role to play in preventing unfair market competition, by excluding from the marketplace those firms that rely on forced labour. Stock and commodity exchanges can do this through listing rules, and also use environmental, social and governance (ESG) guidance and indices to encourage compliance with laws against modern slavery and human trafficking. Competition regulators also have a role to play, especially through carving out space for pre-competitive collaboration to strengthen knowledge on modern slavery and human trafficking risks and to develop relevant prevention standards.

ACTIONS TO ACHIEVE GOAL 1

Act Now

- **Strengthen financial investigations** – Increase public - and private-sector resources for financial investigation of modern slavery and human trafficking, commensurate with the scale and gravity of the problem. Regulators, financial intelligence units (FIUs) and private-sector actors should work together to develop better indicators of AML/CFT risks associated with current and emerging forms of modern slavery and human trafficking.
- **Involve and learn from survivors** – Actively integrate survivors into processes of regulation, investigation, enforcement and organizational change, to benefit from their expertise and assist with their own recovery.
- **Strengthen use of the AML/CFT and sanctions regimes.** This could include:
  - Fostering public-private and inter-entity information-sharing.
  - Developing better indicators, especially of labour trafficking.
  - Clarifying expectations through national advisories and guidance.
  - FIUs encouraging a focus on this issue within their own jurisdictions, and working together to share information and build knowledge across borders.
  - Using the FATF national risk assessment and mutual evaluation process to highlight these issues and develop public-private buy-in for prioritizing anti-slavery and anti-trafficking efforts by AML/CFT actors.
  - Strengthening cooperation to enforce international sanctions on human traffickers, for example by establishing an Egmont Group-style forum for confidential intergovernmental cooperation on sanctions enforcement.
  - Avoiding overzealous de-risking practices that unintentionally increase modern slavery and human trafficking risks for vulnerable populations.

Initiate

- **Develop transaction analysis tools** to help identify proceeds of modern slavery and human trafficking in all areas of financial sector activity – banking, remittances, insurance, investment, commodities trading and beyond. This should include extending these tools to cover labour trafficking, debt bondage and forms of modern slavery and human trafficking occurring in the developing world, not just commercial sexual exploitation and human trafficking taking place in the developed world.
- **Mobilize the insurance sector** to exclude modern slavery and human trafficking risks, including through development of exclusion clause language for specific policy lines such as employers' and directors' liability insurance, cargo insurance or workplace insurance.
- **Use all public regulatory levers, including**:
  - **The power of the public purse** – through public procurement, investment and lending, and fiscal policy and tax regulation. These issues could be picked up in those forums that are currently considering public procurement rules, such as the Bali Process, the G20, Alliance 8.7 and the Call to Action on Forced Labour, Modern Slavery and Human Trafficking, Principles for Responsible Investment (PRI) and development finance institution ESG discussions.
  - **Market regulation** to enforce the blanket ban, including exchange listing rules, ESG guidance and indices; and
  - **Competition law,** including clarification of rules on pre-competitive cooperation to address modern slavery and human trafficking risks.

GOAL 2:

KNOWING AND SHOWING MODERN SLAVERY AND HUMAN TRAFFICKING RISKS

FAST Blueprint Goals	
GOAL 2 — Knowing and showing modern slavery and human trafficking risks	
ACT NOW	**INITIATE**
Collaborative learning on due diligence	Taxonomy and harmonized disclosure regimes
Foster digital and data innovation	Corporate ESG ratings
Public, intergovernmental reporting and exclusions database (mutual debarment model)	Collaborative value-chain mapping and shadow pricing modelling

Addressing the market failure that contributes to 40.3 million people in modern slavery and human trafficking requires improving market information and transparency, so that businesses connected to these risks face higher costs of capital, and those that prevent or address these risks face lower costs of capital. This requires action at both the enterprise and market levels.

At the enterprise level, the first step is identifying and understanding connections to modern slavery and human trafficking risks. For many financial sector actors, with large numbers of business relationships – and with modern slavery and human trafficking risks often buried deep in the long, complex, opaque supply chains of their clients, investee companies or commercial partners – this may appear a daunting exercise. Specialized expert guidance may be needed.

In the meantime, the FAST Risk Mapping Starter Workflow (detailed further below in the discussion of the Implementation Toolkit) can help orient financial entities grappling with these questions, helping them begin to understand where the salient risks are in their own operations and business relationships, and start to think through questions of likelihood and prioritization. The FAST Connection Diagnostic Tool may also prove useful to understand the type of connection (as defined by the United Nations Guiding Principles) that results – causation, contribution or linkage. Expectations of a business's response depend on which type of connection is present.

The financial sector is on a learning curve in this arena. Progress up the learning curve will be more rapid if actors work together to learn how to make risk mapping and due diligence real, routine and effective. This may require developing specialized guidance for different financial sub-sectors, contexts and functions. Examples from Australia (around the adoption and implementation of the Modern Slavery Act 2018 (Cth), Brazil (a multi-stakeholder pact to fight

modern slavery) and the Netherlands (the Dutch International Responsible Business Conduct agreements) suggest that governments have an important role to play in fostering multi-stakeholder collaboration and learning.

Digital and data innovation may help foster the market information and transparency that is needed. There is a push in the sector to use novel, non-traditional data streams to inform social risk analytics. We may be on the cusp of effective predictive analytics for modern slavery and human trafficking risk. And new digital tools such as smart employment contracts and distributed ledger technologies for supply-chain provenance and chain of custody may also improve businesses' ability to know and show the risks in their operations and business relationships. Digital tools may also complement and enhance engagement through survivor groups and trade unions. Deal parties and major financiers of specific high-risk sectors or projects could collaborate to harness anonymized worker and survivor voice platforms for enhanced, participatory due diligence.

Yet even if individual enterprises strengthen their ability to know and show their modern slavery and human trafficking risks, this may not generate effective pricing signals or otherwise influence market behaviour at scale. Evidence suggests that disclosure under existing supply-chain transparency regimes remains nascent. A lack of harmonization across those regimes makes it difficult for users – such as consumers and investors – to compare information, weakening market uptake and the overall impact of this information. Comparability will be highest, and systemic impacts greatest, when corporate ratings emerge that reliably link businesses' actual conduct (and not just policies) to modern slavery and human trafficking risks, allowing this to influence capital allocation at the enterprise level.

Until then, however, it may be useful for governments and sector leaders to consider steps to harmonize disclosure frameworks. This could involve governments and international organizations pooling information on exclusions and 'debarment' of entities from procurement, investment and lending processes on the grounds of connections to modern slavery and human trafficking. This could adopt the approach to mutual enforcement of cross-debarment decisions that multilateral development banks already use to deal with fraud and corruption.

Another step would be to develop a shared taxonomy of risks and activities, as the EU has recently done in the broader sustainability space. The Task-Force on Climate-Related Financial Disclosures, led by United Nations Special Envoy for Climate Action Michael Bloomberg, might also provide inspiration for developing modern-slavery-related financial disclosures. In time, this may also allow the development of value-chain mapping and shadow pricing models that allow financial actors to compare individual firms to benchmarks, strengthening their ability to spot anomalous behaviours and associated modern slavery and human trafficking risks.

ACTIONS TO ACHIEVE GOAL 2

Act Now

- **Collaborative learning on due diligence:** Financial sector entities can work together to learn how to make modern slavery and human trafficking risk mapping real and routine, embedding it into all due diligence functions (compliance, legal, ESG teams, client-facing personnel, procurement, risk-analysis teams and managers). This should include developing due diligence guidance for specific high-risk business sectors or contexts, and for specific financial activities and functions (e.g. institutional investing, general corporate lending, project finance, hedge funds, private equity, insurance and reinsurance, and commodities trading). The aim is to strengthen mapping of risks to people, not just risks to business.
- **Foster digital and data innovation:** Banks and investors should invest in approaches to due diligence that harness novel, non-traditional data streams, predictive analytics and digital engagement with workers and survivors. Deal parties and major financiers of specific high-risk sectors could collaborate to harness anonymized worker and survivor voice platforms for enhanced, participatory due diligence, complementing established institutions such as trade unions.
- **Public, intergovernmental reporting and exclusions database:** Governments and other public bodies should pool information from modern slavery reporting databases and decisions taken on exclusions and debarment under public procurement, investment and lending rules relating to modern slavery and human trafficking. This could adopt the approach to mutual enforcement of cross-debarment decisions that multilateral development banks already use to deal with fraud and corruption.

Initiate

- **Taxonomy and harmonized disclosure regimes:** all stakeholders should work towards a common taxonomy of modern slavery and human trafficking risks and activities, as a first step towards harmonization of modern slavery-related financial disclosure and reporting regimes. This could be modelled on the recent EU sustainability taxonomy.
- **Corporate ESG ratings:** Credit and bond ratings agencies should factor modern slavery and human trafficking risks into emerging ESG ratings, or issue stand-alone modern slavery and human trafficking scores.
- **Collaborative value-chain mapping and shadow pricing modelling:** All stakeholders should collaborate on pre-competitive R&D to map high-risk value chains. In time this may allow development of shadow pricing models that can be used to benchmark pricing and help identify anomalous labour management practices and other modern slavery and human trafficking risks.

GOAL 3:

USING LEVERAGE CREATIVELY TO MITIGATE AND ADDRESS MODERN SLAVERY AND HUMAN TRAFFICKING RISKS

FAST Blueprint Goals

Using leverage creatively to mitigate and address modern slavery and human trafficking risks

ACT NOW	INITIATE
Differentiated leverage guidance	Explore platform leverage
Collaborative leverage in high-risk sectors such as construction	Develop benchmarks and ratings on leverage
Promote leverage reporting and transparency	Embed leverage in enterprise tech

Leverage is all about using influence in relationships to change outcomes. The force of finance lies in acting as a lever which can influence and move global business practice.

When a company is connected to modern slavery and human trafficking through its business relationships it is expected to use its leverage to seek to prevent or mitigate that harm and, where necessary, build additional leverage to achieve that result. Leverage will depend on highly specific contextual factors, such as the nature of a transaction or relationship, the financial actor's share of financing, its control over the other entity's management, dependency dynamics, and the financial sector's own organizational profile.

For example, general corporate lending creates different leverage dynamics to private equity ownership and active management; syndicated loans generate different dynamics to bilateral loans, and insurance coverage generates different dynamics to passive investment.

Leverage is a distinct concept and question from liability. The existence of liability is a legal question, the existence of leverage is not. And the expectation of building and using leverage is not an expectation of making companies uncompetitive – let alone condoning anti-competitive conduct.

We identify six distinct types of leverage, building on a typology first defined by Shift.

First, two *bilateral* types:

1. Traditional commercial leverage (through contract audits, bidding criteria, loan conditions, commercial incentives, questionnaires and financial incentives), and
2. Broader business leverage (such as capacity-building, awareness-raising and bilateral advocacy).

Next, there are two *collaborative* types of leverage:

3. Working with one or more business partners (such as creating shared industry supplier requirements), and
4. Working with one or more non-commercial partners (for example involving government, international organizations, trade unions or civil society).

Finally, there are two *system-level* types of leverage:

5. Multi-stakeholder cooperation to create 'ecosystem' change, and
6. Platform leverage, embedding anti-slavery and anti-trafficking in the business operating systems on which other market actors rely (such as payment systems, or industry-wide codes or contracting templates). There are already examples of innovation in this area, such as the action by payment systems providers to exclude backpage.com from their services, and the Brazilian Central Bank's decision not to deal with companies found to have engaged slave labour.

The FAST Leverage Practice Matrix provides illustrative examples of each of these different types of leverage being used by financial sector actors, across different sub-sectors.

As one example of how leverage could be used, we look at the construction sector, responsible for around 18 per cent of estimated global forced labour. Here, financiers have significant leverage to embed anti-slavery and anti-trafficking measures, including cascading contractual clauses, contract management plans, and independent monitoring arrangements into deal and project agreements. Some of these techniques are now migrating to related areas, such as real estate management.

Other areas that may warrant close scrutiny and the development of specialized leverage guidance include insurance (e.g. through the United Nations Environment Programme [UNEP] Finance Initiative Principles for Sustainable Insurance), stock exchange management (the United Nations Sustainable Stock Exchanges Initiative), institutional investing (both active and passive) (through Principles for Responsible Investment) and trade finance (the ICC Sustainable Trade Finance Initiative).

Leverage arrangements could also be embedded in enterprise technology, generating a stream of data about modern slavery risks and ESG performance that could be used to trigger micro-incentives (when defined milestones are met), or underpin dialogue about risk-reduction measures.

Ultimately, repeated efforts to build and use leverage in a business relationship may not succeed. At that point, financial sector actors may need to consider exit from the business relationship, which may involve exclusion or divestment. This possibility is best announced upfront, during the formation of the business relationship – maximizing the resulting leverage throughout the relationship. But financial sector actors must also ensure that divestment and exclusion will not lead to increased modern slavery or human trafficking risks for people, for example because they lose their livelihoods and are forced into risky migration or labour practices. The aim of divestment must be to reduce risks to people, not just the business. And for that reason, exclusion and divestment should not be seen as necessarily final and permanent, but rather as one stage in a complex process of building and using trust and influence.

Finally, we need to increase reporting on and transparency in use of leverage. Without greater transparency on how leverage gets used, with what impact, it will not be possible for financial markets to connect individual enterprise behaviour with resulting risk. As a result, leverage practices will continue not to be factored into prices or costs of capital. Financial sector actors should consider how to benchmark and evaluate the leverage of their influence, to translate this into useable market information.

ACTIONS TO ACHIEVE GOAL 3

Act Now

- **Differentiated leverage guidance:** Develop guidance for using leverage in specific market areas or financial roles – including insurance (e.g. through the UNEP Finance Initiative Principles for Sustainable Insurance), stock and commodity exchange management (the United Nations Sustainable Stock Exchanges Initiative), institutional investing (both active and passive) (through Principles for Responsible Investment) and trade finance (International Chamber of Commerce [ICC] Sustainable Trade Finance Initiative).
- **Collaborative leverage in high-risk sectors such as construction:** Accelerate collaborative leverage efforts in high-risk sectors such as construction and infrastructure financing.
- **Promote leverage reporting and transparency:** Financial sector entities monitor, assess and communicate their own leverage performance, drawing on differentiated leverage guidance.

Initiate

- **Explore platform leverage:** Look at how financial platforms such as payment and clearing systems, central banks and business information providers can embed anti-slavery and anti-trafficking measures.
- **Develop benchmarks and ratings on leverage:** Ratings agencies, regulators and researchers develop sector-wide benchmarks and ratings on use of modern slavery and human trafficking leverage by companies, connected to the differentiated leverage guidance developed separately (see above).
- **Embed leverage in enterprise tech:** Fintech actors incorporate leverage considerations into the design and build of enterprise tech, turning companies into a source of anti-slavery and anti-trafficking data and analysis for monitoring and reporting to financial partners, and for triggering micro-incentives (when ESG performance milestones are met). The stream of evidence this will create can underpin structured and constructive engagement between financial actors and their clients and investee companies about measures for reducing modern slavery and human trafficking risks.

GOAL 4:

PROVIDING AND ENABLING EFFECTIVE REMEDY FOR MODERN SLAVERY AND HUMAN TRAFFICKING HARMS

FAST Blueprint Goals	
	Providing and enabling effective remedy for modern slavery and human trafficking harms
ACT NOW	**INITIATE**
Participate in the FAST Financial Access Project's Survivor Inclusion Initiative	Use leverage to enable effective remedy ecosystems
Provide and contribute to effective remedies	Develop new insurance lines
Cooperate with financial investigations and judicial processes	Investigate other novel modalities for capital-raising

All victims of modern slavery and human trafficking are entitled under international law to an effective remedy, including to compensation. Yet in reality access to an effective remedy is the exception, not the rule, for victims of trafficking and modern slavery. They often lack access to effective remedial mechanisms, and even where they do have such access these processes rarely lead to compensation, restoration or other forms of effective remedy. This remedy gap prolongs trauma and heightens risk of re-victimization. So providing remedy is also a prevention measure.

Financial sector entities are expected to provide effective remedy, or cooperate with legitimate remedial mechanisms, where they cause or contribute to modern slavery or human trafficking.

The first and perhaps best option for financial sector entities is to cooperate with courts and judicial remedies, through facilitating financial investigations, and asset freezes and confiscation. Financial investigations have an important role to play in revealing trafficking organizations, perpetrators, gatekeepers and victims. They can also help prosecutors demonstrate the profit motive and knowledge of traffickers, and financial transaction evidence can reduce the burden on victims by obviating the need for testimony and providing corroborating evidence. Financial investigations also open the door to broader charging and higher penalties, and have the potential to provide for restitution and compensation to victims, through asset confiscation.

Another option is cooperation with state-based non-judicial remedies, such as OECD National Contact Points (NCPs), or the mechanisms set up by multilateral development banks. The numbers of remedial cases brought to these forums is growing, and instructive jurisprudence and practice is emerging in all these areas.

A third option is to cooperate with non-state grievance mechanisms. Here, too, practice is rapidly evolving. But there is already significant guidance available on how to provide and support effective grievance mechanisms.

Where financial sector entities are linked to modern slavery or human trafficking harms, but do not cause or contribute to them, they may not be expected to provide remedy, but they may choose to enable it. Moreover, it is becoming clear that over time a business's linkage to modern slavery risks can evolve into contribution to those risks – for example if failure to conduct expected due diligence facilitates a borrower's causation of or contribution to modern slavery or human trafficking, changing the risk and responsibility picture for financial institutions.

Driving remedy to scale will require moving beyond a case-by-case approach, and thinking about how to create system-level remedial mechanisms.

Financial sector actors may have unique leverage to make that happen by, for example, pre-positioning remedial arrangements – such as worker compensation funds to protect against illegal recruitment fees or wage theft – within projects or investees they finance. The Abandoned Seafarers Compensation Scheme could provide a model for this.

Another solution might be to collaborate to ensure that survivors of modern slavery and human trafficking can access the financial system after they escape exploitation. Survivors often find that traffickers have hijacked their financial identity or banking products for money laundering or other criminal purposes, spoiling their creditworthiness and complicating financial reintegration. Working with major banks and survivor service organizations, the Commission has established a Financial Access Project running a Survivor Inclusion Initiative to achieve just this. The Initiative aims at re-integrating survivors into the formal financial system through provision of basic financial services and products. Launched in Austria, Canada, UK and the US, coverage will later expand to other jurisdictions. A full list of participating entities is available at www.fastinitiative.org. The Initiative provides a common approach for the safe extension of basic financial services to survivors, adapted to each jurisdiction in which the Initiative is active. Building on an approach pioneered by HSBC in the UK, the Liechtenstein Initiative has created a directory and workflow template for financial institutions, service providers, regulators, governmental actors and other key stakeholders to match identified survivors to basic financial services (e.g. chequing and savings accounts, debit and credit cards).

ACTIONS TO ACHIEVE GOAL 4

Act Now

- **Participate in the FAST Survivor Inclusion Initiative** to remedy survivors' reduced access to safe and reliable financial products and services.
- **Provide and contribute to effective remedy,** including through awareness-raising with survivors on remedial options, cooperation with OECD National Contact Points and other non-judicial mechanisms, and in some circumstances providing effective grievance mechanisms directly, drawing on available guidance and good practice.
- **Cooperate with financial investigations and judicial processes:** This could involve cooperation in financial investigations, data sharing, asset identification and freezing, and support to asset confiscation processes. This could in turn draw on the FAST Financial Investigations Tool (discussed in the Implementation Toolkit, below).

Initiate

- **Use leverage to enable effective remedy ecosystems:** Financial sector actors may, in certain contexts, be able to use leverage to pre-position remedial arrangements so that when problems do arise, those affected have the necessary access to remedial mechanisms, on the scale required. This could, for example, mean requiring high-risk projects or investees to create worker compensation funds or guarantees to protect against modern slavery and human trafficking risks.
- **Develop new insurance lines,** to pay out in the event of a modern slavery or human trafficking incident at the individual or household level. This could potentially be modeled on existing kidnap and ransom insurance.
- **Investigate other modalities for capital-raising** to fund compensation payments to victims and survivors.

GOAL 5:

INVESTMENT IN INNOVATION FOR PREVENTION

FAST Blueprint Goals	
GOAL 5	Investment in innovation for prevention
ACT NOW	**INITIATE**
Invest in digital finance to serve vulnerable populations, e.g. through the FAST Financial Access Project's Vulnerable Populations Initiative	Strengthen return on investment (ROI) knowledge
Size investment needs	Develop anti-slavery bonds and performance loans
Promote social finance, such as microfinance	E-finance regulatory harmonization

Large numbers of people (1.7 billion) and micro, small and medium enterprises (200 million in emerging economies alone) lack adequate access to safe, reliable, coercion-free credit and financing. These populations have traditionally been underserved by market solutions because they offer a poor risk:return ratio. Yet increased individual, household and micro, small and medium enterprise (MSME) access to regular and safe finance, free from coercion, can help prevent modern slavery and human trafficking, and unlock the potential we are all missing out on as a result. Financial inclusion fosters financial resilience, encourages capital formation, and promotes investment and business growth.

Prevailing investment models – such as Modern Portfolio Theory, which focuses on optimizing portfolio returns at a given risk level – can optimize efficient investments based on existing options, but may lead to under-investment in certain market segments or economic sectors and under-investment in innovation in new options. This may explain why we have seen under-investment in the provision of safe, reliable and coercion-free financial services to the poor and to other groups that are highly vulnerable to modern slavery and human trafficking, such as forcibly displaced people. Intentional investment prioritizing 'additionality' will help grow the addressable market and unlock significant financial potential.

Social finance, such as microfinance and cooperative insurance models, can help fill this gap, because it focuses on discharging a social mandate rather than maximizing profit. There is evidence that microfinance can reduce vulnerability to debt bondage. Microfinance is a scalable solution. But we should be careful that in scaling it we do not create new coercive dynamics in debt markets. There have been negative experiences in some places where the securitization of microdebts has led to coercion and even suicide. Social impact, not profit maximization, must be central.

Emerging technologies can also play an important role, because they change the risk:return calculus for providing services to these populations. Growth opportunities seem especially high in countries with high modern slavery and human trafficking risk exposure. Promising investment strategies in digital finance include:

- Investing in rapid roll-out of digital payment systems to displaced populations.
- Extending digital payroll and payments systems to business in areas with high modern slavery and human trafficking risks.
- Investment in portable digital ID.
- Using artificial intelligence (AI) and digital chatbots to encourage responsible savings and investment and to grow entrepreneurialism and markets.
- Using microinsurance and risk mutualization to extend coverage to vulnerable populations.

The FAST Financial Access Project's Vulnerable Populations Initiative will explore ways to mobilize capital for these investments in innovation. It will address the high coincidence between lack of access to financial products – especially cross-border payments, credit and insurance – and vulnerability to modern slavery and human trafficking.

The Initiative works with governments, financial institutions and fintech leaders to identify and promote new financial products and services that can reduce this vulnerability, such as payment systems for displaced populations, blockchain-based microinsurance for rural smallholder farmers, and next-generation remittance technology. This work will roll out through late 2019 and into 2020, starting with a bootcamp for African fintech entrepreneurs.

New investment modalities, such as performance contracting and social impact bonds, also hold out promise for mobilizing capital to deploy in these ways, to help prevent modern slavery and human trafficking. There is promising evidence emerging of the utility of both modalities for addressing social risks, including the issuance of five-year 'SDG bonds' by the World Bank, in Singapore and Hong Kong. Modern slavery-related performance outcomes could also be embedded in ESG performance loans, like a recent USD 500 million green club loan issued in Singapore.

Finally, mobilizing capital for anti-slavery investment will prove easier if anti-slavery leaders are better able to articulate the 'cost' of ending modern slavery – the costs of effective prevention and remedial measures – modelling how that money could be effectively and efficiently spent. Similarly, there is a need for stronger evidence on the return on investment that can be expected from different anti-slavery investments, whether at the firm, community or national level. At present the field lacks these basic facts and figures, and until they are available it may prove difficult to effectively mobilize finance against slavery and trafficking.

ACTIONS TO ACHIEVE GOAL 5

Act Now

- **Invest in digital finance for prevention:** Financial sector actors should invest in digital finance to serve vulnerable populations including through working with the FAST Financial Access Project's Vulnerable Populations Initiative. Priority investment strategies could include:
  - Investing in rapid roll-out of digital payroll, payment systems and banking services to displaced populations and other populations with high modern slavery and human trafficking risks, including through development of portable regulatory arrangements, concessionary financing options, and commercial guarantee mechanisms.
  - Investment in portable digital ID.
  - Using artificial intelligence (AI) and digital chatbots to encourage responsible savings and investment and to grow entrepreneurialism and markets.
  - Using microinsurance and risk mutualization to extend coverage to vulnerable populations ('insurtech').
- **Size investment needs:** Governments, international organizations and researchers should undertake a study to determine what it would cost to end modern slavery and human trafficking, drawing on established prevention costing methodologies.
- **Promote social finance:** Governments, investors, researchers and civil-society actors should explore how microfinance and other forms of social finance can help end modern slavery. This will require investment and study, and may require adaptation of regulatory frameworks to facilitate social business.

Initiate

- **Strengthen ROI knowledge:** All stakeholders should work together to improve monitoring and evaluation and strengthen understanding of the ROI from different interventions, programmes and strategies. This will help with development of the business case for financing efforts against slavery and trafficking.
- **Anti-slavery bonds and performance loans:** Development finance institutions and leading lenders should scope the possibility of issuing anti-slavery bonds and performance loans, either for retail uptake or for project financing.
- **E-finance regulatory harmonization:** Governments and regulators should work to harmonize e-KYC (Know Your Customer) rules, improve the interoperability of digital ID arrangements, and create portable regulatory arrangements to foster investment in and rapid roll-out of e-finance infrastructure for vulnerable populations.

THE IMPLEMENTATION TOOLKIT

Implementation of this Blueprint will in time lead to a stronger connection between an enterprise's behaviour and its costs of capital. That connection will naturally move global markets away from their current tolerance for 40.3 million people in modern slavery and human trafficking, and encourage capital allocation to enterprises that helps reduce modern slavery and human trafficking risks. It will help address the ongoing tragic market failure and denial of human rights that this represents, and accelerate progress towards the Sustainable Development Goals, especially Target 8.7.

To assist with implementation of the Blueprint, the Financial Sector Commission has also created an Implementation Toolkit, comprising:

Risk Mapping Starter Workflow

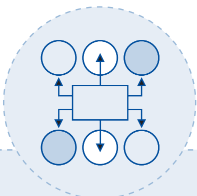
A simple introductory workflow for financial sector actors beginning to think about how to identify modern slavery and human trafficking risks in their own operations or business relationships. Specialist expert guidance is encouraged.

Connection Diagnostic Tool

An interactive self-diagnostic tool and illustrative examples that help financial sector actors begin to understand identified connections to modern slavery and human trafficking, and expectations of how they should respond.

Financial Investigations Tool

Guidance on good practice in conducting financial investigations into modern slavery and human trafficking, produced by OSCE working with the Commission.



Leverage Typology Matrix

Building on a typology developed by Shift, this matrix offers illustrations from recent financial sector practice of six different types of leverage, helping financial sector actors understand what creative use of leverage may look like.

Financial Access Project – Survivor Inclusion Initiative

An initiative to help survivors of modern slavery and human trafficking find safe and reliable access to basic financial products and services. Rolling out in Austria, Canada, UK and US in September 2019, with further expansion anticipated.

Financial Access Project – Vulnerable Populations Initiative

Preventing modern slavery and human trafficking by growing access to financial products and services for highly vulnerable populations. Rolling out late 2019 and 2020.

FINANCE AGAINST SLAVERY AND TRAFFICKING

Finally, although the Financial Sector Commission has now ceased operation, the Liechtenstein Initiative will continue, in the form of Finance Against Slavery and Trafficking (FAST), a project operating initially out of the United Nations University's Centre for Policy Research. It will aim to provide guidance and support to those implementing the Blueprint. An implementation review conference will be held in 2021, considering progress in implementation, identifying lessons and new developments, and exploring new opportunities.

Finance cannot end modern slavery and human trafficking on its own. But without the mobilization of the financial sector, modern slavery and human trafficking will not end.

The time to act is now.

THE FAST BLUEPRINT SUMMARY TABLE

	Actions	
FAST Blueprint Goals	**Act Now**	**Initiate**
Goal 1: Compliance with laws against modern slavery and human trafficking	• Strengthen financial investigations • Involve and learn from survivors • Strengthen use of the AML/CFT and sanctions regimes	• Develop transactions analysis tools • Mobilize the insurance sector • Use public financial regulatory levers – procurement, investment + lending
Goal 2: Knowing and showing modern slavery and human trafficking risks	• Collaborative learning on due diligence • Foster digital and data innovation • Public, intergovernmental reporting and exclusions database (mutual debarment model)	• Taxonomy and harmonized disclosure regimes • Corporate ESG ratings • Collaborative value-chain mapping and shadow pricing modelling
Goal 3: Using leverage creatively to mitigate and address modern slavery and human trafficking risks	• Differentiated leverage guidance • Collaborative leverage in high-risk sectors such as construction • Promote leverage reporting and transparency	• Explore platform leverage • Develop benchmarks and ratings on leverage • Embed leverage in enterprise
Goal 4: Providing and enabling effective remedy for modern slavery and human trafficking harms	• Participate in the FAST Financial Access Project's Survivor Inclusion Initiative • Provide and contribute to effective remedies • Cooperate with financial investigations and judicial processes	• Use leverage to enable effective remedy ecosystems • Develop new insurance lines • Investigate other novel modalities
Goal 5: Investment in innovation for prevention	• Invest in digital finance to serve vulnerable populations, e.g. through the FAST Financial Access Project's Vulnerable Populations Initiative • Size investment needs • Promote social finance, such as microfinance	• Strengthen ROI knowledge • Develop anti-slavery bonds and performance loans • E-finance regulatory harmonization

BACKGROUND: FROM SLAVERY TO SUSTAINABILITY

In this chapter:

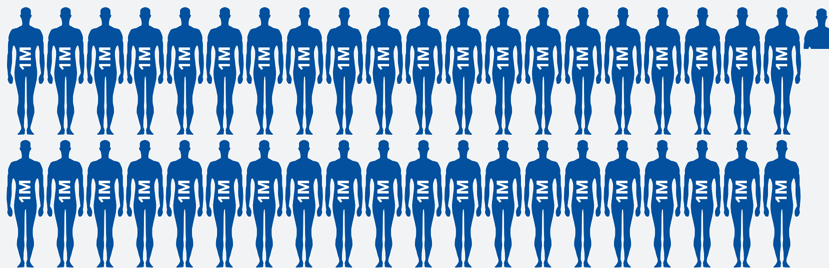
- There are an estimated 40.3 million people in modern slavery or human trafficking, despite a blanket global prohibition. Vulnerability may be growing as climate change, automation, conflict and migration disrupt global labour markets, value chains and livelihoods.
- Lack of access to safe and regular financial services is a key driver of vulnerability to modern slavery and human trafficking. It reduces resilience to financial shocks, and prevents capital accumulation, both of which push people and households into risky borrowing, labour and migration practices.
- Modern slavery leaves us all worse off, because it treats people as objects for exploitation rather than full economic and social agents. We all bear the resulting economic and social costs and miss out on the economic and social potential that is locked up. In this sense, modern slavery is a result of a classic market failure.
- Our failure to effectively price in the true social and economic costs of modern slavery, treating people as disposable assets, instead leads to the inefficient allocation of capital. Businesses that tolerate or generate modern slavery and human trafficking have an unfair competitive advantage and enjoy unfair reduced costs of capital.
- This leads to a failure of global labour markets to provide decent work and support safe and dignified employment opportunities for all.
- Addressing modern slavery and human trafficking should be at the heart of sustainable finance, factoring environmental, social and governance (ESG) impacts into financial decisions.
- Mobilizing finance against modern slavery and human trafficking will require systems thinking, help and tools, and strategic prioritization. It will also require collaboration amongst stakeholders, especially drawing on the expertise of survivors. This Blueprint offers a framework for mobilizing finance against slavery and trafficking, to help correct the market failure at its heart and unlock the potential we are all currently missing out on.

Slavery is illegal. Article 4 of the Universal Declaration of Human Rights states simply: "No one shall be held in slavery or servitude; slavery and the slave trade shall be prohibited in all their forms." Under international law, slavery is illegal at all times, in all places. Yet it is all around us.

According to the International Labour Organization (ILO), some 40.3 million people were enslaved in 2016, including 24.9 million subjected to illegal forced labour. Astonishingly, that implies that around 1 in every 185 people alive in 2016 was enslaved.[1]

Slavery is present in every region of the globe. While most victims are estimated to be found in Asia and the Pacific, the rate of prevalence is estimated to be highest in Africa. In 2016, 4.1 million people experienced state-imposed forced labour, 4.8 million people experienced sexual exploitation, and 16 million experienced forced labour exploitation in the private economy. The latter occurred in numerous settings, including domestic work (24 per cent), construction (18 per cent), manufacturing (15 per cent), and agriculture, forestry and fishing (11 per cent).[2]

Figure 1: Modern slavery by the numbers

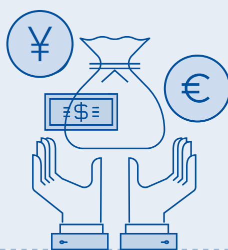


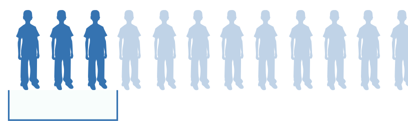
40.3 MILLION

Number of people estimated to be in modern slavery in 2016

USD 150 billion

Annual earnings from slavery





1 in 4 – victims are children.

GBP 328,720

Estimated cost to the UK economy from each modern slavery case in the UK.

89-149%

Estimated return on investment from public provision of survivor care.

10,000

Approximate number of people that must be removed daily from the global victim population in order to eradicate modern slavery by 2030.

5.4:1,000 or 1:185

Portion of global population estimated to be in modern slavery in 2016.

Source: ILO, IOM and Walk Free, *Global estimates of modern slavery: Forced labour and forced marriage* (Geneva, International Labour Office, 2017); ILO, *Profits and Poverty: The Economics of Forced Labour* (Geneva, International Labour Office, 2014); Sasha Reed, Stephen Roe, James Grimshaw and Rhys Oliver, *The economic and social costs of modern slavery*, Research Report 100 (London, UK Home Office, 2018) Andrea Nicholson, Katarina Schwarz, Todd Landman and Arianne Griffith, *The Modern Slavery (Victim Support) Bill: A Cost-Benefit Analysis* (Nottingham, University of Nottingham Rights Lab, 2019).[3]

Modern slavery is thought to generate around USD 150 billion in earnings annually.[4] This makes modern slavery one of the three most lucrative forms of global organized crime, next to drug trafficking and the trade in counterfeit goods.[5] Much of this dirty money flows through the global financial system.

The economic and social costs are enormous. We are missing out on huge economic and social potential, locked away from full participation in the global economy and society. UK Government researchers estimated in 2018 that every modern slavery case costs the UK economy GBP 328,720 in direct costs, lost tax revenue and lost economic potential. The UK has an estimated 10,000-13,000 such cases, suggesting a total cost of between GBP 3.3 billion and GBP 4.3 billion.[6]

At the same time, there is growing evidence that investment in both prevention and recovery are economically efficient. In 2019, UK researchers estimated that investment in a package of services for survivors of modern slavery would produce a financial return of between 89 and 149 per cent.[7]

The economic logic for fighting modern slavery and human trafficking is straightforward.

Firms employ forced labour – whether directly, or deep in their supply chain – in the search for labour cost reductions. Modern slavery externalizes these costs directly on to victims and workers, forcing them to pay recruitment fees, subsidize firm costs through debt repayments, or simply forego wages. In the process, modern slavery can leave victims and survivors with lifelong legacies of trauma.

Given such behaviour is – as we shall see – rarely punished, that may appear to be rational short-term economic behaviour. Firms that externalize these costs from their P&L sheet on to others appear more profitable – and consequently have lower costs of capital. This gives them an unfair competitive advantage. They can raise more capital because they have externalized the true costs on to others. Firms and countries that do not tolerate the shortcuts firms take by relying on modern slavery and human trafficking risk operating at a disadvantage to those that do.

Yet this analysis ignores the long-term social costs of tolerating this behaviour. Modern slavery and human trafficking create significant costs for society at large: law enforcement costs, healthcare costs and foregone economic inputs.

Victims are not only exploited and abused, they are also excluded from normal economic agency: from normal savings and consumption activities, from entrepreneurialism and from access to the financial system. We miss out on their resulting contributions: to society, to multiplier effects from consumption, savings and investment, and to the tax base. By locking up victims' economic and social potential, modern slavery and human trafficking leave us all worse off.

Modern slavery and human trafficking thus involve the theft of labour and its indirect social and economic benefits, privatizing the resulting profits while externalizing – and frequently socializing – the resulting costs. In this sense, modern slavery is a symptom of a system that is failing not only the victims, but also all of us. We are all missing out on the benefit of having people treated not as economic objects to be exploited, but as full economic agents.

The incentives for individual firms and actors – to ignore or even tolerate risks of modern slavery and human trafficking – lead to behaviours that are individually rational, but at the system level leave us all worse off. Modern slavery is, in that sense, a classic collective-action problem – and a classic case of market failure.

Although there is a blanket global prohibition on modern slavery on the books, we have failed to translate that prohibition into how modern slavery and human trafficking risks are treated in the global economic and financial system. Instead of working actively to identify and mitigate those risks, and to remedy any resulting harms, we have largely ignored and tolerated them. The result is clear: 1 in every 185 people alive is enslaved.

In this report, we set out a Blueprint for mobilizing finance against slavery and trafficking. A Blueprint for collective action to effect change, and for unlocking enormous economic and social potential.

SLAVERY PERSISTS – WORLDWIDE

The legal institution of slavery has long been abolished. But the practice has not died with that formal abolition.

Modern slavery – an umbrella term that covers a set of specific legal concepts including forced labour, debt bondage, chattel slavery and other slavery-like practices, and human trafficking – persists. It lives on wherever we find situations of labour, domestic and commercial sexual exploitation that a person cannot refuse or leave because of threats, violence, coercion, deception and/or abuse of power.[8] Put another way, even if it is illegal to 'own' another person in this day and age, slavery persists where one person exercises the powers (if not the authority) of ownership.[9] Tragically, we find these situations all over the world (see Figure 2). Modern slavery and human trafficking take many different forms around the world and interact with the financial sector in a variety of ways.

Forced labour may have been involved in harvesting the fish[10] you bought for dinner at the local supermarket or in manufacturing the smartphone in your pocket.[11] Both are potentially products of publicly listed and traded companies whose stocks are often major holdings for pension funds and other institutional investors. In South-East Asia, palm oil plantations face allegations of forced labour and other socially destructive practices such as environmental violations, which have led recently to major divestments by Citibank[12] and the world's largest sovereign wealth fund, the Norwegian Government Pension Fund Global (GPFG).[13]

Research has found labour trafficking in large-scale commercially financed primary industries from Australia[14] to Brazil[15] to Eritrea,[16] and at different points in the construction value chain from India[17] to Qatar.[18] This has included projects financed through large commercial loans, project finance and sovereign bond issues.[19] Migrant workers employed in such projects face risks of modern slavery and human trafficking throughout their journeys.[20] Banks and non-banking financial institutions may have insights into these risks, through handling payrolls and worker remittances. Financial institutions may also provide travel loans to workers – which may be used to pay the recruitment fees that can lead them into debt bondage and other forms of exploitation in the first place.[21]

Sometimes, as in Libya and Syria, vulnerability to modern slavery is a result of the collapse of state authority, with criminal militias or terrorist groups creating slavery-based economies.[22] This has raised sufficient concern about money laundering and terrorism financing in recent years to attract the attention of the United Nations Security Council, and has even led, in Libya, to the adoption of United Nations sanctions against human traffickers.[23] Banks and other financial institutions play a key role in implementation of those sanctions.

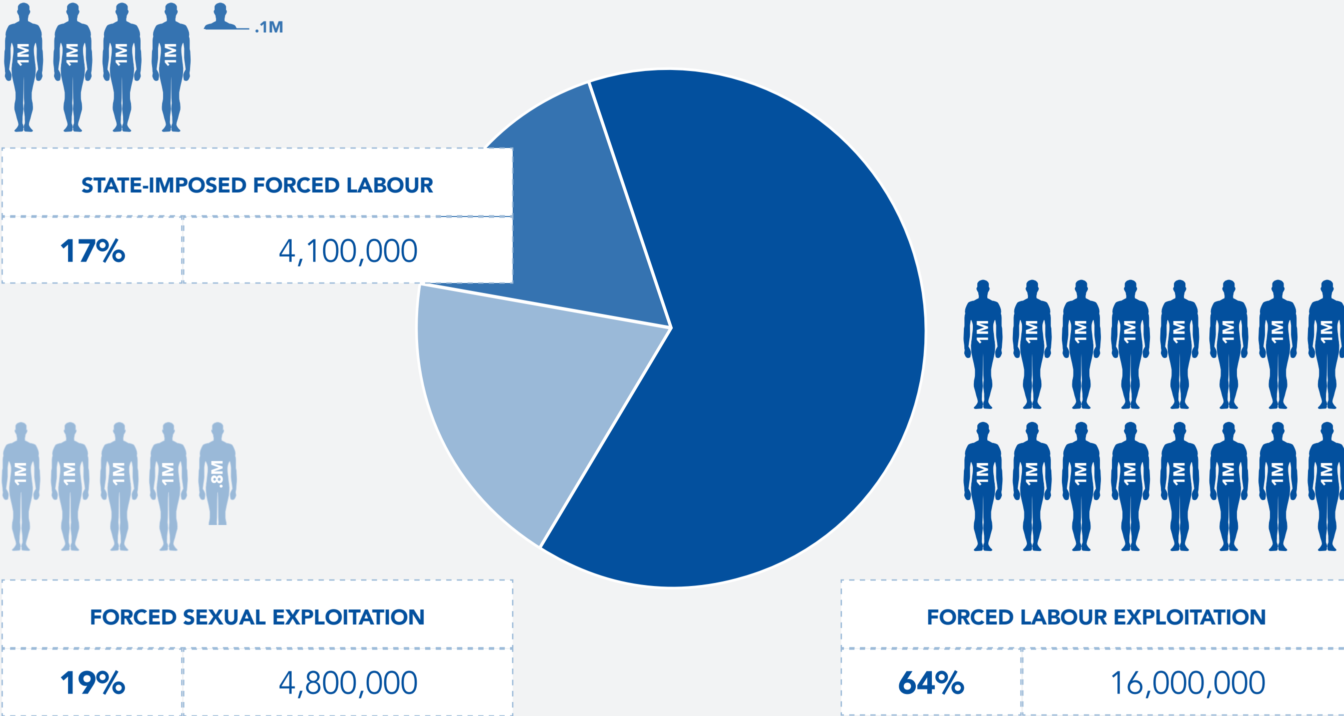
In other cases, such as the Democratic People's Republic of Korea or Central Asia, it is not state collapse but state policy that generates modern slavery and human trafficking.[24] This can create risks for financial sector actors financing firms that rely on such forced labour or buy its products. The Norwegian Export Credit Agency, GIEK, for example has closely examined its investment in the ship construction value chain, after suspected forced labour from the Democratic People's Republic of Korea was identified within it, within Europe.[25]

As that suggests, modern slavery and human trafficking are by no means limited to low-income or other 'developing' countries. In the United Kingdom, modern slavery has been found in situations as diverse as bed factories[26] and car washes[27] – both likely users of traditional commercial banking services.

Researchers at the UK Home Office have identified 17 different 'types' of modern slavery in the cases detected to date.[28] Similarly, in the United States researchers have found 25 different 'types' of modern slavery and human trafficking, in industries as diverse as agriculture, carnivals, forestry and logging, landscaping, manufacturing, health and beauty services, restaurants, massage parlours and domestic work.[29] All use commercial banking and credit services. Indeed, in some cases perpetrators sometimes deliberately hijack their victims' financial accounts and identities, vastly complicating financial reintegration for survivors of slavery and trafficking.[30]

Figure 2: Estimated profiles of the global population of forced labour victims

Figure 2a: Estimated victim population by type of exploitation



Source: ILO, IOM and Walk Free, *Global estimates of modern slavery: Forced labour and forced marriage* (Geneva, International Labour Office, 2017), pp. 29, Figure 7

Figure 2b: Estimated number and prevalence of persons in modern slavery by category and region

3,590

24,990

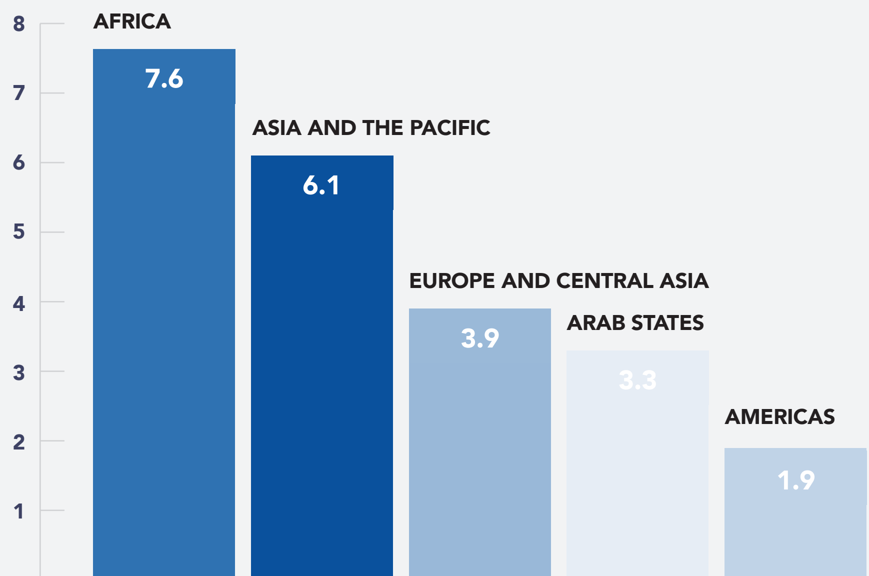
1,950

520

9,240

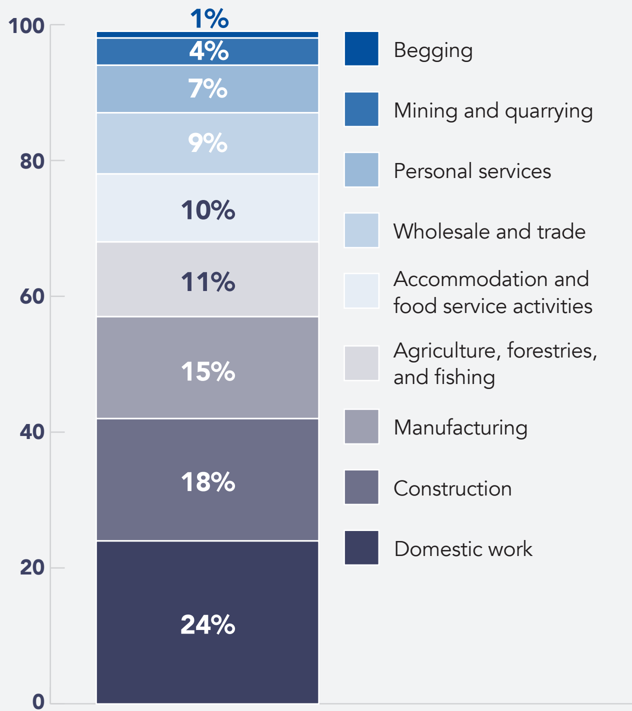
ESTIMATED NUMBER OF PERSONS IN MODERN SLAVERY (IN THOUSANDS)

PREVALENCE (PER THOUSAND) – MODERN SLAVERY



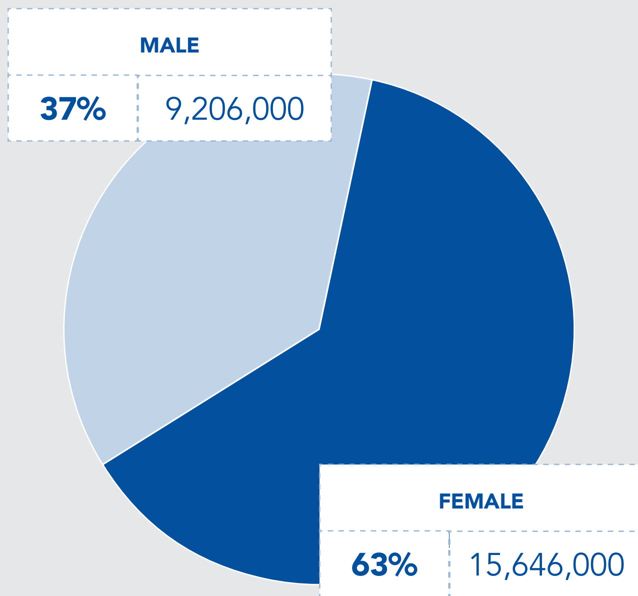
Source: ILO, IOM and Walk Free, *Global estimates of modern slavery: Forced labour and forced marriage* (Geneva, International Labour Office, Geneva), pp. 26-27

Figure 2c: Estimated victim population by sector and gender



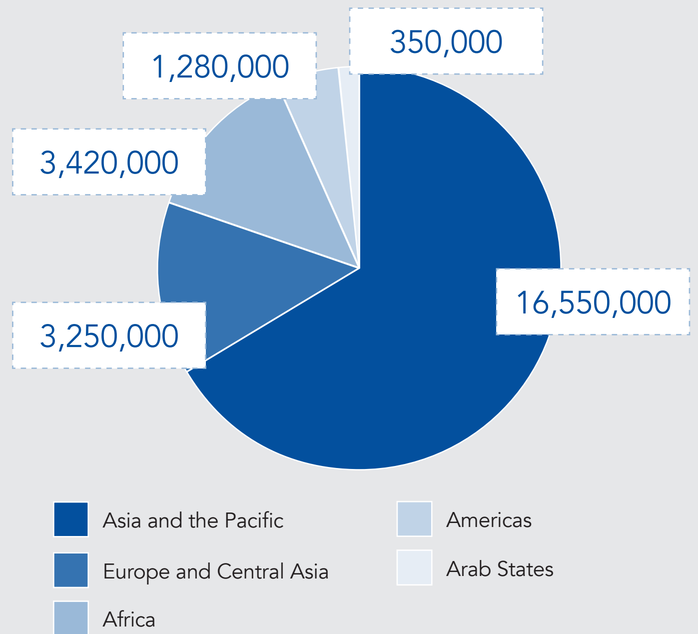
Source: Figure 9, *Modern Slavery Estimates*, ILO

Figure 2d: Estimated forced labour victim population by gender



Source: *Modern Slavery Estimates*, ILO, p. 28

Figure 2e: Estimated forced labour victim population by region



Source: Based on Table 2, *Modern Slavery Estimates*, ILO

VULNERABILITY MAY BE GROWING

Researchers' understanding of the risk factors that make people vulnerable to modern slavery and human trafficking is growing. At the individual level, these seem to include age, gender, income, employment status, education level, health and other factors relating to social isolation.[31] Not all risks are linear: for example young people are at higher risk than both children and older adults.[32] Being a migrant, a refugee, a displaced person or an asylum seeker appears to particularly heighten the risk of slavery,[33] and high levels of inequality and conflict onset both increase risks.[34]

Unfortunately, there are good reasons to believe that the risks of this kind of vulnerability are actually increasing, not decreasing. As the United Nations Special Rapporteur for Contemporary Forms of Slavery, Urmila Bhoola, outlined in a recent report to the United Nations Human Rights Council, *Addressing Tomorrow's Slavery Today*,[35] major social, technological and environmental changes in the years ahead may all drive increases in vulnerability, especially for populations that lack financial resilience.

Growing precarity for workers

Vulnerability to slavery is closely related to labour market regulation and dynamics. Unemployment, partial employment and informal employment all increase the risk of slavery.[36] More than 60 per cent of the world's employed population, including 56 per cent in G20 economies, are in informal employment.[37] In developing countries, informality reaches more than 90 per cent.[38]

Workers operating under such conditions, frequently at the end of highly integrated and volatile supply chains, are especially vulnerable to exploitation. Brand or buyer purchasing practices that rely excessively on short-term contracts, short production windows and unfair payment terms, for example, push risk down the supply chain on to the most vulnerable – a trend that may be further exacerbated by automation.[39]

In fact, informal employment looks set to grow, not only due to automation but also due to the rise of digital platforms for own-account and piece-work – the so-called 'gig economy'.[40] This may lead to an increase in precarity in labour markets.[41] Automation of low-skilled jobs will increase competition for those jobs that remain, putting downward pressure on wages and increasing risks for workers.[42] Disruptions in labour markets will generate negative income shocks for many households, create negative perceptions of household income and fuel inequality – all thought to be key risk factors for slavery.[43]

Demographic and migration pressures

Limited access to jobs – or other livelihoods – is also a major driver of migration. Migration is in turn a source of vulnerability to slavery and human trafficking, especially where it occurs outside safe, regular and orderly channels. Workers become more vulnerable to slavery and trafficking as they are forced out of formal channels for migration and livelihood development – often due to inadequate access to credit or capital – and into informal channels.[44]

Migration will likely continue to increase due to 'push factors' such as conflict, income inequality, lack of economic opportunity and climate change, and 'pull factors' such as demand for labour.[45] 86 per cent of the 25.6 million young people entering the labour force globally by 2030 will be in developing and emerging countries.[46] 59 per cent of global population growth to 2050 is expected to be in Africa, followed by Asia and Latin America and the Caribbean. Without significant economic growth in those countries, or investment in local entrepreneurialism (discussed further in Professor Yunus's Annex to this report), the supply of migrant labourers will continue to grow.

Demographic and economic trends may also create pull factors heightening vulnerability to modern slavery and human trafficking. Asia, already burdened with the highest absolute prevalence of slavery according to the 2016 *Global Estimates,* is undergoing an economic boom that may increase modern slavery risks. Rapid economic growth can pull workers into risky jobs in construction, or in low-skill, low-pay value chains that are highly vertically integrated into volatile and market-responsive global supply chains, including soy, cattle, palm oil, apparel and electronics.

Sex-selective abortion may also lead to persistent gender imbalances in some societies, creating demand for forced and servile marriage, including across borders.[47] Long-term displacement – due to conflict or natural disaster – will also lead to a rise in the rates of servile forms of marriage, in particular of girls, as a coping mechanism, and may over time increase female participation in vulnerable domestic work and forced labour.[48]

The spectre of violent conflict

Evidence suggests that the number and duration of conflicts is also on the rise, after a sustained period of decline. Conflict is, to our current knowledge, the greatest source of vulnerability to modern slavery and human trafficking.

Conflict-induced displacement is at historic highs, limiting peoples' access to decent work, disrupting social networks and increasing their vulnerability to debt bondage, forced labour, commercial sexual exploitation, child labour and servile forms of marriage as a means of survival and coping.[49] Even worse, we are also apparently witnessing a resurgence of enslavement in armed conflict contexts, not only as a method of recruitment, but increasingly also as an open tactic of ideological subjugation – and conflict financing.[50]

Environmental insecurity

Heightened exposure to natural disaster as a result of environmental change is also rapidly emerging as a source of growing modern slavery and human trafficking risk. Climate change will likely multiply and intensify natural disasters – notably, in the Asia-Pacific, already the region with the highest estimated absolute prevalence of contemporary forms of slavery and forced labour.[51] By 2050, approximately 5 billion people may live in areas where the climate "will exceed historical bounds of variability",[52] and 143 million people in Sub-Saharan Africa, South Asia and Latin America will face internal migration due to climate change,[53] which will lead to increasing modern slavery vulnerability for these populations.[54]

Even without natural disasters, the slow-rolling impacts of climate change on primary industries are likely to lead to significant disruptions in and reorganizations of industries, livelihoods and households, testing household financial resilience, heightening underlying vulnerabilities and disrupting livelihoods and social networks.[55] Competition amongst producers for dwindling resources may encourage behaviours that drive down labour and other costs, as we see in South-East Asian fisheries.[56]

Climate change may also heighten the risk of forced marriage, with dowries viewed as a capital formation adaptation.[57] What this points to is the central role that access to credit and capital play in mediating and mitigating all other modern slavery and human trafficking risks.

HOW FINANCIAL ACCESS LINKS TO MODERN SLAVERY AND HUMAN TRAFFICKING

Lack of access to safe and legitimate financial services – especially credit – is a key driver of modern slavery and human trafficking. It both: 1) prevents individuals and households withstanding financial shocks, forcing them into risky borrowing and labour practices that can lead them into debt bondage or human trafficking; and 2) prevents capital accumulation, entrepreneurialism and the development of local livelihoods, forcing them into risky migration and labour practices. This logic seems to hold from India to Indiana. And it suggests that increasing financial inclusion will help to prevent modern slavery and human trafficking.

Financial exclusion as a driver

As the Co-Convenor of the Commission and microfinance pioneer, Professor Muhammad Yunus explains in the Annex that lack of access to credit and capital is a key driver of migrant labour, which leaves people highly vulnerable to modern slavery and human trafficking. Migration funded by debt and worker-paid recruitment fees seems to place people at particular risk.[58] A lack of access to credit also leaves individuals and households vulnerable in moments of financial shock – when their crops suffer unexpected extreme weather events, their livelihoods are disrupted by automation or conflict, or simply when they suffer a costly health emergency.[59]

Lack of access to finance may also multiply modern slavery risks at the enterprise level, especially in times of cashflow or other financial crises. Micro, small and medium enterprises' lack of access to supply-chain finance and working capital for inventory, payroll, capital investment and other costs may lead them to substitute coercion for wage costs.

Debt bondage is itself evidence that financial markets are not working efficiently. Workers usually succumb to debt bondage because an employer is the only or primary source of credit, allowing the employer to combine monopsony (purchasing) power in the labour market with monopoly (selling) power in the credit market, trapping the worker in a debt contract disguised as a labour contract.[60] Improving MSME access to credit may help reduce pressures on these firms to survive by extracting value from workers in this illegal way.

Financial inclusion for prevention

All of this suggests that increased individual, household and MSME access to regular and safe finance, free from coercion, has the potential to help prevent modern slavery and human trafficking. Financial inclusion and financial agency reduce vulnerability to enslavement. When individuals, families and firms are able to save and move money safely and have access to affordable credit and insurance services, they are better positioned to protect themselves from economic shocks, build assets and invest for the future. Their potential is unlocked.

At the same time, enlarging financial inclusion may have systemic benefits. Integration into the financial system increases the overall capital base, while moving risk from the individual level – where it multiplies vulnerabilities and leaves risks unaddressed – to the systemic level, where risks can be socialized, diversified and better managed down.[61] As a result, individuals that were treated as economic objects, from which value was to be extracted until entirely depleted, at which point the human becomes 'disposable' (in the famous phrase of Professor Kevin Bales[62]), transform into economic agents: sources of economic activity with broader social benefits.

Since a series of studies by the World Bank around 15 years ago, culminating in the 2008 World Bank Annual Report *Finance for All,* financial inclusion has, for these reasons, been seen as a central part of the global development system's efforts to build inclusive markets and sustainable finance.[63] Increasing the size of the addressable market for financial services is in the interests of new customers, the entrepreneurs and firms that serve them, and the system as a whole.

The opportunity here is significant: according to the World Bank, around 1.7 billion people struggle to get by without the basic financial services they need to protect themselves against hardship.[64] The McKinsey Global Institute estimated in 2016 that 200 million MSMEs in emerging economies lacked access to savings and credit.[65] The International Finance Corporation (IFC) estimated there was over USD 5 trillion-worth of unmet MSME demand for credit in 2015, partly due to a lack of credit history or collateral.[66]

Although the situation of large-scale financial exclusion is improving – with 515 million adults having gained access to financial services between 2014 and 2017 – the problem remains. This is why Target 8.10 of the United Nations Sustainable Development Goals calls for the strengthening of "the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all". Indeed, the problem remains greatest in populations that are also known to already have heightened vulnerability to modern slavery and human trafficking: women, the extremely poor, migrant workers and forcibly displaced people.

Women make up 59 per cent of the unbanked, and women and girls make up 71 per cent of the estimated global modern slavery population (including 63 per cent of those in forced labour). In countries where vulnerability to modern slavery is relatively high, women are comparatively likely to be financially excluded.

In Nigeria, a woman is 32 per cent less likely than a man to own a formal bank account; in Bangladesh, 41 per cent. Globally, 39 of the poorest 40 per cent of households lack a bank account, making it difficult for them to accumulate savings or establish a financial history to access other financial services.[67] Migrant workers, and especially forcibly displaced people, have limited options to safely store money, build up savings or send and receive money, and simply carry out everyday life transactions. Indeed, access to the financial system is so central that the Co-Convenor of the Commission, Professor Yunus, has suggested that access to credit itself ought to be considered a human right.[68]

Yet the anti-slavery argument for expanded financial inclusion is not limited to reducing risks to potential victims: increased financial inclusion targeted at populations that are at heightened risk of modern slavery is likely to also have significant spill-over or 'systemic' effects. Consider the case of women's financial inclusion. Even low-income women save 10 to 15 per cent of their earnings, and their balances do not fluctuate as much as those of men — a reliability valued by banks.[69] Banks are increasingly recognizing that women are a promising and largely untapped client base that can fuel business growth.[70] And the digital revolution in finance is further accelerating these gains, in the process reducing the financial gender gap. In India, for example, the introduction of a groundbreaking digital and biometric national ID system – Aadhaar – has reduced the account-holder gender gap from 20 per cent in 2014 to just six per cent in 2017.[71]

Or take migrants, especially forcibly displaced people: access to safe and affordable financial services not only helps forcibly displaced people navigate their displacement, but also facilitates their economic participation in host communities, and can promote local market stability.[72] Research by the International Refugee Council has identified a clear business case to expand e-payment services in crisis-prone areas based on positive returns.[73]

For these reasons, the Financial Sector Commission on Modern Slavery and Human Trafficking has identified improved access to safe and regular financial services for populations vulnerable to modern slavery and human trafficking – including survivors – as a crucial element of any financial sector mobilization against modern slavery and human trafficking. To foster that access, the Liechtenstein Initiative has created the Financial Access Project, detailed in Figure 3.

Figure 3: The FAST Financial Access Project

When individuals and households face an unanticipated financial shock, such as a health crisis, crop failure or forced displacement, lack of access to regular and safe financial services can force them into dangerous debt and labour contracts, or into perilous migration. From India to Indiana, this is often a slippery slope to modern slavery and human trafficking. Having endured that exploitation, survivors may find that traffickers have hijacked their financial identity or banking products for money laundering or other criminal purposes, spoiling their creditworthiness and complicating financial reintegration.[74]

The Financial Access Project, run by Finance Against Slavery and Trafficking (the Liechtenstein Initiative's vehicle for supporting implementation of this Blueprint, detailed in the next chapter), works with financial sector leaders to address these problems and promote financial access to help prevent and remedy modern slavery and human trafficking.

Survivor Inclusion Initiative

The Survivor Inclusion Initiative aims at re-integrating survivors into the formal financial system through provision of basic financial services and products. The Initiative launched in September 2019 in Austria, Canada, UK and the US. Coverage will later expand to other jurisdictions. A full list of participating entities is available at www.fastinitiative.org. The Initiative provides a common approach for the safe extension of basic financial services to survivors, adapted to each jurisdiction in which the Initiative is active. Building on an approach pioneered by HSBC in the UK, the Liechtenstein Initiative has created a directory and workflow template for financial institutions, service providers, regulators, governmental actors and other key stakeholders to match identified survivors to basic financial services (e.g. chequing and savings accounts, debit and credit cards).

Vulnerable Populations Initiative

The Vulnerable Populations Initiative will address the high coincidence between lack of access to financial products – especially cross-border payments, credit and insurance – and vulnerability to modern slavery and human trafficking. It responds to the growing evidence that investment in provision of digital finance to these populations has both net economic benefits and can help reduce vulnerability. The Initiative works with governments, financial institutions and fintech leaders to identify and promote new financial products and services that can reduce this vulnerability, such as payment systems for displaced populations, blockchain-based microinsurance for rural smallholder farmers, and next-generation remittance technology. The types of investments and innovation that it will pursue are discussed further in the chapter addressing Goal 5 – Investment in Innovation for Prevention. This work will roll out through late 2019 and into 2020, starting with a bootcamp for African fintech entrepreneurs.

A QUESTION OF SUSTAINABILITY

For all these reasons, how the financial system addresses modern slavery and human trafficking is now a key question for inclusive and sustainable finance.

There is a growing recognition that the financial system's focus on maximization of shareholder profits has come

> *at a cost to employees, customers and the environment; incentivized boards to pay less tax; diverted cash to earnings-flattering share buybacks rather than investment; and – among those outside the privileged club of equity owners – eroded the trust on which companies ultimately depend.*[75]

Since the 2008 global financial crisis, there has been a growing interest from market actors not only in companies' financial performance, but also their impacts on systemic risk. This is a question of how they contribute positively to society, benefiting customers and communities as well as shareholders – as Larry Fink, the chief executive of the world's largest asset manager, BlackRock, put it.[76] Market confidence seems increasingly linked to the idea that "there is more to prosperity than just profit".[77] As Harvard Business School's Joseph Bower and Lynn Paine have written, all companies "are embedded in a political and socioeconomic system whose health is vital to their sustainability".[78] And as Martin Wolf has pointed out, the historic purpose of limited liability incorporation, as a regulatory construct, was to unlock potential: to unlock economic growth and social development, not to allow profit-making at its expense. Lax regulation of corporations allowing them to socialize costs while retaining profits may undermine confidence in the market.[79]

Sustainability is thus the new watchword for finance. As Gillian Tett recently put it:

> *2019 looks as if it will be the year when environmental, social and governance considerations are moving out of a specialised niche into the mainstream. Financiers and chief executives are realising that it can sometimes be more costly to ignore ESG issues.*[80]

Financial leaders, such as Ray Dalio, Founder and Co-CIO of Bridgewater Associates, call openly for greater attention to 'double bottom line' investments – those that produce good economic and social returns.[81] Consumer and investor decision-making are increasingly tied to ethical and ESG considerations. The global ESG investment market is now worth perhaps USD 31 trillion.[82] A Morgan Stanley survey suggests that millennial investors are twice as likely as others to invest in companies that incorporate ESG practices.[83] With millennials anticipated to inherit over USD 30 trillion in coming decades, this represents a powerful shift in the preferences of actors controlling considerable financial capital.[84] And the evidence of growing influence of sustainability factors on broader consumer demand, especially amongst millennials, is stronger.[85]

Increasingly, ESG efforts are connected to the United Nations Sustainable Development Goals. The 2030 Agenda for the Sustainable Development Goals, adopted by all United Nations Member States in 2015, set out 17 SDGs to be achieved by 2030. The SDGs are increasingly used as a frame of reference for measuring ESG performance and to align financial activity, including investment, with the objectives of driving long-term value and positive impact.[86] Ending modern slavery and human trafficking feature as targets set out in the SDGs, notably in Targets 5.2, 8.7 and 16.2 – see Figure 4.

Figure 4: Financing the SDG Targets related to modern slavery and human trafficking

In 2015, United Nations Member States adopted the 2030 Agenda for Sustainable Development, which includes 17 Sustainable Development Goals. These Goals are broken down into 169 Targets, several of which are directly relevant to the fight against modern slavery and human trafficking:

Target 5.2	Eliminate all forms of violence against all women and girls in the public and private spheres, including trafficking and sexual and other types of exploitation.
Target 8.7	Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms.
Target 8.10	Strengthen the capacity of domestic financial institutions to encourage and to expand access to banking, insurance and financial services for all.
Target 10.7	Facilitate orderly, safe, and responsible migration and mobility of people, including through implementation of planned and well-managed migration policies.
Target 16.2	End abuse, exploitation, trafficking and all forms of violence against and torture of children.

Financing is addressed in the 2030 Agenda as part of the means of implementation in SDGs 1 to 16, under SDG 17, and through the Addis Ababa Action Agenda. An annual Financing for Development Forum is convened at United Nations Headquarters in New York, usually in April, to discuss mobilizing finance to achieve the SDGs. To date, modern slavery and human trafficking have not been a major focus of these discussions.

ABOUT THIS REPORT

The question, however, is how to effectively mobilize the financial sector to address these systemic shortcomings, and achieve these Targets.

As Figure 5 shows, the financial sector is huge, diverse and heterogeneous. It is thought to make up between one eighth and one fifth of the global economy.[87] It provides an immense array of services: retail, cooperative and corporate banking and credit services, lending facilities, project finance, trade finance, remittance and foreign exchange services, insurance and reinsurance, asset management, commodity trading, investment advice, cryptocurrency and securities exchange services – to name just a few. And there are retail, commercial and institutional client bases and providers, straddling the divide between the public and private sectors.

So mobilizing the financial sector to achieve systemic change will require a framework for collective action: shared goals and approaches, pursued in a decentralized manner, rather than top-down programmes of action. Through our year of consultations, we have learned that this will require:

- **Systems thinking.** We need to equip all actors in the system to understand their particular relationship to modern slavery and human trafficking risks, and how their choices influence systemic outcomes.
- **Help and tools.** It is not always easy for financial sector actors to know what they can do or are expected to do to address modern slavery and human trafficking, or how to calibrate their ambition to their organizational resources and commitment. They need help to make sense of the complexity, and tools to translate ambition into action.
- **Strategic prioritization.** Systemic transformation will take time. At the same time, victims and survivors cannot wait, and 2030 – the SDG target-date – is not far off. So, while we must be patient in our wait for systemic change, we must be urgent and deliberate in our action. Mobilization of finance against slavery and trafficking thus means thinking strategically: differentiating between what financial sector actors can do now, and what will take more time.
- **Survivor leadership.** If the aim is to make survivors full participants in the economy and society, that must begin now. This means carefully and safely involving survivors in our efforts to mobilize finance against slavery and trafficking. We all stand to benefit; survivors have unique expertise into the causes of exploitation, its lived reality, and what is needed to both prevent and remedy it.
- **Partnership.** As Figure 5 makes clear, the financial sector is not just commercial business. It is also public actors, non-profit actors, regulators and supervisory bodies, individual and household savers and investors, and others beside. Mobilizing the sector will require partnership, especially between governments and financial leaders.

Based on these lessons, in the remainder of this report we set out a Blueprint for transformative collective action.

In the next chapter we suggest that the financial sector has a unique role to play in leading this transformation. Drawing on existing international standards, we set out a conceptual framework for financial sector actors to understand their connections to modern slavery and human trafficking risks, and their resulting responsibilities. This framework structures the Goals and Actions that are presented in the remainder of the Report – one Goal in each subsequent chapter:

- **Goal 1:** Compliance with laws against modern slavery and human trafficking.
- **Goal 2:** Knowing and showing modern slavery and human trafficking risks.
- **Goal 3:** Using leverage creatively to mitigate and address modern slavery and human trafficking risks.
- **Goal 4:** Providing and enabling effective remedy for modern slavery and human trafficking harms.
- **Goal 5:** Investment in innovation for prevention.

Throughout the report we identify the specific Actions that financial sector actors can undertake to achieve these Goals – those they can begin with immediately ('Act Now'), and those that will likely require a longer process of engagement and development ('Initiate'). We also offer an Implementation Toolkit to help individual actors seeking to put the Blueprint into practice.

In the final chapter we consider what implementing this Blueprint will mean. Ultimately, the aim is to provide a collective-action framework that helps mobilize finance against slavery and trafficking. In closing we explain how the Liechtenstein Initiative's Finance Against Slavery and Trafficking (FAST) project will succeed the Financial Sector Commission and offer support to anyone implementing this Blueprint, empowering financial sector actors to take effective action and unlock the enormous potential currently locked up through modern slavery and human trafficking.

Figure 5: A simplified typology of the financial sector

Types may overlap in practice

Type	Actor	Typical Services
Banking institutions and securities firms	Commercial & retail banks	Deposit services. Trust services. Loans. Mortgages. Consumer credit. Currency exchange. Money transfer. Project and commercial finance
	Investment banks	Capital market services. Custodial and settlement services. Brokerage. Securities trading
	Private banking	Personal & household wealth management. Loans
	Securities brokers & dealers	Brokerage. Securities trading
Foreign exchange and money transfer	Currency exchanges	Foreign exchange services
	Money transfer businesses	Wiring, money transfer/remittances
	Cheque cashing businesses	Cheque cashing
Institutional investment and asset management	Pension funds, mutual funds, trusts, family offices	Collective investment management
	Sovereign wealth funds	
	Hedge funds	Private, collective investment management, often with borrowed funds or other higher-risk strategies
	Private equity funds	Collective investment management through taking an equity and/or management position
	Trust sector and asset managers	Complex investment and asset management for third parties
Other investors	Individual, family and public investors	Capital providers
Insurance	Insurance intermediaries	Insurance brokerage
	Insurance underwriters	Writing insurance products
	Reinsurance	Insuring insurers
	Surety providers	Surety and guarantees, inc. for labour recruitment
Credit market	Consumer and commercial credit bureaux	Credit history data, analysis and scoring services
	Credit card and payment instrument issuers	Issuing credit cards and other payment instruments
Concessional and impact-oriented investment	Charitable foundations & philanthropies	Charitable grant-making
	Impact investors	Commercial, sub-commercial and grant-based investment guided by non-financial impact objectives
	Bilateral and multilateral development banks, other development finance institutions	Development lenders, concessionary loans and other investments to promote development. Commercial and blended financing for development
	Export credit agencies	Government financial support, direct financing, guarantees, insurance or interest rate support to foreign buyers for purchase of exports
	Outcome funds	Collective investment management for a shared non-financial purpose or outcome, inc. through impact investment strategies

Figure 5: continued

Type	Actor	Typical Services
Financial regulators	Central banks and financial stability boards	Monetary system oversight. Creditor of last resort
	Banking regulations	Regulate the banking system
	Anti-money laundering regulators, including Financial Intelligence Units	Anti-money laundering authorities
	Competition regulators	Enforce competition (anti-trust) law
	Stock and commodity exchanges	Provide platforms for stock and commodities markets
Financial utilities	Business information providers	Commercial business information, inc. risk ratings
	Payment, settlement and clearing systems	Wholesale and retail funds transfer mechanisms, credit and debit card networks, security and derivative depository and counterparty services
	Rating agencies	Commercial risk ratings
Digital finance	Neobanks	E-only banking service providers
	Distributed ledger systems	Bitcoin, blockchain and other DLT services inc. cryptocurrencies
	Digital ID service providers	Verification of digital identity
	Insurtech	Insurance and related technologies
Ancillary service providers	Accounting and audit firms	Accounting and audit services
	Law firms	Legal advisory and representational services
	Financial investigators	Financial investigation
	Notaries	Certification of certain legal documents
	Management consultancies	Research, strategic and organizational performance advisory consulting

THE ROLES OF THE FINANCIAL SECTOR

In this chapter:

- As the world's bankers, investors, insurers and financiers, financial sector actors have unparalleled influence over global business. The financial sector has a unique role to play in investing in and fostering business practices that help end modern slavery and human trafficking.
- It has played a similar transformative role before, for example when slavery was formally abolished. Similar levels of ambition are required now, to help end modern slavery and human trafficking by 2030, as called for in the Sustainable Development Goals.
- Mobilizing action across the financial sector requires shared goals but needs to leave room for differentiated action. Different financial sector actors are connected to modern slavery and human trafficking risks in different ways and have different roles in and responsibilities for responding.
- Financial sector actors may be connected to modern slavery and human trafficking through their own operations, or through their business relationships. They may cause, contribute to, or be linked to modern slavery and human trafficking harms.
- Under the prevailing standards, set out in the United Nations Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises, what is expected from a business enterprise depends on that connection, whether in their own operations or their business relationships.
- The FAST Connection Diagnostic Tool can help financial sector businesses begin to understand the nature of their connection to modern slavery and human trafficking harms.

Ending modern slavery and human trafficking, and achieving the Sustainable Development Goals more broadly, requires thinking about how financial incentives operate to align individual behaviour with systemic goals.[88] How can financial incentives foster capital allocation to businesses that promote achievement of the SDGs and away from those that impede their attainment? As Mark Carney, Governor of the Bank of England, has put it:

> *We need to recognize the tension between pure free market capitalism, which reinforces the primacy of the individual at the expense of the system, and social capital, which requires from individuals a broader sense of responsibility for the system. A sense of self must be accompanied by a sense of the systemic.*[89]

How can that be achieved? How can we mobilize finance against slavery and trafficking? In this chapter, we offer a conceptual framework to help financial sector actors think about how they are connected to modern slavery and human trafficking risks, and their resulting responsibilities.

AN HISTORIC OPPORTUNITY FOR SYSTEMIC CHANGE

In most places around the world, slavery was formally abolished long ago. It is banned from our financial system. People can no longer be formally treated as capital. Yet while states have formally abolished slavery, informally our financial and economic system continues to tolerate and in some cases promote practices that generate similar results.

Strong incentives in the global political economy encourage the externalization of risk down long value chains, often on to those most vulnerable. When the labour practices used to extract value from vulnerable workers involve violence, intimidation, coercion, fraud, abuse of power or the exercise of the powers of ownership, this may amount to forced labour, human trafficking or modern slavery.

At the system level, this tends to produce a pattern. Modern slavery and human trafficking tend to occur where three conditions are met: 1) a demand for cheap or unpaid labour or illegal services; 2) a supply of people vulnerable to being forced into providing them; and 3) weaknesses in enforcement of the prohibition against exploiting people in this way. As the overview in the previous Background chapter makes clear, the way our current global economic system works appears to foster and reproduce these conditions in certain contexts.

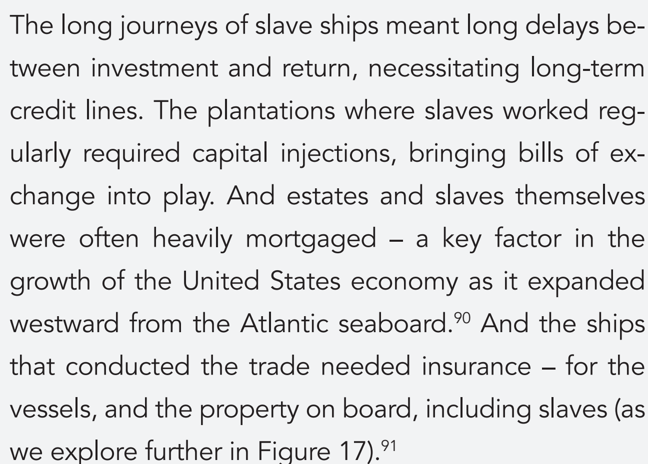
Demand for cheap and unpaid labour is fostered by disarticulated production and distribution value chains that respond to brand and buyer purchasing practices. These long, opaque value chains can generate downward pressure on wages and working conditions, pushing risk on to those at the bottom. Demand for illegal services from prostitution to human smuggling can increase vulnerability to trafficking. At the same time, demographic trends, conflict and forced displacement, and gender and caste discrimination all render certain populations vulnerable to exploitation – turning them into a ‘supply’ of vulnerable people ready to meet these sources of demand. And finally, weaknesses in enforcement allow this exploitation, this matching of demand and supply, to take place – and flourish.

Our failure to identify these risks – and the resulting social and economic costs, discussed earlier in this chapter – and to proactively work to exclude them from the financial system has resulted in us not properly pricing these costs into the system. The result is a classic market failure.

Traditionally, market failures based on negative externalities like those involved in modern slavery and human trafficking have been addressed through regulation, through pricing or through industry action. A combination of regulation and joint industry action by the financial sector was integral to the formal abolition of slavery in the transatlantic sphere almost 200 years ago, as Figure 6 shows.

Figure 6: How the biggest syndicated loan in history helped free thousands of slaves

At the height of the transatlantic slave trade, Britain was responsible for over 40 per cent of the trade. That trade was capital- and credit-intensive and so relied on the support of the financial sector.



The long journeys of slave ships meant long delays between investment and return, necessitating long-term credit lines. The plantations where slaves worked regularly required capital injections, bringing bills of exchange into play. And estates and slaves themselves were often heavily mortgaged – a key factor in the growth of the United States economy as it expanded westward from the Atlantic seaboard.[90] And the ships that conducted the trade needed insurance – for the vessels, and the property on board, including slaves (as we explore further in Figure 17).[91]

The financialization of slavery also sustained the system in other important ways that resonate today, even outside the era of chattel slavery. The use of complex financial instruments – including securitized slave-backed mortgages – created long value chains putting considerable moral and emotional distance between the dirty, violent reality of slavery in the Western Hemisphere and the enjoyment of the resulting profits, including in Europe. This distance made it easier for the system's beneficiaries to ignore its costs and risks.

By the 1830s, however, public opinion in Britain was firmly set against not just the slave trade, but slavery in all its forms. Reactions by financial institutions varied: some divested, while some actually increased their exposure. Over time, perceptions of increased risk and decline in the value of slavery-linked assets did however begin to restrict new credit, leading to depreciation. As this accelerated, the perceived threat of an unmanaged collapse jeopardizing the financial system as a whole led government to intervene.

In 1833, the British Government legislated for compensated emancipation (manumission). GBP 20 million in compensation was paid by the State to 46,000 slave owners. N.M. Rothschild and Moses Montefiore led a financial syndicate that lent the money to government, worth around 40 per cent of annual central government expenditure. It was the biggest syndicated loan in history, at the time. The final interest payment on this loan was only repaid in 2015.

The slaves themselves, however, were not compensated. On the contrary, a key condition of the settlement was the agreement that the emancipated slaves would be required to work for their former owners for six more years as 'apprentices' – shockingly, without pay.

Source: Dr Nicholas Draper, *Some Potential Lessons from the British Financial Sector's Role in Perpetuating and Ending Chattel Slavery*, United Nations University Centre for Policy Research, September 2018, available at www.fastinitiative.org.

A similar level of ambition for systemic change is called for now, to address the problem of 40.3 million people in modern slavery. Despite the formal bans, modern slavery and human trafficking risks are clearly ignored – or worse, tolerated – by the financial system worldwide, and by their governmental, investor and client stakeholders.

On its own, the formal abolition has proven inadequate. Our failure to translate the ban into effective risk identification arrangements, pricing mechanisms, industry cooperation or operational practices has allowed the negative externalities from modern slavery and human trafficking to pile up.

There is an obvious similarity here to the financial sector's silence, until recently, on carbon emissions. And just as the financial sector is now mobilizing to understand, identify and mitigate climate risks, so it may now need to mobilize to address modern slavery and human trafficking risks. As in the green finance sphere, this will require action on multiple levels, pulling regulatory, pricing, pre-competitive and other levers to correct the current market failure. The aim here is not simply to make the system itself more sustainable, but in so doing to also change the lives of people who are enslaved and trafficked, to transform them from objects of profit exploitation to full economic and social participants. It is about making finance itself more sustainable, to ensure that it serves not only profit, but also people and planet.

The financial sector has a unique opportunity to lead the transformation of our economies to exclude modern slavery and human trafficking risks. Significant work is under way (as we shall see further in later chapters) to encourage businesses to understand modern slavery and human trafficking risks in their supply chains. The financial sector, as those businesses' bankers, investors and insurers, amongst other roles, is uniquely positioned to help business understand those risks – and address them.

This may involve: engagement and use of leverage, such as structuring contracts to reward anti-slavery leadership and to disincentive lagging; setting insurance standards to encourage preventive practices and discourage those that increase slavery and trafficking risks; developing fintech that reduces the vulnerabilities that give rise to modern slavery, or helps provide remedies where harms do occur; or through innovation in new financial services for those vulnerable to modern slavery or human trafficking, or mobilizing new capital through innovation in instruments such as 'Freedom Bonds'.

Because the financial sector is so intertwined with the rest of the global economy, financial sector action will help change the way the whole global economy works. Its unique influence over global business can help ensure that businesses that work to eradicate modern slavery and human trafficking flourish, while discouraging the continuation of practices that tolerate or even generate those outcomes.

Business as usual, however, means continuing to ignore and tolerate the massive modern slavery and human trafficking risks in our midst. It means acquiescing in the fact that the financial system is creating and managing wealth, some of which is simply stolen from unpaid, forced labourers, and some of which is the proceeds of crimes such as commercial sexual exploitation. It means risking the legitimacy and sustainability of the system. Collective action to achieve a different outcome is necessary, even as we recognize the different roles and responsibilities of different actors.

DIFFERENT CONNECTIONS CALL FOR DIFFERENT RESPONSES

Changing the path of the financial system as a whole may seem daunting. But it is not impossible. It will certainly require commitment and intentionality from all who want to achieve that change and help end modern slavery and human trafficking.[92] It also requires recognition that different actors within the system have different roles to play: they are connected to these risks in different ways, and their responsibilities to help address them at the systemic level are consequently different.

In this chapter, we offer a shared framework for collective, yet differentiated action that, over time, will help correct the market failure that underpins modern slavery and human trafficking. We recognize that different financial sector actors have different roles to play, and will move at different speeds to identify and address modern slavery and human trafficking risks. Actors can adopt and implement this Blueprint at their own speed, using the Implementation Toolkit provided in these pages and on the accompanying website.

In this section we provide a conceptual framework for financial sector actors to understand how they are connected to modern slavery and human trafficking risks, and explain what this means for the roles they are expected to play in responding to those risks. First, we consider the difference between risks in a business's own operations and those in its business relationships. Second, we consider how a business's causation of, contribution to or linkage to modern slavery and human trafficking harms impacts its role in response.

Own operations v. business relationships

Financial sector actors can encounter modern slavery and human trafficking in both their own operations and in their business relationships.

In their own operations, they can theoretically be connected to modern slavery or human trafficking in one of two ways:

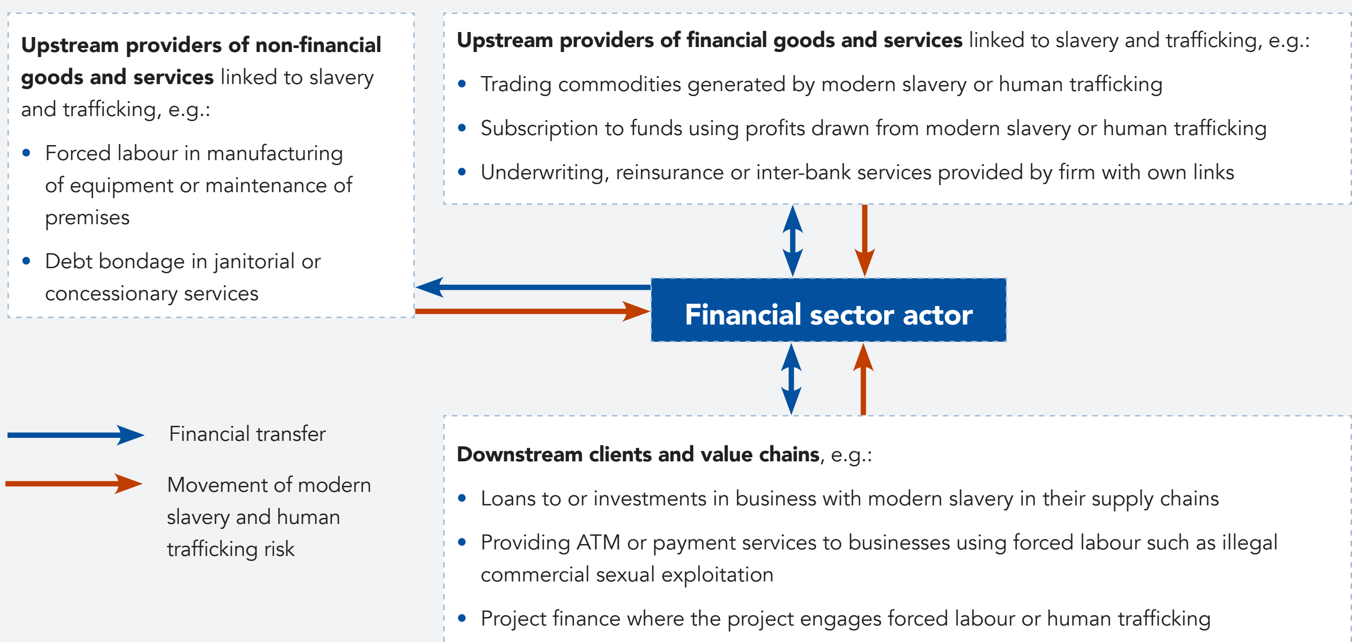
- First, by engaging directly in this kind of exploitation in their own businesses. Some enterprises – such as brick-kiln operators – that employ people on terms that amount to forced labour or modern slavery may represent these arrangements as loans or debt contracts.[93] In other cases, regular financial institutions could, in theory, engage their own in-house clerical, janitorial, cleaning or food service personnel on terms that amount to modern slavery or human trafficking, though such cases appear to be exceptionally rare.
- Second, and more normally, financial sector organizations may encounter modern slavery or human trafficking during client engagement. There is a growing recognition that bank tellers, for example, are well positioned to identify and report signs of human trafficking.[94]

The second and seemingly more common place that financial sector actors may encounter modern slavery and human trafficking is in their 'business relationships'. Business relationships are addressed in the United Nations Guiding Principles on Business and Human Rights and defined in the OECD Guidelines on Multinational Enterprises – which, together, offer the authoritative standard in this field. Business relationships include "relationships with business partners, entities in the supply chain and any other non-State or State entities directly linked to its business operations, products or services."[95]For financial sector actors, 'supply chain' includes both upstream providers, who provide goods and services used by the organization, whether those are financial or non-financial, and downstream recipients of the financial goods and services the organization itself provides – whether clients, or others further down the value chain.

A financial sector actor may find itself connected to modern slavery and human trafficking at any point in these business relationships:

- First, through connections to upstream providers of non-financial inputs (goods and services) into its own business. This might include, for example, forced labour in the manufacture or maintenance of equipment, real property or assets used or managed by the organization; or in the third-party cleaning, landscaping or food-service workforce of a firm contracted by the organization.
- Second, through connections to upstream providers of financial inputs (goods and services). Just as car manufacturers rely on the supply of parts manufactured by others further up the supply chain, financial institutions produce services based on upstream financial inputs – such as subscriptions into funds, inter-bank borrowing, underwriting and reinsurance. The providers of these inputs may themselves be connected to modern slavery and human trafficking – especially if they are inputting capital which is itself earned through modern slavery or human trafficking. Another example may involve commodity trading, where the underlying commodities were extracted or produced with modern slavery, forced or child labour, or human trafficking.
- Third, through connections to downstream clients and value chains. This includes the entire universe of investment and lending relationships. Institutional investors or hedge funds may own equity stakes in businesses that rely on modern slavery or human trafficking directly, or in their supply chains. Banks may lend to such firms. Insurers may offer policies to cover workplaces, such as fishing vessels, factories or construction sites, that harbour modern slavery. Bond traders may hold bonds issued by corporations or government entities that engage in labour trafficking. Project finance may involve lending to entities that rely on modern slavery or human trafficking for completion of the project. Or financial institutions may provide ATMs or other payment services to business engaged in sex trafficking or forced labour.

Figure 7: Upstream and downstream connections



Causation, contribution and linkage

These connections can in turn be grouped into three different categories based on the causal relationship between the financial sector organization and the modern slavery and human trafficking. An enterprise:

- 'Causes' an adverse impact if the enterprise's activities on their own are sufficient to result in the adverse impact.
- 'Contributes' to an adverse impact if the enterprise's activities, in combination with the activities of other entities, cause the impact, or if the activities of the enterprise cause, facilitate or incentivize another entity to cause an adverse impact. It does not encompass trivial contributions.
- Is 'linked to' an adverse impact if the impact is connected to the enterprise's products, services or operations through a business relationship with another entity, which need not be a direct contractual relationship.[96]

This conceptual framework is found in the United Nations Guiding Principles on Business and Human Rights (UNGPs), the authoritative standard providing guidance to businesses around the world about what they are expected to do when they are connected with different kinds of harms to people (see Figure 8).[97] It is also the basis for responsibility in the OECD Guidelines for Multinational Enterprises.

Whether a business causes, contributes to or is linked to a harm determines how it is expected to respond, under UNGP 13:

> *13. The responsibility to respect human rights requires that business enterprises:*
>
> *(a) avoid causing or contributing to adverse human rights impacts through their own activities, and address such impacts when they occur;*
>
> *(b) seek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or services by their business relationships, even if they have not contributed to those impacts.*

Figure 8: The United Nations Guiding Principles on Business and Human Rights

The United Nations Guiding Principles on Business and Human Rights (UNGPs) were developed under the stewardship of the former Special Representative of the United Nations Secretary-General on Business and Human Rights, Harvard Professor John Ruggie, following a six-year period of global research, multi-stakeholder consultations, and pilot testing. They were launched in 2011 with the unanimous endorsement of the United Nations Human Rights Council. The framework has since then provided guidance to businesses around the world about what they are expected to do when they encounter different kinds of harms to people.

The framework reflects existing human rights obligations of states under international law, and clarifies the expectations for businesses of all sizes, across all industries and in all geographies. The UNGPs apply to all business enterprises, including financial sector, as well as their corporate clients and the companies they invest in (directly or through financial intermediaries), regardless of size, sector, operational context, ownership and structure.[98]

The framework makes clear that when identifying and addressing human rights risks, such as modern slavery and human trafficking risks, the relevant lens is risks to people, rather than risks to business. Nonetheless, where risks to people's human rights are greatest, there is strong convergence with risks to business.

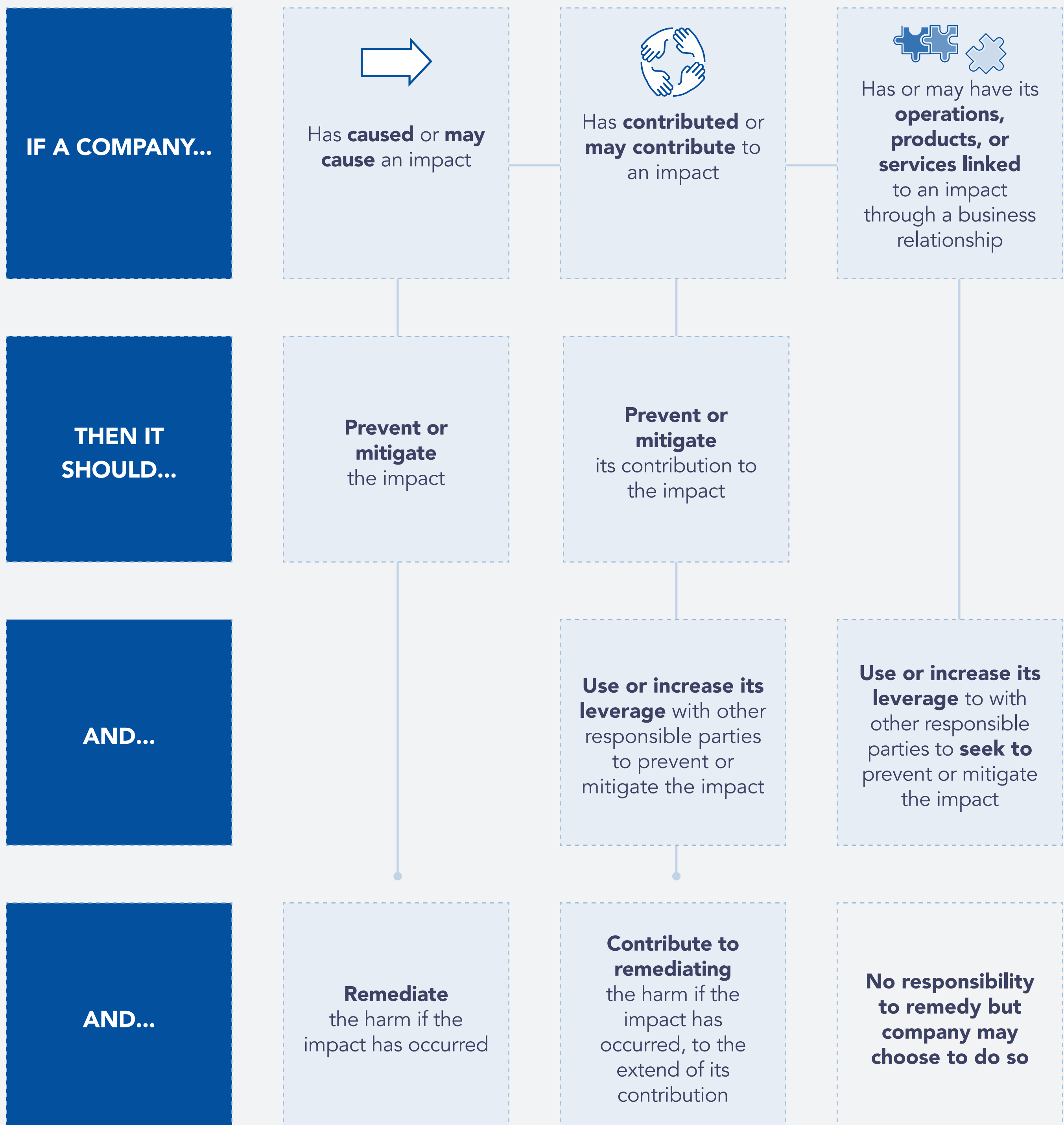
Business is encouraged to identify these risks through human rights due diligence, prioritizing the most 'salient' risks, and to use its leverage to mitigate and address these risks. The application of these concepts to the financial sector is explored in more depth later in this report.

The UNGP framework has been incorporated into a rapidly growing body of hard law and policy at the national level, notably including the Modern Slavery Acts adopted in the United Kingdom and Australia, and the mandatory due diligence laws now emerging in some European jurisdictions, notably France and the Netherlands. For businesses in countries that adhere to the OECD system, the core content of the framework is incorporated into the OECD Guidelines for Multinational Enterprises and businesses may be held to account through state-based National Contact Points (usually established in ministries of trade or finance) for alleged breaches of those Guidelines (discussed further in Figure 26). The OECD has developed significant guidance in this area, notably OECD Due Diligence Guidance for Responsible Business Conduct (2018), and the Responsible business conduct for institutional investors: Key considerations for due diligence under the OECD Guidelines for Multinational Enterprises (2017). Forthcoming Guidance for Corporate Lending and Securities Underwriting will be published shortly.

The nature of a business's connection to harms such as modern slavery and human trafficking thus determines how a business is expected to use its leverage and provide or enable remedy (discussed further in subsequent chapters). Effective human rights due diligence to understanding these possible connections to harms is thus a critical first step for business. It is also one it should repeat, because these connections are dynamic. Over time, for example, a financial institution's failure to address modern slavery in the business or supply chain of a client could shift its relationship to harm from a position of 'linkage' to one of 'contribution' (as we discuss in more depth in a later chapter on remedy).[99]

A summary of these connections and resulting expectations is provided in Figure 9.

Figure 9: Implications of different business connections to adverse human rights impacts

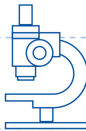


Source: Graphic courtesy of Shift Project, Ltd.

DIAGNOSING CONNECTIONS

What does this mean for the financial sector? The FAST Risk Mapping Starter Workflow, introduced in Figure 19 later in this report, helps organizations begin to understand where connections to modern slavery and human trafficking may arise. Once these are identified, the FAST Connection Diagnostic Tool, offered in static form in Figure 10, and in dynamic, interactive form at the accompanying website at www.fastinitiative.org, aims to help financial sector actors begin to make sense of these possible connections. It provides the basis for the discussion of due diligence, leverage and remedy in subsequent chapters. The Diagnostic Examples in Figure 11 may also serve as a useful guide.

Figure 10: The FAST Connection Diagnostic Tool



Once a financial sector organization has identified areas of potential exposure to modern slavery and human trafficking risks (for example using the FAST Risk Mapping Starter Workflow in Figure 19, further below), it should determine the nature of its connection to these risks. This could be causation, contribution or linkage, as set out in the framework provided by the United Nations Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises.

To diagnose the nature of their potential connections to modern slavery and human trafficking risks, financial sector organization should answer the following questions:

Q1

Were your activities and/or omissions sufficient on their own to result in the modern slavery and human trafficking?

Yes	Causation
No	Q2

Q2

Did your activities combine with those of a third party or parties to cause the modern slavery and human trafficking?

Yes	Contribution 'in parallel'
No	Q5

Q3

Did your activities encourage or motivate another entity to cause the modern slavery and human trafficking? This can include incentives that make the modern slavery and human trafficking more likely to happen, or other forms of motivation or encouragement.

Yes	Contribution 'through a business relationship'
No	Q4

Q4

Did your activities facilitate the modern slavery and human trafficking? Facilitation involves making it easier for someone else to cause a foreseeable or predictable harm, for example by omitting to undertake due diligence about modern slavery risks in regard to high-risk clients or sectors, failure to report a crime or failure to take steps to encourage cessation of an ongoing modern slavery situation.

Yes	Contribution 'through a business relationship'
No	Q5

Q5

Apart from the above, did your activities have a link to the modern slavery and human trafficking through a business relationship?

Yes	Linkage
No	No relevant connection

Figure 11: Diagnostic Examples

Location of interaction with modern slavery and human trafficking	Nature of interaction	Examples	Likely type of connection under UNGPs and OECD MNE Guidelines
Own Operations	Credit relationships	Provision of credit on terms that amount to debt bondage	Causation
	Employment relationships	Forced labour of janitors, cleaners or food service personnel	Causation
	Client engagement	Bank tellers spot signs of human trafficking during client interactions	Linkage
Business Relationships	Upstream non-financial service providers and supply chains	Forced labour in production equipment used, or assets owned or managed	Linkage
		Modern slavery in the workforce of a cleaning or food service firm employed	Linkage, possibly contribution if employment terms encouraged or motivated exploitation
	Upstream – financial service providers	Modern slavery involved in generation of capital invested	Linkage
		Forced labour in production of commodities traded	Linkage, possibly contribution where organization is long-standing, dominant client and has not taken steps to address predictable risks
		Other financial input providers (e.g. inter-bank lender) linked to modern slavery	Linkage
	Downstream – clients and value chains	Anti-money laundering software picks up signs of forced labour in client's supply chain during transaction monitoring	Linkage, possibly contribution if long-standing client and the bank has failed to engage effectively
		Private equity active management of firm using forced labour	Contribution, potentially causation, depending on level of control
		Minority shareholding in firm with forced labour several tiers down in its supply chain	Linkage, unless actively involved in influencing management (then possibly contribution)
		Commercial credit services to labour broker involved in migrant labour exploitation	Linkage transitioning to contribution over time, depending on engagement by financial entity
		Concessional development loan to government that uses forced labour in agricultural harvest	Contribution, unless steps are taken through the loan to address the forced labour, in which case may be linkage
		Infrastructure finance consortia where the project is being built using modern slavery	Contribution – e.g. where a lead arranger fails to conduct effective due diligence

GOAL 1: COMPLIANCE WITH LAWS AGAINST MODERN SLAVERY AND HUMAN TRAFFICKING

In this chapter:

- The prohibition of slavery is one of the strongest norms in international law. It has been translated into a wide range of international and domestic legal regimes. Laundering the proceeds of modern slavery and human trafficking is also a crime in most jurisdictions.
- But enforcement of that norm is weak. Identification of victims is difficult, leading to low numbers of victim identifications (a high of just over 25,000 formally presenting cases in 2016, a fraction of the estimated 40.3 million cases worldwide). Global prosecution and conviction rates are also low (highs of 11,096 and 7,481 in 2018, respectively).
- Financial sector actors can help enforce the ban by strengthening compliance with existing laws, in four different areas.
- First, stronger compliance with anti-money laundering (AML) and counter financing of terrorism (CFT) laws. These already extend in most jurisdictions to handling funds generated from modern slavery or human trafficking, though that is not always made explicit by regulators. Where this has been made explicit, for example through asking questions in Suspicious Activity Reporting forms, up to a 1,000 per cent increase in reporting has ensued.
- Stronger compliance with AML/CFT rules will come about through devoting more resources to financial investigations. Transaction analysis tools need to be developed to deal not just with forms of modern slavery in the developed world but also those that take place in the developing world. The FAST Financial Investigations Tool, developed by the OSCE, compiles good practice from around the world and synthesizes it, helping financial sector actors get started.
- Other steps that financial sector actors can take to strengthen compliance with AML/CFT rules to end modern slavery and trafficking include:
  - Learning from the unique expertise of survivors.
  - Sharing information and analysis, and fostering public-private partnerships for that purpose.
  - Using national risk assessments and FATF mutual evaluation processes.
  - Being careful about the unintended impacts of de-risking (terminating the relationship with the business partner in question to avoid risk exposure), which can unintentionally increase risks.

- Financial sector actors, including public sector entities, have a key role to play in enforcing international sanctions, such as the United Nations sanctions on six human traffickers in Libya, by identifying, freezing and helping with the confiscation of assets. More cooperation and information-sharing between governments and financial institutions is needed to better enforce these sanctions.
- The insurance sector's willingness to cover – or not – slavery risks has shaped business conduct and systemic risk since the eighteenth century. Today, insurers can mobilize to develop exclusion language for specific policy lines – such as marine cargo insurance for goods produced with forced labour, or directors' liability insurance. The industry's role in determining systemic levels of modern slavery risk should be considered through organizations such as the International Association of Insurance Supervisors and the United Nations Principles for Sustainable Insurance initiative.
- Public financial actors also have a powerful role to play in enforcing these norms, in particular by using the power of the public purse. Public procurement requirements, investment and lending choices can all nudge demand towards businesses that actively work to prevent modern slavery and human trafficking, and away from those that generate these risks. So, too, can state fiscal policy and tax regulation. Examples from countries as diverse as Australia, Brazil, Canada, New Zealand, the UK and the US show what is possible here.
- Regulators also have a key role to play in preventing unfair market competition, by excluding firms that rely on forced labour from the marketplace in the first place. Stock and commodity exchanges can do this through listing rules, and also use guidance and indices to encourage compliance with laws against modern slavery and human trafficking. Competition regulators also have a role to play, especially through carving out space for pre-competitive collaboration to strengthen knowledge on modern slavery and human trafficking risks, and to foster the development of relevant prevention standards.

A STRONG NORM...

Modern slavery and human trafficking are illegal. The blanket prohibition of slavery in international law has few counterparts in its strength: slavery is illegal at all times and places, without exception. The prohibition is enforceable by any actor in international law, not just direct victims or their governments.[100] Only the international norms against genocide, apartheid and torture are of similar strength. Indeed, there may be lessons for the financial sector actors to learn from their earlier important role in ending apartheid in South Africa about how to mobilize collectively to address modern slavery and human trafficking.[101]

This strong norm of public international law has cascaded down into other legal regimes. At the international level, the ban on slavery is found in different forms in international human rights law, international humanitarian law, and international criminal and labour law (Figure 12). From there, the norm has cascaded down into specialized legal provisions in the vast majority of countries, including specialized rules on modern slavery reporting, human rights due diligence and supply-chain transparency in several countries (Figure 13). By 2018, 93 per cent of the States Parties to the United Nations Protocol on Trafficking in Persons (the 'Palermo Protocol') had implemented legislation criminalizing sex and labour trafficking,[102] while 53 per cent of countries had criminalized slavery in domestic law, 42 per cent had criminalized forced labour and 32 per cent had criminalized servitude.[103] Some countries are considering new provisions, including, in the US Congress, relating to the role of financial sector actors. There has also been a rise in the adoption of national action plans on human trafficking.

It is not only the conduct itself that is illegal. So, too, is laundering the proceeds of these crimes. As a result, many financial sectors will need to consider the risks that funds they are handling may have been generated through modern slavery, forced labour or human trafficking. As we discuss further below, and as is set out in Figure 14, there is now a range of specialized provisions, directions and guidance addressing these issues.

Figure 12: Key international anti-slavery and anti-trafficking provisions

Slavery

- UN Slavery Convention 1926 and amended by the Protocol (1953.)[104]
- UN Supplementary Convention on the Abolition of Slavery (1956).[105]

Forced labour

- ILO, ILO Declaration on Fundamental Principles and Rights at Work, June 1998.[106]
- ILO Forced Labour Convention, C029 (1930).[107]
- ILO Protocol to the Forced Labour Convention, P029 (2014).[108]
- ILO Abolition of Forced Labour Convention, C105 (1957).[109]
- ILO Minimum Age Convention, C138 (1973).[110]
- ILO Worst Forms of Child Labour Convention, C182 (1999).[111]

Human trafficking

- UN Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children (Palermo Protocol) (2000).[112]
- UN Convention on the Rights of the Child (1989).[113]
- UN Optional Protocol to the Convention on the Rights of the Child: Sale of Children, Child Prostitution and Child Pornography (2000).[114]

International humanitarian law

- Protocol Additional to the Geneva Conventions of 12 August 1949, and Relation to the Protection of Victims of Non-International Armed Conflicts (Protocol II) (1977), Article 4.[115]
- UN Optional Protocol to the Convention on the Rights of the Child: Involvement of Children in Armed Conflict (2000).[116]

International criminal law

- Rome Statute of the International Criminal Court (1998), Articles 7 and 8.[117]

Human rights law

- UN Universal Declaration of Human Rights (1948), Article 4.[118]
- International Covenant on Civil and Political Rights (1966), Article 8.[119]
- International Covenant on Economic, Social and Cultural Rights (1966), Article 10.3 [child labour].[120]
- ASEAN Human Rights Declaration (2013), Article 13.[121]
- ASEAN Convention Against Trafficking in Persons, Especially in Women and Children (2015).[122]

Figure 12: continued

- European Convention for the Protection of Human Rights and Fundamental Freedoms (1950), Art 4.[123]
- European Union Directive on preventing and combating trafficking in human beings and protecting its victims, 2011/36/EU (2011).[124]
- Council of Europe Convention on Action against Trafficking in Human Beings (2005).[125]
- American Convention on Human Rights (1969), Article 6.[126]
- African Charter on Human and Peoples' Rights (1981), Article 5.[127]
- African Charter on the Rights and Welfare of the Child (1990), Article 15, 29.[128]
- African Union Convention for the Protection and Assistance of Internally Displaced Persons in Africa (Kampala Convention) (2009), Article 9.[129]

Figure 13: Key anti-slavery and anti-trafficking instruments at the domestic level

Australia (Commonwealth)

Modern Slavery Act 2018. [130]

Australia (New South Wales)

Modern Slavery Act 2018. (under review, not yet in force)[131]

Brazil

Federal 'Dirty List' (2003) and asset confiscation constitutional amendment (2014); São Paulo state bill on tax collection. [132]

European Union

Disclosure of non-financial and diversity information by certain large undertakings and groups 2014 (2014/95/EU). [133]

France

Devoir de vigilance des sociétés mères et des entreprises donneuses d'ordre 2017 (Loi n° 2017-399). [134]

Netherlands

Wet zorgplicht kinderarbeid 2019. [135]

United States (Federal)

Dodd-Frank Wall Street Reform and Consumer Protection Act 2010;[136] Trafficking Victims Protection Reauthorization Act 2013 (TVPRA 2013)[137]: Trade Facilitation and Trade Enforcement Act of 2015, H.R. 644;[138] Executive Order 13581 (2011) (National Strategy to Combat Transnational Organized Crime);[139] Executive Order 13627 (2012) (Strengthening Protections Against Trafficking in Persons in Federal Contracts);[140] DoD, GSA and NASA Rule on federal contractors (2015).[141]

United States (California)

Transparency in Supply Chains Act 2010 (Senate Bill 657) [142]

United Kingdom

Modern Slavery Act 2015. [143]

Ongoing processes

Canada

Act respecting the fight against certain forms of modern slavery through the imposition of certain measures and amending the Customs Tariff (C-423): imposes an obligation on certain entities to report on the measures taken to prevent and reduce the risk of forced labour or child labour and prohibits the importation of goods manufactured or produced wholly or in part by forced labour or child labour. [144]

Germany

National Action Plan on Business and Human Rights 2016-2020: If more than 50 per cent of all German-based companies with over 500 employees have not taken credible action to integrate human rights due diligence in their operations by 2020, the government will examine further steps, including legislative measures providing for mandatory human rights due diligence.[145]

Hong Kong

The Modern Slavery Bill proposes criminal offenses under Hong Kong's Organized and Serious Crimes Ordinance and provides a civil cause of action.[146]

Switzerland

The Responsible Business Initiative would impose human rights due diligence obligations on Swiss companies. A referendum on Initiative would take place in February 2020 at the earliest unless Parliament agrees to a counter-proposal which could happen as early as October 2019.[147]

United States

The End Banking for Human Traffickers Act of 2019 (H.R.295) would strengthen AML/CFT rules around human trafficking.[148]

Relevant databases

- Antislavery in Domestic Legislation Database.[149]
- State National Action Plans on Business and Human Rights (OHCHR).[150]
- Global National Action Plans on Business and Human Rights: Forced Labour and Modern Slavery (Danish Institute for Human Rights).[151]
- National Laws and Action Plans Database (Bali Process).[152]
- Legislation Online: Trafficking in Beings (OSCE).[153]
- Together Against Trafficking in Human Beings, Member States (European Commission).[154]
- Delta 8.7 Country Dashboards.[155]
- Labour Exploitation Accountability Database (Focus on Labour Exploitation).[156]

Figure 14: Key provisions on AML/CFT and modern slavery and human trafficking

United Nations Security Council

- Statement by the President of the Security Council, SPRST/2015/25 (16 December 2015).[157]
- Resolution 2331 (2016), S/RES/2331 (2016) (20 December 2016), OP 2(c).[158]
- Resolution 2388 (2017), S/RES/2388 (2017) (21 November 2017), OP6 & 7.[159]
- Resolution 2462 (2019), S/RES/2462 (2019) (28 March 2019), OP 20(a) and 20(d).[160]

Financial Action Task Force

- Financial Action Task Force, International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation: The FATF Recommendations (2012; updated June 2019).[161]
- Financial Action Task Force and APG, Financial Flows from Human Trafficking (July 2018).[162]

FATF-Style Regional Bodies

Africa - Eastern and Southern

Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), Typologies Project Report on the Vulnerabilities of Money Laundering Related to Trafficking in Persons in the ESAAMLG Region (September 2011).[163]

Asia-Pacific

APG, APG Yearly Typologies Report: Methods and Trends of Money Laundering and Terrorism Financing (July 2018).[164]

Caribbean

Caribbean FATF (CFATF), Typologies Report on Human Trafficking and Smuggling of Migrants (July 2014).[165]

Europe

Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL), Proceeds from Trafficking in Human Beings and Illegal Migration/Human Smuggling, MONEYVAL 16th Plenary Meeting, Strasbourg (17-21 January 2005).[166]

Middle East and North Africa

Middle East and North Africa Financial Action Task Force (MENAFATF), Biennial Typologies Report (2014).[167]

National and regional advisories and guidance

Australia

AUSTRAC, AUSTRAC typologies and case studies report (2014).[168]

Bali Process

Bali Process, Policy Guide on Following the Money in Trafficking in Persons Cases (July 2018).[169]

Canada

FINTRAC/CANAFE, Operational Alert – Indicators: The Laundering of Illicit Proceeds from Human Trafficking for Sexual Exploitation, FINTRAC-2016-OA003 (December 2016).[170]

New Zealand

New Zealand Financial Intelligence Unit, Quarterly Typology Report: Human Trafficking and People Smuggling (April 2017).[171]

United Kingdom

National Crime Agency, Red Alert: Potential Indicators of Slavery and Human Trafficking, A4R13670 (December 2014).[172]

United States

US Financial Crimes Enforcement Network (US FinCEN), Advisory – Guidance on Recognizing Activity that May Be Associated with Human Smuggling and Human Trafficking, FIN-2014-A008 (September 2014).[173]

... THAT IS WEAKLY ENFORCED

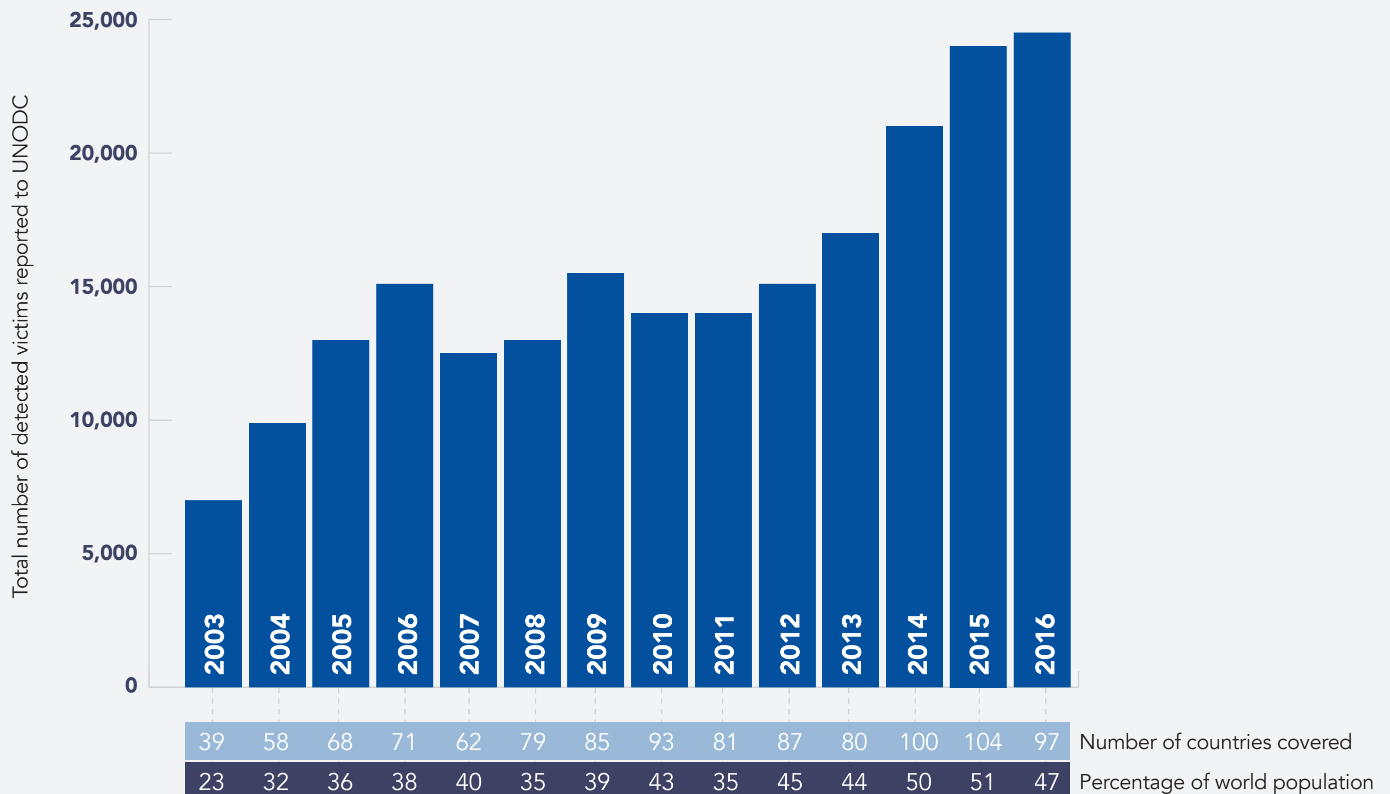
When is a strong norm not a strong norm? When it is weakly enforced. And that is manifestly the case here, with an estimated 1 in every 185 people falling prey to conduct that, at least officially, was banned long ago.

Modern slavery and human trafficking is hard to detect: it is either deliberately hidden from view, or it turns on circumstances within a credit or employment relationship that can be hard for outsiders to reliably identify. Victims are often found in locations where the reach of legal institutions is limited and weak – such as isolated rural settings, domestic households, artisanal manufacturing and extraction sites, or areas affected by crisis or conflict. Indeed, it is precisely the weakness of criminal justice systems, labour inspection regimes and immigration controls that allows slavers and traffickers to exploit vulnerable labour.

To compound this, the law enforcement tools used to identify other forms of trafficking – such as controlled delivery of drugs or counterfeit goods – cannot be used to identify human trafficking. And finally, victims may be too afraid to come forward or testify, especially where human trafficking and slavery are enabled by corrupt officials.[174]

As a result, identification, investigation and prosecution rates appear to be very low. While only roughly half of all countries report on their efforts to enforce anti-slavery and anti-trafficking norms, what they do report is a very low formal victim identification rate: an average of 200 to 250 victims of human trafficking identified per country per year, and a high of just over 25,000 victims formally identified in 2016 (see Figure 15).[175] This is a tiny fraction of the estimated 40.3 million cases worldwide.

Figure 15: Detections of trafficking victims, 2003–2016



Source: UNODC, *Global Report on Trafficking in Persons* (Vienna, United Nations Office on Drugs and Crime, December 2018), p. 7.

Given that identification rates are so low, it can be no surprise that prosecution rates are also low. According to the US Department of State, in 2018 there were just 11,096 trafficking prosecutions globally, and a mere 7,481 convictions.[176]

Asset seizures and confiscations are similarly low. In Europe in 2015-2016, 72 orders freezing assets were reported, freezing property worth EUR 6,099,984.[177] A further 38 asset confiscation (seizure, not merely freezing) orders recovered property worth EUR 2,008,416. This is a very small fraction of the total asset freezes and seizures for that period across all offences – around EUR 2.4 billion and EUR 1.2 billion respectively.[178] Limited seizures means limited restitution to victims. In the United States between 2012 and 2016, the average restitution award in a labour trafficking case was USD 504,647.82. The average for both sex and labour trafficking cases was USD 59,244.25.[179]

This raises the question: how can financial sector actors help governments enforce the laws against modern slavery and human trafficking? The answer comes in several parts, addressed in this and subsequent chapters. First, we look at how financial sector compliance with existing laws can help, focusing on: 1) anti-money laundering and counter financing of terrorism laws, as well as sanctions; 2) insurance; 3) the power of the public purse; and 4) preventing unfair market competition. In the subsequent two chapters, we look at how financial sector risk identification and analysis, and engagement with other businesses, may help. In the following chapter, we focus specifically on the role of financial sector actors in providing and enabling effective remedy for modern slavery and human trafficking harms. This includes, centrally, direct assistance to courts and other judicial authorities to assist with financial investigations and asset freezes and seizures.

ANTI-MONEY LAUNDERING AND COUNTERING THE FINANCING OF TERRORISM

Financial sector actors are required to take due diligence measures (Know Your Customer, or KYC) and to report suspicious activity, to prevent the laundering of proceeds of crime and terrorist financing.[180] These obligations apply to a long list of financial entities, including: banks, securities and commodities firms (brokers/dealers, investment advisers [in some cases], mutual funds, hedge funds, commodity traders), money services businesses (cheque cashers, forex dealers, prepaid access card providers, postal services, remittance and money transmitters), insurance companies, credit card system operators, certain commodity dealers, pawn brokers, casinos, and some other non-bank financial institutions, as well as non-financial entities such as lawyers or real estate agents.

The global system for anti-money laundering and countering the financing of terrorism, as enshrined in the FATF 40 Recommendations, provides an important framework for enforcing the prohibitions on modern slavery and human trafficking, as the United Nations Security Council has reminded states several times in recent years.[181] Even where jurisdictions do not specifically identify modern slavery as a predicate crime to which AML/CFT obligations attach, in most cases slavery meets the statutory threshold criteria for reporting. Both modern slavery and human trafficking are so-called ‘crimes of crimes’: the conduct that constitutes slavery, forced labour or human trafficking will almost always amount to some other crime – such as assault, fraud, bodily harm or kidnapping – explicitly covered by national AML/CFT regimes.

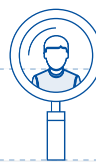
A survey by Clifford Chance and LibertyAsia of 18 jurisdictions worldwide found that human trafficking would be a predicate offense in all of them, though it was explicitly nominated as such in only some of them.[182] And CFT obligations may also come into play where certain designated terrorist groups are involved in human trafficking, as Islamic State of Iraq and the Levant (ISIL)/Da'esh and Boko Haram have been in the past.[183]

Financial intermediaries are obliged to report suspicious activity to national Financial Intelligence Units. These Suspicious Activity Reports (SARs) or Suspicious Transaction Reports (STRs) allow FIUs to provide intelligence to law enforcement to disrupt modern slavery and human trafficking. Financial data can be a powerful evidentiary tool in securing justice for victims, not least because it can reduce prosecutors' reliance on victim testimony. SARs/STRs also allow the reporting entity to better understand its own risk exposure.[184] The resulting data holds significant potential not only for compliance and reporting but also for informing these entities' lending and investment practices. Where regulators clarify expectations on using SARs/STRs to report on modern slavery and human trafficking, there is a major upswing in reporting. Some FIUs reported a rise of up to 1,000 per cent, year on year, after issuing guidance on reporting transactions that raise suspicion of modern slavery and human trafficking risks.[185]

As Figure 14 above makes clear, there is growing attention to these issues in international AML/CFT discussions. National, regional and global actors have published modern slavery and human trafficking-focused typologies – summaries of typical patterns of conduct based on existing financial sector reporting. The FATF report on human trafficking, and the joint FATF/Asia Pacific Group on Money Laundering joint report on *Financial Flows from Human Trafficking* (July 2018) include numerous real-life case studies.[186] These typologies have drawn attention to the role that cash couriers, straw men and cash-intensive businesses typically play in human trafficking networks.

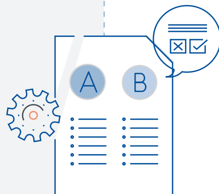
Using these typologies and underlying reporting, there is a growing catalogue of red flags, indicator lists and guidance on anti-slavery and anti-trafficking related AML/CFT practices available to financial institutions. Drawing on these, the Financial Sector Commission has worked with the Organisation for Security and Cooperation in Europe (OSCE) to develop a new FAST Financial Investigations Tool as part of the FAST Blueprint Implementation Toolkit (Figure 16).

Figure 16: The FAST Financial Investigations Tool



There has been a proliferation of red flag and indicator lists and other financial investigation tools in recent years, intended to help financial entities identify signs of modern slavery and human trafficking. Working with the Financial Sector Commission, the OSCE compiled, analyzed and integrated this guidance to provide a synthesized Financial Investigations Tool, comprising:

A compendium of resources reviewing 22 documents published in five continents and indexed to identify almost 600 different indicators in 57 categories.



Synthesized guidance on how to conduct financial investigations into modern slavery and human trafficking.

This guidance will be published in September 2019 and will be piloted in OSCE Member States in coming months.

Our consultations also suggest various ways in which the application of AML/CFT tools to modern slavery and human trafficking could be further strengthened, especially through collaboration between FIUs, regulators and reporting entities. We discuss these below.

Develop transaction analysis tools

First, there is a need to further extend the use of typologies, transaction-monitoring and client screening capabilities to identify suspicious activity indicative of human trafficking or modern slavery.[187] In particular, there is a need to extend these tools to better account for the realities of labour exploitation generally, and exploitation in developing countries in particular.

Transaction analysis to date has uncovered patterns primarily at the level of interaction between the sector (especially banks) and victims, rather than at higher levels of trafficking organizations. Reporting entities have struggled to identify cases involving labour exploitation, rather than commercial sexual exploitation, because of the difficulty of identifying proceeds of labour exploitation commingled with legitimate business revenue.[188] Polaris notes that

> *The fractured nature of the labor supply chain… makes it difficult to see a comprehensive picture of the finances of all parties associated – especially when each entity in the chain may utilize different financial institutions… red flag indicators of labor trafficking are so elusive that bank investigations rarely advance far enough to warrant a [request for information from other financial institutions under section 314B of the USA PATRIOT Act] …*

> *As AML professionals pioneer new ways to overcome barriers to detecting labor trafficking through financial activity, it would be wise to focus on industries like agriculture that employ large numbers of foreign national low-wage workers, have non-unionized workforces, and/or utilize labor contractors rather than direct hire workers. All of these factors are associated with structural issues that make workers vulnerable to trafficking [as is reliance on employer-tied visas].*[189]

The risk is that the indicators and tools that are emerging, based on datasets skewed towards commercial sexual exploitation, may direct the attention and resources of financial institutions towards those crimes, and leave modern slavery and human trafficking involving forced labour unseen, unreported and unaddressed. Working together, financial sector actors could however identify high-risk sectors, corridors and business structures that require closer AML/CFT attention.

Polaris points to a range of potential labour trafficking indicators that may need to be researched and incorporated into existing guidance and toolkits.[190] The recent FATF report also provides some insights on financial patterns specific to human trafficking for forced labour.[191] In the Netherlands, promising work involving ABN AMRO, the Dutch Inspectorate of the Ministry of Social Affairs and Employment (ISZW) and the University of Amsterdam (UvA) has developed a model using 26 indicators – ranging from financial factors (such as speed of withdrawal of newly deposited funds) to contextual indicators (such as the number of account-holding clients registered at the same address) – to help identify heightened risks of labour exploitation. This data query set has been shared with other banks in the Netherlands. This and other AML efforts focused on transaction analysis for forced labour indicators have generated large numbers of SARs and led to the initiation of several trafficking cases.

Yet such analysis has focused, to date, on transactions intersecting with financial institutions primarily in developed countries. There has been less coverage of – and learning from – the experience of, for example, victims of bonded labour in South Asia, victims of slavery-like practices in Brazil, or migrant workers in the Gulf. New risk-analysis tools and methods may be needed to better understand how modern slavery and human trafficking intersects with the remittance sector, money services businesses, and microcredit organizations in those contexts.

Technology clearly has an important role to play here. Banks have pioneered the analysis of data mining and network analysis to identify suspicious transaction patterns relating to human trafficking and money laundering. In the US, SWBTrac has demonstrated the feasibility of applying similar techniques to remittances and money services business transfers, including across the Mexico-US border.[192] Some institutions have also been testing the viability of using artificial intelligence (AI) and machine learning to accelerate the process of identifying indicators of labour exploitation. All of these initiatives hold promise for strengthening AML/CFT compliance, and strengthening customer due diligence (CDD) more broadly.

Know Your Customers

This brings us to a second area of action for strengthening enforcement of anti-slavery norms through the AML/CFT regime: more systematic integration of modern slavery and human trafficking considerations into Know Your Customer (KYC) and CDD processes.

Despite complying with existing KYC obligations, reporting entities may not, in fact, know their customers' exposure to modern slavery and human trafficking risks. Reporting entities may not be routinely looking for behaviours, practices or indicators of modern slavery and human trafficking, which may be buried in their customers' supply chains, intermingled with legitimate business, or masked by opaque ownership arrangements.

While there are efforts afoot to incorporate ESG factors into KYC processes, including by the International Chamber of Commerce Banking Commission's Sustainable Trade Finance working group, these have not yet focused on modern slavery and human trafficking risks.[193] Both individual entities and the sector as a whole would benefit from the development of template questions and on-boarding workflows to strengthen KYC and other CDD arrangements, and to encourage reporting on beneficial ownership. We explore these questions further in the next chapter.

Learn from survivors

Survivor experience and expertise has proven to be very useful in helping financial sector actors understand where they connect with, facilitate or contribute to exploitative businesses. Survivors can help guide and direct financial sector actors to a more nuanced understanding of how and where modern slavery and human trafficking money laundering risks may arise.

This is the approach that underpins emerging partnerships such as Project Protect in Canada, a public-private partnership between regulators, financial institutions, law enforcement and others that works to strengthen understanding of human trafficking among member institutions and to increase relevant reporting to the national FIU, FINTRAC/CANAFE.[194]

Survivor engagement can also help financial sector actors develop new and valuable sources of information and risk-monitoring approaches, for example by training branch personnel to spot signs of modern slavery and human trafficking.[195]

Share information and analysis

Privacy rules, banking regulation and competition (anti-trust) regulations can make financial institutions reluctant to share information that could otherwise potentially promote enforcement of anti-slavery and anti-trafficking norms.[196] For that reason, there is a growing trend for governments and regulators to create carve-outs that protect certain forms of information-sharing for this purpose, while respecting fundamental rights such as the right to privacy.

In the US, section 314(b) of the USA PATRIOT Act allows two or more financial institutions to "share information with one another regarding individuals, entities, organizations, and countries suspected of possible terrorist or money laundering activities," and establishes a safe harbour from liability that might otherwise arise from such information-sharing with peers.[197] In the UK, the Joint Money Laundering Intelligence Taskforce (JMLIT) brings together government actors, law enforcement and financial institutions to share information to better understand and disrupt various crimes, including human trafficking and modern slavery.[198] Similar arrangements have now developed in Australia, Singapore and Hong Kong, and more than 20 jurisdictions have committed to putting similar arrangements in place.[199] FATF has also issued guidance for information-sharing, addressing implementation of FATF Recommendations 18, 20 and 21.[200]

Even with national information-sharing partnerships, however, borders hamper understanding of the risks in global value chains. Regulators and law enforcement face challenges in developing a complete picture of modern slavery risks in transnational value chains because they have to work through complex mutual legal assistance arrangements, data protection rules and banking secrecy frameworks.[201] There may be a need for multi-country financial information-sharing partnerships focused on modern slavery and human trafficking – a point to which we return in the next chapter.

Use national risk assessments

The global AML/CFT regime provides for countries to conduct national risk assessments as part of a detailed, peer-based 'mutual evaluation process'. The aim is to help countries understand the illicit finance risks they face and set a national risk management agenda that is shared by public and private-sector actors. These national risk assessments are seen as critical to a country's efforts to implement an effective AML/CFT regime. During peer review, countries are assessed by how well they assign resources and implement policies and procedures to address the risks identified in their national risk assessments. So identification of different types of money laundering and counter-terrorist financing risks during the national risk assessment shapes subsequent conversations, and resulting resource allocations.

Although human trafficking is among the crimes identified in FATF guidance to guide national risk assessments, countries rarely identify this crime as a significant risk. This may be due to a lack of awareness amongst the public officials and private actors involved in risk assessment, or due to a lack of information available to national authorities detailing the occurrence of human trafficking when the national risk assessment is conducted. This suggests a need to raise the modern slavery and human trafficking awareness of countries conducting national risk assessments – both in general terms, and in relation to specific countries about to undergo national risk assessment. Civil society, research and international organizations, including the World Bank – which plays an important role in supporting national risk assessments – all have important roles to play here, by drawing more attention to AML/CFT risks associated with modern slavery and human trafficking, throughout the process.

Enforce international sanctions

Another way that financial institutions may be able to help enforce laws against modern slavery and human trafficking is by enforcing international institutions, including those adopted by the United Nations Security Council against six Libyan human traffickers in 2018.

The Security Council had made various passing references to the links between human trafficking, terrorism and threats to international peace and security in a number of earlier Presidential Statements and geographic resolutions.[202] In 2016, it addressed the large-scale, organized enslavement being undertaken by ISIL/Da'esh, and expressed its intention to consider targeted sanctions for individuals and entities involved in trafficking in persons in areas affected by armed conflict.[203] In 2017, it indicated that using the proceeds of trafficking in persons to finance obstruction of a peace accord in Mali could lead to individuals or entities being targeted for sanctions,[204] and soon afterwards made clear its willingness to consider human trafficking in all its sanctions committees' work.[205]

In theory, the United Nations sanctions regimes in place for numerous different armed conflicts could be used to impose targeted sanctions on human traffickers, using the 'human rights violation' listing criteria. But in practice, human traffickers have been targeted for sanctions only once: in June 2018, when six individuals were targeted for travel bans and asset freezes for involvement in human trafficking in Libya.[206] Yet despite continued attention to the issue from the Security Council,[207] to date no assets have been frozen.

The challenge here appears to be one of sanctions implementation. Like those of other organized criminals, human traffickers' assets may well be disguised or hidden within the global financial system, especially through masking of beneficial ownership, or kept outside it through use of informal money transfer mechanisms and real assets.

Governments and financial sector actors could clearly be doing more to partner to identify and freeze relevant assets and to take action against those that launder them.

Better use could arguably be made of other sanctions authorities and investigative resources. For example, the United States' Global Magnitsky Act sanctions programme[208] includes a legal basis to sanction human traffickers, but it has only been used against one individual involved in human trafficking for the purpose of organ removal.[209] Also in the US, Executive Order 13581 (2011) established the National Strategy to Combat Transnational Organized Crime, which enabled listing criminal groups such as the Yakuza, Camorra, Los Zetas and the Brothers' Circle.[210] In 2012, MS-13 was designated for sanctions under this Executive Order, in part due to its involvement in human trafficking.[211] These arrangements have not, however, been used to target individual traffickers.

Governments and financial sector actors could also work more closely together to securely share information about major modern slavery and human trafficking organizations. The Egmont Group of FIUs could provide a starting point for such a cooperation mechanism.[212] In the case of FIUs, however, the utility of the international network rests in part on the domestic AML/CFT arrangements connecting FIUs with private-sector actors. The absence of similarly effective arrangements at the domestic level for sanctions enforcement may limit the utility of international networking.

It is important to bear in mind other limits to the utility of sanctions as a tool for fighting modern slavery and human trafficking. Security Council sanctions are generally limited in geographic or organizational scope – they apply only to a specific conflict or group. There is limited appetite amongst Security Council members to see this tool harnessed for targeting human trafficking activities outside those narrow confines – and even limited appetite to use it in this way within those confines.

Finally, we must also be cautious about the risk that sanctions targeted at particular geographies or nationalities lead to overbroad de-risking by risk-averse financial institutions, increasing financial exclusion for other members of that group – and perhaps, unwittingly, their vulnerability to modern slavery and human trafficking.

Beware the unintended impacts of de-risking

Financial institutions and other businesses that discover risks of modern slavery and human trafficking in their value chains may choose to 'de-risk' – in other words, to terminate the relationship with the business partner in question. This is often a response to regulatory pressure to disassociate from such risks. Our consultations suggest a need to be cautious about the potential for financial sector institutions to unintentionally increase the risk of modern slavery and human trafficking through careless de-risking. This can happen in two ways.

First, through knock-on effects from termination of banking relationships with specific businesses or groups considered to be 'high-risk'. While this can effectively reduce the institution's risk exposure, over-zealous de-risking may actually increase the overall systemic risk of modern slavery and human trafficking. It may push the jettisoned business into informal and illicit financing arrangements, put additional downward pressure on labour costs, and hurt financial inclusion, especially where de-risking financial institutions terminate correspondent banking relationships.[213]

The correspondent banking relationships allow local banks to gain access to foreign financial markets and carry out cross-border transactions.[214] Terminating these relationships to reduce AML/CFT risk may have a particularly negative impact on migrant worker remittances, pushing them out of the formal sector into informal channels where workers may be exposed to greater risks of exploitation and enjoy weak consumer protection.[215]

Second, rigid enforcement of AML/CFT compliance norms can create significant obstacles to survivors' financial reintegration. Victims' bank accounts and financial identities are often hijacked by their exploiters, or otherwise tainted through forced association with criminal activity. This can lead to red flags during client onboarding and KYC processes as survivors seek to open bank accounts or access basic financial products and services. Excluded from such access, they are at greater risk of suffering exploitation, trafficking or enslavement again.

Compliance with AML/CFT norms must not be allowed to become an excuse for locking survivors out of the financial system. For that reason, the Financial Sector Commission initiated the Survivor Inclusion Initiative, detailed in Figure 3. The Survivor Inclusion Initiative aims to help match survivors to financial institutions ready to provide them access to basic financial products and services, and to assist those institutions in doing so safely.

Insurance

Insurers play three different roles in the global financial system. Each role can be used to help end modern slavery and human trafficking.

First, insurers are risk managers. Insurers set the terms on which specific market actors can shift risk (to the insurer). Acting individually, insurers thus have a crucial role to play in fostering modern slavery risk-reduction measures amongst their clientele; and acting collectively, they can shape the levels of systemic risk that are generated and tolerated by the market as a whole.

Second, insurers are often major investors. In this role, insurers face the same opportunities and challenges as other institutional investors in addressing modern slavery and human trafficking, especially opportunities to use leverage to shape other businesses' conduct. We explore leverage in a later chapter.

Third, insurers are norm-setters and enforcers. By setting the terms on which insurance is offered, and because possession of such insurance is often made a regulatory condition of market activity, insurers serve as setters and enforcers of norms – including prohibitions on unlawful conduct. It is that third function that we focus on here.

Combining these three roles, the insurance sector is often central to the viability – or otherwise – of certain business models. Changes in insurers' behaviour can have powerful ripple effects throughout an economic system. Indeed, as the famous eighteenth century *Zong* case made clear, questions of insurance coverage were significant for the functioning of the global system of chattel slavery in the late eighteenth century, and to its demise (see Figure 17).

Figure 17: The *Zong* case and the role of insurance in chattel slavery

In November 1781, a slave ship called the *Zong* sailed across the Atlantic to Jamaica. The *Zong* was owned by the Gregson slaving syndicate based in Liverpool, UK. The Gregson syndicate had insured the *Zong*'s cargo – slaves – against loss, including by drowning.

The slaves were not, however, insured for death by thirst. After a series of navigational errors, the ship ran low on drinking water. Many slaves grew ill; some died, and the crew feared for their own lives. The crew may have calculated that the ill slaves were worth more dead (as insured merchandise) than alive (to be sold after making land, as spoiled goods). The crew threw 132 slaves overboard, many chained together.

After the *Zong* reached Jamaica, the owners made a claim under their insurance policy. The insurers refused to pay. In the resulting litigation – *Gregson v Gilbert* (1783) 3 Doug 232, 99 ER 629, (1783) EngR 85 (22 May 1783),[216] the Gregson syndicate succeeded at first instance in a jury trial presided over by the Lord Chief Justice, William Murray, 1st Earl of Mansfield. On appeal, the matter was heard by a three-judge bench presided over by the same Lord Mansfield, a Scottish legal modernizer and the great-uncle and guardian of Dido Elizabeth Belle, born into slavery but raised as a free gentlewoman in Kenwood House. The UK Solicitor-General appeared on behalf of the Gregsons. Mansfield had famously held in Somersett's Case (*R v Knowles, ex parte Somersett*) (1772) 20 State Tr 1; (1772) Lofft 1) that slavery was unlawful in England as it had no basis in common law and had never been established by positive law (legislation).

During the *Gregson v Gilbert* appeal it emerged that the crew had thrown the slaves overboard in several batches – one batch after the original water shortage had been eased by rainfall. This implied that the legal claim of necessity – which had been understood by the jury at trial to justify those acts – was no longer valid. In a Solomonic decision, Mansfield ruled that while the contract would have been enforceable and entitled the Gregson syndicate to coverage, in this case the loss arose out of the errors of the crew – and so the claim did not succeed. The case was ordered returned to the trial court, but it appears no retrial was ever held. Nonetheless, the case had served to attract significant public attention – and opprobrium – to the role of insurers in sustaining the slave trade and the often dire results of that involvement.

The *Zong* case is instructive for today's financial sector in one other way: the crucial role of survivors and their allies. At the time, many legal cases were not recorded. We know about this case only because after the first trial, Olaudah Equiano, a freed slave, brought the case to the attention of Granville Sharp, a leading abolitionist, who, recognizing its advocacy potential, paid for the appeal to be recorded. Sharp used the case to help fuel his abolitionist campaign, and it became central to the mobilization of the Quaker community, the formation of the Society for the Abolition of the Slave Trade and, ultimately, formal abolition itself. [217]

Insurers are increasingly recognizing that they can use their power to set terms and conditions of insurance to align customers' behaviour with ESG considerations. The United Nations-backed Principles for Sustainable Insurance – an initiative involving insurers representing more than 25 per cent of world premium volume and USD 14 trillion in assets under management – is currently preparing ESG guidance for the insurance industry,[218] and has developed detailed guidance for high-risk sectors such as insurance of fishing vessels.[219] To date, their attention has primarily been on the environmental component (E) of ESG. Increasingly, it is turning to the social component (S) generally. Now, attention is turning towards modern slavery and human trafficking in particular.

In 2016, in shades of the *Zong* case (Figure 17 above) a group of trafficking victims in the UK successfully sued the labour broker for whom they had worked for labour rights violations, after the broker's licence had been revoked by the relevant UK authority, the Gangmasters and Labour Abuse Authority.[220] The defendants were represented in court by counsel appointed by Aviva, with whom the labour broker held relevant employers' liability insurance.[221] This alerted observers in the UK to the central importance of insurers in shaping the risk appetite and risk mitigation measures of labour brokers.

Insurers, too, are beginning to recognize that they face concrete reputational risk for being seen to facilitate forced labour or modern slavery, by offering insurance for goods manufactured with such labour, for their carriage, or to cover employers' or directors' liability arising in those contexts. They have seen how environmental activists have targeted insurers' coverage of coal,[222] and understand how the same techniques could be applied to insurance of business with forced labour-reliant supply chains.

In the UK, the Gangmasters and Labour Abuse Authority has worked with major insurers, including Fidelis, to craft a standardized 'Forced, Child and Slave Labour' exclusion clause for the marine market. That language is currently under consideration by leading insurance policy bodies. The Authority argues that the provision does not place any additional burden on the insured, but rather simply requires the insured to demonstrate compliance with their existing legal duties. In other words, it aims simply at compliance with existing laws against modern slavery and human trafficking.

The language makes payment of a claim under a marine carriage policy conditional on the insured having undertaken the due diligence required by section 307 of the US Tariff Act 1930 (the 'Smoot-Hawley Act' – see Figure 18), as amended by the US Trade Facilitation and Trade Enforcement Act of 2015, or equivalent national legislation. Many insurance policies already ex-

clude unlawful conduct. Articulating that this includes modern slavery, forced labour and human trafficking will help focus attention on this issue, and encourage more effective due diligence (discussed further below) by insured companies in all sectors. There are numerous channels through which this could occur, such as the International Association of Insurance Supervisors (IAIS) Insurance Core Principles (ICPs). Though not legally binding, these provide a globally accepted framework for the regulation and supervision of insurance and reinsurance companies (whether private or government-controlled) that foster convergence towards a globally consistent supervisory framework.[223]

Were the ICPs to address modern slavery and human trafficking risks specifically, this would rapidly be picked up and addressed across the global insurance industry. Careful thought would be needed by the insurance sector itself, however, to understand and articulate the different roles that underwriters, brokers and reinsurers have to play.

Figure 18: US trade restrictions on goods made with forced labour

The Smoot-Hawley Tariff Act of 1930 was passed as a trade protection measure during the Great Depression. In February 2016, President Barack Obama signed The Trade Facilitation and Trade Enforcement Act of 2015, which closed longstanding loopholes in Section 307 of the Act, relating to the importation of goods produced or manufactured using forced labour.[224] In signing the Act, the President noted: "We can't have other countries engaged in [forced labour] practices that disadvantage American workers and American businesses."[225]

As amended, Section 307 prohibits the importation of merchandise mined, produced or manufactured, wholly or in part, in any foreign country by forced or indentured child labour. If US Customs and Border Protection has sufficient information – through intelligence and audits relating to specific manufacturers and merchandise – to indicate that such goods are being imported, it may issue a Withhold Release Order (WRO). Since 2016, it has issued seven such detention orders, blocking goods from entering the US, most recently involving a tuna cargo.[226]

Importers have a general obligation to exercise 'reasonable care' that goods imported into the country comply with all laws and regulations, including Section 307, and are advised to carry out due diligence to assess the risk in their supply chains of forced labour. If issued with a WRO, companies have 90 days to prove that the product was not mined, produced or manufactured using forced labour by providing a certificate of origin signed by the foreign seller and demonstrating that every effort was made to determine the type of labour used for each component of the product.[227]

A similar, March 2018, act puts goods mined, produced or manufactured by nationals or citizens of the Democratic People's Republic of Korea, made anywhere in the world, in a special situation: it creates a rebuttable presumption that such goods are made with forced labour, placing the burden of proof on importers to show that they are not.[228] Digital marketplaces (Amazon, Walmart, eBay) seem to create particular enforcement challenges for these arrangements.[229]

USING THE POWER OF THE PUBLIC PURSE…

A third way to help enforce law against modern slavery and human trafficking is by deploying the power of the public purse. There is growing attention to the role of public procurement and public sector supply chains in tackling modern slavery – in other words, using public consumption choices to influence demand for goods and services connected to modern slavery and human trafficking. But there has been much less attention to the role of public finance including public investment and lending; and little attention to how governments can use fiscal and tax policy to enforce laws against modern slavery and human trafficking. In this section we consider each in turn.

…through procurement choices

In the US, Federal Acquisition Regulations prohibit federal purchasing of goods that may have been produced by forced labour or indentured child labour, and require contractors to have preventive measures in place, creating strong downward pressures on all federal government suppliers.[230] In Australia, the reporting requirements under the Modern Slavery Act (Cth) extend to federal Commonwealth entities (i.e. the state), putting pressure on government entities to inquire into their own supply chains. The UK Government has also indicated that it will publish a statement in 2019 setting out the steps it is taking to identify and prevent modern slavery in central government supply chains, and that the Scottish Government will do the same. From Fiscal Year 2020/2021, UK government ministerial departments will publish their own statements. The UK Government has also created a Modern Slavery Assessment Tool to help public sector organizations assess risks.[231]

In September 2018, Australia, the UK and US were joined by Canada and New Zealand in adopting Principles to Guide Government Action to Combat Human Trafficking in Global Supply Chains,[232] part of a broader Call to Action to End Forced Labour, Modern Slavery, and Human Trafficking that is now supported by over 40 per cent of all countries, including countries such as China, Saudi Arabia, Qatar and Brazil.[233] Public procurement is also a major focus of activity in the OSCE, which has published guidelines.[234]

…through investment and lending practices

Another way to use the power of the public purse is through investment and lending practices. Public procurement typically represents 10 to 20 per cent of GDP, according to the World Bank; but the assets held by global public investors amount to around 45 per cent of the global economy.[235] Indeed, an IMF database of 38 countries tallies public assets of USD 103 trillion.[236] These assets underpin a huge array of commercial and non-commercial financial activities, including equity finance, concessional lending (including development finance) and trade finance (including trade credit, loans, and guarantees).

As major investors and asset owners, public pension and superannuation funds and sovereign wealth funds have a powerful role to play in shaping how global finance enforces the prohibitions on modern slavery and human trafficking. For example, the Norwegian Government Pension Fund Global, the largest sovereign wealth fund in the world, chose in 2017 to divest from a company found to have used forced labour from the Democratic People's Republic of Korea.[237]

This was a result of recommendations from the arms-length Council on Ethics that administers the Guidelines for the observation and exclusion of companies from the Government Pension Fund Global, which requires observation or exclusion of companies if there is an unacceptable risk that the company contributes to or is responsible for "serious or systemic human rights violations such as…forced labour and the worst forms of child labour" (section 3[a]).[238]

Development finance institutions are also beginning to take a more proactive stance on these issues. In December 2018, the International Finance Corporation (IFC), CDC Group Plc (the UK development finance agency), European Bank for Reconstruction and Development (EBRD) and UK Department for International Development (DFID) published a Good Practice Note to "increase the private sector's ability to identify and assess modern slavery risks, and to implement appropriate controls and solutions".[239] A recent US Supreme Court decision may also accelerate attention to these issues amongst public investors focused on commercial investment; in *Jam v. IFC*, the Supreme Court held that the IFC is not immune to suit over harms arising from such investments. This potentially opens up new avenues for human rights-based litigation, which could increase pressures on such investors to proactively identify and manage such risks, including modern slavery and human trafficking.[240]

Export credit agencies, which provide loans and insurance to domestic firms to facilitate exports, also have a role to play. The OECD has adopted an official Recommendation on ESG due diligence in export credit activities, which includes a recommendation relating to identifying forced labour impacts and human rights due diligence around forced labour and human trafficking risks.[241] And as mentioned earlier GIEK, the Norwegian export credit agency, has closely examined its investment in the ship construction value chain, after suspected forced labour from the Democratic People's Republic of Korea was identified within it, within Europe.

Public investors and lenders also have an immense untapped capacity to shape broader market norms on these issues. When Brazil's domestic development bank, Brazilian Development Bank (BNDES) – the second largest in the world after its counterpart in China – stopped doing business with companies found to have imposed slavery-like conditions on workers, other financial institutions followed suit. Why? Not because of any strict legal requirement, but rather because those financial institutions – public, private, and hybrid – feared complications in their own business relationships with BNDES. This was a purely voluntary movement in the demand preferences of Brazilian financial sector actors, responding to leadership by BNDES.[242]

…through fiscal policy and tax regulation

Another way that governments can enforce laws against modern slavery and human trafficking is through fiscal policy and tax regulation. Both serve to encourage market activity – including investment – in certain directions. That influence can be used to encourage demand towards goods and services produced in ways that reduce modern slavery and human trafficking risks, and away from those that increase those risks. Here again, two examples from Brazil stand out.

Subsidies

The first example arises at the federal level and demonstrates how government subsidies (an aspect of fiscal policy) can push the demand curve and investment away from businesses that use modern slavery and human trafficking.

Since the early 2000s, the Brazilian government has kept and published a list of companies found (through on-site labour inspections) to have used slave labour.[243] Inclusion in this list became a key indicator by which Brazil's financial sector assessed social risk in its actual and potential relationships, with the Government formally recommending this approach.[244]

Public and private financial institutions, including the Banco do Brasil, Banco da Amazônia, Banco do Nordeste and the Brazilian Development Bank (BNDES), all refused credit to companies included on the *lista suja* ('dirty list') – the colloquial name for the Government-issued Database of Employers Responsible for Using Slave Labour[245] – with private banks protected from legal action by the fact that the list was government issued. BNDES also extends this condition to its existing clientele through the inclusion of a 'social clause' in its commercial agreements, allowing it to suspend or terminate a commercial relationship if a company is placed on the *lista suja*. Some observers believe that these measures began to translate into measurable impacts on company stock prices, with inclusion on the *lista suja* corresponding to drops in stock price.[246]

Perhaps the most innovative use of this list came through a regulation issued by the National Economic Council, which prohibits private banks from issuing certain types of government-subsidized rural loans to companies that appear on the list. In this way, the Brazilian government used access to (or withholding of) government subsidies to incentivize private banks to enforce the prohibition on slavery. The Federal Labor Prosecution service recently sued several banks that appear to have violated this stipulation and claimed subsidies for issuing such loans to companies that were on the *lista suja*. This is a clear example of how fiscal policy can be used to reinforce efforts to enforce laws against modern slavery and human trafficking.

Sales tax collection authority

The second example from Brazil comes from the state level and involves tax regulation. In 2013, the Brazilian state of São Paulo adopted a law that suspends for 10 years the sales tax collection authority of any business convicted on grounds of using forced labour. Since that is a necessary factor for doing business in the state, this has the effect of barring these enterprises from doing business in Brazil's most populous state and financial centre.

And it also effectively makes it illegal for financial institutions to support those operations' activities in that marketplace during that period. The first test case under this law, involving the Brazilian fashion retailer M.Officer, is currently under way.[247]

PREVENTING UNFAIR MARKET COMPETITION

As the comments of President Obama in relation to the closure of loopholes in Section 307 of the Smoot-Hawley Tariff Act make clear (see Figure 18 above), there is growing recognition that tolerating forced labour is anti-competitive. Enterprises relying on unlawful forced labour have an unfair advantage on cost over those that do not. Regulators can and should take measures to prevent unfair market competition. Below, we discuss two ways to do this: first, by excluding companies that rely on forced labour from the market in the first place; and second, through using competition law to foster pre-competitive risk analysis and standard setting.

Corporations law and listing rules

Businesses that commit crimes or otherwise violate the law can in many jurisdictions lose their license from the state to operate. But corporations law and listing rules can also be used to prevent such businesses from entering a marketplace in the first instance. This is, in a sense, the rationale underlying Section 307 of the Smoot-Hawley Tariff Act, as well as the São Paulo sales tax regulation initiative mentioned above. Another way to do this is through stock exchange and commodity exchange listing rules.

There is growing interest from stock and commodity exchanges in the materiality of ESG risks – and consequently, growing interest in factoring ESG considerations into listing rules, guidance and indices. The United Nations Sustainable Stock Exchanges initiative was launched by the United Nations Secretary General in 2009.

It is a United Nations Partnership Programme between the United Nations Conference on Trade and Development, United Nations Global Compact, United Nations Environment Programme – Finance Initiative, and the Principles for Responsible Investment (PRI). It convenes partner exchanges from around the world to 'promote responsible investment in sustainable development and advance corporate performance on environmental, social and governance issues'. It now includes 85 partners, from every continent.[248] United Nations Sustainable Stock Exchanges provides guidance to stock exchanges on reporting ESG information to investors,[249] shaping social risk reporting by exchanges as diverse as Egypt, Ha Noi, London, Nigeria and Shenzhen.[250]

Stock and commodity exchanges can address ESG issues in different ways, including through listing rules, ESG indices, ESG reporting guidelines and data. Listing requirements can specify social criteria as part of the due diligence process prior to listing.[251] For example, Bursa Malaysia revised its listing requirements to include disclosure on social risks and opportunities, and issued a Sustainability Reporting Guide to facilitate implementation.[252] But ESG listing rules and guidance tend to focus more on environmental considerations than social considerations, and few focus on modern slavery and human trafficking specifically. The guidance and recommendations on ESG published in 2015 by the World Federation of Exchanges Sustainability Working Group do contain references to forced labour and human rights.[253] But the United Nations SSE Model Guidance on Reporting ESG Information to Investors, for example, makes no mention of modern slavery or human trafficking.[254]

Stock exchange sustainability and ESG indices can incentivize listed companies to integrate ESG issues into their policies. The Johannesburg Stock Exchange Socially Responsible Investment Index requires that listed companies in the index have to meet basic selection criteria on respecting human rights.[255]

Borsa Istanbul launched the BIST Sustainability Index to create a benchmark for listed companies who perform well on corporate sustainability criteria.[256] Some exchanges have also started to move towards 'comply or explain' provisions – as opposed to voluntary reporting – for sustainability-related disclosures. And the London Metals Exchange, whose Brand List is used as a reference for delivery in many global physical supply contracts, has recently initiated a consultation on introducing responsible sourcing standards across all London Metals Exchange-listed brands.[257]

Competition law

Pre-competitive collaboration typically involves cooperation by market players to share data, conduct research and analysis and develop standards and tools, with a view to addressing a market externality or other market failure, outside the normal course of market competition. It is useful where resources are scarce, stakeholder expectations are volatile, and regulations are shifting. Effective pre-competitive collaboration can mobilize diverse stakeholders around a common, scientific approach to problem-solving, clarify expectations and improve access to and utility of market information.[258]

This is exactly what is needed to help financial sector actors understand and address modern slavery risks, and to protect the marketplace against players that enjoy the unfair advantage offered by unlawful use of forced labour.[259] Pre-competitive collaboration could allow financial sector actors – and potentially other businesses – to develop joint supplier screening tools, pool data on supplier risk, develop stronger hotspot and typology mapping and predictive analytics, and formulate technical standards that can help prevent modern slavery and human trafficking.

Yet many firms are reluctant to share information and data relating to modern slavery risks lest they be seen to be colluding. Multi-stakeholder initiatives to address social risks in specific sectors have successfully addressed these concerns in the past, but the introduction of non-price and social factors into financial sector decisions continues to be seen by some competition regulators as anti-competitive. In Australia, for example, the prudential authority (APRA) was recently drawn into a charged political debate over whether superannuation trustees were permitted by relevant law to factor ESG considerations into investment decisions.[260] Under prevailing US interpretations of competition law, the presence in the market of a firm that uses forced labour might not be considered problematic: reduced labour costs would seem to lead, at least in theory, to lower prices for the consumer – still the central consideration in US anti-trust law. But there is a growing sentiment within the US that this approach unhelpfully privileges low costs over other social and economic objectives of competition law, such as choice and sustainability.[261]

Regulators could facilitate pre-competitive collaboration by clarifying their willingness to tolerate such initiatives, and by embedding competition law in a broader perspective that recognizes that it should serve broader social purposes, not be interpreted so narrowly that it generates social harms. This could involve issuing guidance, strengthening legislative arrangements, or bringing a test case against firms that rely on modern slavery and human trafficking on the basis that it provides an unfair and illegal advantage in the marketplace. At a minimum, regulators should clear safe space for financial and other actors to cooperate to address modern slavery and human trafficking risks – including by knowing and showing what those risks are. It is to that issue that we turn in the next chapter.

ACTIONS TO ACHIEVE GOAL 1

Drawing on the discussion in this chapter, we have identified a series of actions that financial sector actors can undertake to achieve this Goal. We separate these into those that can be undertaken rapidly – 'Act Now' – and those that may require longer preparation and development – 'Initiate'. The Actions across the five Goals are summarized in a Blueprint Summary Table at the front of the report.

Act Now

- **Strengthen financial investigations:** Increase public and private-sector resources for financial investigation of modern slavery and human trafficking, commensurate with the scale and gravity of the problem. Regulators, FIUs and private-sector actors should work together to develop better indicators of AML/CFT risks associated with current and emerging forms of modern slavery and human trafficking.
- **Involve and learn from survivors:** Actively integrate survivors into processes of regulation, investigation, enforcement and organizational change, to benefit from their expertise and assist with their own recovery.
- **Strengthen use of the AML/CFT and sanctions regimes.** This could include:
  - Fostering public-private and inter-entity information-sharing.
  - Developing better indicators, especially of labour trafficking.
  - Clarifying expectations through national advisories and guidance.
  - FIUs encouraging a focus on this issue within their own jurisdictions, and working together to share information and build knowledge across borders.
  - Using the FATF national risk assessment and mutual evaluation process to highlight these issues and develop public-private buy-in for prioritizing anti-slavery and anti-trafficking efforts.
  - Strengthening cooperation to enforce international sanctions on human traffickers, for example by establishing an Egmont Group-style forum for confidential intergovernmental cooperation on sanctions enforcement.
  - Avoiding overzealous de-risking practices that unintentionally increase modern slavery and human trafficking risks for vulnerable populations.

Initiate

- **Develop transaction analysis tools** to help identify proceeds of modern slavery and human trafficking in all areas of financial sector activity – banking, remittances, insurance, investment, commodities trading and beyond. This should include extending these tools to cover labour trafficking, debt bondage and forms of modern slavery and human trafficking occurring in the developing world, not just commercial sexual exploitation and human trafficking occurring in the developed world.
- **Mobilize the insurance sector** to exclude modern slavery and human trafficking risks, including through development of exclusion clause language for specific policy lines such as employers' and directors' liability insurance, cargo insurance or workplace insurance.
- **Use all public regulatory levers**, including:
  - The power of the public purse – through public procurement, investment and lending, and fiscal policy and tax regulation. These issues could be picked up in those forums that are currently considering public procurement rules, such as the Bali Process, the G20, Alliance 8.7 and the Call to Action on Forced Labour, Modern Slavery and Human Trafficking, PRI and development finance institution ESG discussions.
  - Market regulation to enforce the blanket ban, including exchange listing rules, guidance and indices; and
  - Competition law, including clarification of rules on pre-competitive cooperation to address modern slavery and human trafficking risks.

GOAL 2

KNOWING AND SHOWING

GOAL 2: KNOWING AND SHOWING MODERN SLAVERY AND HUMAN TRAFFICKING RISKS

In this chapter:

- Addressing the market failure that leads to 40.3 million people in modern slavery and human trafficking requires improving market information and transparency, so that businesses connected to these risks face higher costs of capital, and those that prevent or address these risks face lower costs of capital. This requires action at both the enterprise and market levels.
- At the enterprise level, the first step is identifying and understanding connections to modern slavery and human trafficking risks. For many financial sector actors, with large numbers of business relationships, this may appear a daunting exercise. Specialized expert guidance may be needed.
- In the meantime, the FAST Risk Mapping Starter Workflow can help orient financial entities grappling with these questions, helping them begin to understand where the salient risks are in their own operations and business relationships, and begin to think through questions of likelihood and prioritization. The FAST Connections Diagnostic Tool may also prove useful.
- The financial sector is on a learning curve in this arena. Progress up the learning curve will be more rapid if actors work together to learn how to make risk mapping and due diligence real, routine and effective. This may require developing specialized guidance for different financial sub-sectors, contexts and functions. Examples from Australia, Brazil and the Netherlands suggest that governments have an important role to play in fostering multi-stakeholder collaboration and learning.
- Digital and data innovation may assist. There is a push to use novel, non-traditional data streams to inform risk analytics, and we may be on the cusp of effective predictive analytics. Due diligence could also be facilitated by financial sector actors encouraging other businesses to adopt digital tools such as smart employment contracts and distributed ledger technologies for supply-chain provenance and chain of custody.
- Digital tools may also complement and enhance engagement through survivor groups and trade unions. Parties and major financiers of specific high-risk sectors could collaborate to harness anonymized worker and survivor voice platforms for enhanced, participatory due diligence.
- Yet even if individual enterprises strengthen their ability to know and show their modern slavery and human trafficking risks, this may not translate to effective pricing signals or otherwise influence market behaviour. Evidence suggests that disclosure under existing supply-chain transparency regimes remains nascent. A lack of harmonization across those regimes makes it difficult to compare information, weakening market uptake and impact of this information.
- Comparability will be highest, and systemic impacts greatest, when corporate ratings emerge that reliably link businesses' actual conduct (and not just policies) to modern slavery and human trafficking risks, allowing this to influence capital allocation at the enterprise level. Until then, however, it may be useful for governments to consider steps to harmonize disclosure frameworks. This could involve developing a shared taxonomy of risks and activities, as the EU has recently done in the broader sustainability space. The Task-Force on Climate-Related Financial Disclosures, led by United Nations Special Envoy for Climate Action Michael Bloomberg, might also provide inspiration for developing modern-slavery-related financial disclosures.
- In time, this may allow the development of value-chain mapping and shadow pricing models that allow financial actors to compare individual firms to benchmarks, strengthening their ability to spot anomalous behaviours and associated modern slavery and human trafficking risks.

In previous chapters we saw how modern slavery and human trafficking persist despite a global ban. In the last chapter we considered how improved compliance by the financial sector with existing laws can help end modern slavery and human trafficking. In this chapter, we consider how better identification, reporting and transparency around modern slavery and human trafficking risks will help.

Improved access to data and information about these risks to people will allow better pricing-in of the social and economic costs of modern slavery and human trafficking. If the financial sector mobilizes against slavery and trafficking, this pricing should, in time, be reflected in adjustments to the costs of capital – encouraging the market to allocate capital towards businesses that have low connections to modern slavery and human trafficking risks, and away from those where risks are high.

This requires stronger efforts to identify, analyze and report on these risks and the steps that businesses are taking to prevent and mitigate them – to 'know and show' the risks, in the vocabulary of the business and human rights world. This expectation is set out in Guiding Principle 15 of the United Nations Guiding Principles on Business and Human Rights (UNGPs),[262] and is now reflected in diverse international guidance, domestic legislation and sectoral guidance. In this chapter, we explore the actions that the financial sector can take to achieve this Goal, and thereby help end modern slavery and human trafficking. It requires action at both the enterprise and market levels.

IDENTIFYING MODERN SLAVERY AND HUMAN TRAFFICKING RISKS

The first question for any organization wishing to know and show its modern slavery and human trafficking risks, and the steps it is taking to prevent and mitigate them, is how it can go about identifying these risks.

Understand risks to people

The FAST Connection Diagnostic Tool (see Figure 10, above) offers a very rudimentary starting point for understanding known risks and harms. But for many financial sector actors, with diverse investment and lending portfolios, large numbers of business relationships and in some cases – such as general corporate lending – limited information about those businesses, the question is less about known risks and more about unknown risks. Each business to which they are connected may itself have numerous business relationships or complex supply chains, at any tier of which may lurk potential modern slavery and human trafficking risks. Many financial sector actors may quickly find themselves connected to large numbers of modern slavery and human trafficking risks.

How to make sense of this? To suggest that financial sector actors must identify and address all of these risks is unhelpful: scarce time, limited resources, unavailable data – and often clients' or investee companies' own lack of knowledge about their supply chains – simply do not allow that. Instead, they must prioritize.[263] But how?

The key is understanding that what matters are risks to people, not risks to the business. This is often framed as a question of understanding both the likelihood of the risks being realized and the 'salience' of the risk: where people's rights are at risk of the most severe negative impact through the company's activities or business relationships. This, in turn, is generally broken down into: scale – how grave the impact would be on those affected; scope – how widespread the impact would be; and remediability – how hard it would be to put right the resulting harm.[264]

Modern slavery and human trafficking are generally considered to be towards the high end of 'scale'. The gravity of the human rights violations involved in these forms of exploitation is reflected in the strength of the norms against it, discussed earlier. Companies often recognize that forced labour, slavery and trafficking are salient issues on which they should focus. A check of the United Nations Guiding Principles Reporting Database, for example, suggests that around 50 per cent identify modern slavery or forced labour as a salient human rights issue.[265] This means that once a company identifies a risk of modern slavery and human trafficking, they have good reason to focus on it. Within that set, how they prioritize attention and resources will then turn on questions of scope – how many are affected; and remediability – whether the harm can be remedied or not; and likelihood of the harm coming to pass.

To make this assessment, a company must get a secure grasp on where these risks arise – in itself a challenge. One way to go about this is to focus on high-risk entities, sectors and areas. Businesses are just beginning to understand the factors, patterns and dynamics that correlate to this heightened modern slavery and human trafficking risk. The Risk Mapping Starter Workflow, set out below, offers a very basic way for companies to begin to orient themselves to these questions, but ultimately specialist expertise is likely to be required.

Figure 19: The FAST Risk Mapping Starter Workflow

An organization looking to identify and map risks of modern slavery and human trafficking within its operations and business relationships should seek specialized guidance and assistance. There are a growing number of specialist guidance organizations operating in this sphere, and financial sector actors can also learn from each other.

In the meantime, to begin to orient themselves financial sector actors may benefit from this simplified starter workflow. The steps and questions laid out here may also help financial sector entities assess the utility of third-party commercial services and guidance, and may help them adjust their own internal tools, procedures and arrangements: all steps will need to be addressed.

The workflow should be adapted to specific contexts. Many financial sector entities will have two levels of screening when conducting risk mapping or other forms of due diligence. Which steps and factors should be addressed at each level will depend on factors specific to each entity's operations and environment.

Step 1: Identify heightened risks of modern slavery and human trafficking in own operations or business relationships ('scale'). The aim is to identify risks to people rather than risks to the business. To this end, identify:

- High-risk locations or contexts in which your business or linked businesses operate – e.g. state involvement in modern slavery or human trafficking, highly isolated worksites, prisons, refugee and displaced-persons camps, communities affected by conflict or political violence, work with children.
- High-risk products or service categories. Use existing analysis of modern slavery typologies and sectoral mapping to identify businesses with which you have a relationship that offer high-risk products or services. Examples of high-risk business lines include construction, cantinas and massage parlours, ship salvage, artisanal mining, domestic service employment agencies, construction labour brokerage, manufacture of 'house-branded' non-resale goods.
- Known high-risk entities – i.e. those positively linked to modern slavery and human trafficking through a company's own records, media reports, sanctions lists or government registers.
- High-risk labour and recruitment arrangements. Examples include heavy reliance on foreign subsidiary or third-party labour brokers, or migrant or refugee labour; inattention to certification of labour brokers; non-provision of employment contracts in workers' native language; high levels of informalisation in the bottom tier of supply chains; endemic short lead times; wage inflation not keeping pace with general inflation; non-payment or under-payment of wages.
- High-risk supply-chain or market factors, such as oligopolistic concentrations of purchasing power, high levels of supply-chain fragmentation, or volatility in market demand for low-skill labour.

Step 2

Within the results identified in Step 1, assess the scope of each potential violation – the possible numbers of those affected.

Step 3

Within the results identified in Step 1, assess the (ir)remediability of any potentially resulting harm (see the discussion of remedy in a later chapter of this report).

Step 4

Identify those risks that have the highest combined scale, scope and irremediability.

Step 5

From amongst these risks, identify those with the highest likelihood of the risk being realized. In assessing likelihood, your own entity's response will be germane. Refer to the FAST Connections Diagnostic Tool to understand expectations of response.

Step 6

Acquire specialized expert guidance to develop an effective response and understand how to prioritize amongst other risks with lower salience and/or likelihood.

Step 7

Repeat the process on an ongoing basis, and seek to expand the circle of risks addressed.

To complete these steps, consult the following kinds of resources:[296]

Internal and client sources

- Supplier contracts and onboarding materials (KYC process, questionnaires).
- Supplier principles, standards, codes of conduct.
- Supplier reporting.
- Industry or sectoral data or mapping.
- Media monitoring + reputational risk screening.
- Watchlists and commercial risk-analysis services.
- Stakeholder engagement, especially survivor and worker engagement.

General guidance on Human Rights Due Diligence

- UN Working Group on Business and Human Rights, Corporate human rights due diligence – Getting started, emerging practices, tools and resources (2018).[266]
- OECD, OECD Due Diligence for Responsible Business Conduct (2018).[267]
- Shift, Human Rights Due Diligence in High Risk Circumstances: Practical Strategies for Businesses (2015).[268]

Modern slavery and human trafficking specific resources

- CDC Group, European Bank for Reconstruction and Development, International Finance Corporation, DfID, Managing Risks Associated with Modern Slavery: A Good Practice Note for the Private Sector (2018).[269]
- Australian Council of Superannuation Investors, Modern Slavery Risks, Rights and Responsibilities: A Guide for Companies and Investors (2019).[270]
- Responsible Investment Association Australasia (RIAA), Investor Toolkit: Human rights with focus on supply chains (2018).[271]
- Walk Free, Risk Screening Tool.[272]
- Ethical Trade Initiative (ETI), Base Code Guidance: Modern Slavery (2017).[273]
- US State Department and Verité, Responsible Sourcing Tool.[274]
- Verité, Forced Labor Commodity Atlas.[275]
- US Department of Labor, List of Goods Produced by Child Labour or Forced Labour.[276]
- US Department of Labor, Sweat & Toil: Child Labor, Forced Labor, Human Trafficking Around the World.[277]
- Business and Human Rights Resource Centre, Modern Slavery Registry.[278]

Work together to learn how to make due diligence real, routine and effective

The financial sector is on a learning curve when it comes to identifying and understanding modern slavery and human trafficking risks. Progress up that curve will be more rapid if financial sector actors work together. Expecting each organization to figure this out for itself is both unwise and inefficient. Instead, financial sector actors should learn from, and help, each other – and make this human rights due diligence and risk mapping real, routine and effective. Everyone stands to benefit, especially those whose enslavement and trafficking is thereby prevented.

There are promising innovations under way. Several development finance institutions are going beyond the requirements of the IFC Performance Standards to include both contextual risk analysis and supply-chain risks beyond the first tier as part of their human rights due diligence. Swedish pension funds such as AP1 and AP2 are using their leverage with data analytics providers to demand better tools for screening for human rights risks. The Dutch asset manager PGGM is undertaking more proactive due diligence in specific business lines to better identify higher-risk relationships, based on the most severe risks throughout the value chain.

PRI is providing tools to investors to better understand and then engage on severe labour risks in agricultural supply chains, based on the expectations set out in the UNGPs. The United Nations Environment Programme Finance Initiative, through its Principles for Responsible Banking, is developing tools for banks to assess their negative and positive impacts in meeting the SDGs. And several major commercial banks are developing more nuanced screening approaches.[279] ABN Amro, for example, includes forced labour questions in due diligence related to high-risk areas.[280]

But there are also real implementation challenges ahead. Modern slavery is often deliberately hidden from view, and modern slavery risks can be obscured by layers of outsourcing, subsidiaries and opaque ownership structures that make it difficult for financial sector actors to find them. Reliance on information provided by companies receiving financing is inherently limited. It necessarily replicates gaps and weaknesses in clients' knowledge bases, while also being vulnerable to their efforts to hide or obscure risk or harm.[281]

The operational realities of ESG and human rights due diligence analysis within financial institutions also pose challenges. As Jo Webb and Tom Keatinge note in a recent study of bank attitudes to modern slavery due diligence,

> *[o]utside large-scale project finance, due diligence is predominantly risk based, favouring red flags and policy checklists during the approval process undertaken when new clients are taken on by a bank rather than ongoing deal-by-deal assessments. Although due diligence processes typically commence with a one-off 'start-of-relationship' screening with annual reviews, there is little capacity for continuous, ongoing proactive checks to be carried out as circumstances and potential adverse impacts change.*[282]

Similarly, the professional realities of large-scale deal-making can also create obstacles. In commercial deals, financing partners are often brought in late, when the pressure to green-light is high (in contrast, in project finance their involvement may be much earlier, and the time allowed for due diligence much greater).[283] ESG issues such as modern slavery and human trafficking have tended to be low on the list of issues to be dealt with, and often have to be addressed last-minute and with extremely limited data. Interests in a deal may be sold after the deal is cut; the purchaser may have limited insight into the potential modern slavery risks canvassed before the deal was done, and limited ability to retrofit modern slavery and human trafficking mitigation strategies on to the deal, especially where they hold a minority stake or position in the deal.

On the other hand, many financial institutions have huge portfolios – of corporate borrowers, for example, or investment recipients. This creates significant practical challenges in sourcing and analyzing large amounts of relevant data, not least because this data are often of questionable reliability and minimal comparability. Screening duties typically fall to small ESG teams, leaving relationship managers – with different incentive-structures and limited training – to pick up the slack. This stands in clear contrast to the centralized and firewalled AML/CFT and compliance infrastructure most financial institutions now have in place, as a result of regulatory focus and pressure over the last three decades. While that AML/CFT infrastructure has an important role to play in identifying and analyzing modern slavery and human trafficking risk (as discussed in the previous chapter), modern slavery risk analysis will also need to be embedded in other due diligence-related functions: compliance, legal, ESG teams, client-facing personnel, procurement, risk-analysis teams and managers. Specialized guidance and training may be needed for each functional area.

That guidance will likely need to be tailored to different organizational contexts. The data and other resources available for due diligence by a large institutional investor obviously differ considerably from those available to a small insurance broker or a day trader. Due diligence expectations must calibrate accordingly. Equally, due diligence is likely to look quite different depending on the financial product or service in question. The same bank may face significant differences in conducting due diligence for project finance or for general corporate lending, such as the number and depth of client relationships, the bank's exposure to client operations, differing industry expectations on due diligence, and different approaches to initial screening.[284] We are just beginning to see the emergence of due diligence guidance for different financial activities: the OECD has recently published guidance covering institutional investing, and will soon release guidance covering general corporate lending and securities underwriting.[285]

One clear lesson from our consultations is that collaborative learning will accelerate the sector's identification of where risks lie, what works to address them, and uptake of those lessons. This is a growing practice in this sector. ABN AMRO has worked with clients and other market actors to map the diamond, copper, cocoa and textile value chains.[286] Other organizations have mapped risk in palm oil,[287] food and beverage,[288] apparel and footwear,[289] and leather[290] value chains. In some contexts, multi-stakeholder collaboration on risk-mapping can be understood as a form of pre-competitive research and development – discussed in the previous chapter. By fostering and disseminating both reliable data and insights drawn from that data, such efforts can help raise due diligence standards and effectiveness across the sector.[291]

Collaboration may also help accelerate identification of how to conduct due diligence in specialized financial contexts, such as those arising in the context of syndicated loans or syndicated bank facilities. The challenge here is explained in a recent paper from a Working Group of the Dutch International Responsible Business Conduct Banking Sector Agreement (itself detailed in Figure 20 below):

> *In a syndicated loan, banks take different roles, such as lead arranger, book-runner, agent or participant. Depending on the way those roles are structured, different roles may create greater and lesser opportunities for direct engagement with the client, in order to gather the necessary information to assess risks or to use leverage with clients to seek to address risks. As one illustration, conditions in the loan documentation for syndicated facilities (such as the ability to inspect a client's premises) can often only be triggered when there is majority consent of the banks participating in the syndicate, which may make it more challenging for an individual bank to conduct the type of due diligence it deems appropriate without the agreement of the other banks.*[292]

Government involvement in these collaborative initiatives can foster trust, help assure companies that the project will not fall afoul of competition law and signal that resultant learning will shape other aspects of regulatory response. It can also help mobilize other key stakeholders – such as civil society and trade unions.[293]

In Australia, for example, the Commonwealth Department of Home Affairs has played an important role working with business, civil society, state governments and faith organizations to develop shared expectations of reporting under the Modern Slavery Act, which includes numerous references to and examples of financial sector action.[294]

In Brazil, a multi-stakeholder National Commission to Eradicate Slave Labour (CONATRAE) has been convened by the Government since 2003, serving as guardian of a National Plan for the Eradication of Forced Labour. Since 2005, this has been supplemented by a voluntary Pact for the Eradication of Slave Labour, which brought together around 400 signatories representing more than one third of Brazil's GDP, including the Banco do Brasil, Santander, Itaú/Unibanco and Caixa, to take action on slavery in their value chains.[295] And in the Netherlands, the pioneering International Responsible Business Conduct (IRBC) agreements, or 'covenants', detailed in Figure 20, have made important inroads into these questions.

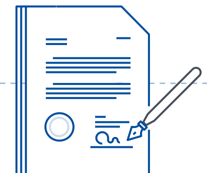


Figure 20: The Dutch International Responsible Business Conduct agreements

Since 2014, the Dutch Government has facilitated the development of a series of multi-stakeholder International Responsible Business Conduct agreements, or 'covenants.' These agreements aim to implement commitments under the Dutch National Action Plan on Business and Human Rights adopted in 2013, in turn informed by the United Nations Guiding Principles on Business and Human Rights as well as the OECD Guidelines for Multinational Enterprises. Eight agreements have been created to date. Each provides a framework for business to work jointly at the sector level to address adverse human rights, environmental and other impacts that they could not solve by themselves. The IRBC agreements were developed jointly with unions, the private sector and civil-society organizations.[297]

Banking Sector Agreement

The Banking Sector Agreement came into force in 2016. The Agreement was signed by 11 Dutch banks, the Dutch Banking Association (NVB), trade unions, civil-society organizations, and the Dutch Finance and Foreign Affairs Ministers. Banks committed to respect human rights under the OECD Guidelines and the United Nations Guiding Principles, focusing specifically on Dutch banks' worldwide corporate lending and project finance activities.[298] Banks have begun adjusting their human rights due diligence approaches to take account of contextual issues that do not fit into a standard high-risk country and industry risk-based approach as often used in large-scale financial due diligence approaches.[299] Other steps taken under the Agreement include expansion of access to complaints procedures, training of bank staff, increased focus on salient risks in human rights reporting, and increased transparency on client relationships. There has also been a focus on how banks can enable remedy.[300]

Parties also committed to develop a publicly available database that can provide reliable information about human rights risks and serve as one of the sources for bank due diligence, and also to undertake a series of public value-chain risk-mapping exercises. A Working Group has published research in relation to value chains in the cocoa sector and is undertaking consultations on the palm oil sector.[301] Work has also been undertaken on how banks can build and use leverage, individually and jointly – looking at organizational aspects, commercial context and client relationships.[302]

Pension Funds Agreement on Responsible Investment

In December 2018, 73 Dutch pension funds – which together represent EUR 1,179 billion in invested assets – the Federation of Dutch Pension Funds, NGOs, trade unions and the Dutch Government signed a covenant on responsible investment.[303] The Agreement aims to help pension funds gain a clearer picture of the international investment chain and, in doing so, prevent or tackle adverse human rights and environmental impacts. Parties to the Agreement are creating a toolkit to allow them to reduce negative impacts in their investment portfolio and enhance positive impacts.

Agreement on International Responsible Investment in the Insurance Sector

The Dutch Association of Insurers (VvV) and Zorgverzekeraars Nederland, an umbrella organization of health insurers, on behalf of all their members signed the five-year Insurance IRBC in July 2018.[304] They were joined by six NGOs, a trade union and two ministries. The Dutch non-life and life insurance sector currently manages over EUR 500 billion for insured parties. The Agreement aims to allow the participants to collaborate to advance access to remedy for adverse human rights impacts. The parties are developing practical case studies on the impact that Dutch insurers can make in an international sector.

Digital and data innovation

Limited access to reliable data about modern slavery and human trafficking risk constrains the financial sector's ability to act on these issues. A variety of audit firms, data providers and reporting frameworks has emerged to inform investors seeking ESG information, including information on human rights risks.[305] Yet many of the products and services offered assess unreliable proxies for impact – such as an entity's policies and procedures – rather than reliably examining the actual conduct and impact of the company. The absence of a unified taxonomy across the field also makes this data difficult to compare and combine. Some organizations source risk data from multiple providers in the hope of creating a patchwork picture. But the result is often so broad-brush that the resulting analysis does not pass escalation thresholds triggering additional due diligence.[306]

There also does not yet appear to have been significant effort by the sector to harness AML/CFT due diligence arrangements to deliver information needed in analyzing and managing ESG issues.[307] As Webb and Keatinge note, "financial crime compliance and [ESG] teams most often work independently of one another".[308] There is scope for techniques developed in the AML/CFT context – including transactions analysis and predictive analytics – to be brought to bear in this field. There is a growing push to use novel, non-traditional data streams – including media reporting, telecoms, energy usage, tax, administrative and other data – to identify correlates of modern slavery and human trafficking, which can then be used to predict that risk in other cases. Arabesque, for example, is combining multiple non-traditional data streams, including media and social media monitoring, to predict ESG risk.[309] Barclays, Lloyd's Banking Group and Western Union are partnering with IBM, Stop the Traffik, Europol and others to combine novel data streams into a Traffik Analysis Hub.[310] ACAMS, Polaris, Enigma and Annie Cannons have created STAT (Standing Together against Trafficking) for similar purposes.[311] And the Global Fund to End Modern Slavery is currently developing a predictive analytics-based forced labour screening tool prototype.

Due diligence could also be facilitated by financial sector actors encouraging uptake of digital tools in labour and materials supply chains. For example, smart contracts are now being used to protect vulnerable migrant workers against corrupt variation of employment contracts,[312] and blockchain and other distributed ledger technology-based solutions such as Project Trado are revolutionizing the traceability of product and service inputs, particularly through improvements in Chain of Custody (CoC).[313] In time, blockchain-based commodity-tracing systems may generate a de facto standard that financial institutions could adopt to limit risky producers' access to finance.[314]

Engage survivors and workers

Our consultations also suggest that technology offers new ways to supplement and enhance existing and novel data streams with direct input from workers and survivors.[315] Existing guidance on human rights due diligence emphasizes the importance of stakeholder engagement to identify and understand potential human rights harms and provide a challenge function.[316] Input from workers – and in the case of modern slavery and human trafficking, also survivors – can not only enrich the data under consideration but also help organizations understand the source, nature and impact of potential and actual harms. In doing so, worker and survivor engagement tools can also create efficiencies in search and assessment, and enhance opportunities for engagement through unions and survivor organizations.

So-called 'worker voice' tools often involve automated surveys administered through company-run human resources interfaces, or through interactive voice response calls, text messaging (SMS) and related technologies. More complex, visual and interactive modalities are emerging as smartphone ownership and literacy expand.[317] Examples include: Laborlink by ELEVATE,[318] CompanyIQ, &Wider, GeoPoll, IM@Sea, the Issara Institute's Inclusive Labour Monitoring System, Labor Solutions, Symphony by LaborVoices, Ulula and Worker Connect.[319] And new tools such as that offered by Sustainability Incubator in the fishing sector combine industry data, worker inputs and human rights data.[320]

These tools are not without their limitations. At present, such innovations have been implemented primarily in first-tier supply-chain worksites, not in the lower tiers where modern slavery and human trafficking risks may lurk. And engagement with workers through such platforms must be careful to protect their rights – a task made easier by the emergence of guidance on how to do this safely, such as the recent WEST Principles.[321] Combining these tools with established systems, such as unions – which offer protection of individual workers and knowledge of local conditions – may prove effective.

There are clear opportunities here for financial sector actors to work with their clients or to ask investee companies to develop anonymized worker and survivor voice and engagement platforms to feed data into ongoing due diligence. These could focus on high-risk projects, sectors and corridors. Deal parties and major financiers of specific high-risk sectors could collaborate to harness anonymized worker and survivor voice platforms for enhanced, participatory due diligence. Automated analysis could flag high-risk posts or alert financing partners when a certain risk threshold is met during a project, triggering enhanced due diligence.

STRENGTHENING TRANSPARENCY FRAMEWORKS

Even if financial sector actors work together to develop the tools, technologies and techniques needed to strengthen identification of modern slavery and human trafficking risks, there will still be strong barriers to disclosure of those risks. Supply-chain disclosure legislation has been important in encouraging reporting, but has also yet to meet its potential – especially in encouraging financial sector participation. Reporting remains generally limited, and especially so in the financial sector.[322] The Modern Slavery Registry, organized by the Business and Human Rights Resource Centre, has collected over 6,000 statements under the UK Modern Slavery Act – of which only 19 per cent meet the minimum requirements of the Act.[323] An analysis of electronics sector compliance with the Act found similar compliance rates.[324] In California, where disclosure is mandated, it continues to be the exception, not the rule.[325]

This suggests that additional regulatory interventions may be needed to connect action at the individual enterprise level to the creation of the usable market information needed to generate systemic change, whether by strengthening incentives for disclosure or in other ways. These interventions should aim to help translate individual risk identification and analysis activities at the firm level into comparable market information that will, over time, impact pricing signals and costs of capital at the individual enterprise level.

Many financial sector actors rely on third party business information providers, credit bureaux and corporate credit and bond ratings agencies to provide risk information. At present, most of these information sources do not factor modern slavery and human trafficking into their analysis. If finance is to mobilize meaningfully against slavery and trafficking, that will need to change.

Webb and Keatinge explain the significance of benchmarks and ratings:

> *the lack of a… modern slavery benchmark for the financial sector makes it difficult to compare company performance driven by corporate policies and programmes, rather than by the inherent risks in client lending portfolios...*[326]

The absence of reliable company-level modern slavery benchmarks and ratings makes it difficult for financial entities to understand the modern slavery risk associated with a particular company, and how much of that risk is a product of the company's choices, rather than the products or services it offers. As a result, corporate risk identification and disclosure does not yet lead to reliable pricing signals or otherwise influence market behaviour at scale.

There may be limits to how far companies can go in outsourcing risk analysis without risking failing to meet their responsibility to respect human rights. Equally, though, we must be realistic about how that risk analysis works in practice and how modern slavery risks can and will be incorporated into business systems and practices.

At present, there is a cacophony of ESG reporting, benchmarking and ratings, with no dominant or harmonized standard – although there are some nascent signs of consolidation, for example through the Prince of Wales' Accounting for Sustainability (A4S) Project and the Sustainability Accounting Standards Board.[327] In the absence of uniform disclosure frameworks, private initiatives are emerging to try to elicit detailed ESG risk information, such as the Workforce Disclosure Initiative, backed by a coalition with USD 13.5 trillion under management, including Amundi, Legal & General Investment Management and UBS Asset Management.[328]

The resulting fragmentation of the disclosure space risks, however, leading to a backlash from individual firms, overloaded by demands for information from numerous private reporting initiatives.[329] That suggests a need for a more harmonized approach to disclosure, even if that consists only of developing a shared risk and activity taxonomy to allow inter-framework comparisons.

Comparability is highest where a limited number of ratings systems are used across the market – as is the case with corporate and municipal credit ratings. Ratings consumers gravitate to ratings providers that have the widest coverage (e.g. the highest number of investible entities covered) at the lowest cost. This can lead to superficial analysis, offering little value-add, and reinforcing scepticism about ESG ratings' overall utility. The Principles for Responsible Investment has fostered a discussion of ESG issues amongst the major credit ratings agencies, such as Standard & Poors, and Fitch and Moody's.[330] That discussion remains in its early days. Standard & Poors has begun issuing ESG analyses – not credit-rating products per se, but nonetheless likely to influence market actors, given its market position and share.[331] Yet within these kinds of analyses, the 'E' tends to outweigh the S and the G. Modern slavery risk is not yet clearly on these actors' radars. In that gap, anti-slavery organizations such as KnowTheChain have begun benchmarking exercises,[332] but they lack the scaleability of offerings from the major credit ratings agencies, and access to major business information dissemination channels.

As an intermediary step, however, governments could consider working together to develop shared taxonomies for disclosure of and action on modern slavery and human trafficking risks. This could be modelled on the approach taken to developing a taxonomy for sustainable activities to inform the European Commission's Action Plan on Financing Sustainable Growth, adopted in June 2019.[333] The Task-Force on Climate-Related Financial Disclosures, chaired by Michael Bloomberg, might also provide inspiration. It is developing voluntary, harmonized climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers and other stakeholders. A similar effort could seek to create harmonized disclosure arrangements for modern slavery and human trafficking risk.[334]

Another step could be the development of a shared, public, intergovernmental reporting and exclusions database. Multilateral development banks already have arrangements in place to mutually enforce each other's decisions to bar entities from competing for contracts, based on past association with fraud or corruption.[335] This includes the creation of a pooled, public database of debarment decisions and barred entities.[336] Governments and other public bodies could adapt this model to pool information from modern slavery reporting databases and decisions taken on exclusions and debarment under public procurement, investment and lending rules relating to modern slavery and human trafficking.

Finally, collaboration could aim, in time, to develop shadow pricing models for specific sectors or value chains. Shadow pricing is a monetary value assigned to a good or service that is difficult to assess – a sort of pricing benchmark. Shadow pricing models can be useful in due diligence because they allow for easier identification of anomalous pricing – such as underpayment of labour. They can also be useful for regulators. Shadow pricing models are likely to be much more easily developed and more useful for specific high-risk sectors if stakeholders work together to develop them, through pooling data and conducting joint analysis.

ACTIONS TO ACHIEVE GOAL 2

Drawing on the discussion in this chapter, we have identified a series of actions that financial sector actors can undertake to achieve this Goal. We separate these into those that can be undertaken rapidly – 'Act Now' – and those that may require longer preparation and development – 'Initiate'. The Actions across the five Goals are summarized in a Blueprint Summary Table at the front of the report.

Act Now

- **Collaborative learning on due diligence:** Financial sector entities work together to learn how to make modern slavery and human trafficking risk mapping real and routine, embedding it into all due diligence functions (compliance, legal, ESG teams, client-facing personnel, procurement, risk-analysis teams and managers). This should include developing due diligence guidance for specific high-risk business sectors or contexts, and for specific financial activities and functions (e.g. institutional investing, general corporate lending, project finance, hedge funds, private equity, insurance and reinsurance, and commodities trading). The aim is to strengthen mapping of risks to people, not just risks to business.
- **Foster digital and data innovation:** Invest in use of novel, non-traditional data streams, predictive analytics and digital worker engagement to strengthen due diligence. Deal parties and major financiers of specific high-risk sectors could collaborate to harness anonymized worker and survivor voice platforms for enhanced, participatory due diligence, complementing established institutions such as trade unions.
- **Public, intergovernmental reporting and exclusions database:** Governments and other public bodies should pool information from modern slavery reporting databases and decisions taken on exclusions and debarment under public procurement, investment and lending rules relating to modern slavery and human trafficking. This could adopt the approach to mutual enforcement of cross-debarment decisions taken by multilateral development banks to deal with fraud and corruption.[337]

Initiate

- **Taxonomy and harmonized disclosure regimes:** all stakeholders should work towards a common taxonomy of modern slavery and human trafficking risks and activities, as a first step towards harmonization of modern slavery-related financial disclosure and reporting regimes.
- **Corporate ESG ratings:** Credit and bond ratings agencies should factor modern slavery and human trafficking risks into emerging ESG ratings, or issue stand-alone modern slavery and human trafficking scores.
- **Collaborative value-chain mapping and shadow pricing modelling:** All stakeholders should collaborate on pre-competitive R&D to map high-risk value chains and build shadow pricing models that can be used to benchmark pricing and help identify anomalous labour management practices and other modern slavery and human trafficking risks.

GOAL 3 CREATIVE LEVERAGE

GOAL 3: USING LEVERAGE CREATIVELY TO MITIGATE AND ADDRESS MODERN SLAVERY AND HUMAN TRAFFICKING RISKS

In this chapter:

- Leverage is all about using influence in relationships to change outcomes. The force of finance lies in its ability to act as a lever by which the systemic performance of the entire global economy can be moved.
- When a company is connected to modern slavery and human trafficking through its business relationships it is expected to use its leverage to seek to prevent or mitigate that harm and, where necessary, build additional leverage.
- Leverage will depend on highly specific contextual factors, such as the nature of a transaction or relationship, the financial actor's share of financing, its control over the other entity's management, dependency dynamics, and the financial sector's own organizational profile. For example, general corporate lending creates different leverage dynamics to private equity ownership and active management; syndicated loans generate different dynamics to bilateral loans, and insurance coverage generates different dynamics to passive investment.
- Leverage is a distinct concept and question from liability: the existence of leverage (a social concept) is distinct from the existence of liability (a legal question). And the expectation of building and using leverage is not an expectation of making companies uncompetitive – let alone condoning anti-competitive conduct.
- We identify six distinct types of leverage, building on a typology first defined by Shift. First, two bilateral: 1) traditional commercial leverage (through contract audits, bidding criteria, loan conditions, commercial incentives, questionnaires and financial incentives), and 2) broader business leverage (such as capacity-building, awareness-raising and bilateral advocacy). Next, two collaborative: 3) working with one or more business partners (such as creating shared industry supplier requirements), and 4) working with one or more non-commercial partners (for example involving government, international organizations, trade unions or civil society). Third, two system-level: 5) multi-stakeholder cooperation to create 'ecosystem' change, and 6) platform leverage, embedding anti-slavery and anti-trafficking in the financial operating systems on which other market actors rely (such as payment systems).
- The FAST Leverage Practice Matrix provides illustrative examples of each of these different types of leverage being used by financial sector actors, across different sub-sectors.
- In the construction sector, responsible for around 18 per cent of estimated global forced labour, financiers have significant leverage to embed anti-slavery and anti-trafficking measures, including cascading contractual clauses, contract management plans, and independent monitoring arrangements into deal and project agreements. Some of these techniques are now migrating to related areas, such as real estate management.
- Other areas that may warrant close scrutiny and the development of specialized leverage guidance include insurance (e.g. through the UNEP Finance Initiative Principles for Sustainable Insurance), stock exchange management (the United Nations Sustainable Stock Exchanges Initiative), institutional investing (both active and passive) (through Principles for Responsible Investment) and trade finance (the ICC Sustainable Trade Finance Initiative).
- Leverage arrangements could also be embedded in enterprise technology, by turning business clients into sources of relevant ESG data that financial sector actors can use to engage their clients in detailed discussions about modern slavery and human trafficking risk reduction.

- Ultimately, repeated efforts to build and use leverage in a business relationship may not succeed. At that point, financial sector actors may need to consider exit from the business relationship, which may involve exclusion or divestment. This possibility is best announced upfront, during the formation of the business relationship – maximizing the resulting leverage throughout the relationship.
- But financial sector actors must also ensure that divestment and exclusion will not lead to increased modern slavery or human trafficking risks for people, for example because they lose their livelihoods and are forced into risky migration or labour practices. The aim of divestment must be to reduce risks to people, not just the business. And for that reason, exclusion and divestment should not be seen as necessarily final and permanent, but rather as one stage in a complex process of building and using trust and influence.
- Finally, we need to increase reporting on and transparency in use of leverage by companies and investors. Without greater transparency, it is not possible for financial markets to connect individual enterprise behaviour with resulting risk. As a result, leverage practices will not be reflected in prices or in costs of capital. Financial sector actors should consider how to benchmark and evaluate leverage behaviours to translate this into useable market information.

Leverage is all about influence and relationships. In the financial world, the term 'leverage' relates to the use of borrowed funds to increase returns on investment. A highly leveraged entity has more debt than equity. In the broader sustainability discussion, however, 'leverage' connotes something else: a company's "ability to effect change in the wrongful practices of an entity that causes a harm".[338] What these two uses of the term 'leverage' have in common is the concept of advantage, or amplification: the idea that an entity can use a mechanism (a lever) to produce impacts beyond its own prior reach.

Financial sector actors stand apart from other business actors in their potential use of leverage, because financial sector actors have uniquely extensive and influential relationships across other business sectors. As David Kovick and Rachel Davis of Shift have recently noted, "when financiers express interest or concern this can help the [other] business see social risks as material risks, leading to a different type of response."[339] 'Leading to a different type of response' is exactly what leverage is all about: using influence to amplify impacts. This is what Roel Nieuwenkamp, the former Chair of the OECD Working Party on Responsible Business Conduct, calls the "force of finance".[340] Finance itself is a lever by which the systemic performance of the entire global economy can be moved.

Any attempt to scale up engagement to address modern slavery and human trafficking risks must take leverage – in this broader sense – into play. And the financial sector, through its extensive relationships within, and influence over, other businesses, has a uniquely important role to play in amplifying efforts by business, generally, to address modern slavery and human trafficking. Understanding how the financial sector can best use its leverage is thus central to any effort to mobilize finance against modern slavery and human trafficking. What it means to commit to this Goal – using leverage creatively – is the focus of inquiry in this chapter.

LEVERAGE: THE 'FORCE OF FINANCE'

The prevailing framework capturing social expectations on business use of leverage is set out in the United Nations Guiding Principles on Business and Human Rights, and the OECD's Guidelines for Multinational Enterprises. This framework makes clear that leverage comes into play when a company identifies adverse human rights impacts which it may have contributed to, or which are linked to its operations, products or services, but are caused by an entity with which it has a business relationship. That can include, for example, subsidiaries, suppliers, buyers, distributors, governments or joint-venture partners.[341] When a company is connected to such a harm through its business relationships, it should use its leverage to seek to prevent or mitigate that harm, and where necessary, build additional leverage.

What does 'using leverage' mean? It is essentially about using influence, within relationships, to mitigate and address adverse human rights impacts. In relation to modern slavery and human trafficking, that means encouraging other businesses to which a financial sector entity is connected to address cases of modern slavery and human trafficking they are causing or to which they are contributing, and to change practices or arrangements that may cause those incidents in the future.

And in some cases – where the financial sector entity is causing or contributing to modern slavery or human trafficking (a distinction explained in the second chapter of this report) – it also means thinking about remedy. We discuss remedy further in the next chapter.

A product of relationships

Building and exercising this kind of influence can, of course, be complicated. There may be limits to the leverage a financial institution can build and use based on client confidentiality, privacy and competition law restrictions.[342] Other factors may also be relevant, including:

- **The nature of the transaction.** The leverage available to an entity providing working capital to a corporate borrower will look very different to the leverage available during operation of a project-financed Special Purpose Vehicle.
- **The share of financing** the financial sector entity provides. Leverage in a syndicated loan context will operate differently to leverage in a bilateral investment. Similarly, the leverage of a majority shareholder is very different to the leverage of a minority shareholder – though minority shareholders should still seek to exercise leverage.[343]
- The financial entity's **control over the other business's management**. The leverage of active manager institutional investors will look quite different to that of institutional investors that are passively invested through index funds. Equally, the leverage of a private equity firm will be different to that of a commodity trader or insurance broker; and that of a general partner will be significantly greater than that of a limited partner. The same institutional investor may have more control over an unlisted or direct private market investment – where it can incorporate these considerations into legal arrangements – than over a publicly listed company, where it may rely more on cooperation with other shareholders to exert influence.
- **The level of dependency** in the relationship. This may be a product of the duration of the relationship, its centrality to the operation of each business, and/or how easily an entity could be replaced by another.[344]
- The financial sector entity's own **organizational profile**. Resource constraints are relevant. A large institutional investor may have quite different leverage to a small private wealth manager, even if its equity position in a third company is the same.

This points to a need for detailed guidance on building and exercising leverage in the context of different kinds of financial entities and transactions. That guidance is just beginning to emerge – see Figure 21.

Figure 21: Key guidance on leverage in different financial contexts

International standards and frameworks:

- UN Guiding Principles on Business and Human Rights (2011). See also UN Office of the High Commissioner for Human Rights (OHCHR),[345] Frequently Asked Questions about the Guiding Principles on Business and Human Rights (2014),[346] and The Corporate Responsibility to Respect Human Rights: An Interpretative Guide (2012).[347]
- Organization for Economic Cooperation and Development (OECD), OECD Guidelines for Multinational Enterprises (2011).[348] See also OECD Due Diligence Guidance for Responsible Business Conduct (2018),[349] Responsible business conduct for institutional investors: Key considerations for due diligence under the OECD Guidelines for Multinational Enterprises (2017),[350] and the forthcoming Guidance for Corporate Lending and Securities Underwriting.[351]
- International Finance Corporation, IFC Performance Standards on Environmental and Social Sustainability (2012).[352]
- Equator Principles (2013)[353] and Equator Principles – Draft for consultation (June 2019).[354]

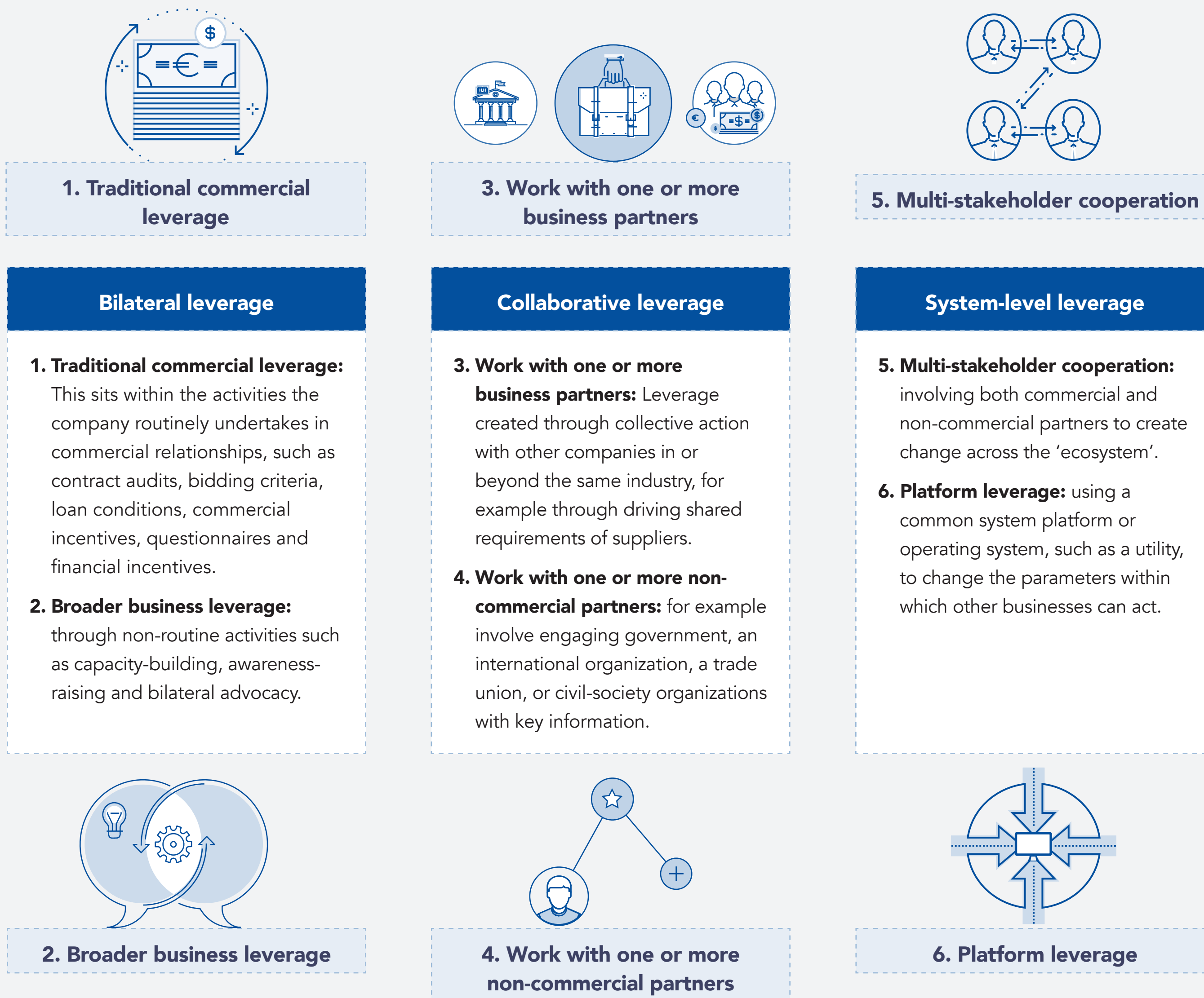
Other useful resources:

- UN Working Group on Business and Human Rights, Economic diplomacy as a tool for States to promote corporate respect for human rights (2018).[355]
- CDC Group, European Bank for Reconstruction and Development, International Finance Corporation, UKAID, Managing Risks Associated with Modern Slavery: A Good Practice Note for the Private Sector (2018).[356]
- Institute for Human Rights and Business (IHRB), The Commodity Trading Sector Guidance on Implementing the UN Guiding Principles on Business and Human Rights (2018.)[357]
- Responsible Investment Association Australasia (RIAA), Investor Toolkit: Human rights with focus on supply chains (2018).[358]
- CDC Group, ESG Toolkit for Fund Managers: Briefing Note on Human Rights (2016).[359]

Bilateral, collaborative and system-level leverage

Looking across existing practice and analysis, we found that leverage can be exercised in six different ways – two involving the bilateral relationship between two entities; two involving collaboration with other parties; and two involving system-level change. This typology was originally pioneered by Shift, the leading centre of expertise on business and human rights; we have added 'Platform' leverage.[360] These types of leverage are set out in Figure 22 and discussed at further length in the remainder of this chapter.

Figure 22: Six types of leverage



Original typology by Shift Project, Ltd.

What leverage is not

Before we discuss each of these categories at more length, however, it is important to be clear about what leverage is not.

First, leverage is not a question of asking business to put itself at an unfair commercial disadvantage. Finance has a crucial role to play as an enabler of business and all its positive social impacts. Business sometimes expresses concern that action on ESG issues may create obstacles to enabling business, and that those acting on ESG may place themselves at a cost disadvantage when compared to their peer competitors. Increasingly, however, as consumer and investor appetite for sustainable business choices increases, first-mover actions provide a commercial advantage, not a disadvantage. And building and using leverage can be understood in similar terms: it both increases the internal sustainability of a business, and helps it lay claim to a public reputation for sustainability.

Second, whether a company has leverage is not the same question as to whether it has liability. Whether a company has leverage is not a legal question. A financial entity may have leverage but limited or no liability exposure – for example because it is a long-standing client of a particular service provider, or a minority shareholder (in certain circumstances). Equally, a company may in some cases have liability arising from another business's actions, but limited leverage over those actions.

Third, using leverage is not a binary process – or simply a question of threats or coercion. Building and using leverage is an incremental process of developing trust and influence. As we discuss further later in this chapter, exclusion and divestment may not be the first resort. In some cases, it may be the end of a longer road involving taking steps to build and exercise influence.

THREE APPROACHES TO LEVERAGE: BILATERAL, COLLABORATIVE AND SYSTEMIC

In this section we discuss the three approaches to leverage – bilateral, collaborative and systemic – involving the six types of leverage identified above in Figure 22. In each discussion, we provide illustrations from recent financial sector practice. These illustrations are summarized in Figure 23, the FAST Leverage Practice Matrix. An interactive version of the Matrix, which forms part of the FAST Implementation Toolkit, is available online. It is intended to help financial sector entities in each of the different sub-sectors identified in Figure 5 understand what possible approaches to leverage may look like.

Bilateral leverage

Leverage exercised by a financial sector entity over another entity – is most likely to arise out of traditional commercial mechanisms. It can also involve going beyond these mechanisms.

Figure 23: The FAST Leverage Practice Matrix

Practical examples of the financial sector building and using leverage on and around modern slavery and human trafficking.

	Bilateral leverage		Collaborative leverage		System-level leverage	
	Commercial leverage	**Broader leverage**	**With other businesses**	**With non-commercial actors**	**Multi-stakeholder action**	**Platform leverage**
Banking institutions and securities firms	Mizuho: anti-slavery contract clauses, questionnaires Singapore: 15-bank credit facility with in-built ESG performance incentives	Citi and ING: advice and support to at-risk clients Westpac: client awareness-raising and discussion ABN Amro: thematic engagement with non-client value-chain participants	Platform Living Wage Financials: multi-financial actor collaboration to assess investees on living wages issues	Agrisector banker training by ABN Amro and the Dutch police	Dutch Banking Sector Agreement Soft Commodities Compact to transform palm oil, soy, beef and timber supply chains	
Foreign exchange and money transfer	PayPal: cascaded anti-slavery contract and Code of Conduct clauses	Western Union: third party agent training				
Institutional investment and asset management	Norway Government Pension Fund Global: exclusion process New York State Common Retirement Fund: active ownership measures, including shareholder proposals	NEI Investment: client dialogues New Zealand Super Fund: secure ESG portal for directors of invested companies	ICCR and ABP et al.: shareholder action PRI members: active ownership, inc. on slavery Daewoo: investment fund pressure through formal governance processes PRI, APG and Hermes: cobalt initiative RIAA: investor toolkit Swiss investors' call for mandatory human rights due diligence framework	Japan Government Pension Investment Fund: joint research project with World Bank	Dutch Responsible Business Conduct Agreement on responsible investment by pension funds	

Figure 23: continued

	Bilateral leverage		Collaborative leverage		System-level leverage	
	Commercial leverage	**Broader leverage**	**With other businesses**	**With non-commercial actors**	**Multi-stakeholder action**	**Platform leverage**
Insurance	Arthur J Gallagher: contract renewals				Egyptian national sustainable insurance strategy	
Credit market	JP Morgan Chase: Code of Conduct clause					Exclusion: Visa, MasterCard and Amex excluded backpage.com after allegations of trafficking
Concessional and impact-oriented investment	CDC (UK): contract clauses and guidance to financing recipients BNDES (Brazil): influence over commercial banks to induce exclusions Atradius Dutch State Business (Netherlands): screening and exclusion clause Rockefeller Foundation: Social Impact Bonds including some with anti-slavery impact	CDC: guidance to fund managers GIEK (Norway): engagement with upstream suppliers	OECD: Common Approaches for ECAs	Atradius DSB (Netherlands): working with Dutch government ministries to exercise leverage	Honduras: FMO (the Dutch development bank), the IFC and the Asociación Hondureña de Instituciones Bancarias (AHIBA) cooperated on a two-year ESG project to train bank practitioners and strengthen the local regulatory framework	IFC collaboration on Sustainable Shipment Letter of Credit
Financial regulators	Peruvian Superintendency initiative on human rights due diligence in certain advisory and loan services			IFC-backed Sustainable Banking Network focused on emerging market regulatory agencies, banking associations and national roadmaps for sustainable finance ESG requirements for banks adopted by Central Bank of Mongolia in collaboration with banking association and others		Rule on exclusion of slavery from rural credit scheme adopted by Brazil Central Bank ESG requirements for banks adopted by central banks of Brazil, Mongolia, Nigeria, Peru, and Viet Nam

Figure 23: continued

	Bilateral leverage		Collaborative leverage		System-level leverage	
	Commercial leverage	**Broader leverage**	**With other businesses**	**With non-commercial actors**	**Multi-stakeholder action**	**Platform leverage**
Financial utilities	London Stock Exchange Group: contract clauses and supplier Code of Conduct	London Stock Exchange Group: written guidance and webinars				London Metal Exchange: consultation on responsible sourcing requirement from 2022
Digital finance					TAHub: anti-trafficking data hub Provenance: fintech collaboration on using blockchain to create incentives for verifiable sustainability claims	
Ancillary service providers		Deloitte: application of assessment tool + training				

Traditional commercial leverage

Traditional commercial leverage sits within the activities the company routinely undertakes in commercial relationships, such as contracting, audits, setting bidding criteria and loan conditions, providing commercial incentives, questionnaires and financial incentives. All of these tools can be used to encourage business away from practices that can foster modern slavery and human trafficking. Of course, the nature and scope of leverage that arises will depend on the business lines involved, and the various factors discussed above – including share of financing, managerial involvement, dependency and organizational capacity. Meaningful monitoring is usually essential.

- Financial sector entities that have incorporated **anti-slavery clauses** into contracts range from Mizuho, a Japanese-headquartered bank,[361] to PayPal,[362] the online payments provider, to Hermes Investment Management.[363] Some development finance institutions, such as CDC (the UK development finance institution), incorporate related labour and working condition requirements into loan and investment agreements, based on IFC Performance Standard 2.[364]
- Anti-slavery clauses have also been incorporated into **supplier codes of conduct** by entities ranging from PayPal to JPMorgan Chase[365], and from the London Stock Exchange Group[366] to Bloomberg.[367]
- Arthur J. Gallagher Insurance Brokers uses its **leverage during contract renewals** to ensure that living wages are paid to all personnel providing services to them, as a way to prevent their vulnerability to modern slavery.[368]
- Institutional investors **use active ownership strategies**, including using official governance roles to put pressure on entities in which they have a stake. One example is offered by the New York State Retirement Fund.[369] The Norwegian Government Pension Fund Global – the world's largest sovereign wealth fund – has developed a sophisticated exclusion process (discussed further below).
- In Singapore, a group of 15 banks operating as a 'green club' have built ESG **performance incentives** into a USD 500 million credit line to Olam, one of the world's leading food traders. The trader will receive lower interest rates if it hits a set of 50 ESG targets. The banks involved are: ABN Amro, ANZ, Bank of Tokyo-Mitsubishi UFJ, BNP Paribas, Commerzbank, Commonwealth Bank of Australia, DBS, HSBC, ING Bank, Mizuho Bank, National Australia Bank, Natixis, Rabobank International, Standard Chartered and UniCredit Bank.[370]
- The Olam green club loan is based on measurement of performance by Sustainalytics, an ESG-oriented consultancy. One opportunity not yet widely exploited, however, is to **build anti-slavery leverage into enterprise technology** – to create automated monitoring and reporting, and to trigger micro-incentives. This would be distinct from the incorporation and use of external (third-party) anti-slavery risk data into enterprise technologies, as pioneered by FRDM.[371] Instead,

this would treat business clients themselves as sources of ESG-related performance data for monitoring and analysis by investors and financiers. This would allow discussion and dialogue about modern slavery and human trafficking risk-reduction measures. Additionally, this in-house data could be anonymized and pooled outside the enterprise generating it, helping to drive more effective analysis of systemic risk, and strengthening our understanding of ROI. Provenance, a collaboration between Cambridge University, Halotrade, BNP Paribas, Barclays and others to build a blockchain technology incentivizing verifiable sustainability claims, points to how such solutions may emerge in future – and how they will increase the leverage of those involved.[372]

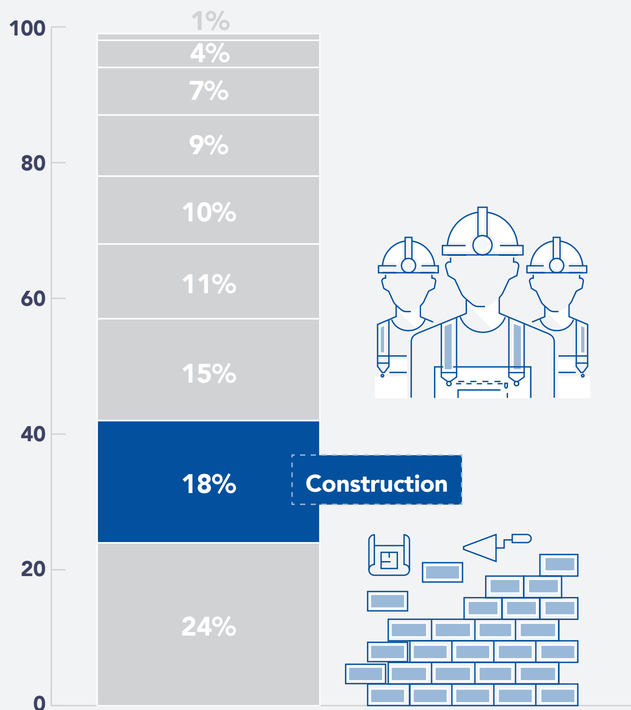
Broader bilateral leverage

Financial sector entities may also be able to build and exercise leverage through non-commercial mechanisms and activities. This is often an important way to build client understanding of contractual terms, creating a basis for more effective commercial leverage. Examples of non-commercial leverage are diverse:

- Some financial sector entities, such as Citi, have provided **direct advice to clients** on how they can mitigate and address human rights risks.[373] ING provides an example of helping a client manage a sub-contractor's retention of workers' passports, to ensure this does not contribute to modern slavery risk.[374] The New Zealand Super Fund gives the directors it appoints to boards of investee firms access to a secure portal with relevant guidance and materials.[375] Others, such as NEI Investments, an institutional investor, convene **client dialogues** on relevant themes.[376] Westpac has convened major corporate and institutional customers specifically to discuss modern slavery risks.[377]
- Deloitte has increased and used its leverage by allowing clients to **apply a proprietary assessment** tool to identify modern slavery risks, and then offered training to mitigate these risks.[378]
- Others provide **training** beyond their own pay-roll. Western Union, for example, provides training to its third-party agents on identifying and reporting human trafficking.[379]
- Other financial entities **work directly with third parties up and down the value chain**. GIEK, the Norwegian export credit agency, has formally committed to using its leverage to address negative human rights impacts in the supply chains in which many of its beneficiaries operate. This includes forced labour in hull construction, an upstream risk for many of its ship-building clients. To do this, GIEK engages directly with the construction yards, with whom it has no direct commercial relationship. Its leverage arises not from any direct commercial link, but from its importance to the value chains that these construction yards feed into; its established and recognized expertise; the unity of messaging it offers between relationship managers and its ESG team; and its ability to translate social risk into the language of business opportunity.[380] ABN Amro also conducts thematic workshops, including with non-client entities in key value chains to which ABN Amro is exposed.[381]

Figure 24: Commercial leverage in the construction and property-management sectors

One sector in which we can see financial actors' potential for leverage is the area of construction and property management.



Source: Figure 9, Modern Slavery Estimates, ILO

The ILO estimates that the construction sector is the site of 18 per cent of all forced labour – the second highest industrial estimate after domestic work.[382]

This is often closely linked to coercive, fraudulent and abusive practices by labour recruiters.[383] The high up-front costs involved in much of the construction sector, especially around large infrastructure projects, mean that lenders and insurers[384] play an important role in the sector, and have significant leverage, especially at the front-end of projects, to put in place modern slavery and human trafficking risk mitigation measures (and remedial arrangements, discussed further in the next chapter).

In the project finance sphere, the Equator Principles system has prompted some lenders to use contractual provisions and Environmental and Social Action Plans to put such risk mitigation measures in place. Although there are critics of the Equator Principles' approach to due diligence,[385] these arrangements increasingly oblige parties to respect certain laws and standards, including the ILO Core Labour Standards and the IFC Performance Standards, plus various health and safety laws, employment terms and environmental laws that help to prevent modern slavery and human trafficking.

Some such arrangements also oblige borrowers to confirm their compliance with these standards, and introduce Lenders Independent Environmental and Social Advisers to act as independent assessors in the process, and throughout the construction project. Often these arrangements require project developers to cascade these requirements down through sub-contracting arrangements. Some use construction management plans to define environmental and social (including labour and occupational health and safety) requirements for contractors on site.

These arrangements often make the prevailing interpretation of these standards dynamic – meaning that the project cannot rely on the interpretation in force at the time the project documents are concluded, but must stay abreast of subsequent judicial or administrative interpretation. This makes these project frameworks powerful transmission mechanisms for translating judicial and administrative change into practice, at scale.

Increasingly, these preventive arrangements are migrating outside the project finance (and Equator Principles) context to other financial transactions involving construction, project development and real asset management. In the UK, for example, some property managers have introduced anti-slavery and anti-trafficking language into lease agreements and construction documents.[386] And there may be scope to introduce modern slavery and human trafficking considerations into relevant sectoral ESG discussions, such as the Global Real Estate Sustainability Benchmark.[387]

Collaborative leverage

The logic of collaborative leverage is no different to that of bilateral leverage – it involves the same creative development and use of influence within relationships. It differs in execution. Here, businesses work together, or with other non-commercial entities with relevant influence or capabilities, to seek to influence a business that is causing or contributing to adverse human rights impacts, or a broader dynamic around a systemic human rights challenge.

This concept is not new to the financial sector. 'Collective action' has played an important role in anti-corruption efforts.[388]

In an example from outside the anti-slavery sector, 11 global banks, including Citi, Société Générale and Danske Bank, recently announced the adoption of the Poseidon Principles, which establish a framework for collective action assessing and disclosing the climate alignment of ship finance portfolios.[389] Examples of collaborative leverage more closely related to modern slavery and human trafficking include:

- **Collaboration to provide guidance to third parties.** CDC, IFC, the European Bank for Reconstruction and Development, and the UK Department for International Development recently issued written guidance on dealing with modern slavery risk.[390]
- Collective **shareholder actions**: the Interfaith Center on Corporate Responsibility mobilizes Fortune 500 share owners to take joint actions including letter writing and shareholder proposals and motions. These efforts have led to corporate action on issues including trafficking vulnerabilities in an agricultural supply chain.[391] Other minority shareholders, including institutional investors such as ABP and APG in the Netherlands, have also at times agreed to use their shareholder and investor influence jointly to improve corporate social performance.[392]
- Other examples of **active ownership** such as: an effort by PRI members around working conditions in agricultural supply chains,[393] another PRI effort focused on a Thai seafood company with modern slavery risk,[394] or the pressure exerted by a number of pension funds on Daewoo to encourage it to cease purchasing Uzbek cotton produced with forced labour.[395] Similarly, Platform Living Wage Financials (PWLF), a Dutch investor coalition with EUR 2.3 trillion assets under management, encourages and monitors investee companies to address the non-payment of living wages in global supply chains.[396]
- **Industry associations**, such as the Responsible Investment Association Australasia (RIAA), have developed toolkits and guidance.[397] In Switzerland, 22 institutional investors with CHF 395 billion in assets under management have jointly called on the Swiss Parliament to adopt mandatory human rights due diligence legislation.[398]
- Financial sector entities can also **take action with non-financial entities** – including civil society and regulators. Barclays has partnered with civil-society organization Stop the Traffik to provide training and awareness-raising material, including videos, pamphlets and events. In the UK, Fidelis and other insurers are working with a regulator, the Gangmasters and Labour Abuse Authority, to develop standardized modern slavery exclusion clause language. And in the Netherlands, Atradius Dutch State Business (DSB), the export credit guarantee agency, has partnered with relevant government ministries to amplify its influence and address risks.[399]

System-level leverage

Finally, a third approach to building and using leverage is through system-level action: changing the way the whole system operates.[400]

The ecosystem approach to multi-stakeholder action

Most attention, to date, has been paid to achieving system-level leverage by engaging stakeholders from across the system. Sometimes called the 'ecosystem' approach, this has focused on multi-stakeholder action. This approach recognizes that sustained impact may not be achieved through linear influence, but could be through combining leverage in ways that lead to an ecosystem tipping from one equilibrium set of behaviours or practices to another. It is an approach premised on systems thinking.[401]

There is significant room for financial sector actors to build and use their leverage in this way, as several recent and ongoing examples show:

- In the Dutch International Responsible Business Conduct framework, described above in Figure 20, financial sector actors work with each other, the Government, civil society and trade unions in various ways that develop their collective leverage. In the Dutch Banking Sector Agreement, for example, banks commit to jointly map commodity value chains to align on which severe human rights risks the banks should prioritize, and identify new approaches to building and using leverage to address those risks.[402]
- The Banking Environment Initiative (BEI) and the Consumer Goods Forum (CGF) set up a Soft Commodities Compact in 2010. Eleven banks have signed up to the compact, which focuses on transforming the supply chains for palm oil, timber products, soy and beef, all high-risk sectors for modern slavery.[403]
- Financial sector actors also participate directly in numerous multi-stakeholder alliances aimed at ESG outcomes in specific commodity markets: the Roundtable on Sustainable Palm Oil (RSPO),[404] the Diamond Development Initiative,[405] and the Round Table on Responsible Soy.
- Barclays, Lloyd's Banking Group and Western Union have worked with Europol, IBM, Stop the Traffik and other stakeholders to develop a Traffik Analysis Hub (TAHub) to provide big-data analysis of modern slavery risks.[406]
- The Egyptian insurance industry is working with financial regulators and United Nations representatives to develop a national sustainable insurance strategy by 2020.[407]

Other areas that may warrant close scrutiny as potential venues for developing collaborative leverage – or even simply specialized leverage guidance – include insurance (e.g. through the UNEP Finance Initiative Principles for Sustainable Insurance), stock exchange management (the United Nations Sustainable Stock Exchanges Initiative), institutional investing (both active and passive) (through Principles for Responsible Investment) and trade finance (the ICC Sustainable Trade Finance Initiative).

But systems thinking also tells us that some actors in an ecosystem have more influence over these equilibria than others. And in the financial sector, those that control the business platforms on which the financial sector operates loom increasingly large. It is to these 'platforms' that we now turn.

Platform leverage

A final form of leverage that has not received significant attention to date is what we might call 'platform leverage'. This involves using control of market platforms, financial operating systems or utilities on which other actors rely to impede conduct that generates modern slavery and human trafficking risks. These business platforms include payment clearing and settlement systems, lenders of last resort (including central banks), business information providers (such as Bloomberg terminals) and other emerging financial sector utilities.

An example from the electronic payment systems arena provides an illustration of the potential of this approach. In 2015, Visa, MasterCard and Amex collectively excluded the adult page of backpage.com from access to their payment services, to address credible allegations of use of the page for sex trafficking.[408] This was a major blow to the entity, cutting it off from the major electronic payment systems available. And this collective action to deny backpage.com access to this fundamental business platform sent powerful signals to all other users about market expectations and the willingness of payment system operators to use their platform leverage to enforce laws against modern slavery and human trafficking.

Similar results might be achievable by rewriting standardized terms or instruments, used widely within a market – the 'code' or platform on which the market operates. For example, the International Finance Corporation has worked with a group of banks and the University of Cambridge to develop a Sustainable Shipment Letter of Credit.[409] This incorporates sustainability criteria into issuance of the credit instrument to an importer, and in the process significantly lowers the costs of capital involved in financing the importation. This was specifically intended as a way to 'rewrite the rules' in a way that benefits not just individual players, but also helps to reduce the level of risk at the systemic level.[410]

Central banks arguably provide another central financial market 'platform', providing lending backstops and overnight deposit functions. Central banks increasingly exercise leverage over other banks through formulation of rules that embed ESG requirements into the terms of banks' access to the systemic services those central banks provide. Such rules have been adopted in Brazil, Mongolia,[411] Nigeria,[412] Peru[413] and Viet Nam.[414] In Brazil,[415] the Central Bank has embedded a specific anti-slavery rule into banks' participation in the rural credit scheme.[416] This suggests there is more that other central banks could do to use their platform leverage to address these issues.

EXCLUSION AND DIVESTMENT

Across these different types of and approaches to building and using leverage, a common question recurs: when should an organization simply terminate a business relationship with an entity that is causing or contributing to a serious human rights harm, such as modern slavery or human trafficking? In the financial sector, this often translates to a question of when a company should be excluded from receiving the financial entity's business, or when a divestment should occur.

There is growing practice in this area from which we can all learn. In 2017, the Norwegian Council on Ethics (an advisory body to the Norwegian Government Pension Fund Global [GPFG]) recommended that GPFG exclude Polish property development company Atal SA from the fund, due to its use of a subcontractor which had used workers from the Democratic People's Republic of Korea at Atal's construction sites. The Council of Ethics explored both Atal's connection to past forced labour violations and the steps it had taken to prevent future ones.[417] And in 2019, Rabobank and Citi withdrew hundreds of millions of dollars of funding from Indofood, an Indonesian food company.

This followed investigations by the Roundtable on Sustainable Palm Oil, to which Indofood then belonged, into environmental concerns and exploitative labour practices in Indofood's palm oil operations – including cases of child labour, unpaid workers, precarious employment, gender discrimination and toxic working conditions. In November 2017, RSPO issued a decision requiring Indofood to address worker exploitation.[418] It refused, and RSPO cancelled its membership. The bank divestments followed.[419]

The prevailing guidance makes clear that ultimately a business relationship may have to be terminated if efforts to exercise leverage aimed at addressing an adverse human rights impact prove unsuccessful. Emerging practice suggests that it is most effective to be clear upfront about the possibility of disengagement should adverse human rights impacts be identified and unaddressed – i.e. when entering into new business relationships.[420] This makes the possibility of divestment and exclusion more credible, and can help provide a framework for graduated use of leverage, up until the point of withdrawal from the relationship. This may involve repeated cycling through processes of dialogue, engagement and attempts to address risks and harms. In operational terms, it may involve use of periodic or ongoing monitoring to identify emerging concerns, dialogue and use of leverage with the company to seek to address these concerns, and development of new leverage to try and induce changed behaviour. Figure 25 provides a schematic representation of what the path to disengagement, exclusion and divestment may look like.[421]

As the diagram, adapted from an authoritative United Nations publication, makes clear, the path to divestment will depend in part on how 'crucial' the relationship is to the parties. The more crucial this relationship, the longer may they be expected to draw out mitigation attempts. This is an incremental process, not a binary one.[422] On the other hand, where a harm is very severe or irremediable, there may be an expectation of a more rapid termination of the relationship.[423] And where an entity's leverage is limited and the relationship with the other entity causing the harm is not close or crucial, withdrawal may happen fairly rapidly. For example, in 2018 ABN Amro concluded that it was directly linked to adverse human rights impacts around the Dakota Access Pipeline project; it had not financed the project, but had a relationship with the parent company of one of the pipeline construction companies. Realizing it had no leverage, ABN Amro withdrew from that business relationship.[424] Yet in some such cases, divestment may do little to address modern slavery or human trafficking risks buried far down a supply chain, and so divestment and exclusion may be of limited value.

What is critical is to remember the purpose of disengagement. The aim must not be simply to reduce the business's risk exposure, but also to reduce the risk exposure of people. Divestment screens should not encourage divestment as soon as controversy arises; they must instead consider not only what leverage options are available to the business, but also whether withdrawal could, in fact, increase risks to people. Overly rapid divestment from supply chains involving forced labour or child labour could, for example, leave people without access to alternative livelihoods, and leave them with little choice but to undertake perilous migrations or seek work in other dangerous and exploitative circumstances.

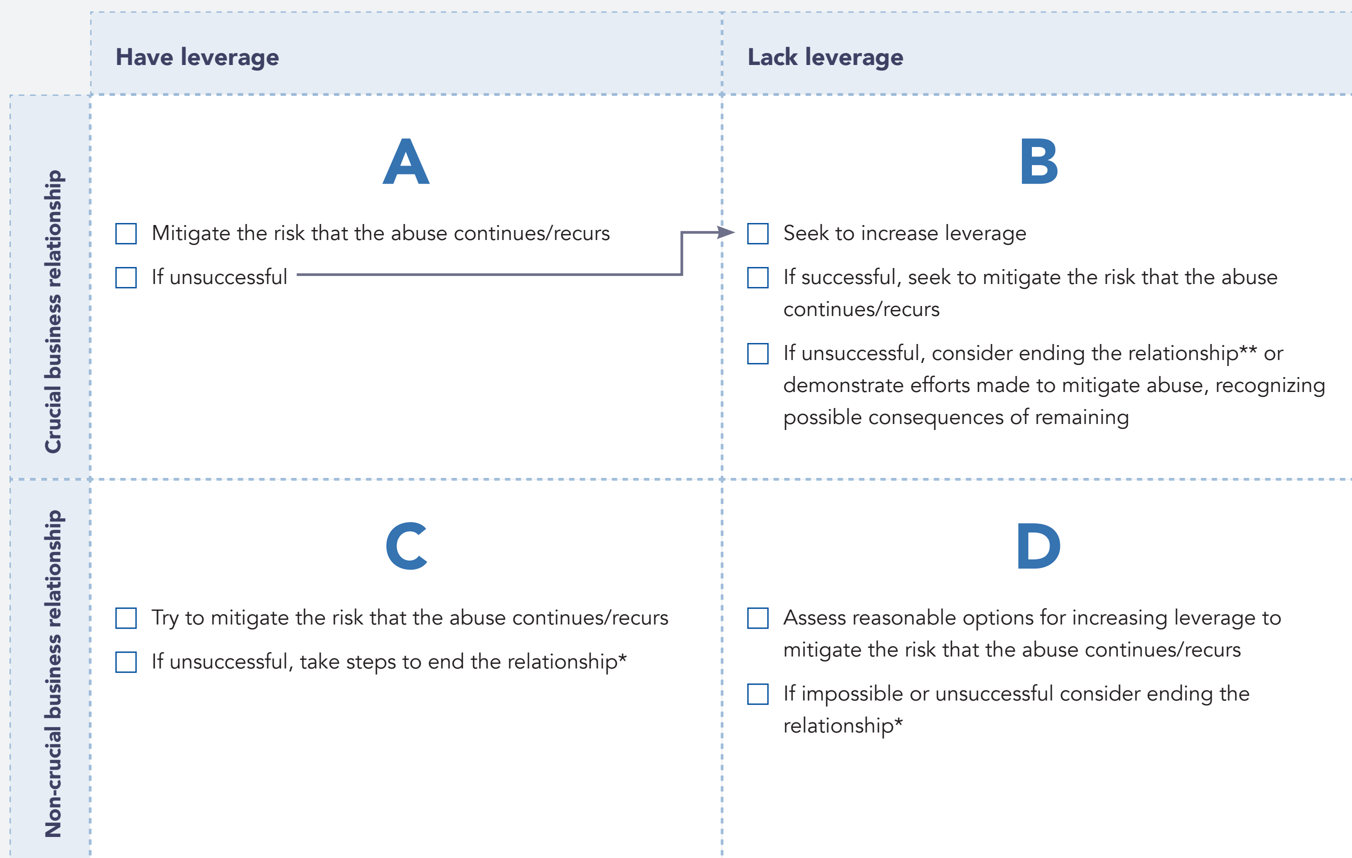
STRENGTHENING TRANSPARENCY IN HOW LEVERAGE IS USED

Questions of divestment and exclusion thus have much in common with the challenges around financial de-risking, discussed above. Yet they also differ: where a company does decide that withdrawal is the best way to reduce people's risk of exposure to modern slavery and human trafficking risks, there is an argument that the underlying risk assessment – or at least its conclusion – should be communicated to other market actors. Divestment and exclusion are not just about de-risking the business, but also de-risking the market itself.

This is evident in how the Norwegian Government Pension Fund Global, mentioned above, uses its leverage. As it is one of the largest and most prominent sovereign wealth funds in the world, GPFG's exclusion and divestment decisions have an important market-signalling component. Equally important are the less-highlighted tools of the Council on Ethics for issuing 'observations' (which can put businesses on notice) and considering 're-inclusion', which can create powerful incentives for change in companies that have been excluded. Exclusion should, in that sense, be seen not as an endpoint but as one stage, potentially temporary, of a complex process of building trust and influence, and using it to achieve systemic outcomes that help end modern slavery and human trafficking.

That will be a highly context-specific process. Nonetheless, there may be a need for further guidance and benchmarks, and greater reporting on leverage behaviours, to allow financial sector actors to better compare companies' leverage performance, and to measure systemic impact.[425] Without greater transparency it is not possible for financial markets to connect individual enterprise behaviour with resulting risk. As a result, leverage practices will not be reflected in prices or in costs of capital. Financial sector actors should consider how to benchmark and evaluate leverage behaviours.

Figure 25: Getting to No – the path to divestment and exclusion



* Decisions on ending the relationship should take into account credible assessments of any potential adverse human rights impact of doing so.

** If the relationship is deemed crucial, the severity of the impact should also be considered when assessing the appropriate cause of action.

Source: UN OHCHR, 2012, The Corporate Responsibility to Respect Human Rights: An Interpretative Guide, p. 50.

ACTIONS TO ACHIEVE GOAL 3

Drawing on the discussion in this chapter, we have identified a series of actions that financial sector actors can undertake to achieve this Goal. We separate these into those that can be undertaken rapidly – 'Act Now' – and those that may require longer preparation and development – 'Initiate'. The Actions across the five Goals are summarized in a Blueprint Summary Table at the front of the report.

Act Now

- **Differentiated leverage guidance:** Develop guidance for using leverage in specific market areas or financial roles – including insurance (e.g. through the UNEP Finance Initiative Principles for Sustainable Insurance), stock and commodity exchange management (the United Nations Sustainable Stock Exchanges Initiative), institutional investing (both active and passive) (through Principles for Responsible Investment) and trade finance (the ICC Sustainable Trade Finance Initiative).
- **Collaborative leverage in high-risk sectors such as construction:** Accelerate collaborative leverage efforts in high-risk sectors such as construction and infrastructure financing.
- **Promote leverage reporting and transparency:** Financial sector entities monitor, assess and communicate their own leverage performance, drawing on differentiated leverage guidance.

Initiate

- **Explore platform leverage:** Look at how financial platforms such as payment and clearing systems, central banks and business information providers can embed anti-slavery and anti-trafficking measures.
- **Develop benchmarks and ratings on leverage:** Ratings agencies, regulators and researchers develop sector-wide benchmarks and ratings on use of modern slavery and human trafficking leverage by companies, connected to differentiated leverage guidance.
- **Embed leverage in enterprise tech:** Fintech actors incorporate leverage considerations into the design and build of enterprise tech, turning companies into a source of anti-slavery and anti-trafficking data and analysis for monitoring and reporting to financial partners, and for triggering micro-incentives (when ESG performance milestones are met). The stream of evidence this will create can underpin structured and constructive engagement between financial actors and their clients and investee companies about measures for reducing modern slavery and human trafficking risks.

GOAL 4

EFFECTIVE REMEDY

GOAL 4: PROVIDING AND ENABLING EFFECTIVE REMEDY FOR MODERN SLAVERY AND HUMAN TRAFFICKING HARMS

In this chapter:

- All victims of modern slavery and human trafficking are entitled under international law to an effective remedy, including to compensation. Yet in reality, access to an effective remedy is the exception, not the rule, for victims of trafficking and modern slavery. They often lack access to effective remedial mechanisms, and even where they do have such access these processes rarely lead to compensation, restoration or other forms of effective remedy.
- This remedy gap prolongs trauma and heightens risk of re-victimization. So providing remedy is also a prevention measure.
- Financial sector entities are expected to provide effective remedy, or cooperate with legitimate remedial mechanisms, where they cause or contribute to modern slavery or human trafficking.
- The first and perhaps best option for financial sector entities is to cooperate with courts and judicial remedies, through facilitating financial investigations and asset freezes and confiscation. Financial investigations have an important role to play in revealing trafficking organizations, perpetrators, gatekeepers and victims. They can also help prosecutors demonstrate the profit motive and knowledge of traffickers, and financial transaction evidence can reduce the burden on victims by obviating the need for testimony and providing corroborating evidence. Financial investigations also open the door to broader charging and higher penalties, and have the potential to provide for restitution and compensation to victims, through asset confiscation.
- Another option is cooperation with state-based non-judicial remedies, such as OECD National Contact Points, or the mechanisms set up by multilateral development banks. The numbers of remedial cases brought to these forums is growing, and instructive jurisprudence and practice is emerging in all these areas.
- A third option is to cooperate with non-state grievance mechanisms. Practice is rapidly evolving, but there is already significant guidance available on how to do this.
- Where financial sector entities are linked to modern slavery or human trafficking harms, but do not cause or contribute to them, they may not be expected to provide remedy, although they may choose to enable it. Moreover, it is becoming clear that over time a business's linkage to modern slavery risks can evolve into contribution to those risks – for example if failure to conduct expected due diligence facilitates a borrower's causation of or contribution to modern slavery or human trafficking, changing the risk and responsibility picture for financial institutions.
- Driving remedy to scale requires moving beyond a case-by-case approach, and thinking about how to create system-level remedial mechanisms. Financial sector actors may have unique leverage to make that happen by, for example, using leverage during project financing to encourage establishment of worker-compensation funds to protect against illegal recruitment fees or wage theft.
- Financial sector actors may also have a role to play in creatively mobilizing capital for remedial purposes, for example by exploring the possibility of insurance policies that pay out to individuals or households in the case of modern slavery or human trafficking (adapting the existing kidnap and ransom insurance policy model).

All victims of modern slavery and human trafficking are entitled under international law to an effective remedy.[426] More specifically, the Palermo Protocol, 2014 ILO Forced Labour Protocol, Council of Europe Convention and EU Trafficking Directive all explicitly recognize the right of trafficking victims to compensation. Yet in reality, access to an effective remedy is the exception, not the rule, for victims of trafficking and modern slavery.

Victims and survivors of modern slavery and human trafficking face a remedy gap. There are numerous barriers to achieving effective remedy:

- Lack of awareness of remedial mechanisms amongst victims and law enforcement.
- Lack of access to legal aid and effective representation.
- Lack of access to status (such as residency) entitling victims to state aid (victims of crime compensation).
- Return to countries of origin before the process is complete.
- Inability to enforce any award, including difficulties tracing perpetrator assets.
- The ease for perpetrators of evading enforcement, including by moving assets abroad, or declaring bankruptcy.[427]

When cases do come to trial, conviction and compensation rates remain very low. A recent study of compensation cases in Europe found that while roughly two thirds of the trafficking cases studied resulted in compensation awards, only around 1 in 10 cases resulted in actual pay-outs.[428]

Failure to remedy these harms not only prolongs the trauma, there is evidence it also puts survivors at risk of secondary or multiple victimization. So addressing the remedy gap is a question not just of putting victims and survivors to right but also of helping to prevent further modern slavery and human trafficking.

In this chapter we consider what role the financial sector can play in addressing this remedy gap. First we consider the responsibility of the financial sector for remedy. Second we consider how this responsibility can be discharged, whether though cooperation with courts, other state-based mechanisms such as OECD NCPs, or non-state-based remedial mechanisms, including by financial entities providing or enabling access to grievance mechanisms. Third, we consider the situation where the financial sector entity has not caused or contributed to the modern slavery or human trafficking, but is nonetheless linked to it (in the UNGPs sense). In closing we consider the potentially transformative role of the financial sector in driving remedy to scale, helping to close the remedy gap.

WHAT RESPONSIBILITY DOES THE FINANCIAL SECTOR HAVE FOR REMEDY?

Remedy is a flexible concept, not limited to compensation or convictions. It may also include an apology, provisions to ensure the harm cannot recur, restitution or rehabilitation, cessation of a particular activity or relationship – or indeed something else agreed by the victim and the entity that caused the harm.[429]

Remedial expectations on financial institutions are set out in United Nations Guiding Principle 22, which is also mirrored in the OECD Guidelines for Multinational Enterprises:

> *Where business enterprises identify that they have caused or contributed to adverse impacts, they should provide for or cooperate in their remediation through legitimate processes.*

Where the business has not caused or contributed to the harm, but is only linked to it, it may not be expected to provide remedy – though it may take a role in doing so.[430] That may include using any leverage the entity may have over the client to seek to influence it – or others – to provide effective remedy.[431] In those cases, the question shifts, for financial sector institutions, from how they can provide remedy to how they can enable it.

PROVIDING REMEDY AND COOPERATION IN REMEDIATION

The expectation set out in United Nations Guiding Principle 32 makes clear that businesses that have caused or contributed to human rights harms do not necessarily have to provide grievance mechanisms themselves, though they may choose to do so. They can also "cooperate in their remediation through legitimate processes".

Judicial processes

The first, and perhaps best, way for financial sector entities to meet these expectations is through cooperation with effective, state-based judicial mechanisms – such as courts, usually operating at the national level, occasionally at the international.[432] In fact, businesses are expected to adopt a posture of deference and cooperation to legitimate remedial processes, such as courts, and to cooperate with them to help provide and contribute to effective remedy.[433]

Financial sector entities are crucial to effective financial investigations and to asset freezing and confiscation.[434] Financial investigations can reveal the structure and membership of trafficking organizations, and help investigators and prosecutors identify perpetrators, gatekeepers and victims.

Financial evidence can also help prosecutors demonstrate the profit motive and knowledge of traffickers – showing how the proceeds of trafficking and slavery were used, for example. Importantly, financial transaction evidence can reduce the burden on victims by obviating the need for them to go through the traumatic process of providing testimony, by offering alternative corroborating evidence. Financial investigations also open the door to broader charging and higher penalties, and have the potential to provide for satisfaction of compensation and restitution orders made to victims, through asset confiscation. In the United States, for example, restitution to victims is mandatory in human trafficking cases;[435] what holds back such payments in many jurisdictions is often the identification of relevant defendant assets.[436] Financial institution cooperation with judicial processes can help address this limitation.

Expectations of cooperation are of course especially high where financial transactions are central to modern slavery-based claims tested in the courts, as has occasionally been the case. In Switzerland, a claim – now discontinued – was brought against a metal refiner for possible pillage of gold from the Democratic Republic of the Congo.[437] And in the US, a prosecution brought against Western Union over allegations of laundering funds from people smuggling and human trafficking led to a settlement establishing a specialized remittances data analysis organization: South West Border Trac (SWBTrac).

State and international non-judicial processes

A second way to meet the expectation of "cooperation … through legitimate processes" is to cooperate with state or international non-judicial processes, such as national human rights institutions, ombudspeople, or labour inspectorates; or institutions such as the National Contact Points established under the framework of the OECD Guidelines (detailed in Figure 26).[438]

Figure 26: The OECD National Contact Point system

Under the OECD Guidelines for Multinational Enterprises, signatory governments are required to set up an NCP, an impartial, non-judicial body to hear allegations of business non-conformity with the Guidelines. These NCPs take a variety of forms, and may be composed of government officials, business representatives, worker organizations, independent experts and/or civil-society representatives. The NCPs are meant to promote the implementation of the Guidelines and act as a "forum for discussion" relating to the Guidelines.[439] As of July 2019, a total of 39 NCPs operated in Europe, the Americas, the Middle East and North Africa, Central Asia as well as Asia and the Pacific.[440]

Operating in accordance with principles of visibility, accessibility, transparency and accountability, NCPs have three main responsibilities: 1) engaging in promotional activities with the business community, worker organizations, civil society and other relevant stakeholders to promote the implementation of the Guidelines, 2) handle inquiries related to the Guidelines, and 3) contribute to the resolution of issues arising from the implementation of the Guidelines. In this context, a key element of NCPs is to facilitate effective and appropriate access to remedy for victims of corporate human rights abuse.

A 2019 analysis by OECD Watch argues that the NCP process may not be meeting its full potential to provide access to remedy.[441] Out of the 34 cases brought to NCPs in 2018, only 11 proceeded to the stage of mediation. Of those, only two cases led to the provision of remedy for victims (in the form of an acknowledgement of wrongdoing, in one case; and a commitment to improve future policies, in the other case).

Yet it is important to note that the number of cases against financial actors has grown steadily in the last decade.[442] Several such cases stand out:

KTNCW et al. v. POSCO

In 2014, a complaint was brought simultaneously to the Dutch, Norwegian and the Republic of Korea OECD NCPs, concerning a steel plant and infrastructure development project in India. The plant was to be constructed by POSCO, a South Korean firm, with funding from the Dutch pension fund ABP and the Norwegian Government Pension Fund Global. Fund asset managers in both the Netherlands (APG) and Norway (NBIM) were also drawn in. The complaint called on the pension funds to seek to prevent or mitigate adverse impacts directly linked to their operations through their financial relationships with POSCO. APG worked with a coalition of investors to encourage POSCO to adopt a grievance mechanism and address alleged adverse human rights impacts – a classic case of using collaborative leverage to enable remedy.

Forum Suape et al. v. Atradius Dutch State Business

A somewhat similar case arose in Brazil, where communities of fishermen and shellfish collectors in the Brazilian state of Pernambuco alleged that the Dutch dredging company Van Oord and the Dutch export credit agency Atradius DSB failed to comply with the OECD Guidelines in two dredging projects. During the process, the Dutch NCP clarified that Atradius DSB's business relationship meant that while it had not "contributed to or caused" possible adverse impacts, it was "directly linked" to impacts and therefore had a responsibility to use its leverage in its business relationships to seek to prevent and mitigate the harms caused by the dredging activities.[443]

ED and ICI v. ANZ

In 2018, the Australian National Contact Point found that ANZ, a bank, had contributed to human rights harms in Cambodia by failing to conduct requisite due diligence in a project it was financing, facilitating the resulting harms. As a result, ANZ was obliged to take various remedial measures, and has considered paying compensation to some of those affected.[444]

Non-judicial mechanisms have also played an important role in the World Bank system. In 2013, victims of forced labour filed a complaint with the World Bank's independent accountability mechanism, the Inspection Panel, alleging the Bank was financing forced and child labour in an agricultural-enterprise support project in Uzbekistan. In response, World Bank management promised to implement measures to mitigate risks of perpetuating forced and child labour in its projects. Because of these promises, the Inspection Panel did not undertake a full investigation, viewing the proposed mitigation measures as adequate.[445]

Separately, between 2007 and 2011 local communities in Indonesia filed complaints through the Compliance Advisor/Ombudsman for the IFC and Multilateral Investment Guarantees Agency, relating to Wilmar, one of the worlds' biggest palm oil companies, over land rights. Mediations resulted in agreements whereby the Wilmar subsidiary company relinquished some land, mostly planted with palm, to communities who now use it to support their livelihoods.[446] (For more, see the Compliance Advisor/Ombudsman, Grievance Mechanism Tool;[447] and Compliance Advisor/Ombudsman, *A Guide to Designing and Implementing Grievance Mechanisms for Development Projects*.[448])

Non-state grievance mechanisms

Remedy is also frequently provided through a grievance mechanism established by business and/or non-state actors. A grievance mechanism is a process established to allow affected stakeholders to raise complaints or concerns with relevant parties and to have those complaints or concerns addressed and resolved. Grievance mechanisms both support a company's ongoing due diligence – by allowing it to identify oncoming risks, early – and provide a mechanism for addressing adverse impacts. The United Nations has set out a range of characteristics of effective grievance mechanisms,[449] and as Figure 27 shows, there is now burgeoning guidance on how to do this effectively.

Financial sector entities should also seek specialist advice and guidance from the growing field of providers.

Financial institutions may already have some such grievance mechanisms in place to deal with internal or client concerns. The Australian bank Westpac, for example, has strengthened its consumer banking complaints architecture in various ways, including ensuring that its customer advocate who oversees the mechanism pays particular attention to customers who may be the most vulnerable (such as those lacking financial literacy or in difficult personal circumstances due to mental health issues or situations of domestic violence). The customer advocate's team starts from a presumption that the complainant is right and that it is up to the business to disprove the individual's claim if it can. Shifting the 'burden of proof' in this way can have a profound effect on how effective a company grievance mechanism is, given the information and other asymmetries between users of such a mechanism and the company.[450]

There is a growing practice of public banks and development finance entities establishing grievance mechanisms that can handle complaints relating to harms arising from clients' conduct. Examples include grievance mechanisms run by the International Finance Corporation, and by Atradius DSB, the Dutch export credit agency. Private-sector banks are just beginning to explore this option.[451]

Figure 27: Grievance Mechanism Guidance

Key guidance

- OHCHR, Improving Accountability and Access to Remedy for Victims of Business-Related Human Rights Abuse.[460]
- OHCHR, OHCHR Response to Request from BankTrack for Advice regarding the Application of the UN Guiding Principles on Business and Human Rights in the Context of the Banking Sector.[461]
- IFC, A Guide to Designing and Implementing Grievance Mechanisms for Development Projects.[462]
- IRBC Working Group Enabling Remediation, Discussion Paper: Working Group Enabling Remediation.[463]

Other resources

- BankTrack + Oxfam Australia, Developing Effective Grievance Mechanisms in the Banking Sector.[464]
- Compliance Advisor Ombudsman, Grievance Mechanism Tool.[465]
- Compliance Advisor Ombudsman, A Guide to Designing and Implementing Grievance Mechanisms for Development Projects.[466]
- CSR Europe, Management of Complaints: A Checklist for Effective Grievance Mechanisms.[467]
- CSR Europe, Assessing the Effectiveness of Company Grievance Mechanisms.[468]
- Laura Curtze and Steve Gibbons, Access to Remedy - Operational Grievance Mechanisms.[469]
- Ethical Trading Initiative, Access to Remedy - Practical Guidance for Companies.[470]
- Ethical Trading Initiative, Government Approach to Remedy for Workers: What can Companies Learn?[471]
- FIDH, Corporate Accountability for Human Rights Abuses: A Guide for Victims and NGOs on Recourse Mechanisms.[472]
- Institute for Environmental Security, Better Access to Remedy in Company-Community Conflicts in the Field of CSR: A Model for Company-Based Grievance Mechanisms.[473]
- IPIECA, Operational-Level Grievance Mechanisms.[474]
- IPIECA, Community Grievance Mechanisms in the Oil and Gas Industry.[475]
- Caroline Rees, Piloting Principles for Effective Company-Stakeholder Grievance Mechanisms: A Report of Lessons Learned.[476]
- Caroline Rees, Grievance Mechanisms for Business and Human Rights: Strengths, Weaknesses and Gaps.[477]
- Shaping Sustainable Markets + IIED, Dispute or Dialogue: Community Perspectives on Company-Led Grievance Mechanisms.[478]
- Shift, Remediation, Grievance Mechanisms and the Corporate Responsibility to Respect Human Rights.[479]
- SOMO, Using Grievance Mechanisms: Accessibility, Predictability, Legitimacy and Workers' Complaint Experiences in the Electronics Sector.[480]

In other cases, it may fall to the financial entity to encourage its clients or others with which it has a business relationship to provide grievance mechanisms, or to 'enable' remedy in other ways.

This can include a wide range of institutions and processes: state-based and non-state-based, judicial and non-judicial, adjudicative or more dialogue-based.

Enabling remedy

Talk of remedy and compensation makes some financial sector actors understandably nervous. It raises concerns that financial institutions will get stuck with the bill for harms caused by businesses they have a relationship with, but do not control. As we saw earlier in the report, while causation of modern slavery and human trafficking by financial sector entities may be uncommon, financial institutions are likely to be linked to a wide range of modern slavery and human trafficking harms, and may need to pay close attention to ensure they are not contributing to such impacts, particularly through their client relationships.

Under the UNGPs on Business and Human Rights, and the OECD Guidelines for Multinational Enterprises, entities that are linked (but not contributing to) such adverse impacts are not expected to provide or contribute to remedy – though they still have a responsibility to use leverage to seek to mitigate and address harms. That may include exerting influence over clients, or others, to encourage them to provide remedy for harms they have caused or to which they have contributed – as the discussion of recent OECD NCP cases in Figure 26 above makes clear. Financial sector practice around these issues is rapidly evolving. The state of the art is perhaps best represented in a Dutch IRBC working group paper of May 2019, which sets out a menu of actions that banks can take to enable remedy, even if they do not themselves provide it or contribute to provision for it.[452]

Yet the line between contribution and linkage can at times be fine – and expectations of involvement in remedy vary depending on where an entity falls in relation to that line. There is growing recognition that by failing to conduct due diligence before investing or lending in a predictably high-risk sector or with a client with a poor track record, for example, a bank may contribute to an adverse human rights impact such as forced labour. This could be, for example, because its omission of due diligence, combined with its provision of financing, facilitates the result.[453] This was the logic recently upheld in the decision of the Australian OECD National Contact Point decision known as *ED and ICI v. ANZ*.[454] As the Dutch IRBC Working Group explained recently, "[t]he quality and effectiveness of due diligence therefore becomes a relevant consideration in determining how a business is connected to a particular impact".[455]

Yet even then it is important to be clear that providing – or contributing to the provision of – remedy does not mean that financial institutions must assume the remedial responsibilities of business entities with which they have business relationships. Even where a business recognizes it contributed to harm, that business's remedial role is independent of the role of other contributors – such as companies it has financed.[456] The other contributors' responsibility to provide or contribute to remedy does not disappear just because the financial entity's responsibility to provide or contribute to remedy is triggered. And the financial entity's responsibility is of course limited and proportionate to the extent of its contribution.

A more systemic approach?

One thing that emerges across this nascent practice is that remedial processes involving financial entities tend to end up with forward-looking outcomes – such as changing a client's policy or practice – rather than remediating past harms. This may be because financial institutions – and most non-judicial remediation mechanism, too – tend to have limited capabilities to actively investigate allegations of harms.[457] Moreover, a complaint-by-complaint approach to addressing remedy is unlikely to be effective at scale or contribute to systemic change. A more systemic approach to remedy, driving solutions to scale, may be needed.

A central question for a financial entity grappling with remedy questions is whether the available grievance mechanism infrastructure is delivering results, and can go to scale.[458] The reality is that even where the requisite 'grievance mechanism infrastructure' is in place, it may require the engagement and input of other actors to activate the mechanism and operate it successfully. NGOs, for example, typically play a key role in assisting victims to identify and access grievance mechanisms. Survivors, too, may have an important role to play as sources of expertise and guides. Thus, following Shift, we can speak of a remedy 'ecosystem' that incorporates all the mechanisms, actors, roles and responsibilities that may be necessary to enable remedy in practice.[459]

The question for the financial sector entity then becomes: what can the financial sector do to support the remedy ecosystem, and especially to make remedy available at scale? Financial sector actors may, in certain contexts, be able to use leverage to pre-position remedial arrangements so that when problems do arise, those affected have the necessary access to remedial mechanisms, on the scale required.

One precedent is provided by the Abandoned Seafarers Compensation Scheme, operating since 2001 (see Figure 28). This model could be instructive, as it points to possibilities around insurance, guarantees and sureties that could be adapted to different business contexts. Project financiers could, for example, use their combined clout to encourage establishment of worker compensation funds to compensate for illegal recruitment fees incurred in connection with the project, or for wage theft.

Finally, financial sector actors may also have a role to play in other creative approaches to mobilizing capital for remedial purposes. This could include exploring the possibility of insurance policies paying out to individuals or households in the event of modern slavery or human trafficking, adapting existing kidnap and ransom policy lines.

Figure 28: Creating a safety net for abandoned seafarers

In 2001, the International Maritime Organization (IMO) and the International Labour Organization (ILO) established a framework to guarantee seafarers' rights in case of their abandonment by shipowners. The Guidelines on Provision of Financial Security in Case of Abandonment of Seafarers[481] and the Guidelines on Shipowners' Responsibilities in respect of Contractual Claims for Personal Injury to or Death of Seafarers[482] create a compensation regime to cover seafarers in the event of abandonment, including by ensuring adequate compensation for families in case of personal injury or death.

The Guidelines require governments to ensure that ships flying that country's flag are protected by a financial security system. Additionally, governments are required to establish contingency arrangements to facilitate the repatriation of abandoned seafarers from ships flying their flag. The Guidelines were amended in 2014 to require shipowners to have compulsory insurance to cover abandonment of seafarers, as well as claims for their death or long-term disability as a result of abandonment.[483]

The process to address a case of abandonment is navigated through ILO and IMO.[484] A government or organization accredited to ILO or IMO alerts ILO of a new case. This information is then sent to IMO for verification. Once IMO has verified the case, it engages with involved parties and publishes the information on a public database of reported incidents of abandonment of seafarers within 10 business days.[485] A case is only resolved when the entity initially reporting the incident verifies that the crew has been repatriated and compensated financially as necessary.

ACTIONS TO ACHIEVE GOAL 4

Drawing on the discussion in this chapter, we have identified a series of actions that financial sector actors can undertake to achieve this Goal. We separate these into those that can be undertaken rapidly – 'Act Now' – and those that may require longer preparation and development – 'Initiate'. The Actions across the five Goals are summarized in a Blueprint Summary Table at the front of the report.

Act Now

- **Participate in the FAST Survivor Inclusion Initiative** to remedy survivors' reduced access to safe and reliable financial products and services. (This is discussed further in Figure 3, above).
- **Provide and contribute to effective remedy**, including through awareness-raising with survivors on remedial options, cooperation with OECD National Contact Points and other non-judicial mechanisms, and in some circumstances providing effective grievance mechanisms directly, drawing on available guidance and good practice.
- **Cooperate with financial investigations and judicial processes:** this could involve cooperation in financial investigations, data sharing, asset identification and freezing, and support to asset-confiscation processes. This could in turn draw on the FAST Financial Investigations Tool (see Figure 16).

Initiate

- **Use leverage to enable effective remedy ecosystems**, for example by requiring high-risk projects to create worker compensation funds or guarantees to protect against modern slavery and human trafficking risks.
- **Develop new insurance lines**, to pay out in the event of a modern slavery or human trafficking incident at the individual or household level. This could potentially be modeled on existing kidnap and ransom insurance.
- **Investigate other modalities for capital-raising** to fund compensation payments to victims and survivors.

GOAL 5: INVESTMENT IN INNOVATION FOR PREVENTION

In this chapter:

- Large numbers of people (1.7 billion) and micro, small and medium enterprises (200 million in emerging economies alone) lack adequate access to safe, reliable, coercion-free credit and financing. These populations have traditionally been underserved by market solutions because they offer a poor risk:return ratio.
- Yet increased individual, household and MSME access to regular and safe finance, free from coercion, can help prevent modern slavery and human trafficking. It fosters financial resilience, encourages capital formation, and promotes investment and business growth.
- Prevailing investment models – such as Modern Portfolio Theory – can optimize efficient investments based on existing options, but may lead to under-investment in certain market segments or economic sectors and in innovation. This may explain why we have seen under-investment in the provision of safe, reliable and coercion-free financial services to the poor and to other groups that are highly vulnerable to modern slavery and human trafficking, such as forcibly displaced people.
- Intentional investment in innovation is required to address this gap, which in turn will help grow the addressable market and unlock significant financial potential.
- Social finance, such as microfinance and cooperative insurance models, can help fill this gap, because it focuses on discharging a social mandate rather than maximizing profit. There is evidence that microfinance can reduce vulnerability to debt bondage. Microfinance is a scalable solution. But we should be careful that in scaling it, we do not create new coercive dynamics in debt markets. Social impact, not profit maximization, must be central.
- Emerging technologies can also play an important role, because they change the risk:return calculus for providing services to these populations. Growth opportunities seem especially high in countries with high modern slavery and human trafficking risk exposure. Promising investment strategies in digital finance include:
  - Investing in rapid roll-out of digital payment systems to displaced populations.
  - Extending digital payroll and payments systems to business in areas with high modern slavery and human trafficking risks.
  - Investment in portable digital ID.
  - Using AI and digital chatbots to encourage responsible savings and investment and to grow entrepreneurialism and markets.
  - Using microinsurance and risk mutualization to extend coverage to vulnerable populations.
- The FAST Financial Access Project's Vulnerable Populations Initiative will explore ways to mobilize capital for these investments in innovation.
- New investment modalities, such as performance contracting and social impact bonds, also hold out promise for mobilizing capital to deploy in these ways, to help prevent modern slavery and human trafficking.

There is growing evidence that lack of access to safe and affordable financial products and services heightens the risk of modern slavery and human trafficking.[531] Financial innovation and investment that increase that access can help prevent modern slavery and human trafficking.

As Professor Muhammad Yunus, Co-Convenor of the Financial Sector Commission, discusses in the Annex, lack of access to capital is suppressing the natural entrepreneurialism of many young people around the world. Unable to generate their own livelihoods close to home, they migrate in search of work. That search isolates them from their existing social support systems and renders them vulnerable to trafficking and exploitation.

Even outside the context of migration, the lack of access to credit can create vulnerability from cashflow shocks such as medical emergencies, natural disasters and unplanned life events such as weddings, dowry payments or funerals. The financial crises these shocks generate can wipe out household assets and trap families in poverty and debt bondage, as households are drawn into unsafe labour and credit arrangements as a coping strategy.[486] Health emergencies push roughly 100 million people globally into extreme poverty every year due to out-of-pocket health expenses,[487] which can heighten risk of modern slavery.[488] Although healthcare insurance coverage is less likely in developing countries than developed countries,[489] Polaris has documented how lack of access to affordable healthcare insurance contributes to pathways into sex trafficking even in the United States.[490]

Lack of access to finance may also multiply modern slavery risks at the enterprise level, especially in times of cashflow or other financial crises. Micro, small and medium enterprises' lack of access to supply-chain finance and working capital for inventory, payroll, capital investment and other costs may lead them to substitute coercion for wage costs.

All of this suggests that increased individual, household and MSME access to regular and safe finance, free from coercion, has the potential to help prevent modern slavery and human trafficking. Financial inclusion and financial agency reduce vulnerability to enslavement. When individuals, families and firms are able to save and move money safely and have access to affordable credit and insurance services, they are better positioned to protect themselves from economic shocks, build assets and invest for the future.

As discussed in the first chapter, there are significant commercial and change opportunities here. 1.7 billion people are struggling to get by without the basic financial services they need to protect themselves against hardship;[491] 200 million MSMEs in emerging economies lack access to savings and credit;[492] and there was an estimated USD 5 trillion-worth of unmet MSME demand for credit in 2015.[493] Poor women and forcibly displaced people remain especially vulnerable, though research suggests that providing them access to financial services leads to increased savings rates, increased investment, business growth and community-level economic multiplier and stabilization effects.[494]

Why do these populations lack access to safe and affordable financial services? As Professor Yunus explores in the Annex, the answer is quite simple. Providing these services to these market segments has not traditionally been seen as profitable, and the only businesses mandated to provide these services have traditionally been obliged to pursue profit above a social mandate.

Women, migrant workers, forcibly displaced people and the poor were traditionally seen as lacking access to sufficient collateral to warrant the extension of credit or other financial services. The risk:return ratio did not add up. Similarly, traditional insurance carriers assessed the value available from these markets as inadequate to cover costs. These populations' limited access to regular ID documents has also worked against them in recent years, as KYC rules have tightened, leading some entities to engage in a risk-averse approach to 'de-risking' – an area discussed in an earlier chapter.

This financial exclusion, and the vulnerabilities it creates, are social constructs. They are the result of the way that we have built the global financial system.[495] They are features of how our system operates now, rather than bugs in it. Through targeted, intentional investments in innovation we can change how the system operates, and the outcomes it produces.[496]

Our premise is that improving financial access for populations that are highly vulnerable to modern slavery and human trafficking will reduce that vulnerability by facilitating increased capital formation by individuals, households and firms, fostering financial resilience and facilitating entrepreneurialism. We recognize that access to financing can, under certain circumstances, actually heighten certain short-term risks. Children can be drawn away from education and into booming household enterprise.[497] And newly accumulated capital may be invested in organizational capacity that is turned toward trafficking.[498] However, we believe on balance that these risks can be managed, and that, over the long term, financial inclusion will help accelerate the end of modern slavery and human trafficking.

INVESTING FOR FINANCIAL INCLUSION AS A PREVENTION STRATEGY

Prevailing investment theories – especially Modern Portfolio Theory – tend to focus on maximizing efficiency at the portfolio level. According to the classic version of this theory, it is possible to construct an 'efficient frontier' of optimal portfolios offering maximum return for any given risk level. This theory underpins and governs much contemporary institutional investment in global markets. Yet there is a growing recognition that it can lead to over-investment in well-developed market segments and economic sectors, especially when married to regulatory arrangements that focus on short-term earnings and profit maximization. This can come at the expense of investment in under-served market segments and economic sectors, and may even contribute to boom and bust dynamics.

To counter this, some investors are now developing a strategy of intentional investment 'additionality': investment in enterprises that 'add' products and services to previously under-served market segments and economic sectors, with a view to helping generate long-term systemic stability and sustainability.[499] For example, the Dutch development finance institution – the Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO) – chooses investments that 'add to the market' by providing services or products that the market either does not provide or does not provide on an adequate scale or on reasonable terms.[500] In this section, we explore three frontiers of investment in financial inclusion, as a strategy for helping to prevent modern slavery and human trafficking: social finance, fintech and new investment modalities.

Invest in social finance

There is growing evidence that microfinance and other 'social finance' solutions – i.e. financial service enterprises driven by social mandate, rather than by profit maximization – can play an important role in reducing vulnerability to modern slavery and human trafficking.[501] And there is clear evidence that microfinance can scale.

From its humble beginnings in the Grameen Bank in the late 1970s, microfinance has spread and flourished. In 2018, there were at least 111 commercial 'microfinance investment vehicles' – organizations that offer microfinance institutions, primarily located in emerging and frontier economies, debt and/or equity financing.[502] The global microfinance institutions loan portfolio is now estimated at USD 114 billion, reaching 139 million low-income clients, 83 per cent of whom are women.[503] Over the last decade, as development policy has shifted focus from microfinance to 'inclusive finance', offerings have expanded, from savings products to microcredit and microinsurance, which complement social protection systems by enabling vulnerable families to hedge against part of the risks they face.[504]

What this makes clear is that there is a business case for offering financial products and services to populations traditionally excluded by the global financial sector – but it may not be the same business case as the one found in traditional retail and commercial banking, or other financial services.[505] Poor people, living with the reality of risks, are frequently highly financially innovative, juggling multiple formal and informal financial instruments.[506] In fact, financial market-builders have studied their practices closely to learn how to tailor products and services to meet their needs and unlock new value.[507]

Yet we should be cautious that microfinance does not, itself, reintroduce coercive debt dynamics, under the profit-extraction pressures of the market. Microloans are now regularly securitized – packaged into liquid securities that can be traded on financial markets. This can create strong pressures for debt repayment that can push risk down the microfinance value chain on to those at the bottom – the most vulnerable. There have been cases where undue pressure from microfinance agents to repay cumulated microfinance debts, even through accessing life insurance payouts, have led to a loss of debtor agency – and even a loss of life. In 2010, over 70 microdebtors in Andhra Pradesh, India, committed suicide, allegedly after just such excessive pressure.[508]

In other cases, the loans that microfinance institutions have issued have been used to service their consumers' bonded debts to third parties. This is typically an unintended consequence of microfinance. But there have also been examples where it was the intended consequence: where, for example, microfinance was used to underpin debt swaps that buy out high-interest and unfair debts and replace them with safer debt arrangements. The danger here, of course, is that this perpetuates a market for bonded debt,[509] encourages illegality and may even create liability for the organizations involved (through violation of anti-money laundering or other laws). This approach runs counter to the strong prohibition on these forms of exploitation, and the commitment to enforcing those norms advocated by this Commission.

Additionally, there are reasons to be cautious about microfinance offerings that target groups demonstrating particular vulnerabilities – such as vulnerability to modern slavery – while refraining from providing financial services to the communities those people are embedded in. This approach can exacerbate inter-group tensions, which may deepen discrimination or, in other ways, unintentionally heighten modern slavery risk.[510]

Clearly, investment in micro- and social finance has significant potential for scaling prevention efforts. Just as clearly, there is a need to think carefully about the dynamics and pressures generated by rapid scaling. Social impact – rather than profit maximization – must remain central.

Harness digital finance innovation

The arrival of digital payments (including mobile money), biometric IDs, digital wallets and smartphone technologies is reshaping cost structures and business models in global finance. It is transforming financial actors' assessment of the risk:return ratio from offering financial products and services to formerly excluded populations.

In 2016, the McKinsey Global Institute estimated that widespread adoption and use of digital finance could increase the GDPs of all emerging economies by 6 per cent, or a total of USD 3.7 trillion, by 2025 – the equivalent of adding a Germany-size economy, or one that is larger than all the economies of Africa, to the global economy. This, in turn, would generate up to USD 110 billion per year in savings and new revenues for governments, enlarge financial institutions' balance sheets by USD 4.2 trillion in deposits and USD 2.1 trillion in credit, and generate up to 95 million new, safe jobs across all sectors of the economy – a powerful strategy for preventing modern slavery. In Kenya, the spread of mobile money lifted 2 per cent of the population, or one million people, out of extreme poverty between 2008 and 2014.[511] Importantly, lower-income countries where modern slavery risks are high – including countries such as India and Nigeria – seem to have the most to gain, with potential GDP growth of 10 to 12 per cent.[512]

The digital transformation of finance is unlocking massive value and creating positive spill-over effects throughout the global economic system. With careful nudging, these could include impacts that help prevent modern slavery and human trafficking. In the paragraphs below, we explain how different areas of innovation in digital finance can help promote financial inclusion and agency for at-risk populations. All of these are areas that will be explored by the FAST Financial Access Project's Vulnerable Populations Initiative, described in Figure 3 earlier in this report.

Reduced barriers to financial inclusion and agency

Digital technologies lower the costs of search – the costs of finding potential customers. Mobile phones and widespread internet access have provided almost zero-cost access to potential consumers, and digital payments lower the cost of sending and receiving money and credit.[513] This is particularly important for the inclusion prospects of the extremely poor, migrant workers, forcibly displaced people and other populations affected by disaster.

There has recently been a proliferation of digital payment offerings to these populations, ranging from the use of pre-existing mobile money and smart cards to new outfits such as JUMO (an African-based digital bank) and Pintail (a Swiss 'neobank' servicing migrant communities).[514] In humanitarian contexts, there is growing evidence that households with access to such services recover faster than those lacking such access.[515] This likely reduces their vulnerability to trafficking, suggesting investments in rapid roll-out of digital payment infrastructure to these populations may be a powerful investment strategy. This may, however, require the development of portable regulatory arrangements, concessionary financing, or investment guarantees to foster rapid investment in those contexts, which may otherwise be hampered by the risks associated with such insecure and crisis-affected environments.

Neobanks – entirely digital financial institutions, such as Tala, Mimoni and Zest and Tez – have limited up-front capital costs, because they do not require roll-out through physical outlets. Rapid roll-out of such services can transform financial inclusion and economic opportunities for at-risk populations. In Tajikistan, for example, where 40 per cent of households depend on money transfers from families abroad, a pilot project between the United Nations Development Programme and BitSpark uses a blockchain-powered mobile app to radically reduce remittance fees.[516] In Serbia, UNDP has worked with AID:Tech Ltd and the city of Niš to channel diaspora remittances into local development, in the process creating digital IDs that can be used for other money transfers.[517]

Digital innovation is also transforming how financial institutions discharge KYC and related due diligence obligations once they find clients – so-called 'e-KYC'. There is growing use of digital IDs, ranging from the biometric-based, state-backed Aadhaar in India, to the centralized digital client onboarding solution provided by Indonesia, to solutions designed specifically for those who may not have access to state-backed IDs, such as the ID2020 initiative.[518] In India, the Aadhaar ID system has underpinned e-KYC reforms that have reduced bank account opening times from 7-10 days to one day. By August 2018, over 6 billion e-KYC requests had been generated.[519] Tanzania has issued biometric IDs to forcibly displaced people, which are used for access to banking services, amongst other uses. And countries from Germany to India have mandated financial institutions to grant forcibly displaced people, refugees and long-term resident migrant workers digitally facilitated access to financial accounts. BanQu is using distributed ledger technology to enable those traditionally excluded from finance to build secure, immutable and durable economic identity records.[520] Sierra Leone is also piloting a national blockchain-based credit bureau, using digital IDs, developed by UNDP, the United Nations Capital Development Fund and Kiva, which is specifically designed to accelerate financial inclusion.[521]

Here as well, however, regulatory uncertainty appears to be limiting investment and scale. Regulators' tolerance for e-KYC remains unclear in many jurisdictions, and the emergence of different technical and regulatory standards in different jurisdictions may be hampering both cross-border transactions and investment overall. Standardization of rules, tolerances and expectations will help create regulatory certainty and foster innovation, while also providing the foundation for at-risk populations' digital economic agency more broadly.

Digital platforms are also underpinning new credit-risk scoring techiques, relying primarily on alternative, especially online behavioural, credit-scoring models. Big-data innovators are using mobile phone usage, social media activity, and browser history data to help establish creditworthiness for low- and middle-income consumers in emerging markets. Since only 31 per cent of the global population is covered by traditional credit bureaux, new approaches to credit-scoring may prove fundamental to accelerating financial inclusion. Some providers, such as Zest[522] in India, Mimoni[523] in Mexico, and Tala[524] in Kenya, India, Mexico, the Philippines and Tanzania, rely exclusively on smartphone data to provide real-time credit decisions, regardless of applicants' credit history. In a pilot study in the Dominican Republic, one-third of low-income women who were previously rejected for loans were considered creditworthy using alternative data and a gender-differentiated credit-scoring model.[525] Given the disproportionate impact of modern slavery and human trafficking on women and girls (see Figure 2), this suggests that there are particular gains to be made in reducing their vulnerability by using alternative credit-scoring models to extend financial access.

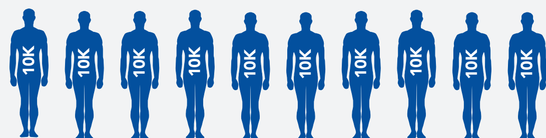
The same logic applies to MSMEs: when they digitize their own supplier and payroll payments, they start generating data that can be used for credit scoring.[526] In Africa, Kopo Kopo uses electronic transaction history to assess the creditworthiness of MSMEs and grant them short-term loans.[527] Indifi offers similar services in India.[528] And elsewhere in Asia, Ant Financial and MYbank have used digital payment transaction data to underwrite more than USD 70 billion in cumulative loans to 5 million MSMEs since 2015. At the same time, payment digitization brings collateral benefits to MSMEs: it can significantly reduce administrative costs and increase productivity by reducing the time workers have to spend away from productive activity. And the data generated may also help reduce vulnerability to modern slavery for workers in MSME supply chains, by creating new opportunities for financial risk monitoring and improving workers' financial security and standards of living. Gaining access to a formal financial account, through automated payroll or payment systems, can be the first step toward workers' own financial inclusion and agency.[529]

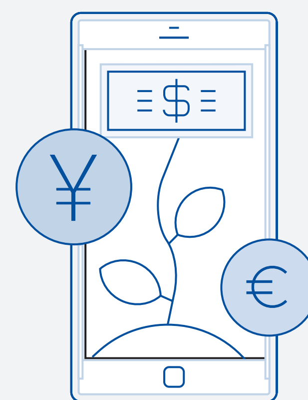
These technologies can also help new entrants to financial markets navigate them safely, while promoting additionality. Providers such as Tulaa, which operates primarily in Africa, use digital technology to combine supply-chain financing, advisory services and market-making, strengthening market access for MSMEs and smallholder farmers.[530] Participation by vulnerable communities in digital marketplaces and ecosystems may help generate stronger market transparency in multiple ways: by strengthening worker and debtor voice and agency through informed choice, and by strengthening the feedback mechanisms between production costs, market risk and pricing.

There are significant opportunities here for modern slavery prevention efforts, for example through sectoral initiatives to promote digital payments in risky value chains – see Figure 29.

Figure 29: Digitizing worker payments in the apparel sector

In the apparel sector, global brands including Gap Inc. and Marks & Spencer have set goals to ensure workers across their supply chains are paid digitally by 2020. In Bangladesh, H&M, Marks & Spencer, Target, Li & Fung, Lindex, Debenhams and Fast Retailing collaborate with Business for Social Responsibility, the Bill & Melinda Gates Foundation, local NGOs and mobile financial service providers bKash and Dutch-Bangla Bank Limited.





The project has reached more than 100,000 workers, generating 53 per cent savings in administrative staff time, while increasing workers' access to formal financial accounts from 20 per cent to 98 per cent. Female workers' savings capacity was estimated to increase by 69 per cent, and their mobile phone ownership by 91 per cent. Digital payment likely also reduces wage theft, further protecting workers.[532]

Fostering saving, investment and entrepreneurialism

Digital platforms also offer new, powerful, low-cost ways to transform consumer behaviour, notably towards increased savings rates, responsible investment behaviour and entrepreneurialism. This has the potential to increase financial resilience, promote capital formation and stimulate entrepreneurialism. In time this will reduce vulnerability to modern slavery and human trafficking.

In India, rural communities that stored income in a digital bank account rather than keeping cash at home increased household savings by 131 per cent within three months.[533] In Burkina Faso, users of mobile money were three times more likely than non-users to save for unpredictable events and health emergencies, helping generate financial resilience and reduce vulnerability to modern slavery.[534] And in Tanzania, when women were given access to M-Pawa (a phone-based savings system), they saved three times more than women without such access – a rate that increased to five times when combined with business training.[535]

AI-powered chatbots can cultivate financial literacy and nudge consumers towards sustainable financial behaviours. In Colombia, financial services startup Juntos worked with Bancolombia to help improve savings via automated, SMS-based, targeted customer engagement, increasing account balances by 50 per cent and activity by 32.5 per cent.[536] Different products are emerging for different market segments: market traders and MSMEs who want business training, factory workers who want help managing their finances, and small-scale farmers who want to learn about different microinsurance products. Some of these openings may provide the opportunity for development of AI-powered systems that nudge consumers away from behaviours that increase modern slavery risk, and towards those promoting financial resilience and capital formation.

In India, digital payment systems have been used to bring down education costs, nudging households towards sending children to school, rather than engaging them in child labour.[537]

Expanding insurance coverage

The social finance revolution started with microbanking services, but has since evolved to include the provision of microinsurance, now available all over the world.[538] Nonetheless, access to insurance remains low: across sub-Saharan Africa, for example, it is estimated to cover only around 5.4 per cent of the population (approximately 61.9 million people).[539] Digital technology offers new approaches,[540] changing the cost structure of search, risk assessment, underwriting and claims in ways that are expanding inclusion. AXA has developed automated claims processes relying on WhatsApp and WeChat, and the rapid spread of digital wallets – particularly in Asia – is also facilitating micropayments.

Digital technology is also making feasible the profitable scaling of old business models, such as peer-to-peer insurance (P2P) – a collaborative model that brings together insurance customers to share the risk, pool their capital and self-administer insurance. The Chinese platform TongJuBao, for example, forms social communities that pool guarantee deposits to mutualize risks not typically covered by insurance carriers, including divorce and child abduction.[541]

There is also a rapid move into smart contracts to automate payouts in insurance contracts, without the need for a claims process – instead relying on trusted third-party data providers to trigger payments.[542] This can help create financial resilience in the face of unexpected shocks. In Australia, the national research lab Data61 and the Commonwealth Bank have used smart contracts to underpin payments in a new national disability insurance scheme.[543] IBISA, a risk-sharing service incubated in Luxembourg that operates in India and Niger, provides P2P insurance against crop failure and

livestock losses. Payouts are based on automated event triggers assessed through the use of satellite data, and the system operates through a blockchain-based network.[544] Similarly, US-based WorldCover provides simple and affordable crop insurance to around 20,000 farms in Ghana, Kenya and Uganda via a smartphone app. Premiums range around USD 20 to USD 50. The system uses high-resolution satellite images to detect rainfall and plant growth data, machine-learning powered analysis and blockchain technology to automate payments.[545] And in Sri Lanka, Oxfam, Aon and Etherisc have also combined microinsurance and blockchain to cover smallholder paddy-field farmers.

UNLOCK CAPITAL AND INVESTMENT

Another way that the financial sector can foster investment for inclusion and prevention is by unlocking capital and encouraging investment in this area. Most straightforwardly, this simply means giving these issues higher priority in investment strategies. But it may also require investment in innovation – to understand the size of investments needed, to understand the potential returns on investment, and to understand the best modalities for mobilizing and delivering capital investments.

The first set of issues requires investment in research. To begin with, a better understanding is needed of the size of investment required – the cost of ending modern slavery and human trafficking. The syndicated loan used to finance manumission in the 1830s, discussed in Figure 6, was only possible because stakeholders understood the size of the required capital investment.

Second, investors will need a clearer sense of their anticipated return on investment. Impact evaluation at both the programmatic and policy levels remains under-developed in the modern slavery field.[546] Without this, it is hard to understand anticipated ROI, hard to ascertain the cost of capital, and therefore hard to develop large-scale capital mobilization strategies. Financial sector leaders should encourage businesses and government to analyse and share existing data, and to strengthen monitoring and evaluation of investments, interventions and strategies. This will help foster shared understanding of ROI.

There may also be scope for innovation in the instruments used to raise and invest capital for prevention. One possibility would be to develop outcome or performance-based instruments, incentivizing accelerated progress against relevant SDG targets. Examples of this modality are growing rapidly.

The World Bank has recently issued five-year maturity 'SDG bonds' in Singapore and Hong Kong. The bonds' return on investment are linked to the stock performance of companies included in the Solactive Sustainable Development Goals World MV Index (SOLWGOAL), which tracks 30 companies that dedicate "at least a fifth" of their activities to the production of sustainable products. The index uses an ESG methodology developed by Vigeo Eiris' Equities. The bonds are AAA-rated by Moody's/S&P.[547] Another example is a recent USD 500 million green 'club' loan to Singapore-based Olam International, one of the world's leading food traders, provided by 15 banks, with ING operating as the sustainability coordinator.[548] Modern slavery-related performance outcomes could be embedded in such ESG performance loans, which could be issued to fund major anti-slavery projects.

Another popular modality is the social impact bond. Social impact bonds are bond instruments where the proceeds are used to finance social projects per se (rather than encouraging positive social performance within larger projects).[549] Annual global social bond issuance volume grew by 1,000 per cent from 2014 to 2017.[550] Social impact bonds have been issued in the past for: affordable basic infrastructure (sanitation, clean water, transport, energy); access to essential services (health, education and vocational training, financial services); affordable housing; employment generation, including through microfinance; criminal justice outcomes; food security; and socioeconomic advancement and empowerment. They are often targeted at vulnerable and marginalized groups.[551] The Commission heard, in its consultations, that anti-slavery bonds may soon be issued to finance preventive and after-care programming in the modern slavery space. Major lenders – from development finance institutions to commercial lenders – may wish to explore these possibilities.

ACTIONS TO ACHIEVE GOAL 5

Drawing on the discussion in this chapter, we have identified a series of actions that financial sector actors can undertake to achieve this goal. We separate these into those that can be undertaken rapidly – 'Act Now' – and those that may require longer preparation and development – 'Initiate'. The Actions across the five Goals are summarized in a Blueprint Summary Table at the front of the report.

Act Now

- **Invest in digital finance for prevention:** Financial sector actors should invest in digital finance to serve vulnerable populations including through working with the FAST Financial Access Project's Vulnerable Populations Initiative (see Figure 3). Priority investment strategies could include:
  - Investing in rapid roll-out of digital payroll, payment systems and banking services to displaced populations and other populations with high modern slavery and human trafficking risks, including through development of portable regulatory arrangements, concessionary financing options and commercial guarantee mechanisms.
  - Investment in portable digital ID.
  - Using AI and digital chatbots to encourage responsible savings and investment and to grow entrepreneurialism and markets.
  - Using microinsurance and risk mutualization to extend coverage to vulnerable populations (insurtech).
- **Size investment needs:** Governments, international organizations and researchers should undertake a study to determine what it would cost to end modern slavery and human trafficking, drawing on established prevention costing methodologies.
- **Promote social finance:** Governments, investors, researchers and civil-society actors should explore how microfinance and other forms of social finance can help end modern slavery. This will require investment and study, and may require adaptation of regulatory frameworks to facilitate social business.

Initiate

- **Strengthen ROI knowledge:** All stakeholders should work together to improve monitoring and evaluation and strengthen understanding of the return on investment from different interventions, programmes and strategies. This will help with development of the business case for financing efforts against slavery and trafficking.
- **Anti-slavery bonds and performance loans:** Development finance institutions and leading lenders should scope the possibility of issuing anti-slavery bonds and performance loans, either for retail uptake or for project financing.
- **E-finance regulatory harmonization:** Governments and regulators should work to harmonize e-KYC rules, improve the interoperability of digital ID arrangements, and create portable regulatory arrangements to foster investment in and rapid roll-out of e-finance infrastructure for vulnerable populations.

WHAT IMPLEMENTING THE BLUEPRINT MEANS

What we offer here is a Blueprint for collective action. It is intended to provide a flexible framework to help willing financial sector stakeholders mobilize against modern slavery and human trafficking and unlock the potential they lock up.

UNLOCKING POTENTIAL

Victims and survivors bear the costs of modern slavery and human trafficking. The resulting legacies of exploitation and exclusion leave both them and society worse off – economically, as well as socially. Fully implemented, this Blueprint has the power to unlock enormous potential: not just the potential of the financial sector, but, more importantly, the incredible potential of the millions of survivors and vulnerable people whose exploitation and exclusion locks them out of full participation in global society, the economy and finance.

We believe the implementation of this Blueprint would lead to a stronger connection between an enterprise's behaviour and its costs of capital. In time, that connection will naturally move global markets away from their current tolerance for 40.3 million people in modern slavery and human trafficking, and encourage capital allocation to enterprises that help reduce modern slavery and human trafficking risks. It will, in other words, help address the terrible economic and social externalities these 40.3 million cases of enslavement and trafficking entail. It will help address the ongoing tragic market failure and denial of human rights that this represents, and accelerate progress towards the Sustainable Development Goals.

This Blueprint provides a shared collective-action framework that different financial sector actors can implement in their own ways, at their own speeds, to achieve this shared goal. We recognize that in some areas the Blueprint remains aspirational, and that detailed planning, learning and guidance will need developing if it is to be realized. That is in the nature of a blueprint. Ours is intended to be the first word on how to mobilize finance against slavery and trafficking, not the last. And the Implementation Toolkit is intended to help actors get started.

FINANCE AGAINST SLAVERY AND TRAFFICKING (FAST)

Although the Financial Sector Commission has now ceased operation, the Liechtenstein Initiative will continue, with a view to providing support to those implementing the Blueprint. The United Nations University's Centre for Policy Research (UNU-CPR) will, in the first instance, continue to serve as secretariat to the Initiative, and will seek to track and report on progress in implementation of the Blueprint. This effort will be known as Finance Against Slavery and Trafficking (FAST). We invite any financial sector actor using or implementing the Blueprint to contact the FAST team at UNU-CPR for support, or simply to share your insights on implementation.

Creative leadership by financial sector stakeholders will be crucial to effective Blueprint implementation. As former Commissioners, we have committed to champion uptake and implementation of the Blueprint through our own networks and in our own spheres. We will be working to that end in different financial sector, anti-slavery, intergovernmental and survivor forums around the world. And we anticipate that an implementation review conference will be held in 2021, considering progress in implementation, identifying lessons and new developments, and exploring new opportunities.

Finance cannot end modern slavery and human trafficking on its own. But without the mobilization of the financial sector, slavery and trafficking will not end. The time to act is now.

Financial Sector Commission on Modern Slavery and Human Trafficking

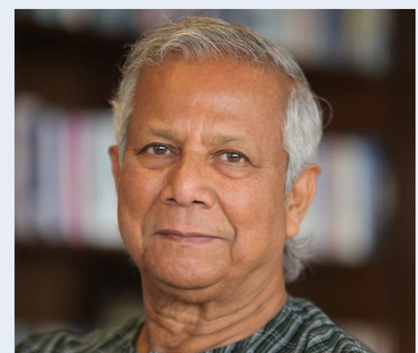
New York

September 2019

ANNEX: HOW SOCIAL FINANCE CAN UNLOCK OUR ENTREPRENEURIAL POTENTIAL — BY PROFESSOR MUHAMMAD YUNUS

Professor Muhammad Yunus is founder of the Grameen Bank and a Nobel Laureate. He served as Co-Convenor of the Financial Sector Commission on Modern Slavery and Human Trafficking. These reflections represent his personal views rather than those of the Financial Sector Commission.

I feel very fortunate to have been invited to serve as Co-Convenor of the Financial Sector Commission on Modern Slavery and Human Trafficking. Finance, it turns out, is central to how we solve both slavery and trafficking.



Professor Muhammad Yunus

Making our system more sustainable

Our economic system is unkind to the people at the bottom. According to the global development charity Oxfam, in 2018 the wealthiest 0.8 per cent owned 44.8 per cent of all global wealth. The same year, the 26 richest people on the planet owned as much as the poorest 3.8 billion people.[552]

This economic disparity is part of the story of international migration. Wealth is not only concentrated in a few hands, it is also concentrated in a few places. It is natural for humans to move in search of a better life: that is what drew homo sapiens out of Africa and into the wider world in the first place. Now, searching for a better life, migrants are drawn from their homes, towards these centres of wealth, becoming vulnerable to modern slavery and human trafficking along the way.

I see migration, human trafficking, modern-day slavery as inter-related outcomes arising from the failure of our global economic system. The system is built on an artifice that treats humans as unidimensional profit-seekers. As a result we have created a world exclusively driven by personal profit – without stopping to think about how the system creates and allocates collective risks. Single-minded pursuit of self-interest created this unsustainable economy, which increasingly drives wealth to the top, leaving only a trickle to the rest of the people.

Yet humans are naturally multidimensional. They are not only selfish, but also sometimes selfless. That realization demands a wholesale redesign of our financial theories and architecture – to accommodate this new dimension, including in the way financial goods and services are provided. Social businesses – non-dividend companies created for the sole purpose of solving people’s problems – reflect this selfless objective, going beyond the relentless pursuit of profit.

We don’t sacrifice anything from the old theory by introducing this new enterprise model, but we do gain – a lot. In place of a single-purpose economy we create a dual-purpose economy. We give people more choice in how they wish to express themselves economically. We unlock their economic and financial potential.

Unlocking entrepreneurialism

Choice is also crucial in livelihoods. Our current system fashions 'jobs' for people, through which their labour is transformed into capital – usually owned by others. Everyone is assumed to be destined to find a job, and most of us are expected to work for someone else – popularly, 'The Man'. Only a tiny fraction of the young people born today will have access to the capital needed to drive and transform the economy.

Yet naturally we are creators, not job-seekers. Our life journey is to unleash this creative capacity. We are so blinkered by the dominant paradigm that we don't find it unnatural to see millions, even billions, of creative young people sitting around doing nothing. We never ask: 'Could they be entrepreneurs?' Yes, they could be. Because it is in their DNA. The problems of youth unemployment and informal and precarious employment are in this sense products of self-imposed blinkers created by our mental model of the world.

We must take off these blinkers. By rethinking our theoretical frameworks, we will help unlock this innate entrepreneurial potential. Instead of pushing people to undertake risky migrations and fall prey to coercive, fraudulent and illegal exploitation, we will be helping them build a life for themselves, in their homes.

This will not just require rethinking our theoretical models, though. It will also require rethinking our policies, laws, regulatory norms and financial institutions. It will require rethinking access to finance, to capital and credit, in the first place. Instead of seeing the unemployed as a problem, or as a source of cheap labour to be exploited, we must see their entrepreneurialism as an asset, to be developed, nurtured and enjoyed. As potential to be unlocked.

Rethinking financial inclusion

Today's global financial system was built by and for profit-seeking businesses, to help them grow. It has performed this role very effectively. As a result, the financial system – and financialization of the so-called 'real-world economy' – have become key vehicles facilitating wealth concentration.

Attempts to bring a human orientation to banking have always been an afterthought. Customers are ultimately treated as profit-centres to be exploited, not necessarily as economic partners to be nurtured. It has taken revolutionary leaders and their struggles to bring a people-orientation to banking. But despite all those efforts, social finance has remained a footnote in the global financial sector. Cooperatives came, people's banks came, rural banks came – and over time they have all been tamed by the dominant model, bought up and integrated into mainstream banking, rather than bringing permanent change to mainstream banking.

Traditionally, mainstream banks have approached the provision of financial services to the poor as a question of 'market' expansion. And traditionally, they have found the 'risk:return ratio' in this market unattractive. Since it is not attractive to mainstream banks, this segment of the market is instead taken over by predatory financial enterprises. Predatory 'banking' is one prominent reason why people leave their places of birth for unknown destinations, and one of the gateways to illegal exploitation resulting in bonded labour, modern slavery and human trafficking.

Microcredit offered a big breakthrough. It reached the extremely poor people in the remotest places, as well as in city slums. It unexpectedly brought a completely new group of people into the banking world – poor women. It became financially sustainable. It surprised everybody by establishing a long history of very high loan recovery rate across the globe, in rich countries as well as in poor countries.

This encouraged mainstream finance to take a second look at this market segment. Mainstream financial institutions are extending their service-frontier as deep and wide as they can. Yet they face challenges reconciling profit maximization with financial inclusion. Though they are finding ways to profit from serving the poor, these profits may not match returns elsewhere, especially as they struggle to adapt operational practices developed for different client bases – such as requiring access to legal papers and collateral – to these sectors.

Their obligation to owners to maximize profit ends up allocating capital towards those higher-profit business lines, and away from serving the poor. To remain committed to the poor, a financial institution must have a primary obligation to serve them – not to generate profit, above all else. This may require new regulatory models, supporting social businesses or banks whose interest rates are subject to regulatory approval.

Grameen Bank offers an example. Its original arm in Bangladesh was created under a special law as a bank for the poor. It has been serving the poor for the last 42 years. In doing so it won the Nobel Peace Prize. It made clear the viability of a new model – it does not insist on collateral, credit scores or legal contracts. It does not wait for people to come to the bank; the bank goes to the people. It has over nine million borrowers, 97 per cent women, living in all the 80,000 villages of Bangladesh. The bank meets these 9 million borrowers in 80,000 villages every week to transact its business. It has remained financially self-reliant, strong and sustainable, perhaps because it was not created to serve the profit interests of outside investors, but to serve these people. It is a social business.

Grameen America, a replication in the US, has been operating for the last 10 years. It has over 100,000 borrowers, all women, mostly recent immigrants. It works through 21 financially sustainable branches in 14 cities. It has lent out over USD 1 billion, with an over-99 per cent repayment rate. The major limit on its growth is access to capital; under existing banking and securities law, it cannot accept public deposits. This points to the limits of the current model, based on our expectation that banks will be profit-oriented institutions.

Social finance as the spur for an entrepreneur-led rural revival

If we want to slow down and ultimately stop large-scale irregular migration, labour trafficking and modern slavery, we will have to redesign our thinking and create institutions to fit that new thinking. Business as usual will only produce the usual outcomes. We have been on the wrong path – we must change track.

Around the world, microcredit has turned illiterate unemployed rural women into entrepreneurs. Now we are reaching out to unemployed young people through specialized social business venture-capital funds, specialized in financing their start-ups, to turn them into entrepreneurs. Social finance can play a vital role in transforming deteriorating or stagnant rural economies into vibrant economies. This will keep the youth engaged in these societies and economies, and prevent them having to embark on difficult and perilous journeys in search of 'jobs'. And it will keep them out of the reach of modern slavers and human traffickers.

All of this requires a serious mind-shift. We must look at our rural villages not as suppliers of cheap labour to the centres of capital in cities, but as the engine of the next wave of creative entrepreneurialism and economic growth. Digital technology brings this vision within reach, as the Financial Sector Commission's report makes clear.

A time for action

We must mobilize and act now. On the financial front, we must adopt a crisis footing: we must act before it is too late. We must use all our institutional power and leverage. Regulators and law-makers must do all they can to open up new opportunities for social business and to foster entrepreneurialism. Financial sector leaders must work not just to address modern slavery and human trafficking at the margins, but also by rethinking their business models to address the root causes and drivers – including financial exclusion.

The Financial Sector Commission's Blueprint provides us an important framework for getting started. The Implementation Toolkit will help bring it to life, if financial sector actors take these tools up – and take up the challenge of action. And the rest, we can learn, together, along the way.

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- Social Project Bond: a project bond for a single or multiple Social Project(s) for which the investor has direct exposure to the risk of the project(s) with or without potential recourse to the issuer.
- Social Securitized and Covered Bond: a bond collateralised by one or more specific Social Project(s), including but not limited to covered bonds, asset-backed securities, mortgage-backed securities, and other structures. The first source of repayment is generally the cash flows of the assets.

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