

Thematic Overview: Financial Sector

Understanding the financial sector's role in financing and fighting modern slavery, human trafficking, forced labour and child labour.

Introduction

The financial sector comes into contact with modern slavery, human trafficking, forced labour and child labour in various ways. On a fundamental level, financial institutions handle funds generated by or associated with these issues, they may provide financial services to businesses associated with these practices, and they manage investments in industries that utilize illicit practices. Further, frontline industry staff such as bank tellers and money transfer service clerks come into direct contact with perpetrators and victims who are processing transactions. As well, access to banking services is vital to helping those vulnerable and already abused. Because of this, financial institutions are pivotal actors in efforts to disrupt forced labour, modern slavery, human trafficking and child labour as they have been in many other issues before. Financial institutions that wittingly or unwittingly handle funds associated with forced labour, modern slavery, human trafficking and child labour risk violating existing compliance related laws and norms.


Financial institutions that are linked to businesses whose supply chains are exposed to forced labour, modern slavery, human trafficking and child labour are responsible for conducting human rights due diligence.

Banks and other financial institutions have the responsibility to use their leverage to prevent or mitigate an adverse impact when they are not causing or contributing to the impact, but are directly linked to it.

The financial sector can help address the drivers of forced labour, modern slavery, human trafficking and child labour through microfinance, micro-credit and pooled funding.

Estimates of the financial value of modern slavery, human trafficking, forced labour and child labour are hard to come by. But it is clear that the value is high. The International Labour Organization (ILO), for example, has estimated that the revenues from forced labour alone [exceed \\$150 billion annually](#); almost two thirds (\$99 billion) are estimated to derive from commercial sexual exploitation. Meanwhile, the ILO argues that eradicating child labour alone would lead to [an estimated \\$5.1 trillion in benefits](#), particularly in developing economies.

Many of the objects that we use daily bear witness to trafficking and exploitation: Coltan used in our smartphones [has been linked to forced and child labour](#), and the same holds true for many other everyday products, such as [coffee](#), [chocolate](#) and [dog food](#), among others. All of



this goes to show that modern slavery, human trafficking, forced labour and child labour are “big business”.

Public and private institutions in the financial sector can come into contact with this big, illicit business in various ways. Financial institutions may, for example, handle funds generated by or associated with these practices. They may also provide financial goods or services to, or otherwise be directly linked to, businesses or activities associated with these practices. Because of this, financial institutions are uniquely placed to disrupt modern slavery, human trafficking, forced labour and child labour.

Like other businesses that may come into contact with victims or perpetrators, financial institutions can train their staff, in particular bank tellers, to be able to identify suspicious behaviour and other signs that may be indicative of these practices. Additionally, they [can perform due diligence](#) on goods and services provided to them (e.g. security and catering staff) to ensure that their direct supply chain is free of modern slavery and human trafficking. However, financial institutions’ potential to contribute to the eradication of these practices reaches much further, and is in some ways quite distinct from the role of other business sectors. The financial sector may have a unique role to play in compliance, lending and investment, and financing efforts addressing the drivers of modern slavery, human trafficking, forced labour and child labour.

Compliance

Financial institutions can, wittingly or unwittingly, handle funds associated with these forms of exploitation, as traffickers and businesses may use banks and other financial institutions to move profits derived from modern slavery, human trafficking, forced labour and child labour. Financial institutions’ involvement can, however, be varied. Where the activity that individuals are engaged in is itself illegal, traffickers may use cash-intensive businesses, informal banking systems, front companies and remittances to move funds into the formal financial system. In other cases, exposure arises from slavery, forced labour, child labour or labour trafficking incidental to legitimate businesses, such as infrastructure development or agriculture. The proceeds of trafficking have also been used to finance terrorism. For these reasons, financial institutions and related businesses that handle these funds risk violating a number of existing compliance-related laws and norms, in particular with regard to anti-money laundering (AML) and countering the financing of terrorism (CFT).

Most jurisdictions already recognize human trafficking as a predicate crime creating obligations on financial sector actors [to take steps to prevent money laundering](#). In other jurisdictions, while modern slavery, human trafficking, forced labour and child labour may not be explicitly nominated as such predicate crimes, the conduct that amounts to these practices—which frequently involves fraud, assault or various forms of bodily harm—often itself constitutes a predicate crime.



Authorities dealing with AML/CFT are paying increasing attention to financial institutions' involvement in handling the proceeds of these crimes, both at the national and international levels. The United Nations Security Council also drew attention to this issue in late 2016 in [Resolution 2331](#). Some national regulators, often called Financial Intelligence Units (FIUs), have [started issuing advisories](#) on identifying activity indicative of human trafficking. And financial sector regulators have [used this information to develop “typologies”](#) that help regulators, banks and other financial sector actors understand the ways that funds from modern slavery, human trafficking, forced labour and child labour enter and move through the sector. The Financial Action Task Force (FATF) [released a report](#) identifying new ways to use financial tools to tackle human trafficking and its profits in June 2018. Additionally, the Inter-Governmental Action Group Against Money Laundering in West Africa (GIABA) [is conducting a typology report](#) of human trafficking in West Africa.

Financial sector institutions are obliged by these AML/CFT regimes to take a variety of steps to mitigate the risks of handling funds associated with certain types of human trafficking, modern slavery, forced labour and child labour. The central obligation is one of customer due diligence, which involves information sharing and analysis. In addition, financial sector actors are in many circumstances obliged to provide reports on suspicious activities or transactions (SARs or STRs) to national regulators. In some countries, including the United States, Canada, Australia, Thailand, the Netherlands, the UK and Hong Kong, financial institutions [report specifically](#) on whether the activity they are reporting appears to relate to human trafficking.

The risks arising from failure to discharge these obligations are real. In January 2018, Western Union, one of the world's largest money service businesses, [entered into a \\$60 million settlement](#) with the New York Department of Financial Services relating to money-laundering charges, including money associated with human trafficking.

But constraints on how financial sector actors share information with each other, and with FIUs, [currently limit our understanding of risks](#) for the sector. In some countries, private institutions, civil society, public regulators and law enforcement are working together to enable responsible and equitable information sharing and risk management. But, there is more to be done to scale and harmonize such arrangements, ensure equitable burden sharing, and identify how this information should be used to regulate financial sector behaviour.

In the United States, this remains a matter of legislative debate, for example in the context of consideration of [a bill presented by Senator Elizabeth Warren and Senator Marco Rubio](#). In Brazil, [a government-issued “dirty list”](#) limits access to finance for businesses alleged to have engaged in slavery-related practices. In the Netherlands, the government, trade unions, the national Banking Association and 13 Dutch banks have signed an agreement, [known as the “Covenant”](#), vowing to meet their human rights due diligence obligations with regard to project finance and corporate loans, in line with the UN Guiding Principles for Business and Human Rights and the OECD Guidelines for Multinational Enterprises.



Lending, investment and linkage

Financial institutions that lend to, invest in or are otherwise directly linked to businesses whose supply-chains are exposed to modern slavery, human trafficking, forced labour and/or child labour have the responsibility to carry out human rights due diligence, which includes the responsibility to use any leverage over their business partners to prevent or mitigate adverse impacts. This notably [includes state financing](#) in the context of trade and investment promotion, especially as it relates to export/import transactions.

[The UN Guiding Principles on Business and Human Rights](#), endorsed by the UN Human Rights Council, make clear that financial sector actors—whether private banks, public pension funds, export-credit agencies or cooperative savings organizations—have the responsibility to: avoid causing or contributing to adverse human rights impacts through their own activities, and address such impacts when they occur; and 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.

These responsibilities apply to all business enterprises, including commercial banks and other entities in the financial sector, regardless of “size, sector, operational context, ownership and structure”.

To meet their responsibility to respect human rights, banks should have in place “policies and processes appropriate to their size and circumstances,” including a “human rights due diligence process to identify, prevent, mitigate and account for how they address their impacts on human rights”. The complexity of a bank’s human rights due diligence processes depends on the size of the bank, the nature and context of its operations, and the severity of the bank’s potential adverse human rights impacts.

Severity is a key factor in [determining how large and complex](#) the due diligence process should be. Since severity is determined by the scale, scope and irremediable character of harms, financial sector actors should focus their due diligence on the largest and most grave potential violations under Target 8.7 of the Sustainable Development Goals. As the UN Office of the High Commissioner on Human Rights [has made clear](#):

The number and types of a bank’s clients (existing and prospective), its financial products and services, and the countries in which its clients are located and operate in, will all influence the complexity of a bank’s risk picture and the severity of the potential human rights risks associated with its activities and client relationships. The more complex a bank’s portfolio, the more sophisticated its systems would need to be to make sure that it identifies and addresses relevant risks, and the more detailed its human rights due diligence processes would need to be with respect to particular clients or transactions.



Of course, financial institutions may have limited resources—time, money, personnel—to conduct in-depth human rights due diligence. Existing guidance makes clear that “a bank’s human rights policies and systems should be developed with an aim to provide a minimum level of screening for all types of activities, with the more detailed analysis prioritized for high-risk clients or transactions.” Where a financial institution is exposed or linked to an industrial sector, business or geographic location that is known to have a high risk of Target 8.7 violations, in-depth human rights due diligence may be required.

Financial sector actors’ responsibilities differ depending on their connection to Target 8.7 violations. If they cause or contribute to the violation, they [should provide for or cooperate in their remediation](#). Contribution includes, for example, financing infrastructure projects that entail clear risks of forced labour, with knowledge of those risks and without taking steps to prevent or mitigate them.

But banks and financial institutions also have the responsibility to use their leverage where they are not causing or contributing to an adverse impact, but are otherwise directly linked to it: for example, “where a bank has provided finance to a client and the client, in the context of using this finance, acts in such a way that it causes (or is at risk of causing) an adverse impact.” If, for example, a bank is one of several financiers to a project where a client, in breach of agreed standards and the client’s own policies, engages in conduct amounting to modern slavery or labour trafficking, then the bank may not have contributed to that outcome, but may be directly linked to it, and should use any leverage it has over the client to seek to prevent or mitigate the impact. This [can also go beyond first-tier relationships](#)—for instance, if the client uses the financial institution’s products or services to fund another business or entity that causes adverse impacts.

Some banks, pension funds, sovereign wealth funds and export-credit agencies are developing powerful operational innovations to promote responsible business practices across their client base, ranging from [the apparel industry](#) to [responsible cobalt sourcing](#). Institutional investors have worked together with the OECD [to better understand and implement due diligence](#) along investment value chains. And, export credit agencies [are paying increasing attention to screening applications](#) for severe human rights risks. At the same time, the London School of Economics and Political Science [has developed guidance](#) for countries on how to implement the UN Guiding Principles on Business and Human Rights in investment policymaking.

Financing solutions

The financial sector has powerful potential to help address the drivers of Target 8.7. In many places, modern slavery and human trafficking [go hand in hand with a lack of access](#) to formal financial services and credit. Microfinance solutions, especially micro-credit services, could address these vulnerabilities by building resilience: by [gaining access to micro-credits and other financial services](#), vulnerable populations may either be able to pay off their loan, avoid taking out further loans, or forego becoming indebted altogether.



Pooled funding can be an efficient investment strategy—and smart development policy—to end modern slavery and human trafficking. Pooled financing mechanisms [can lower transaction costs](#), reduce duplication in programming and decrease the risk of being impacted by bilateral political considerations. This could lessen transaction costs for communities, states and companies seeking anti-slavery assistance; facilitate coordinated efforts to reform global supply chains while mitigating fears of losing market share; and foster innovation in data, research and development.

Further readings:

[Liechtenstein Initiative for a Financial Sector Commission on Modern Slavery and Human Trafficking](#)

United Nations University, [25 Keys to Unlock the Financial Chains of Human Trafficking and Modern Slavery](#) (2017).

Tom Keatinge and Anne-Marie Barry, [“Disrupting Human Trafficking: The Role of Financial Institutions,” RUSI Whitehall Report](#) (14 March 2017).

Financial Action Task Force (FATF), [Money Laundering Risks Arising from Trafficking in Human Beings and Smuggling of Migrants](#) (2011).

United Nations Office of the High Commissioner for Human Rights, [Guiding Principles on Business and Human Rights: Implementing the United Nations “Protect, Respect and Remedy” Framework](#) (2011).

United Nations Human Rights Council, [Report of the Working Group on the Issue of Human Rights and Transnational Corporations and Other Business Enterprises](#), A/HRC/38/48 (2 May 2018).

Social and Economic Council of the Netherlands, [Dutch Banking Sector Agreement on International Responsible Business Conduct Regarding Human Rights](#) (2016).

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