

EXECUTIVE SUMMARY

Until recently, most major commercial and investment banks did not consider environmental and social concerns to be particularly relevant to their operations. Today, however, they and their key stakeholders agree that financiers bear significant responsibility for the environmental and social impacts of the operations they finance.

Within the banking sector, addressing environmental and social issues is now considered critical to the proper management of transaction, portfolio and reputational risks. The question is no longer *whether* commercial banks should address the sustainable development aspects of the activities they support, but *how* they should do it – what substantive standards should they apply? How should they implement them? And how should they assure compliance?

The banking sector's emerging recognition of environmental and social responsibility was driven to a large degree by outside pressures. Beginning in 2000, environmental organisations such as Friends of the Earth (FoE) and the Rainforest Action Network (RAN) challenged the industry with high-profile campaigns that highlighted cases in which commercial banks were “bankrolling disasters”. In 2002, a global coalition of non-governmental organisations (NGOs) including FoE, RAN, WWF-UK and the Berne Declaration came together to promote sustainable finance in the commercial sector. This informal network subsequently evolved into BankTrack, whose vision for a sustainable finance sector was expressed in the Collevocchio Declaration of January 2003. Now endorsed by more than 200 organisations, the Collevocchio Declaration remains the benchmark by which civil society will measure the banking sector's commitment to sustainable development.

Collevocchio Declaration Commitments

- 1. Commitment to sustainability**
- 2. Commitment to ‘do no harm’**
- 3. Commitment to responsibility**
- 4. Commitment to accountability**
- 5. Commitment to transparency**
- 6. Commitment to sustainable markets and governance**

WWF-UK and BankTrack* are publishing this report to help answer those difficult questions and to evaluate how the various commercial and investment banks are responding. The report's primary objective is to review the current (September 2005) environmental and social policies adopted by key institutions in the banking sector. This report reviews the publicly available environmental and social policies of 39 banks from around the world, chosen for their high visibility and global reach, their substantial presence in project finance markets, and/or their endorsement of the Equator Principles.

The Equator Principles provide a framework for banks to review, evaluate and mitigate or avoid environmental and social impacts and risks associated with projects they finance. The Principles are based on the International Finance Corporation's (IFC's) environmental and social safeguard policies. By December 2005, the number of signatories to the Principles had grown from the original 10 leading banks to 36. Together, the Equator Banks are responsible for arranging well over 75 per cent of worldwide project loans by volume. While adoption of the [Equator Principles](#) has been a welcome development, it marks only the beginning of the

path to sustainable finance. The Principles suffer from a number of serious flaws (which are highlighted in the full report) that limit their effectiveness both as an integrated policy response to environment and social concerns and as an effective tool for the banks to manage their risks. The report provides a detailed analysis of how these banks' policies compare with each other, and, more important, how they compare with international rights, standards and best practice.

When it was conceived, this report also had a secondary objective – to assess the implementation and application of the sustainable development policies adopted by the banks. However, a comprehensive evaluation was foreclosed by the near total lack of information the banks have placed in the public domain. Their lack of transparency regarding implementation not only makes independent evaluation impossible, but also leaves them open to legitimate charges of “greenwash”; they are adopting environmental rhetoric with little commitment to changing their performance.

Methodology

This study reviews the publicly available environmental and social policies of 39 banks from around the world. They were chosen because of their high visibility and global reach, their important presence in global project finance markets, and/or their endorsement of the Equator Principles.

We reviewed all the environmental and social policies and annual sustainability reports made publicly available by the banks. The study was based on policies available at the time, although we are aware of other policies in the final drafting stages such as a mining policy at HSBC and a dams policy at ABN AMRO.

We invited all the banks to participate in this survey. Based on the information they provided, we assessed their policies in 13 substantive areas of particular environmental or social concern:

- human rights;
- labour rights;
- indigenous people;
- climate and energy;
- dams;
- biodiversity;
- forests;
- fisheries;
- extractive industries;
- sustainable agriculture;
- chemicals;
- transparency and reporting by the clients; and
- environmental and social management systems.

The banks' policies and procedures were evaluated against independent benchmarks from two categories of sources. First and most important, we considered the rights and standards embodied in widely accepted international conventions, treaties, codes, action plans and other hard and soft law instruments. Next, we considered sectoral “best practice” standards – particularly those developed through participatory, multi-stakeholder processes that included

government and industry representatives, and that are therefore widely viewed as authoritative and legitimate.

In addition to a narrative analysis of the banks' policies, we scored each bank from 0 to 4 in order to provide a snapshot comparison of bank policies in each sector. This rating system also allows for evaluating changes and trends over time, as the commercial sector responds to the challenge of environmental and social sustainability. In general, the scoring reflects the following system:

Box 1: Scoring system for evaluating bank policies

- 0 No publicly available policy addressing the subject.
- 1 Vaguely worded or "aspirational" policy with no clear commitments.
- 2 Some clear commitments, but no part of the policy meets relevant international standards.
- 3 Some parts of the policy meet international standards, but other parts are either absent, vague or below relevant international standards.
- 4 All, or nearly all, of the policy meets or is in line with relevant international standards.