

## **ENVIRONMENTAL AND SOCIAL RISK ASSESSMENT IN LENDING**

Barclays has a strong and longstanding commitment to managing the environmental and social risks associated with commercial lending. We recognise that a bank's major environmental impacts tend to be indirect, arising from the provision of financial services to business customers operating in sensitive sectors. We also believe that taking due account of our environmental and social impacts is not only the right thing to do, but also makes good business sense.

### **Environmental and Social Risks Assessment Process**

#### **Environmental and Social Risk Structure**

There are established lines of communication between Barclays lending managers, the credit teams, and the central Environmental and Social Risk Policy team and our senior Brand and Reputation Committee. Initially, the lending manager will liaise with the credit teams and, if a proposed transaction is judged to have material environmental or social sensitivities, guidance can be obtained from the central Environmental and Social Risk Management Team. Further escalation to the Brand and Reputation Committee is recommended in cases where the sensitivities are likely to remain significant.

#### **Environmental and Social Risk Management Team**

This is a dedicated team advising on complex transactions where there are environmental and/or social sensitivities. Based in London, it is supported by a network of Environmental Champions across the world tasked with the dissemination of information, raising environmental and social risk awareness, providing guidance, as well as acting as a referral point in their regions.

The Team advises on all types of transactions, in all environmentally sensitive sectors globally.

#### **Group Reputation and Brand Committee**

This committee was established early in 2004, as a sub-committee of Barclays Executive Committee, with the objective of protecting and enhancing the Barclays brand. The committee considers issues that could affect our organisation's reputation, acts as a think-tank for the development of our corporate responsibility agenda and assesses our progress as a responsible organisation. Members of the committee include divisional Chief Executives and heads of key central support areas.

### **Implementation of the Equator Principles into Barclays Policy for project finance**

In 1997, Barclays adopted and implemented a lending policy structuring our

consideration of environmental issues into project finance transactions. This has evolved into our current Environmental and Social Impact Assessment (ESIA) Policy, which focuses on the environmental and social sensitivities of our lending and is designed to ensure that project finance and lending proposals (with known use of funds) are rigorously assessed to identify, quantify and, where appropriate, mitigate the environmental and social impacts.

### **Equator Principles**

The ESIA Policy is the mechanism by which Barclays applies the Equator Principles (EPs) – a voluntary framework banks can use to manage the environmental and social aspects of project financing.

Barclays was one of four banks to collaborate with the International Finance Corporation (IFC), part of the World Bank, in drafting the EPs, which are based on internationally recognised IFC standards. The EPs were launched in June 2003 and formally adopted at that time by Barclays and nine other banks. The number of adopting financial organisations had risen to 64 as at December 2008.

The Equator Principles were re-drafted in July 2006 to adopt the new IFC Performance Standards. The Equator Principles apply globally and to all sectors and have been revised in the following ways:

- The Principles apply to all project financings with capital costs above USD 10 million. This threshold was lowered from USD 50 million.
- The Principles now also apply to project finance advisory activities.
- The revised Principles now specifically cover upgrades or expansions of existing projects where the additional environmental or social impacts are significant.
- The approach in applying the Principles to countries with existing high standards for environmental and social issues has been streamlined.
- Each EPFI is now required to report on the progress and performance of Equator Principles' implementation on an annual basis.
- Stronger and better social and environmental standards, including more robust public consultation standards.

The Equator Principles have prompted other sectors besides banking to take account of Equator-related criteria, e.g. law firms, environmental consultants and construction/engineering companies, all of which are associated with aspects of project development. This “ripple effect” has broadened awareness of the environmental and social implications of projects and the need to manage these effectively if access to the maximum number of potential financiers is to be achieved.

For further information on this initiative see the [Equator Principles website](#)

### **Scope of Barclays Environmental and Social Impact Assessment Policy (ESIA)**

The Barclays ESIA Policy covers our business worldwide when considering financing, advising or other roles related to projects, and applies in the following circumstances:

- Where there is a legal requirement for the project developer to conduct an environmental and social impact assessment and/or
- Where Equator Principles apply
- Where there is a known application of funds to a potentially sensitive project.

There is no minimum financial threshold for the application of Barclays ESIA policy.

### **Policy Process – Project Assessment**

Barclays requires an ESIA to be undertaken for all transactions that fall within the scope of our ESIA Policy. This must comply with Barclays minimum requirements for an ESIA and be undertaken by an independent consultant that appears on our preferred panel.

If an ESIA has already been undertaken in connection with the relevant project, but does not meet the above requirements, then Barclays may require a second opinion of the ESIA be commissioned and undertaken by an independent consultant that appears on our preferred panel, in accordance with our minimum requirements for a second opinion of an ESIA.

Our aim is to ensure we have access to an objective, comprehensive and professional report on the environmental and social risks associated with the project.

### **Post ESIA process**

The independent consultant will confirm whether the project currently meets the requirements of our ESIA policy and the Equator Principles. They are required to highlight areas where full compliance is not clear, alongside recommended actions that will need to be taken in order for the project to work towards compliance. The consultant is also expected to provide guidance on the associated costs and timescales. Barclays will then work with the consultants and our client (the borrower) to understand whether the recommended actions to attain Equator compliance are achievable in the project and commercial context. If this is so, the actions will be incorporated into an Environmental and Social Action Plan. The implementation and

monitoring of such plans is covenanted in the loan documentation i.e. it becomes a condition of the loan agreement.

If we feel that that the required action may prove too challenging to implement, or the client is unwilling to proceed, we will decline to participate in the project. However, as a general rule, we prefer to collaborate to improve project standards rather than simply step aside to allow a potentially less environmentally or socially inclined financial institution to support the transaction.

### **Barclays Minimum Requirements for an ESIA**

Barclays sets out a minimum scope for an ESIA and has a separate scope for a second opinion of an existing ESIA. These contain details of our requirements in relation to aims, data collection and assessment, baseline assessment, treatment of subcontractors, risk assessment, monitoring/mitigation plan, environmental and social management, and training and reporting. The scope includes a review of the following:

- An assessment of the project against the IFC Policies and World Bank Guidelines as prescribed by the Equator Principles.
- An assessment of the financial impact on the project of applicable, currently foreseeable and reasonably anticipated environmental legislation (both national and international) relevant to the proposed scheme.
- The level and adequacy of public consultation. This should include details of:
  - public meetings/hearings and attendance,
  - press releases; a list of questions asked and the project responses to these;
  - notifications/consultation with the principal community/interest groups,
  - timing of consultation and whether it would constitute prior, informed consultation.
- A permitting study.
- A review of material relating to the assessment of project alternatives
- Commentary on whether the proposed standards are considered appropriate and to what degree the project design incorporates scope for improvement or upgrading to meet higher standards which may be imposed upon the project sponsor in the future.
- Confirmation the project is working to recognised best practice, (e.g. the World Commission on Dams guidelines, the Mining, Minerals and Sustainable Development Project).
- Commentary on current and reasonably foreseeable government policies which may affect this sector.
- The materiality of impacts should reflect relevant assumptions on shifts in weather patterns affecting the project site which may arise due to a changing climate under IPCC climate scenarios A1B and A1FI.

- Commentary on the extent to which the project complies with current and reasonably foreseeable sector-specific policies, e.g. forestry, water infrastructure, which are proposed/supported by internationally recognised non-governmental organisations.
- Physical resources - landscape, topography, soils, air quality and climate (including global warming/Kyoto Protocol), surface water, ground water, geology/seismology.
- Ecological resources - flora, fauna, habitats and species, fisheries, aquatic biology, wildlife, forests, rare/endangered species, wilderness or protected areas.
- Marine issues – bathymetry, currents, waves, tides, sediment transfer, sea level rise, marine water quality, sediment quality, marine archaeology.
- Human and economic development - including, but not necessarily limited to, population and communities (numbers, locations, composition, resource dependency, employment); industries; infrastructural facilities (including water supply, sewage, flood control, drainage); transportation (roads, harbours, airports, navigation) and traffic (particularly during construction); land use planning (including dedicated area uses); power sources and transmission; agricultural development; mineral development; tourism resources.
- Quality of life values - including, but not necessarily limited to, socio-economic values; public health; noise disturbance; recreational resources and development; aesthetic values; archaeological or historical treasures; cultural values.

### **Policy Governance**

Review of Policy Procedures Barclays ESIA Policy (originally EIA policy) has been in existence since 1997. It is reviewed on an annual basis, to ensure it remains fit for purpose, user friendly and value adding. The policy is owned by the Group Credit Risk Director and managed by the Environmental Risk Team.

### **Preferred independent consultants**

Barclays has a panel of preferred independent consultants for undertaking ESIA reviews. The panel consists of approximately 25 firms of consultants which have been selected on a global basis for their environmental and social risk expertise, industry and geographical strengths and experience of working with financial institutions. The consultants' ongoing suitability is assessed on a regular basis.

To support the implementation of Barclays ESIA Policy, the process is fully documented with a policy statement, process document, a categorisation tool, ESIA scoping documents, and the topical record of preferred consultants.

These documents are available to all our employees electronically.

### **Additional Environmental Risk Review – outside of project finance**

In addition to the referral process described above, all clients operating in environmentally sensitive sectors and which are subject to sanction by Barclays Group Credit Committee, are referred to the Environmental and Social Risk Policy team for assessment (every two years as a minimum). This ensures that banking relationships, in addition to particular lending transactions, are included in the risk assessment process.

The environmental Risk team also advises on a wide range of banking products for clients that operate in environmentally or socially sensitive sectors, such as corporate loans, trading facilities, and bonds.

### **Environmental and Social Risk Training**

As part of Barclays' ongoing commitment to sustainability, we continue to focus on raising the awareness of environmental and social risk issues among employees across our global operations. Training frontline employees helps us ensure environmental and social risks are considered alongside more traditional business risks when lending decisions are made.

### **Industry Specific Guidance**

In 2006 we extended our industry specific risk guidance to cover over 50 environmentally and socially sensitive sectors, which span 10 broad industry headings. The content of these guidance notes\* has been considerably expanded to include an overview of each industry's regulatory situation, and guidance about the sort of measures we would expect companies in that sector to be taking to identify their risks and implement the appropriate actions and controls. For example, an issue that may not be immediately obvious with health care companies is the disposal of surgical waste. The revised guidance also places far greater emphasis on aspects of social issues and human rights – an area of increasing concern for the NGO community. The guidance is updated on an annual basis.

This guidance<sup>1</sup> now covers the following sectors, and a number of sub-sectors within them:

- Agriculture and fisheries
- Metals and mining
- Oil and gas
- Power generation, supply and distribution
- Chemicals, pharmaceuticals manufacturing and bulk storage
- General Manufacturing

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<sup>1</sup> \*Our sectoral guidance notes are available on request from [sustainability@barclays.com](mailto:sustainability@barclays.com)

- Utilities and waste management
- Infrastructure
- Service industry
- Forestry and logging