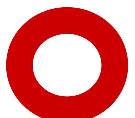

5. Transparency and accountability

5.1 Why transparency and accountability are important

People have a right to know about the impacts and risks of business activities that may directly affect their livelihoods. Local stakeholders potentially affected by a specific activity cannot secure their legitimate interests unless they are fully apprised of an activity's environmental, social and economic benefits, and its costs, risks and potential alternatives. In addition, without access to all relevant information, other stakeholders such as civil society organisations will not be able to fulfil their legitimate task to defend social, cultural and environmental interests.

The right of the public to information in order to participate meaningfully in environmental and social decision making has been enshrined in several international instruments, including the Universal Declaration of Human Rights,[237] the Rio Declaration on Environment and Development,[238] the Aarhus Convention[239] and the OECD Guidelines for Multinational Enterprises.[240] While some of these instruments primarily formulate obligations for governments, the general principles are applicable to all important actors in society, including businesses.

Transparency is focused upon openness and communication with regard to all relevant information. But transparency alone is not enough. Access to all relevant information is a prerequisite to ensure both accountability and the ability of stakeholders and the public to hold the company managers, owners and financiers to account for activities that impact them. Responsible businesses accept their responsibility to be accountable and establish appropriate procedures and mechanisms to deal with complaints and grievances.

Apart from the moral obligation to operate in a transparent and accountable way, an increasing number of companies realise that it is in their interest to act in a transparent and accountable manner. In a world shifting from a *trust me* to a *show me* attitude, it is crucial for a company to be transparent and accountable not only towards shareholders, but just as much vis-à-vis employees, customers, governments, people directly affected by their activities and civil society at large.

Every company has to earn its social license to operate, by showing how its activities contribute to the well being of all stakeholders and by being responsive to their aspirations and grievances. Being transparent is a prerequisite to create a shared base of information on which various stakeholders can build trust and negotiate with the company. It is often the absence of such a shared knowledge base, and situations where the public perception that company owners and managers are attempting to hide potential impacts, with no mechanism available to correct situations or seek redress, that cause conflicts and opposition to company activities. Greater transparency and accountability can also reduce the risk of corruption and prevent the misuse of revenues for expenditures contrary to the public interest, such as military spending.

No company can claim significant progress on the road towards sustainability unless it has raised its transparency and accountability mechanisms and practices to the best international standards.

5.2 Application to the banking sector

Transparency and accountability are even more important for banks than for other companies. By being intermediaries between investors and borrowers of money, banks play a role in facilitating business activities in all other economic sectors. As financiers, they share a certain level of responsibility for the impacts of their clients' operations with the managers and owners of these companies.

Banks therefore have to inform the public not only about their own practices, but also about their clients' activities for which they provide financing. Banks reap benefits from the activities of their debtors and hence carry responsibility for the environmental and social outcomes that result from these activities. To show that they acknowledge this responsibility, banks need to be as transparent as possible with regard to the companies, projects and countries they finance.

Transparency can also serve the bank's interests by ensuring that public concerns regarding the activities they plan to finance are raised and resolved before they become conflicts and may threatened the viability of the activity. For this reason, multilateral development banks and many export credit agencies have adopted access to information policies which provide data on pending transactions.

Some financiers in the private sector, especially ethical banks, have likewise developed disclosure policies. For example, Italy-based Banca Etica not only publishes information about its loans (names, terms of contract, including the capital amount granted), but it also discloses which deals are pending for review by an external "Ethical Committee". These policies prove that it is possible to overcome client confidentiality concerns, which are so often used by banks as an excuse to not disclose information.

As transparency and accountability encompass different aspects, all of which are important, we will benchmark banks separately on the following aspects:

- Institutional transparency
- Deal transparency
- Institutional accountability
- Deal accountability

The following paragraphs describe each of these aspects in more detail and will elaborate on the issues dealt with in the scoring table for each of them.

5.3 Institutional transparency

5.3.1 Best practices

Each bank is expected to report in an open and systematic way on the steps it has taken on the road towards sustainability. Publications on sustainability should clearly describe which priorities banks have formulated on social and environmental issues, which steps have been taken towards reaching them and what have been the results so far.

The Global Reporting Initiative Reporting Framework is a useful standard for producing annual sustainability reports, prompting banks to not only describe policies, but also to measure the implementation. The *GRI Reporting Framework* contains the core product of the *Sustainability Reporting Guidelines*, as well as *Protocols* and *Sector Supplements*.[241] GRI, in collaboration with the UNEP Finance Initiative, have developed a financial services sector supplement on Social Performance and Environmental Performance, including performance indicators on the policies, procedures and practices of banks' environmental and social issues.[242]

Although very relevant, the *GRI Sustainability Reporting Guidelines* and its *Financial Services Sector Supplements* are broadly worded and designed for the financial sector as a whole. In addition, banks have the possibility to respond to GRI indicators in brief and minimal ways, which then results in poor disclosure. Going forward, other institutional reporting efforts (both in terms of reporting standards, as well as individual bank reports) may surpass GRI requirements and better meet stakeholders' needs.

For example, while GRI requires the description of environmental and social policies, a significant step forward would be the full disclosure of all sector, issue and country policies the bank has adopted, including a definition of the scope of these policies. The value of policies is seriously diminished when they are kept confidential, as it deprives people affected by the activities of the bank's clients with information about the standards to which the bank's clients are supposed to comply.

Another significant shortcoming of the GRI is that it does not require banks to disclose specific instances of material non-compliance of clients with the bank's policies, standards or contract covenants. Nor does GRI demand to report on actions taken to rectify cases of non-compliance, whether these actions have been successful and, if not, what further action (including the calling-in of loans) have been taken. Such compliance reporting is currently practiced by other companies, such as the American sportswear company Nike, which identifies and describes how its subcontracting facilities are complying with the company's labour standards.

Finally, in its external communication policy, a bank should make assumptions in favour of disclosure, and be responsive to stakeholder requests for specific information.

5.3.2 Scoring table

The considerations above lead to the following scoring table with regard to institutional transparency:

0. *The bank does not publish an annual sustainability report or does not include sustainability information in its annual report;*
1. *The bank publishes an annual sustainability report, which does not meet GRI Sustainability Reporting Guidelines in terms of reviewing its performance on social and environmental issues;*
2. *The bank publishes an externally verified annual sustainability report, which meets the basic requirements of the GRI Sustainability Reporting Guidelines and its Financial Services Sector Supplements;*
3. *The bank publishes an externally verified annual sustainability report, which meets the basic requirements of the GRI Sustainability Reporting Guidelines and its Financial Services Sector Supplements. Additionally, the bank publishes in their entirety all of its sector and issue financing policies;*
4. *The bank publishes an externally verified annual sustainability report, which meets the basic requirements of the GRI Sustainability Reporting Guidelines and its Financial Services Sector Supplements. Additionally, the bank publishes in their entirety all of its sector and issue financing policies and reports on cases of non-compliance with its policies.*

5.3.3 Results

It was found that 34 banks publish an externally verified annual sustainability report which meets the basic requirements of the GRI Sustainability Reporting Guidelines and its Financial Services Sector Supplements. However very few banks take further steps to improve their institutional transparency, by sharing their environmental or social sector and issue policies with the public and their (potential) clients. HSBC (United Kingdom) shows the best practices in this respect, by being clear on its credit policies and the criteria attached to them.

Scores on Institutional Transparency					
HSBC	3	ING	2	UBS	2
ABN AMRO	2	Intesa Sanpaolo	2	Unicredit	2
ANZ	2	KBC	2	WestLB	2
Banco Bradesco	2	Mitsubishi UFJ	2	Westpac	2
Banco do Brasil	2	Mizuho Financial	2	BNP Paribas	1
Banco Itaú	2	Nedbank	2	China Construction	1
Bank of America	2	Rabobank	2	Goldman Sachs	1
Barclays	2	RBS	2	JPMorgan Chase	1
BBVA	2	Royal Bank of Canada	2	Bank Mandiri	0
Citi	2	Santander	2	Bank of China	0
Crédit Agricole	2	Scotiabank	2	ICBC	0
Credit Suisse	2	Société Générale	2	Merrill Lynch	0
Deutsche Bank	2	Standard Bank	2	Morgan Stanley	0
Dexia	2	Standard Chartered	2	Saudi-American Bank	0
Fortis	2	Sumitomo Mitsui	2	State Bank of India	0

5.4 Deal transparency

5.4.1 Best practices

The most convincing proof of a bank commitment to transparency and sustainability is in the disclosure of all deals the bank is involved in. This includes corporate loans, project finance, investment banking services and other types of deals, with corporate clients and governments. Stakeholders should be able to find basic details on all the deals on the website of the bank. Where applicable, the social and environmental assessment reports relating to these deals should be available as well.

Banks often hide behind the requirement for "client confidentiality" as a reason to not disclose any information on specific deals. For syndicated deals this argument is completely irrelevant, as most banks are already used to proudly publish details on their involvement in advertisements in the financial press. But also for bilateral deals, banks could announce in advance to their clients that their names can be published, clearing the way for more transparency and external oversight.

The benchmark in this field has been set for a long time already by multilateral development banks, such as the *World Bank*, the *Asian Development Bank* and others. The International Finance Corporation (IFC) has a strict Transparency and Disclosure Procedure, which has been in constant development since 1994. IFC gives broad and comprehensive overviews of its activities on its own website, including investment guidelines and business partners. IFC also makes project-specific information available,

including *Summaries of Project Information (SPIs)*, *Environmental Assessments (EAs)*, *Environmental Action Plans (EAPs)* and *Environmental Review Summaries (ERSs)*.[243]

Commercial banks should work towards a greater deal transparency. A first step would be for the bank to provide a sectoral and regional breakdown of the deals it is involved in by financial product or service (e.g. corporate loans, syndicated loans, underwriting, etc.). Such reporting is required in the GRI financial services sector supplement, and is meant to give stakeholders some sense of the bank's exposure to environmentally and/or socially sensitive areas or sectors.

A second step would be to provide via the bank's website, basic details (name of client, amount, purpose, maturity) on the deals which the bank has concluded.

A further critical step towards transparency is to create disclosure policies and practices that require clients (in some or all cases) to make information about environmental and social impacts available to affected communities. This would be similar to the disclosure requirements Equator Principles banks are supposed to apply to Category A transactions, which obliges clients to provide affected people and NGOs with timely and adequate information about proposed activities in an appropriate language and manner.

It should be noted that such disclosure of social and environmental information to stakeholders should not be avoided through the claim of client confidentiality. Client confidentiality is generally irrelevant since most of the information relevant for affected people and NGOs does not fall within the narrow margins of business secrets. Moreover, a client's interest in confidentiality should not be overriding unless it outweighs the public's right to know about impacts that may directly affect them.

Best practice would entail making information about pending deals available to the public, similar to what is required by IFC's Transparency and Disclosure procedure.

5.4.2 Score Table

The considerations above lead to the following scoring table with regard to deal transparency:

0. *The bank is not transparent about deals at all;*

1. *The bank provides sectoral and regional breakdowns of the deals it was involved in (in the reporting period), by financial product or service;*

2. *The bank provides sectoral and regional breakdowns of the deals it was involved in and a list with the basic details of the deals it was involved in (in the reporting period);*

3. *The bank provides sectoral and regional breakdowns of the deals it was involved in and a list with the basic details of the deals it was involved in (in the reporting period). It also requires clients (in some or all cases) to disclose environmental and social assessment reports, reviews and management plans to affected people;*

4. *The bank provides sectoral and regional breakdowns of the deals it was involved in and a list with the basic details of the deals it was involved in (in the reporting period). It also requires clients (in some or all cases) to disclose environmental and social assessment reports, reviews and management plans to affected people. The bank also discloses information on pending deals and on deals rejected because they do not meet the criteria in the bank's issue and sector policies.*

5.4.3 Results

Very few banks are transparent about the clients they provide financial services to, or the sectors in which they are active. This report found that 23 banks show the composition of their lending portfolios by sector and/or geography, but only seldom name any of their clients or the syndicates they have participated in. The signatory banks to the Equator Principles are obliged to publish an overview of their involvement in project finance deals, as well as the categorisation of the deals they are involved in. None of the banks provide similar information about their entire loan portfolio.

Scores on Deal Transparency					
ABN AMRO	1	Saudi-American Bank	1	BNP Paribas	0
Barclays	1	Santander	1	Citi	0
BBVA	1	Scotiabank	1	Credit Suisse	0
China Construction	1	Société Générale	1	Fortis	0
Crédit Agricole	1	Standard Bank	1	Goldman Sachs	0
Deutsche Bank	1	Standard Chartered	1	HSBC	0
Dexia	1	Sumitomo Mitsui	1	ICBC	0
Intesa Sanpaolo	1	Westpac	1	ING	0
JPMorgan Chase	1	ANZ	0	Merrill Lynch	0
KBC	1	Banco Bradesco	0	Mitsubishi UFJ	0
Mizuho Financial	1	Banco do Brasil	0	Morgan Stanley	0
Nedbank	1	Banco Itaú	0	State Bank of India	0
Rabobank	1	Bank Mandiri	0	UBS	0
RBS	1	Bank of America	0	Unicredit	0
Royal Bank of Canada	1	Bank of China	0	WestLB	0

5.5 Institutional accountability

5.5.1 Best practices

Institutional accountability refers to all mechanisms and procedures put in place by the to ensure that its sustainability commitments are implemented throughout the organisation and applied to all relevant financial services.

A first mechanism contributing to achieving this goal is to conduct *internal* audits of the bank's *Environmental and Social Risk Management System*, including its sector and issue financing policies. Based upon the outcomes of these audits, steps can be taken by the bank's management to improve procedures and tools.

A second mechanism could be *external* audits of the bank's *Environmental and Social Risk Management System.* A well-known external auditing standard is ISO 14001, which is used by banks to audit the environmental consequences of the bank's internal operations (e.g. paper use). However, ISO 14001 is not suited to audit sector and issue financing policies. For an external audit of the bank's issue and sector financing policies another standard should be used.

Institutional accountability is further increased when the results (or a summary thereof) of the audits of the bank's *Environmental and Social Risk Management System* - including its sector and issue financing policies - are made public, and the bank engages on a debate with stakeholders about the results and next steps to take based on the results.

One of the most important accountability mechanisms entails consulting civil society groups regularly on the bank's sector and issue financing policies. To make this consultation effective it is necessary to translate policies in languages understood by local stakeholders and civil society. This consultation should be a serious two-way process: if the bank is not prepared to take the concerns, grievances and other inputs of civil society groups seriously and adapt policies and procedures when flaws are identified, such consultations are useless.[244]

AccountAbility has developed the AA1000 Series of Standards, a combination of accounting, auditing and reporting standards. The *AA1000 Series* consist of the *1999 Framework* - providing guidance on establishing a systematic stakeholder engagement process; the *Assurance Standard* - covering the full range of an organisation's disclosure and performance; and the *Stakeholder Engagement Standards* - advancing the right of stakeholders to be heard and the organisations' obligation to adequately respond to their concerns.[245]

5.5.2 Score table

The considerations above lead to the following scoring table with regard to institutional accountability:

0. *The bank has no institutional accountability mechanism at all;*
1. *The bank conducts internal audits of its sector and issue financing policies;*
2. *The bank hires external auditors to audit its sector and issue financing policies;*
3. *The bank publicly publishes the results of the audits of its sector and issue financing policies;*
4. *The bank publicly publishes the results of the audits of its sector and issue financing policies and conducts stakeholder engagement processes on its sector and issue policies that comply with the AA1000 Series of Standards or similar standards.*

5.5.3 Results

Many banks have their Corporate Social Responsibility Reports audited, either by internal or external auditors. Our research found that 18 banks hire an external auditor and 11 banks undertake an internal audit. However, most 'sustainability auditors' have little experience in auditing the bank's social and environmental lending behaviour. Instead, their focus is mainly on the reporting of factors like the bank's operational emissions, internal labour conditions, etc. Outcomes of the audits are not reported by any bank.

Scores on Institutional Accountability					
ABN AMRO	2	Unicredit	2	Bank Mandiri	0
ANZ	2	WestLB	2	Bank of China	0
Banco Bradesco	2	Westpac	2	China Construction	0
Banco Itaú	2	Bank of America	1	Goldman Sachs	0
BNP Paribas	2	Barclays	1	ICBC	0
Crédit Agricole	2	BBVA	1	JPMorgan Chase	0
Deutsche Bank	2	Citi	1	Mitsubishi UFJ	0
Fortis	2	Credit Suisse	1	Mizuho Financial	0
ING	2	Dexia	1	Morgan Stanley	0
Intesa Sanpaolo	2	HSBC	1	Royal Bank of Canada	0
KBC	2	Merrill Lynch	1	Saudi-American Bank	0
Nedbank	2	Scotiabank	1	Santander	0
Rabobank	2	Standard Chartered	1	Société Générale	0
RBS	2	Sumitomo Mitsui	1	Standard Bank	0
UBS	2	Banco do Brasil	0	State Bank of India	0

5.6 Deal accountability

5.6.1 Best practices

Apart from accountability at the institutional level, the bank should also recognise its accountability to local communities and other stakeholders affected by specific deals the bank is involved in. The sector and issue financing policies adopted by the bank are supposed to prevent or, in some unavoidable cases, mitigate or fairly compensate negative effects on such stakeholders. Therefore, mechanisms need to be in place that ensures recourse for external stakeholders in case the policies are not properly applied.

The bank's clients have the first responsibility in dealing with environmental or social problems arising from their activities. Because of this responsibility, clients should establish and manage a community grievance mechanism. But this does not relieve a bank from its duty to ensure that its clients comply with the standards set in the bank's

sector and issue financing policies. Banks should therefore establish a *Bank Policy Complaint Mechanism* for local and other stakeholders who are affected by bank-financed activities, as well as for NGOs which legitimately defend broader social and environmental interests.

The mechanism should enable these stakeholders to file a complaint based on the non-observance of relevant sector and issue financing policies by a client of the bank. Most of the multilateral development banks and several export credit agencies (ECAs) have put such mechanisms in place.[246]

Such a *Bank Policy Complaint Mechanism* is different from the general procedures a bank may have to deal with customer complaints. Rather, a *Bank Policy Complaint Mechanism* should deal with complaints and grievances in a serious and structured way and should therefore function independently, free from undue influence and pressure. Further, the *Bank Policy Complaint Mechanism* should provide rights to complainants regarding a codified procedure.[247] This *Bank Policy Complaint Mechanism* can either be established and managed by an individual bank, or use mechanisms that are then to be created within a group of committed banks -for example the signatories to the *Equator Principles*.

5.6.2 Score table

The considerations above lead to the following scoring table with regard to deal accountability:

0. *The bank has no Bank Policy Complaint Mechanism at all;*
1. *The bank has an informal Bank Policy Complaint Mechanism in place which is not independent or has no authority within the bank;*
2. *The bank has set up an independent Bank Policy Complaint Mechanism for a specific field of financing activity (e.g. project finance);*
3. *The bank has set up an independent Bank Policy Complaint Mechanism for all deals in which the bank is involved;*
4. *The bank has set up an independent Bank Policy Complaint Mechanism for all deals in which the bank is involved and reports publicly on the complaints filed, the responses and the steps taken to address problems.*

5.6.3 Results

Some deals that are financed by international banks do harm to individuals, communities or society as a whole. It is important that the bank offers a mechanism for third parties like communities or other stakeholders affected by the banks' deals, or representatives of the affected people, to complain or raise issues in the bank about its financing behaviour.

Most banks have set up complaint mechanisms, but generally these are focused at clients who are unsatisfied by the bank's service levels. Four banks, Banco do Brasil (Brazil), Rabobank (the Netherlands), Standard Bank (South Africa) and Westpac (Australia), have established also a grievance mechanism for third-party complaints.

Scores on Deal Accountability					
Banco do Brasil	3	BNP Paribas	0	Mizuho Financial	0
Rabobank	3	China Construction	0	Morgan Stanley	0
Standard Bank	3	Citi	0	Nedbank	0
Westpac	3	Crédit Agricole	0	RBS	0
ABN AMRO	1	Credit Suisse	0	Royal Bank of Canada	0
ING	1	Deutsche Bank	0	Saudi-American Bank	0
Intesa Sanpaolo	1	Dexia	0	Santander	0
ANZ	0	Fortis	0	Scotiabank	0
Banco Bradesco	0	Goldman Sachs	0	Société Générale	0
Banco Itaú	0	HSBC	0	Standard Chartered	0
Bank Mandiri	0	ICBC	0	State Bank of India	0
Bank of America	0	JPMorgan Chase	0	Sumitomo Mitsui	0
Bank of China	0	KBC	0	UBS	0
Barclays	0	Merrill Lynch	0	Unicredit	0
BBVA	0	Mitsubishi UFJ	0	WestLB	0