

Equator Principles Re-Launched

Improvements Made, But Principles Fail to Live Up To Their Potential

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BankTrack welcomes any initiative that enhances the social and environmental sustainability of bank financing operations. BankTrack acknowledges the improvements in the [new version of the Equator Principles](#) (EPs), such as the expansion of the Principles to cover financial advising and the lower threshold, but also believes that the EPs fail to live up to their potential.

The Era of Implementation

As the Equator banks have recognized, implementation is critical to the success of the Principles. Since the EP's inception, BankTrack has consistently supported the goal of EP implementation and compliance by encouraging the adoption of robust governance and accountability systems.

Some of BankTrack's feedback, such as the suggestion to regularly review the Principles with an eye toward continuous improvement, was taken on board in the revision and is very much welcome. (See [NGO Comments on the Revision for the Equator Principles](#)). However, the EP's most fundamental governance and accountability problems still have yet to be adequately addressed:

Governance, Implementation and Compliance Systems

EP banks must adopt more robust governance and implementation systems, such as a procedure for dealing with "free riders" and a regular reporting requirement. At the request of the EP banks, BankTrack produced a simple [proposed disclosure framework](#) for the banks on implementation. Although the revised Equator Principles (EP2) now includes new transparency requirements, they fall short of what would be minimally adequate to provide a confident accounting of EP compliance.

Independent Accountability Mechanism

BankTrack further believes that the EP banks should adopt an accountability mechanism that would allow communities affected by projects supposedly governed by the EPs to seek redress for problems they may encounter. BankTrack is disappointed that the EP banks have not taken the opportunity provided by the EP revision to provide for such an accountability mechanism.

The proof is in the portfolio

It has not yet been proven on a generalized basis that the EPs are making a difference to communities on the ground. Today, EP banks still are involved in environmentally and socially harmful projects. For example, at this time, EP banks represent the majority of financial institutions bidding on the deeply controversial and non-EP compliant Sakhalin II project. This invites legitimate allegations of

'greenwash' which illustrates the urgent need for EP implementation, compliance and accountability systems.

EPs: A Baseline But Not Best Practice

BankTrack welcomes the areas in which the revised EPs have embraced higher environmental and social standards. For example, as the [Equator banks have pointed out](#), the International Finance Corporation Performance Standards (IFC PS) and therefore the EPs now have stronger standards on labor and working conditions, and a new requirement to covenant clients to host-country environmental and social laws.

However, BankTrack regrets the fact that the Equator banks have chosen to reject certain IFC improvements, and to follow the IFC where it weakened its policies. For example, EP2 did not adopt a new IFC requirement on revenue and contract transparency for extractive industries clients, a measure designed to promote good governance and combat corruption. And on the important issue of Land Acquisition and Involuntary Resettlement, the IFC PS and EP2 actually reverses a previous World Bank policy and no longer recognizes people without 'recognizable' land titles. The EP banks should rectify this.

BankTrack views the EPs as a baseline, rather than best practice, in the field of sustainable financing policies. Banks' financing standards should uphold international best practices, norms and laws, and EP2 fails to do so in some key areas. For example, human rights are enshrined in international law but are not adequately addressed in the IFC PS and the revised EPs. International law also provides indigenous peoples with the right to give or withhold their Free, Prior and Informed Consent for activities that may affect their traditional territories and resources; but the IFC PS and EP2 does not provide for this.

A [recent BankTrack study](#) found that many banks have already adopted individual environmental and social financing policies that go beyond the Equator Principles. However, the report also found that with few exceptions, these policies are lagging significantly behind international norms, standards and best practices.

For more background on BankTrack's critique of the Equator Principles, [click here](#).