

**To: Amit Puri, Equator Principles Association Chair (Standard Chartered); Equator Principles Association Steering Committee**

**CC: All Equator Principles Financial Institutions (EPFIs); Courtenay Smith, Equator Principles Association Secretariat**

**Subject: A renewed commitment on climate, nature, human and Indigenous rights, and pandemics, before the 20th anniversary of the Equator Principles**

October 14, 2022

Dear Equator Principles Steering Committee and Chair,

We, the undersigned organisations, are writing to you ahead of your 2022 Annual General Meeting to make the case for you to start a process that will lead to an important and necessary expansion of the scope of risks that the Equator Principles (EPs) set out to manage.

Our organisations are convinced that without such an expansion of scope and a corresponding strengthening of commitments of all EPFIs in the realms of climate and energy, nature and biodiversity, human and Indigenous rights, and pandemic prevention, the Equator Principles will *not* shield adopting banks from risks associated with providing project related finance, as per your current mission. Moreover, we fear that merely proceeding with business as usual after your 20th anniversary in 2023 will see a continued stream of 'Equator compliant' lending to projects and companies that exacerbate risks to the planet's climate, to nature and to communities, and eventually to banks as well.

As you will remember, in November 2021, we [called](#) upon the Association and all its members to take note of the outcomes of the climate and biodiversity summits in Glasgow and Kunming respectively, and implement concrete actions on climate, biodiversity and human rights. Sadly, the [response](#) received from the EPA Steering Committee on 14th December 2021 fell far short of meeting the urgency of the multiple risks and crises of this time. Instead of outlining new commitments, it contained merely an explanation of what is standing practice under the current Equator Principles, as well as a few promises that have since proven empty, as reflected upon below.

With another year now passed, the global situation has only worsened, and immediate action to tackle the multiple crises with which we are confronted is needed now more than ever before. A radical change of course is needed, and the Equator Principles have a role to play in delivering this.

### **Towards Managing Global Risks**

It is now nearly twenty years since the Equator Principles were launched as a framework for adopting institutions to 'effectively identify, assess and manage environmental and social risks when providing project-related finance'. At the time, the importance of the new Principles lay in their explicit acknowledgement that sound risk management required banks to start looking beyond financial and company aspects, and to consider the impact that the asset under consideration could have on the environment and on communities. The assumption was that this enhanced understanding of potential risks *for the EPFI and the project sponsor* would automatically lead to a win-win situation for all other stakeholders involved, the planet included.

Twenty years on, this assumption can no longer be maintained. Too many projects continue to be financed under the Equator Principles where the risks to projects and the EPFIs involved are perhaps 'properly assessed and managed', but which directly contribute to accelerating the climate crisis, the

rapid destruction of the planet's remaining intact ecosystems, a worsening plight for Indigenous and other communities, and even a growing risk of new pandemics. In other words, EPFI lending leads to ever growing *global risks*, and these cannot be disentangled from risks for EPFIs themselves, which after all rely on well-functioning societies embedded in stable ecosystems to do business.

Our organisations therefore call upon the Equator Principles Association to expand its definition of risk, so that it includes the 'global risks' as defined above, and over the next eight months in the lead up to the Equator Principles 20th anniversary take the urgent steps outlined below. These demands reflect the concerns and expectations of not just our organisations, but civil society more broadly, including Indigenous and local communities, as well as the scientific community.

## On Climate

In the preamble of the Equator Principles, all adopting banks commit to "support the objectives of the 2015 Paris Climate Agreement". However, this support for the Paris goals does not yet translate into a commitment under the EPFIs to categorically exclude projects that by their very nature will contribute to a further deepening of the climate crisis, such as new coal mines and coal power plants, or any further expansion of oil and gas exploration and exploitation.

The December 2021 EPA response to our letter states that "the EPs remain a risk management framework and there is currently no intention to include any 'exclusion list'-type conditions", suggesting not for the first time that these are incompatible approaches. In light of the deepening climate crisis, such a position can no longer be maintained. Since Paris, a wide range of authoritative bodies, from the [IPCC](#) to the [IEA](#) to the UN backed [Race to Zero](#) campaign, to the [chairs of the Glasgow Financial Alliance for Net Zero \(GFANZ\) \(\\*\)](#), to the [Secretary General of the United Nations](#), have made it clear that, for the world to stay below the 1.5 degree Paris goal, it is necessary to immediately end all finance for new coal, and to also urgently stop finance for the expansion of oil and gas production. Financial institutions must redirect this finance towards high-quality, rights-compatible renewable energy and energy efficiency developments.

*Global climate risk* management requires that the EPA urgently updates the Equator Principles, so that they at minimum:

- Categorically exclude all financing for coal mines, coal power plants and coal related infrastructure
- Categorically exclude all financing for new oil and gas exploration and extraction projects and the expansion of oil and gas infrastructure
- Require all EPFIs to align their other project-related lending with the 1.5-degree target of the Paris Climate Agreement

## On Nature and Biodiversity

In the preamble of the Equator Principles, all adopting banks commit to "support conservation including the aim of enhancing the evidence base for research and decisions relating to biodiversity". This suggests that lack of biodiversity-related data is the main obstacle stopping EPFIs from factoring the protection and restoration of biodiversity and critical ecosystems into their lending decisions. The biodiversity related [guidance](#) so far provided by the EPA also focuses exclusively on data collection needed for project lending decisions.

Meanwhile, the world is facing outright ecological breakdown. The United Nations [estimates](#) that the extinction rate of plant and animal species is now between 1,000 and 10,000 times higher than the natural extinction rate. Untouched wilderness areas are fast disappearing, with human activity having already significantly [altered](#) three-quarters of all land and impacted two-thirds of the seas and oceans.

The condition of most temperate and tropical forests, peatlands, wetlands, coral reefs, rivers, oceans, and other ecosystems on which we, and all other species, depend upon, continue to rapidly deteriorate all over the world.

In such an acute crisis it is crucially important to fully protect and restore the world's ecosystems. This requires first and foremost strengthening human rights, in particular those of Indigenous peoples and local communities residing in forests and other biodiversity hotspots. Indigenous peoples embody and nurture [80% of the world's cultural and biological diversity](#), whilst only occupying 20% of the world's land surface and comprising less than 5% of the world's population. Yet their rights are continually violated by the extractive and industrial activities of fossil fuel, agro-commodities, infrastructure, and other high impact sectors operating on their territories, often without their consent, and at times with the backing of EPFIs financing these activities 'under Equator'.

Beyond this, the world's remaining biodiversity needs urgent and full protection and restoration, for example by considering a range of high biodiversity areas off limits for any economic activities with a negative impact on such areas. Designating such areas as "no go" areas for EPFI finance would also preclude the "no net loss" approach endorsed in current EPA guidance, which essentially considers all nature and ecosystems convertible and replaceable, thereby considering the surface of the entire planet, land, and sea, open for business.

*Global nature and biodiversity risk* management requires that the EPA urgently updates the Equator Principles, so that they at minimum:

- Fully guarantee the right of Indigenous peoples to exercise their right to Free, Prior, and Informed consent (FPIC), as outlined in the United Nations Declaration on the Rights of Indigenous Peoples
- Exclude financing related to unsustainable, extractive, industrial, environmentally, and/or socially harmful projects in or which may potentially impact high level biodiverse areas, or [No-Go areas](#)
- Abandon the "no net loss approach" in risk mitigation and exclude finance to carbon and biodiversity offset projects based on this concept

## On Pandemics

The current Equator Principles, EP4, were developed right before the global Covid-19 pandemic impacted everyone's life for a full two years and had a profound impact on business and EPFIs globally. In acknowledgement of this impact, the EPA issued [guidance](#) on how to implement the EPs during the pandemic, yet did not produce guidance on incorporating the risk of certain projects financed under Equator *triggering or exacerbating the risks of new pandemics* into the overall risk assessment tools of adopting banks.

The Covid-19 pandemic will not be the last. Over the last decades, there has been a rapid [increase](#) in the number of zoonotic diseases (those that pass from animals to humans), and the [probability](#) of local outbreaks turning into a pandemic with similar impact to COVID-19 is now estimated to be about 2% in any given year, and growing. At worst, the world could be on the brink of entering '[an era of pandemics](#)', with raging pandemics being [the norm](#) rather than the exception.

While the outbreak of a specific zoonotic disease is always a chance event, the risk of such outbreaks actually occurring bears a linear relation to, amongst other factors, global warming, human intrusion into, and destruction of intact ecosystems, the burgeoning trade in wild animals and the continuous expansion of global meat production. It follows from this that EPFIs financing business activities that impact on these factors have a responsibility to carefully assess the risk of outbreaks resulting from these activities, as part of their overall risk assessment.

*Global pandemic risk* management requires that the EPA urgently updates the Equator Principles, so that they at minimum:

- Provide detailed guidance on what factors increase the risk of new zoonotic diseases emerging
- Include a requirement for all EPFIs to include 'pandemic risk assessment' in all financial transactions falling within the scope of the Principles, recognising that projects financed under the Principles can create or be linked to drivers of zoonotic diseases.
- Require EPFIs to exclude lending for business activities that due to their location or impact on intact ecosystems severely heighten the risk of the emergence of zoonotic diseases

## **On Human and Indigenous Rights**

In the preamble of the Equator Principles, all adopting banks commit to respect human rights in line with the UN Guiding Principles on Business and Human Rights (UNGPs). Despite this commitment, and the additional guidance provided in the principles and additional resources on stakeholder engagement and project-level grievance mechanisms, we continue to see a concerning lack of implementation on the ground. In 2020 BankTrack [published two reports](#) which detailed the many 'Equator compliant' projects that are failing to conduct proper stakeholder engagement and/or do not have effective grievance mechanisms in place on the ground to manage and remedy complaints from affected communities. There are [numerous examples](#) of projects that have been financed under the Equator Principles that have wholly failed to uphold and respect the rights of affected communities which continues to undermine the very purpose of the Principles.

An essential tool in any human rights due diligence process is an effective grievance mechanism that is in line with the requirements as outlined in the UNGPs. Our organisations have [repeatedly called upon](#) the Association to develop an initiative-level accountability mechanism that evaluates and responds to allegations of potential breaches of the Equator Principles by financial institutions and their clients, and which is able to provide for or support effective remedies.

We are alarmed to learn that, after its [commitment](#) following the EP4 consultation process to finally consider the development of such a mechanism, the EPA has now stated that it has no plans to pursue this. Without such a mechanism, the EPA is itself in breach of its human rights responsibilities under the UNGPs; impacted communities have no adequate process to address their complaints; and the Principles fail to have any accountability in situations where financial institutions fail to uphold them.

*Global human rights risk* management requires that the EPA urgently updates the Equator Principles, so that they at minimum:

- Ensure the proper respect for Indigenous and human rights, including the right of Free, Prior and Informed Consent for all affected Indigenous peoples and local communities
- Urgently establish an effective initiative-level grievance mechanism, as per its responsibilities under the UNGPs, designed to evaluate and respond to allegations of any breach of the Principles and to provide or facilitate remediation of adverse impacts where appropriate
- Create a mechanism to exclude companies with an ongoing track record of proven involvement in human and Indigenous rights violations from obtaining loans under the Principles

In conclusion, the global and interrelated challenges our societies face call for a global risk management approach in project finance. This may represent a step-change in the Equator Principles conception of risk, but it is a necessary change if the Principles are to remain an effective benchmark

for managing the environmental and social risks created by projects. These global risks cannot be ignored any longer.

We call upon the Equator Principles Association to discuss these recommendations at its forthcoming Annual Meeting and put in place a process to implement the changes outlined above by the time of its 20th anniversary on 4th June 2023. In this way we hope that the EPA can move forward as a global, comprehensive risk management framework that is fit for the global risks the world is facing.

We kindly request that you share this letter with all members of the Equator Principles Association ahead of your AGM. We wish you a fruitful meeting and stand ready to further discuss these matters with you and your members at your convenience.

Kind regards,

Hannah Greep, Johan Frijns, **BankTrack, Netherlands / International**

Osprey Orielle Lake,  
**Women's Earth & Climate Action Network, WECAN, United States / International**

#### **Also signed by:**

- 350 Conejo / San Fernando Valley, **United States**
- 350 Wisconsin, **United States**
- Accountability Counsel, **United States/Global**
- AnsvarligFremtid, **Denmark**
- Bank.Green, **UK**
- Blue Dalian, **China**
- Centre for Citizens Conserving Environment & Management(CECIC), **Uganda**
- CODEPINK, **United States**
- Earth Ethics, Inc., **United States**
- European Association of Geographers, **Belgium**
- Extinction Rebellion San Francisco Bay Area, **United States**
- Fair Finance International, **Netherlands**
- Green Longjiang, **China**
- Indigenous Environmental Network, **United States**
- Just Share, **South Africa**
- London Mining Network, **United Kingdom**
- NGO Forum on ADB, **Philippines**
- Project HEARD, **Netherlands**
- Rainforest Action Network, **United States**
- Razom We Stand, **Ukraine / International**
- Regenerating Paradise, **United States**
- Scholar Tree Alliance, **China**
- Snow Alliance, **China**
- Union of British Columbia Indian Chiefs (UBCIC), **Canada**
- Urgewald, **Germany**
- West Coast Environmental Law Association, **Canada**

(\* ) An earlier version of this letter mistakenly mentioned here 'Net Zero Banking Alliance'. It is now corrected as Glasgow Alliance for Net Zero.