Executive Summary

SHAPING THE FUTURE OF SUSTAINABLE FINANCE

MOVING FROM PAPER PROMISES TO PERFORMANCE

WWF

In association with

BANKTrack

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.

This is the executive summary of a full report available online at wwf.org.uk/shapingthefuture

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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? 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 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 Collevecchio Declaration of January 2003. Now endorsed by more than 200 organisations, the Collevecchio Declaration remains the benchmark by which civil society will measure the banking sector's commitment to sustainability.

Collevecchio 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

This report's primary objective is to review the current (September 2005) environmental and social policies adopted by key institutions in the banking sector. It 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 environmental and social concerns and as a 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:

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.

SUMMARY OF FINDINGS

The discernible shift in recent years that many banks have made towards addressing environmental and sustainability impacts of their operations is a welcome and important first step on the path to sustainable finance. The end of that path, however, will be measured not by good intentions or even by strong paper policies. Sustainable finance must seek improved performance and results on the ground in affected communities and environments. This can only be achieved through the adoption of strong policy frameworks, transparently and effectively implemented across all portfolios and departments.

POLICY FRAMEWORKS

As this review demonstrates, a growing number of banks are developing sector-specific policies that apply to transactions. Some were developed prior to the Equator Principles, while others were developed in part as a response to the Principles and thus reflect the Principles' inherent limitations. The increasing development, scope and diversity of policies is welcomed and provides significant promise for stronger policy frameworks in the future.

As our analysis indicates, with few exceptions bank policies are lagging significantly behind relevant international standards and best practices (see Table 1). The average numerical grades can be translated into a letter grade according to the scale illustrated (above right):

Where banks have adopted specific policies, they are frequently aspirational and contain little language that can be actioned. In only two cases – Rabobank's adoption of the UN Draft Norms on Human Rights and HSBC's adoption of the World Commission on Dams standards – has any bank adopted policies that meet all or most of the relevant international standards or best practices.

The highest overall average score, achieved by ABN AMRO and HSBC Group, was a 1.31, which if translated to a letter grade is a D+.

Grade conversion scale

0.00 to 0.50	**E**
0.51 to 0.75	**D-**
0.76 to 1.25	**D**
1.26 to 1.50	**D+**
1.51 to 1.75	**C-**
1.76 to 2.25	**C**
2.26 to 2.50	**C+**
2.51 to 2.75	**B-**
2.76 to 3.25	**B**
3.26 to 3.50	**B+**
3.51 to 3.75	**A-**
3.76 to 4.00	**A**

TABLE 1 **SUMMARY OF POLICY RATINGS: Environmental and social manangement**

BANK	Human rights	Labour	Indigenous people	Climate & energy	Dams	Biodiversity	Forests	Fisheries	Agriculture	Extractive industries	Chemicals	Transparency	E&S management	Average score & letter grade
ABN Amro	3	1	1	1	2	1	3	0	0	2	0	2	1	**1.31 (D+)**
Banco Bradesco	0	0	1	0	2	0	0	0	0	0	0	2	1	**0.46 (E)**
Banco de Brasil	0	1	1	0	2	0	0	0	0	0	0	2	1	**0.54 (D-)**
Banco Itaú	0	0	1	0	2	0	0	0	0	0	0	2	1	**0.46 (E)**
Barclays	1	0	1	1	2	0	1	0	0	1	0	2	1	**0.77 (D)**
BBVA	0	1	1	0	2	0	0	0	0	0	0	2	1	**0.54 (D-)**
BNDES	0	0	0	0	0	0	0	0	0	0	0	0	0	**0.00 (E)**
BNP Paribas	0	1	0	0	0	0	0	0	0	0	0	0	0	**0.08 (E)**
Bank of America	0	0	1	3	2	0	2	0	0	0	0	2	1	**0.85 (D)**
Calyon	0	0	1	0	2	0	0	0	0	0	0	2	1	**0.46 (E)**
CIBC	0	0	1	0	2	0	0	0	0	0	0	2	1	**0.46 (E)**
Citigroup	0	3	1	2	2	0	2	0	0	0	0	2	1	**1.00 (D)**
Credit Suisse Group	0	1	1	0	2	0	0	0	0	0	0	2	1	**0.54 (D-)**
Deutsche Bank	0	1	0	0	0	0	0	0	0	0	0	0	0	**0.08 (E)**
Dexia	0	1	1	0	2	0	0	0	0	0	0	2	1	**0.54 (D-)**
Dresdner Bank	0	1	1	0	2	0	0	0	0	0	0	2	1	**0.54 (D-)**
HBOS	1	0	0	0	0	0	0	0	0	0	0	0	0	**0.08 (E)**
HSBC Group	0	1	1	1	4	2	3	0	0	0	2	2	1	**1.31 (D+)**
HVB Group	0	0	1	1	2	0	0	0	0	0	0	2	1	**0.54 (D-)**
ING Group	1	0	1	0	2	0	1	0	0	0	0	2	1	**0.62 (D-)**
JP Morgan Chase	0	1	3	3	2	1	2	0	0	1	0	2	1	**1.23 (D)**
KBC	0	1	1	0	2	0	0	0	0	0	0	2	1	**0.54 (E)**
Korean Dev. Bank	0	0	0	0	0	0	0	0	0	0	0	0	0	**0.00 (E)**
Manulife	0	0	1	0	2	0	0	0	0	0	0	2	1	**0.46 (E)**
MCC	0	0	1	0	2	0	0	0	0	0	0	2	1	**0.46 (E)**
Bank of Tokyo-Mitsubishi	0	0	0	1	0	0	0	0	0	0	0	0	0	**0.08 (E)**
Mizuho Financial Group	0	0	1	0	2	0	0	0	0	0	0	2	1	**0.46 (E)**
Rabobank Group	4	3	1	0	2	0	2	0	0	0	0	2	1	**1.15 (D)**
Royal Bank of Canada	0	0	1	0	2	0	0	0	0	0	0	2	1	**0.46 (E)**
Royal Bank of Scotland	0	1	1	0	2	0	0	0	0	0	0	2	1	**0.54 (D-)**
Scotia Bank	0	0	1	1	2	0	0	0	0	0	0	2	1	**0.54 (D-)**
Société Général	1	1	0	0	0	0	0	0	0	0	0	0	0	**0.15 (E)**
Standard Chartered Bank	1	0	1	0	2	0	0	0	0	0	0	2	1	**0.54 (D-)**
Sumitomo Mitsui Financial Group	0	0	0	0	0	0	0	0	0	0	0	0	0	**0.00 (E)**
UBS	0	1	0	0	0	0	0	0	0	0	0	0	0	**0.08 (E)**
Unibanco	0	0	1	0	2	0	0	0	0	0	0	2	1	**0.46 (E)**
Wells Fargo	0	0	1	0	2	0	0	0	0	0	0	2	1	**0.46 (E)**
West LB	0	0	1	0	2	0	0	0	0	0	0	2	1	**0.46 (E)**
Westpac	3	1	1	0	2	0	0	0	0	0	0	2	1	**0.77 (D-)**

Some banks are also taking tentative steps to apply the policies to all or most of their operations. Although we recognise that the application of environmental and social policies may need to be tailored to different financial products and services, we expect these policies to apply throughout the banking industry to all relevant activities.

Finally, it should be noted that the revision of the IFC's safeguard policy framework means significant changes for the policies underlying the Equator Principles. Before adopting the IFC's new Performance Standards system, the Equator Banks should evaluate it carefully and proactively address the weaknesses and gaps in the IFC's new approach by adopting the international standards and best practice set out in this report. Unfortunately, research suggests that only a small minority of Equator Banks have taken steps to supplement the inadequate policy framework of the Principles by adopting additional standards, let alone standards that meet international norms and best practice.

TRANSPARENCY OF IMPLEMENTATION

Even where banks have the best policies, little information is available about their systems or practices for implementation. It was therefore impossible to assess, let alone compare, their efforts at implementation. We know anecdotally that significant efforts are being made. We also know that even banks with relatively strong policies continue to support transactions with significant environmental or social impacts. This practice cannot continue without eroding the credibility of all banks committed to sustainable finance.

As we have now shifted from a "trust me" to a "show me" world in which corporations are the least trusted of institutions, banks should urgently adopt a reporting framework that demonstrates that they are actually implementing their policies in ways that make a meaningful difference to people and the planet. Only then will outside stakeholders gain confidence that the banking sector's policy pronouncements are more than just rhetoric.

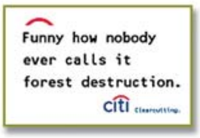
We suggest that banks report on their implementation by publishing annual sustainability reports in accordance with the Global Reporting Initiative, with particular reference to the emerging financial services sector supplement. This reporting protocol is currently in draft form and incomplete in scope; however, we hope that as it is finalised, and as technical protocols and implementation guides are developed, it will provide a comprehensive reporting framework for banks and stakeholders alike.

Above: The banking sector is beginning to recognise the importance of assessing the associated environmental costs of funding projects such as oil and gas developments.

ADOPTING AN ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM

Of course, reporting on implementation simply ensures that banks are putting in place an effective environmental and social risk management system that reflects all potential impacts across all their activities. Each bank needs to adopt an environmental management system (EMS) that includes the following elements:

- initial review to determine key environmental and social exposures, impacts and risks;
- overall environmental and social policy that sets the bank's approach;
- annual action plans;
- committed organisational structure and personnel (staffing, oversight, compensation and training);
- environmental and social procedures and standards for transactions that include deal-level transparency, consultation and compliance procedures;
- documentation, including that required to facilitate implementation audits;
- internal information and training;
- external reporting, verification and consultation;
- EMS monitoring and corrective action; and management review and improvement, feeding back into the cycle and informing annual action plans.



Clockwise from above: a banking sector commitment to 'do no harm' could curb the devastation of tropical habitats by clearance for crops such as palm oil; replacing polluting coal-fired power generation with cleaner alternatives such as wind turbines could in many cases lead to financial savings; September 2002, Rainforest Action Network banner at the Citibank offices in Johannesburg, next to the main World Summit on Sustainable Development venue; an entry in RAN's 2003 contest to 'put the truth' into Citigroup's "Live Richly" ad campaign.

In addition, banks should provide for the use of external transparency, compliance and accountability mechanisms for especially sensitive transactions. For banks that have agreed to a collective set of standards and procedures (the Equator Principles, for example), such a system could be applied collectively; this would include common information disclosure and reporting requirements, and a shared system for receiving third-party complaints from external actors.

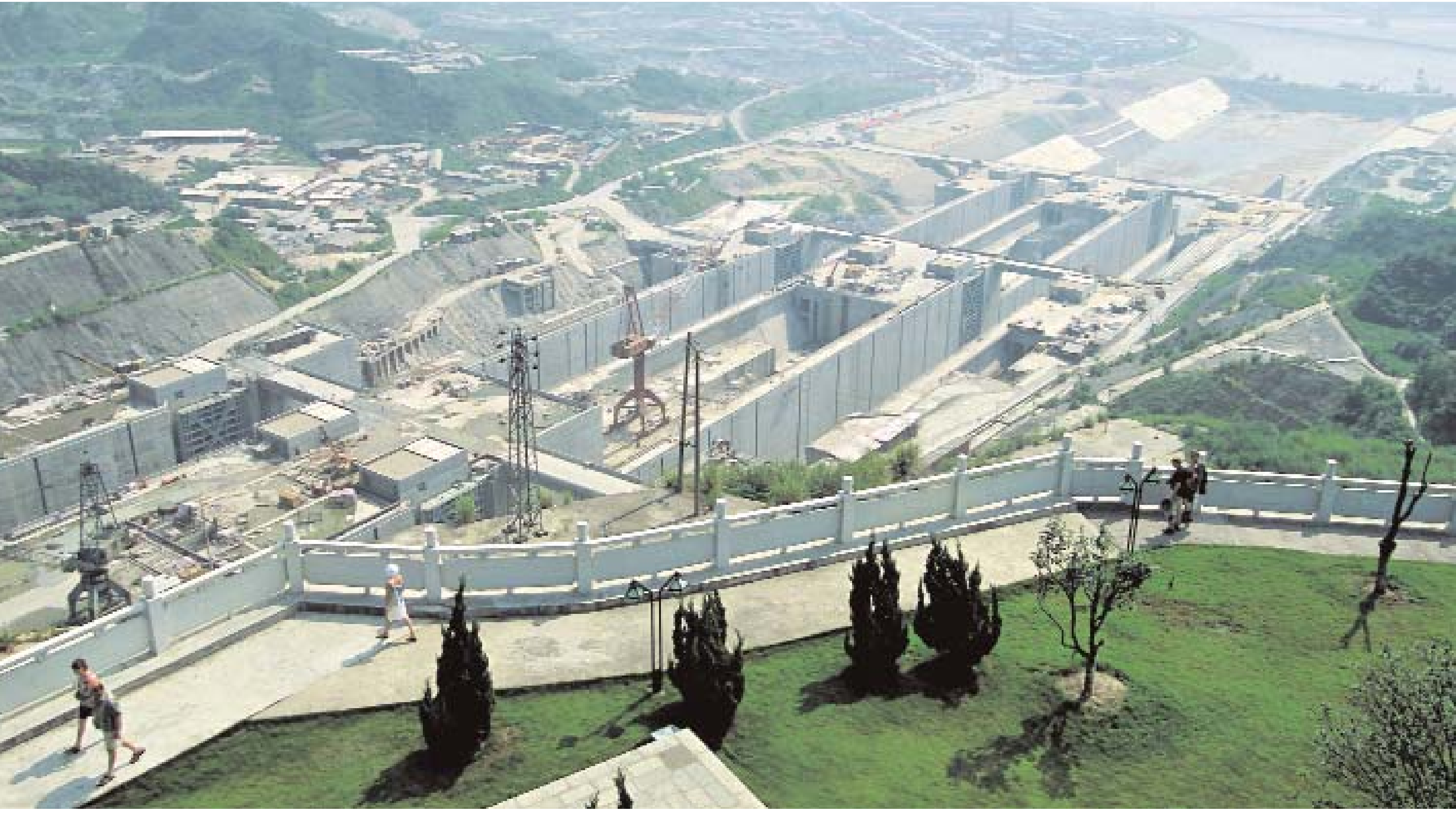
EXERCISING LEADERSHIP IN SUSTAINABLE FINANCE

Banks committed to sustainable finance must also exercise leadership in the sector and in society generally. This report has identified some examples of this, including HSBC's role in achieving carbon neutrality, and Rabobank's role in supporting the Responsible Commodities Initiative. In addition, the banks must assert their leadership through the syndications or arrangements with other banks that have yet to join the sustainable finance movement. This will be increasingly important over time as banks from China and other developing countries that have no experience yet in sustainable finance become increasingly major players. Finally, to be recognised leaders in sustainable finance, the banks must also ensure that they do not use their political influence to circumvent or undermine the development of regulatory and other approaches to sustainable development.

CONCLUSION

While some industry leaders have begun to infuse their operations with broad-based commitments to sustainability, even they (let alone the rest of the industry) still have far to go in terms of meeting international standards and best practices. If the financial industry is to be a reliable, effective and profitable catalyst for sustainable development, it must not only adopt strong and comprehensive policies, but must also introduce comprehensive risk management systems that ensure rigorous implementation of the policies. At this point, policy development is still too embryonic, and information about implementation too guarded, for us to determine whether the banking industry has crossed the threshold into a promising new era of green finance – or merely refined the discredited old tools of "greenwash".

BankTrack is a global coalition of non-governmental organisations (NGOs) including WWF-UK, Friends of the Earth, the Rainforest Action Network and the Berne Declaration. It promotes sustainable finance in the commercial sector, and its vision for a sustainable finance sector was expressed in the Collevecchio Declaration of January 2003. Now endorsed by more than 200 organisations, the Collevecchio Declaration remains the benchmark by which civil society will measure the banking sector's commitment to sustainable development.



The Three Gorges Dam, on China's Yangtze River. The dam's enormous environmental and social impacts – including the displacement of more than a million people – have made it the focus of much protest. NGOs have encouraged financial institutions not to support the project.

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The mission of WWF is to stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature, by:
· conserving the world's biological diversity
· ensuring that the use of renewable natural resources is sustainable
· reducing pollution and wasteful consumption

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