Transparency and the Equator Principles

Introduction

BankTrack welcomes the opportunity to provide suggested disclosure items that would improve the transparency and credibility of the Equator Principles.

We note that financial institutions have consistently asserted that some types of information are confidential. BankTrack recognizes this concern and we encourage banks to, in the words of the Collevecchio Declaration, "make assumptions in favor of disclosure." This could include releasing information upon request, for example; or developing creative and practical methods to enhance disclosure of environmentally and socially significant information. For example, in the mid-1990s, when many International Financial Institutions claimed that EIAs were proprietary, NGOs worked with the US Overseas Private Investment Corporation to design EIA terms of reference that required clients to specifically exclude confidential information, thus paving the way for full public disclosure of these documents. We hope to work with the Equator banks to successfully develop similar innovations to increase information disclosure.

In that spirit, we offer the following proposed disclosure items, which fall into two categories. Disclosure of project-level data can enhance the accountability of the client with respect to the environmental and social commitments it has made to local communities and to Equator banks. Disclosure of bank-level data enhances the accountability of the financiers themselves to their Equator commitments.

We hope that such disclosure will provide a meaningful basis for dialogue on how to enhance implementation of the Principles; and that in the future, the Equator banks will be open to discussing broader issues of accountability.

For example, disclosure of project-level data is closely tied to the issue of consultation with affected communities. Community consultation, particularly in early stages of the project cycle, is of utmost concern, and we strongly encourage the Bank – NGO dialogue group to address this topic in the near future. Similarly, disclosure of bank-level data is integral to improving accountability among Equator Banks, and we hope that the banks will be willing to discuss proposals such as the independent accountability mechanism (described in the "Profits, Principles, or Just PR?" report), which could compile and review Equator Banks’ public disclosures. While banks currently may have little appetite to discuss proposals such as these, our experience is that parties working in good faith collaboration will be able to identify creative ways to continue dialogue and achieve mutual objectives.

Project Level Disclosure

The EPs already require that for all Category A projects, EAs are disclosed in appropriate languages. NGOs encourage banks to make full EAs available rather than summaries; this will particularly provide for the disclosure of EMPs.

- **Environmental and Social Covenants.** EP banks should indicate for all projects whether the client is fully covenanted to the EMP, and whether any additional social and environmental covenants exist.

  *Rationale:* NGOs expect that all Category A project clients will be fully covenanted to an Environmental Management Plan that will
bring the client into full compliance with IFC environmental and social standards. Accurate reporting on this issue will allow the public to understand if this is indeed the case. In addition, it would allow communities to know whether client has undertaken additional environmental or social commitments, and help hold the client accountable for those commitments.

- **EMP Compliance Reports.** The EPs require regular reporting by clients on their compliance with environmental and social commitments expressed in the EMP. The EP banks may also commission an independent expert to verify client compliance. These compliance and experts’ reports should be released upon request.

  **Rationale:** Disclosure of EMP compliance reports will help communities and the public understand how the client is fulfilling its environmental and social obligations. It could also help improve the quality of monitoring; for example, communities may be able to provide valuable input as to the scope of the monitoring activities (e.g. desk studies versus site visits), and contribute continuing third-party information to the monitoring process. In addition, disclosing information on the monitors/independent experts could allow the public to determine whether the experts are competent in social/ environmental issues, reputable, and trusted from a community perspective; and whether potential conflicts of interest may exist (through the existence of other contracts, for example).

### Bank Level Disclosure

Many Equator Banks already provide annual corporate environmental and social reports. BankTrack encourages this practice and particularly recommends that banks look to the emerging financial services sector supplement of the Global Reporting Initiative for guidance. With particular respect to EP implementation, NGOs would like to see banks report on the following items:

- **General Statistics:** General information on project finance transactions, such as: names of projects, including country and deal size; level and type of financial involvement (e.g. advisory, lead manager, loan syndication participant, etc.) indication of whether Principles were applied, and if so their categorization (A, B, or C); whether the client in those projects was covenanted to the full EMP, and if so whether independent experts were assigned to monitor it.

  **Rationale:** This very basic information allows the public and Equator banks themselves to understand to what extent the Equator Principles are being used to assess project finance transactions within a bank. NGOs have already observed that some banks have elected to take a good faith approach to the EPs that applies components of the Equator process to non-project finance transactions, financial advisory services, etc.

- **Deviations:** Disclosure of projects financed that do not comply with EPs or are not fully covenanted to the EMP, and in each case justification for deviation.

  **Rationale:** NGOs recognize that there may be cases where banks may not deem it “feasible” to implement the Equator Principles. Disclosure of these cases allows the public and peer banks to understand how frequently such deviations occur, and why.
Non-Compliance: Projects financed that were discovered to be in default due to non-compliance with EPs or loan covenants, and corrective actions taken by the institution and/or borrower. Loans suspended or called due to non-compliance with EPs or EMPs, including project name, borrower and reason.

Rationale: In the first 18 months of the EP's existence, banks and NGOs alike have viewed approvals (or rejection) of controversial projects as the "test" of whether the Principles were being implemented. However, in the next several years, an equally important test will be how and whether banks adequately use their influence with clients to solve environmental and problems on the ground, and whether they are willing exercise their ability to declare loans in default as the ultimate sanction of the Principles.

Implementation Systems: Systems for implementing the EPs, including appropriate personnel responsible, training programs, audit processes, etc. Such issues may be covered by in the section of the bank's sustainability report which addresses environmental management systems; if so, specific systems for implementing EPs should be noted.

Rationale: This information provides important context for understanding how the Equator Principles fit into an institution’s overall environmental programs, commitments, and internal controls. However, many BankTrack members put relatively less emphasis on this type of process reporting, as the several of the other proposed disclosure items are either more performance-oriented or more directly beneficial to local communities.