

# **Unproven Principles**



## ***The Equator Principles at Year Two***

An Anniversary Assessment

# Unproven Principles



*The Equator Principles at Year Two*

An anniversary assessment  
Prepared by Michelle Chan-Fishel, FoE-US  
For BankTrack

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**BANK***Track*

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BankTrack is: Amigos da Terra (Brazilian Amazon), Amis de la Terre (France), Berne Declaration (Switzerland), Campaign to Reform the World Bank (Italy), Friends of the Earth – England Wales & Northern Ireland, Friends of the Earth – US, International Rivers Network (US), Milieudefensie (the Netherlands), Mineral Policy Institute (Australia), Netwerk Vlaanderen (Belgium), PLATFORM (UK), Rainforest Action Network (US), Urgewald (Germany), and WWF-UK.

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# Part 1. Banks' Implementation and Compliance with the Equator Principles

## 1. Introduction

On June 4th, 2003 ten private financial institutions launched the Equator Principles (EPs), a set of guidelines for managing social and environmental issues related to the financing of projects.<sup>1</sup> For the first time, banks that were otherwise in competition with each other presented a united approach in attempting to mitigate environmental and social risks associated with financing projects.

At the time, BankTrack welcomed the Principles as a positive development, but was cautious. Like many observers, it believed that public commitment was good but implementation was key, and that the EPs themselves had weaknesses that should have been addressed in the design of the Principles.

Two years after the first announcement of the Principles, the number of adopting financial institutions has risen to 31 (29 banks, one export credit agency and one insurance company). Most of the key players in the market are on board but a number of leading project finance banks, including **BNP Paribas**, **Société Générale** and **Sumitomo Mitsui Banking**, continue to opt out. The Equator banks themselves estimate that the Principles now govern over 80 percent of all project lending.<sup>2</sup>

BankTrack has strongly believed from the outset that in order to promote the integrity, application, and potential of the Principles, adopting banks must be transparent and accountable in their implementation of and compliance with the EPs. Also, Equator banks should be committed to actively seeking the involvement and opinions of all directly affected stakeholders when deciding whether to finance a project with substantial environmental or social impacts.

As it states in the Preamble of the Principles: "We believe that adoption of and adherence to these principles offers significant benefits to ourselves, our customers and other stakeholders.

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<sup>1</sup> The first adopters were ABN AMRO Bank, N.V., Barclays plc, Citigroup, Inc., Crédit Lyonnais (now Calyon), Credit Suisse First Boston, HVB Group, Rabobank Group, The Royal Bank of Scotland, WestLB AG, and Westpac Banking Corporation

<sup>2</sup> Equator banks arranged over 80% of the global project loan market by volume. See [www.equator-principles.com](http://www.equator-principles.com)

*Most of the key players in the market are on board but a number of leading project finance banks, including BNP Paribas, Société Générale, and Sumitomo Mitsui Banking, continue to opt out.*

These principles will foster our ability to document and manage our risk exposures to environmental and social matters associated with the projects we finance, thereby allowing us to engage proactively with our stakeholders on environmental and social policy issues.”<sup>3</sup>

Naturally, in order to examine whether these benefits to banks, customers, stakeholders have accrued, and whether better engagement has resulted, EP banks must report on what they have done, and how they have seen the EPs make a difference.

This review attempts to measure whether, based on what banks have publicly reported, the benefits of the Principles are being reaped. It attempts to assess whether banks have properly implemented and applied the principles. BankTrack believes that ultimately, the effectiveness of the Principles will be demonstrated through the environmental and social performance of projects that the Equator banks finance and influence, and whether they create better participation and benefits for affected communities.

## 1.1. Methodology and approach

This report is an assessment of the state of affairs regarding EP implementation and compliance. It provides bank-specific commentaries that summarize and highlight notable aspects of EP implementation.<sup>4</sup> Given the view that the onus is on adopting banks to demonstrate their implementation of and compliance with the Principles, this review relies solely on publicly available information (as found in Corporate Social Responsibility reports, annual reports, and company and Equator websites).

As such, the report makes no claim to being comprehensive; activities of banks that went unreported do not figure in this overview.

The review focused on 26 banks. **Banco Itaú** and **Banco Itaú BBA** were counted as one bank. Specific commentaries were not produced for **Banco do Brasil**, **JPMorgan Chase**, **Manulife**, and **Scotiabank** as they adopted the EPs less than six months ago.

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<sup>3</sup> Ibid

<sup>4</sup> It should be noted that ten areas of EP implementation were listed in BankTrack’s January 2004 *No U Turn Allowed* report -- Initial Environmental Review; Policy Development; Organizational Structure and Personnel; Environmental Procedures and Standards; Documentation; Internal Information and Training; External Reporting; Consultation and Consent; Auditing, Monitoring

The bank-specific commentaries focused on four areas of implementation:

### **1. External Reporting and Transparency**

*Was the bank open and transparent in its implementation of and compliance with the EPs, or did it fail to provide evidence and reporting to the public?*

Supportive of the EPs but troubled by the lack of transparency around the Principles, BankTrack and ethical investors (led by UK-based investor CIS) presented two concrete proposals to the EP banks on what information they should provide in terms of Equator disclosure.<sup>5</sup> These proposed reporting frameworks served as a benchmark to assess the quality of EP disclosure. For example, both disclosure proposals ask that the EP banks disclose how many projects they financed last year, how many of them were subject to the EPs, and how they were categorized.

Most of the commentaries provide some indication of the quality of banks' reporting; terms such as "relatively good" mean relative to other banks' current practice, not relative to the benchmarks set by BankTrack or CIS.

### **2. Policy Development: the adoption and application of the EPs**

*Did the bank formally adopt the EPs, and make the appropriate changes to existing policies to accommodate this new commitment?*

BankTrack believes that the EPs should be adopted not through a simple public announcement but through officially changing credit policies. Obviously, in terms of application, they should be applied to all relevant transactions (i.e. project finance deals of US\$50 million or more). However, some banks apply Equator-type standards and procedures to transactions under the \$50 million threshold, and to corporate credits as well; the report indicates where this is the case.

### **3. Procedures and Standards: Changing business as usual**

*How do bankers have to do things differently post-Equator?*

A promise is not enough to ensure implementation and/or compliance. Instead, banks need to create new tools and procedures to aid in EP implementation, as well as training programs, and monitoring and compliance systems.

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and Corrective Action; and Management Review and Improvement. (See Appendix 1 or <http://www.banktrack.org/index.php?id=112>)

<sup>5</sup> . See <http://www.banktrack.org/index.php?id=112>

#### **4. Review and Improvement: EP Implementation Challenges**

*What are the current challenges of EP implementation and what goals have been set to improve implementation and compliance?*

Implementation is a continuous task, and honestly identifying challenges and setting improvement goals is a sign of a well-managed company and a good faith commitment to the spirit of the EPs, particularly at this early stage. Banks that address this question give some indication of their future plans and intentions regarding the EPs.

Finally, the report reviews a fifth element, the banks' own assessment of whether the EPs are making a difference:

#### **5. Impacts: a different with the EPs?**

*What has been the impact of the EPs?*

In announcing their adoption of the EPs, many banks highlighted how EP adoption would help the institution advance its corporate responsibility commitment, or help foster sustainable development. Indeed, the EPs have the potential of affecting how the bank approaches environmental/social issues in its core business. Ultimately, the promise of the EPs is that they will prompt the design of more environmentally and socially benign projects (impacts on clients), and create better development outcomes for local people (impacts on affected communities). This review attempts to understand whether these impacts are occurring and whether banks are tracking them.

## **2. What Equator Banks are Doing to Implement and Comply with the EPs**

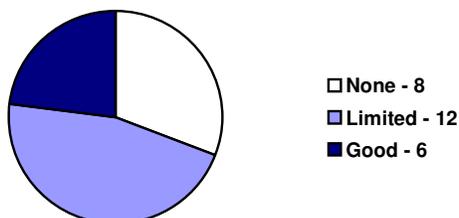
This section provides a general analysis of EP implementation in the following areas: External Reporting and Transparency, Adoption and Application, Procedures and Standards, Implementation Challenges, and Impact. For bank-specific analyses of EP implementation, see Part Two.

### **2.1 External Reporting and Transparency**

One would expect that Equator banks would provide some public accounting for their commitment, particularly those banks that were original or early signatories, such as Dresdner, MCC, and Rabobank. However, eight banks – **Banco Bradesco, Banco Itaú/ Itaú BBA, Bank of America, Dresdner, EKF, MCC,**

**Rabobank** and **Unibanco** – did not disclose any information on how they implement the Equator Principles.

### Quality of Equator Reporting



There are two types of Equator disclosure. The first is “performance data”: quantitative or results-related information such as the actual number of project finance transactions considered and executed; the percentage that were subject to EP review; how

many were approved as-is, with conditions, or declined; the categorization, location, and sector of the projects, etc.

The second type of Equator disclosure is process-oriented, and focuses on descriptions of processes, policies, governance systems, and standards (e.g. who has responsibility for overseeing the EPs in the bank, how compliance with the EPs is ensured, whether particular tools have been developed to aid in EP implementation, what compliance mechanisms exist). In many cases, process-oriented reporting describes how the Equator Principles are implemented “in theory.”<sup>6</sup>

*The majority of EP banks reviewed provided only limited Equator reporting.*

The majority of the EP banks reviewed provided only limited Equator reporting. For example, **BBVA** and **Unibanco** list several “green” projects, but do not indicate whether the EPs were applied, or whether the projects listed represent the full portfolio of project finance deals last year. **RBS**, provided an excellent description of the various stages of a deal cycle, and how the EPs are integrated into each stage; but it did not provide key statistics of projects financed (i.e. performance data).

Another common reporting shortfall was for banks to generally discuss environmental risk issues, but not Equator implementation/compliance specifically. For example, **Barclays, CIBC, Credit Suisse, Dexia, HVB, KBC, RBC, Standard Chartered, and WestLB** all have existing environmental risk management programs (which vary in comprehensiveness) but their reporting focused more on the non-Equator aspects of their

<sup>6</sup> A third type of disclosure, which applies to the kinds of information that a bank will release to affected communities during the course of a particular project (e.g. allowing communities access to independent monitoring reports). This type of disclosure is critical, and was emphasized in BankTrack’s disclosure framework proposed to the Equator banks. But because it is different in nature, it has not been included in the scope of this report.

EMS's. It was therefore difficult to ascertain whether particular EMS achievements (such as training) were made in terms of EP implementation, or in other areas, such as assessing commercial real estate risk.

A smaller proportion of Equator banks (**ABN AMRO, Citigroup, HSBC, ING, Mizuho, and Westpac**) provided superior EP reporting, which boosts public confidence in the Principles.<sup>7</sup> Each of these banks described steps taken to implement the Principles; in addition, they also shared quantitative performance data, such as the number of project finance transactions, their categorization, etc. **Mizuho** provided the numbers of project finance transactions by category. **Citigroup** focused on Category A projects, and indicated whether the transactions met four key Equator conditions. **ING** broke out their project finance deals by category and region, while **ABN AMRO** did a particularly good job in specifying how many projects were approved, approved with conditions, and declined. **Westpac** mentioned both closed and pending deals; and generally described the bank's role and the asset classes for 2004 project finance activities. **HSBC** indicated the type of financing facility for their projects, and took the novel approach of enumerating each of the nine principles and reporting on their implementation of each.

*With respect to EP performance data, there has been some hesitancy among Equator banks to disclose details (e.g. names, locations, facilities) of projects that have been financed, particularly those that have been declined. So it should be noted that six banks provided information of this nature*

With respect to EP performance data, there has been some hesitancy among Equator banks to disclose the details (e.g. names, locations, facilities) of projects that have been financed, particularly those that have been declined. So it should be noted that six banks provided information of this nature. **Calyon** provides on its website what appears to be a complete list of deals in a league table. In addition, **ABN AMRO, HSBC, ING, and Westpac** all disclosed how many transactions were declined partly as a result of the Equator Principles. (**HVB** reported that in the past they have declined transactions that have not met World Bank standards). **HSBC** offered some interpretive guidance on their performance data, noting: "Our view is that, as our lending executives apply the principles at an earlier stage and as awareness of the required standards grows among our customers, so the number of projects declined will tend to fall."<sup>8</sup>

<sup>7</sup> It should also be noted that several banks, such as Standard Chartered, Rabobank and Westpac, produce externally verified sustainability reports.

<sup>8</sup> [http://www.hsbc.com/hsbc/about\\_hsbc/corporate-social-responsibility/ethical-finance/equator-principles/equator-principles-transactions](http://www.hsbc.com/hsbc/about_hsbc/corporate-social-responsibility/ethical-finance/equator-principles/equator-principles-transactions)

## 2.2 Policy Development: The Adoption and Application of the EPs

All Equator banks publicly announced their adoption of the EPs, with many press releases offering supportive quotes from senior bank executives. However, a public announcement is quite different from formally reviewing and amending credit policies. While all banks presumably went through the proper channels to formally adopt the EPs, few banks provided details. Among the banks that did, **CIBC** reported that its Environmental Credit and Investment Risk Management Policy “was revised in 2004 to include our adoption of the Equator Principles.”<sup>9</sup> Similarly, **Citigroup** amended its analogous credit policy to incorporate Equator, and **ABN AMRO** updated its Mining Policy in 2004 to accommodate the EPs.

*Regarding the application of the Principles, many banks used language such as the Equator Principles “apply to all project finance transactions over \$50 million,” but not many banks attempted to report on actual EP compliance*

Regarding the application of the Principles, many banks used language such as the Equator Principles “apply to all project finance transactions over \$50 million,” but not many banks attempted to report on actual EP compliance. There were some exceptions, however. **ABN AMRO** maintained that it reviewed 100% of relevant transactions according to the EPs, and accounted for the final determinations (positive, approved with conditions, negative) on each transaction. Similarly, **HSBC, ING, Westpac** accounted for all their project finance transactions (approved and declined; or in the case of Westpac, closed and pending), suggesting that these banks applied EP analysis to all relevant deals. **RBC** performed Equator assessment in “a number of resource sector projects in Canada and in developing countries in 2004,”<sup>10</sup> but did not suggest that the EPs were fully applied for all relevant transactions. Finally, **Credit Suisse** reported that 100% of their credits were environmentally screened in 2004; perhaps project finance deals received appropriate Equator analysis, but this is unclear.

A few banks also explicitly described their application of the Principles when participating in loan syndications with non-EP banks. For example, **Westpac** notes that “In terms of lending to projects alongside non-equator banks, we require compliance with the Principles irrespective of the position of non-signatory banks.”<sup>11</sup> **HSBC** states that “we would also be cautious in respect of projects where our participation in a syndicated transaction could be such as to allow other banks to waive this [EMP] covenant. It remains our preference to participate in syndicated

<sup>9</sup> CIBC 2004 Public Accountability Report

<sup>10</sup> <http://www.rbc.com/environment/lending-equator-principles.html>

<sup>11</sup> *Are we on the right side of the equator?* fact sheet

loans where the majority of banks, and in particular the lead arranger, have adopted the Equator Principles, and that the environmental due diligence role is held by an EP bank.”<sup>12</sup>

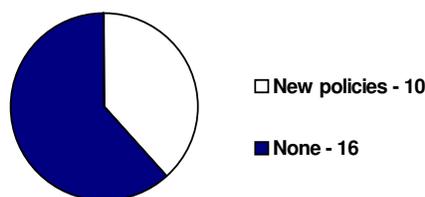
Regarding the scope of EP application, five banks embraced the best practice approach of following the “spirit of the Equator Principles.” **Barclays, Citigroup, HSBC** and newcomer **JPMorgan Chase** have pledged to apply Equator more broadly, for example to corporate credits where use of proceeds is known.

**HSBC** perhaps goes farthest in this respect, stating that EPs will apply “to project advisory roles, corporate lending where the end use of proceeds is for a project, and to other forms of financial assistance such as bonding and guarantees directly linked to projects”<sup>13</sup>; further, it reported that in 2004 it applied the EPs to seven additional transactions. **Westpac** disclosed that in 2004 it applied the EP to a project under the \$50 million threshold, while **JPMorgan Chase** has announced that it is lowering the EP application threshold to \$10 million rather than \$50 million.

Several banks have “gone beyond” the EPs in other ways, by adopting new sector standards for instance. One notable recent example is **HSBC’s** freshwater policy which is based in part on the World Commission on Dams recommendations. While BankTrack strongly supports the development of such additional policies, they are beyond the scope of this study. Such best practice policies will be reviewed by BankTrack in another report to be released in late 2005.

### 2.3 Procedures and Standards: Changing Business as Usual

**Banks Creating New EP Policies, Tools and Procedures**



In order to genuinely adopt the Equator Principles, banks must amend existing policies, and/or create new systems, tools and procedures to facilitate Equator implementation and compliance.

Over half of the banks surveyed failed to report

<sup>12</sup> [http://www.hsbc.com/hsbc/about\\_hsbc/corporate-social-responsibility/ethical-finance/equator-principles/equator-principles-implementation](http://www.hsbc.com/hsbc/about_hsbc/corporate-social-responsibility/ethical-finance/equator-principles/equator-principles-implementation)

<sup>13</sup> [http://www.hsbc.com/hsbc/about\\_hsbc/corporate-social-responsibility/ethical-finance/equator-principles](http://www.hsbc.com/hsbc/about_hsbc/corporate-social-responsibility/ethical-finance/equator-principles)

taking such steps, a figure that reflects poorly on the integrity of the Equator Principles.

Ten banks (**ABN, Barclays, BBVA, Calyon, CIBC, Citigroup, Dexia, HSBC, HVB, ING, Mizuho, RBC, RBS, and Westpac**) have or are in the process of creating new policies, procedures and tools to implement the EPs. However, three banks were rather vague and did not provide any explanation of what they were doing: **Calyon** said that the “application of a [new] procedure” has made them one of the leading EP implementers.<sup>14</sup> **CIBC** maintained that it is planning to create an “enhanced due diligence processes”<sup>15</sup>; while **Dexia** mentions “a new procedure for the handling and following up of projects.”<sup>16</sup>

The other seven banks described how particular policies and standards have been amended. For example, **Barclays’s** longstanding Environmental Impact Analysis policy was overhauled; **HVB** expanded its Global Project Finance Policy and its “internal screening process was totally revised by a project team” to accommodate the EPs.<sup>17</sup> Meanwhile, **RBC** and **Westpac** have developed particular Equator policies.

Some institutions created notable new guidance for its bankers. **Citigroup** developed guidance notes explaining when an EMP is required and when it should be covenanted; it also produced a guidance note on advisory functions. When **Mizuho** realized that the World Bank Pollution Prevention and Abatement Handbook did not cover pipelines or LNG plants – two areas where Mizuho actively lends – it produced its own technical environmental standards to assist in EP implementation.

**ABN AMRO** and **BBVA** also created noteworthy client assessment tools. BankTrack’s *No U Turn Allowed* report encourages banks to develop such “mechanisms for assessing and considering borrowers’ environmental, social and cultural expertise in relation to particular projects,” as a client’s capacity and willingness to manage environmental and social risks is key to ensuring proper implementation of and compliance with bank’s policies.<sup>18</sup> In this vein, **ABN AMRO** has developed a Client Diagnostic Tool that is “used to establish the degree to which these [extractive industry] sector clients have integrated sustainability into their business practices and management

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<sup>14</sup> “Calyon, the corporate and investment bank of the Crédit Agricole Group, maintains its commitment on the “Equator Principles” Calyon press release, 16 July 2004.

<sup>15</sup> CIBC 2004 Public Accountability Report

<sup>16</sup> Dexia 2003 Corporate Social Responsibility report

<sup>17</sup> HVB 2004 Sustainability report

<sup>18</sup> See Appendix 1

systems.”<sup>19</sup> **BBVA** is developing “a risk management tool which enables companies to be classified on the basis of their environmental risk profile.”<sup>20</sup> **Rabobank** is testing a similar tool in 2005. Although these client assessment tools may not have been created solely for project finance due diligence, they could certainly help in EP implementation and compliance, and represent a welcome development in environmental credit risk management techniques.

Finally, some banks described how internal processes have changed as a result of Equator. For example, at **ING** all requests for project finance approvals that are subject to the EPs are submitted automatically to the bank’s highest Credit Committee; at **ABN AMRO**, the Sustainable Business Advisory unit gets involved in every Category A and B transaction. **HSBC** requires the business team to initially categorize project finance deals, but the Project Finance and Credit and Risk departments are get involved as part of the deal approval. At **RBS**, the EPs are taken into account throughout the project cycle as a transaction gets reviewed by marketing officers, followed by the Peer Group and a “business forum,” then by Credit Risk, with the final decision made by a divisional credit committee and/or Group Credit Committee.

## 2.4 Review and Improvement: EP Implementation Challenges

Identifying implementation and compliance problems and creating objectives and plans to address them is a key function of Management Review and Improvement, one component of an Environmental Management System. Publicly discussing challenges and goals also allows stakeholders to identify where common problems may be occurring.

But it is difficult to generalize what the common problems are for EP implementation and compliance at this time. First, only nine EP banks identified challenges or goals associated with better EP implementation. Second, one perhaps would learn more about overall EP implementation and compliance problems from examining the practices of non-reporting EP banks, rather than those which honestly disclose their challenges.

Among the nine reporting banks, ‘better external disclosure’ was named as the most common goal -- one that was cited by **Citigroup, HSBC, HVB, ING** and **Westpac**. Three banks, **HSBC,**

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<sup>19</sup> ABN AMRO 2004 Sustainability report

<sup>20</sup> BBVA 2004 Corporate Social Responsibility report

**RBS** and **Westpac**, mentioned that they planned to conduct more EP training in the next year. **CIBC** and **Citigroup** spoke of the need for 'enhanced due diligence processes' or more clarity around particular credit and risk policies. Finally, **BBVA** pledged to strengthen their system for monitoring and compliance, a challenge that **Citigroup** also faced in 2004.

## 2.5 Systems, Expertise and Loan Covenants

In addition to the four areas reviewed above (Transparency, Adoption and Application, Procedures and Standards, and Implementation Challenges), there are a few other areas of EP implementation worth noting, namely: Environmental Management Systems, Compliance Systems, Training and Expertise, and Loan Covenants.

### *Four banks lack systems to implement the EPs*

*When banks neither provide EP reporting, nor indicate any intention to establish overall environmental management systems, it reflects poorly on the Equator Principles.*

Given the uneven reporting rates, it is difficult to assess the overall state of how well the EPs are being implemented, or what compliance rates are being achieved. When examining banks that provide no or limited Equator reporting, it is assumed that those institutions with an existing EMS have a higher chance of ensuring adequate EP implementation. When banks neither provide EP reporting, nor indicate any intention to establish overall environmental management systems, it reflects poorly on the Equator Principles. This appears to be the case with **Banco Bradesco**, **BBVA**, **EKF**, and **MCC**.

The rest of the Equator banks appear to have environmental management systems, but their quality and comprehensiveness vary greatly. For example, some banks such as **KBC**, have an EMS that seems to be mostly focused on reducing the institution's direct footprint (e.g. reducing energy and paper use). Others do not have a very structured EMS; for example, **BBVA** is still in the process of building its system, while **Calyon** appears to be satisfied with an unstructured approach towards environmental risk management. In contrast, banks like **Barclays** have clear environmental governance structures and longstanding environmental policies.

### *Monitoring, auditing and compliance systems*

Overall, little specific reporting was provided on banks' auditing and monitoring systems to ensure compliance with the EPs. As mentioned above, a few banks such as **ABN AMRO**, **HSBC**, **ING** and **Westpac** appear to publicly account for and report on all

their project finance transactions, suggesting at least a certain level of compliance with Equator.

**RBC** was one of the few banks to explicitly mention that the EPs, as part of the bank's overall credit risk processes, are subject to internal "business as usual" audits. **Standard Chartered**, in its recent 2004 corporate social responsibility report, noted that it has a "strong culture of compliance," and that its challenge is to "continue to embed policies with a social or environmental impact." However, they did not provide many details on its compliance systems or rates.

Some banks have EMS's that are externally audited by organizations such as the International Standards Organisation, but at times it is difficult to tell whether environmental credit policies and/or the Equator Principles are a significant part of those audits. For example, **KBC** reports that an external verifier gave one of its registered offices an 'Eco-dynamic Company' label, but this seems to apply to actual buildings, rather than transactions.<sup>21</sup> More emphasis, both in terms of reporting and practice, should be put on compliance systems in the future.

#### *Ensuring adequate staffing and expertise*

Training appears to be one of the most common ways banks have chosen to embed the Equator Principles. Ten Equator banks report conducting specialized Equator training. However, the EP website recounts that the IFC has already trained thirteen banks. This apparent discrepancy perhaps can be explained by the fact that while receiving initial IFC instruction may be part of an overall training approach, attending an IFC training course is not the same as developing a comprehensive curriculum for all relevant staff. Many banks have developed training programs that appear to be quite extensive in terms of their reach.

*No banks appear to have devised such consultant assessment mechanisms, and this is an area of improvement among the EP banks.*

To supplement environmental and social risk training, the Equator banks will have to rely on external consultants when necessary. Because of the important role these consultants play, BankTrack, in its *No U Turn Allowed* report, recommended that banks create "mechanisms for assessing and consultants' environmental, social and cultural expertise in particular deals and in regards to the banks' relationship with the consultant."<sup>22</sup> No banks appear to have devised such consultant assessment

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<sup>21</sup> [http://newkbc.pdf.kbc.be/Financial\\_Information/FAQ\\_CSR%20report\\_Environment\\_V2\\_120105.pdf](http://newkbc.pdf.kbc.be/Financial_Information/FAQ_CSR%20report_Environment_V2_120105.pdf)

<sup>22</sup> See Appendix 2

mechanisms, and this is an area for overall improvement among the EP banks.

One bank, **Citigroup**, reported hiring a new senior-level risk officer with environmental and social expertise to help implement the Principles. BankTrack welcomes this step, as recruitment of appropriate staff was an explicit BankTrack recommendation in 2004. And although all EP banks presumably have assigned a staff person (or group of people) with formal responsibility for implementing the EPs, reporting on this issue was uneven. From what can be gathered, responsibility for EP oversight within banks varies. For example, **Mizuho** bank created an “EP Unit,” while Dexia assigned a “coordinator and spokesman” for the EPs. Others, such as **RBC**, embedded Equator responsibility within existing environmental risk management units.

#### *Loan covenants*

Finally, BankTrack’s *No U Turn Allowed* report also encourages all EP loan covenants to commit the borrower to the full Environmental Management Plan. A few banks addressed this recommendation. For example, **Citigroup’s** Citizenship report focuses on Category A transactions and indicates that all those projects were covenanted to the full EMP. It also created a guidance note for its bankers explaining when an EMP is required and should be covenanted (suggesting that this may not always be the case). **HSBC** went further, amending their standard loan covenant language to commit the borrower to the full EMP.

### **3. Impact: A different world with the EPs?**

Both banks and non-governmental organizations (NGOs) are hopeful that the EPs will have a positive impact on bankers, clients, and affected communities, and ultimately advance sustainability and create benefits for people on the ground. As more projects are subject to the Equator Principles, one would expect banks to report on such positive benefits for themselves and communities.

#### **3.1 Impacts on banks**

Certainly many banks that adopted the EPs claimed that the Principles would be used as a way to further integrate environmental risk management/corporate social responsibility into their core business. However, the ability of the Equator Principles to genuinely serve as a launching point for meaningful environmental progress at a bank depends on a) whether project

finance is a significant part of the bank's business, and b) whether the bank has or is developing a comprehensive EMS that will facilitate the wider application of environmental risk management techniques and standards to other parts of the business.

For some institutions, such as **Bank of America**, project finance is a relatively small part of their business. Other banks, such as **Calyon**, are very active in the project finance field, but lack significant environmental management systems and have a decentralized organizational culture. Thus, one could argue that in both these institutions, the ability of the Equator Principles to generate significant knock-on effects is limited.

In contrast, **BBVA** was ranked as the third leading project finance bank worldwide by Dealogic, and is actively building its EMS. So when **BBVA** maintains that by endorsing the EPs, it is moving "towards implementation of its comprehensive strategy of corporate responsibility and its progressive extension to cover all business activities," the claim is more credible.<sup>23</sup> Similarly, at **Citigroup**, a bank with both a significant project finance business and a well-developed EMS, the EPs have spread beyond the Infrastructure and Energy Finance division. In fact, Citigroup reports that in 2004, a non-project finance business unit used the EPs as a "reference point" when it made an equity investment that was not subject to the Principles.<sup>24</sup>

### 3.2 Impacts on clients

*One of the promises of the EPs is that they will spur clients to design more environmentally and socially benign projects. Equator banks have not yet reported any examples of this happening, but it is probably too early for this dynamic to have taken root.*

One of the promises of the EPs is that they will spur clients to design more environmentally and socially benign projects. Equator banks have not yet reported any examples of this happening, but it is probably too early for this dynamic to have taken root. However, a few banks have shared stories of how the EPs have created a positive level of dialogue and learning among clients. For example, **ABN AMRO**'s sustainability report contains two examples of cases where clients wanted to learn or actually did learn more about the bank's sustainability expectations. **Westpac** maintained that its clients have been generally supportive of the EPs, and that it has "even had one client select us for a transaction specifically because we have signed up to the Equator Principles and support the green values of their project."<sup>25</sup>

<sup>23</sup> <http://www.bbva.com/TLBB/tlbb/jsp/ing/respscor/princecu/index.jsp>

<sup>24</sup> Citibank 2004 Corporate Citizenship report

<sup>25</sup> *Are we on the right side of the equator?* fact sheet

### 3.3 Impacts on communities

The ultimate potential of the EPs is to improve environmental and social outcomes for project-affected communities. Whether or not this is the case is of course to be judged by those communities themselves.

However, several banks provided case studies or anecdotes to illustrate whether the EPs were making a difference on the ground. For example, last year **ABN AMRO** reported that it approved 11 projects with conditions – presumably some of these were conditions that required improvements in environmental and social performance. In 2004 **HSBC** believed that the EPs resulted in better environmental and social standards in at least three projects it financed. **Citigroup** provided an interesting example of how application of the EPs in a developing country extractive industry deal led to the first Environmental Impact Assessment public consultation ever held in that country.

Three banks -- **ABN AMRO**, **RBS**, and **ING** -- provided updates on the Baku-Tblisi-Ceyhan (BTC) pipeline in their 2004 reporting, illustrating that this project, now in the post-financing phase, continues to serve as a test case for the EPs.<sup>26</sup> Since the approval of the project, the first documented human rights abuses associated with the pipeline have occurred, and a whistleblower came forward with information that the project developer hid known pipeline safety defects in order to gain international financing for the project. **RBS** and **ING** reported that, in response to these problems, two independent monitors/consultants had been appointed on behalf of the lenders; **ABN AMRO** similarly noted the special transparency requirements imposed on the client. All three banks conclude that these provisions have provided them with confidence in the project, suggesting that the BTC project remains a successful test case of the EPs in their eyes. However, key questions remain: how much additional accountability did the Equator banks bring (compared to the public lenders), and will the EP banks use the

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<sup>26</sup> BTC was also considered to be a test case of the EPs last year. Equator banks generally believed that they “passed the test” by thoughtfully considering the environmental and social aspects of the BTC project and ultimately approving it. Many NGOs asserted that since the project breached the Equator Principles on thirty counts, it should not have been approved, and thus the EP banks “failed the test.”

ultimate sanction of the Principles (declaring the loan in default) if problems persist?<sup>27</sup>

The BTC project and the other three examples mentioned above suggest some Equator adopters are attempting to understand and track the impact of the EPs on the ground. It should also be noted that the BankTrack network has not yet heard firsthand feedback from communities that the Equator Principles has made material improvements to their lives or livelihoods. In the coming years, both banks and NGOs should try to better understand the effect of the EPs on local communities.

Finally, certain projects will continue to serve as test cases for the Equator Principles in the future, challenging both the implementation of and compliance with the EPs, as well as their effectiveness. Such projects are and will be regularly featured on the BankTrack website at [www.banktrack.org](http://www.banktrack.org).

## 4. Conclusion

Two years after the launch of the Equator Principles, banks have made some progress in EP implementation, but the ultimate impact of the EPs is still unclear.

Banks have become better in publicly communicating their implementation of the EPs, with more banks providing more information than last year. However, reporting continues to be a key weakness of the EPs, with the vast majority (80%) of banks providing limited or no disclosure. Among the more transparent banks, few have risen to the higher level of reporting proposed by BankTrack and the ethical investing community. Better reporting appears to be a future goal for several individual EP banks, but such an emphasis is needed for the whole Equator group to enhance public confidence in the Principles.

*Another noteworthy aspect of EP implementation is the fact that five Equator banks have chosen to liberally apply the Principles to transactions that go beyond what is strictly required.*

Another noteworthy aspect of EP implementation is the fact that five Equator banks have chosen to liberally apply the Principles to transactions that go beyond what is strictly required. This practice of following the “spirit of Equator” is very welcome, although it does not offset the practices of other banks that fail to demonstrate they are following the “letter of Equator.”

On the less encouraging side, fewer than half of the banks reviewed reported creating new procedures, standards, tools, etc.

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<sup>27</sup> It should also be noted that in the last 12 months, the only bank to pull out of the BTC project was Banca Intesa, a non-EP bank, which ironically sold its position to HVB, an Equator bank.

to implement the EPs. Surely any bank that implements the EPs in good faith must make changes to the usual ways they do business. Training, which seems to be a common first step for many banks, is necessary but not sufficient. Creating new procedures and standards, and developing adequate audit systems is paramount, and should be disclosed by all EP banks.

It is still difficult to assess at this stage, whether the EPs are having a positive impact on banks, clients and communities. BankTrack continues to believe that the EPs can be used as an instrument to promote sustainability and better development outcomes, but so far there is little proof that this is happening on a systemic level. Banks have shared a few positive anecdotes in this regard, but ultimately NGOs will base their assessment on what communities have to say.

Finally, the preparation of this report has illustrated some of the key shortcomings of the Equator Principles:

First, the lack of transparency has hindered the ability of stakeholders and endorsing institutions alike to assess the state of Equator implementation and compliance. The Equator commitment should include a minimum transparency requirement as a way of ensuring public confidence in and promoting accountability of the Principles.

Second, the lack of governance and accountability mechanisms continues to be a flaw of the EPs. In many private industry initiatives, a central body or secretariat is entrusted with the task of setting minimum accountability systems (e.g. disclosure requirements), and supervising/ ensuring the overall implementation of the initiative. But with the Equator Principles, no one is responsible for examining the lessons learned from this and other analyses, evaluating the results, and identifying ways to apply these lessons to the overall group. Similarly, there is no body to deal with ongoing problems faced by the group nor to ensure the continuous and overall improvement of the Principles.

BankTrack hopes that the observations made in this report will be helpful for Equator banks in developing better processes and systems to address these issues.

## Part 2. Bank-specific Commentaries

Part Two of this report contains summaries and commentaries on the Equator reporting and implementation of each of the EP banks. As mentioned in the Methodology section, five areas were particularly examined: External Reporting and Transparency, Adoption and Application, Procedures and Standards, Implementation Challenges, and Impact.

### ABN AMRO

ABN AMRO provided relatively strong Equator disclosure, detailing the number of project finance deals that were reviewed according to the EPs, including the number that were approved, approved with conditions, and declined. It reports 100% policy adherence to the EPs, with all project finance deals undergoing Equator review. The bank also was one of the few institutions to provide industry breakdowns of environmentally and socially sensitive transactions, as suggested by the GRI financial services sector supplement. Its website and 2004 Sustainability Report also provided several anonymous case studies of transactions that provided insight to how the bank grappled with implementing the Principles on a project level.

The case studies provided indicate that the bank's sustainability policies and the EPs have had a positive impact on clients and communities. For example, it asserts that a client operating a gold mine in Asia changed how it interacted with local communities, resulting in more community support for the project. Its 2004 Sustainability report also describes how some clients, after learning about the bank's sustainability approach were "eager to find out how they could improve their current policies and procedures."

ABN AMRO has taken steps to formally adopt the Principles, and has amended existing sector policies to accommodate the EPs. A Sustainable Business Advisory group (housed within the Sustainable Development department and the Group Risk Management division) reviews all Category A and B projects, and 445 staff has been trained on Equator Principles. Notably, the bank seems to have made particular efforts to develop Equator expertise in its Brazilian offices, which reviewed 7 Latin America deals in 2004. Finally, ABN AMRO has developed particular diagnostic tools, filters, and automated systems for assessing environmental and social risks, and is finalizing a special Equator assessment tool to assist bankers in the implementation of the Principles. The bank has not reported any particular challenges

with EP implementation, nor have they set any Equator objectives for the next year.

**Sources:**

ABN AMRO 2004 Sustainability report

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[http://www.abnamro.com/com/about/sd/sd\\_issues.jsp](http://www.abnamro.com/com/about/sd/sd_issues.jsp)

[http://www.abnamro.com/com/about/sd/sd\\_policies.jsp](http://www.abnamro.com/com/about/sd/sd_policies.jsp)

## **Banco Bradesco**

Banco Bradesco, which announced its adoption of the Equator Principles less than a year ago (September 2004) provided no public reporting on Equator implementation. It also appears to have limited environmental management capacity and no public commitment to build up such capacity.

**Sources:**

<http://www.bradesco.com.br/ir/>

<http://www.bradesco.com.br/>

## **Banco do Brasil**

Banco do Brasil adopted the Equator Principles less than three months ago (March 2005), and thus a commentary has not been developed for this bank.

However, it should be noted that while announcing its EP commitment Banco do Brasil also “adjusted the analysis process for assessing credit risk by improving its questions addressing socio-environmental responsibility. These changes will begin to be applied to companies with earnings above R\$100 million and investment projects involving credit equal or superior to R\$10 million.”

**Source:**

<http://www.bb.com.br/appbb/portal/bb/si/ntcas/noticia.jsp?Noticia.codigo=140122>

## **Banco Itaú and Itaú BBA**

Banco Itaú and Itaú BBA adopted the Equator Principles in August 2004. (Banco Itaú Holding Financeira owns Banco Itaú, which serves individuals and companies, and Banco Itaú BBA, which specializes in large corporate clients.)

Itaú BBA, as an International Finance Corporation financial intermediary providing IFC onlending (the re-lending of loans), ostensibly had environmental management systems (EMS) in place to implement IFC environmental and social policies.

Although it has provided no disclosure regarding steps to implement the EPs, Banco Itaú Holding Financeira S.A. did notify shareholders about its adoption of the Principles in its Information on the Results for years ending on December 31, 2004 and 2003. This reporting outside of the corporate responsibility realm could be interpreted as a sign that the EPs were considered a “mainstream” commitment.

**Sources:**

<http://www.itaubba.com.br/indexIE.htm>

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## **Bank of America**

Despite announcing its adoption of the Equator Principles over a year ago, Bank of America has not provided any updates as to its implementation of or compliance with the EPs. It should be noted that the bank has not resumed its normal level of environmental reporting since its merger with Fleet, another U.S. bank.

However, the bank has a longstanding environmental affairs department, and since 1999 has had a policy of adhering to World Bank standards in project and other lending.

**Sources:**

<http://www.bankofamerica.com/newsroom/press/press.cfm?PressID=press.20040415.04.htm>

[http://www.bankofamerica.com/environment/index.cfm?template=env\\_rpt\\_2003\\_highlights](http://www.bankofamerica.com/environment/index.cfm?template=env_rpt_2003_highlights)

<http://www.bankofamerica.com/environment/2000epr/index.html>

[http://www.bankofamerica.com/environment/index.cfm?template=env\\_core\\_bpr\\_actices](http://www.bankofamerica.com/environment/index.cfm?template=env_core_bpr_actices)

## **Barclays**

Barclays, an original EP adopter, provided limited Equator reporting. Although it was one of the banks surveyed to produce an independently verified Corporate Responsibility report, the report offered none of the basic statistics about how many project finance transactions were done last year, how they were categorized, or what proportion of those deals was subjected to Equator. Because Barclays shared no case studies or impact analyses, it was difficult to tell whether its adoption of the EPs

was having any discernable impact on their clients, the projects financed, or conditions on the ground.

In terms of management systems, however, Barclays is more advanced. It reports that it has adapted certain environmental assessment tools, such as its Environmental Impact Analysis requirements (instituted in 1997), to the Equator framework. In addition, Barclays is one of several banks to employ the best practice technique of applying Equator-type screening to transactions under US\$50m (the EP threshold) and to sensitive non-project finance transactions where use of proceeds is known.

Regarding human resources, the bank has an established Environmental Risk Management Unit which, in the words of Sustainable Finance Ltd, helps ensure “a very high level of rigour in the practical application of social and environmental issues in project due diligence.” Barclays conducts regular environmental training and communications programmes; at least one project finance training (presumably covering EP) was conducted in 2004, but little additional information is provided about the numbers and extent of Equator training efforts. The bank also did not publicly identify any challenges or particular objectives associated with Equator implementation.

**Sources:**

2004 Corporate Responsibility Report

<http://www.personal.barclays.co.uk/BRC1/jsp/brcontrol?task=channelsocial&site=pfs&value=3653&menu=3115>

<http://www.barclays.co.uk/corporateresponsibility/marketplace/responsiblelending2.htm>

## **BBVA**

BBVA, which adopted the EPs in 2004, provided limited Equator reporting. The bank gave no indication of how projects were categorized, nor the extent to which the EPs were applied to these deals. However, it listed the type, value and location of its project finance deals – a transparency innovation that makes that represents best practice reporting among EP banks.

BBVA is in the early stages of building an environmental management system, so EP implementation in 2004 was undeveloped. Because project finance is an important business line for BBVA (in 2003, the bank provided \$2.12 billion in project financing, and was ranked third worldwide among project finance banks by Dealogic), the bank views the Equator Principles a significant way to build a comprehensive Corporate Social Responsibility programme.

The bank has identified “Improvement in application of Equator Principles” as a key Environmental Management Indicator, and admitted that in 2004 BBVA did not meet that objective. However, the bank publicly committed to this target in 2005, and pledged to strengthen the system for monitoring compliance with the Equator Principles as a Major Line of Work in 2005.

**Sources:**

2004 Corporate Social Responsibility Report

<http://www.bbva.com/TLBB/tlbb/jsp/ing/relinver/noticias/BBVA1444.jsp>

<http://www.bbva.com/TLBB/tlbb/jsp/ing/respscor/princecu/index.jsp>

## **Calyon**

Calyon, one of the leading project finance banks, provides relatively detailed disclosure on the transactions it has financed. It is one of the few banks reviewed that provide league tables (for project finance and corporate deals) on its website, which allows stakeholders to learn which projects the bank has financed. However, the bank provides relatively little reporting on Equator implementation -- despite the fact that Calyon claims it is “one of the banks that has progressed the furthest in implementing these principles.”<sup>28</sup>

What little can be gathered about Calyon’s implementation system indicates that the bank has devolved responsibility for Equator implementation to each business manager. This approach seems to be consistent with the bank’s decentralized organizational culture, which eschews “cumbersome dedicated internal structures.”

Instead, Calyon has established a “network of regional correspondents” in New York, London, Madrid, Milan, Hong Kong and Sydney. It has trained over 100 staff members and created a new procedure to aid in EP implementation. It has no reported mechanism for monitoring EP implementation, but rather exclaims that “Adhering to the Equator Principles is primarily a state of mind!”<sup>29</sup> .

The bank provides no discussion of what kind of impact the EPs are having on its financing or clients, nor does it identify implementation challenges. Its website and that of its parent company, Crédit Agricole, does not indicate that the bank has any plans to enhance its EMS or sustainability reporting.

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<sup>28</sup> <http://www.calyon.com/webcalyon/en/outils/zoomdev.html>

<sup>29</sup>

[http://www.calyon.com/webcalyon/en/outils/zoom\\_financement\\_de\\_projets.html](http://www.calyon.com/webcalyon/en/outils/zoom_financement_de_projets.html)

**Sources:**

Press release, 16 July 2004

<http://www.calyon.com/webcalyon/en/outils/zoomdev.html>

[http://www.calyon.com/webcalyon/en/outils/zoom\\_financement\\_de\\_projets.html](http://www.calyon.com/webcalyon/en/outils/zoom_financement_de_projets.html)

## **CIBC**

Although CIBC provides some general reporting on environmental credit risks, the bank does not provide any specific Equator disclosure. For example, it provides a chart pointing out that in 2004, 222 credit inquiries were deemed to be “high risk and subject to further evaluation,”<sup>30</sup> but there are no indications of how many of these deals were project finance transactions, and if so, whether they were subject to an Equator process.

According to its latest Public Accountability Report, CBIC formally amended its longstanding Environmental Credit and Investment Risk Management Policy in 2004 to accommodate the bank’s Equator commitment. There is no indication of how far along CBIC World Markets has come in terms of EP implementation, but the bank has identified “enhanced due diligence processes in credit and investment activities, including the EPs” as a priority, and is in the process of updating the CBIC World Markets environmental risk review procedures, presumably in relation to the EPs.

CBIC’s general environmental reporting (for example, the abovementioned chart also indicates “credits requiring subsurface investigation to determine presence, degree, and extent of contamination”) suggests that the bank’s existing EMS is primarily designed to minimize lender liability in transactions involving real estate or where property is used as collateral. However, the fact that the bank has an established EMS at all (which, for example, includes an Environmental Management Committee that meets monthly to promote compliance with the Corporate Environmental Policy, sets and reviews environmental targets, ensures that action plans are developed, etc.) enhances the ability of CBIC to embed the Equator Principles into future core business activities.

**Sources:**

CBIC 2004 Public Accountability Report

<http://www.cibc.com/ca/inside-cibc/cibc-your-community/environment/our-performance.html#enviroCredit>

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<sup>30</sup> <http://www.cibc.com/ca/inside-cibc/cibc-your-community/environment/our-performance.html#enviroCredit>

<http://www.cibc.com/ca/inside-cibc/cibc-your-community/environment/our-program.html>

<http://www.cibc.com/ca/inside-cibc/cibc-yourcommunity/environment/lending.html>

## Citigroup

Citigroup, an original Equator adopter and drafter, provided some EP reporting in its 2004 Citizenship report and on its website. Its 2004 Citizenship report included a chart which indicated that three Category A transactions – all oil and gas deals – were done in 2004, and all met key EP requirements of Environmental Assessment disclosure, public consultation, Environmental Management Plan preparation and covenanting, and Independent Expert Review. It also provided three anonymous case studies of EP implementation: one project that required explicit EP covenanting, another that was not executed, and a third that “was not recommended to proceed.” The bank particularly mentioned improving its reporting of EP implementation as one of its 2005 goals.

In terms of adoption, Citigroup formally adopted the EPs in 2003 by amending its Environmental and Social Risk Management Policy. The EPs were initially introduced to staff in a memo from Citigroup Chairman Sandy Weill, making it a high-level “roll out.”<sup>31</sup> In terms of application, it is one of the leadership banks that have committed to go beyond the EPs by essentially applying them to corporate credits (not bonds or advisory mandates) where use of proceeds is known.

Citigroup has taken significant steps to embed the EPs into core business practices. According to the bank, “more than 120 members of Citigroup’s project finance and independent risk management team are directly involved in implementing the Equator Principles”<sup>32</sup>; these bankers have received additional environmental and social risk management training and are responsible for initially screening transactions. In 2004 Citigroup hired a Director of Environment and Social Risk Management Policy, making it one of the few banks (if not the only one) that have hired new staff to assist with EP implementation. The bank has also developed new tools, such as guidance notes and intranet resources to aid in EP implementation.

The bank also made some attempt to understand the impact that the EPs are having internally and externally. Its 2004 Citizenship report cites some positive examples of how the EPs were used

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<sup>31</sup> <http://www.citigroup.com/citigroup/press/2003/030604b.htm>

internally to guide an equity investment, and how they prompted a client to host the “first Environmental Impact Assessment (EIA) public consultation meeting ever to be held in [a] particular country.” Finally, in terms of challenges and objectives, Citigroup reported that they need to improve EP implementation tracking, and clarify to bankers when deals must comply with the Principles. The bank has pledged to duly address these issues in 2005.

**Sources:**

2004 Citizenship Report

<http://www.citigroup.com/citigroup/environment/equator.htm>

<http://www.citigroup.com/citigroup/press/2003/030604b.htm>

<http://www.citigroup.com/citigroup/environment/gcibpolicy.htm>

<http://www.citibank.com/citigroup/press/2003/data/030714a.htm>

## Credit Suisse Group

Credit Suisse has provided little disclosure on Equator implementation. Its 2003 Sustainability report asserted that the EPs “are consistent with the internal directives and processes that Credit Suisse First Boston had already been applying to determine these kinds of [environmental and social] risks.” Further implementation of the EPs, including training, was named as a priority for 2004. The bank appears to have not yet issued its full 2004 Sustainability report, so it is difficult to determine the state of affairs regarding EP implementation.

The bank has a relatively well-developed Environmental Management System, however, and has also offered some updated environmental and social performance information on its website (including key reporting indicators based on SPI-Finance, EPI-Finance, and VfU). This environmental data is not specific to Equator, but the bank has reportedly screened 100% of its credit facilities screened for environmental risk.

**Sources:**

[http://www.credit-suisse.com/en/annualreporting2003/pdf/csg\\_sr\\_2003\\_en.pdf](http://www.credit-suisse.com/en/annualreporting2003/pdf/csg_sr_2003_en.pdf)

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<sup>32</sup> <http://www.citigroup.com/citigroup/environment/equator.htm>

## Dexia

Dexia which advertises itself as 'the bank for sustainable development' provided little reporting on EP implementation. Its website only describes the EPs, and the bank's formal adoption of them in September 2003. There is no disclosure of project finance transactions, nor the application/ impact of the EPs in practice. Its latest Corporate Social Responsibility report (2003) provides limited discussion of the Principles.

The report maintains that the bank has addressed staff capacity issues through launching training program, and also appointing an Equator Principles coordinator, who also acts as a spokesman for the bank. Dexia's 2003 Corporate Social Responsibility report maintains that it has "defined a new procedure for the handling and following up of projects," although it gives no details on what those procedures look like. The bank does not appear to have a comprehensive EMS in place to implement the EPs, and it has not communicated any plans to do so.

### Sources:

[http://www.dexia.com/e/discover/sustainable\\_initiatives.php](http://www.dexia.com/e/discover/sustainable_initiatives.php)  
2003 Corporate Social Responsibility report

## Dresdner Bank

Despite adopting the EPs in 2003, Dresdner Bank has provided minimal reporting on Equator implementation to the public.

Dresdner has an overall environmental management system in place, but the bank has historically provided little environmental risk management reporting. It appears as if the bank has only published one Sustainability report in 2000, and provided a sustainability section in one of its Annual Reports (2001).

Its existing EMS includes an office Corporate Sustainability, which is part of the Chief Risk Officer's office, and a bankers' manual for environmental risk management. Dresdner was supposed to revise its Environmental Programme in Spring 2004, but the bank has not given any updates or communicated whether the Equator Principles were part of that revision.

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[http://www.dresdner-bank.com/content/03\\_unternehmen/05\\_gesellschaftliches\\_engagement/000\\_nachhaltigkeit/03\\_meilensteine.html](http://www.dresdner-bank.com/content/03_unternehmen/05_gesellschaftliches_engagement/000_nachhaltigkeit/03_meilensteine.html)  
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## **EKF**

Eksport Kredit Fonden, the Denmark-based public export credit agency (ECA), adopted the Equator Principles in May 2004. It announced its commitment through a press release, and this release is the only discussion of the Equator Principles on its website. The ECA does not provide any data on projects financed, and whether the EPs apply only to credits or political risk insurance.

It is unclear what types of environmental management systems, if any, the ECA has in place to embed the EPs, and what particular steps have been taken to implement the EPs in 2004. However, it should be noted that it is problematic to review an ECA in the same way as private banks because ECAs may provide more appropriate public disclosure through parliamentary or governmental reporting systems, rather than through their website or a corporate social responsibility report. In the same vein, as a public financial institution, ECAs should be held to a higher standard of accountability and commitment to sustainability.

**Source:**

EKF Press Release, 14 May 2004

## **HSBC**

HSBC provided some of the most comprehensive EP reporting of the banks reviewed. Its website includes a 2004 Equator Principles progress update, which goes through each of the nine Principles and provides commentary on steps taken to implement each Principle. While portions of this update only reiterate the requirements embodied in the EPs, much of it provides useful information on certain aspects of EP implementation. In addition, HSBC provides a chart of EP transactions by category, type of facility, number and deal size; and notes that 12 transactions were declined in part due to the EPs. Finally, it offers some interpretation of this data, for example noting "Our view is that, as our lending executives apply the principles at an earlier stage

and as awareness of the required standards grows among our customers, so the number of projects declined will tend to fall.”<sup>33</sup>

With respect to adoption, HSBC is one of the banks that have employed the best practice technique of applying the EPs beyond the minimum threshold. For example, it notes that in 2004 it applied the Principles seven projects that fell below US\$50 million. HSBC also applies the EPs to project advisory, and to corporate lending, bonding and guarantees that ultimately support projects. The bank also reports that it applies international standards in all commercial lending, and is developing sector policies. Finally, HSBC was one of the few to comment on its involvement in loan syndicates with non-EP banks, stating “It remains our preference to participate in syndicated loans where the majority of banks, and in particular the lead arranger, have adopted the Equator Principles, and that the environmental due diligence role is held by an EP bank.”<sup>34</sup>

HSBC has created various implementation systems for the EPs. In 2004 it trained 179 bankers at various levels, including all of its global project finance teams. It also set up internal procedures for project categorization, and amended its standard project loan documentation to require compliance with an Environmental Management Plan. Finally, HSBC was one of the few banks which provided any discussion about how it selects environmental and social consultants; although it did not share details about how it assesses the reputation and competence of such consultants, it did state that Project Finance team and the Environmental Risk Unit are responsible for vetting and selecting them.

Regarding impact, HSBC has attempted to understand and quantify how the EPs have made a difference in terms of project performance. In addition to providing an anonymous case study, the bank instead asserted “we believe there was an improvement in the environmental and social standards in at least three of the projects we financed during 2004.”<sup>35</sup>

The bank did not outline any particular challenges associated with EP implementation, but it listed several objectives for 2005, including training. Notably, most of the bank’s objectives were aimed at improving the EPs themselves, including taking “an active leadership role in developing further the Equator Principles

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<sup>33</sup> [http://www.hsbc.com/hsbc/about\\_hsbc/corporate-social-responsibility/ethical-finance/equator-principles/equator-principles-implementation](http://www.hsbc.com/hsbc/about_hsbc/corporate-social-responsibility/ethical-finance/equator-principles/equator-principles-implementation)

<sup>34</sup> Ibid

<sup>35</sup> [http://www.hsbc.com/hsbc/about\\_hsbc/corporate-social-responsibility/ethical-finance/equator-principles/equator-principles-transactions](http://www.hsbc.com/hsbc/about_hsbc/corporate-social-responsibility/ethical-finance/equator-principles/equator-principles-transactions)

so that they maintain their position as the global standard for sustainable project finance,” promoting wider adoption of the EPs, and developing EP reporting and promoting transparency in the industry.

**Sources:**

2004 CSR report

[http://www.hsbc.com/hsbc/about\\_hsbc/corporate-social-responsibility/ethical-finance/equator-principles/equator-principles-implementation](http://www.hsbc.com/hsbc/about_hsbc/corporate-social-responsibility/ethical-finance/equator-principles/equator-principles-implementation)

[http://www.hsbc.com/hsbc/about\\_hsbc/corporate-social-responsibility/ethical-finance/equator-principles/equator-principles-transactions](http://www.hsbc.com/hsbc/about_hsbc/corporate-social-responsibility/ethical-finance/equator-principles/equator-principles-transactions)

[http://www.hsbc.com/hsbc/about\\_hsbc/corporate-social-responsibility/ethical-finance/equator-principles](http://www.hsbc.com/hsbc/about_hsbc/corporate-social-responsibility/ethical-finance/equator-principles)

## **HVB**

HVB provided relatively limited Equator disclosure, providing no statistics of projects financed. As a user of the EPI-Finance reporting format, it disclosed that in 2001 and 2003 100% of its Global Project Finance transactions were subject to environmental analysis – however, this statistic does not indicate that the Equator Principles were applied, particularly since the data covers 2001 (before the EPs were created). However, the bank promised that more extensive Equator reporting would appear in its 2005 sustainability report.

HVB maintains that it has it been “applying World Bank principles” since 1998 and that it has declined projects because of these World Bank Safeguard Policies and Guidelines.<sup>36</sup> The bank reports that it began to implement the Equator Principles immediately upon its adoption in June 2003, and that it amended its internal guidelines and its Global Project Finance Policy to accommodate the EP commitment. Implementation initiatives included training by the International Finance Corporation, and changing its internal screening process to reflect the categorization process demanded by the Principles. HVB considers EP implementation complete (at least the initial stage of it) as of July 2004.

HVB gave no indication of the impact or challenges associated with the Equator Principles, and although it suggested that EP reporting would improve next year, the bank did not set objectives for improved EP implementation. It also did not describe the impact that the EPs have had. For example, although the bank provided a several examples of projects financed (e.g. the Tsankov Kamak hydroelectric project in Bulgaria), these deals were examined from a climate change or

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<sup>36</sup> HVB 2004 Sustainability report

“green projects” perspective, and did not indicate whether the Equator Principles were applied or made a difference.

**Source:**

2004 Sustainability report

## ING

ING provided relatively good Equator reporting. For example, it provided statistics on all project finance transactions in 2004, broken down by category and region. It also noted that none of its 5 deals were declined solely on Equator grounds, and that the bank took the lead on environmental and social due diligence for the lending syndicate for two deals.

ING created a two-year implementation plan for the Equator Principles (to be fully completed by June 2005), as opposed to other banks, such as HVB, which had a shorter timeframe. In 2004, the bank created a special Equator team within Corporate Risk Management with responsibility for EP implementation. Like a few other banks, this EP implementation team is independent from the deal-making side of the bank; it provides advice to the deal team throughout the life of ING’s involvement in a project. Other 2004 implementation achievements include the training of 80% of ING’s project finance bankers, the creation of an EP policy to aid in compliance, and the introduction of new tools such as project categorization guides and checklists. Finally, ING created a new process which requires Equator transactions to get sign-off from the highest Credit Committee at the bank.

ING provided a case study by way of discussing the impacts of the Principles. Like a few other banks, it discussed the BTC pipeline, which is viewed by many as “test case” of the Equator Principles. ING admitted that safety problems emerged with the project after the bank approved the deal, but it claims that the problems have been addressed by the client, and that the lenders have engaged an independent engineer to review and inspect the project and its monitoring plan on an ongoing basis.

ING did not identify any challenges associated with implementing the EPs, but it pledged to provide better EP reporting as one of its future goals.

**Sources:**

ING 2004 CSR report

[http://www.ing.com/group/showdoc.jsp?docid=074383\\_EN&menopt=](http://www.ing.com/group/showdoc.jsp?docid=074383_EN&menopt=)

## **JPMorgan Chase**

JPMorgan Chase only adopted the EPs in 2005, so a commentary has not been developed for its Equator compliance. However, it should be noted that when it announced its adoption of the Principles, it also pledged to apply them to projects over US\$10 million, a threshold which is below the official Equator threshold of \$50 million.

**Source:**

<http://www.shareholder.com/JPMorganChase/press/ReleaseDetail.cfm?ReleaseID=161100>

## **KBC**

KBC provides little reporting on Equator implementation. Its website states that it adopted the Principles in January 2004, but it does not communicate any information about its EP performance or implementation.

The bank has limited existing environmental management capacity to implement Equator and other environmental/social financing policies. For example, KBC states that it “has a specific procedure and helpdesks in place to screen and detect environmental credit risks.”<sup>37</sup> However, most of its environmental stewardship initiatives and key performance indicators are focused on non-core business (e.g. paper purchasing, green office spaces, etc.)

The bank has not communicated how the EPs have had an effect on its business or its clients, nor has it identified challenges and objectives for effective Equator implementation.

**Sources:**

[http://newkbc-pdf.kbc.be/Financial\\_Information/FAQ\\_CSR%20report\\_Environment\\_V2\\_120105.pdf](http://newkbc-pdf.kbc.be/Financial_Information/FAQ_CSR%20report_Environment_V2_120105.pdf)  
<https://www.kbc.com/MISC/D9e01?t=BZJ5OEX,/BZIZTPN/:BZJ24TM&langWebSite=E&idWebSite=KBCCOM>

## **Manulife**

Manulife only recently adopted the Equator Principles, so has not been included in this review.

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<sup>37</sup> [http://newkbc-pdf.kbc.be/Financial\\_Information/FAQ\\_CSR%20report\\_Environment\\_V2\\_120105.pdf](http://newkbc-pdf.kbc.be/Financial_Information/FAQ_CSR%20report_Environment_V2_120105.pdf)

**Source:**

[http://www.manulife.com/corporate/corporate2.nsf/LookupFiles/DownloadableFile2004PublicAccountabilityStatement/\\$File/2004PAS.pdf](http://www.manulife.com/corporate/corporate2.nsf/LookupFiles/DownloadableFile2004PublicAccountabilityStatement/$File/2004PAS.pdf)

## **MCC**

MCC provided no Equator reporting. Its website only briefly mentions the fact that MCC is an Equator adopter. The bank also has not assured the public that it has any capacity or concrete plans to implement the Principles.

**Source:**

<http://217.148.96.137/pmi/1,1939,305,00.html?language=>

## **Mizuho**

Mizuho provides better than average Equator reporting. It listed its project finance transactions by category, described the context in which the EPs were adopted, as well as concrete steps the bank has taken to implement the Principles.

Mizuho points out that it adopted the Equator Principles in the context of Mizuho Code of Conduct, which supports the promotion and adoption of global environmental standards and compliance programs.

The bank has taken several steps regarding Equator implementation. For example, it established an "EP Unit" in its Project Finance Division, which is responsible for implementing and managing the Principles, and has responsibility for reviewing all Category A and B projects. This unit has created new tools, including the "The Equator Principles Implementation Manual", which includes a screening form, and an environmental checklist for the 38 industrial sectors where the bank has project finance activities.

Notably, Mizuho relied on the World Bank's Pollution Prevention and Abatement handbook (which covers 70 sectors) for some of these guidelines, but also developed new checklists for sectors such as Pipelines and LNG plants which are not covered by the World Bank. Application of the Implementation Manual and its associated processes began in October 2004.

The bank has not described the impact of the Principles, nor the challenges and objectives for implementation.

**Sources:**

<http://www.mizuho-fg.co.jp/english/environment/index.html>

[http://www.mizuhocbk.co.jp/english/company/release/news\\_20031027.html](http://www.mizuhocbk.co.jp/english/company/release/news_20031027.html)

## Rabobank

Based on publicly available information surveyed, the bank has not comprehensively implemented the Equator Principles. Its 2003 Sustainability Report does not provide much EP reporting, but states that one of its goals for 2004 is “to continue incorporating social and environmental criteria in lending.”

However, Rabobank’s 2004 report maintains that: “The Equator principles (social and environmental guidelines for project finance in excess of EUR 50 million in developing countries), which we signed in 2003, have ceased to be relevant for us. In 2004 we decided to call a halt to project financing in other countries, because in the past few years we have lost money on some foreign project finance accounts and this area has ceased to be a growth market for Rabobank International.”

**Source:**

2003 Sustainability Report

2004 Sustainability Report

## RBC

RBC provided fair Equator reporting. It provided no quantitative EP performance data, such as numbers of projects financed, and proportion that were subject to Equator review; rather it simply asserted that “We applied the policy in the assessment of a number of resource sector projects in Canada and in developing countries in 2004.”<sup>38</sup> One notable and unique aspect of RBC’s reporting is the fact that it discusses how it selects environmental consultants; the bank also reports that it has particular standards for reviewing an Environmental Assessment.

According to the bank, RBC adopted the EPs with the attitude that the Principles would serve as a “baseline and framework” for project finance transactions.<sup>39</sup> RBC has an Environmental Risk Management Group which is responsible for its EMS (e.g. policy development and implementation, training). In 2004, it began embedding the EPs by creating a new policy on Social and Environmental Review in project finance, as well as a new set of procedures for risk managers and lenders. Compliance with this new policy will be subject to regular internal audits. The Environmental Risk Management Group also provides advice to bankers and risk managers, and it appears that RBC has the

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<sup>38</sup> <http://www.rbc.com/environment/lending-equator-principles.html>

<sup>39</sup> Ibid

equivalent of three full-time internal environmental experts, and one external expert.

The bank did not provide any assessment of the impact the Equator Principles were having, nor did they publicly identify challenges and future goals for implementation.

**Sources:**

Corporate Social Responsibility report 2004

Sustainability report 2004

<http://www.rbc.com/environment/lending-equator-principles.html>

<http://www.rbc.com/environment/lending-credit-risk-mgmt.html>

<http://www.rbc.com/environment/lending-environmental-cons.html>

## **Scotiabank**

Scotiabank adopted the Equator Principles in January 2005, so a commentary has not been prepared for this bank.

However it should be noted that its 2004 Public Accountability Report already notes that “In the coming months we will work towards integrating the Principles into the bank’s internal policies,” and the bank appears to have some components of an EMS in place already.

## **Standard Chartered**

Standard Chartered’s environmental risk disclosure provided more information about its general EMS than its Equator implementation specifically. For example, although SC’s Corporate Social Responsibility report names “embedding” of the EPs as a Corporate Responsibility highlight in 2004, it provides relatively few details regarding how this embedding occurred. The bank’s CSR report was one of a handful reviewed that was externally verified (and the bank should be commended for that); however, csrnetwork, the firm providing the assurance noted that “it would be helpful to see an assessment of how Standard Chartered is implementing the Equator Principles.”<sup>40</sup>

Standard Chartered reports that it has a strong compliance culture and that its EMS requires social and environmental assessment into risk evaluation for all corporate loans. The bank conducts general environmental risk training for hundreds of bankers, and in 2005 it will hire external experts for specialized Equator training. The bank describes its environmental risk management processes as a “risk escalator,” in which sensitive

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<sup>40</sup> Standard Chartered 2004 Corporate Social Responsibility Report

deals may require external expertise and sign-off by senior management, the Group Risk Committee, and/or the Wholesale Bank Reputational Risk Committee.

Standard Chartered provided two examples of transactions where its environmental risk approach enhanced the client's environmental performance; however these examples were not provided in the particular context of the Equator Principles. It did not report any challenges with Equator implementation in particular, but its 2004 Corporate Social Responsibility Report did name "control of social and environmental risk in our lending decisions" as an area for improvement.

**Sources:**

2004 Corporate Social Responsibility report

[http://www.standardchartered.com/global/mc/cus\\_eqp.html](http://www.standardchartered.com/global/mc/cus_eqp.html)

[http://www.standardchartered.com/global/csr05/cus\\_eqpp.html](http://www.standardchartered.com/global/csr05/cus_eqpp.html)

<http://www.standardchartered.com/global/csr05/site/c/c4.htm>

<http://www.standardchartered.com/global/csr05/approach.html>

[http://www.standardchartered.com/global/csr05/app\\_gov.html](http://www.standardchartered.com/global/csr05/app_gov.html)

## **RBS**

RBS provided fair reporting on Equator implementation, relative to its peers. No quantitative performance data was shared; its reporting was instead focused on describing processes.

This process-related reporting is helpful, however. RBS provides a detailed description of its four-stage project loan cycle – first screening by marketing officers, Peer Group and "business forum" review, Credit Risk review, final decision by divisional credit committee and/or Group Credit Committee. The Equator Principles are referenced and taken into account at each of the stages. RBS also notes that external consultants may be involved to assist with Equator analysis, and that the bank ensures that client meets all environmental and social loan conditions are met before funds are drawn down. It is also creating a "desktop checklist programme" as a new tool to aid in EP implementation. Taken together, these steps have led the bank to conclude in its 2005 Corporate Responsibility presentation that its EP compliance is "on par with industry."

In discussing the impact of the Principles, RBS, like a few other Equator banks, provided a case study on the BTC. The lenders have retained an independent consultant to monitor EP compliance, and the bank states that it is "satisfied that the

appraisal and monitoring process is robust.”<sup>41</sup> Regarding implementation challenges and objectives, RBS admits that because the Principles are new “we need to build up our experience and associated training in their effective application.”<sup>42</sup> The bank reports that training will be a future priority; it has already created a technical training framework, which will be issued after the conclusion of the IFC Safeguard Policy Review.

**Sources:**

RBS Corporate Responsibility presentation 2005 (website)  
[http://www.rbs.com/corporate03.asp?id=CORPORATE\\_RESPONSIBILITY/OUR\\_COMMITMENT\\_TO\\_EXTERNAL\\_PRINCIPLES](http://www.rbs.com/corporate03.asp?id=CORPORATE_RESPONSIBILITY/OUR_COMMITMENT_TO_EXTERNAL_PRINCIPLES)  
[http://www.rbs.com/content/corporate\\_responsibility/our\\_commitment\\_to\\_external\\_principles/downloads/equator\\_principles.pdf](http://www.rbs.com/content/corporate_responsibility/our_commitment_to_external_principles/downloads/equator_principles.pdf)  
[http://www.rbs.com/corporate03.asp?id=CORPORATE\\_RESPONSIBILITY/ENVIRONMENT/ENVIRONMENTAL\\_MANAGEMENT\\_INCLUDING\\_KEY\\_MILESTONES](http://www.rbs.com/corporate03.asp?id=CORPORATE_RESPONSIBILITY/ENVIRONMENT/ENVIRONMENTAL_MANAGEMENT_INCLUDING_KEY_MILESTONES)

## Unibanco

Unibanco provided very limited Equator-related reporting. Its website included a description of the EPs and a press release announcing the bank’s adoption of them in 2004. However, Unibanco provided no basic information on projects financed, nor on EP implementation. Its 2003 Social Report provides three case studies of “green” project finance deals, but they were not examples of Equator implementation in particular. The bank appears to have an Environmental Management System established as a result of being an IFC Financial Intermediary.

**Sources:**

2003 Social report  
(<http://www.rao.unibanco.com.br/003/ing/sus/res/sus/index.asp>)  
<http://www.ir.unibanco.com/ing/res/equ/index.asp>  
[http://www.ir.unibanco.com/arq/link/Equator\\_ingles.pdf](http://www.ir.unibanco.com/arq/link/Equator_ingles.pdf)

## WestLB

WestLB provides limited Equator reporting. It offers no basic data on projects financed in 2004, their categories, or application of the EPs to these deals. It also does not describe any challenges it has faced in implementing the EPs, or any goals/intentions it has created in this regard.

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<sup>41</sup>

[http://www.rbs.com/content/corporate\\_responsibility/our\\_commitment\\_to\\_external\\_principles/downloads/equator\\_principles.pdf](http://www.rbs.com/content/corporate_responsibility/our_commitment_to_external_principles/downloads/equator_principles.pdf)

<sup>42</sup> Ibid

Instead, WestLB states, with little elaboration, that it has “integrated the requirements of the Equator Principles into its internal credit review and risk management processes.”<sup>43</sup> A Department of Sustainability Management independently monitors the client department of the bank, which is responsible for categorizing the sustainability of projects.

The bank provides a few case studies as a way of discussing the positive environmental impact of the EPs and its project financing activities. The bank asserts that because of its adherence to initiatives such as Equator Principles, its financing of Russian oil-related projects “actually promote[s] the replacement of outdated production and transport methods in Russia.”<sup>44</sup> For example, West LB relates how a project finance loan for a subsidiary of Lukoil, the Russian oil company, helped introduce new environmental standards on flaring and oil spill prevention. However, it is unclear exactly how the EPs were implemented and whether the Principles were consciously used to attain higher environmental performance in this project (as opposed to the bank simply approving a loan request for equipment modernization).

**Sources:**

2003 Corporate Social Responsibility report (Ökoreport)

[http://www.westlb.de/cms/sitecontent/westlb/ui/en/Sustainability/equator\\_principles.standard.gid-](http://www.westlb.de/cms/sitecontent/westlb/ui/en/Sustainability/equator_principles.standard.gid-N2FkNDZmMzU4OWFmYTIyMWM3N2Q2N2Q0YmU1NmI0OGU=.html)

[N2FkNDZmMzU4OWFmYTIyMWM3N2Q2N2Q0YmU1NmI0OGU=.html](http://www.westlb.de/cms/sitecontent/westlb/ui/en/Sustainability.standard.gid-N2FkNDZmMzU4OWFmYTIyMWM3N2Q2N2Q0YmU1NmI0OGU=.html)

[http://www.westlb.de/cms/sitecontent/westlb/ui/en/Sustainability.standard.gid-](http://www.westlb.de/cms/sitecontent/westlb/ui/en/Sustainability.standard.gid-N2FkNDZmMzU4OWFmYTIyMWM3N2Q2N2Q0YmU1NmI0OGU=.html)

[N2FkNDZmMzU4OWFmYTIyMWM3N2Q2N2Q0YmU1NmI0OGU=.html](http://www.westlb.de/cms/sitecontent/westlb/ui/en/news/newscontainer/News_Artikel/westlb_nicht_an_oelprj_ostsee.standard.gid-N2FkNDZmMzU4OWFmYTIyMWM3N2Q2N2Q0YmU1NmI0OGU=.html)

[N2FkNDZmMzU4OWFmYTIyMWM3N2Q2N2Q0YmU1NmI0OGU=.html](http://www.westlb.de/cms/sitecontent/westlb/ui/en/news/newscontainer/News_Artikel/westlb_nicht_an_oelprj_ostsee.standard.gid-N2FkNDZmMzU4OWFmYTIyMWM3N2Q2N2Q0YmU1NmI0OGU=.html)

## Westpac

Westpac provided relatively good Equator reporting on its website and CSR report, noting that the EPs are being applied to all project finance transactions. Although no projects were declined primarily on environmental grounds, environment risk considerations have played a factor in some negative determinations. The bank summarizes project finance deals in a chart addressing projects that were closed and pending, sorted

<sup>43</sup>

[http://www.westlb.de/cms/sitecontent/westlb/ui/en/Sustainability.standard.gid-](http://www.westlb.de/cms/sitecontent/westlb/ui/en/Sustainability.standard.gid-N2FkNDZmMzU4OWFmYTIyMWM3N2Q2N2Q0YmU1NmI0OGU=.html)

<sup>44</sup>

[http://www.westlb.de/cms/sitecontent/westlb/ui/en/news/newscontainer/News\\_](http://www.westlb.de/cms/sitecontent/westlb/ui/en/news/newscontainer/News_Artikel/westlb_nicht_an_oelprj_ostsee.standard.gid-N2FkNDZmMzU4OWFmYTIyMWM3N2Q2N2Q0YmU1NmI0OGU=.html)

[Artikel/westlb\\_nicht\\_an\\_oelprj\\_ostsee.standard.gid-](http://www.westlb.de/cms/sitecontent/westlb/ui/en/news/newscontainer/News_Artikel/westlb_nicht_an_oelprj_ostsee.standard.gid-N2FkNDZmMzU4OWFmYTIyMWM3N2Q2N2Q0YmU1NmI0OGU=.html)

by number, loan value, and category. The bank provided further general information on the projects' location, industrial sector, and Westpac's role in these deals. The bank was one of the few to explicitly note how the Principles apply when non-EP signatories are part of the lending syndicate.

After adopting the EPs, Westpac Group Risk, with Board-level oversight, proceeded to broadly review its existing environmental, social and ethical risk management systems, and identify next steps relating to EP rollout, training, and sign-off. A Director in the Project and Structured Debt Team is in charge of embedding the EPs, with the cooperation of external consultants who have been retained to review and assist with EP implementation. The bank is finalizing a formal EP policy, and has amended its Project and Structured Debt procedural manual. Thirteen bankers from various parts of the institution have received specialized EP training, while others have received briefings.

In discussing the impact of the EPs, Westpac concentrated on the reaction of clients and project finance bankers. In a fact sheet, *Are we on the right side of the equator?*, Westpac reports that clients have been "generally supportive" of the bank's EP commitment, and that one client actually selected Westpac in part because of the bank's EP commitment. Internally, the bank has found that the Principles have helped simplify and standardize an approach to dealing with complex issues.

The bank has identified both implementation challenges and objectives. It notes that "the majority of external training is limited to the Northern hemisphere, and is very expensive to bring out to Australia."<sup>45</sup> Its future objectives include conducting Australia-based trainings on implementing the EPs in the national context, and incorporating "factual summary data on application of the Principles" in future reporting.<sup>46</sup>

**Sources:**

2004 Corporate Social Responsibility report

*Are we on the right side of the equator?* fact sheet

<http://www.westpac.com.au/internet/publish.nsf/Content/WIOE+Equator+principles>

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<sup>45</sup> Are we on the right side of the equator? *Westpac fact sheet*

<sup>46</sup> Ibid

## Appendix 1. List of Equator banks by date of adoption

Adopting institution	Date of adoption
ABN AMRO	4 June 03
Barclays	4 June 03
Calyon	4 June 03
Citigroup	4 June 03
Credit Suisse Group	4 June 03
HVB	4 June 03
Rabobank	4 June 03
RBS	4 June 03
WestLB	4 June 03
Westpac	4 June 03
ING	23 June 03
RBC	21 July 03
MCC	29 July 03
Dresdner	18 August 03
HSBC	4 September 03
Dexia	18 September 03
Standard Chartered	8 October 03
Mizuho	27 October 03
CIBC	3 December 03
KBC	27 January 04
Bank of America	15 April 04
EKF	14 May 04
BBVA	18 May 04
Unibanco	1 June 04
Banco Itaú / Itaú BBA	12 August 04
Banco Bradesco	8 September 04
Scotiabank	18 January 05
Banco do Brasil	3 March 05
JPMorgan Chase	25 April 05
Manulife	11 May 05

## **Appendix 2. Management systems to ensure EP implementation**

### **Initial environmental review**

- Banks should identify the environmental and social impact of their existing project finance portfolio and, if absent, create appropriate environmental and social Performance Indicators. Performance Indicators should be developed with external stakeholder consultation.

### **Policy development**

- Banks should identify existing environmental and social policies, procedures and standards. And screen them for possible incompatibility with EP commitments
- Policies should be made to conform with, or even exceed IFC guidelines and be applied to all project finance transactions (regardless of the banks' role in the project) and as appropriate to non-project finance deals
- Policies should be mainstreamed with institutions' existing implementation and risk management systems and approved by the board.
- Implementation of Equator Principles should occur within the framework of an overall, comprehensive Environmental/Social Management System (EMS). Where banks' EMSs are ISO 14001 certified, Equator Principles should be a clear part of the system and also subject to verification.

### **Organizational structure & personnel**

- Banks should Identify personnel and create governance/accountability systems for implementing EPs. All project finance staff should be responsible for implementing the EPs, while a senior manager or team should take the lead on implementation and reporting to the Board
- To avoid excessive reliance on outside consultants, banks should have internal environmental and social expertise on staff; where such staff does not exist a budget should be provided for their recruitment.
- Compliance with EPs and superior environmental and social performance should be integrated into performance evaluations and bonuses. Performance Indicators should be developed to assess such compliance.

### **Environmental procedures & standards for transactions**

- Banks should create formal due diligence procedures for researching environmental and social risks of project finance transactions as early as possible in the project cycle;

- Create mechanisms for appraising projects against EP standards and in relation to the banks' reputational risk; mainstream these procedures into existing credit risk management systems
- Create mechanisms for assessing and considering borrowers' environmental, social and cultural expertise in relation to particular projects

#### **Documentation**

- Environmental Assessments (EAs), Environmental Management Plans (EMPs), Strategic Environmental Assessments( SEAs) and monitoring reports should be part of the credit file and subject to management audit;
- Banks should create mechanisms for reviewing the adequacy of EIAs, EMPs, and monitoring reports;
- Create documentation, such as questionnaires or assessment forms, for ensuring that all EP procedures and standards are implemented in the due diligence and project appraisal phases. Such documentation should be required of staff, consultants and borrowers
- Loan covenants should commit the borrower to the full EMP

#### **Internal information and training**

- Banks should create communications plan for disseminating EP commitments, procedures, and standards to staff, consultants, and borrowers;
- Create training program for project finance staff. Trainings should be mandatory, regular, and accompanied by goals and mechanisms for monitoring effectiveness;
- Create mechanisms to ensure that staff seek environmental/social expertise when necessary, and provide additional resources through in-house experts, consultants, etc.;
- Create mechanisms for assessing and consultants' environmental, social and cultural expertise in particular deals and in regards to the banks' relationship with the consultant

#### **External reporting**

- Banks should report yearly on EP implementation according to proposed reporting protocol;
- Make an assumption in favour of disclosure: publicly disclose information on transactions when requested;
- Require borrowers to release EAs before project appraisal, not just during a "reasonable timeframe";

- Engage with affected communities and public interest organisations with respect to projects of concern. Such consultation can inform due diligence and help manage risks.

#### **Consultation and consent**

- Banks should make EAs, loan covenants, and monitoring reports available to the public upon request;
- For project finance deals, create mechanisms for ensuring that borrowers or third party experts conduct public consultations in a “structured and culturally appropriate way.” These could include referencing best practice consultation methods (e.g. achieving prior informed consent)

#### **Auditing, monitoring & corrective action**

- Banks should identify conditions for assigning independent environmental experts to monitor and resolve problems with projects;
- Identify conditions for requiring multi-stakeholder dialogue processes in the project planning phase and, if stakeholders agree, a life-of-the-project mediator;
- Create mechanisms to regularly monitor borrower compliance with EMPs and to determine whether additional monitoring is necessary;
- Create formal processes for addressing borrower non-compliance, which explicitly includes an option to call loans;
- Create protocols for fully co-operating with independent external auditors on EP projects, and for engaging with communities affected by transactions;
- Create specific mechanisms for internally auditing the overall implementation of EPs, and taking corrective action in cases of non-compliance. Auditors should be independent from the project finance department

#### **Management review and improvement**

- Banks should create a management process with timelines to review implementation of EPs, including internal reporting guidelines and stakeholder engagement;
- Review progress on EP implementation based on goals that include measuring environmental and social impact of the banks’ project finance portfolio;
- Create board-approved annual goals and action plans to continually improve EP implementation and the environmental and social performance of the project finance portfolio. Include timelines, personnel and objectives.

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**BANK***Track*

**Boothstraat 1c  
3512 BT Utrecht, the Netherlands  
Tel. +31-30-2334343, Fax. +31-30-2381112  
coord@banktrack.org  
www.banktrack.org**