

# Action Cards Project – Initial Research

## 1. Overview

All banks are under pressure to go green. The main UK banks have put considerable effort into becoming environmentally friendly. All the major banks now have some form of environmental policy in which they address the emissions of their high-street branches and offices by energy efficiency measures, reducing paper and water wastage and so forth. In 2005 HSBC became the first major bank to become carbon neutral meaning its worldwide operations contributed zero net carbon dioxide into the atmosphere. Also Barclays, Lloyds and The Royal Bank of Scotland (RBS) are all committed to progressing towards carbon neutrality. RBS, for instance, is proud of using 100% green electricity in their operations in the UK and Ireland. Also the banks offer a variety of green product for their customers, such as HSBC's "green bank account" and Barclays' new green credit card called "Barclays Breathe".

Their efforts are positive and should without doubt be commended. However, these are only steps to the right direction. The biggest impacts that banks have on the environment do not result from their direct operations. Rather, they result from their lending and other financial activities. The independent Carbon Disclosure Project calculates that that 99 percent of the carbon footprint of large banks comes from funding environmentally unfriendly activities and companies. If this is not taken into consideration, the elephant in the room is missed.

Banks can either be investing in projects directly or financing companies on a more general level.

## 2. Project level

Project finance is where banks play a role in financing a large infrastructure project, such as construction of a dam. Banks are increasingly producing policy reports on how they will take environmental and social issues into account when financing large projects and most have signed up to initiatives for responsible project financing, such as the Equator Principles.

### 2.1 The Equator Principles<sup>1</sup>

The Equator Principles are a set of voluntary guidelines to help financial institutions assess and monitor the environmental and social impacts of large projects such as power plants and airports. They are based on World Bank guidelines and were originally conceived in October 2002. The EPs have become the global standard for project finance and have transformed the funding of major projects globally.

The Equator Principles' preamble states, "We will not provide loans directly to projects where the borrower will not or is unable to comply with our environmental and social policies and processes." The participating financial institutions proclaim

---

<sup>1</sup> [www.equator-principles.com](http://www.equator-principles.com)

that “In adopting these principles, we seek to ensure that the projects we finance are developed in a manner that is socially responsible and reflect sound environmental management practices”

Under these, all projects of above US\$10M are to be categorized as A, B, or C, depending on whether such risks are high, middle, or low. A social and environmental assessment is undertaken for all Category A and B projects, to determine whether the project meets the standards of good practice published by the International Finance Corporation and local laws. A project will only be financed if the impacts can be considered to be acceptable and the client’s ability to manage them satisfactory. Barclays, HSBC, RBS and Lloyds have all signed up to the Equator Principles, committing themselves to subjecting all project finance applications over \$10m to an environmental and social risk rating. However, the principles are voluntary and each individual bank has their own internal policies and processes to implement the Equator Principle.

## **2.2 UK Banks compliance with the Equator Principles**

### **Lloyds – Policies regulating project financing**

- Acknowledges that banks have a direct impact on the environment and can affect it indirectly through the actions of their borrowers.
- Lloyds TSB first introduced a formal environmental policy in 1996 and was one of the first UK banks to develop an environmental risk assessment system for all business lending.
- In 2007 Lloyds became signatories to the Equator Principles
- No sector policies available – only a very superficial environmental policy. However, the focus remains on direct impact and do not address impacts via lending, investment and other activities.

Lending officers have online access to the Group’s environmental lending risk guide. But this document is not available for the public to review.

## **2.3 Transparency**

NGOs have expressed concern about uneven implementation of the principles in the banking sector and the lack of transparency regarding the implementation of the policies.

**Lloyds produces a yearly Corporate responsibility Report<sup>2</sup>.** The bank claims that they have basic policies upon environmental risk assessment, but little information is available on these policies online. Next year their CR report should include a section on the Equator Principles and how they are implemented.

## **2.4 The funding of environmentally harmful projects – case studies**

---

<sup>2</sup> [http://www.lloydstsb.com/media/lloydstsb2004/pdfs/corporate\\_report\\_2007.pdf](http://www.lloydstsb.com/media/lloydstsb2004/pdfs/corporate_report_2007.pdf)

HSBC, Lloyds, Barclays and RBS have all signed the Equator Principles and should in theory only make responsible decisions in regards to the environment and society. Therefore, all their lending activities should be screened and projects only financed if they can meet the EP's environmental and social criteria. Also, banks are increasingly concerned about their public image and want to avoid negative publicity by staying out of controversial projects and by implementing the Equator Principles. For this reason, most controversial funding activities are currently linked to support for companies with a poor track record rather than financing harmful project directly.

### 3. Indirect impact beyond project investment

The problem with the Equator Principles is that they only apply to projects. Other financing mechanisms also have major impacts. For instance, the bulk of bank support for forestry projects does not come from project finance and therefore much of the destruction occurring to the world's forests will in no way be abated by the Principles as they stand. The Principles only apply to direct lending in project finance transactions because the use of proceeds is clear. There are no guidelines that can be applied to financial services such as IPOs and bonds. However, by arranging bond issues, banks can help finance projects which they could not finance directly under their own environmental policies which regulate project financing. The challenge is to apply the Equator Principles to business instruments where the use of proceeds is unclear.

#### 3.1 Indirect impact - policies and case studies

**Lloyds** states that the environmental risk assessment process covers all lending, not just project finance. However, at the moment there is very little known even about their risk assessment for projects and nothing about how the principle is applied beyond them.

<b>Asia Pulp and Paper</b>	HSBC Barclays Lloyds	These banks have helped fund APP, which has cleared over 280,000 hectares of Indonesian rainforest in the last 10 years.
----------------------------	----------------------------	--

## Conclusions

### Lloyds:

- Recently signing up to the Equator Principles
  - Lack of transparency with their policies and guidelines
- Supporting unsustainable energy sectors