MIND THE GAP

Benchmarking credit policies of international banks

BANKTrack

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Content

Acknowledgements

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The benchmark project was coordinated by Ulrike Lohr, research coordinator of BankTrack, who also acted as liaison with the 45 banks covered in this report. David Barnden of BankTrack assisted in the preparation of the *Dodgy Deal* and the bank profiles. Bart Bruil (Easymind) developed the bank and Deal profiles on the BankTrack website. Final editing of this report was done by Johan Frijns.

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Feedback on findings

The scoring for all policies and the list of Dodgy Deals included in the report have been presented for feedback to all the financial institutions covered in the report. The majority of banks did provide this feedback. Where requested, the formal comments of banks have been included in this report and on our website. We wish to thank all staff of banks that have responded to our request, some of whom have gone to great lengths in providing the information requested.

Every effort has been made to ensure that the information contained in this report was accurate at the time of publication (mid December 2007). BankTrack welcomes any further comment from banks and other readers and is committed to correct any factual mistakes in future editions of this report and on our website. Banks are invited to directly comment on the findings in the Mind the Gap section of the BankTrack website. For access to the feedback form please contact ulrike@banktrack.org.

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About BankTrack

BankTrack is an international network of 27 (as of December 2007) member and partner Non Governmental Organisations monitoring activities and investments of international banks, with the aim of steering the financial sector towards sustainability. BankTrack is coordinated from a secretariat based in Utrecht, the Netherlands.

The production of this report has been a collective undertaking of all groups within the BankTrack network. As such, it reflects the opinion of all BankTrack member groups.

Summary

Like all other corporate citizens, banks have a responsibility to contribute to achieving socially and environmentally sustainable and just societies. As citizens, companies and governments rely on the financial services of commercial and investment banks, these financial institutions play a key role in every segment of human activity. While their services are used too often to finance activities that are harmful to the environment, human rights, and social equity, banks can also be positive agents of change.

To become such an agent, banks need to take various steps. One of the most important is to develop and implement clear credit policies that cover their key sectors of operation and address issues that are critical to all their activities. Such policies should define the minimum standards to be met by each prospective client before the bank is prepared to provide any form of financial service.

Based upon international treaties, guidelines and best practices, these policies also need to define how a bank aims to work with its clients to address such diverse issues as securing the human rights of indigenous people, workers and other stakeholders, how to combat climate change, prevent loss of biodiversity, and contain the spread of toxics and many other sustainability issues.

Merely developing such policies is not enough; even more important is the integration of these policies into the day to day operations of the bank. All investment and lending decisions eventually need to be based upon these policies, and lead to the rejection of –prospective- clients which do not meet criteria defined in the policies. Implementation needs to be further supported by commitments to transparency and accountability.

Objectives and scope

This benchmark study is undertaken by BankTrack to stimulate the banking sector to develop and implement world-class credit policies. The report evaluates the credit policies of 45 large, internationally operating banks on three core dimensions: *content*, *transparency & accountability* and *implementation.*

The selection of the 45 banks was based principally upon the 2006 rankings of the largest banks in the world according to total assets, syndicated loans, project finance and underwriting. To avoid an over-representation of banks from the United States, Japan, the UK, Germany and France and to achieve better global coverage, the smallest banks thus selected from each of these countries were replaced by banks which can be considered regional leaders in Asia, Australia, Latin America, other European countries, Canada and the Middle East.

Some of the banks selected are involved in other financial sector activities -such as insurance and asset management- as well, while others are not. Given these differences, this study is focusing predominantly on financial services which all banks have in common: all types of credits and loans, including the underwriting of stock issuances.

The study evaluates to what extent these types of activities are guided by effective and world-class social and environmental credit policies. We defined seven socially and environmentally sensitive sectors and seven crucial sustainability issues for which all banks need to develop appropriate credit policies. These are listed in the following table:

Sectors and issues to be covered in credit policies	
Sectors	**Issues**
Agriculture	Biodiversity
Dams	Climate change
Fishery	Human rights
Forestry	Labour rights
Military industry and arms trade	Rights of indigenous people
Mining	Tax
Oil and Gas	Toxics

Sector and issue policies

Mind the Gap benchmarks the content of the banks' credit policies against international standards, as established in international conventions and treaties, guidelines developed by multi-stakeholder initiatives and international best practices. These international standards are described extensively for each issue and sector, leading to a definition of what can be considered best practice within that sector or on that issue. The existing or absent policy of banks in each area was then scored against this benchmark, leading to a particular score ranking from 0 to 4.

Over the past few years many banks have been adopting some form of credit policies, although a fairly large group of banks is still lagging behind. As a first step, many banks have undersigned one or more of the voluntary sustainability standards and initiatives that now exist within in the financial sector. For example, 31 out of the 45 banks researched, have adopted the Equator Principles, while 30 banks signed on to the UNEP FI Statement. Only five banks, all from Asia and the Middle East, did not commit to any voluntary standard or initiative.

The relevance of these voluntary initiatives for overall decision making of banks is very limited, however. Most of the initiatives only cover a limited number of the seven sectors and seven issues. The content and wording of these initiatives and standards may also be largely aspirational, providing little guidance for day to day client screening if not properly translated into specific policies and procedures.

The only exception is the Equator Principles, the content of which is highly relevant for many of the issues and sectors covered in this report. However, the Equator Principles only apply to project finance, which is merely a niche market within the financial sector. Because of this limited scope, the relevance of the Equator Principles is very limited for the broad range of other financial services international banks provide.

The conclusion is that voluntary standards and initiatives are no substitute for stringent policies developed by banks themselves. No bank has developed policies on all seven sectors and seven issues, but various banks have developed one or more sector and issue policies. Ten banks have developed no sector or issue policies at all.

Number of banks which have developed sector and issue policies			
Sector policies	**No. of banks**	**Issue policies**	**No. of banks**
Agriculture	9	Biodiversity	6
Dams	4	Toxics	3
Fisheries	3	Climate change	31
Forestry	13	Human Rights	12
Military industry and arms trade	12	Indigenous Peoples	5
Mining	4	Labour	4
Oil and Gas	4	Taxation	1

The content of the banks' policies is of varying quality. It is encouraging to see that a few banks indeed have developed sector and issue policies which (almost) meet best international standards. These policies can provide an important example for other banks, increasing the peer pressure needed to bring the sector as a whole forward.

Exceptions aside, the overall quality of the credit policies developed by the 45 banks is fairly poor. The content of many policies hardly exceeds a vague and aspirational level and usually lacks clear criteria and objectives. Oftentimes, the content of policies, which may or may not be of good quality, are not disclosed at all.

This leads to the conclusion that the large majority of the 45 banks need to devote significantly more attention to developing clear sector and issue policies. There remains a clear gap between the intentions on sustainability as expressed by many banks and the content of their credit policies. The banks which have already developed good policies on certain issues and sectors, should develop similar or better policies on other relevant sectors and issues. The detailed, referenced description in this report of the best international standards may provide useful guidance to banks.

Transparency & accountability

This study also benchmarks the transparency and accountability procedures and practices of the 45 banks against international best practices. As financiers, banks share a certain level of responsibility for the impacts of their clients' operations with the managers and owners of these companies. Banks therefore have to inform the public not only about their own practices, but also about their clients' activities for which they provide financing. Banks need to be as transparent and accountable as possible regarding the companies, projects and countries they finance.

With regard to institutional transparency, progress is visible. It was found that 34 out of the 45 banks now meet a basic level of transparency by publishing an annual sustainability report which meets the Guidelines of the Global Reporting Initiative. But hardly any bank exceeds this basic level, for instance by offering extensive insight into the credit policies it has developed, and the efforts undertaken to implement them. Only 18 banks show a basic level of institutional accountability, for example by hiring external auditors to audit their sustainability report and policies. No bank exceeds this level by publishing the results of these audits.

Transparency and accountability on deal level is a different story altogether. None of the 45 banks covered in the report publishes a list with the basic details of deals it has been involved in. Some 22 out of the 45 banks do not even publish a sector or regional breakdown of their portfolio. Only 4 banks have set up an independent Bank Policy Complaint Mechanism for all deals in which the bank is involved.

The conclusion is that the transparency and accountability practices of the 45 banks stay well behind best international standards. Banks taking their responsibility towards the societies in which they operate seriously should carefully consider how they can improve their transparency and accountability performance.

Implementation

Although a challenging task, writing a good policy is far easier than implementing it in day-to-day operations of huge banking organisations. But difficult as it may be, this is what civil society is expecting of financial institutions - to put their money where their mouth is. It is therefore of key importance to devote sufficient attention and resources to proper implementation of credit policies.

Despite its importance, the implementation dimension of credit policies could not be evaluated in this report in a quantitative manner like the other two dimensions. Instead, a different approach is taken, by describing 30 *Dodgy Deals*: controversial clients or projects to which one or more of the 45 banks recently provided financial services. They range from dams to mines, from controversial weapons to child labour, from oil pipelines to oil palm plantations, and from pulp mills to coal-fired power plants.

The reasons why these cases are considered controversial might differ, but they always relate to one or more of the seven sectors and seven issues defined in the policies evaluation. The precise involvement of a certain bank in these cases may also vary, which underlines the importance of implementing credit policies across all financial services. Given that nearly all banks described in the report are related to one or more of these *Dodgy Deals*, this raises doubts on the quality and proper implementation of the credit policies. For banks which have not yet developed adequate and robust credit policies on key sectors and issues, their involvement in one or more *Dodgy Deals* underlines the urgency to develop and implement such policies. For banks which have such policies in place, their involvement shows that there is no reason for complacency.

Final remarks

Mind the Gap provides a snapshot of where 45 large, international banks stand today, December 2007, in developing adequate credit policies on critical sectors and issues. It underlines that these policies should be implemented in a rigorous and effective manner, to ensure that no clients are financed which do not meet the criteria contained in these policies. Finally, the report emphasizes that banks should be transparent and accountable to the outside world about the content of policies and how they are implemented.

While this snapshot does not provide a rosy picture, BankTrack acknowledges that several banks have made substantial progress over the past few years. Many banks also continue to move on their sustainability policies. This is illustrated by the fact that several banks reported having policies under development which are still in draft format. These could not be taken into account in this benchmark exercise but may be included in future editions.

Mind the Gap aims to encourage all 45 banks, as well as their peers not covered in this report, to move further and faster and to close the gap that often still exists between policies and practice. Banks can be important agents of change, but before the banking sector as a whole can be truly considered as such, much remains to be done.

All findings of the BankTrack benchmark research project, including a set of profiles with all relevant documents and policies of the 45 banks covered in the report, can be found at the BankTrack website, under section: 'Mind the Gap'

1. Introduction

Sustainability is about meeting the needs of the present without compromising the ability of future generations to meet their needs. It is about preserving the environment and the extraordinary biodiversity of the planet for future generations to enjoy. It is also about cautiously using of scarce natural resources and about being aware of the impact of our activities on the climate equilibrium. Last but not least, sustainability is about guaranteeing respect for human rights and a dignified life free from want and poverty for everyone.

Like all other corporate citizens, banks have the responsibility to contribute to achieving sustainability in the world. As organs of society, companies and governments the world over rely on the financial services provided by commercial and investment banks, these financial institutions play a key role in every segment of human activity. While their services are used too often to finance activities that are harmful to the environment, human rights, and social equity, banks can also be positive agents of change.

To become such an agent, banks need to take various steps. One of the most important of these is to develop and implement clear credit policies that cover their key sectors of operation and address issues that are critical to all their activities. These policies serve a dual purpose: they define the ambitions and goals the bank wants to meet and help promote its vision of sustainability in concrete terms. But such policies should also define the minimum standards to be met by each client before the bank is prepared to provide any form of financial service.

Based upon international treaties, guidelines and best practices, these policies also need to define how a bank aims to work with its clients to address such diverse issues as securing the human rights of indigenous people, workers and other stakeholders, how to combat climate change, prevent loss of biodiversity, contain the spread of toxics and many other sustainability issues.

Merely developing such policies is not enough. More important is the integration of these policies into the day to day operations of the bank. All investment and lending decisions eventually need to be based upon these policies, and lead to the rejection of –prospective- clients which do not meet criteria defined in the policies.

Implementation is further supported by transparency and accountability mechanisms set up by the bank. A bank needs to report in transparent fashion on how it is implementing its policies and should establish appropriate procedures and mechanisms to deal with complaints and grievances of affected people and civil society organisations.

This benchmark study is undertaken by BankTrack to stimulate large, international banks to develop and implement world-class credit policies in a transparent and accountable way. The report evaluates the credit policies of a selection of 45 internationally operating banks on three core dimensions: *content*, *transparency and accountability* and *implementation.* With this approach *Mind the Gap* aims to set the standard for benchmarking the progress of commercial and investment banks on the road towards sustainability. The report is organised as follows:

Chapter 2 describes the objectives and methodology of this benchmark study, explaining the selection process of the 45 banks covered in the report; the way in which the scoring tables on 7 critical issues, 7 important sectors and on accountability and transparency performance have been developed; the process by which the bank policies have been scored, including the feed-back opportunity that has been provided to the banks, and the selection of the dodgy deals to illustrate problems with implementation.

Chapter 3 describes international best standards and practices for 7 key sectors, resulting in a description of the content of bank's credit policy on this sector as well as a scoring table. For each sector policy, a brief overview is given of which banks have developed (fairly) good policies for this sector.

Chapter 4 takes a similar approach describing international best standards for 7 crucial sustainability issues.

Chapter 5 describes the existing international best practices in bank transparency and accountability, this with regard to four issues: institutional transparency, institutional accountability, deal transparency and deal accountability.

Chapter 6 describes the 30 implementation cases (Dodgy Deals) selected for this report, ranging from dams to mines, from controversial weapons to child labour, from oil pipelines to oil palm plantations, and from pulp mills to coal-fired electricity plants. Each implementation case lists the banks involved in the deal.

Chapter 7 provides the scoring on all sector, issue and transparency policies for each individual bank as well as a list of all implementation cases the bank is involved in.

Chapter 8 contains the conclusions of the report.

Annex 1 contains a brief comparison with the previous benchmark study.

Annex 2 lists the references to information sources.

A **Summary** can be found on the first pages of this report.

2. Objectives and methodology

2.1 Objectives

BankTrack's overall objective with the benchmark research project is to stimulate large, international banks to develop adequate credit policies for critical sectors and issues, in a transparent and accountable way.

To reach this objective this report evaluates the credit policies of 45 internationally operating banks. It benchmarks the *content* of their credit policies on 7 critical issues and 7 important sectors against international standards, as set in international conventions and treaties, guidelines developed by multi-stakeholder initiatives and international best practices. The *transparency* and *accountability* procedures and practices of the banks are likewise evaluated against international best practices. Finally, a large selection of *dodgy deals* in which these banks are involved illustrates the importance of a rigorous *implementation* of their credit policies.

This is the second time BankTrack conducts such a research project. In January 2006 WWF UK and BankTrack undertook a first benchmark exercise of the social and environmental credit policies of 39 international banks. That research resulted in the report '*Shaping the Future of Sustainable Finance*'.[1] The present report, *Mind the Gap,* is a improved and more elaborate version of this earlier effort. The differences between the two exercises are explained in Annex 1.

With this exercise, BankTrack aims to set the standard for benchmarking the progress of commercial and investment banks on the development of their credit policies.

2.2 General description of methodology

Mind the Gap evaluates the three main dimensions of banks' credit policies and practices:

- **Policies**: An evaluation of the credit policies of banks in seven socially and environmentally sensitive sectors and on seven crucial sustainability issues;
- **Transparency & accountability**: An evaluation of the policies and practices of the banks on transparency and accountability issues;
- **Implementation**: A description of more than 30 controversial cases and transactions in which the banks are involved.

For the credit policies on sensitive sectors and issues, *Mind the Gap* elaborately describes the best standards available for each of the seven sectors and seven issues: international treaties, conventions, guidelines established by multi-stakeholder initiatives and other best practices on which a sound credit policy should be based. Building on this set of best standards available, the report identifies key elements for a good bank policy. Each policy –or lack thereof- is then scored against a scoring table as described in paragraph 2.5.

The same procedure is then applied to transparency & accountability practices: the report describes best standards available, identifies crucial elements for a bank policy and scores existing –or absent- bank policy against a scoring table.

This quantitative scoring approach could not be followed for the implementation dimension, this due to a lack of transparency within the banking sector and limited resources to overcome this lack of transparency through additional research. The implementation dimension is therefore evaluated in a qualitative way, by showing that most banks, either despite the existence or because of a lack of policies, are involved in one or more *Dodgy Deals.* The *Dodgy Deals* are described in 6 of this report.

The quantitative scores obtained for each bank are compiled in a profile for each of them, which can be found in chapter 7. The profiles also contain additional comments and clarifications and indicate to which international standard the bank has committed itself and which *Dodgy Deals* the bank is involved in. Prior to release of this report, all banks were offered the opportunity to comment on the findings and to correct any errors. The formal response of several banks on our findings is also reproduced in their profile.

2.3 Selection of banks

The following five criteria were used to select the 45 banks eventually included in this study:

1. Global top-25 of banks ranked by total assets in 2006;[2]
2. Global top-25 of book-runners of syndicated loans in 2006;[3]
3. Global top-25 of arrangers of project financing in 2006;[4]
4. Global top-10 of underwriters of share and bond issuances, plus four banks which participate in the European and emerging markets underwriting top-10 in 2006;[5]
5. geographical spread

As the first four criteria result in an over-representation of banks from the United States, Japan, the UK, Germany and France, the smallest banks from these countries were replaced by several major banks which can be considered to be regional leaders in Asia, Australia, Latin America, other European countries, Canada and the Middle East.

The following table provides an overview of how the selected banks meet the five selection criteria.

Selection of 45 banks for the benchmark							
No.	**Bank**	**Country**	**Assets**	**Loans**	**Project finance**	**Under writing**	**Regional leader**
1	ABN AMRO	Netherlands	13	13	5	13	
2	ANZ	Australia					V
3	Banco Bradesco	Brazil					V
4	Banco do Brasil	Brazil					V
5	Banco Itaú	Brazil					V
6	Bank Mandiri	Indonesia					V
7	Bank of America	United States	9	3			
8	Bank of China	China					V
9	Barclays	United Kingdom	1	7	23	9	
10	BBVA	Spain			7		
11	BNP Paribas	France	6	6	6		
12	China Construction Bank	China					V
13	Citi	United States	5	2	18	1	
14	Crédit Agricole / Calyon	France	7	10	2		
15	Credit Suisse	Switzerland	14	8	11	8	
16	Deutsche Bank	Germany	12	5		3	
17	Dexia	France	24		13		
18	Fortis Bank	Belgium	22				V
19	Goldman Sachs	United States		11	14	7	
20	HSBC	United Kingdom	4	17	12	11	
21	Industrial and Commercial Bank of China	China	21				V
22	ING	Netherlands	16		22		
23	Intesa San Paolo	Italy					V
24	JPMorgan Chase	United States	11	1		2	
25	KBC	Belgium					V
26	Merrill Lynch	United States		18		6	
27	Mitsubishi UFJ	Japan	3	15	10		
28	Mizuho	Japan	10	12	3		
29	Morgan Stanley	United States		19		4	
30	Nedbank	South Africa					V
31	Rabobank	Netherlands	25				
32	Royal Bank of Canada	Canada		23	25		
33	Royal Bank of Scotland	United Kingdom	8	4	1	12	
34	Santander	Spain	17		16		
35	Saudi American Bank	Saudi Arabia					V
36	Scotiabank	Canada					V
37	Société Générale	France	15	14	4		
38	Standard Bank	South Africa					V
39	Standard Chartered	United Kingdom			21		

Selection of 45 banks for the benchmark							
No.	**Bank**	**Country**	**Assets**	**Loans**	**Project finance**	**Under writing**	**Regional leader**
40	State Bank of India	India			9		V
41	Sumitomo Mitsui	Japan	20	16	15		
42	UBS	Switzerland	2	20		10	
43	UniCredit / HVB	Italy	19				V
44	WestLB	Germany			8		
45	Westpac	Australia					V

2.4 Scope of the study

This study aims to benchmark the credit policies of international banks, both commercial and investment banks. The selection of the 45 banks covered in this report (see paragraph 2.3) is therefore based upon banking criteria (loans arranged, issuances underwritten, etc.).

Some of the banks are also involved in other financial sector activities, such as insurance and asset management, while others are not. Given these differences, the research focuses predominantly on financial services provided by all the banks which are all types of credits and loans, including the underwriting of stock issuances.

All types of credit activities are generally organised in the same way within each bank. Decisions are taken in a similar process, which includes gathering information on (prospective) clients from the companies themselves. Decisions to provide financial services are taken at the same level within each bank. For these reasons we assume that the credit policies of the banks apply to their complete credit portfolio, including underwriting activities. When a policy is limited to a specific part of the complete credit portfolio of the bank, such as project finance, we reduce the maximum score which a bank can obtain for this policy, so as to reflect the relevance of the policy for the bank's entire credit portfolio.

Some banks apply some of their credit policies not only to their credit portfolio, but also to some or all of their asset management activities. While BankTrack strongly favours this development, this is not reflected in the scoring of bank policies in this report, for two reasons. First, not all banks covered in this study are involved in asset management. Second, decision processes with regard to asset management are different from credit activities, making it less evident that the same policies are being applied in both activities.

For these reasons the scope of this study is limited to credit policies. However, when banks apply these credit policies also to their asset management, this is mentioned in the bank profile.

As *Mind the Gap* is only benchmarking the content and implementation of credit policies, several other sustainability initiatives taken by banks fall outside the scope as well. This refers in the first place to the whole field of operational sustainability, for example the efforts made by banks to limit the energy use of their offices and their travel, their use of sustainably sourced paper and efforts to improve their human resources policies.

While all these efforts have some sustainability relevance and are appreciated, indeed considered a prerequisite for any credible sustainability effort, their impact is negligible compared to the huge impacts of a bank's financing activities. Moreover, other studies and reports tend to focus only on operational sustainability, ignoring the sustainability impact of the financing activities of banks. In this respect, this study complements and corrects these other studies.

Also outside the scope of this study are all sorts of specific positive actions and initiatives taken by banks, for instance when giving a preferential treatment to clients who operate in a more sustainable way than their peers, setting up special sustainable investment funds and so on. Again, while such types of positive action are important and appreciated, they are not an alternative for sound, properly implemented credit policies. We therefore did not take these types of positive action into account when scoring bank policies.

2.5 Benchmarking the content of credit policies

The credit policies of the 45 banks were evaluated and scored on the following 7 socially and environmentally sensitive sectors and 7 crucial sustainability issues:

Sectors:
- Agriculture
- Dams
- Fishery
- Forestry
- Military industry and arms trade
- Mining
- Oil and Gas

Issues:
- Biodiversity
- Climate change
- Human rights
- Rights of indigenous people
- Labour rights
- Taxation
- Toxics

To benchmark existing bank policies on these sectors and issues, chapter 3 and 4 first define and describe what BankTrack considers the best standards available for each of these sectors and issues. These best standards available may include international conventions and treaties, guidelines developed by multi-stakeholder initiatives, international best practices within particular industries and so on.

Based upon the description of those best standards available, the report provides a working definition of what can be considered a good bank policy for the sector or issue at hand. This content consists of clear, internationally accepted criteria and benchmarks, which banks should demand their clients to adhere to.

Based upon the definitions of a good bank policy thus defined for each sector or issue, a scoring system has been developed. The scoring table generally corresponds to the following basic assessments, with specific requirements or refinements for particular issues:

0. *The bank has no policy on this issue/sector;*
1. *The bank's policy on this issue/sector is vaguely worded or 'aspirational', with no clear commitments;*
2. *The bank's policy on this issue/sector includes some important elements, but is not sufficiently consistent;*
3. *The bank's policy on this issue/sector is fairly well-defined and consistent, but falls behind best standards available on one or two elements;*
4. *The bank's policy on this issue/sector is completely consistent with best standards available.*

When a bank has demonstrated convincingly that it is not active in one or more of the sectors included in this research, the absence of a sector policy was not scored and the bank received an '*X*' in the scoring table. All issue policies are however seen as indispensable for each bank. No bank can claim that it does not need a credit policy on any of the seven issues listed here.

Many banks refer to the existence of specific credit policies in their annual reports or on their websites, but do not make the content of these policies public. Although these policies might be quite good, it is obviously not possible to score policies of which the content is not known. If the bank only mentions the existence of a policy, without providing even a summary of its contents, this policy is scored with a zero. When the bank does provide a brief summary of the content of the policy, the score received is based on the elements and level of detail provided in that summary.

Draft policies, even when made available for public or stakeholder review are always scored with a zero, even though their content may sometimes be quite good. As long as a policy is not officially adopted by the bank, it does not influence credit and investment decisions and we therefore score it as if it were non-existent. Banks should not interpret this low score as a disqualification of the content of their draft policies, but as an encouragement to finalise and adopt their draft policies as soon as possible.

Many banks have undersigned collective standards, such as the Equator Principles, UNEP Finance Initiative, UN Global Compact etc. These policies are scored according to a methodology described in paragraph 7.1. The scores given to these collective standards are awarded to all banks who have committed to them, unless their own individual credit policy scores higher. In such a situation, the bank is awarded with the highest score of the two. Scores for collective and individual policies are never added up; only the highest score for a particular policy is awarded to the bank.

2.6 Benchmarking transparency & accountability

The report also scores the transparency and accountability practices of the banks. The following issues were benchmarked:

- Institutional transparency
- Deal transparency
- Institutional accountability
- Deal accountability

To benchmark the bank practices on these issues, chapter 5 describes what BankTrack considers best standards available for each of them. These include international conventions and treaties, guidelines developed by multi-stakeholder initiatives and international best practices.

Based upon the description of these best standards available, the report provides a working definition of what can be considered a good bank policy on the four issues. This definition consists of clear, internationally accepted criteria and benchmarks. Following this definition a scoring table ranking is set up, again ranking from 0 to 4. The transparency and accountability practices of the 45 banks are then scored using this scoring table.

2.7 Implementation cases

Good policies and sound transparency and accountability practices are only the starting point for banks to move forward on the road towards sustainability. The most important dimension on which to judge a banks' sustainability performance is with the implementation of these policies. Banks' day to day financing and investment decisions should be consistent with the criteria and objectives described in their credit policies, and their credit portfolio should reflect the proper implementation of these policies.

Despite this key importance, the implementation dimension of credit policies could not be evaluated in this report in a similar quantitative way as the other two dimensions. Such a quantitative evaluation is not possible because none of the banks provides a complete overview of all their clients. But even if they did, it is impossible to evaluate how banks are implementing their policies in each and every individual case.

We therefore took a different approach to emphasise the importance of implementation. Section 6 describes thirty *Dodgy Deals*, giving summary descriptions of controversial clients and activities in which one or more of the banks are involved raising doubts on the proper implementation of their policies. The reasons why a particular case is considered controversial might differ, but they always relate to one or more of the 14 sectors and issues defined in the policies evaluation. As most banks are related to one or more of the *Dodgy Deals*, chapter 6 illustrates that there exist serious problems with the proper implementation of polices. More elaborate descriptions of each *Dodgy Deal* are available on the BankTrack website.

Banks might be involved in the *Deals* in a variety of ways, which underlines the importance of implementing credit policies across all financial services. In some cases the bank is directly lending money to a specific project, facility or operation. In many other cases, banks provide general corporate financing to the parent company, which can freely use this money for various projects and activities. Banks can also be involved as underwriters of the issuance of shares or bonds by a particular company, thereby raising significant amounts of capital which the company can then invest in various projects and activities.

The financiers for each case are researched in a very careful way, relaying on primary financial information sources. Only financial relationships established after January 1, 2003 are considered. Financial relationships which are clearly earmarked for activities not related to the *Dodgy Deal*, are not described. Moreover, each bank has been given ample opportunity to contest its involvement in specific cases (see paragraph 2.8) and in several cases this has led to a re-evaluation of our initial findings.

2.8 Bank profiles and comments by banks

The aggregate scores of each bank are compiled in a bank profile at the end of the report in chapter 7. The bank profile also indicates which international initiatives have been adopted by the bank as well as the *Dodgy Deals* the bank is involved in. A more detailed version of the bank profiles are available on the BankTrack website, including links to all policies, sustainability reports and other materials published by the bank.

All 45 banks featuring in the report have been given the opportunity to comment on our findings, to correct errors and to send us missing information on their policies and practices. They were able to review their own profile and scorings, as well as the *Dodgy Deals*. Wherever factual errors were identified by banks we have corrected these and relevant additional information was taken into account in the final report.

Each bank was also offered space in this report to issue a short formal response to our findings and several of them have done so. More extensive comments were added to their profile on the BankTrack website. Banks are also given the opportunity to comment on the findings on our website after publication of this report.

2.9 Conclusion

Mind the Gap does not provide an overall rating of the sustainability level of all banks, nor a ranking of all banks based on such a rating. As it was not possible to evaluate the implementation dimension in a quantitative way, such overall predicaments are beyond the scope of this exercise. However, this study does summarize the state of affairs regarding the credit policies and of the 45 banks covered.

With regard to policy implementation, the conclusions focus on the lesson to be derived from the large number of *Dodgy Deals* in which the 45 banks are still involved.

Annex 1 provides a comparison with the methodology of the previous benchmark report, *Shaping the Future of Sustainable Finance*. Unfortunately, given the many changes in the methodology and scope it was not possible to maintain the comparability between the two exercises, as was the original intention.

3. Sector Policies

3.1 Agriculture

3.1.1 What is at stake?

Demand for agricultural commodities currently grows faster than the global population. Amongst other reasons, this is a result of changing consumption patterns in upcoming markets (such as BRIC countries: Brazil, Russia, India and China), which increasingly resemble those of those of industrialised countries. The *wealthier* diet, which includes more meat, requires larger quantities of staple commodities to be produced and used for animal feed.

Another factor that exacerbates the strong surge in demand for agricultural commodities is the recent trend to combat climate change by replacing some fossil fuels by biofuels made from palm oil, corn, sugarcane or other crops.

The steep rise in global demand raises significant environmental, economic and social issues:

- Agriculture is the largest cause of soil degradation, pollution and habitat conversion of all human activities. Many natural ecosystems and habitats are threatened by conversion into farmland to meet the increasing demand for agricultural commodities. Agriculture also uses more than twice the amount of water as for all other human activities combined. It also has an enormous direct and indirect footprint associated with pesticides and toxicity;
- The agricultural sector, mainly through the conversion of natural ecosystems, is responsible for a very considerable part of global greenhouse gas emissions;
- On the local level, expansion of agricultural production is often realised by appropriating lands to which local or indigenous communities have legal or customary rights. Local and indigenous communities are thereby deprived of their habitats and sources of income and nutrition;
- Labour conditions in the production of agricultural commodities in many countries are not in line with established labour rights. There are countless examples of forced labour, child labour, low payments, health and safety hazards, etc.;
- The development of an export-oriented agricultural sector is necessarily accompanied by the development of a transport infrastructure of roads, railways and waterways, which has a strong impact on ecosystems (i.e. by facilitating the access by poachers and loggers) as well as social impacts (replacements, land conflicts, increasing land prices, etc.);
- The macro-economic impacts of the agricultural sector are often unfavourable to developing countries, this as a result of adverse terms of trade, developed country subsidies and dumping practices and the uneven distribution of power in the production, distribution and end-consumption chain.

To feed over 6 billion people in a sustainable way is one of the most important challenges the world is facing today. Banks that are active in the agricultural sector should therefore develop a comprehensive agriculture policy, which deals with all issues described above. In developing such a policy, banks could make use of the best international standards available as described below.

3.1.2 Best standards available

Over the past years various initiatives have been taken to develop standards in the agriculture and food sectors, both on a general, sector-wide level as for specific agricultural crops and commodities. What follows is a brief overview of the most promising developments:

General certification and ecolabels

The demand for more sustainable agricultural products is growing, though at present most target only niche markets. Eco-labelling takes place on an ever larger scale, using many different voluntary and mandatory environmental performance labels and declarations. The different terminology used, - varying from *organic* or *fair trade* to *GMO-free* and *reduced impact* - makes the market for *sustainable* products somewhat opaque.

Therefore, the International Federation of Organic Agricultural Movements (IFOAM) has made efforts to implement third-party certification of *organic* agricultural products according to an elaborate and comprehensive Organic Guarantee System, accrediting certifiers who agree to apply the IFOAM Basic Standards for Organic Production and Processing. IFOAM has also expressed Norms for Organic Production and Processing.

The Sustainable Agriculture Network (SAN) developed the Standards and Policies for Sustainable Agriculture, supported by the Rainforest Alliance Agriculture Program.

One World Standards (OWS) and SAN currently cooperate to develop international standardisation procedures and policies to optimise conditions of tropical agriculture. OWS also assists IFOAM with a study of strategic options for its international accreditation programme.

Fairtrade Labelling Organizations International (FLO) is an association of 20 *Labelling Initiatives* that promote and market the Fairtrade label in their countries. Products carrying the Fairtrade label are certified to meet the Fairtrade Standards, both the applicable *Generic Standards* and the *Product Standards*. The *Product Standards* guarantee a minimum price considered as fair to producers. They also provide a Fairtrade premium that the producer must invest in projects enhancing its social, economic and environmental development.[6]

The 2004 Social Accountability in Sustainable Agriculture (SASA) project was a collaboration between the four main social and environmental verification systems in sustainable agriculture: Sustainable Agriculture Initiative Platform (SAI), FLO, SAN and IFOAM. The SASA objectives were to improve social auditing processes in agriculture and to foster closer cooperation and shared learning between the participating initiatives. The project was rounded of with the Code of Good Practice for Setting Social and Environmental Standards, an international, normative document that is applicable to all social and environmental standards. The International Social and Environmental

Accreditation and Labelling Alliance (ISEAL) has taken over the responsibility for the further implementation of this initiative.[7]

With support of UNCTAD and IISD, the Sustainable Food Laboratory started the Sustainable Commodities Initiative (SCI) and developed the SCI-Benchmark tool, in order to improve the social, environmental and economic sustainability of commodities production and trade by developing global multi-stakeholder strategies on a sector-by-sector basis.[8]

Product-specific standards

For a range of agricultural commodities, appropriate management practices that improve the key social and environmental impacts have been or are being articulated by, amongst others, multi-stakeholder initiatives. Standards or guidelines for cotton, palm oil, sugarcane, coffee, cocoa, soy, biofuels and other agricultural commodities have been, or are currently being developed.

Stakeholders in these initiatives or roundtables include representatives drawn from the entire value chain of the respective industries, researchers, financial institutions, NGOs and other interested parties. Nevertheless, balanced representation is not always achieved. Banks are under-represented in some of these round tables, particularly at Steering Committee level. Further, not all relevant civil society stakeholders have embraced these initiatives as the proper way forward.

As these efforts progress, these initiatives may define global, measurable standards for different commodities that enjoy wide stakeholder acceptance and support. It should be stressed however that many of these initiatives are still in their early stages and they do not all provide credible standards yet to which bank policies could refer. Credible sector standards need to be developed with the participation of all relevant civil society stakeholders, need to have an effective verification and control mechanism and should generate measurable improvements in social and environmental performance.

Before referring to sector standards in their policies, banks should check whether these elements are in place. It is however recommended to monitor their development and actively participate in them, as some banks already do. What follows is a list of the main initiatives

- **Soy:** The Roundtable for Responsible Soy, set up with active participation of the respective industries as well as NGOs, seeks to address some of the problems associated with soy plantations. The Basel Criteria for Responsible Soy Production, developed by WWF and Coop Switzerland, includes guidelines with respect to legislation, environmental management and traceability.[9] The Brazilian Soy Platform developed Social Responsibility Criteria for Companies that Purchase Soy and Soy Products which includes guidelines on soy production on deforested grounds, agrarian reform, drained wetlands or swamps. They hope to encourage large soy traders, consumers and the private financing sector worldwide to adopt these or similar criteria.[10]
- **Palm Oil*:*** In November 2005 the Roundtable on Sustainable Palm Oil (RSPO), a multi-stakeholder initiative with 100 members representing more than one-third of the global palm oil trade, adopted the Principles and Criteria (P&C) for sustainable

palm oil production. The principles currently undergo a two-year field trial implementation.[11]

- **Sugarcane:** Because of the enormous water usage of the sugar sector, and the increasing importance of sugarcane as bio-fuel, the WWF Action for Sustainable Sugar campaigns for sustainable sugar production and better management practices. The Better Sugarcane Initiative (BSI), supported by a range of interested stakeholders, is collaborating with the entire sugarcane chain to develop internationally-applicable sustainability measures and baselines which can be used by companies and investors across the globe.
- **Bio-fuels:** Palm oil, soy as well as sugarcane are increasingly used as feedstock for bio-fuels. The recently initiated Roundtable on Sustainable Bio-fuels is currently developing global standards for sustainable bio-fuels production and processing, to be ready by 2008.[12]
- **Cocoa:** The World Cocoa Foundation (WCF) supports programs to drive sustainable cocoa farming. A common agenda for the development of sustainable cocoa, coffee and cashew tree crop systems in Africa was shaped at the Sustainable Tree Crop Development Forum.[13]
- **Coffee:** One of the objectives of the International Coffee Agreement 2001 is to encourage Members to develop a sustainable coffee economy. The Common Code for the Coffee Community (4C) was developed by the 4C Association in 2004, and organisations like Utz Certified and FairTrade have been certifying coffee for years.[14] Other coffee initiatives can be found in the Coffee Certification Database.
- **Cotton:** The Better Cotton Initiative (BCI) is a global process, involving a wide range of representatives along the cotton & textiles value chain. BCI, in collaboration with regional and global partners, will identify appropriate international norms for cotton production. BCI aims to put Better Cotton in the supply chain by 2012.[15]
- **Other standards**: The Sustainable Agriculture Network published Additional Criteria and Indicators to its sustainable agriculture standards, for i.e. cocoa and coffee. Fairtrade Labelling Organizations International (FLO) has Product Standards for i.e. coffee, tea, chocolate, vanilla, fresh fruits, rice and sugar.

There is also a growing need for a harmonisation of these product-specific standards and guidelines. Banks could benefit from, and play a useful role in the harmonisation of these standards and guidelines for mainstream agriculture.

Ecosystem conversion and land rights

Sectoral initiatives can play a role in limiting the conversion of forests and other natural ecosystems as well as the appropriation of lands to which local or indigenous communities depend for their sources of income and nutrition. But as long as the global demand for agricultural commodities is growing at such a rapid pace these initiatives alone are unlikely to succeed in stemming these unwanted ecological and social impacts.

Furthermore, in some countries government policies continue to promote massive conversion of natural ecosystems and disenfranchise land rights of local people for expanded production of agricultural commodities. Under such conditions sectoral initiatives run the risk of “leakage” or displacement of destructive activities to other countries, regions or commodities.

Complementary to sectoral initiatives, government policies are therefore needed:

- Policies in producing countries which adequately cover issues such as forest conversion, violation of indigenous rights, labour standards, etc.;
- Policies in consuming countries which effectively limit international demand for agricultural commodities, by promoting local food production, non-meat protein products, reduction of energy and meat consumption and sustainable energy production (including sustainable bio-energy).

Food entitlement and economic development

The agricultural sector has the potential to contribute to achieving universal entitlement to adequate and nutritious food and to economic development in developing countries. To realise this potential, adverse terms of trade, developed country subsidies and dumping practices and the uneven distribution of power in the production, distribution and end-consumption chain need to be addressed. Using agricultural lands to produce feed and biofuel commodities for export markets, instead of food products for the local population, should be discouraged as it is threatening food entitlement. It is also crucial to locate more value added activities in major agricultural and food chains in developing countries.

Protected areas

Agricultural activities in any of the protected areas covered by the IUCN I-IV categories, the UNESCO World Heritage Convention and the Ramsar Convention should be excluded from financing. This subject is dealt with in paragraph 4.1 on Biodiversity.

Genetically Modified Organisms

The Cartagena Protocol to the Convention on Biological Diversity sets out some labelling and notification provisions with respect to genetically modified organisms (GMOs). For example, trade in living modified organisms is prohibited without the approval of the importing country. Signatories are also supposed to apply the precautionary principle to the production and use of GMOs. The parties to the Protocol continue to address and develop standards with respect to GMOs. This subject is further dealt with in paragraph 4.1 on Biodiversity.

Another problematic aspect of GMOs is that they make small farmers dependent on buying seeds and related inputs such as pesticides and fertilizers from large companies. This also leads to a loss of biodiversity.[16]

Rights of indigenous peoples

Agricultural companies need to respect and guarantee the rights of indigenous peoples to protect their land, societies, cultures and livelihoods, by acknowledging their sovereignty and self-determination. This subject is dealt with in paragraph 4.4 on indigenous peoples.

Labour rights

Health and safety conditions in the agricultural and food sector are often poor, among others because of extensive use of pesticides. Wages are generally low and bargaining rights regularly disrespected. Reference to best international standards on labour rights therefore is very important. This subject is dealt with in paragraph 4.5 on Labour rights.

Pesticides

Regarding the use of pesticides the FAO issued the International Code of Conduct on the Distribution and Use of Pesticides, setting out voluntary, internationally accepted standards for the handling, storage, use and disposal of pesticides. This subject is dealt with in paragraph 4.7 on Toxics.

3.1.3 Content of a bank policy

Banks play an important role in the global agriculture sector, by financing producers, processors and traders. Banks should ensure for all their services in these production chains to avoid adverse sustainability impacts caused by their clients and by the suppliers of their clients. Banks should endeavour to contribute to the entitlement of all to an adequate and nutritious supply of food and to economic development through sustainable investments in the agricultural and food sector in developing countries.

Banks could also reward sustainable producers in terms of access and price of financing in light of the reduced risk that improved environmental and social impacts are likely to represent. They are also encouraged to actively participate in the development process of standards in the roundtables emerging for specific commodities, and use their influence to advocate policies in producing and consuming countries which adequately address the negative social and ecological impacts of the rising global demand for agricultural commodities. The following elements should therefore be incorporated in a banks' agricultural policy or policies:

- Improving the key environmental and social impacts of production;
- Stimulating good practices for different products, following standards mentioned in paragraph 3.1.2;
- Advocating policies supportive to these good practices in producing and consuming countries;
- Contributing to achieving universal entitlement to adequate nutritious food and to economic development;
- Exclusion of protected areas;
- Avoidance of GMOs;
- Acknowledgement of the rights of indigenous peoples;
- Acknowledgement of principal labour rights;
- Careful and minimal usage of pesticides;
- Careful management of water resources.

Banks should either develop an integrated agriculture policy as long as sufficient attention is given to the specific characteristics of individual commodities, or choose to develop different policies for individual agricultural commodities, as long as the content of these policies is consistent on overarching issues.

3.1.4 Scoring table

The considerations in the previous paragraphs lead to the following scoring table with regard to bank policies on the agriculture sector:

0. *The bank has no policy on this sector;*
1. *The bank's policy is vaguely worded or aspirational, with no clear commitments;*
2. *The bank's policy sets as precondition for its financial services the best international standards for at most three of the elements listed in paragraph 3.1.3;*
3. *The bank's policy sets as precondition for its financial services the best international standards for at least three of the elements listed in paragraph 3.1.3;*
4. *The bank's policy is fully in line with all international standards and guidelines for all elements listed in paragraph 3.1.3;*

When one or more of the elements listed in paragraph 3.1.3 are dealt with in a comprehensive way in other policies of the bank, these elements will be regarded as being included in its agriculture policy as well.

When the bank does not have an integrated agriculture policy but has policies on some individual commodities, the average score for these commodity policies will be multiplied with the estimated percentage which these commodities represent in the bank's overall exposure in the agricultural sector.

3.1.5 Results

In spite of the fact that agriculture is the largest source of soil degradation and pollution of all human activities, and that the sector in many countries faces labour conditions that do not comply with established labour rights, there are only a few banks that have developed a sector policy on agriculture.

Nine banks have developed some sort of agriculture policy, of which Fortis (Belgium), ING (the Netherlands), Rabobank (the Netherlands) and Westpac (Australia) have good or reasonable policies. The scope of some policies is limited to a selection of crops, and not all policies are disclosed to the public. Five other banks have published policies or position statements on crops of which the production can lead to major environmental or social problems, such as soy or palm oil. The large majority (36) of the banks researched have not yet developed credit policies for their agricultural clients.

Scores on Agriculture policies					
Fortis	2	BBVA	0	Nedbank	0
ING Group	2	BNP Paribas	0	RBS	0
Rabobank	2	China Construction	0	Royal Bank of Canada	0
Westpac	2	Citi	0	Saudi-American Bank	0
ABN AMRO	1	Crédit Agricole	0	Santander	0
Banco do Brasil	1	Credit Suisse	0	Scotiabank	0
Barclays	1	Deutsche Bank	0	Société Générale	0
Goldman Sachs	1	ICBC	0	Standard Bank	0
HSBC	1	Intesa Sanpaolo	0	Standard Chartered	0
ANZ	0	JPMorgan Chase	0	State Bank of India	0
Banco Bradesco	0	KBC	0	Sumitomo Mitsui	0
Banco Itaú	0	Merrill Lynch	0	UBS	0
Bank Mandiri	0	Mitsubishi UFJ	0	Unicredit	0
Bank of America	0	Mizuho Financial	0	WestLB	0
Bank of China	0	Morgan Stanley	0	Dexia	X

3.2 Dams

3.2.1 What is at stake?

Large dams and associated infrastructure are among the most controversial and potentially destructive of all internationally-financed projects. According to the report of the World Commission on Dams (WCD) released in November 2000, large dams have displaced between 40 and 80 million people worldwide. Millions more have been ousted by the construction of canals, powerhouses and other associated infrastructure. Many of these people have not been satisfactorily resettled, nor have they received adequate compensation, and those who have been resettled have rarely had their livelihoods restored. In the natural world, dams have fragmented and stilled 60 per cent of the world's rivers, leading to profound and often irreversible impacts on riverine and adjoining terrestrial environments. Meanwhile, the economic benefits of large dams have often been elusive. Large dams tend to under-perform their targets for power generation, and lengthy construction delays and large cost overruns are routine.[17]

In addition to these environmental, social and economic concerns, the business case for applying strong environmental and social standards to dam projects is compelling. Proponents of environmentally and socially disruptive dam projects have increasingly met effective resistance from committed, well-organised and often globally-connected grassroots advocacy campaigns. For an industry in which cost overruns are the norm, anticipated benefits are often not realised, and virtually all project costs are incurred upfront, the added burdens of community opposition can destroy the financial justifications for the project. As a result, potential conflicts are best resolved by negotiations between all those whose rights are involved and who bear the risks of proposed projects.

The bank's policy should ensure that it will not be involved in the financing of the construction and exploitation of environmentally and socially disruptive dam projects. In developing such a policy, the bank could make use of the best international standards available as described below.

3.2.2 Best standards available

The most authoritative and broadly supported set of standards to be applied to dam and water projects are the guidelines articulated by the World Commission on Dams (WCD). This body was convened by the World Bank and World Conservation Union (IUCN), and comprised 12 eminent members drawn from a broad spectrum of stakeholders. In an intensive multi-stakeholder process the WCD addressed the range of environmental and social issues associated with large dams based on worldwide experience over the last several decades, and provided a rich analytical and planning menu to draw from.[18]

The centrepieces of the Commission's recommendations were its "rights and risks" approach to project decision-making, and its seven strategic priorities and supporting principles: [19]

1. *Gaining Public Acceptance*: Public acceptance of key decisions should be ensured for equitable and sustainable water and energy resources development. Where

projects affect indigenous and tribal peoples, such processes are guided by their free, prior and informed consent.

2. *Comprehensive Options Assessment*: Alternatives to dams should be subject of a comprehensive and participatory assessment of the full range of policy, institutional and technical options, in which social and environmental aspects have the same significance as economic and financial factors.

3. *Addressing Existing Dams:* Opportunities should be taken to optimise benefits from existing dams, address outstanding social issues and strengthen environmental mitigation and restoration measures.

4. *Sustaining Rivers and Livelihoods:* Options assessment and decision-making around river development should prioritise the avoidance of impacts, followed by the minimisation and mitigation of harm to the health and integrity of the river system. Avoiding impacts through good site selection and project design is a priority.

5. *Recognising Entitlements and Sharing Benefits*: Mutually agreed and legally enforceable mitigation and development provisions need to be negotiated with adversely affected people. Accountability of responsible parties to agreed mitigation, resettlement and development provisions is ensured through legal means, such as contracts, and through accessible legal recourse at the national and international level.

6. *Ensuring Compliance*: Compliance with applicable regulations, criteria and guidelines, and project-specific negotiated agreements needs to be secured at all critical stages in project planning and implementation. Regulatory and compliance frameworks use incentives and sanctions to ensure effectiveness where flexibility is needed to accommodate changing circumstances.

7. *Sharing rivers for Peace, Development and Security:* The use and management of resources should be the subject of agreement between states to promote mutual self-interest for regional cooperation and peaceful collaboration. Dams on shared rivers should not be built where riparian states raise objections that are upheld by international panels.

It should be noted that similar problems as with dams are occurring with other water infrastructure projects, including navigation works, inter-basin water transfers and large irrigation projects. Similar principles could be applied on the construction and financing of these type of projects.

3.2.3 Content of a bank policy

Financial institutions that provide assistance to dams and associated infrastructure projects should adopt a sectoral policy which incorporates the WCD recommendations. This policy should apply to all dams and associated infrastructure but could be expanded into a wider freshwater policy. This could cover all significant water infrastructure projects, including navigation works, inter-basin water transfers and large irrigation projects.

With regard to dams the WCD considered the implications of its findings for private sector financiers, and provided a set of recommendations for them to follow:[20]

1. Use comprehensive options assessments as a risk mitigation tool.
2. Incorporate the WCD principles, criteria and guidelines into the environmental and social policies of the financial institution and use the guidelines as minimum screens for evaluating support for, and investment in, individual projects.
3. Develop legally binding environmental and social provisions in the insurance coverage and the debt and equity arrangements of the financial institution.
4. Develop criteria for bond-rating systems for use in financing all options, including large dams, in the water resources and electric power sectors.[21]

In addition to the WCD recommendations, the bank policy should preclude support for dam projects that are located in, or substantially impact upon, critical natural habitats, Ramsar-listed wetlands and UNESCO World Heritage Sites. These critical natural habitats are discussed further in paragraph 4.1 on biodiversity.

3.2.4 Scoring table

The considerations in the previous paragraphs lead to the following scoring table with regard to bank policies on dams:

0. *The bank has no policy on this sector;*
1. *The bank's policy is vaguely worded or aspirational, with no clear commitments;*
2. *The bank's policy includes elements such as options assessment, steps to ensure dam safety, and consultation with neighbouring states, but does not commit to the WCD strategic priorities and supporting principles;*
3. *The bank's policy commits to the WCD strategic priorities and supporting principles;*
4. *The bank's policy commits to the WCD strategic priorities and supporting principles for all dams and precludes support for dam projects that are located in, or substantially impact upon, critical natural habitats.*

When the bank has a separate Biodiversity policy which excludes activities in critical habitats, this element will be regarded as included in its dam policy as well.

The Equator Principles score 2 points on dams. Collective standards are discussed further in paragraph 7.1. The scores for collective standards are awarded to all signatories, unless the bank's own dams policy scores higher. Scores of individual and collective standards are not added up, only the highest score is awarded.

3.2.5 Results

The dams sector is the only sector policy on which all signatories of the Equator Principles score a 2, as project finance is fairly relevant for financing dams. Three banks have developed their own policy on financing dams. These are ABN AMRO (the

Netherlands), Barclays (United Kingdom) and HSBC (United Kingdom). Of these three, HSBC has developed the best policy, which covers practically all financing of dams.

Scores on Dams policies					
HSBC	4	JPMorgan Chase	2	Bank of China	0
ABN AMRO	2	KBC	2	BNP Paribas	0
ANZ	2	Mitsubishi UFJ	2	China Construction	0
Banco Bradesco	2	Mizuho Financial	2	Deutsche Bank	0
Banco do Brasil	2	Nedbank	2	Goldman Sachs	0
Banco Itaú	2	RBS	2	ICBC	0
Bank of America	2	Royal Bank of Canada	2	Merrill Lynch	0
Barclays	2	Scotiabank	2	Morgan Stanley	0
BBVA	2	Société Générale	2	Santander	0
Citi	2	Standard Chartered	2	Saudi-American Bank	0
Crédit Agricole	2	Sumitomo Mitsui	2	Standard Bank	0
Credit Suisse	2	Unicredit	2	State Bank of India	0
Fortis	2	WestLB	2	UBS	0
ING	2	Westpac	2	Dexia	X
Intesa Sanpaolo	2	Bank Mandiri	0	Rabobank	X

3.3 Fisheries

3.3.1 What is at stake?

The global fishing fleet is estimated to be more than twice as large as necessary to catch what the ocean can sustainably produce.[22] As a result 52% of the world's fisheries are fully exploited, and 25% are overexploited, depleted, or recovering from depletion. Certain important commercial fisheries such as North Atlantic cod, Patagonian tooth fish, swordfish and blue-fin tuna have either crashed or are showing signs of significant decline.[23]

Some practices such as driftnet fishing have huge impacts on many non-target fish species as well as sea turtles, seabirds and marine mammals, while others such as bottom-trawling destroy ocean habitats necessary for maintaining or recovering marine biodiversity. Unless the current situation improves, stocks of all species currently fished for food are predicted to collapse by 2048.[24]

It is not only for the future of sea-life that fishery activities are kept in control. Protection from over fishing is also crucial for local fishing communities who can be deprived of their income as a result of industrial fishing. Communities dependent on these small-scale fishermen also suffer, losing their food sovereignty and security.

To become more sustainable the fisheries sector should:

- Abandon particularly harmful catching practices such as driftnet fishing and bottom-trawling;
- Fish more selectively using gear that doesn't catch non target species;
- Substantially reduce the volumes of many species caught;
- Acknowledge and guarantee the rights of small-scale fishing communities.

The bank's policy should ensure that it will only be involved in the financing of companies in the fisheries and seafood sector, including food and other companies using fish ingredients, which meet these criteria. In developing such a policy, the bank could make use of the best international standards available as described below.

3.3.2 Best standards available

Several international treaties, as well as agreements, action plans and codes of conduct negotiated under the auspices of the Food and Agriculture Organization of the United Nations (FAO), set out a clear and comprehensive international consensus on many aspects of fisheries management. Enshrined in the UN Law of the Sea Convention,[25] the UN Straddling Stocks Agreement[26] and the FAO Code of Conduct for Responsible Fisheries[27], these set clear goals of achieving the sustainable management and use of the world's fisheries. Widespread consensus also exists on the following principles and measures necessary for achieving that goal:

Certification of sustainable fisheries

The leading effort for certifying sustainable marine fisheries is the Marine Stewardship Council, which is the only certification scheme which is consistent with the FAO Guidelines for the Ecolabeling of Fish and that is based on the *FAO Code of Conduct for*

Responsible Fisheries.[28] The MSC was developed through unparalleled international consultation between stakeholders. So far, the MSC has certified 21 fisheries and has 21 under review. 42% of the global wild salmon catch and 32% of the global prime whitefish catch are included in the programme. The MSC also employs a product tracking mechanism that can help trace chain of custody and ensure fish are coming from legal sources.[29]

Ecosystem based management of fisheries

International standards and regulations for fisheries management have evolved from emphasising particular fish stocks to a more ecosystem-based approach. Thus, for example, the *UN Straddling Stocks Agreement* not only requires the sustainable management of particular stocks, but also the assessment and conservation of non-target species in the same ecosystem.[30] Similarly, the *FAO Code of Conduct for Responsible Fisheries* requires users of living aquatic resources to "conserve aquatic ecosystems" and "not only [to] ensure the conservation of target species but also of species belonging to the same ecosystem or associated with or dependent upon the target species".[31]

Additionally, the FAO has endorsed a comprehensive Ecosystem-Based Management (EBM) framework for marine capture fisheries developed by WWF.[32] The *FAO Code of Conduct for Responsible Fisheries* also issues guidelines on measures to maintain livelihoods of inshore fishing in the poorest nations' communities. A WWF toolkit with implementation examples in fisheries worldwide now also exists.[33]

Precautionary principle for sustainable fisheries management

Emerging international standards for fisheries management recognise the inherent uncertainties associated with questions regarding the health, reproductive rates or populations of, or fishing impacts on, target and associated species. As a result, the main agreements mentioned above all adopt the *precautionary principle* for fisheries management. Uncertainty or an absence of adequate scientific information (over the exploitation of deep-sea species, for example) should not be used as a reason for postponing or failing to take conservation or management measures. Such uncertainty may exist in any fishery, but particularly in new or exploratory fisheries.[34]

Eliminating overfishing and restoring stocks

Under the *UN Straddling Stocks Agreement*, states are obliged to "prevent or eliminate overfishing".[35] Conservation and management decisions for fisheries should be based on the best scientific evidence available and should be directed at maintaining or restoring stocks.[36] States and fisheries managers should make every effort to restore critical habitats or others adversely affected by human activities.[37] *Marine Protected Areas (MPAs)* are now recognised as critical for maintaining and restoring fish and other marine biodiversity. Some Fisheries MPAs are designed to be "no-take zones" where fish and their habitat can be restored over time, thus serving as reservoirs for the rest of the ocean.

Eliminating and avoiding overcapitalisation

Overcapitalisation of fishing fleets, often supported by large subsidies, is a recognised driver of over fishing in many regions of the world. Governments have consented in the *UN Straddling Stocks Agreement* to take measures to prevent or eliminate excess fishing capacity and to ensure that fishing efforts do not exceed those commensurate with the sustainable use of fishery resources."[38] Governments at the FAO agreed to "review the capacity of fishing fleets in relation to sustainable yields of fish resources and where necessary reduce these fleets."[39]

Eliminating destructive fishing practices

The *FAO Code of Conduct for Responsible Fisheries* accords a general priority to selective and environmentally safe fishing gear and practices,[40] recommends measures to phase out the use of any irresponsible gear, methods or practices,[41] and calls for the assessment of impacts on habitats before new fishing gear is introduced on a commercial scale. International standards have also been identified for restricting or banning certain types of fishing practices or gear, including the use of explosives or cyanide fishing,[42] the use of driftnets,[43] high seas bottom-trawling, and shark-finning. [44]

Minimising by-catch

By-catch is the amount of non-target species caught and typically discarded while fishing for other species. The industry average for all fisheries is 250g of by-catch for every 1kg of target species. Some fishing practices such as shrimp trawling lead to as much as 3kg of wasted fish or non-fish species for every 1kg of target species. As much as 7kg of marine animals are killed by beam trawlers to produce 450g of marketable sole. The figure is similar for plaice.[45]

The *FAO Code of Conduct for Responsible Fisheries* states that users of aquatic ecosystems "should minimise waste, catch of non-target species, both fish and non-fish species, and impacts on associate or dependent species". Action plans have been adopted to reduce the impact on by-catch of certain species or groups of species, including seabirds and sharks. [46]

Illegal, Unregulated and Unreported fishing and flags of convenience

A significant problem in fisheries management is the illegal, unregulated or unreported (IUU) fishing conducted in violation of international or national fisheries conservation measures. This often involves vessels registered under "flags of convenience" in countries that are notoriously lax in their regulations. The FAO's Plan of Action on IUU fishing seeks to eliminate the practice in part by encouraging states to prohibit doing business with companies engaged in IUU fishing.[47] A recent WWF Report on IUU fishing recommends that the banking sector should ensure it supports only legal operations by requiring the catch to be documented through the full chain of custody. [48]

Endangered species

Commercial trade in many fish species, including some that are commercially important, is now either banned or restricted under Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).[49] The *FAO Code of Conduct for Responsible Fisheries* also recognises the particular importance of protecting endangered species.[50]

Sustainable aquaculture

Although aquaculture has been heralded as important for diversifying income and diet in many coastal communities, it can also have substantial impacts on sensitive coastal wetlands, water quality and the genetic diversity of native fish. The *FAO Code of Conduct* *for Responsible Fisheries* calls on states to ensure that adverse environmental impacts of aquaculture are assessed and minimised.[51] Resources should also be used responsibly such as where some types of aquaculture have unsustainable protein conversion rations (salmon require 3kg of protein for every 1kg of salmon produced, tuna require 10kg). Aquaculture investments should be directed towards herbivorous fish species such as catfish and tilapia.

In August 2006 the International Principles for Responsible Shrimp Farming were launched after a five-year consultative process involving several partner organizations, including the Network for Aquaculture Centres for the Asia Pacific, WWF, the World Bank and the UN Environmental Programme, the new principles represent the first-ever attempt to provide an overarching international framework for improving the sustainability of the shrimp farming industry.[52]

3.3.3 Content of a bank policy

Banks active in this sector should adopt a policy that commits them to the internationally accepted goal of the sustainable management of fisheries. The policy should require fisheries to be sustainably managed according to ecosystem-based and precautionary approaches, and certified where possible by the MSC or other credible, independent third party sustainability certification systems. Clients should be screened to ensure that they do not participate in or buy fish from fisheries over fishing, using destructive or wasteful fishing practices, operating in an over-capitalised fishery or fishing illegally or in an unregulated or unreported manner.

The policy should also require catch documentation schemes to be used to verify the legality of fishing operations, support "no commercial fishing" zones in and around *Marine Protected Areas*, and prohibit trade in endangered or threatened species. In addition, the policy should address the environmental and social impacts of all fishing and related activities, including aquaculture.

The FAO identifies bankers and insurers as important targets for efforts to combat fishing by vessels flagged under the authority of countries with lax resource conservation laws.[53] The *FAO Code of Conduct for Responsible Fisheries*, for example, discourages financial institutions from requiring as a loan or mortgage condition, fishing vessels to be flagged in a jurisdiction other than that of the country of beneficial ownership, where such a requirement would increase the likelihood of non-compliance with international conservation and management measures.[54] Banks should ensure that their support is not going to companies that operate under flags of convenience and ensure that the link to the beneficial owner is apparent.

Finally, it is critical that the banking sector considers the impacts of its investments in seafood throughout the supply chain. Sustainable investment is required for seafood businesses whether at the catching, processing, transport, retailing or food service points of the chain. The banking sector can foster sustainability, for example by requiring proof of legal activity, encourage preferential purchasing of more sustainable product and by promoting MSC certification throughout the supply chain.

3.3.4 Scoring table

The considerations in the previous paragraphs lead to the following scoring table with regard to bank policies on fisheries:

0. *The bank has no policy on this sector;*
1. *The bank's policy is vaguely worded or aspirational, with no clear commitments;*
2. *The bank's policy includes specific elements to identify better fisheries such as minimising by-catch and a preference for certifying sustainable marine fisheries, but does not commit univocally to the goal of the sustainable management and use of fisheries;*
3. *The bank's policy commits to the FAO Code of Conduct for Responsible Fisheries for financial services provided to the fisheries sector directly;*
4. *The bank's policy commits to the FAO Code of Conduct for Responsible Fisheries and the International Principles for Responsible Shrimp Farming, for its financial relationships with all companies throughout the seafood chain of custody.*

3.3.5 Results

Rabobank (the Netherlands) is the only bank that has developed a fairly good policy on the fisheries and seafood sector. Barclays (United Kingdom) has a guidance note which lists the issues but does not set clear preconditions for financing. Banco do Brasil (Brazil) makes an aspirational statement on fisheries, but does not elaborate on lending criteria or sustainability standards in the sector. All other banks have disregarded the importance of the fisheries sector and have not developed any policies for the sector.

Scores on Fisheries policies					
Rabobank	3	Credit Suisse	0	RBS	0
Banco do Brasil	1	Deutsche Bank	0	Royal Bank of Canada	0
Barclays	1	Fortis	0	Saudi-American Bank	0
ABN AMRO	0	Goldman Sachs	0	Santander	0
ANZ	0	HSBC	0	Scotiabank	0
Banco Bradesco	0	ICBC	0	Société Générale	0
Banco Itaú	0	ING Group	0	Standard Bank	0
Bank Mandiri	0	Intesa Sanpaolo	0	Standard Chartered	0
Bank of America	0	JPMorgan Chase	0	State Bank of India	0
Bank of China	0	KBC	0	Sumitomo Mitsui	0
BBVA	0	Merrill Lynch	0	UBS	0
BNP Paribas	0	Mitsubishi UFJ	0	Unicredit	0
China Construction	0	Mizuho Financial	0	WestLB	0
Citi	0	Morgan Stanley	0	Westpac	0
Crédit Agricole	0	Nedbank	0	Dexia	X

3.4 Forestry

3.4.1 What is at stake?

Forests make up 3.9 billion hectares of the earth's surface. Another 190 million hectares is covered by timber plantations, which are often also classified as forests despite fundamental differences in the services the two provide. Combined, trees cover about 4 billion hectares or about 30 percent of the world's land area.[55]

These forests and plantations provide a large variety of services and roles, many of which are mutually exclusive:[56]

- Over 90% of the 1.2 billion people living in extreme poverty depend on forests for some part of their livelihoods. About 350 million forest peoples call forests their home and their economic well-being is inextricably linked to gaining a livelihood from using a variety of timber and non-timber products;
- For many indigenous peoples and forest-dependent communities, forests are home. Forests thus play a very important role in their social and cultural life;
- Forest ecosystems are the most bio diverse terrestrial ecosystems we have, being home to at least 80% of all land-based plants and animals;
- As major carbon storehouses and sinks, intact forests provide invaluable climate protection services. The amount of carbon currently stored in Canada's boreal forests is for instance equivalent to 7.8 years of the world's total carbon emissions in 2000 and has been estimated to be worth US$ 3.7 trillion.[57] Yet as greenhouse gas concentrations in the atmosphere increase, forests will be significantly affected by global climate change itself, threatening their capacity to continue sequestering and storing carbon;
- Forests help to maintain the fertility of the soil, protect watersheds and reduce the risk of natural disasters such as floods and landslides by regulating water supplies and stemming soil erosion. These services have an enormous impact on worldwide agricultural productivity and human health;
- The forests product industry is a source of economic growth, providing wood and non-timber forest products such as edible nuts and fruits, medicinal plants, fibres and rubber. The global trade in forest products has an estimated annual value of US$ 270 billion, of which around 20% is originating from developing countries. The economic importance of the informal and local trade in timber and non-timber forest products probably exceeds this figure dramatically;
- Forestry activities also create employment, but large differences exits between types of forestry activities. Small-scale and informal forestry can be an important source of employment, especially in combination with agroforestry. Large scale plantations, however, generate much less than alternative land uses. In Brazil for instance, timber plantations employ not more than one person per 45 hectares, while agricultural activities give work to at least 18 per hectare.[58]

Yet, forests continue to be destroyed at unprecedented rates. Experts estimate that approximately 16 million hectares of natural forests were lost annually during the 1990s, and deforestation rates have not changed significantly since then.[59] While not fully deforested, additional large areas of tropical, temperate and boreal forests are also significantly degraded by over-exploitation each year. Important drivers of deforestation and forest degradation are:

Unsustainable and illegal logging practices occur when forests are deprived of their resources at such a pace and in such a way that regeneration is not possible. Although unsustainable logging practices are often illegal as well, the two categories are not identical. Not all unsustainable logging is illegal, as forestry legislation in many countries is not yet oriented sufficiently on sustainable logging practices. And not all illegal logging, for instance by forest-dependent communities, is unsustainable.

There are many drivers of unsustainable and illegal logging practices, but the establishment of pulp, paper and ply mills which do not have sustainable wood supply plans or procurement systems is a very significant one.

Illegal logging costs governments of timber-producing countries an estimated € 10-15 billion per year in lost revenues, which could otherwise be spent on the provision of better healthcare, education and other public services, as well as the implementation of sustainable forest management.

Unsustainable logging also causes enormous environmental damage and loss of biodiversity, for instance through conversion of bio diverse grasslands or forests to plantations or simplified secondary forests, or through logging in protected areas and along streams. It can also facilitate the illegal exploitation of wildlife.
Unsustainable and often illegal logging thus undermines sustainable forest management and has a long term negative impact on the livelihoods of forest-dependent people, many of whom are amongst the world's poorest and most marginalized people.

In some forest-rich countries, the corruption fuelled by profits from the allocation of concessions and the resulting illegal forms of large-scale logging has grown to such an extent that it is undermining the rule of law, principles of democratic governance and respect for human rights. In some cases this illegal exploitation of forests is also associated with violent conflict.[60]

Conversion of natural forests into timber or pulp plantations to supply the timber and pulp and paper sector. Although these plantations are sometimes classified as forests as well, for instance in the State of the World's Forests published annually by the *Food and Agriculture Organization of the United Nations (FAO)*, they lack most of the social and environmental qualities of natural forests;

Conversion of forests for agricultural expansion such as cattle ranching and the production of palm oil, soy and grains (for food, agrofuel and other purposes). This subject is treated in more detail in paragraph 3.1 on Agriculture;

Conversion of mangrove forests for aquaculture. This subject is treated in more detail in paragraph 3.3 on Fisheries;

Development of large-scale industrial and infrastructure projects, such as roads, railways, dams, mines and oil and gas installations and pipelines. Some of these subjects are treated in more detail in paragraph 3.2 on Dams, paragraph 3.6 on Mining and paragraph 3.7 on Oil & Gas.

Deforestation and forest degradation deprive communities of their land and means of living, often cause biodiversity loss, soil erosion and cause surface and ground water levels to fall, often dramatically. Additionally, deforestation activities sometimes cause severe forest fires, such as those in Indonesia in 1997/1998. Because of the air pollution caused by the fires some 40,000 people were hospitalised for respiratory and other pollution-related ailments such as asthma, bronchitis and pneumonia, as well as eye and skin problems. Most of these fires were caused by the expansion of large scale industrial pulpwood and oil palm plantations.[61]

Deforestation is also accelerating global climate change. According to the Stern Review greenhouse gas emissions from deforestation are estimated to represent more than 18% of global greenhouse gas emissions, a share greater than is produced by the global transport sector.[62]

This paragraph deals with the forestry sector, which comprises all companies managing forests and plantations, as well as the companies processing wood into timber, pulp, paper and other wood products. Additionally, the forestry sector encompasses all companies involved in trading and further processing these products, for instance into furniture.

The forestry sector certainly is not the only economic sector which is involved in and has the potential to help slow global deforestation and forest degradation. Other related sectors such as agriculture, fisheries, dams, mining and the oil & gas are discussed in other paragraphs. The forestry sector deserves a separate treatment as this sector is highly dependent on the state of the world's forests.

However, the forestry sector has often failed to play a constructive role in conserving and managing the world's forest resources. According to a recent World Bank study, "Industrial timber production has a poor track record in Africa. Over the past sixty years, there is little evidence that it has lifted rural populations out of poverty or contributed in other meaningful and sustainable ways to local and national development."[63] The Inspection Panel of the World Bank assessing the World Bank's role in industrial forest management in Cambodia concluded that "one could hardly overemphasize the negative effects of the logging on a natural habitat of world class value and most importantly on very poor and vulnerable rural communities and indigenous peoples."[64]

To be sure that its clients in the forestry sector break with this heritage and manage forests in a way that ensures not only environmental sustainability but also benefits to local communities, banks need to develop a strict policy to screen their clients against. In developing this policy banks should make use of the best international standards available. Some of these are described below.

3.4.2 Best standards available

The most important international standards and initiatives for the forestry sector are:

Land rights of local and indigenous communities

Uncontested land rights and title are a prerequisite for secure forest tenure, just as access to forests and forest resources are prerequisites to sustainable forest management. Various international conventions acknowledge the rights to the fair and equitable use of forest resources by indigenous peoples and forest-dependent communities. The UN Declaration on the Rights of Indigenous Peoples, adopted by the General Assembly of the United Nations in September 2007, affords indigenous peoples right to the lands, territories and resources which they have traditionally owned, occupied or otherwise used or acquired.[65] This issue is discussed further in paragraph 4.4 on indigenous peoples.

Illegal logging and forest governance

Since 2002, a number of Ministerial Conferences on Forest Law Enforcement and Governance (FLEG) have been organized in the East Asia and Pacific region, Africa and in Europe and North Asia, co-hosted by both producer and consumer governments and the World Bank. A potential FLEG initiative in Latin America and the Caribbean is underway. These ministerial-level political processes aim to mobilize international commitment from producer, consumer and donor governments to increase efforts to combat illegal logging as well as the associated trade and corruption in the forest sector.[66]

In 2004 the European Union adopted the Forest Law Enforcement, Governance and Trade (FLEGT) Action Plan developed by the European Commission in May 2003. The Action Plan sets out a new and innovative approach to tackling illegal logging, linking good governance in developing countries with the legal trade instruments and leverage offered by the EU internal market. The Action Plan describes a package of measures, including encouraging the private sector to adopt purchasing policies to exclude illegal timber from their supply chains and encouraging measures to avoid investment in activities that encourage illegal logging.[67]

Certification of forest management and chain of custody

Most certification schemes developed to guarantee sustainable forest management unfortunately fail to secure balanced decision-making in the development and monitoring of their standards. In most cases this basic failure coincides with the scheme being closely linked to companies active in the forestry sector. In these cases, the schemes only reinforce the *status quo* of unsustainable and often illegal forest management, rather than improving it. This unbalanced representation at the standard setting table is reflected in the widespread failure of most certification schemes to recognise the rights of indigenous peoples and forest-dependent communities to participate in decision-making.[68]

The only certification scheme which deals with this subject in a convincing way is the Forest Stewardship Council (FSC), which represents forest owners, forestry companies, trade unions and social and environmental organizations. FSC has formulated ten Principles of Forest Stewardship. With the associated Criteria these form the basis for all FSC forest and plantation management standards. Over the past 13 years, over 90 million hectares of forests and plantations in more than 82 countries have been certified according to FSC standards while several thousand products are produced using FSC-certified wood and carrying the FSC trademark.[69]

FSC is the only certification scheme consequently supported by all major environmental and development NGOs, as well as many grassroots organisations. However, this support has been tested and will depend on FSC's ability to adapt to new challenges, improve its standards and improve its performance on the ground. Most contested issues at the moment are the Chain of Custody certification and the certification of plantations:

- Apart from certifying forest management, FSC also certifies companies operating in the Chain of Custody (CoC) of timber and paper products. This certification implies that all or a significant percentage of the wood products used or traded by these companies is originating from FSC-certified forests. This CoC-certification is currently under review.

- Another controversial issue is the certification of timber and pulp plantations. More than 7 million hectares of plantations and 30 million hectares of mixed forest have been certified to FSC standards. FSC recognizes that the implementation of the FSC Principles and Criteria for plantation management is open to a range of interpretations and has been controversial. As a result the scheme has embarked on a review of how it certifies plantations. The review is currently in its technical phase, operationalising the changes in the plantation policy approved in early 2007. FSC-members have agreed that FSC's experience with plantations must significantly improve to retain its credibility and to improve global management of plantations.[70]

Protected areas and High Conservation Value Forests

Forestry activities in any of the protected areas covered by the IUCN I-IV categories, the UNESCO World Heritage Convention and the Ramsar Convention should be excluded from financing. This subject is dealt with in paragraph 4.1 on Biodiversity.

The concept of *High Conservation Value Forests (HCVFs)* was developed by the FSC to provide a framework for identifying forest areas with special attributes that make them particularly valuable for biodiversity and/or local people. In its origins, the concept was thus part of the FSC's overall framework aimed at improving forest management. The concept has since been more widely adopted, often without ensuring a link to crucial social and land use aspects that were ensured through the FSC's nine other principles and criteria.

The aim of applying this framework is to better identify and then design and implement appropriate management options for these areas in order to preserve or enhance their key ecological and socio-economic values.[71] In some cases, effective protection of HCVF values will preclude expansion of industrial activities.

HCVFs are defined as "natural habitats where conservation values - including the presence of rare or endemic species, sacred sites, or resources harvested by local residents - are considered to be of outstanding significance or critical importance". The generic Global HCVF Toolkit provides guidance on how to apply the concept in specific situations. At present the toolkit is being revised to ensure that HCVF-assessments address the full range of values, take account of legality, customary rights and local consent requirements and are carried out in a participatory manner.[72]

3.4.3 Content of a bank policy

By financing companies in the forestry sector, financial institutions can have a significant impact on forest conversion, degradation and destruction. A financial institution providing services to this sector must therefore develop a policy that sets conditions which should be met before providing financial services.

This policy needs to cover at least the forestry sector as such, comprising forestry, timber, pulp and paper, furniture and other wood-processing and trading companies. The following issues should be set as preconditions for financing in this sector:

- No forest conversion;
- No outstanding land use conflicts;
- FSC-certification for existing operations involved in managing forests and tree plantations;
- FSC *Chain of Custody* certification for their full supply chain for existing operations involved in trading and processing wood-products (including pulp, paper and plywood mills as well as furniture manufacturers);
- A clear and enforceable approach to achieve FSC-certification integrated in the project plan for all start-up operations in the forestry sector. This is especially important for plantations and pulp mills. These plans should be verified as follows:
  - For tree plantations an independent assessment of their environmental and social impacts is necessary, including the cumulative and macro impacts when new plantations are located in regions in which already many plantations are located;
  - For pulp mills an independent assessment has to verify the guaranteed availability of a sustainably produced supply of timber for the pulp mill.

Due to the ongoing revision of plantation certification within FSC, banks should not solely rely on the client's plans to achieve or maintain FSC certification of plantations. The social and environmental track record of the client should be checked as well and the environmental and social risks of doing businesses in countries with weak environmental law and/or implementation practices should be taken into account.

A bank can choose to integrate its forestry sector policy in a wider forest policy, which also covers all corporate clients in the agriculture, oil & gas, mining, dams and other industries which have impacts on forests. In this case the specifics of each sector should be dealt with in a sufficient way. Guidelines on how to deal with these sectors are provided in this and other paragraphs in this report. The Guidelines for Investment in Operations that Impact Forests which was published by WWF in September 2003 can also help banks identify critical issues and develop a forest policy.[73]

If banks' policy would be wider than the forestry sector as such and would also cover other operations which can impact forests, the following preconditions for financing should at least be added to the policy:

- Commitment to identify and protect HCVFs in the forests managed by the client while ensuring local access and non-industrial use by local communities;
- Identification of specified forest 'no-go zones' where industrial activities by clients will not be financed;

- Specific acknowledgment of the rights to the fair and equitable use of forest resources by indigenous peoples and local communities;
- Commitment to further the goals of the FLEG processes in the client's sphere of influence.

Specific attention is needed for small-scale and community-based forestry operations, which are far more likely to operate in a sustainable way.

3.4.4 Scoring table

The considerations in the previous paragraphs lead to the following scoring table with regard to bank policies on forestry:

0. *The bank has no policy on this sector;*
1. *The bank's policy is vaguely worded or aspirational, with no clear commitments;*
2. *The bank's policy excludes companies from financing that are directly or indirectly (as traders or processors) involved in corrupt practices, illegal logging, forest conversion activities which undermine the rights of local communities or operate in specified 'no-go zones';*
3. *The bank's policy sets FSC-certification as pre-condition for clients operating in the forestry sector;*
4. *The bank's policy sets FSC-certification as pre-condition for clients operating in the forestry sector and commits explicitly to the conditions mentioned in paragraph 3.4.3. Additionally, the bank has a clear preference to finance small-scale and community-based forestry operations, offering favourable financing conditions.*

3.4.5 Results

Eleven banks have developed and published a specific forestry policy, while another three banks have included lending criteria on forestry in other sector policies. HSBC (United Kingdom) has the best forestry policy, which also partly covers forest conversion, e.g. for the use of extractive industries. Some other banks also describe the effect of extractive industries on forestry, but set no strict requirements to their clients.

Scores on Forestry policies					
HSBC	3	Banco Bradesco	0	Nedbank	0
Bank of America	2	Banco Itaú	0	RBS	0
Citi	2	Bank Mandiri	0	Saudi-American Bank	0
Fortis	2	Bank of China	0	Santander	0
Goldman Sachs	2	BBVA	0	Scotiabank	0
ING	2	BNP Paribas	0	Société Générale	0
JPMorgan Chase	2	China Construction	0	Standard Bank	0
Merrill Lynch	2	Crédit Agricole	0	Standard Chartered	0
Royal Bank of Canada	2	Credit Suisse	0	State Bank of India	0
ABN Amro	1	Deutsche Bank	0	Sumitomo Mitsui	0
Banco do Brasil	1	ICBC	0	UBS	0
Barclays	1	Intesa Sanpaolo	0	Unicredit	0
Morgan Stanley	1	KBC	0	WestLB	0
Rabobank	1	Mitsubishi UFJ	0	Westpac	0
ANZ	0	Mizuho Financial	0	Dexia	X

3.5 Military industry and arms trade

3.5.1 What is at stake?

Weapons have a common inherent property: they are designed and developed to kill, maim or destroy. In this context they threaten the most fundamental human right, the right to live. Weapons are obviously used in wars and other armed conflicts. In 2005, a total of 17 wars and armed conflicts were recorded, amongst others in Sudan, Chechnya, Iraq, Afghanistan, Nepal and Myanmar. Non-state actors are often very prominent in these conflicts, and the limited capacity of the international community to hold them accountable for their abuse of civilians continued to pose a grave threat to human security in 2005.[74]

However, weapons are not only used to kill people in wars or armed conflicts. Wherever people are able to get their hands on weapons, conflicts between individuals, within families or between groups or gangs tend to be 'solved' by the force of arms. There are an estimated 650 million small arms in the world today, nearly 60% of them in the hands of private individuals. This is a time bomb continuously ticking under today's society.

States have defended their right to individual or collective self defence and their legitimate security interests. However, such rights are also accompanied by responsibilities, such as to control and monitor the transfer and use of arms. In practice, however, there is a great lack of effectiveness by governments and multilateral bodies (such as the UN Security Council) to control the international arms trade.

Arms trade controls, arms embargoes and weapon licence systems have so far not been able to keep weapons away from dictators, conflicting parties or the heaviest abusers of human rights. None of these instruments have prevented the stockpiling and use of controversial weapons by some of the most influential members of the global community. Whilst the intention is laudable, arms embargoes and arms export controls are breached on an almost continuous basis, allowing numerous conflicts and repressive regimes. A recent report by the Control Arms Campaign revealed how the arms industry exploits existing loopholes to circumvent arms export regulations and embargoes.[75]

Total world military expenditure in 2005 is estimated to have reached US$ 1,118 billion, which corresponds to 2.5% of the global GDP. Over the period 1996-2005 military expenditure showed a real terms increase of 34%. The United States, responsible for about 80% of the expenditure increase in the year 2005, is the nation principally responsible for this trend. Weapons are clearly used to enforce power inequalities and exercise this power in a violent way. The United States now accounts for 48% of the world military expenditure, followed at a long distance by France, the United Kingdom, Japan and China with 4-5% each.[76]

Another important aspect is the relationship between military spending and development. Worldwide military spending averages ten percent of national public spending. In developing countries, where there is a greater need for investment in constructive initiatives, military spending amounts to fifteen percent. According to the Human

Development Report 2003 of the United Nations' Development Programme (UNDP), military expenditures are a major barrier to reaching the UN Millennium Development Goals (MDG) for poverty reduction, health care and the protection of the environment. Military spending competes with investments in human development; it often equals the amount spent on education and healthcare together. According to the UNDP, attaining the MDG is not possible without reducing military expenditure, since money spent on military development cannot be spent on human development.[77]

The detrimental effect of military spending on the MDG is further exacerbated by the costs of military related debt. Between 15 and 20 percent of total global debt is related to military expenditure. In many developing countries, interest payments on military debt far exceed spending on healthcare and education.[78] Furthermore, while international arms trade only accounts for one percent of global trading, fifty percent of all bribes paid worldwide between 1994 and 1999 related to trade in arms.[79] Corruption can add 20 to 30 percent to the cost of government procurement and may divert public spending away from human development areas.[80]

To play a legitimate role in achieving a fairer, safer and more peaceful world the military industry needs to undergo a profound and structural reform, ensuring that:

- No weapons are produced that can not distinguish between combatants and civilians;
- Weapons are not supplied to oppressive regimes, terrorist groups and conflicting parties;
- Corruption is eradicated and transparency strongly improved;
- A much smaller proportion of the GDP of developing countries is spent on weapons.

Until this profound and structural reform of the military industry has occurred, financing of any military company entails a heavy risk of involving the bank in corrupt practices, dealings with oppressive regimes and the production of controversial weapons. Under these circumstances, banks are strongly recommended to avoid financing this sector altogether. If banks are not prepared to accept this conclusion, they should screen their clients in the military industry very carefully against the best international standards available as described below.

3.5.2 Best standards available

No international standards seem to cover the military industry and arms trade as a whole. On the use of weapons the main international standard is *International Humanitarian Law (IHL)*. IHL is a set of rules which seek, for humanitarian reasons, to limit the effects of armed conflict. It protects persons who are not or are no longer participating in the hostilities and restricts the means and methods of warfare, by introducing the basic rules of proportionality and discrimination.[81]

Regarding the production, use, stockpiling and trade of specific weapon systems, various international treaties exist:

- The Nuclear Non-proliferation Treaty (NPT) of 1970 seeks to inhibit the spread of nuclear weapons;
- The Biological and Toxin Weapons Convention (BWC) of 1975 outlaws biological and toxin weapons;

- The Convention on Certain Conventional Weapons (CCW) of 1980 regulates conventional weapons that pose special risks of causing indiscriminate damage to civilians or unnecessary suffering;
- The Chemical Weapons Convention (CWC) of 1997 bans chemical weapons and requires their destruction within a specified period of time.
- The Ottawa Convention of 1997 bans anti-personnel landmines

Many more treaties have been signed between the former Cold War superpowers, the United States and Russia. A complete overview is to be found on the website of the Arms Control Association.[82]

Despite the proliferation of these treaties, many banned weapon systems continue to be produced and traded, often because major producing countries have not ratified the instruments, or are continuously breaching the spirit of the treaty. Even when there is not a specific treaty banning a weapon, the established principles of IHL often lead to the conclusion that the use or threat of that particular weapon would constitute a violation of "fundamental humanitarian principles". This encompasses the principle of proportionality, that the potential for humanitarian suffering must be weighed against the potential military advantage, and the principle of distinction between military and civilian goals.

A recent development underlining this argument was the decision by more than 40 countries in February 2007 to commence working on an international treaty banning cluster munitions in 2008. By May 2007, this group had already grown to 75 countries. Recent research has revealed that 98% of the casualties of cluster munitions are innocent civilians.[83]

- Regarding arms trade various international bodies, such as the United Nations, European Union and the Organization for Security and Co-operation in Europe (OSCE), have arms embargoes in force against countries or non-state actors, often for being involved in armed conflict or serious abuse of human rights.[84]

- The Control Arms Campaign (formed by Oxfam International, Amnesty International and the International Action Network on Small Arms) over the past few years has mobilised strong support for an global *Arms Trade Treaty*. This treaty should prevent international arms transfers that fuel conflict, poverty and serious human rights violations.

In October 2006 the United Nations General Assembly's First Committee voted overwhelming in favour of the proposal to develop an *Arms Trade Treaty*: 139 countries voted yes, with only the United States voting against. Work on the treaty started early 2007 and will without a doubt take a long period.[85] In the meantime the *Control Arms Campaign* has published the six *Global Principles for Arms Transfers*, which follow from international and regional treaties, declarations and resolutions of the United Nations and other multilateral and regional organisations, and model regulations intended for national legislation.[86]

3.5.3 Content of a bank policy

International treaties and national laws on arms control rarely limit banks and other financial institutions to invest in the military industry. Only Belgium has adopted a law in July 2004 prohibiting financial institutions to invest in producers of anti-personnel mines.[87] In February 2007 this prohibition was expanded to include investments in cluster munitions producers as well.[88]

Some banks have adopted voluntary restrictions on investments in the military industry, but the best practice in the financial industry is set by the Norwegian Government Pension Fund - Global, the largest pension fund in the world. In December 2004 the fund adopted Ethical Guidelines, which state that it "should not make investments which constitute an unacceptable risk that the Fund may contribute to unethical acts or omissions, such as violations of fundamental humanitarian principles, serious violations of human rights, gross corruption or severe environmental damages." For this reason the fund has until now excluded 16 military companies (including majors like Lockheed Martin, Northrop Grumman and BAE Systems) from its investment universe, as these companies are involved in producing landmines, cluster munitions and/or nuclear weapons. [89]

Even more than in other sectors, banks should carefully reconsider their investments in the military industry. Apart from the lethal nature of its products, the limited transparency of trade flows in this sector and the documented history of corruption and law-breaking demand a clear policy. Any investment in this industry could involve banks in transactions which are violating human rights and fuelling conflicts, corrupt practices or the production of controversial weapons. Under these circumstances, banks are strongly recommended to avoid financing this sector as a whole.

If banks are not prepared to draw this conclusion, they need to take a position vis-à-vis the existing international arms control treaties, as well as the cluster munitions and arms trade treaties which are under development. Although development of the last two treaties has only just started and other treaties are not always ratified by major weapons producing countries, this set of treaties collectively reflects the position of global civil society versus the military industry and arms trade. Banks must screen their customers before offering financial services to make sure they comply with the letter and intent of the existing international treaties as well as the two treaties under development. This screening should also include the producers of components, which are supplied to producers of complete weapon systems, licensed producers of weapons, and producers of dual-use technologies, components or systems, which can be used for both civilian and military end-products.

A more common approach among (ethical) asset managers is to exclude from their investment universe those companies which derive a certain percentage (i.e. more than 50%) of their turnover from military products. This approach is unsatisfactory, as most of the largest weapons producing companies in the world, including producers of the most controversial weapons, derive less than 50% of their turnover from producing weapons.

3.5.4 Scoring table

The considerations in the previous paragraphs lead to the following scoring table with regard to bank policies on the military industry and arms trade:

0. *The bank has no policy on this sector;*
1. *The bank's policy on this sector is vaguely worded or aspirational, with no clear commitments;*
2. *The bank's policy on this sector excludes financial services to producers of specific, clearly defined types of weapon systems or to the most controversial forms of arms trade or to companies deriving more than 50% of their turnover from weapons;*
3. *The bank's policy on this sector limits financial services to clients which were found to be fully compliant to the letter and spirit of all international arms control treaties (including the cluster munitions and arms trade treaties which are under development);*
4. *The bank's policy on this sector excludes providing any financial services to clients in the military industry.*

3.5.5 Results

Twelve banks have developed and disclosed a policy on military industry and arms trade. Two other banks, ANZ (Australia) and UniCredit (Italy), have not disclosed their military sector policies. Most policies set some form of criteria for lending to the production of, or the trade in, controversial weapons (such as anti-personnel landmines, cluster munitions or chemical weapons). However, often the policies still allow banks to finance the companies that are involved in these activities, as long as the 'controversial activities' are not financed directly.

Besides, the lending policies often allow trade financing to countries that are not considered to be 'risky'. But even many 'no risk' countries have repeatedly acted as intermediate trader, by selling weapons to controversial countries. It is for these reasons that even the Belgian banks (Fortis, ING, Dexia and KBC), where a national ban on the financing of production and trade of controversial weapons is established, do not automatically score more than 2 points.

Scores for on Military industry and Arms trade policies					
Intesa Sanpaolo	3	Banco Itaú	0	Mitsubishi UFJ	0
KBC	3	Bank Mandiri	0	Mizuho Financial Group	0
Dexia	2	Bank of America	0	Morgan Stanley	0
Fortis	2	Bank of China	0	RBS	0
ING	2	BNP Paribas	0	Saudi-American Bank	0
Rabobank	2	China Construction	0	Santander	0
Royal Bank of Canada	2	Citi	0	Scotiabank	0
Standard Chartered	2	Crédit Agricole	0	Standard Bank	0
ABN AMRO	1	Credit Suisse	0	State Bank of India	0
Barclays	1	Deutsche Bank	0	Sumitomo Mitsui	0
BBVA	1	Goldman Sachs	0	UBS	0
Société Générale	1	HSBC	0	Unicredit	0
ANZ	0	ICBC	0	WestLB	0
Banco Bradesco	0	JPMorgan Chase	0	Westpac	0
Banco do Brasil	0	Merrill Lynch	0	Nedbank	X

3.6 Mining

3.6.1 What is at stake?

Mining and ore processing activities are very contaminating processes, ultimately affecting the quality of lands and water. Many mining operations take place in open pits, destroying natural habitats in large areas. Often local watercourses, which provide fresh water to people, wildlife and forests in a much wider area, are severely polluted. Mining companies use the water to separate the mud from the minerals, or to dump acid, toxic or even radio-active tailings. This is not only polluting waterways and rivers, but also marine environments around estuaries.

Pollution of waterways can also be caused by erosion, as many mines are located in accidental terrain. When forest cover is lost, soils and mud begin to slide under the influence of rain and end up in local water courses. This erosion can even lead to landslides and fatal floods.

Ore processing plants, even when using modern technology, often cause significant air pollution in a wide region. Impacts of mining also occur after operations are closed where rehabilitation is inadequate and with long term problems such as acid mine drainage continuing for decades to centuries and polluting surrounding waterways.

In many cases mining operations do not acknowledge the land rights of local inhabitants, taking away large (forest) areas from local communities which depend on these lands for their subsistence. The failure to contain mining waste can lead to an accumulation of heavy metals in the environment, posing serious public health risks, while mining water use can pollute or destroy water sources relied upon by local people.

Pollution of waterways and air pollution affects the health local communities directly, as they use this water for drinking and other needs, and indirectly as it impacts subsistence livelihoods and other agriculture, agroforestry and fishery activities.

Furthermore, mining appears to distort macroeconomic development in many countries through what is called the *resource curse*, which explains the fact that a combination of large unaccountable revenues, poor governance, corruption, inadequate distribution of revenues to local communities and local environmental and social costs, in fact leaves a country poorer than before they developed its mining resources. Moreover, controversies with mining corporations have often been costly for communities and governments.[90]

According to the *International Labour Organization (ILO),* between 80 and 100 million people depend on artisanal and small-scale mining as part of their livelihoods. The sector employs some estimated 11 to 13 million people worldwide and in some regions offers a livelihood to vulnerable population groups. Artisanal and small scale mining also usually takes place in fragile ecosystems characterised by cultural and biological diversity. The environmental impacts of these mining operations can therefore also aggravate poverty and deteriorate human health in these regions.

To contribute to a more sustainable and socially equitable world, the mining sector needs to drastically change course, in order to:

- Eradicate corruption, illegal activities and the financing of conflicts;
- Limit the need for new mines by recycling minerals and secondary mining;
- Phase out mining of polluting and dangerous energy minerals as coal and uranium, together with the development of sustainable energy sources;
- Favour artisanal and small-scale mining over large-scale mining, while safeguarding biodiversity and the natural environment;
- Use best available mining and ore processing technologies, to limit the impact on biodiversity, the environment and public health;
- Ensure public disclosure of information relating to the range of economic, social and environmental concerns that affect the public interest;
- Adequately contain its waste products, in particular its tailings and other toxic or potentially polluting forming materials. Eradicate waste disposal/dumping in waterways such as rivers, lakes and oceans;
- Respect and guarantee the rights and livelihoods of local inhabitants in mining areas;
- Ensure rehabilitation, monitoring and management of impacts post mine closure and the provision of financial sureties to guarantee availability of funds for such tasks.

The bank's policy should ensure that it will only be involved in the financing of companies in the mining sector which meet these criteria. In developing such a policy, the bank could make use of the best international standards available as described below.

3.6.2 Best standards available

Initiatives to address potential risks to the community and natural environment are diverse, but international consensus is emerging with regard to standards and norms for improvement of extractive projects. The Framework for Responsible Mining, developed by WWF and the Centre for Science in Public Participation, provides a comprehensive analysis of environmental, social, community and governance issues to be addressed in a policy for the mining sector.[91] Additionally there are a number of international conventions and multi-stakeholder processes which set important standards for mining operations.

Emergency response and prevention

Following environmental accidents in the mining sector, United Nations Environment Programme (UNEP) in 2001 convened a multi-stakeholder initiative for the mining industry as part of its 1988 Awareness and Preparedness for Emergencies at a Local Level (APELL) programme which helps companies, response bodies and communities to be fully prepared to deal with incidents. [92]

Waste management

Many environmental problems associated with mining are related to the generation and management of waste. Existing standards and guidelines regarding waste management have been developed:

- The 1972 Convention on the Prevention of Marine Pollution by Dumping Wastes and other Matters prohibits the dumping of mercury and mercury compounds directly into the sea, and requiring special permits for dumping cyanide and heavy metals.[93]
- The 2003 Extractives Industries Review (EIR) by the World Bank recommends that companies should avoid sub-marine and riverine tailings disposal, and that companies explore safer alternatives to the use of cyanide and mercury.[94]
- The Mining, Minerals and Sustainable Development (MMSD) project, carried out in 2000-2002, endorsed a presumption against riverine disposal. Legislatures and regulatory agencies in countries such as the United States and Canada have banned the practice of dumping directly into rivers.
- Large mining companies such as BHP Billiton have indicated they will not use riverine tailings disposal in any new projects, and that it is unlikely that they would use submarine tailings disposal in any future projects.[95]
- The gold industry has developed an International Management Code for Cyanide, a voluntary agreement which emphasises minimising the use of cyanide, safe transport, worker health, safety and training, emergency response plans and third party audits. The code still lacks guidelines on waste disposal.[96]

Closure of production facilities

The procedure by which a mine is closed can have an impact on the surrounding community and ecosystem for years, potentially in perpetuity. The Mining, Minerals and Sustainable Development (MMSD) project calls upon companies to address the effect of mine closure on host community's development aspirations (such as through a Community Development Plan), and the allocation of resources and responsibilities that would be required to realise them. The best standard in this respect is set by the United States and some other jurisdictions, where mine closure standards require companies to provide a financial guarantee for clean-up, restoration and ongoing monitoring.

Financial transparency

In countries where governance is weak, activities in the mining industry may contribute to poverty, corruption and conflict. The Extractive Industries Transparency Initiative (EITI), supported by a coalition of governments, companies, civil society groups and investors, is a voluntary host-country driven process that has established criteria for full publication and verification of company payments and government revenues from mining.[97] The Publish What You Pay coalition is further calling for:[98]

- revenue transparency requirements on extractive companies and resource-rich country governments to be incorporated into international norms and standards such that extractive companies (multi-national, private and state-owned) publish what they pay to governments in every country of operation and governments disclose what they earn from extractive companies;
- disclosure of key contract provisions between governments and extractives companies (such as environmentally and socially-relevant portions of *Host Government Agreements* or *Intergovernmental Agreements*);
- banks to disclose all resource-backed loans and require that the borrowers agree to be audited in a transparent fashion, as a condition of receiving the loan.

Transparency requirements are increasingly being imposed by multilateral lending institutions, including the *International Finance Corporation (IFC)* and the *European Bank for Reconstruction and Development (EBRD)*:

- The IFC Policy on Social and Environmental Sustainability requires clients of new extractive projects to disclose payments to host governments, and to ensure that payments from projects to host governments are also disclosed;[99]
- The EBRD Energy Operations Policy includes a minimum requirement for project sponsors to disclose their payments to host governments and to adhere to the principles and criteria of the EITI. A good example of best practice, it also requires public and private project partners in the extractive industries to put in place transparent systems for accounting for financial flows from energy projects and for widespread publish dissemination of this information.[100]

The subject of transparency and tax avoidance is further dealt with in paragraph 4.6 on Taxation.

Artisanal and small-scale mining

If well managed, artisanal and small scale mining can be a catalyst to sustainable economic and social development at the local level. The Association for Responsible Mining (ARM) is an independent multi-stakeholder initiative seeking to enhance equity and well being in artisanal and small scale mining communities through improved social, environmental and labour practices, governance and the implementation of ecosystem restoration practices. In March 2007 ARM published the draft Standard Zero for Fair Trade Artisanal Gold and Associated Silver and Platinum.[101]

Protected areas

Mining activities in any of the protected areas covered by the IUCN I-IV categories, the UNESCO World Heritage Convention and the Ramsar Convention should be excluded from financing. This subject is dealt with in paragraph 4.1 on biodiversity.

Nature of contracts

The contracts signed by mining companies should ensure that the jurisdiction in investment disputes lies within the country in which the investment is located. Investors should commit to use local and national means of recourse, not those of their home countries or of international corporate arbitration committees.

The Calvo Doctrine, which has been incorporated into several state constitutions and been included in a number of treaties, statutes and contracts, is a recognized and widely used principle. As best practice, it prevents the abuse of the jurisdiction of weak nations by more powerful actors.[102] This is also in line with the 1974 UN Charter of Economic Rights and Duties of States, which determined that foreign investment should be subject to the laws, regulations and policies of the host state.[103]

Sovereignty over resources

The legislative framework covering natural resources varies from country to country. However, mining companies should recognise that the concept of *Permanent Sovereignty over Natural Resources* was enshrined in a number of United Nations resolutions. The 1962 UN Declaration on Permanent Sovereignty over Natural Resources gave producing countries a right not only to make decisions about how to extract or manage their natural resources, but also to expropriate or nationalise where it is in the public interest to do so, as long as compensation is paid.[104] Amending this declaration, the 1966 UN Resolution 2158 (XXI) dealing specifically with developing countries, promoted joint ventures as the most appropriate model for development.[105]

Respect for the national sovereignty over resources needs to be matched by respect for the rights of indigenous peoples (see paragraph 4.4).

Good governance

To avoid negative impacts deriving from the resource curse, it is important that mining extraction be correctly sequenced with minimum good governance standards. The Extractives Industries Review (EIR) of the World Bank recommends that private investments in extractive industries should not be promoted where governance is inadequate and that "explicit core and sectoral governance requirements should be met" before a project is financed.[106]

Rights of indigenous peoples

Mining companies need to respect and guarantee the rights of indigenous peoples to protect their land, societies, cultures and livelihoods, by acknowledging their sovereignty and self-determination, and in particular their right to exercise *Free, Prior and Informed Consent* for developments on their land. This subject is dealt with in paragraph 4.4 on Indigenous Peoples.

Human rights

Mining companies need to ensure that they respect, promote and secure the human rights of those affected by their operations. This involves avoiding direct, indirect and silent complicity in human rights abuses. This subject is dealt with in paragraph 4.3 on Human Rights.

Industry specific standards

For some minerals and sub-sectors of the mining industry, specific standards are being developed:

- The role of the diamond industry in armed conflicts has led to the development of the Kimberley Process Certification Scheme. The scheme requires governments to certify rough diamonds that are free from conflict diamonds. The certification process is a useful first step, but currently lacks independent monitoring mechanisms.[107]
- The Council for Responsible Jewellery Practices, with members in all parts of the gold and diamond jewellery chain, works on development of a certification process similar to Kimberley.[108]
- The two initiatives above, as well as several others, since August 2006 collaborate in the Madison Dialogue. This is a cross-sector multi-stakeholder initiative seeking to encourage best practices, sustainable economic development and verified sources of responsible gold, diamonds and other minerals.[109]
- The Roundtable of Sustainable Platinum Group Metals aims to find agreement on strategic questions related to PGM, as a basis for concrete actions towards more sustainable PGM that can be endorsed by relevant stakeholders.[110]

As these initiatives are still in their early stages, they do not yet provide credible standards to which bank policies could refer. It is however recommended to follow their development and participate actively in it.

3.6.3 Content of a bank policy

The banking sector will have to adopt clear policies incorporating the standards described above, stimulating its mining clients to adhere to best practices in the following fields:

- Emergency response and prevention
- Waste management
- Closure of production facilities
- Transparency and tax avoidance
- Artisanal and small-scale mining
- Protected areas
- Nature of contracts and sovereignty over resources
- Good governance
- Indigenous peoples and human rights

The policies will have to be consistent with other policies relevant for the mining industry, such as Human rights, Indigenous peoples, Biodiversity, Tax and Climate change, which are addressed in other paragraphs of this report.

3.6.4 Scoring table

The considerations in the previous paragraphs lead to the following scoring table with regard to bank policies on extractive industries:

0. *The bank has no policy on this sector;*
1. *The bank's policy is vaguely worded or aspirational, with no clear commitments;*
2. *The bank's policy sets as precondition for its financial services the best international standards for at least three of the elements listed in paragraph 3.6.3;*
3. *The bank's policy sets as precondition for its financial services at least five of the elements listed in paragraph 3.6.3;*
4. *The bank's policy is fully in line with all international standards and guidelines for all elements listed in paragraph 3.6.3.*

When one or more of the elements listed in paragraph 3.6.3 are dealt with in a comprehensive way in other policies of the bank, these elements will be regarded as being included in its Mining policy as well.

The Equator Principles and the EITI score 1 point on mining. These collective standards are discussed further in paragraph 7.1. The scores for these collective standards are awarded to all signatories, unless the bank's own mining sector policy scores higher. Scores of individual and collective standards are not added up, only the highest score is awarded.

3.6.5 Results

Although the mining industry has an extremely large impact on the natural environment and the lives of affected communities, only four banks have developed a policy focusing on financing the mining industry. Most of the banks earn their credits by being signatories to the Equator Principles.

Only HSBC (United Kingdom) has a fully disclosed and comprehensible Mining and Metal policy. ING (the Netherlands), ABN AMRO (the Netherlands) and Barclays (United Kingdom) have also developed credit policies for the mining sector, but specific (exclusion) criteria and preconditions are not set or not (fully) shared with the public.

Scores on Mining policies					
HSBC	3	Intesa Sanpaolo	1	Unicredit	1
ING Group	2	JPMorgan Chase	1	WestLB	1
ABN AMRO	1	KBC	1	Westpac	1
ANZ	1	Merrill Lynch	1	Bank Mandiri	0
Banco Bradesco	1	Mitsubishi UFJ	1	Bank of China	0
Banco do Brasil	1	Mizuho Financial Group	1	BNP Paribas	0
Banco Itaú	1	Nedbank Group	1	China Construction	0
Bank of America	1	Rabobank	1	Deutsche Bank	0
Barclays	1	RBS	1	ICBC	0
BBVA	1	Royal Bank of Canada	1	Morgan Stanley	0
Citi	1	Scotiabank	1	Santander	0
Crédit Agricole	1	Société Générale	1	Saudi-American Bank	0
Credit Suisse	1	Standard Chartered	1	Standard Bank	0
Fortis	1	Sumitomo Mitsui	1	State Bank of India	0
Goldman Sachs	1	UBS	1	Dexia	X

3.7 Oil and Gas

3.7.1 What is at stake?

Despite the urgent need to decrease dependency on fossil fuel in order to combat climate change, the world continues to rely on oil and gas as a major energy source. As a result, the oil and gas industry is booming. Companies desperately trying to replenish the stock of identified reserves, which determine share value and ever increasing oil prices, are now setting their sights on ever more remote and sensitive environments, from the Amazon to the Arctic, from off shore tropical seas to the frozen wilderness of the Russian Far East. As the operations expand, so does the environmental and social impact of the industry.

The oil and gas sector poses major hazards to the environment in various ways. Drilling platforms, oil and gas production facilities, flaring installations and refineries pollute land, air and water. Ruptures of pipelines, through earthquakes and other natural causes as well through sabotage, can lead to serious oil spills, leakages and even life-threatening fires and explosions. Accidents with oil tankers have regularly polluted large sea areas and vast shorelines.

The social impacts of the oil and gas industry can also be very severe. Pollution and infection diseases affect the health of local and (possibly isolated or even uncontacted) indigenous communities, as well as their culture and livelihoods. Oil and gas companies often claim the land of local inhabitants, depriving them of their source of income. Oil and gas extraction and transportation often contribute to increased conflict, repression and abuse of human rights, particularly where the corporation involved collaborates with the military or local militias.

As other extractive industries, the oil and gas industry also appears to distort macroeconomic development in many countries through the *resource curse*, which explains the fact that a combination of large unaccountable revenues, poor governance, corruption, inadequate distribution of revenues to local communities and local environmental and social costs, generally leaves a country poorer than before they developed their extractive resources.

Obviously, the oil and gas industry plays a very significant role in exacerbating global climate change, by supplying fossil fuels to the world market. In a sustainable future world the oil and gas industry as it exists today has no future. The main challenge for the oil and gas industry is to use its knowledge of energy technologies and markets to develop into future renewable energy suppliers. During this transformation process, oil and gas companies should minimise the environmental, social and biodiversity risks and impacts of their operations.

The bank’s policy should ensure that it will only be involved in the financing of companies in the oil and gas sector which are committed to addressing these issues and challenges. In developing such a policy, the bank could make use of the best international standards available as described below.

3.7.2 Best standards available

International standards for the oil and gas industry generally deal with specific issues:

Emergency response and prevention

Oil spill response plans are common requirements in much national legislation. Additionally, in the wake of the *Exxon Valdez* disaster in 1989, the international community introduced requirements for the double-hulling of oil tankers. In 2003, the International Maritime Organization (IMO) amended Annex I of MARPOL which requires new oil tankers to be double-hulled, and large single-hull tankers to be phased out between 2005 and 2010, depending on the category and year of delivery.[111]

Waste management

Many environmental problems associated with extractive industries are related to the generation and management of waste. Existing standards and guidelines regarding waste management in the oil and gas sector are:

- The *Convention for the Protection of the Marine Environment of the North-East Atlantic* (known as the OSPAR Convention) is the basis for national laws governing the discharge of offshore drilling wastes in the waters of the OSPAR signatory states.[112] Norway applies a Zero environmentally hazardous discharges standard to oil production, demonstrating that the majority of drilling mud and contaminated water used during production can be reinjected.
- A very specific type of 'waste' is natural gas that comes to the surface in the process of crude oil extraction. This natural gas is frequently released into the atmosphere (*venting*) or burned directly (*flaring*). These practices contribute to a significant amount of greenhouse gases, and result in staggering losses of potential energy. The Global Gas Flaring Reduction Public-Private Partnership (GGFR) developed by the World Bank sets out monitoring and transparency guidelines, best practices and an implementation guideline, with the ultimate goal to minimise flaring and venting of associated gas.[113]

Closure of production facilities

Standards for the removal of offshore oil platforms are set by regional agreements such as the OSPAR Convention in OSPAR Decision 98/3 on the Disposal of Disused Offshore Installations.[114] Companies should select the least environmentally damaging option and have sufficient provisions put aside to meet liabilities. Operators should accept responsibilities, rather than transfer liability to the host government.

Transparency

In countries where governance is weak, activities in the oil and gas sector may contribute to poverty, corruption and conflict. The Extractive Industries Transparency Initiative (EITI), supported by a coalition of governments, companies, civil society groups and investors, is a voluntary host-country driven process that has established criteria for full publication and verification of company payments and government revenues from oil and gas.[115] The Publish What You Pay coalition is further calling for:[116]

- revenue transparency requirements on extractive companies and resource-rich country governments to be incorporated into international norms and standards such that extractive companies (multi-national, private and state-owned) publish

what they pay to governments in every country of operation and governments disclose what they earn from extractive companies;
- disclosure of key contract provisions between governments and extractives companies (such as environmentally and socially-relevant portions of *Host Government Agreements* or *Intergovernmental Agreements*);
- banks to disclose all resource-backed loans and require that the borrowers agree to be audited in a transparent fashion, as a condition of receiving the loan.

Transparency requirements are increasingly being imposed by multilateral lending institutions, including the *International Finance Corporation (IFC)* and the *European Bank for Reconstruction and Development (EBRD)*:
- The IFC Policy on Social and Environmental Sustainability requires clients of new extractive projects to disclose payments to host governments, and to ensure that payments from projects to host governments are also disclosed;[117]
- The EBRD Energy Operations Policy includes a minimum requirement for project sponsors to disclose their payments to host governments and to adhere to the principles and criteria of the EITI. A good example of best practice, it also requires public and private project partners in the extractive industries to put in place transparent systems for accounting for financial flows from energy projects and for widespread publish dissemination of this information.[118]

The subject of transparency and tax avoidance is further dealt with in paragraph 4.6 on Taxation.

Marine animals

In the off-shore oil and gas industry, guidelines are developed to reduce the damage done by seismic surveys to whales and other marine mammals. In 2004, JNCC guidelines were published to reduce this impact in the United Kingdom Continental Shelf.[119] This is the minimum standards required, and operators should also consider noise from construction, and risk of collisions with ships. In 2006, the International Association of Oil & Gas Producers (OGP) developed a Joint Industry Project that seeks support for research on underwater sound and its effects on marine animals.

Protected areas

Oil and gas activities in any of the protected areas covered by the IUCN I-IV categories, the UNESCO World Heritage Convention and the Ramsar Convention should be excluded from financing. This subject is further dealt with in paragraph 4 4.1 on Biodiversity.

A tool has been developed specifically for the oil and gas industry to assist in the earlier identification of designated areas. A partnership of IHS Energy, UNEP-WCMC and WWF produced a biodiversity module to a global oil and gas exploration GIS system.

Unconventional oil reserves

With increasing demand and high oil prices predicted, unconventional oil reserves, such as Canadian tar sands, oil shale in the United States, or coal to liquids in China have become economically attractive, despite being ecologically unsound and an obvious further threat to the world's climate. These production methods are both carbon intensive and water intensive. For this and other reasons, investments in these unconventional oil reserves should be excluded. Aside from huge greenhouse gas emissions, the current growth in the extraction of Canadian tar sands results in impacts on freshwater reserves and the loss of boreal forest habitat.

Nature of contracts

The contracts signed by oil and gas companies should ensure that the jurisdiction in investment disputes lies within the country in which the investment is located. Investors should commit to use local and national means of recourse, not those of their home countries or of international corporate arbitration committees.

The Calvo Doctrine, which has been incorporated into several state constitutions and been included in a number of treaties, statutes and contracts, is a recognized and widely used principle. As best practice, it prevents the abuse of the jurisdiction of weak nations by more powerful actors.[120] This is also in line with the 1974 UN Charter of Economic Rights and Duties of States, which determined that foreign investment should be subject to the laws, regulations and policies of the host state.[121]

Sovereignty over resources

The legislative framework covering natural resources varies from country to country. However, oil and gas companies should recognise that the concept of *Permanent Sovereignty over Natural Resources* was enshrined in a number of United Nations resolutions. The 1962 UN Declaration on Permanent Sovereignty over Natural Resources gave producing countries a right not only to make decisions about how to extract or manage their natural resources, but also to expropriate or nationalise where it is in the public interest to do so, as long as compensation is paid.[122] Amending this declaration, the 1966 UN Resolution 2158 (XXI) dealing specifically with developing countries, promoted joint ventures as the most appropriate model for development.[123]

Respect for the national sovereignty over resources needs to be matched by respect for the rights of Indigenous peoples (see paragraph 4.4).

Good governance

To avoid negative impacts deriving from the resource curse, it is important that oil & gas extraction be correctly sequenced with minimum good governance standards. The Extractives Industries Review (EIR) of the World Bank recommends that private investments in extractive industries should not be promoted where governance is inadequate and that "explicit core and sectoral governance requirements should be met" before a project is financed.[124]

Rights of indigenous peoples

Oil and gas companies need to respect and guarantee the rights of indigenous peoples to protect their land, societies, cultures and livelihoods, by acknowledging their sovereignty and self-determination. This subject is dealt with in paragraph 4.4 on Indigenous Peoples.

Human rights

Oil and gas companies need to ensure that they respect, promote and secure the human rights of those affected by their operations. This involves avoiding direct, indirect and silent complicity in human rights abuses. This subject is dealt with in paragraph 4.3 on Human rights.

Other relevant issues for the oil and gas industry are discussed in paragraph 4.2 on Climate change. Biofuels are covered in paragraph 3.1 on Agriculture.

3.7.3 Content of a bank policy

A bank's policy for the oil and gas sector needs to emphasize that the main challenge and ultimate goal for the oil and gas industry is to use its knowledge of energy technologies and markets and to transform themselves into renewable energy suppliers. However, as oil and gas operations will continue to be developed for the next foreseeable future, the bank's policy needs to incorporate social and environmental standards mentioned in paragraph 3.7.2 on the following areas:

- Emergency response and prevention
- Waste management
- Closure of production facilities
- Transparency and tax avoidance
- Protected areas
- Unconventional oil reserves
- Nature of contracts and sovereignty over resources
- Good governance
- Indigenous peoples and human rights

The policies will have to be consistent with other policies relevant for the oil and gas industry, such as human rights, indigenous peoples, biodiversity, tax and climate change, which are addressed in other paragraphs of this report.

3.7.4 Scoring table

The considerations in the previous paragraphs lead to the following scoring table with regard to bank policies on the oil and gas sector:

0. *The bank has no policy on this sector;*
1. *The bank's policy is vaguely worded or aspirational, with no clear commitments;*
2. *The bank's policy sets as precondition for its financial services the best international standards for at least three of the elements listed in paragraph 3.7.2*
3. *The bank's policy sets as precondition for its financial services the best international standards for at least five of the elements listed in paragraph 3.7.2*
4. *The bank's policy is fully in line with all international standards and guidelines for all elements listed in paragraph 3.7.2*

When one or more of the elements listed in paragraph 3.7.2 are dealt with in a comprehensive way in other policies of the bank, these elements will be regarded as being included in its oil and gas policy as well.

The Equator Principles and the EITI provide a score of 1 point on oil and gas. These collective standards are discussed further in paragraph 7.1. The scores for these collective standards are awarded to all signatories, unless the banks own oil and gas sector policy scores higher. Scores of individual and collective standards are not added up; only the highest score is awarded.

3.7.5 Results

Companies in the oil and gas sector are attractive clients for banks. Returns are high and the financial risks low, as oil prices are likely to remain high in the future. Nevertheless, exploration, production and transport of oil and gas have a very high impact on social and environmental issues.

It is therefore worrying to see that only four banks - ABN AMRO (the Netherlands), Barclays (United Kingdom), HSBC (United Kingdom) and ING (the Netherlands) - have developed some sort of oil and gas policies. Even their policies generally lack clear criteria, based upon best international standards.

Scores for Oil and Gas policies					
HSBC	2	Goldman Sachs	1	Unicredit	1
ING	2	Intesa Sanpaolo	1	WestLB	1
ABN AMRO	1	JPMorgan Chase	1	Westpac	1
ANZ	1	KBC	1	Bank Mandiri	0
Banco Bradesco	1	Merrill Lynch	1	Bank of China	0
Banco do Brasil	1	Mitsubishi UFJ	1	BNP Paribas	0
Banco Itaú	1	Mizuho Financial	1	China Construction	0
Bank of America	1	Nedbank	1	Deutsche Bank	0
Barclays	1	RBS	1	ICBC	0
BBVA	1	Royal Bank of Canada	1	Morgan Stanley	0
Citi	1	Scotiabank	1	Santander	0
Crédit Agricole	1	Société Générale	1	Saudi-American Bank	0
Credit Suisse	1	Standard Chartered	1	Standard Bank	0
Dexia	1	Sumitomo Mitsui	1	State Bank of India	0
Fortis	1	UBS	1	Rabobank	X

4. Issue policies

4.1 Biodiversity

4.1.1 What is at stake?

The planet's biological diversity -its ecosystems, species and genetic material- is an integrated and intricate web of life that provides substantial economic, cultural, recreational and ecological benefits to humanity. The relentless and accelerating loss of this biodiversity is one of the world's most pressing environmental concerns. Quite apart from the potential costs and risks of biodiversity loss including habitat destruction, loss of ecosystem services and curative plant materials, and threats to food security, the stewardship of biodiversity is also the moral and ethical responsibility of humanity.

An excellent overview of this issue is provided by the Millennium Ecosystem Assessment, which was published in March 2005 involving the work of more than 1,360 experts worldwide. The findings provide an current and all-encompassing scientific appraisal of the condition and trends in the world's ecosystems and the services they provide, as well as the scientific basis for action to conserve and use them sustainable. The MEA concluded: "Over the past 50 years, humans have changed ecosystems more rapidly and extensively than in any comparable period of time in human history, largely to meet rapidly growing demands for food, fresh water, timber, fibre and fuel. This has resulted in a substantial and largely irreversible loss in the diversity of life on Earth."

"The changes that have been made to ecosystems have contributed to substantial net gains in human well-being and economic development, but these gains have been achieved at growing costs in the form of the degradation of many ecosystem services, increased risks of non-linear changes, and the exacerbation of poverty for some groups of people. These problems, unless addressed, will substantially diminish the benefits that future generations obtain from ecosystems." "The degradation of ecosystem services could grow significantly worse during the first half of this century and is a barrier to achieving the Millennium Development Goals."[125]

The bank's policy should ensure that it will only be involved in the financing of companies which have adopted the prevention of biodiversity loss as a leading principle and bring it into practice in a systematic way. In developing such a policy, the bank could make use of the best international standards available as described below.

4.1.2 Best standards available

Virtually all countries in the world have ratified the 1992 Convention on Biological Diversity (CBD), which sets as an international goal the conservation and sustainable use of all biological diversity. The CBD requires signatories to ensure that biodiversity considerations are included in their environmental impact assessment procedures and that biodiversity impacts are routinely included in both national and international environmental assessment procedures.[126]

In April 2002 the CBD signatories committed "to achieve by 2010 a significant reduction of the current rate of biodiversity loss at the global, regional and national level as a contribution to poverty alleviation and to the benefit of all life on Earth."[127] The CBD identifies three categories of biodiversity: ecosystems, species and genetic materials. Each of these categories is discussed below, including the more specific standards available for each of them:

Ecosystem and habitat protection

A number of international agreements require the protection of natural ecosystems and habitats. The *Convention on Biological Diversity* requires of all member countries to establish a system of protected areas or areas where special measures must be taken to conserve biodiversity, and otherwise to promote the protection of ecosystems and natural habitats.[128]

The UN Convention on the Law of the Sea obliges all signatories to protect and preserve the marine environment.[129] Additionally, there are many Regional Seas Conventions covering specific marine environments. Two other global treaties protect listed areas: the Unesco World Heritage Convention protects listed natural and cultural sites of global importance[130], and the Ramsar Convention provides for the protection, conservation and appropriate use of listed wetlands of international importance.[131] Regional agreements also emphasise the general importance of habitat protection[132] while many governments have also adopted specific action plans and other initiatives, such as the International Coral Reef Initiative.

To consolidate and systematise those natural areas that should be protected for the conservation of biological diversity, the World Conservation Union (IUCN) has developed a system providing guidance on how the private sector should operate in each of the six defined *Protected Area Management Categories*. In 2000 the IUCN World Conservation Congress adopted a resolution calling on all states to ban investments in extractive projects in protected areas set aside for conservation purposes (categories I-IV).

Species protection

The most obvious requirement in the field of species protection is the protection of threatened species of flora and fauna. The most comprehensive and authoritative global survey of plants and animals at risk is the IUCN Red List of Threatened Species. The Convention on the Conservation of Migratory Species of Wild Animals requires conservation of habitat and restrictions on the exploitation of any listed endangered migratory species.[133] The Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) prohibits international commercial trade in all species listed as endangered and requires the strict regulation of such trade for species designated as threatened. Other global and regional conventions ban or restrict the commercial exploitation of whales, migratory birds, polar bears, sea turtles and fur seals, among others.[134]

In addition to protecting threatened species, protecting biodiversity requires that common species are not over-harvested and that the commercial exploitation of all living resources is sustainable. The *Convention on Biological Diversity*, for example, requires countries to regulate or manage all biological resources "with a view to ensuring their conservation and sustainable use".[135] This element is further discussed in the paragraph 3.4 on forestry, paragraph 3.1 on agriculture and paragraph 3.3 on fisheries.

Species diversity is also threatened by both the accidental and intentional introduction of invasive alien species. When introduced outside their natural habitats, these species may have the ability to establish themselves, out-compete native species and take over their new environments. Invasive alien species are found all over the world, but are a particular problem for island ecosystems. Both the *UN Convention on the Law of the Sea*[136] and the *Convention on Biological Diversity* require member states to prevent, eradicate or control the introduction of invasive alien species.[137]

Genetic materials protection

The Cartagena Protocol on Biosafety sets out a framework for the safe transfer, handling and use of living genetically modified organisms that may have adverse effects on the conservation and sustainable use of biological diversity, human health and transboundary risks, and requires the advance informed consent of any country before any living modified organism is imported.[138]

The *Convention on Biological Diversity* requires companies seeking access to genetic resources to obtain the prior informed consent of the country of origin, and to operate under mutually agreed access and benefit sharing agreements.[139]

4.1.3 Content of a bank policy

The banking sector has a significant impact on biodiversity, particularly those banks that provide financial support to high-impact sectors such as forestry, mining, oil and gas, fisheries, water delivery and infrastructure, or sectors that are using genetic resources such as biotechnology, pharmaceuticals, agriculture or cosmetics.

A recent study by IUCN argues that a number of powerful drivers are leading to a growing relevance of biodiversity to businesses, such as pressure and activism by NGOs, increased regulations on ecosystem protection, strengthened liability regimes, costs increases of supply chains depending on ecosystem services, and shifting consumer preferences. Financial institutions that are not positioned to identify which companies are most at risk can be exposed to a wide range of risks, such as increased risk for default and lower investment returns. The report also identifies a number of biodiversity business opportunities that can be captured by financial institutions and make sense both from a financial as well as a conservation perspective.[140]

To deal with the risks related to biodiversity, banks should adopt policies that take into account the protection of biodiversity as reflected in international conventions and national laws. Such a policy should set criteria for all financial services for new projects or investments, especially when provided to clients in high-impact sectors. The following elements are crucial:

General

- An assessment by the client of the cumulative biodiversity impacts upstream and downstream (including impacts on ecosystems, species and genetic resources);
- Ongoing monitoring and reporting of impacts by the client, at least consistent with the guidelines found in the Global Reporting Initiative for reporting on biodiversity and land use.

Ecosystem and habitat protection

- Activities which have a negative impact upon any of the protected areas covered by the IUCN I-IV categories, UNESCO World Heritage and the Ramsar Convention are excluded from financing;
- Other "no-go zones" relevant to the countries, such as endangered forests, biodiversity hotspots, river watersheds, fish spawning grounds and spiritual sites, are identified in consultation with NGOs and scientists and where necessary, excluded from financing;
- Restoration of ecosystems to mimic its original state after commercial activities have ended.

Species protection

- Activities should have no negative impact on the community or population level on a species identified on the IUCN Red List;
- Activities will not lead to the illegal trade of any species listed as endangered under CITES;
- All living natural resources such as fish, forests, animals and plants will be used and managed in a sustainable way;
- Activities will not involve the intentional or unintentional introduction of invasive alien species.

Genetic materials protection

- No support is provided for the production or trade in any living modified organism except with the approval of the importing country and as otherwise required under the Cartagena Protocol;
- Any activity involving access to genetic resources meets the consent and benefit-sharing requirements found in the CBD.

4.1.4 Scoring table

The considerations in the previous paragraphs lead to the following scoring table with regard to bank policies on biodiversity:

0. *The bank has no policy on this issue;*
1. *The bank's policy makes a general commitment to the protection of biodiversity in its financing activities, but does not commit to clear steps;*
2. *The bank's policy makes a clear commitment - in line with the recommendations above - to one of the main elements of biodiversity protection (ecosystem and habitat protection; species protection and genetic materials protection);*

3. *The bank's policy makes a clear commitment - in line with the recommendations above - to at least two of the three main elements of biodiversity protection (ecosystem and habitat protection; species protection and genetic materials protection);*
4. *The bank's policy is fully in line with the recommendations above for the three main elements of biodiversity protection (ecosystem and habitat protection; species protection and genetic materials protection).*

When one or more of the elements listed in paragraph 4.1.2 are dealt with in a comprehensive way in other policies of the bank, these elements will be regarded as being included in its Biodiversity policy as well. Signatories of the Equator Principles, UN Global Compact, UNEP Finance Initiative, and/or the UN Principles for Responsible Investment score 1 point on biodiversity. These collective standards are discussed further in paragraph 7.1. The scores for these collective standards are awarded to all signatories, unless the bank's own biodiversity sector policy scores higher. Scores of individual and collective standards are not added up; only the highest score is awarded.

4.1.5 Results

Six banks have developed and published policies that address biodiversity issues, often in the context of forestry or climate change policies. Biodiversity is however a much broader topic, which also covers sectors such as agriculture, fisheries or extractive industries. JPMorgan Chase (United States), ING (the Netherlands), ABN AMRO (the Netherlands) and HSBC (United Kingdom), have relatively good standards and lending criteria on biodiversity, though they are mostly included in sector policies and not applicable to their entire investment portfolio.

Scores on Biodiversity policies					
HSBC	2	Deutsche Bank	1	Société Générale	1
ING	2	Dexia	1	Standard Chartered	1
JPMorgan Chase	2	Fortis	1	Sumitomo Mitsui	1
ABN Amro	1	Goldman Sachs	1	UBS	1
ANZ	1	Intesa Sanpaolo	1	Unicredit	1
Banco Bradesco	1	KBC	1	WestLB	1
Banco do Brasil	1	Mitsubishi UFJ	1	Westpac	1
Banco Itaú	1	Mizuho Financial	1	Bank Mandiri	0
Bank of America	1	Morgan Stanley	1	Bank of China	0
Barclays	1	Nedbank	1	China Construction	0
BBVA	1	Rabobank	1	ICBC	0
BNP Paribas	1	RBS	1	Merrill Lynch	0
Citi	1	Royal Bank of Canada	1	Saudi-American Bank	0
Crédit Agricole	1	Santander	1	Standard Bank	0
Credit Suisse	1	Scotiabank	1	State Bank of India	0

4.2 Climate change

4.2.1 What is at stake?

The global climate is rapidly changing. Temperatures are rising, as are water levels. Ecosystems are changing as a result and societies run the risk of being hit by floods and cyclones. This process will continue as a direct result of human activities that increase the concentration of greenhouse gases in the atmosphere.

The authoritative source on this issue is the Intergovernmental Panel on Climate Change (IPCC), which published its latest summary of the scientific evidence on climate change processes in 2007. Another very influential study published in October 2006 was the Stern Review on the Economics on Climate Change.

The scientific consensus as described in the IPCC-report finds that most of the observed increase in globally averaged temperatures since the mid-20th century has been due to the observed increase in human-induced greenhouse gas (GHG) concentrations in the atmosphere (including carbon dioxide, methane, nitrous oxides and a number of gases that arise from industrial processes). The most important GHG is carbon dioxide, which is emitted mainly as a consequence of global fossil fuel combustion.[141]

If annual emissions would not increase beyond today's rate, the stock of GHG in the atmosphere would reach double pre-industrial levels by 2050 - that is 550 ppm CO_2. However, as demand for energy and transport increases around the world, and fast-growing economies invest in high-carbon infrastructure, this level could be reached by 2035, causing a global average temperature increase exceeding 2°C by that year. Under a business as usual scenario, there is 50% risk of global warming having exceeded 5°C by the end of the century. An illustration of the scale of such an increase is that current average temperature is around 5°C warmer than in the last ice age, 10,000 years ago.[142]

Depending on different scenarios going forward, world temperatures could rise by between 1.1 and 6.4°C during the 21st century, according to the IPCC. This will probably result in:[143]

- Sea levels rising by 18 to 59 cm;
- More frequent warm spells, heat waves and heavy rainfall;
- An increase in droughts, tropical cyclones and extreme high tides.

These developments are not only creating extraordinary and unprecedented risks to the global environment, but are also likely to have profound and potentially disastrous economic, social and health impacts. Another recent IPCC-report as well as the *Stern Review* predicted, among others, the following impacts of climate change:[144]

- Melting glaciers will cause a strong increase in annual average river runoff and water availability in some regions, together with droughts and lack of drinking water in other regions and in the long run;
- Approximately 15 to 40% of global plant and animal species are assessed to be at risk of extinction when the average temperature rises beyond 2°C. This will lead to

rapidly impoverishing ecosystems. The acidification of oceans will have major effects on marine ecosystems;

- Though global food production potential is projected to increase with local average temperature rising by 1-2°C, it will decrease above this temperature. Higher frequencies of droughts, floods hurricanes and heat waves are projected to affect local crop production negatively, especially in subsistence sectors at low latitudes;
- Coastal areas are projected to be exposed to increasing risks due to the rising sea-level and coastal erosion. Corals and coastal wetlands are at risk, but also many of the large cities in developed and underdeveloped countries, housing millions of people. The melting or collapse of ice sheets would eventually threaten land which today is home to 1 in every 20 people;
- Poor communities can be especially vulnerable, as they tend to have more limited adaptive capacities, and are more dependent on climate-sensitive resources such as local water and food supplies;
- Projected climate change-related exposures are likely to affect the health status of millions of people, particularly those with low adaptive capacity, through increases in malnutrition and consequent disorders, heat waves, floods, storms, fires and droughts, diarrhoeal disease, vector-borne diseases such as malaria and dengue fever, and other causes.

Companies in many economic sectors will be confronted with the economic, social and health impacts of climate change, while companies producing, processing, transporting and consuming fossil fuels will be confronted with the need to completely change their way of operating. For just about every company in the world, climate change introduces new risks and opportunities that will drive decisions on how to innovate and operate.

4.2.2 Best standards available

Because the climate change problem is global in nature, it requires an internationally coordinated set of responses. The 1992 UN Framework Convention on Climate Change (UNFCCC) and its 1997 Kyoto Protocol are the two most important international treaties addressing the threat of global climate change. The UNFCCC establishes overall global objectives and principles, and requires all member countries to report annually on their net greenhouse gas emissions. The UNFCCC has near-universal membership among the world's countries, including the United States.

The Kyoto Protocol builds on the principles and objectives of the UNFCCC and establishes targets and timetables for industrialised countries to limit or reduce their emissions of greenhouse gases to an average of 5.2 per cent below 1990 levels. The Kyoto Protocol entered into force in 2005, with the participation of all industrialised countries except the United States and Australia. Developing countries, almost all of which have joined the UNFCC and Kyoto Protocol, are not obliged to set specific targets and timetables for addressing greenhouse gas concentrations and are not likely to do so until at least the next reporting period, which begins in 2012.

Although the Kyoto Protocol has set the first step to reduce global greenhouse gas emissions, its reduction goals stay far below what is needed according to best scientific knowledge.

As a result of these international agreements, policies to regulate greenhouse gas emissions are being developed and implemented in major markets around the world. Companies in carbon-intensive sectors will be subject to regulations and standards in the EU, Australia, Canada, Japan, Russia, and some US regional markets.[145] In addition, these countries, as well as developing nations such as China, are introducing new regulations on fuel economy and CO_2 emissions in the automotive sector. Market-based emissions trading programmes, including the European Union Greenhouse Gas Emissions Allowance Trading Scheme (EU ETS) and the Chicago Climate Exchange (CCX), are also emerging in a number of countries.

Responsible companies have to respond to these developments with a three-step strategy:

Assessing and reporting on climate emissions

The increasingly accepted standard for accounting, measuring and reporting on greenhouse gas emissions is the Greenhouse Gas Protocol (GHG Protocol) developed jointly by the World Resources Institute and the World Business Council for Sustainable Development.[146] A growing list of companies has adopted the GHG Protocol for tracking and reporting their emissions. The GHG Protocol is consistent with the guidelines issued by the IPCC for reporting on emissions at a national level.

Reducing climate emissions

Of course, just reporting on emissions does little to reduce the risks of climate change – actual decreases in emissions are required. Establishing emissions reduction targets is fast becoming standard practice for businesses today.[147] In fact, many companies have set more aggressive targets than those established by the Kyoto Protocol (on average 5.2 per cent from 1990 levels).

Shifting towards climate-friendly technology

To respond successfully to climate change, society needs to transform the most carbon-intensive sectors: energy, industry and transport. The United Nations, for example, has identified renewable energy and improved energy efficiency as an important component of the Millennium Development Goals.[148]

A recent WWF study showed with a high degree of probability that known energy sources and proven technologies could be harnessed between now and 2050 to meet a projected doubling in global demand for energy, while at the same time achieving the necessary significant drop (about 60-80 percent) in carbon dioxide emissions needed to prevent dangerous climate change. This result can be achieved while excluding nuclear power, unsustainable biomass and unsustainable forms of hydroelectricity.[149]

4.2.3 Content of a bank policy

Present investments determine the carbon intensity of the future to come. As the impact of the projects financed will come about later, when the projects have finished, it is crucial that strict reduction targets are set today. As financiers of many investment projects, banks should play a leading role in shifting investments towards a less carbon-intensive economy by setting more aggressive de-carbonisation standards than the national targets in order to delay or halt the accelerating process of global warming.

In December 2007, BankTrack released a position paper, "A Challenging Climate" which summarises what banks should do to help combat climate change. The following elements should be included in a bank's climate change policy:

Assessing and reporting the bank's climate impact

Banks need to assess their impact on global climate change in a comprehensive and reliable manner, by measuring both the greenhouse gas emissions caused by their own energy consumption (*operational emissions*) as well as their share in the greenhouse gas emissions of their clients (*financed emissions*). It is important to establish internal processes to understand the risks related to these emissions. Banks should require their clients to adopt a greenhouse gas accounting and public reporting system such as the *GHG Protocol*. Greenhouse data from every client need to be evaluated in every lending and financing decision and an appropriate carbon price needs to be reflected in every business calculation.

In doing so, banks can build upon the work of the Carbon Disclosure Project, a coalition of institutional investors which regularly asks the world's largest companies to report their annual investment-related and emissions information relating to climate change.[150] While the CDP is an important initiative to promote more transparency and disclosure on climate change, the responses are voluntary and the quality of the responses varies widely. More efforts are needed to develop a reliable overall inventory of corporate greenhouse gas emissions.

Moreover, banks should engage with civil society groups to agree upon a methodology to assign the greenhouse gas emissions of their corporate clients in a fair and reliable way to all financial stakeholders of these clients (shareholders, banks, bondholders, and others). BankTrack member groups Platform, les Amis de la Terre and Milieudefensie have already made pioneering assessments of banks financed emissions.

Setting measurable reduction targets

The commitment of the bank to greenhouse gas reductions should be made measurable by setting portfolio-level reduction targets, as well as normalised reduction goals (e.g. a carbon intensity-equivalent for each Euro that is lent by a bank to its clients). These targets should not only beat the average Kyoto Protocol targets, but should be based upon the ambition to prevent dangerous climate change impacts. This would translate into a carbon dioxide emission reduction target of about 90 percent by 2050 in industrialised countries.

Shifting financing from fossil fuels to renewable energy

To realize these ambitious goals, banks should review their investments in the energy sector. A radical shift away from investments in fossil fuels extraction and transportation, as well as fossil fuel-based electricity generation is needed. Banks need to develop targets and timelines to achieve a reduced exposure to the fossil fuel sector. New investments in fossil fuel should be avoided. Energy technologies which emit relatively large amounts of CO_2 per energy unit produced, such as powder coal plants, should be excluded completely from financing.

Instead, banks need to develop and fund a proactive strategy for investing in renewable energy and energy efficiency programmes and projects such as solar energy, wind energy, small-scale hydropower and sustainable biomass production. In June 2004, the 154 governments attending the International Conference for Renewable Energies called on the banking sector to offer more financing for renewable energy, and more risk-hedging financial tools to reduce investment risks in this sector.[151]

The innovative structures which are presently used by banks to limit country and other specific risks in the financing of oil pipelines and coal-fired power plants, should be applied to enable the financing of renewable energy production.

Financing the transition to a carbon-extensive economy

The bank's climate policy will not only have to deal with its energy producing clients, but as well with all energy consuming clients, corporate and private. The bank needs to use its financial services to enable all its present and prospective clients to contribute to the necessary transition to a carbon-extensive economy. Climate risk needs to be incorporated in the overall client risk identification and assessment process and a set of assessment tools needs to be developed to determine greenhouse gas reduction options for every client - whether active in the chemical industry or the food industry.

The transport sector merits specific attention in this respect. Producers of cars and other means of transport as well as companies involved in transporting goods and people need to be encouraged to develop new products and processes to drastically reduce their greenhouse gas emissions. Only making cars more fuel-efficient is certainly not sufficient to meet the goal of carbon reduction. New types of engines (electric), new means of transport and new transport concepts need to be developed to make the transport sector significantly less carbon-intensive.

Energy saving and efficiency by private clients should be rewarded, for instance by providing cheaper mortgages for energy efficient houses and/or commercial real estate. Together with their corporate clients, banks need to set greenhouse gas reduction targets as precondition for further financial services. For each client the options to replace energy-intensive products with alternatives, to reduce energy consumption in their production processes and to switch to (own) renewable energy sources should be explored and applied as far as possible. When some of these options seem to be cost prohibitive, the bank and its client should explore financing structures which would make these options achievable.

Banks and other financial institutions could combine their efforts in stimulating the companies they invest in to reduce their energy consumption, for instance by joining the UNEP FI's Climate Change Working Group (CCWG), the Investor Network on Climate Risk (INCR), the Institutional Investors Group on Climate Change (IIGCC), the Global Business Leadership Platform on Climate Change or the Global Roundtable on Climate Change.

Additionally, the bank should actively look for investment possibilities which can help de-carbonise the economy, such as public transport, low-energy housing and commercial real estate, sustainable agriculture, forestry and fishery practices, and many other low-carbon products and services. Financing such initiatives and the requirements attached to them should be consistent with the specific sector policies described in this report.

Exclude 'false solutions'

Although de-carbonisation of the economy is a very high priority, it is important that banks should not finance or promote unacceptable alternatives ('false solutions') to fossil fuels as source of energy.

Nuclear energy, which entails great risks to human health, should be systematically excluded from all bank investments. Large-scale hydro-electricity dams, which are often damaging entire ecosystems and infringing rights of local people, are only acceptable under strict conditions (see paragraph 3.2 on Dams).

Production of biomass for biofuels or electricity, which often leads to severe environmental and social problems, should also meet strict conditions. Furthermore, banks should acknowledge that biomass production can never replace a significant percentage of global fossil fuel consumption without severely threatening biodiversity, land rights of local people and global food production (see paragraph 3.1 on Agriculture). For this reason, BankTrack calls upon banks to refrain from financing biofuel projects until all concerns have been adequately addressed.

Carbon offsets should be considered by the bank and its clients only as a last resort; they cannot be the key element of a climate policy. Carbon offset can be achieved by investing in projects that either avoid emissions in the first place or remove existing greenhouse gases from the atmosphere (*carbon sequestration*). However, a number of reports by SinksWatch and others demonstrate that many of these kind of projects do not lead to any real greenhouse gas reductions or have negatives sustainability consequences in other aspects. The Gold Standard developed by WWF for carbon offset investments aims to identify investments which do contribute to sustainable development.[152]

4.2.4 Scoring table

The considerations in the previous paragraphs lead to the following scoring table with regard to bank policies on climate change:

0. *The bank has no policy on this issue or has a policy that deals only with operational emissions;*
1. *The bank's policy acknowledges the bank has a responsibility for its financed emissions, but does not commit to clear steps;*
2. *The bank's policy aims to measure and reduce the bank's financed emissions OR takes concrete steps to shift its financing to renewable energy and a carbon-extensive economy (excluding unacceptable alternatives);*
3. *The bank's policy aims to measure and reduce the bank's financed emissions AND takes concrete steps to shift its financing to renewable energy and a carbon-extensive economy (excluding unacceptable alternatives);*

4. *The bank's policy sets ambitious (about 90%) portfolio-level reduction targets and is actively shifting its portfolio towards renewable energy and a carbon-extensive economy (excluding unacceptable alternatives).*

Signatories of UN Global Compact, UNEP Financial Initiative, the UN Principles for Responsible Investment and participants of the Carbon Disclosure Project score 1 point on climate change. These collective standards are discussed further in paragraph 7.1. The scores for these collective standards are awarded to all signatories, unless the bank's own climate policy scores higher. Scores of individual and collective standards are not added up; only the highest score is awarded.

4.2.5 Results

Climate change is a popular issue, and many banks (31) have at least published a position statement or climate policy. However, most of the time these publications focus mainly on *operational emissions* whereas the banks' *financed emissions* are many times higher. We score banks only on their policies regarding their financed emissions.

Ten banks specifically mention that they recognise their role in financing climate change by financing very carbon intensive industries, but none has translated this recognition into a credit policy with strict criteria or targets with respect to carbon emissions or financing of green energy.

Scores on Climate Change policies					
ANZ	2	BNP Paribas	1	Santander	1
Bank of America	2	Citi	1	Scotiabank	1
Dexia	2	Crédit Agricole	1	Société Générale	1
Fortis	2	Credit Suisse	1	Standard Bank	1
HSBC	2	Deutsche Bank	1	Standard Chartered	1
JPMorgan Chase	2	Goldman Sachs	1	State Bank of India	1
KBC	2	ICBC	1	Sumitomo Mitsui	1
Morgan Stanley	2	ING	1	UBS	1
Rabobank	2	Intesa Sanpaolo	1	Unicredit	1
Westpac	2	Merrill Lynch	1	WestLB	1
Banco Bradesco	1	Mitsubishi UFJ	1	ABN AMRO	1
Banco do Brasil	1	Mizuho Financial	1	Bank Mandiri	0
Banco Itaú	1	Nedbank	1	Bank of China	0
Barclays	1	RBS	1	China Construction	0
BBVA	1	Royal Bank of Canada	1	Saudi-American Bank	0

4.3 Human Rights

4.3.1 What is at stake?

The Universal Declaration of Human Rights, adopted by the United Nations in 1948, provides an overview of the rights and freedoms every human being is entitled to "without distinction of any kind, such as race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status". It has been generally agreed that states have the primary responsibility to respect, promote and secure the human rights described in the Universal Declaration.

However, state responsibility is neither exclusive nor sufficient. As the Universal Declaration makes clear, "every organ of society" has its own human rights obligations.[153] This includes business enterprises. As the reach and impact of such enterprises have grown, their human rights obligations have grown as well.

In 1966 the Universal Declaration of Human Rights was complemented by the UN International Covenant on Civil and Political Rights (UNCCPR) and the UN International Covenant on Economic, Social and Cultural Rights (UNCESCR). These covenants clarify that international human rights include civil, political, cultural, economic and social rights, and the right to development.[154]

Business enterprises have the potential to impact upon these rights, both positively and negatively, in a multiplicity of ways. For example, the manner by which a company hires and fires its workers, structures and manages its production processes, purchases supplies and services, conducts itself in its host community, provides essential public services and interacts with governments and regulatory authorities can all profoundly affect the promotion or realisation of human rights.[155]

The evolution of concepts such as "complicity" and "spheres of influence" increasingly exposes the private sector to legal liability and scrutiny regarding human rights violations. International law and jurisprudence recognize that corporations have legal personality, and therefore corresponding legal rights and obligations. Corporations also have duties to refrain from assisting others in human rights abuses. In this respect it is indisputable that financial institutions, as a specific category of enterprises, have human rights obligations and responsibilities.[156]

As an organ of society, business enterprises have a responsibility to respect, promote and secure human rights in all their operations. The bank's policy should ensure that it will only be involved in the financing of companies which meet this clear criterion. In developing such a policy, the bank could make use of the best international standards available as described below.

4.3.2 Best standards available

The most comprehensive and authoritative treatment of the human rights obligations of businesses is the Draft United Nations Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights (the *UN Human Rights Norms for Business*).[157] These norms apply existing international human rights principles to business operations. They also clarify that transnational corporations and other business enterprises are obliged to promote, protect, respect and secure the fulfilment of human rights "within their respective spheres of activity and influence".

The commentary on the *UN Human Rights Norms for Business* provides further clarification of what is a company's respective sphere of activity and influence. It states: 'Transnational corporations and other business enterprises shall have the responsibility to use due diligence in ensuring that their activities do not contribute directly or indirectly to human rights abuses, and that they do not directly or indirectly benefit from abuses of which they were aware or ought to have been aware'.

The *UN Human Rights Norms for Business* addresses standards in a number of substantive areas, including: [158]

- the right to equal opportunity and non-discrimination, irrespective of race, gender or religion;
- the right to security of the individual;
- the rights of workers;
- respect for national laws and sovereignty;
- economic, social and cultural rights;
- corruption;
- consumer protection;
- legal protections against forced evictions;
- environmental protection; and
- indigenous peoples.

In August 2003 the *UN Human Rights Norms for Business* were unanimously adopted by the *UN Sub-commission on the Promotion and Protection of Human Rights*, but the full *UN Human Rights Commission* has not yet taken a decision on the norms. To prepare a broader discussion on the norms, Dr. John Ruggie was appointed *Special Representative of the UN Secretary General on business and human rights* in July 2005. [159] The second report of the Special Representative mapping current obligations of business was presented to the *UN Human Rights Council* in February 2007.[160]

Although not as comprehensive as the *UN Human Rights Norms for Business* the UN Global Compact is also worth mentioning, as it has included two human rights principles among its ten principles: "Businesses should support and respect the protection of internationally proclaimed human rights" and "Businesses should make sure that they are not complicit in human rights abuses".[161]

A more specific issue is the use of force by (private or public) security forces protecting the operations of a company. This issue is dealt with in the UN Code of Conduct for Law Enforcement Officials and the UN Basic Principles on the Use of Force and Firearms by Law Enforcement Officials. Upon these statements the Voluntary Principles on Security and Human Rights have been developed in a multi-stakeholder process, to give guidance to companies.

4.3.3 Content of a bank policy

Although banks may not be directly involved in human rights abuses, they can be complicit in human rights violations by their clients undermining the rights to life, property, home, health, livelihood and development of communities. This may occur in several ways:[162]

- **Direct complicity** may occur when a bank intentionally finances a project or company, while the bank is fully aware that its financial assistance contributes to the commission of the human rights abuses by the client.
- **Indirect complicity** may occur when a bank profits from transactions with a client committing human rights abuses. Profits can be in terms of financial rewards or market share and the bank's financing need not be directly related or intended to support to the human rights abuses which take place.
- The notion of **silent complicity** reflects the expectation that banks should respond to human rights abuses by notifying the appropriate authorities or taking steps to object to and/or try to prevent or stop the human rights violations and/or withdrawing from their association with the abuse. Where banks do not respond, silent complicity may arise.

To avoid these various forms of complicity, banks need clear and detailed human rights standards and policies. These instruments require banks systematically to consider risks to human rights in the operations they support, and to take effective action to mitigate those risks. [163]

Policies merely containing aspirational language will not pass the test when it comes to avoiding complicity to human rights abuses. Amongst other things, an elaborate human rights policy should include:

- Defining a clear bottom-line: which activities and practices are no-go zones to the financial institution?
- Assessing the banks' portfolio and defining sectors, countries and clients that need explicit scrutiny and due diligence concerning human rights obligations.
- Establishing procedures or advisory groups that address human rights issues.

Good guidelines are provided by the *UN Human Rights Norms for Business* and their commentaries, which prescribe a number of specific steps that companies must take to be in compliance. 'The Norms' state that each transnational corporation or other business entity should adopt, publicly disseminate and implement internal rules of operation in compliance with the *UN Human Rights Norms for Business*. In addition, banks should; periodically report on and take necessary measures to implement the *UN Human Rights Norms for Business*; provide for independent investigation of complaints they receive; and apply and incorporate the *UN Human Rights Norms for Business* to their supply chains or other business relationships through their contracts, transactions or other arrangements to ensure that they only support businesses that follow these or substantially similar principles. [164]

Perhaps most importantly for financial institutions, before a business enterprise pursues a major initiative or transaction, it must study the human rights impact of that transaction in light of the *UN Human Rights Norms for Business*. A client should therefore produce a human rights impact statement that includes a description of the transaction, its anticipated benefits, an analysis of any anticipated human rights impacts, an analysis of reasonable alternatives, and identification of ways to avoid any negative human rights consequences. The *UN Human Rights Norms for Business* further declare that the results of this assessment should be made available to relevant stakeholders and that the sponsor should consider any reactions from stakeholders.[165]

The bank's human rights policy can either be a stand-alone policy, next to other policies which directly reflect human rights norms, e.g. labour and indigenous peoples policies, or policies of which only parts cover human rights issues, e.g. dams or forestry. Clearly, consistency between policies is crucial. A human rights policy can be seen as the overarching policy on human rights issues, while policies on labour and indigenous peoples give more detailed guidance on two more specific and very important human rights areas. Because of this close relationship between the three policies, the bank could also decide to integrate its human rights policy with its labour policy and its indigenous peoples policy. In this case, it is important to include more specific issues discussed in paragraph 4.5 on labour and paragraph 4.4 on indigenous peoples.

4.3.4 Scoring table

The considerations in the previous paragraphs lead to the following scoring table with regard to bank policies on human rights:

0. *The bank has no policy on this issue;*
1. *The bank's policy is vaguely worded or aspirational, for instance by endorsing the Global Compact or the Universal Declaration of Human Rights, with no clear commitments;*
2. *The bank's policy defines a clear bottom-line on human rights-related activities and practices which will not be financed OR requires a meaningful Human Rights Impact Assessment for relevant transactions, sectors and countries;*
3. *The bank's policy defines a clear bottom-line on human rights-related activities and practices which will not be financed AND requires a meaningful Human Rights Impact Assessment for relevant transactions, sectors and countries;*
4. *The bank's policy is fully in line with the UN Human Rights Norms for Business.*

Signatories of UN Global Compact and/or the UN Principles for Responsible Investment score 1 point on human rights. These collective standards are discussed further in paragraph 7.1. The scores for these collective standards are awarded to all signatories, unless the bank's own human rights policy scores higher. Scores of individual and collective standards are not added up; only the highest score is awarded.

4.3.5 Results

Twelve banks have developed statements or guidelines for human rights practices. Others have included general human rights statements in their principles of ethical business conduct. However, just like climate statements, the human right statements and policies are mostly targeted at the banks' own operations. They do not restrict lending to clients that violate human rights or of the people who are affected by the clients' activities.

There are several banks that have proposed not to finance activities in countries led by oppressive regimes (such as Burma). However, they do not exclude financing of companies that operate in those countries, even when these companies collaborate with those regimes. These statements are therefore not considered as a decent human rights policy.

Only Rabobank (the Netherlands) has developed a comprehensive human rights policy, which sets clear screening and exclusion criteria based on the guidelines from international conventions, amongst others the *UN Human Rights Norms for Business*, the *OECD Guidelines for Multinational Enterprises* and the four *ILO fundamental principles and rights at work*. The human rights policy is applicable to the bank's entire credit portfolio.

Scores on Human Rights policies					
Rabobank	3	HSBC	1	Westpac	1
ABN AMRO	1	ING	1	Bank Mandiri	0
ANZ	1	Intesa Sanpaolo	1	Bank of America	0
Banco Bradesco	1	JPMorgan Chase	1	Bank of China	0
Banco do Brasil	1	KBC	1	China Construction	0
Banco Itaú	1	Mitsubishi UFJ	1	Goldman Sachs	0
Barclays	1	Mizuho Financial	1	ICBC	0
BBVA	1	Nedbank	1	Merrill Lynch	0
BNP Paribas	1	RBS	1	Morgan Stanley	0
Citi	1	Santander	1	Royal Bank of Canada	0
Crédit Agricole	1	Société Générale	1	Saudi-American Bank	0
Credit Suisse	1	Standard Chartered	1	Scotiabank	0
Deutsche Bank	1	UBS	1	Standard Bank	0
Dexia	1	Unicredit	1	State Bank of India	0
Fortis	1	WestLB	1	Sumitomo Mitsui	0

4.4 Indigenous Peoples

4.4.1 What is at stake?

Throughout the world, indigenous peoples have long been subjugated and disenfranchised. Today, they are still disproportionately vulnerable to human rights abuses, loss of culture, loss of land and access to territories, and even to the threat of extinction.

As their frontier of operation is expanding to ever more remote areas of the world, sectors such as agriculture, forestry, mining and the oil and gas industry are increasingly encroaching upon territories of indigenous peoples. Even when the actual infrastructure or area of operation remains outside of these territories, secondary effects (infrastructure development, influx of workers and migrants and related effects on public health and prostitution, cultural intrusion etc) may severely affect indigenous people's way of life. Given that it is often male workers that work in these sectors, indigenous women are especially vulnerable to such changes in, or close to their territories.

A body of international law, instruments and norms recognises indigenous peoples' strong claims to sovereignty and self-determination, rights and protection of land and territories. These standards also provide guidance and direction on how to protect their societies, cultures and livelihoods. It is crucial that companies take these issues into account when investments are considered. One of the ways to achieve this is for banks to only offer financing under the condition that the rights of indigenous peoples are not repudiated.[166]

Businesses need to respect and guarantee the rights of indigenous peoples to protect their land, societies, cultures and livelihoods, by acknowledging their sovereignty and self-determination. The bank's policy should ensure that it will only be involved in the financing of companies which respect and guarantee these rights. In developing such a policy, the bank could make use of the best international standards available as described below.

4.4.2 Best standards available

International law recognises that indigenous peoples have inherent rights derived from their distinct identities and their close and special attachment to their ancestral lands. These rights establish the basis for the following standards or norms:

Right to self-identification and self-determination

The right to self-determination for indigenous peoples is also set out in the 1966 International Covenant on Economic, Social and Cultural Rights, which recognises all peoples' right to freely determine their political status, pursue their economic, social and cultural development and dispose of their natural wealth and resources.[167]

The UN Declaration on the Rights of Indigenous Peoples, adopted by the General Assembly of the United Nations in September 2007, also recognises that "indigenous peoples and individuals have the right not to be subjected to forced assimilation or destruction of their culture". States therefore need to prevent "any action which has the aim or effect of depriving them of their integrity as distinct peoples, or of their cultural values or ethnic identities".[168]

Recognition and protection of, and compensation for land and territorial rights

The distinct cultural identity and existence of indigenous peoples hinge on protection of their ancestral lands and their unique relationship to that land. This is reflected in the following agreements:

- The UN Declaration on the Rights of Indigenous Peoples affords indigenous peoples right to the lands, territories and resources which they have traditionally owned, occupied or otherwise used or acquired. It also recognises the right to maintain, control, protect and develop their intellectual property over such cultural heritage, traditional knowledge, and traditional cultural expressions, as well as restitution or compensation where these have been taken or damaged without their consent.[169]
- The ILO Convention 169 establishes clear rights and protection for indigenous peoples to their lands and territories. In addition, it describes measures to safeguard the right of the peoples concerned, to use lands to which they have traditionally had access for their subsistence and traditional activities.[170]
- The MMSD report Finding Common Ground, supported by the IIED and WBCSD, calls for benefit-sharing arrangements that go beyond fair compensation for damages done to indigenous peoples, in order to ensure that these groups actually benefit from the investments in, or in the vicinity of, their territories.[171]
- The Convention on Biodiversity (CBD) addresses the fair and equitable use of biodiversity resources, and requires that the traditional knowledge of indigenous and local communities may only be used with their "approval".[172]

Right to participation

The Vienna Declaration and Programme of Action calls on states to ensure the full and free participation of indigenous peoples in all aspects of society, in particular in matters of concern to them.[173] The UN Declaration on the Rights of Indigenous Peoples also establishes the right to full participation and the importance of fair procedures for resolving conflicts and disputes.[174]

Right to Free, Prior Informed Consent (FPIC)

Amplifying the protection of land and territorial rights, the United Nations Economic and Social Council has described the right of indigenous peoples to *Free, Prior Informed Consent (FPIC)* with respect to developments affecting their lands and natural resources in its Working Paper on FPIC. Unlike a consultation process, FPIC is a two-way, interactive negotiation that offers communities greater influence in decision-making, and is more likely to result in direct benefits for them. The process requires full and early disclosure of information and potential impacts of a proposed investment.

The FPIC principle has been recognised in international law and included in the emerging consensus of states and companies. It was confirmed by the ILO Convention 169[175], the UN Human Rights Norms for Business,[176] the World Commission on Dams, [177] the Inter-American Development Bank[178] and the UN Development Programme.[179] The FPIC principle is the key element for any indigenous peoples policy.

Prohibition of involuntary resettlement

A prohibition of involuntary resettlement is addressed by the UN Declaration on the Rights of Indigenous Peoples, which states that indigenous peoples "shall not be forcibly removed from their lands or territories. No relocation shall take place without the free, prior and informed consent of the indigenous peoples concerned and after agreement on just and fair compensation and, where possible, with the option of return."[180]

No-Go zones for uncontacted people

The livelihoods and culture of people living in voluntary isolation or uncontacted people must be protected from potential investment. The Inter-American Development Bank recognises this in its indigenous peoples policy by excluding any project that may cause adverse impacts on uncontacted people.[181]

4.4.3 Content of a bank policy

Companies face major moral and risk issues when their investments adversely impact upon indigenous peoples. But apart from the legal, normative, and development arguments for ensuring that host communities have the opportunity to consent to a project, there also a business case. According to a recent publication of the World Resources Institute, multinational corporations and financial institutions that seek local community consent for their operations will have a competitive advantage over those that fail to do so.[182]

Similar to human rights issues affecting other stakeholders, banks may not be directly involved in violations, but they can be complicit to their clients undermining the rights to self-identification and self-determination, consent, participation, recognition, protection and compensation. This may occur in several ways:[183]

- **Direct complicity** occurs when a bank intentionally finances a project or company, while the bank is fully aware that its financial assistance contributes to the violation of the rights of indigenous peoples by the client.
- **Indirect complicity**, when a bank profits - in terms of financial rewards or market share - from transactions with a client committing indigenous rights abuses, although the bank's financing is not directly related to the indigenous rights abuses itself.
- **Silent complicity** occurs when a bank has gained inside knowledge on indigenous rights violations by a present, former or prospective client, but does not report the violations to the appropriate authorities or takes steps to object or prevent the violations.

In order to abstain from any complicity with the violations of indigenous peoples, banks should develop a policy addressing their clients' impact on the rights of indigenous peoples. These policies could well be based on international laws and instruments, such as the UN Declaration on the Rights of Indigenous peoples. Following the rights to participation and *FPIC*, these policies should be developed collaboratively with representatives of indigenous people's organisations.

The bank's indigenous peoples policy can be a stand-alone policy, next to its human rights and labour policies. Consistency between the three policies is important then. The human rights policy can be seen as the overarching policy on human rights issues, while the labour and indigenous peoples policies give more detailed guidance on two very important human rights areas.

Because of the close relationship between the three policies, the bank could also decide to integrate its human rights policy with its labour policy and its indigenous peoples policy. In this case, it is important to include the criteria specifically referring to the rights of indigenous peoples as discussed above.

4.4.4 Scoring table

The considerations in the previous paragraphs lead to the following scoring table with regard to bank policies on indigenous people:

0. *The bank has no policy on this issue;*
1. *The bank's policy endorses the UN Declaration on the Rights of Indigenous Peoples or a similar statement but is not precise on what this means in practice;*
2. *The bank's policy defines a bottom-line on human rights-related activities and practices which will not be financed OR requires an impact assessment with respect to the rights of indigenous peoples for relevant transactions, sectors and countries;*
3. *The bank's policy defines a bottom-line on human rights-related activities and practices which will not be financed AND requires an impact assessment with respect to the rights of indigenous peoples for relevant transactions, sectors and countries;*
4. *The bank's policy is fully in line with the UN Declaration on the Rights of Indigenous Peoples and requires an impact assessment with respect to its elements for all relevant transactions. The policy puts a ban on the bank's direct, indirect and silent complicity with the violation of the rights of indigenous peoples.*

Signatories of the Equator Principles, UN Global Compact and/or the UN Principles for Responsible Investment score 1 point on indigenous peoples. These collective standards are discussed further in paragraph 7.1. The scores for these collective standards are awarded to all signatories, unless the bank's own indigenous peoples policy scores higher. Scores of individual and collective standards are not added up; only the highest score is awarded.

4.4.5 Results

Issues with regard to indigenous peoples are usually not captured by banks in a separate policy. Most of the time they are included in forestry, extractive sector, or dam policies, or in the banks' human rights policy. Very few banks have a cross-sector policy on indigenous peoples.

JPMorgan Chase (United States) has developed a good financing policy on issues concerning indigenous peoples, and Rabobank (the Netherlands) includes a good paragraph on the rights of indigenous peoples in its human rights policy. ING (the Netherlands), HSBC (United Kingdom) and Goldman Sachs (United States) have included the rights of indigenous peoples in one of their sector policies. The scope of their policies is therefore limited. Merrill Lynch acknowledges the rights of native peoples in their environmental framework but without further commitments.

It is remarkable that South African, Australian and American banks often develop an internal policy on diversity in human resources and employment of (respectively) black South-Africans, aboriginal Australians and Native Americans. But most of them do not pay any attention to indigenous rights in their credit policies.

Scores on Indigenous Peoples policies					
JPMorgan Chase	3	Crédit Agricole	1	Scotiabank	1
Rabobank	3	Credit Suisse	1	Société Générale	1
Goldman Sachs	2	Deutsche Bank	1	Standard Chartered	1
HSBC	2	Dexia	1	Sumitomo Mitsui	1
ING	2	Fortis	1	UBS	1
ABN AMRO	1	Intesa Sanpaolo	1	Unicredit	1
ANZ	1	KBC	1	WestLB	1
Banco Bradesco	1	Merrill Lynch	1	Westpac	1
Banco do Brasil	1	Mitsubishi UFJ	1	Bank Mandiri	0
Banco Itaú	1	Mizuho Financial	1	Bank of China	0
Bank of America	1	Morgan Stanley	1	China Construction	0
Barclays	1	Nedbank	1	ICBC	0
BBVA	1	RBS	1	Saudi-American Bank	0
BNP Paribas	1	Royal Bank of Canada	1	Standard Bank	0
Citi	1	Santander	1	State Bank of India	0

4.5 Labour

4.5.1 What is at stake?

Protecting people in the workplace is a fundamental responsibility of companies and governments. Workers have the right to be free of discrimination and abuse, to work in a safe environment, to associate freely with co-workers and representative organisations, and to earn fair wages and benefits. These basic conditions should apply to all workers, irrespective of race, gender or religion. Meeting these conditions helps to develop a respected workforce, which will contribute to sustainable human capital development. The rights can also contribute to the development and growth of democratic societies, and thereby help create a more favourable operating climate for business.

According to the World Development Report 2005 higher wage and working time standards, investments in vocational training and respect for equality tends to translate into better-trained and more satisfied workers and higher employment levels. Safety standards are indispensable to reduce the number of accidents and people needing health care, whereas employment protection can encourage workers to take risks and to innovate. Establishing communication channels between employer and employee, and maintaining robust grievance and arbitration processes, can all contribute to enhanced productivity and more stability in the workforce.[184]

It is of crucial importance that special attention is paid to the position of women in labour relations. The empowerment of women contributes to the health and productivity of whole families and communities and to improved prospects for the next generation. The importance of gender equality in labour conditions serves as a framework for halving poverty and improving lives, which is underscored by its inclusion as one of the eight Millennium Development Goals.[185] Yet, in certain sectors (manufacturing, agriculture) it is especially women that face challenges and threats to their right to a safe working environment and equal payment.

All businesses should ensure that workers have the right to be free of discrimination and abuse, to work in a safe environment, to associate freely with co-workers and representative organisations, and to earn fair wages and benefits. The bank’s policy should ensure that it will only be involved in the financing of companies which meet these criteria. In developing such a policy, the bank could make use of the best international standards available as described below.

4.5.2 Best standards available

The standard setting body in the field of labour issues is the *International Labour Organization (ILO)*, the tripartite UN agency which brings together governments, employers and workers. By the end of 2006, the ILO had adopted 187 *Conventions* and 198 *Recommendations* covering a broad range of labour subjects.[186]

With the adoption of the ILO Declaration on Fundamental Principles and Rights at Work in 1998, the ILO identified eight of its conventions as "fundamental". These eight conventions cover four subjects that are considered as fundamental principles and rights at work:

- freedom of association and the effective recognition of the right to collective bargaining;[187]
- the elimination of all forms of forced or compulsory labour; [188]
- the effective abolition of child labour; [189]
- the elimination of discrimination in respect of employment and occupation. [190]

Another crucial ILO document is the Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, which was originally adopted by the ILO in 1977. In March 2006 the fourth, updated edition was published.[191] The *Tripartite Declaration* addresses the responsibilities of corporations and their treatment of labour issues more specifically. In addition to re-affirming workers' rights to freedom of association and collective bargaining, and a ban on discrimination and forced labour, the agreement calls on corporations to:

- increase employment opportunities and standards, and give priority to the employment and advancement of nationals of the host country and to the use of local materials, manufacturing and processing;[192]
- promote equal opportunity and treatment by making qualifications, skill and experience the basis for the recruitment, placement, training and advancement of staff at all levels and avoid any type of (ethnic, gender or social) discrimination of workers;[193]
- promote employment security and avoid arbitrary dismissals. If an employment change is necessary, to provide reasonable notice of such changes to the appropriate government authorities and worker representatives;[194]
- ensure that relevant training is provided for all levels of their employees and management;[195]
- provide the best possible wages, benefits and conditions for employees, which should not be less favourable than those offered by comparable local employers. These should be related to the economic position of the company and meet the basic needs of the workers and their families;[196]
- maintain the highest standards of safety and health, and make available information on hazards to government authorities and workers' and employers' organisations;[197]
- establish a process for regular consultation between workers and employer;[198]
- establish a process to address grievances.[199]

The following declarations and principles endorse the four ILO fundamental principles and rights at work and the *Tripartite Declaration*:

- the UN Convention on the Rights of the Child supports the call for an abolition of child labour;[200]
- the UN Global Compact has included the four ILO fundamental principles and rights at work among its ten principles;[201]
- the Draft United Nations Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights endorses the four ILO fundamental principles and rights at work as well as the *Tripartite Declaration*;[202]

- the OECD Guidelines for Multinational Enterprises endorses the four ILO fundamental principles and rights at work as well as the *Tripartite Declaration*;[203]
- the IFC Performance Standards endorse the four ILO fundamental principles.[204]

4.5.3 Content of a bank policy

Like all companies, banks are expected to respect local, national and international law and to adhere to the four ILO fundamental principles and rights at work and the *Tripartite Declaration* in all their spheres of influence. For banks, three spheres of influence are important and need to be addressed separately in their labour policies:

In its role as an **employer,** the bank should respect local, national and international law and should adhere to the four ILO fundamental principles and rights at work and the *Tripartite Declaration* in its own employment practices.

With respect to the **bank's clients**, the labour policy should demand of all the bank's clients that they respect local, national and international law and that they adhere to the four ILO fundamental principles and rights at work and the *Tripartite Declaration*. The bank should verify and monitor if its clients have taken all necessary steps to ensure this, including processes for learning about employee grievances, clear steps for remediation and a mechanism for seeking resolution of violations or disputes. These issues can be verified independently by using the SA8000 Standard, which is an auditable certification standard based on ILO conventions.[205]

On **supply chain issues**, where relevant, the policy should also demand of its clients to have clear procedures for ongoing monitoring and supervision of their supply chain's respect for local, national and international law and adherence to the four ILO fundamental principles and rights at work, and the *Tripartite Declaration*. The client should include policy requirements in the contractual agreements between itself and its suppliers. A useful example of such a standard is the FTSE4 Good Supply Chain Labour Standards Criteria, developed together with various multi-stakeholder initiatives.[206]

The bank's labour policy can be a stand-alone policy, next to its human rights and indigenous peoples policies. Consistency between the three policies is important then. The human rights policy can be seen as the overarching policy on human rights issues, while the labour and indigenous peoples policies give more detailed guidance on two very important human rights areas. Because of this close relationship between the three policies, the bank could also decide to integrate its human rights policy with its labour policy and its indigenous peoples policy. In this case, it is important to include specific labour criteria as discussed above.

The bank's internal labour relations are not discussed in this labour policy, as this benchmark report focuses on the policies developed by banks with regard to financial services provided to their clients. The bank's internal labour relations will therefore not be taken into account in the scoring.

4.5.4 Scoring table

The considerations in the previous paragraphs lead to the following scoring table with regard to bank policies on labour:

0. *The bank has no policy on this issue;*
1. *The bank's policy stimulates its clients to adhere to the four ILO fundamental principles and rights at work and/or the Tripartite Declaration, but does not make clear how this affects the bank's financial services;*
2. *The bank's policy defines a bottom-line on labour-related activities and practices which will not be financed OR requires an assessment of the client's adherence to the four ILO fundamental principles and rights at work and/or the Tripartite Declaration for relevant transactions, sectors and countries;*
3. *The bank's policy defines a bottom-line on labour-related activities and practices which will not be financed AND requires an assessment of the client's adherence to the four ILO fundamental principles and rights at work and/or the Tripartite Declaration for relevant transactions, sectors and countries;*
4. *The bank's policy ensures respect for local, national and international law and adherence to the four ILO fundamental principles and rights at work and the Tripartite Declaration in all its spheres of influence.*

Signatories of UN Global Compact and/or the UN Principles for Responsible Investment score 1 point on mining. These collective standards are discussed further in paragraph 7.1. The scores for these collective standards are awarded to all signatories, unless the bank's own mining sector policy scores higher. Scores of individual and collective standards are not added up; only the highest score is awarded.

4.5.5 Results

Clear credit policies on labour rights and working conditions are practically absent. Many banks are concerned about their own employees, but hardly consider the rights of their clients' workforce. Some banks state that they do not support child labour, forced labour or unacceptable labour standards but fail to develop strict criteria that clients should meet, or engagement and disinvestment procedure when clients do not meet standards.

Only four banks make references to the labour rights of their clients' employees in their credit policies. In its Human Rights policy, Rabobank (the Netherlands) makes clear statements on labour rights and working conditions and the policy covers all the bank's financing activities. Banco do Brasil focuses on forced and slave labour and excludes companies or individuals from financing that are involved in these practices.

Scores on Labour policies					
Rabobank	3	Intesa Sanpaolo	1	Bank Mandiri	0
Banco do Brasil	2	JPMorgan Chase	1	Bank of America	0
ABN AMRO	1	KBC	1	Bank of China	0
Banco Bradesco	1	Mitsubishi UFJ	1	China Construction	0
Banco Itaú	1	Mizuho Financial	1	Citi	0
Barclays	1	Nedbank	1	Goldman Sachs	0
BBVA	1	RBS	1	ICBC	0
BNP Paribas	1	Santander	1	Merrill Lynch	0
Crédit Agricole	1	Société Générale	1	Morgan Stanley	0
Credit Suisse	1	Standard Chartered	1	Royal Bank of Canada	0
Deutsche Bank	1	UBS	1	Saudi-American Bank	0
Dexia	1	Unicredit	1	Scotiabank	0
Fortis	1	WestLB	1	Standard Bank	0
HSBC	1	Westpac	1	State Bank of India	0
ING	1	ANZ	0	Sumitomo Mitsui	0

4.6 Taxation

4.6.1 What is at stake?

In a democratic society, tax revenues are essential to finance public goods such as healthcare, infrastructure and social security. Multinational companies (including banks) benefit from the public facilities in the countries where they undertake activities and therefore have a responsibility to pay their fair share of taxes and be transparent about their tax payments. As such, tax compliance can be considered as the bottom line of Corporate Social Responsibility.[207]

Unfortunately, stimulated by global competition, the liberalization of capital markets and developments in information and communication technologies, multinational corporations are increasingly pursuing aggressive tactics to avoid or sometimes even evade paying taxes. While aggressive tax avoidance is abhorrent, tax evasion is both unethical and illegal. Due to international differences in tax rates and loopholes in national tax regulations, companies with operations in different countries have the possibility to decrease their tax burden considerably.[208]

Tax avoidance and tax evasion often involve complex corporate or financial structures that use *shell* or *mailbox* companies in tax havens. The use of tax havens is attractive because, apart from very low corporate tax rates, these locations are also characterized by limited or no transparency, which makes it very difficult for foreign tax authorities and civil society organisations to understand what is exactly going on - let alone take action to combat tax dodging.

The Tax Justice Network (TJN) estimated that as much as US$ 255 billion is lost every year by governments around the world because of low or zero taxation of funds held by individuals in tax havens. This amount would be more than sufficient to plug the financing gap identified for one of the UN Millennium Development Goals (MDG), aiming to halve world poverty by 2015. Figures on how much tax income is lost by governments around the world due to corporate tax planning are even more difficult to estimate, but will certainly be in the same order of magnitude.

Companies should pay the appropriate taxes in the countries they are operating in to finance public goods such as healthcare, infrastructure and social security. Companies should also be transparent about their tax payments. The bank's policy should ensure that it will only offer financial services which live up to these principles. In developing such a policy, the bank could make use of the best international standards available as described below.

4.6.2 Best standards available

Acknowledging the negative effects of tax havens and other countries with harmful tax regimes, there have been several international initiatives to address this issue:

Government tax measures

Governments in various countries try to attract corporate investments by offering favourable tax regimes. These types of measures stimulate tax avoidance by multinational companies, harming the tax income of other states. Several international initiatives have been taken to set standards for the tax measures a government can rightfully take without harming the tax income of other states. Although meant for governments, these guidelines do offer some guidance for businesses as well.

The European Union has drafted a Code of Conduct on business taxation, which focuses on taxation measures which "affect, or may affect, in a significant way the location of business activity in the Community". More specifically, the Code states that "tax measures which provide for a significantly lower effective rate of taxation, including zero taxation, than those levels which generally apply in the member state in question are to be regarded as potentially harmful and therefore covered by this code".[209]

In 1998, the OECD initiated a project against harmful tax practices.[210] The OECD makes a distinction between tax havens and countries with a harmful preferential tax regime. In contrast to tax havens which are often very small countries, almost fully dependent on income from tax related practices, the latter are characterised by a diversified economy and normal tax system, but with certain, often very lucrative, exceptions for specific activities or types of corporation.[211] The OECD has identified 38 jurisdictions as tax havens.[212]

The Tax Justice Network has drafted its own list of tax havens. The list includes 72 jurisdictions including the OECD tax havens, the majority of countries with harmful preferential tax regimes and others like Hong Kong, Dubai, New York and the City of London.

Tax planning

A first important international standard on this issue are the OECD Guidelines for Multinational Enterprises. Chapter X on Taxation states that "enterprises should comply with all tax laws and regulations in all countries in which they operate and should exert every effort to act in accordance with both the letter and the spirit of those laws and regulation".[213]

The Tax Justice Network and the Association for Accountancy and Business Affairs have issued a *DRAFT Code of Conduct for Taxation*[214]. The code states that "taxable transactions are recorded where their economic benefit can be best determined to arise." This means that companies should report income to tax authorities where it undertakes economic activity and refrain from shifting income earned in the country to locations with lower tax rates, mainly tax havens, to avoid taxation. Section 3 of this *DRAFT Code of Conduct for Taxation* provides general guidelines on how companies should deal with the issue of tax planning:

- Tax planning seeks to comply with the spirit as well as the letter of the law;
- Tax planning seeks to reflect the economic substance of the transactions undertaken;
- No steps are put into a transaction solely or mainly to secure a tax advantage.

The British investment manager Henderson Global Investors has published Responsible Tax, a very useful publication which describes a set of principles that should guide tax decision-making at leading companies, proposes ways of improving disclosure on tax to investors and others, and suggests a framework companies could use to assess their approach to tax.[215]

Transparency and country-by-country tax reporting

Apart from paying their due share of taxes, multinationals should also report on the amount of tax they pay annually to hold them accountable. Generally, only companies listed on a stock exchange are obliged to publish their annual tax payments in their annual accounts. The problem is that these tax figures are only presented at the group level (on a consolidated basis) and not per country in which the multinational is active. In this way it is impossible to determine to what extent the company is shifting money to low tax jurisdictions or is involved in other forms of tax avoidance or evasion.

This issue has gained some attention within the extractive industry under the Extractive Industries Transparency Initiative, a coalition of governments, companies, civil society groups and investors which established criteria for full publication and verification of company payments and government revenues from oil, gas and mining. [216] The Publish What You Pay coalition has a similar focus and additionally advocates for extractive companies to publish what they pay to governments. This also includes the reporting on what a company pays in taxes in countries where it operates.

This call for companies to disclose country-by-country data on commercial performance and taxes can be applied to all companies and sectors. Global Witness has issued a submission to the International Accounting Standards Board to expand and update the International Accounting Standard 14 on Segment Reporting. Most important element suggested for this update is the obligation for corporations to disclose country-by-country data on (among other points):[217]

- profit before tax;
- tax charge on profits split between current and deferred tax;
- other taxes or equivalent charges due to the government of the territory in respect of local operations;
- the actual payments made to the government of the country and its agencies for tax and equivalent charges in the period;
- the liabilities owing locally for tax and equivalent charges at the beginning and end of each period as shown on the balance sheet at each such date;
- deferred taxation liabilities for the country at the start and close of the period.

The G3 Guidelines of the Global Reporting Initiative also have a performance indicator on tax which also stresses the need for country-by-country reporting. Companies should report: ”all company taxes (corporate, income, property, etc.) and related penalties paid at the international, national, and local levels. This figure should not include deferred taxes because they may not be paid. For organizations operating in more than one country, report taxes paid by country. The organization should report which definition of segmentation has been used.”[218]

4.6.3 Content of a bank policy

For banks, tax compliance is relevant in two ways. On the one hand, international banks themselves are multinational companies and therefore should pay taxes in accordance with the letter and spirit of the tax laws of the countries in which they operate as well as being transparent about it.

On the other hand, nearly all financial services offered by banks to companies bear a tax component. Given the large sums of money that are involved in corporate loans, project finance and investment banking, tax planning strategies may result in saving enormous amounts for the client. Hence, financial institutions and their clients have a strong incentive to organize their financial transactions in such a way that tax payments are minimized. Therefore international offerings of bonds or corporate loans are frequently structured via tax havens. This is often done by establishing a mailbox company to benefit from the low tax rates in tax havens. Managing and administrating such *Special Purpose Entities* is referred to as *trust banking* and is undertaken by divisions of large banks as well as specialized companies.

Although this report deals mainly with the services offered by banks to corporate clients, services offered to private clients need to be mentioned as well when dealing with tax issues. Many banks offer their wealthy private clients *offshore banking services*. These services are offered by subsidiaries of the banks which are deliberately located in tax havens. Banks should refrain from offering this type of *offshore* services to their private clients.

Both as a multinational company and provider of financial services, banks have a duty to pay their fair share of taxes and refrain from fiscal structures which are predominantly guided by tax motivations. The following elements should therefore be incorporated in the bank's tax policy:

- All financial services and products offered by the bank should be in compliance with the letter as well as the spirit of tax laws;
- Refraining from transactions which main (or only) goal is to secure tax advantages;
- Refraining from the use of tax havens;
- Full country-by-country reporting concerning the bank's tax payments.

4.6.4 Scoring table

The considerations in the previous paragraphs lead to the following scoring table with regard to bank policies on tax compliance. Bank policies are only evaluated on issues related to their financial services, as is the case with other policies. Issues related with the tax payments of banks themselves are important, but not included in the scoring table.

0. *The bank has no policy on tax compliance;*
1. *The bank's tax policy is vaguely worded or aspirational, with no clear commitments other than that the bank ensures legal compliance (no tax evasion);*
2. *The bank ensures its financial services are compliant with the letter and the spirit of tax laws (no tax avoidance);*

3. *The bank ensures its financial services are compliant with the letter and the spirit of tax laws. The bank also refrains from products or transactions which main or only goal is to secure tax advantages OR from the use of tax havens.*
4. *The bank ensures its financial services are compliant with the letter and the spirit of tax laws. The bank also refrains from products or transactions which main or only goal is to secure tax advantages AND from the use of tax havens.*

4.6.5 Results

In advisory services, banks often support their clients (individuals or corporate) in such a way that they pay as little tax as possible. This is likely to encourage behaviour that is on the edge of what is legally and/or socially acceptable. Almost all banks state that they only do business with clients that abide to the law. This of course cannot be considered a policy, but is merely ensuring that the bank will not get involved in criminal transactions.

However, many banks do have offshore branches in tax havens, which help their clients to evade taxes levied by legitimate authorities. Only BBVA (Spain) states that it does not support activities related to tax evasion by its clients. Whether it also restricts lending to these clients is not known.

Scores on Taxation policies					
BBVA	1	Deutsche Bank	0	Rabobank	0
ABN AMRO	0	Dexia	0	RBS	0
ANZ	0	Fortis	0	Royal Bank of Canada	0
Banco Bradesco	0	Goldman Sachs	0	Saudi-American Bank	0
Banco do Brasil	0	HSBC	0	Santander	0
Banco Itaú	0	ICBC	0	Scotiabank	0
Bank Mandiri	0	ING	0	Société Générale	0
Bank of America	0	Intesa Sanpaolo	0	Standard Bank	0
Bank of China	0	JPMorgan Chase	0	Standard Chartered	0
Barclays	0	KBC	0	State Bank of India	0
BNP Paribas	0	Merrill Lynch	0	Sumitomo Mitsui	0
China Construction	0	Mitsubishi UFJ	0	UBS	0
Citi	0	Mizuho Financial	0	Unicredit	0
Crédit Agricole	0	Morgan Stanley	0	WestLB	0
Credit Suisse	0	Nedbank	0	Westpac	0

4.7 Toxics

4.7.1 What is at stake?

Man-made toxics are in use all around us, from pesticides to cosmetics and baby bottles to computers. More than 75,000 chemicals are now in commercial use, but only 14% of the chemicals used in the largest volumes have the minimum amount of data publicly available to make an initial basic safety assessment for their impacts on the environment, public health or foetal sensitivity.

During their manufacture and use, toxics are released into the environment. They can travel vast distances by air or water and are also absorbed by wildlife and humans through the skin or ingested in food and water. Hazardous man-made toxics have contaminated every environment, and wildlife, including birds, polar bears, frogs, alligators and panthers, is suffering. Furthermore, up to 300 man-made toxics have been found in humans.[219]

The negative impacts of CFCs causing ozone depletion, DDT's impacts on birds and wildlife, bioaccumulation of PCBs and other persistent organic pollutants were identified only after significant problems have surfaced. The commercial usage of these toxics was phased out much too late to prevent widespread contamination of environment, wildlife and humans. From these past experiences lessons have to be learned. One example is with regard to the currently used PBDE (poly brominated diphynyl ethers) that make modern-use flame retardants. PBDE have a structure very similar to PCBs and should be listed for phase out too.

As regulation always lags behind new scientific knowledge, merely responding to new regulations will be way too late to stop widespread contamination of the environment, wildlife and humans, and may be too late to stop irreversible health effects. All actors involved should therefore take a precautionary stand and ban the usage of all toxics of which the impacts are not well-known. This precautionary principle should specifically be applied to two classes of toxics:[220]

- *Endocrine Disrupting Chemicals (EDCs)*, such as BPA, phthalates and BFRs, that block, mimic or otherwise interfere with naturally produced hormones. Hormones are the body's chemical messengers that control how an organism develops and functions. Wildlife and humans are exposed daily to these pervasive toxics that have already caused numerous adverse effects in wildlife and are most likely also affecting humans;
- *Very Persistent and Very Bioaccumulative chemicals (VPVBs)*, which break down slowly or not at all, and accumulate in the bodies of wildlife and people. VPVBs can be passed from mother to child in the uterus and via breast milk. Even if VPVBs appear non-toxic now, if they are proved to be toxic later you cannot decontaminate the womb or the deep marine environment where they accumulate.

The bank's policy should ensure that it will only be involved in the financing of companies which adhere in a systematic way to this precautionary principle. But for an issue which is dominated by uncertainty about future impacts, just following best international standards is not good enough - the precautionary principle should be overarching.

4.7.2 Best standards available

A toxics policy needs to address several aspects, including adequate knowledge of toxics in order to determine the degree of control needed (for example, toxicity data on their intrinsic properties); the need to control toxics during their production, use and end of life; and the need for post-marketing surveillance to ensure all potentially harmful toxics have been properly controlled. The policy must also act as an early warning system for future areas of concern, by keeping a close eye on scientific developments. The international community has addressed and developed benchmarks for some of these concerns, as described below.

Regulation of production and consumption of dangerous toxics
International agreements have banned or are phasing out a number of particularly dangerous or toxic chemicals. For example:

- The Montreal Protocol on Ozone Depleting Substances (ODS) and its related amendments and revisions, prohibits the production and use of ozone-depleting substances such as chlorofluorocarbons, hydrochlorofluorocarbons, halons and methyl bromide.[221]
- The Stockholm Convention on Persistent Organic Pollutants (POPs) since May 2004 bans twelve persistent organic pollutants (POPs), including dieldrin, chlordane, heptachlor and PCBs. POPs are toxics that remain intact in the environment for long periods, become widely distributed geographically, accumulate in the fatty tissue of living organisms and are toxic to humans and wildlife.[222] Discussions are continuing to include more POPs in the convention. WWF has recommended another 20 POPs for inclusion in the convention.[223]
- Other agreements ban toxics intended for use in warfare,[224] and pesticides that are classified as highly or extremely hazardous.[225] In addition, widely adopted action plans require the phasing-out or the strict regulation of other chemicals such as DDT, dioxins and furans,[226] leaded petrol and asbestos.[227]
- The IFC Performance Standards set guidelines for pollution prevention and abatement.[228]

Impact assessment of new and existing toxics
The international community increasingly recognises the need to ensure more effective assessment of the long-term impacts of toxics on public health and the environment, particularly those that are persistent and accumulate in the environment and in living organisms. Stricter assessment will lead to a more precautionary approach to the introduction, manufacture and use of toxics in products where impacts are uncertain.

- Following the *United Nations Conference for Environment and Development (UNCED)* in Rio de Janeiro, Brazil in June 1992 and the establishment of the Intergovernmental Forum on Chemical Safety (IFCS), the Bahia Declaration on Chemical Safety was pronounced in October 2000. This declaration included commitment of the partners to strengthen efforts for implementation of a Globally Harmonised System (GHS) for classification and labelling of chemicals. At the *World Summit for Sustainable Development* in Johannesburg in August 2002, the implementation framework of GHS was agreed upon.[229]

- In February 2006, the International Conference on Chemicals Management (ICCM) adopted the Strategic Approach to International Chemicals Management process (SAICM), a policy framework for international action on chemical hazards. SAICM recommends measures to help participating countries achieve safe and sustainable use of toxics in a timely and efficient manner.
- In June 2007, the new European law on Registration, Evaluation and Authorisation of Chemicals (REACH) entered into force. The simultaneously established European Chemicals Agency (ECHA) and REACH aim to protect humans and environment from chemicals whilst not undermining the EU chemical industry.[230]

Management of chemical by-products and waste

The international community increasingly requires the sound management of chemicals and their by-products and waste so as to minimise risks to public health and the environment.

- The Johannesburg Plan of Implementation, agreed upon at the 2002 *World Summit on Sustainable Development*, set the goal of achieving sound chemical management throughout the world by 2020.[231] To meet this target, the SAICM process will set detailed goals and standards for the chemical.
- Under the Basel Convention, governments have agreed to "minimise the generation and ensure adequate disposal of hazardous wastes and other wastes".[232] Stockpiles and waste containing listed toxics under the Stockholm Convention must be managed in a way that is "protective of human health and the environment".[233]
- Hazardous waste and certain toxics and pesticides cannot be exported to developing countries except in limited circumstances, and only with the prior informed consent of the importing country, according to the Rotterdam Convention.[234]
- The FAO International Code of Conduct on the Distribution and Use of Pesticides includes sections on the storage and disposal of pesticides.

Specific sector standards

Many relevant initiatives regarding the production and usage of toxics exist, of which just a few are mentioned here:

- The UN Food and Agriculture Organisation (FAO) publishes and regularly updates a list of banned substances for the agricultural sector, which is followed - sometimes even stricter than prescribed - by many countries. FAO also issued the International Code of Conduct on the Distribution and Use of Pesticides, setting out voluntary, internationally accepted standards for the handling, storage, use and disposal of pesticides.
- The Responsible Care initiative was developed in 1985 by the chemical industry to address broad stakeholder concerns surrounding chemical production and improve the chemical industry's reputation. Part of the Responsible Care programme are the global initiative on High Production Volume (HPV) chemicals in 1998, launched by the global chemical industry, through the International Council of Chemical Associations (ICCA), as a first step towards producing harmonised data sets on the intrinsic hazards of approximately 1,000 HPV substances. Another initiative under Responsible Care is the Long-Range Research Initiative (LRI), launched in 1999, which funds independent research in order to improve the risk assessment of

chemicals in relation to public health.[235] The Responsible Care Global Charter and Global Product Strategy (GPS) has been in development since 2004.
- Since August 2006 Greenpeace International has been publishing the Green Electronics Guide every quarter. The guide ranks the leading mobile and PC manufacturers on their global policies and practice on eliminating harmful chemicals and on taking responsibility for their products once they are discarded by consumers. Many of the companies have changed their policies in response to this publication.[236]

4.7.3 Content of a bank policy

Toxics regulation and management is changing considerably. All stakeholders involved in the production and usage should meet the standards set by the growing global acceptance of the precautionary approach and increasing concerns of long-term impacts on human health, reproduction and the environment.

Banks involved in the financing of the toxics industry, as well as sectors using significant amounts of toxics such as agriculture, the textile industry and the electronics industry, will need to pay close attention and ensure that their clients are following these new standards set forth above. While REACH is an European regulation, it is the best regulatory instrument on the global market today. Banks should therefore demand all their clients, inside and outside Europe, to comply with this regulation.

The bank's policy should ensure that it will only be involved in the financing of companies which adhere in a systematic way to this precautionary principle. In developing such a policy, the bank could make use of the best international standards available as described above. But for an issue which is dominated by uncertainty about future impacts, it should be stressed that just following best international standards is not good enough, and the precautionary principle should be the foundation of any policy.

4.7.4 Scoring table

The considerations in the previous paragraphs lead to the following scoring table with regard to bank policies on toxics:

0. *The bank has no policy on this issue;*
1. *The bank's policy is vaguely worded or aspirational, with no clear commitments;*
2. *The bank's policy on toxics contains several standards included in either REACH or SAICM;*
3. *The bank's policy requires all clients in sectors producing and consuming toxics to comply fully to REACH or to SAICM;*
4. *The bank's policy requires all clients in sectors producing and consuming toxics to comply to the precautionary principle, which means that toxics can only be used in production processed when their safety is proven scientifically.*

Signatories of UN Global Compact, UNEP Finance Initiative, and/or the UN Principles for Responsible Investment score 1 point on toxics. These collective standards are discussed further in paragraph 7.1. The scores for these collective standards are awarded to all signatories, unless the bank's own toxics policy scores higher. Scores of individual and collective standards are not added up, only the highest score is awarded.

4.7.5 Results

Toxic materials are used and disposed by all industries and sectors, and can do huge damage to both the natural environment, and the quality of life of many people. Despite these widespread effects, only Rabobank (the Netherlands) and HSBC (United Kingdom) have developed policies which set some criteria regarding the use of toxics. Barclays has a guidance note which does not set preconditions. All the other banks still need to develop policies on this issue.

Scores on Toxics policies					
HSBC	2	Dexia	1	Sumitomo Mitsui	1
Rabobank	2	Fortis	1	UBS	1
ABN AMRO	1	ING	1	Unicredit	1
ANZ	1	Intesa Sanpaolo	1	WestLB	1
Banco Bradesco	1	JPMorgan Chase	1	Westpac	1
Banco do Brasil	1	KBC	1	Bank Mandiri	0
Banco Itaú	1	Mitsubishi UFJ	1	Bank of China	0
Bank of America	1	Mizuho Financial	1	China Construction	0
Barclays	1	Nedbank	1	Goldman Sachs	0
BBVA	1	RBS	1	ICBC	0
BNP Paribas	1	Royal Bank of Canada	1	Merrill Lynch	0
Citi	1	Santander	1	Morgan Stanley	0
Crédit Agricole	1	Scotiabank	1	Saudi-American Bank	0
Credit Suisse	1	Société Générale	1	Standard Bank	0
Deutsche Bank	1	Standard Chartered	1	State Bank of India	0

5. Transparency and accountability

5.1 Why transparency and accountability are important

People have a right to know about the impacts and risks of business activities that may directly affect their livelihoods. Local stakeholders potentially affected by a specific activity cannot secure their legitimate interests unless they are fully apprised of an activity's environmental, social and economic benefits, and its costs, risks and potential alternatives. In addition, without access to all relevant information, other stakeholders such as civil society organisations will not be able to fulfil their legitimate task to defend social, cultural and environmental interests.

The right of the public to information in order to participate meaningfully in environmental and social decision making has been enshrined in several international instruments, including the Universal Declaration of Human Rights,[237] the Rio Declaration on Environment and Development,[238] the Aarhus Convention[239] and the OECD Guidelines for Multinational Enterprises.[240] While some of these instruments primarily formulate obligations for governments, the general principles are applicable to all important actors in society, including businesses.

Transparency is focused upon openness and communication with regard to all relevant information. But transparency alone is not enough. Access to all relevant information is a prerequisite to ensure both accountability and the ability of stakeholders and the public to hold the company managers, owners and financiers to account for activities that impact them. Responsible businesses accept their responsibility to be accountable and establish appropriate procedures and mechanisms to deal with complaints and grievances.

Apart from the moral obligation to operate in a transparent and accountable way, an increasing number of companies realise that it is in their interest to act in a transparent and accountable manner. In a world shifting from a *trust me* to a *show me* attitude, it is crucial for a company to be transparent and accountable not only towards shareholders, but just as much vis-à-vis employees, customers, governments, people directly affected by their activities and civil society at large.

Every company has to earn its social license to operate, by showing how its activities contribute to the well being of all stakeholders and by being responsive to their aspirations and grievances. Being transparent is a prerequisite to create a shared base of information on which various stakeholders can build trust and negotiate with the company. It is often the absence of such a shared knowledge base, and situations where the public perception that company owners and managers are attempting to hide potential impacts, with no mechanism available to correct situations or seek redress, that cause conflicts and opposition to company activities. Greater transparency and accountability can also reduce the risk of corruption and prevent the misuse of revenues for expenditures contrary to the public interest, such as military spending.

No company can claim significant progress on the road towards sustainability unless it has raised its transparency and accountability mechanisms and practices to the best international standards.

5.2 Application to the banking sector

Transparency and accountability are even more important for banks than for other companies. By being intermediaries between investors and borrowers of money, banks play a role in facilitating business activities in all other economic sectors. As financiers, they share a certain level of responsibility for the impacts of their clients' operations with the managers and owners of these companies.

Banks therefore have to inform the public not only about their own practices, but also about their clients' activities for which they provide financing. Banks reap benefits from the activities of their debtors and hence carry responsibility for the environmental and social outcomes that result from these activities. To show that they acknowledge this responsibility, banks need to be as transparent as possible with regard to the companies, projects and countries they finance.

Transparency can also serve the bank's interests by ensuring that public concerns regarding the activities they plan to finance are raised and resolved before they become conflicts and may threatened the viability of the activity. For this reason, multilateral development banks and many export credit agencies have adopted access to information policies which provide data on pending transactions.

Some financiers in the private sector, especially ethical banks, have likewise developed disclosure policies. For example, Italy-based Banca Etica not only publishes information about its loans (names, terms of contract, including the capital amount granted), but it also discloses which deals are pending for review by an external "Ethical Committee". These policies prove that it is possible to overcome client confidentiality concerns, which are so often used by banks as an excuse to not disclose information.

As transparency and accountability encompass different aspects, all of which are important, we will benchmark banks separately on the following aspects:

- Institutional transparency
- Deal transparency
- Institutional accountability
- Deal accountability

The following paragraphs describe each of these aspects in more detail and will elaborate on the issues dealt with in the scoring table for each of them.

5.3 Institutional transparency

5.3.1 Best practices

Each bank is expected to report in an open and systematic way on the steps it has taken on the road towards sustainability. Publications on sustainability should clearly describe which priorities banks have formulated on social and environmental issues, which steps have been taken towards reaching them and what have been the results so far.

The Global Reporting Initiative Reporting Framework is a useful standard for producing annual sustainability reports, prompting banks to not only describe policies, but also to measure the implementation. The *GRI Reporting Framework* contains the core product of the *Sustainability Reporting Guidelines*, as well as *Protocols* and *Sector Supplements*.[241] GRI, in collaboration with the UNEP Finance Initiative, have developed a financial services sector supplement on Social Performance and Environmental Performance, including performance indicators on the policies, procedures and practices of banks' environmental and social issues.[242]

Although very relevant, the *GRI Sustainability Reporting Guidelines* and its *Financial Services Sector Supplements* are broadly worded and designed for the financial sector as a whole. In addition, banks have the possibility to respond to GRI indicators in brief and minimal ways, which then results in poor disclosure. Going forward, other institutional reporting efforts (both in terms of reporting standards, as well as individual bank reports) may surpass GRI requirements and better meet stakeholders' needs.

For example, while GRI requires the description of environmental and social policies, a significant step forward would be the full disclosure of all sector, issue and country policies the bank has adopted, including a definition of the scope of these policies. The value of policies is seriously diminished when they are kept confidential, as it deprives people affected by the activities of the bank's clients with information about the standards to which the bank's clients are supposed to comply.

Another significant shortcoming of the GRI is that it does not require banks to disclose specific instances of material non-compliance of clients with the bank's policies, standards or contract covenants. Nor does GRI demand to report on actions taken to rectify cases of non-compliance, whether these actions have been successful and, if not, what further action (including the calling-in of loans) have been taken. Such compliance reporting is currently practiced by other companies, such as the American sportswear company Nike, which identifies and describes how its subcontracting facilities are complying with the company's labour standards.

Finally, in its external communication policy, a bank should make assumptions in favour of disclosure, and be responsive to stakeholder requests for specific information.

5.3.2 Scoring table

The considerations above lead to the following scoring table with regard to institutional transparency:

0. *The bank does not publish an annual sustainability report or does not include sustainability information in its annual report;*
1. *The bank publishes an annual sustainability report, which does not meet GRI Sustainability Reporting Guidelines in terms of reviewing its performance on social and environmental issues;*
2. *The bank publishes an externally verified annual sustainability report, which meets the basic requirements of the GRI Sustainability Reporting Guidelines and its Financial Services Sector Supplements;*
3. *The bank publishes an externally verified annual sustainability report, which meets the basic requirements of the GRI Sustainability Reporting Guidelines and its Financial Services Sector Supplements. Additionally, the bank publishes in their entirety all of its sector and issue financing policies;*
4. *The bank publishes an externally verified annual sustainability report, which meets the basic requirements of the GRI Sustainability Reporting Guidelines and its Financial Services Sector Supplements. Additionally, the bank publishes in their entirety all of its sector and issue financing policies and reports on cases of non-compliance with its policies.*

5.3.3 Results

It was found that 34 banks publish an externally verified annual sustainability report which meets the basic requirements of the GRI Sustainability Reporting Guidelines and its Financial Services Sector Supplements. However very few banks take further steps to improve their institutional transparency, by sharing their environmental or social sector and issue policies with the public and their (potential) clients. HSBC (United Kingdom) shows the best practices in this respect, by being clear on its credit policies and the criteria attached to them.

Scores on Institutional Transparency					
HSBC	3	ING	2	UBS	2
ABN AMRO	2	Intesa Sanpaolo	2	Unicredit	2
ANZ	2	KBC	2	WestLB	2
Banco Bradesco	2	Mitsubishi UFJ	2	Westpac	2
Banco do Brasil	2	Mizuho Financial	2	BNP Paribas	1
Banco Itaú	2	Nedbank	2	China Construction	1
Bank of America	2	Rabobank	2	Goldman Sachs	1
Barclays	2	RBS	2	JPMorgan Chase	1
BBVA	2	Royal Bank of Canada	2	Bank Mandiri	0
Citi	2	Santander	2	Bank of China	0
Crédit Agricole	2	Scotiabank	2	ICBC	0
Credit Suisse	2	Société Générale	2	Merrill Lynch	0
Deutsche Bank	2	Standard Bank	2	Morgan Stanley	0
Dexia	2	Standard Chartered	2	Saudi-American Bank	0
Fortis	2	Sumitomo Mitsui	2	State Bank of India	0

5.4 Deal transparency

5.4.1 Best practices

The most convincing proof of a bank commitment to transparency and sustainability is in the disclosure of all deals the bank is involved in. This includes corporate loans, project finance, investment banking services and other types of deals, with corporate clients and governments. Stakeholders should be able to find basic details on all the deals on the website of the bank. Where applicable, the social and environmental assessment reports relating to these deals should be available as well.

Banks often hide behind the requirement for "client confidentiality" as a reason to not disclose any information on specific deals. For syndicated deals this argument is completely irrelevant, as most banks are already used to proudly publish details on their involvement in advertisements in the financial press. But also for bilateral deals, banks could announce in advance to their clients that their names can be published, clearing the way for more transparency and external oversight.

The benchmark in this field has been set for a long time already by multilateral development banks, such as the *World Bank*, the *Asian Development Bank* and others. The International Finance Corporation (IFC) has a strict Transparency and Disclosure Procedure, which has been in constant development since 1994. IFC gives broad and comprehensive overviews of its activities on its own website, including investment guidelines and business partners. IFC also makes project-specific information available, including *Summaries of Project Information (SPIs)*, *Environmental Assessments (EAs)*, *Environmental Action Plans (EAPs)* and *Environmental Review Summaries (ERSs)*.[243]

Commercial banks should work towards a greater deal transparency. A first step would be for the bank to provide a sectoral and regional breakdown of the deals it is involved in by financial product or service (e.g. corporate loans, syndicated loans, underwriting, etc.). Such reporting is required in the GRI financial services sector supplement, and is meant to give stakeholders some sense of the bank's exposure to environmentally and/or socially sensitive areas or sectors.

A second step would be to provide via the bank's website, basic details (name of client, amount, purpose, maturity) on the deals which the bank has concluded.

A further critical step towards transparency is to create disclosure policies and practices that require clients (in some or all cases) to make information about environmental and social impacts available to affected communities. This would be similar to the disclosure requirements Equator Principles banks are supposed to apply to Category A transactions, which obliges clients to provide affected people and NGOs with timely and adequate information about proposed activities in an appropriate language and manner.

It should be noted that such disclosure of social and environmental information to stakeholders should not be avoided through the claim of client confidentiality. Client confidentiality is generally irrelevant since most of the information relevant for affected people and NGOs does not fall within the narrow margins of business secrets. Moreover, a client's interest in confidentiality should not be overriding unless it outweighs the public's right to know about impacts that may directly affect them.

Best practice would entail making information about pending deals available to the public, similar to what is required by IFC's Transparency and Disclosure procedure.

5.4.2 Score Table

The considerations above lead to the following scoring table with regard to deal transparency:

0. *The bank is not transparent about deals at all;*
1. *The bank provides sectoral and regional breakdowns of the deals it was involved in (in the reporting period), by financial product or service;*
2. *The bank provides sectoral and regional breakdowns of the deals it was involved in and a list with the basic details of the deals it was involved in (in the reporting period);*
3. *The bank provides sectoral and regional breakdowns of the deals it was involved in and a list with the basic details of the deals it was involved in (in the reporting period). It also requires clients (in some or all cases) to disclose environmental and social assessment reports, reviews and management plans to affected people;*

4. *The bank provides sectoral and regional breakdowns of the deals it was involved in and a list with the basic details of the deals it was involved in (in the reporting period). It also requires clients (in some or all cases) to disclose environmental and social assessment reports, reviews and management plans to affected people. The bank also discloses information on pending deals and on deals rejected because they do not meet the criteria in the bank's issue and sector policies.*

5.4.3 Results

Very few banks are transparent about the clients they provide financial services to, or the sectors in which they are active. This report found that 23 banks show the composition of their lending portfolios by sector and/or geography, but only seldom name any of their clients or the syndicates they have participated in. The signatory banks to the Equator Principles are obliged to publish an overview of their involvement in project finance deals, as well as the categorisation of the deals they are involved in. None of the banks provide similar information about their entire loan portfolio.

Scores on Deal Transparency					
ABN AMRO	1	Saudi-American Bank	1	BNP Paribas	0
Barclays	1	Santander	1	Citi	0
BBVA	1	Scotiabank	1	Credit Suisse	0
China Construction	1	Société Générale	1	Fortis	0
Crédit Agricole	1	Standard Bank	1	Goldman Sachs	0
Deutsche Bank	1	Standard Chartered	1	HSBC	0
Dexia	1	Sumitomo Mitsui	1	ICBC	0
Intesa Sanpaolo	1	Westpac	1	ING	0
JPMorgan Chase	1	ANZ	0	Merrill Lynch	0
KBC	1	Banco Bradesco	0	Mitsubishi UFJ	0
Mizuho Financial	1	Banco do Brasil	0	Morgan Stanley	0
Nedbank	1	Banco Itaú	0	State Bank of India	0
Rabobank	1	Bank Mandiri	0	UBS	0
RBS	1	Bank of America	0	Unicredit	0
Royal Bank of Canada	1	Bank of China	0	WestLB	0

5.5 Institutional accountability

5.5.1 Best practices

Institutional accountability refers to all mechanisms and procedures put in place by the to ensure that its sustainability commitments are implemented throughout the organisation and applied to all relevant financial services.

A first mechanism contributing to achieving this goal is to conduct *internal* audits of the bank's *Environmental and Social Risk Management System*, including its sector and issue financing policies. Based upon the outcomes of these audits, steps can be taken by the bank's management to improve procedures and tools.

A second mechanism could be *external* audits of the bank's *Environmental and Social Risk Management System.* A well-known external auditing standard is ISO 14001, which is used by banks to audit the environmental consequences of the bank's internal operations (e.g. paper use). However, ISO 14001 is not suited to audit sector and issue financing policies. For an external audit of the bank's issue and sector financing policies another standard should be used.

Institutional accountability is further increased when the results (or a summary thereof) of the audits of the bank's *Environmental and Social Risk Management System* - including its sector and issue financing policies - are made public, and the bank engages on a debate with stakeholders about the results and next steps to take based on the results.

One of the most important accountability mechanisms entails consulting civil society groups regularly on the bank's sector and issue financing policies. To make this consultation effective it is necessary to translate policies in languages understood by local stakeholders and civil society. This consultation should be a serious two-way process: if the bank is not prepared to take the concerns, grievances and other inputs of civil society groups seriously and adapt policies and procedures when flaws are identified, such consultations are useless.[244]

AccountAbility has developed the AA1000 Series of Standards, a combination of accounting, auditing and reporting standards. The *AA1000 Series* consist of the *1999 Framework* - providing guidance on establishing a systematic stakeholder engagement process; the *Assurance Standard* - covering the full range of an organisation's disclosure and performance; and the *Stakeholder Engagement Standards* - advancing the right of stakeholders to be heard and the organisations' obligation to adequately respond to their concerns.[245]

5.5.2 Score table

The considerations above lead to the following scoring table with regard to institutional accountability:

0. *The bank has no institutional accountability mechanism at all;*
1. *The bank conducts internal audits of its sector and issue financing policies;*
2. *The bank hires external auditors to audit its sector and issue financing policies;*
3. *The bank publicly publishes the results of the audits of its sector and issue financing policies;*
4. *The bank publicly publishes the results of the audits of its sector and issue financing policies and conducts stakeholder engagement processes on its sector and issue policies that comply with the AA1000 Series of Standards or similar standards.*

5.5.3 Results

Many banks have their Corporate Social Responsibility Reports audited, either by internal or external auditors. Our research found that 18 banks hire an external auditor and 11 banks undertake an internal audit. However, most 'sustainability auditors' have little experience in auditing the bank's social and environmental lending behaviour. Instead, their focus is mainly on the reporting of factors like the bank's operational emissions, internal labour conditions, etc. Outcomes of the audits are not reported by any bank.

Scores on Institutional Accountability					
ABN AMRO	2	Unicredit	2	Bank Mandiri	0
ANZ	2	WestLB	2	Bank of China	0
Banco Bradesco	2	Westpac	2	China Construction	0
Banco Itaú	2	Bank of America	1	Goldman Sachs	0
BNP Paribas	2	Barclays	1	ICBC	0
Crédit Agricole	2	BBVA	1	JPMorgan Chase	0
Deutsche Bank	2	Citi	1	Mitsubishi UFJ	0
Fortis	2	Credit Suisse	1	Mizuho Financial	0
ING	2	Dexia	1	Morgan Stanley	0
Intesa Sanpaolo	2	HSBC	1	Royal Bank of Canada	0
KBC	2	Merrill Lynch	1	Saudi-American Bank	0
Nedbank	2	Scotiabank	1	Santander	0
Rabobank	2	Standard Chartered	1	Société Générale	0
RBS	2	Sumitomo Mitsui	1	Standard Bank	0
UBS	2	Banco do Brasil	0	State Bank of India	0

5.6 Deal accountability

5.6.1 Best practices

Apart from accountability at the institutional level, the bank should also recognise its accountability to local communities and other stakeholders affected by specific deals the bank is involved in. The sector and issue financing policies adopted by the bank are supposed to prevent or, in some unavoidable cases, mitigate or fairly compensate negative effects on such stakeholders. Therefore, mechanisms need to be in place that ensures recourse for external stakeholders in case the policies are not properly applied.

The bank's clients have the first responsibility in dealing with environmental or social problems arising from their activities. Because of this responsibility, clients should establish and manage a community grievance mechanism. But this does not relieve a bank from its duty to ensure that its clients comply with the standards set in the bank's sector and issue financing policies. Banks should therefore establish a *Bank Policy Complaint Mechanism* for local and other stakeholders who are affected by bank-financed activities, as well as for NGOs which legitimately defend broader social and environmental interests.

The mechanism should enable these stakeholders to file a complaint based on the non-observance of relevant sector and issue financing policies by a client of the bank. Most of the multilateral development banks and several export credit agencies (ECAs) have put such mechanisms in place.[246]

Such a *Bank Policy Complaint Mechanism* is different from the general procedures a bank may have to deal with customer complaints. Rather, a *Bank Policy Complaint Mechanism* should deal with complaints and grievances in a serious and structured way and should therefore function independently, free from undue influence and pressure. Further, the *Bank Policy Complaint Mechanism* should provide rights to complainants regarding a codified procedure.[247] This *Bank Policy Complaint Mechanism* can either be established and managed by an individual bank, or use mechanisms that are then to be created within a group of committed banks -for example the signatories to the *Equator Principles*.

5.6.2 Score table

The considerations above lead to the following scoring table with regard to deal accountability:

0. *The bank has no Bank Policy Complaint Mechanism at all;*
1. *The bank has an informal Bank Policy Complaint Mechanism in place which is not independent or has no authority within the bank;*
2. *The bank has set up an independent Bank Policy Complaint Mechanism for a specific field of financing activity (e.g. project finance);*
3. *The bank has set up an independent Bank Policy Complaint Mechanism for all deals in which the bank is involved;*
4. *The bank has set up an independent Bank Policy Complaint Mechanism for all deals in which the bank is involved and reports publicly on the complaints filed, the responses and the steps taken to address problems.*

5.6.3 Results

Some deals that are financed by international banks do harm to individuals, communities or society as a whole. It is important that the bank offers a mechanism for third parties like communities or other stakeholders affected by the banks' deals, or representatives of the affected people, to complain or raise issues in the bank about its financing behaviour.

Most banks have set up complaint mechanisms, but generally these are focused at clients who are unsatisfied by the bank's service levels. Four banks, Banco do Brasil (Brazil), Rabobank (the Netherlands), Standard Bank (South Africa) and Westpac (Australia), have established also a grievance mechanism for third-party complaints.

Scores on Deal Accountability					
Banco do Brasil	3	BNP Paribas	0	Mizuho Financial	0
Rabobank	3	China Construction	0	Morgan Stanley	0
Standard Bank	3	Citi	0	Nedbank	0
Westpac	3	Crédit Agricole	0	RBS	0
ABN AMRO	1	Credit Suisse	0	Royal Bank of Canada	0
ING	1	Deutsche Bank	0	Saudi-American Bank	0
Intesa Sanpaolo	1	Dexia	0	Santander	0
ANZ	0	Fortis	0	Scotiabank	0
Banco Bradesco	0	Goldman Sachs	0	Société Générale	0
Banco Itaú	0	HSBC	0	Standard Chartered	0
Bank Mandiri	0	ICBC	0	State Bank of India	0
Bank of America	0	JPMorgan Chase	0	Sumitomo Mitsui	0
Bank of China	0	KBC	0	UBS	0
Barclays	0	Merrill Lynch	0	Unicredit	0
BBVA	0	Mitsubishi UFJ	0	WestLB	0

6. Dodgy deals

6.1 Introduction

Having established appropriate policies is the first prerequisite for a bank to effectively deal with social and environmental aspects of their operations. But policies are meaningless without the tools in place to effectively implement them across all operations of a bank. Furthermore, it takes courage to accept the consequences of having stringent polices, by accepting the necessity to refrain from financing specific projects or activities or to stay out of a certain sector altogether.

The following paragraphs provide summary presentations of deals that BankTrack considers as showing a gap between policies and practice of banks. The exact involvement of banks in these deals may vary, as is indicated within each paragraph. Banks also may no longer be involved in the deal at the time of writing (as certain types of involvement such as issuing bonds typically last only a short period of time) but they were all involved in the deals sometime since January 1st 2003.

Additional and regularly updated information on all deals can be found on the 'Dodgy Deals' section of the BankTrack website.

6.2 Aracruz

Aracruz is the world's largest producer of bleached eucalyptus pulp, producing a total of 27 per cent of world's output. The company has three pulp-making plants and produces a total of 3 million tonnes of pulp a year. Aracruz has expanded its operations by 1.3 million tonnes since 2000 and plans to further expand its operations by nearly 2 million tonnes within the next few years.

In Brazil, Aracruz has been criticized for poor relations with indigenous peoples, rural communities formed by the descendents of runaway slaves (Quilombolas) and other local communities. The company was reportedly involved in violent attacks against indigenous peoples and responsible for an aggressive anti-indigenous peoples campaign. Aracruz is also involved in unsustainable practices like planting its monoculture plantations in protected areas and using enormous quantities of chemical fertilizers, pesticides and agrotoxics for growing the non-native eucalyptus. Drinking water has been polluted and streams and soil have dried out as a result of their large-scale plantations.

Aracruz's expansion plans will very likely increase the already existing social and environmental problems where it already operates. International banks should therefore refrain from providing money for the construction of another large pulp mill and/or plantations by Aracruz.

Bank involvement:

- Citi and JPMorgan Chase are managing Aracruz's regular bond issuances on the American capital market, among others in May 2004 and March 2006.[248]

- Banco Itaú is the custodian of the shares of Aracruz.[249]

6.3 Asia Pulp & Paper

Asia Pulp & Paper is the largest pulp & paper producer in Asia. Its total pulp production capacity in Indonesia and China now amounts to 3.3 million tons per year, while its paper and packaging materials capacity amounts to over 7 million tons annually. The company aims to increase its global paper and board production capacity to reach 10 million tons per year by 2010. Most of this new capacity will be seen in China.

The company recently signed a contract with the Yunnan Provincial Government to buy the Yunjing Lizhi Group pulp mill in Yunnan and enlarge the annual capacity of pulp production. Yunnan is one of the biodiversity hotpots in China with 70% of its wild animal species under special protection. Once the expansion occurs, the new mill will substantially increase the pressure on the natural forests in the region. A field research team implementing a forest-pulp-paper integration program in Yunnan province has also shown that APP performed illegal logging.

On Hainan island, APP is known to unscrupulously exploit natural forest resources to feed its pulp mill on the island, which started operating in March 2005. The company is planting eucalyptus on the island, including protected conservation areas. Since 1997, APP has also cleared large areas of natural forest in the Wuzhishan mountain area and Hainan Yinggeling Natural Reserve to make way for eucalyptus plantations.

Bank involvement:

- Bank of China, China Construction Bank and ICBC were involved with other Chinese banks in the debt restructuring of APP China in November 2003 which gave the banks collectively a majority shareholding in the company.[250]
- Bank of China provided a loan to APP China's paper plant in Jiangsu province in April 2004.[251]
- ICBC provided loans to APP China's pulp plant in Hainan in 2004.[252]

6.4 Baku-Tbilisi-Ceyhan pipeline

The Baku-Tbilisi-Ceyhan pipeline (BTC), operated by BP, passes through Azerbaijan, Georgia and Turkey. Operational since June 2006, in spite of huge opposition from local and international environmental civil society groups, BTC passes through or near seven different conflict zones. Issues regarding distribution of earnings from the pipeline have further aggravated antagonism between communities and between regions. The pipeline, whilst transporting millions of barrels of oil to consumers in the West, has not lead to the delivery of energy to the hundreds of communities in the energy-poor regions along the route. Some of these communities' lands have even been reportedly confiscated, in return for no or very meagre compensation.

Moreover, the BTC pipeline passes through nature reserves and seismic areas. Due to cost-cutting, safety standards have been disregarded and unsuitable anti-erosion coatings have been used. Seismic experts have not always been hired, although the force of earthquakes in the region has shown to be able to tear down entire cities and hence form a serious threat to the pipeline and its surroundings. As a result, major leaks and pipeline ruptures are expected to develop during the life time of the project.

Bank involvement:

- In February 2004, a banking syndicate arranged by ABN AMRO, Citi, Mizuho Bank and Société Générale provided part of the US$ 2.6 billion project financing for the pipeline. Other banks participating in the syndicate were BNP Paribas, Calyon, Dexia, ING Bank, Intesa San Paolo, KBC, Royal Bank of Scotland, UniCredit-HVB and WestLb. [253]

6.5 Belene

The Belene nuclear power plant (NPP) is planned at the Danube in northern Bulgaria. The building consortium consists of the Russian company AtomStroyExport which has offered to build Belene together with the French-German company Areva.

Bulgaria aims to keep a stake of at least 51% in the new plant and seek a strategic investor for the remaining portion. In July 2007, the state owned National Electric Company (NEK) shortlisted Czech CEZ, German E.ON and RWE, Belgian Electrabel, Electricite de France and Italy's Enel as possible investors. All companies provided their bids by 17th of October 2007.

The Belene project is highly controversial. Apart from the necessity of building new NNPs in general being highly questionable, there are a number of specific risks related to this project:

- The NPP is planned in a seismic active area. Just 14 km from the planned site. In 1977, 200 people died in an earthquake in the area.
- The environmental impact assessment (EIA) was done without knowing which reactor type would be chosen to be built.
- The environmental impact assessment is generally considered to be of sub-standard quality. Heavy accidents, terrorist threat and nuclear waste were neglected, public concerns were not properly taken into account, the procedure was not carried out in surrounding countries as prescribed under the Espoo Convention, and the EIA hearings were strongly manipulated. During court procedures even the author team of the EIA report conceded that the report was below standard and advised a new procedure to be carried out as soon as a design for the reactors has been selected.
- There is no industrial experience so far with the now selected reactor type VVER 1000/466B.
- Like most other countries, Bulgaria has no clear strategy on how to manage the radioactive waste resulting from the operation of the NPP.

Bank involvement:

- In July 2007 BNP Paribas arranged a € 250 million five year syndicated loan to NEK to finance the Belene project.[254]

6.6 Botnia

The Finnish pulp company Botnia has built a mega pulp facility on the Uruguayan side of the Uruguay River, forming the international border with Argentina. The mill was constructed and began operating in November 2007 despite the majority of residents in the impact zone vehemently opposing the factory. These residents were never consulted on the plans to construct the plant. Protestors have blocked the international bridge between the two countries for over one year and staged many individual marches, the largest of which attracted 120,000 people. Botnia previously ignored calls from both Uruguay and Argentina’s presidents to suspend construction so that the dispute between the two countries could be resolved. The case has gone to the International Court of Justice where a decision is yet to be made regarding whether Uruguay has violated international law.

Bank involvement:

- In March 2007 Botnia signed loan contracts with a total value of US$ 330 million and € 300 million to finance the pulp mill. The loans were arranged by Calyon with two Scandinavian banks.[255]

6.7 Camisea natural gas project

Peru's Camisea project was designed to exploit an enormous gas field in the Amazonian region. It consists of three main components: extraction platforms, two pipelines from the Urubamba Valley in the Amazon to the coast of Peru, and a distribution system in the coastal provinces of Lima and Callao.

The project is divided into two stages. The first stage of the original concessions (Camisea I) has already been completed, with gas extraction for "Block 88" and the first pipeline across the Andes now operating. Now the second stage of the project (Camisea II) is about to start but it is fiercely opposed by local and international civil society groups and affected indigenous peoples.

Bank involvement:

- BBVA provided a US$ 35 million loan to Tecpetrol del Peru in October 2006, to finance its investments in the Camisea project.[256]
- Société Générale is financial adviser to the Peru NGL project.[257]
- WestLb in November 2007 was arranging a US$ 82.5 million loan for the Peru NGL project.[258]

6.8 China Datang

China Datang Corporation is one of China's five largest, state-owned power corporations. China Datang's installed energy capacity amounted to 54,060 MW in 2006, most of which generated by coal-fired plants which are contributing to climate change and pollution. In recent years, China Datang has also invested in hydropower and the company is on the State Environmental Protection Agency (SEPA) blacklist for severe violations of environmental regulations. Five of China Datang’s coal-fired power electricity plants in Hebei province are on this SEPA list, as they lack up-to-date pollution controls and are a major source of smog. China Datang has announced that it is discussing with the relevant authorities to gradually close down the five power plants, however the plants continue to operate.

Datang Power Generation, a listed subsidiary of China Datang will also become the first Chinese listed power firm to invest in nuclear energy, taking part in the construction of two nuclear power stations in the Fujian province.

Bank involvement:

- ICBC guaranteed bond issuances of China Datang on the Chinese market in April 2005 and February 2006. The issuances were managed by China International Capital Corporation, which is partly owned by Morgan Stanley. Other banks participating in the issuance syndicates were Bank of China and Goldman Sachs.[259]
- UBS managed the issuance of Datang's five year convertible bonds on the international market in September 2003.[260]

6.9 Cluster munitions producers

Cluster munitions are weapons which blast a wide area by igniting large amounts of *submunitions* when deployed. Due to the indiscriminate targeting of the explosive devices, civilians account for 98% of cluster munitions victims, representing a direct contravention of international humanitarian law. Even after armed conflict has ceased, sub-munitions contained in cluster bombs or rockets can remain unexploded across large areas of lands, detonating when disturbed by civilians.

Companies known to produce cluster munitions are Lockheed Martin, Raytheon and Textron from the United States, Rheinmetall from Germany and Thales from France. Some investors and financial institutions listed below have begun to understand the impacts of these weapons and are recently commencing divesting from a range of cluster munitions producers. Other banks still remained complicit in the financing of these weapons.

Bank involvement:

- In June 2007 Lockheed Martin amended its US$ 1.5 billion five year revolving credit facility from a banking syndicate arranged by JPMorgan Chase. Other banks participating were ANZ, Bank of America, Barclays, BBVA, BNP Paribas, Calyon, Citi, Intesa Sanpaolo, Mitsubishi UFJ, Mizuho Bank, Morgan Stanley, Royal Bank of Scotland, Scotiabank, Sumitomo Mitsui, UBS and Westlb.[261]
- In March 2005 Raytheon secured a US$ 2.2 billion five year revolving credit facility from a banking syndicate arranged by Bank of America and JPMorgan Chase. Other banks participating were ANZ, Barclays, BBVA, BNP Paribas, Calyon, Citi, Credit Suisse, Mitsubishi UFJ, Mizuho Bank, Morgan Stanley, Royal Bank of Scotland, Scotiabank, Société Générale, Sumitomo Mitsui, UBS and WestLb.[262]
- In April 2006 Textron amended its US$ 1.25 billion five year revolving credit facility from a banking syndicate arranged by Citi and JPMorgan Chase. Other banks participating were Bank of America, Barclays, BNP Paribas, Citi, Credit Suisse, Deutsche Bank, HSBC, Merrill Lynch, Mitsubishi UFJ, Morgan Stanley, Scotiabank, Société Générale and UBS.[263]
- In March 2005 Textron issued eight year bonds with a total value of € 300 million. The lead managers of the issuing syndicate were Deutsche Bank and JPMorgan Chase. Other banks participating were Bank of America, HSBC, Mitsubishi UFJ and Société Générale.[264]

- In January 2005 Thales secured a five-year € 1.5 billion loan from a banking syndicate arranged by BNP Paribas, Calyon, Deutsche Bank and JPMorgan Chase. Other banks participating were ABN AMRO, ANZ, Barclays, BBVA, Citi, Fortis, HSBC, ING, Mitsubishi UFJ, Royal Bank of Scotland, Sumitomo Mitsui, Société Générale, UBS and Unicredit-HVB.[265]
- In December 2006 Thales issued three year bonds with a total value of € 700 million. The lead managers of the issuing syndicate were BNP Paribas, Calyon, HSBC, Société Générale and another bank.[266]
- In April 2005 Rheinmetall amended € 400 five-year revolving credit facility from a banking syndicate arranged by Deutsche Bank, Unicredit-HVB and four other banks. Among the banks participating in the syndicate were ABN AMRO, Bank of America, Calyon and HSBC. In February 2006, the facility was extended up to 2011.[267]

6.10 CNPC in Sudan

Open warfare erupted in the Darfur region of West Sudan in early 2003 when two loosely allied rebel groups, the Sudan Liberation Movement/Army (SLA) and the Justice and Equality Movement (JEM), attacked military installations. In response, the "Janjaweed" Militias received government support to clear civilians from areas considered disloyal to the Sudanese government. According to reports by the World Food Program, the United Nations and the Coalition for International Justice, 3.5 million people are now hungry, 2.5 million have been displaced due to violence, and 400,000 people have died in Darfur thus far. The conflict has been termed "genocide" by US Congress, and the struggle to control the region's oil revenues is generally acknowledged as one of the main causes of the conflict.

The state-owned China National Petroleum Corporation (CNPC) is the most important operator and producer of petroleum in Sudan. It is the operator and part owner (40%) of the Greater Nile Petroleum Operating Company. CNPC is also the operator and 41% owner of Petrodar operating in the Melut Basin.

In 2005 CNPC's crude production in Sudan reached 16.38 million tones and its proven reserve reached 550 million barrels. According to some sources CNPC paid for its investments in Sudan in part by providing arms to the Sudanese Government. In any case these activities yield income for the Sudanese regime and fuel the conflicts in the southern and western parts of the country.

Bank involvement:

- In September 2005 PetroChina raised $ 2.4 billion by selling 3 billion shares. Citi, Deutsche Bank and Goldman Sachs managed the sale.[268]
- Bank of China managed a Rmb 2 billion bond issuance by PetroChina on the Chinese market in October 2006.[269]
- In April 2007, PetroChina listed Bank of China, China Construction Bank and ICBC among its principal bankers.[270]
- UBS was the lead manager of PetroChina's listing on the Shanghai stock exchange in November 2007. China International Capital Corporation, which is partly owned by Morgan Stanley, participated in the syndicate as well.[271]

6.11 Dynegy

The US electricity company Dynegy is currently planning to construct more new coal-fired power plants than any other company in the United States, which will result in very large increases in greenhouse gas emissions (GHG). Coal power plants are the leading source of greenhouse gas emissions in the USA, and the added GHG emissions from just one typical new coal fired power plant is equivalent to adding one million new cars to the road.

Dynegy is proposing to build 10 new coal-fired power plants in eight states, at a cost of nearly US$ 12 billion. This is the biggest build out by any single company currently proposed in the United States. If financed and built, these plants would put out more than 65 million tons of CO_2 emissions per year.

Additional health, social and environmental impacts associated with the plants extend to coal mining and transportation, as well as the impacts of dangerous emissions that come from coal combustion. Dangerous substances emitted by these plants include mercury, sulphur dioxide and nitrous oxides.

Bank involvement;

- In May 2006 Dynegy secured two credit agreements with a total value of US$ 1.25 billion with a banking syndicate arranged by Credit Suisse, Goldman Sachs, Morgan Stanley and WestLB.[272]
- In August 2006 Dynegy secured a US$ 150 million letter of credit facility from a banking syndicate arranged by Barclays, Credit Suisse and ING.[273]
- In May 2007 Dynegy raised its US$ 1.32 billion credit facility to US$ 2.07 billion. The facility replaces the credit agreements mentioned above and is provided by a banking syndicate arranged by Citi and JPMorgan Chase. Among the other banks participating in the syndicate were ABN AMRO, Bank of America, Barclays, BNP Paribas, Calyon, Credit Suisse, Goldman Sachs, Merrill Lynch, Morgan Stanley, Royal Bank of Scotland and Scotiabank.[274]
- In May 2007 issued bonds with a total value of US$ 1.65 billion on the American capital market. The issuance was underwritten by Citi, Credit Suisse and JP Morgan Chase.[275]
- In August 2007 LS Power and Dynegy secured a US$ 1 billion project financing for the Sandy Creek coal-fired power plant in Texas. The banking syndicate was arranged by Credit Suisse and Royal Bank of Scotland. Among the banks participating in the syndicate were BNP Paribas, Calyon, Dexia, ING, Scotiabank and WestLB.[276]

6.12 Freeport McMoran

The American mining company Freeport McMoran operates the Grasberg copper and gold mine in the Indonesian Papua province, the western part of the New Guinea island. The Grasberg mine is the biggest gold mine and the third biggest copper mine in the world.

New Guinea is well known for its extraordinary biologically diverse ecosystems and unique endemic species. The western part of the island is home to 1.5 million indigenous people speaking more than 250 different languages.

The area is also one of the last places on earth where companies still use the controversial mining technique of riverine tailings disposal. This involves dumping toxic rubble in river systems. Every day, Freeport McMoran dumps 230,000 tonnes of polluted rubble in the Aghawagon river which is equivalent to 3.25 billion tonnes over the total lifetime of the mine. The waste contains heavy metals such as copper, arsenic, cadmium and mercury, killing off life in the river. It is now almost impossible for the local population to use the river for fishing or drinking water. The large quantities of sediment that remain on the river banks is also affecting the rainforests. It is estimated that 230 km^2 of rainforest will be destroyed over the lifetime of the mine.

Freeport McMoran has also been criticised for the murder and torture of indigenous people living in the vicinity of the mine by soldiers and police bribed by the company.

Bank involvement:

- In July 2006 Freeport McMoRan and PT Freeport Indonesia secured a three year US$ 465 million revolving credit facility from a banking syndicate arranged by JPMorgan Chase. Other banks participating in the syndicate include: Citi, Deutsche Bank, HSBC, Merrill Lynch, Morgan Stanley, Scotiabank, Société Générale, State Bank of India, Sumitomo Mitsui and UBS.[277]
- In March 2007 Freeport McMoRan's existing revolving credit facility was replaced by a US$ 1.5 billion revolving credit facility and a US$ 10 billion term loan from a banking syndicate arranged by JPMorgan Chase and Merrill Lynch. These loans were intended to finance the acquisition of Phelps Dodge. Other banks participating in the syndicate were: ANZ, Bank of America, BNP Paribas, Calyon, HSBC, ING, Mitsubishi UFJ, Mizuho Bank, Royal Bank of Canada, Royal Bank of Scotland, Santander, Scotiabank, Société Générale, Standard Chartered, Sumitomo Mitsui, UniCredit-HVB, UBS and WestLb. [278]
- In March 2007 Freeport McMoRan issued bonds for a total amount of US$ 6 billion and shares for a total amount of US$ 5.76 billion. The issuing syndicates were managed by JPMorgan Chase and Merrill Lynch.[279]

6.13 Gunns

The Australian forestry company Gunns has a virtual monopoly over the logging of Tasmania's old-growth forests, incorporating unsustainable practices such as clear-felling, poisoning of animals on land earmarked for regrowth, and napalming clear cut areas. In 2007 Gunns is proposing a large-scale pulp mill that would accelerate the rate of clear-cut logging, representing 2% of Australia's annual greenhouse gas emissions, in addition to producing high levels of dioxins, furans, and other pollutants in ocean outfall. The Australian Medical Association is concerned that sulphur compounds in atmospheric emissions will heavily pollute nearby urban areas increasing medical ailments and mortality. Ethical investors have rallied against Gunns choosing to ban investment in the company.

Bank involvement:

- Gunns is an ANZ client since 1995. ANZ has provided corporate loans to the company and is a potential financier of the proposed Bell Bay pulp mill.[280]

6.14 Ilisu dam

The 1,200 MW Ilisu dam project is planned on the Tigris river in Southeast Turkey, some 50 km away from the border to Syria and Iraq. Here, a 1,800 m long wall will create a 313 km² reservoir. The project is under construction despite allegations of breaching international laws and failing to comply with financing conditionalities. The project will resettle 78 000 people without residents free, prior or informed consent. The dam will flood culturally important sites protected by Turkish laws. Downstream water-flows to riparian states Syria and Iraq may fall to historic levels, and contrary to international law, neither country has as yet been fully informed or consulted.

Despite approving finance, a consortium of export credit agencies have placed 150 conditions on finance which are flaunted by proponents, yet the project proceeds. No comprehensive environmental impact study exists for the project which is expected to have detrimental effects for endangered species such as the Euphrates turtle.

Bank involvement:

- In August 2007 Bank Austria (a subsidiary of UniCredit-HVB), Société Générale three Turkish banks signed contracts to provide part of the € 1.2 billion debt financing for the Ilisu project.[281]

6.15 Kashagan

Kashagan is part of the North Caspian Sea Production Sharing Agreement (PSA), a 40-year contract that was signed in 1997 and includes the development of 11 offshore extraction blocks in Kazakhstan. According to some industry resources, Kashagan's reserves could well exceed 50 billion barrels. This would make it the second largest oil field in the world.

In addition to the offshore extraction itself, a number of supporting infrastructure projects throughout western Kazakhstan and the Caspian pose great environmental and social risks combining a dangerous mix of new, untested technologies and a fragile environment. A multinational oil consortium is operating under a confidential agreement with the government of Kazakhstan.

The Kashagan oil field is located within the protected territory of the shallow nature reserve zone of the north Caspian Sea, habitat to the endangered sturgeon, the Caspian Seal's and numerous bird species. The risk of irreparable environmental devastation is exacerbated by the extreme weather conditions in the zone.
Further complicating matters, Kashagan crude contains high levels of sulphide impurities, which must be removed before oil can be exported. Sulphur removal is extremely polluting, and carries major risks for nearby communities. According to local experts, a technology good enough to allow a sustainable treatment of sulphur emissions and storage may not yet exist. There is also a lack of waste management and emergency contingency plans that consider nearby residents who have been excluded from the project's Environmental Impact Assessment. The project represents a risk for fishery and tourism as well as other possible sustainable economic ventures that could help reduce poverty levels in the region.

Bank involvement:

- Inpex has financed the first phase of its investments in the Kashagan project in November 2005 with a US$ 649 million loan in which Mitsubishi UFJ, Mizuho Bank and Sumitomo Mitsui participated.[282]
- In January 2006 KazMunayGaz concluded a US$ 800 million one-year bridge loan with a banking syndicate arranged by BNP Paribas, Citi and Société Générale to finance its 8.33% stake in the Kashagan consortium.[283] In September 2007 the deal was refinanced by a US$ 1.05 billion 15-month loan from a banking syndicate arranged by BNP Paribas, Citi and Société Générale. Other banks participating in the banking syndicate include: ING, Mitsubishi UFJ, Mizuho Bank and Sumitomo Mitsui. [284]

6.16 Kayelekera

The Australian mining company Paladin Resources is investing in the Kayelekera uranium mining project in Malawi. Kayelekera will be the first uranium development in Malawi, According to Australian scientists major flaws, omissions and inadequacies exist in the project design. In addition, environmental baseline studies, and environmental and social impact assessments have been performed inadequately.

At present, Paladin Resources proposes to dispose radioactive uranium tailings above ground which would allow the polluted mine water flow directly in the nearby rivers, essential for food gathering and the survival of local communities. Paladin Resources has made no commitments on rehabilitation of the mining area after closure of the project. Moreover, domestic laws have been breached and local civil society groups have been intimidated, threatened and/or bribed in order to keep quiet about the project.

Bank involvement:

- In August 2005 Paladin Resources secured a US$ 71 million term loan from an international banking syndicate for the construction of the Langer Heinrich Uranium Project in Namibia. The banking syndicate was arranged by Société Générale.[285] Société Générale is also considering financing the Kayelekera project.[286]
- In October 2005 Paladin Resources issued 35 million shares, raising A$ 77 million. The issuance was managed by a banking syndicate led by Royal Bank of Canada and another bank.[287]
- In December 2006 Paladin Resources issued five year convertible bonds with a total value of US$ 250 million. Joint lead managers were Royal Bank of Canada and UBS.[288]

6.17 Lafayette Mining

The Australian company Lafayette Mining has developed an open pit mine on Rapu Rapu island in the South East of the Philippines. The mine has produced copper, zinc, gold and silver since early 2007. The expected life time of the current mine is eight years, but exploration is underway to extend the operation.

The tiny island of Rapu Rapu (population 12,000) is home to agricultural and fishing communities reliant on natural resources for their livelihoods. The fragile but relatively intact island ecosystem hosts several bird and mammal species severely threatened elsewhere in the Philippines while the waters surrounding the island teems with fish and marine mammals. Whales, dolphins, whale sharks, turtles, egrets and purple herons are frequently sighted.

Local communities and regional authorities, as well as local church leaders have resisted the operation from the very beginning and continue to do so until today. They cite negative effects of the operation to include loss of land, threats to fisheries, health effects, militarization, cultural intrusion and increased social tensions.

Bank involvement

- The mining operation was partly financed by a US$ 35 million loan package arranged in March 2004 by ABN AMRO, ANZ amongst others. Since then, the support package has been repeatedly extended and expanded. Standard Chartered, through its subsidiary Korea First Bank (SC First) also participated in the syndicate.[289]
- Standard bank is the co-owner of SEASAF, a investment fund that partly owns the mine and has plans to obtain a majority stake in the operation.
- Developments of involvement of banks with Lafayette were ongoing and in constant change at time of publication of this report.

6.18 Mountain top removal mining

Rather than remove coal from the mountain, mountain top removal coal mining (MTR) in the Appalachia Mountains region of the eastern United States removes the mountain from the coal. Throughout Appalachia, hundreds of mountains have been flattened. First forests are clear-cut, then the top layers of rock are blown away with powerful explosives. Giant cranes (draglines) expose buried coal by scraping billions of tons of dirt off the mountain. The debris is then dumped into neighbouring valleys and streams. The US Environmental Protection Agency estimates that more than one million acres have already been lost to mountain top removal and that more than 1,200 miles of streams have been buried by valley fills.

For marginalized coalfield resident communities, MTR has meant the loss of thousands of jobs and growing health risks. Poverty has increased in MTR regions as corporate profits soar. Coal sludge dams can contain billions of tons of toxic waste from mining operations and threaten local communities.

American coal mining companies that practice mountain top removal coal mining are Alpha Natural Resources, Arch Coal, International Coal Group and Massey Energy.

Bank involvement:

- In October 2004 Arch Coal sold 7.2 million shares on the American capital market, raising US$ 230.6 million.[290] The issuance was underwritten by a syndicate arranged by Citi and Morgan Stanley. JPMorgan Chase and Merrill Lynch participated in the syndicate.[291]
- In December 2004 Arch Coal secured a US$ 700 million revolving credit facility from a banking syndicate arranged by Citi, JPMorgan Chase and another bank. The amount was raised to US$ 800 million in June 2006 and the number of banks

expanded in October 2006. Among the banks participating in the syndicates are ABN AMRO, Bank of America, BNP Paribas, Calyon, Mizuho Bank, Morgan Stanley, Royal Bank of Scotland, UBS and WestLb.[292]

- In May 2004 Alpha Natural Resources secured a US$ 175 million revolving credit facility from a banking syndicate arranged by Citi, Credit Suisse and UBS.[293]
- In February 2005 Alpha Natural Resources made an IPO at the New York stock exchange, raising US$ 524 million. The IPO was underwritten by a banking syndicate arranged by Morgan Stanley and Citi. Other banks participating were ABN AMRO and UBS.[294]
- In October 2005 Alpha Natural Resources secured a credit facility of US$ 525 million from a banking syndicate arranged by Citi and UBS to pay for the acquisition of the American coal mining company Nicewonder. Among the other banks participating in the syndicate were ABN AMRO, Bank of America, Société Générale and Sumitomo Mitsui.[295]
- In January 2006 Alpha Natural Resources made a secondary offering of 12.3 million shares, raising US$ 248 million. The issuance was managed by a syndicate arranged by Citi, Morgan Stanley and UBS. Merrill Lynch participated in the syndicate.[296]
- In May 2006 Alpha Natural Resources made a secondary offering of 4.4 million shares. The issuance was managed by UBS.[297]
- In December 2005, International Coal issued 21 million new shares. The offering was underwritten by Goldman Sachs, JPMorgan Chase, Morgan Stanley, UBS and two other banks.[298]
- In June 2006, International Coal issued US$ 175.0 million of bonds. The issuance was managed by Bank of America, Goldman Sachs, JPMorgan Chase, UBS and another bank.[299]
- In July 2007, International Coal issued US$ 195.0 million of convertible bonds. The issuance was managed by UBS.[300]
- In June 2006, International Coal amended its revolving credit facility, raising the amount to US$ 325 million. In July 2007 the amount was reduced again to US$ 130 million. The facility was arranged by JPMorgan Chase and UBS. Among the other banks participating in the syndicate was Bank of America.[301]
- In August 2003 Massey Energy issued US$ 132 million of bonds. The issuance was managed by Citi and UBS.[302]
- In December 2005 Massey Energy issued US$ 760 million of bonds. The issuance was managed by UBS and two other banks.[303]
- In August 2006 Massey Energy amended its five year revolving credit agreement, increasing the total amount to US$ 175 million. The facility is arranged by Bank of America and UBS.[304]

6.19 Mud volcano in Sidoarjo

On May 29, 2006, a mud volcano started gushing from the ground in Sidoarja in the Indonesian province East Java. The mud volcano originated less than 200 metre from the Banjar Panji I gas exploration well which was operated by Lapindo Brantas, a subsidiary of Indonesian energy company Energi Mega Persada. Lapindo Brantas acted on behalf of the Brantas-consortium, which also comprises Medco Energi (Indonesia) and Santos (Australia).

The stream of mud has not stopped since, spilling up to 150,000 m³ of hot mud on the surrounding area every day. The magnitude of impact on people is enormous: by May 2007 some 13,000 families had been hit by the mud stream. Eleven villages have been submerged, 3,500 families have been forced to leave their homes, approximately 350 hectares of farming land are ruined, countless businesses and schools are closed and livelihoods are lost. Until today, all efforts to stop the mud-flow have failed.

Material losses are estimated at Rp 27 trillion (about US$ 3.0 billion), and the environmental losses substantial. Lapindo Brantas has taken no responsibility for either the social or environmental impacts, or compensation. Banks should force the three companies involved in the Brantas consortium to take responsibility and pay due compensation.

Bank involvement:

- In 2003 and 2004 Energi Mega Persada secured several loans from Bank Mandiri which were repaid during 2005.[305]
- In May 2005, Energi Mega Persada obtained a five-year US$ 275 million credit facility arranged by Credit Suisse.[306]
- In July 2005, Energi Mega Persada secured a US$ 120 million three-year credit facility arranged by Merrill Lynch.[307]
- In March 2007 Credit Suisse advised Energi Mega Persada on the sale of a 50% share in the Kangean PSC to two Japanese oil companies for a total sum of US$ 360 million.[308]
- In June 2004 Medco Energi Internasional issued five-year bonds with a total value of Rp 1,350 billion (US$ 145.3 million) on the Indonesian capital market. The issuance was managed by Bank Mandiri and two other banks.[309]
- In February 2005 Medco Energi Internasional secured a US$ 175 million loan arranged by Merrill Lynch.[310]
- At the end of 2005 Medco Energi Internasional secured a US$ 200 million loan facility from Credit Suisse.[311]
- In May 2006 Medco Energi Internasional issued five-year convertible bonds with a total value of US$ 176.9 million on the international capital market. The issuance was managed by Credit Suisse and Deutsche Bank.[312]
- In September 2004 Santos issued shares for a total value of A$ 600 million. Merrill Lynch was underwriting the issuance.[313]
- In September 2005 Santos issued two series of bonds with a total value of A$ 450 million. The issuances were managed by ANZ and another Australian bank.[314]

6.20 Nam Theun 2

The Nam Theun 2 Hydropower Project in Laos aims to generate revenue for the cash-strapped Lao government by exporting power to neighbouring Thailand. The project involves the construction of a 39-meter high dam on the Theun River, a major Mekong tributary. Water will be stored in a 450-square kilometre reservoir on the Nakai Plateau and diverted to a powerhouse before being released into another Mekong tributary, the Xe Bang Fai. The reservoir is expected to be filled in June 2008 and the project will start power production at the end of 2009.

Nam Theun 2 will forcibly displace 6,200 indigenous people living on the Nakai Plateau and will affect more than 120.000 people who depend on the Xe Bang Fai River for fisheries, agriculture, transportation and water supply. Thousands of other Lao villagers will lose land and resources for the construction of Nam Theun 2's downstream channel and transmission lines.

The project is located in and adjacent to one of the largest remaining tropical forests in mainland Southeast Asia. The massive reservoir will inundate the habitat of a large variety of rare and endangered plant and animal species, including one of the last remaining populations of wild elephants in Laos.

Nam Theun 2's "development" justification hinges on the Lao government using revenues from the project to help the poor and ensuring that affected people's livelihoods are improved or restored. Laos rates far below most low-income countries on civil and political rights and control of corruption. Regarding the dam, revenue allocation, monitoring and reporting will be primarily left to the Lao Finance Ministry and the fledgling State Audit Organization. The revenue management arrangements specifically reject the use of an independent oversight body or external independent auditing of Nam Theun 2 revenues.

Bank involvement:

- In May 2005 a US$ 1 billion project financing package for the Nam Theun 2 dam was signed, including a US$ 126 million political risk guarantee loan and a US$ 200 million export credit agency loan. These two loans were provided by ANZ, BNP Paribas, Calyon, Fortis, ING, KBC, Mitsubishi UFJ, Société Générale and Standard Chartered.[315]

6.21 National Hydroelectric Power Corporation- NHPC

India's National Hydroelectric Power Corporation has made a name for itself as one of the country's most ruthless corporations. As a state-owned company, NHPC has been able to ignore the conditions set out by India's Environment Ministry, state legislation and in project agreements to guarantee the rights of people affected by its projects.

In projects like the Indira Sagar and Omkareshwar dam, NHPC has unleashed a regime of terror, forcing people to leave their villages through intimidation, threats and the use of armed forces. In several cases, it has not even given warning prior to flooding, so that villagers were forced to run for their lives.

NHPC is responsible for destroying pristine natural areas and ruining the economies of populations living downstream from its projects. Its activities have turned hundreds of thousands of self-sufficient farmers into paupers and beggars. Most recently, NHPC has embarked on projects outside of India. The company is currently cooperating with Burma's military regime to build the Tamanthi Dam, which will displace over 30,000 tribal people.

Bank involvement:

- State Bank of India has provided several rupee loans to NHPC. At the end of September 2006, 1,393 million Rupees were outstanding.[316]
- In December 2003, a banking syndicate headed by Barclays granted a US$ 50 million loan for the Dulhasti power project. Standard Chartered and State Bank of India participated in the syndicate.

6.22 Rio Madeira dams

The Madeira River project consists of two huge hydroelectric dams to be constructed in a region considered a treasure of biodiversity. The Madeira River is the principal tributary of the Amazon River with its basin covering about one-quarter of the Brazilian Amazon. It supports the life of an estimated 750 fish species, 800 bird species, and other endangered rainforest wildlife. The river and its immediate surroundings are home to rubber tappers, Brazil nut gatherers, and fishermen. The dams will seriously affect migratory fish and other aquatic species on the Madeira, affecting also the commercial and subsistence of fishermen. Moreover, thirty-three endangered mammal species are found in the region where the dams would be built.

According to the project Environmental Impact Assessment (EIA), at least 3,000 people will be forced to move from their homes. Thousands of people living downstream will face declining crop yields. Also, indigenous groups will be affected by thousands of migrants arriving in search of work on construction crews and public health impacts will arise. Deforestation in the region has grown 600% after the preliminary license was granted due to land speculation.

The project's executing company, Odebrecht, has obtained concession rights to study the area and initiate environmental licensing procedures. Furnas, a state-owned power generator producer, is also sponsoring the project and intends to be the Madeira power plants operator. They form a consortium which is very likely to win the auction promoted by the regulator which grants the final concession for construction and operation.

Bank involvement:

- In September 2005 Odebrecht issued bonds with a total value of US$ 200 million. Deutsche Bank and Credit Suisse were underwriting the bonds.[317]
- In October 2007 Odebrecht issued bonds with a total value of US$ 300 million. Deutsche Bank and Credit Suisse were underwriting the bonds.[318]
- Santander and another bank are working with the Odebrecht-Furnas consortium on the financing structure of the first hydropower plant (Santo Antônio) on the Rio Madeira.[319]
- Banco do Brasil, Banco Bradesco and Banco Itaú are working with state-owned development bank BNDES to finance the Rio Madeira project.[320]

6.23 Rosia Montana

The Canadian mining company Gabriel Resources plans to develop Europe's largest open cast cyanide-leach gold mine at Rosia Montana in Romania. If ever realized, the mine will provoke the involuntary resettlement of over 2,000 people. At full production, the mine would evacuate 500,000 tons of rock per week and use between 13-15 million kilograms of cyanide per year.

The proposal foresees the destruction of unique archaeological vestiges dating from Roman and pre-Roman times. The project would also provoke the destruction of several churches and cemeteries which is unacceptable to many Romanians; these include the Orthodox Church and the Historic Hungarian Churches who officially declared their refusal to relinquish their church properties at Rosia Montana.

In early September 2007, Romania's Ministry for the Environment suspended the Environmental Impact Assessment procedure for an undetermined period; following a legal victory secured by a Romanian NGO. Gabriel Resources claims no less than that a 'Hungarian conspiracy' is to blame and has pledged revenge, intending to use "all resources at its disposal" to reverse the ministry's decision. According to Gabriel Resources "it is becoming increasingly likely that a change in government will be required to restart the permitting process."

Bank involvement:

- In August 2006 Gabriel Resources issued 31 million shares in Canada, raising C$ 97.8 million. The underwriting syndicate was arranged by Royal Bank of Canada.[321]
- In March 2007 Gabriel Resources issued 35 million shares in Canada, raising C$ 156.3 million. The underwriting syndicate was arranged by Royal Bank of Canada and a securities firm. Among the banks participating in the syndicate was Merrill Lynch.[322]

6.24 Sakhalin 2

The Sakhalin 2 oil and gas project in the Russian Far East includes three off-shore oil and gas platforms, multiple sub sea pipelines, 800 kilometres of onshore pipelines and one of the world's largest liquid natural gas plants and oil and gas tanker export terminals.

The construction has had a large number of negative impacts on people and the environment. An international expert panel commissioned by the project operator, Sakhalin Energy, found that Sakhalin II and nearby projects threaten the critically endangered Western Gray Whale population with extinction. Construction practices have damaged hundreds of wild salmon bearing streams and tributaries. Fishing communities and indigenous groups have taken direct action to protest project impacts on fisheries resources and traditional livelihoods. Further, community groups say the project has led to high inflation in housing costs, increased violence and the spread of sexually transmitted disease.

Lenders' consultants and independent experts confirmed that environmental assessments were not fit for consultation until the project was deep into the construction phase. They also confirmed that Sakhalin Energy failed to collect sufficient baseline data, failed to develop adequate preventative measures, failed to disclose information required to conduct a timely review, failed to follow many recommendations of empanelled whale experts, and other violations of lenders' policies and the project's required Health, Safety, Environmental & Social Action Plan.

In October 2007, Sakhalin Energy announced that a new consultant report for potential lenders gives the project a "clean bill of health." However this report reveals, amongst other things, systematic and chronic violations of policies and standards of international lenders and other standards. The project is now 90% complete, and it is too late to prevent past impacts on endangered species such as Western Gray whale, Steller's sea eagle and taimen (salmon), as documented by the potential lender's consultant.

Bank involvement:

- Credit Suisse is serving as the financial advisor to Sakhalin Energy since 2001.[323]
- In April 2007 ABN AMRO and Société Générale arranged a US$ 2 billion loan to finance Gazprom's acquisition of a 50%-plus-1 stake in the project.[324]

6.25 Samling

The Malaysian logging giant Samling and its related companies has a history of illegal logging practices in Guyana, Papua New Guinea and Cambodia. Samling has been criticised for repeatedly failing to meet basic ecological and social standards. Operations in Guyana were previously suspended for major systematic non-conformities with Forest Stewardship Council standards, and the company faces accusations of logging without obtaining prior, informed consent from indigenous communities.

In Sarawak (Borneo) a Samling subsidiary is involved in a long running dispute with local Penan communities who reside on the concession. The local communities are opposing the systematic destruction of tropical rainforests essential for their livelihood and have staged many protests and blockades to have their concerns heard.

Bank involvement

- In March 2007 Credit Suisse, HSBC and another bank were the bookrunners for the IPO of Samling Global on the Hong Kong stock exchange, which raised US$ 280 million.[325]
- In March 2007, Samling Global indicated ANZ and HSBC were among its principal bankers.[326]

6.26 Sinopec in Burma

The Chinese oil company Sinopec has been actively exploring for oil & gas in Burma, collaborating with the military regime's Myanmar Oil & Gas Enterprise. Projects under development include an oil pipeline from Arakan to Yunnan. Sinopec signed a contract for over US$ 1 billion in 2007, with regard to onshore exploration in Block D in Sagaing and Magwe Divisions, and parallel oil and gas pipelines, which would stretch for 2,380 km from Burma's Arakan coast to China's cities of Kunming and onward to Chongqing.

Oil and gas ventures in Burma have been repeatedly condemned by human rights organisations as propping up the military regime. Human Rights Watch stated in October that sales of natural gas, such as those to Petrochina, account for the single largest source of revenue to the military government. The outside investment in Burma's oil and gas industry has thrown a lifeline to the country's brutal rulers as the funds flow directly to the government and provide the junta with a major source of financing that is completely independent of its citizens. There is no transparency in Burma about how much the government receives in oil and gas payments, nor clarity about how the funds are spent. Allowing foreign investment in oil and gas is apparently aimed at bringing in more revenue to keep the government afloat at a time when economic mismanagement and profligate spending on the military, and the building of a new capital at Nay Pyi Taw, have drained government finances.

In September 2007, Sinopec began drilling an onshore well in a joint venture with the Burmese regime's Myanmar Oil & Gas Enterprise. The launch ceremony on September 26 coincided with the first day of the dictatorship's brutal crackdown on civil dissent and was attended by military officials and Sinopec executives.

Bank involvement:

- In November 2005 Sinopec secured a US$ 1.1 billion five year loan to finance its foreign expansion. The banking syndicate was arranged by Bank of America, Bank of China, Calyon, ING, Standard Chartered and another bank. Among the other banks participating in the syndicate were BBVA, Fortis, Mizuho Bank, Royal Bank of Scotland and Sumitomo Mitsui.[327]
- In April 2007 Sinopec mentioned among its principal bankers: Bank of China, China Construction Bank and ICBC.[328]

6.27 Turkmen Central Bank accounts

Deutsche Bank holds accounts for the Central Bank of Turkmenistan. The country's notorious dictator, Saparmurat Niyazov, oversaw an oppressive governing regime violating the human rights of Turkmenistan's citizens. In 2003 the country was described as having one of the worst totalitarian systems in the world. The regime's disastrous policies on health and education have set social indicators falling, despite the country's vast natural gas reserves. Until his death in December 2006, Niyazov had personal control over Turkmenistan's Central bank accounts. These accounts were held at Deutsche Bank and were furnished with billions of dollars received from the exploitation of Turkmenistan's natural resources and were administered in an entirely untransparent manner. Some 77% of the spending linked to the Central bank took place off-budget from foreign currency funds.[329]

NGOs have been demanding that Deutsche Bank clarify the extent of due diligence performed and the proof obtained to ensure that Niyazov did not have sole control of Turkmen state funds. Deutsche Bank has also been asked to clarify how holding accounts for Niyazov's Turkmenistan fits with its voluntary human rights commitments under the UN Global Compact.

Bank involvement

- Deutsche bank holds accounts for central bank of Turkmenistan

6.28 Uranium weapon producers

Depleted uranium is a radioactive and chemically toxic waste product from the nuclear industry. It is used in anti-tank weapons and in the armour of tanks. Despite the fact that weapons containing depleted uranium are not typically in the public eye, they have been produced and used on a massive scale. Health consequences of these weapons also continue after the end of the armed conflict in which they are used.

Three American companies are producing these weapons: Alliant Techsystems (ATK), GenCorp and General Dynamics.

Bank involvement

- In March 2007 Alliant Techsystems amended its five year US$ 775 million revolving credit facility from a banking syndicate arranged by Bank of America. Other banks participating were: Calyon, Fortis, Goldman Sachs, JPMorgan Chase, Merrill Lynch, Mitsubishi UFJ, Mizuho Bank and Royal Bank of Scotland.[330] Fortis withdrew in July 2007.
- In September 2006 Alliant Techsystems issued five-year bonds with a total value of US$ 300 million. The lead manager of the issuing syndicate was Bank of America. Other banks underwriting the issuance were Calyon and Mitsubishi UFJ.[331]
- In December 2004 GenCorp secured a US$ 180 million five year revolving credit facility from a banking syndicate arranged by Scotiabank and another bank.[332] In June 2007 this credit facility was replaced by a new revolving credit facility with a total amount of US$ 280 million, arranged by JPMorgan Chase and another bank.[333]
- In August 2003, January 2004, November 2004 and December 2004 GenCorp issued various types of (convertible) bonds on the international capital market. Among the banks participating in the underwriting syndicates for these issuances were Deutsche Bank, JPMorgan Chase and Scotiabank.[334]
- In November 2004, GenCorp raised US$ 131.1 million by issuing new shares. Among the three underwriting banks was JPMorgan Chase.[335]`
- In May 2003 and August 2003 General Dynamics issued bonds with a total value of US$ 3.1 billion. Lead managers of the issuing syndicates were Bank of America and another bank. Among the other banks underwriting the issuances were Deutsche Bank, Intesa Sanpaolo, JPMorgan Chase and Merrill Lynch.[336]
- In July 2004 General Dynamics secured a US$ 1 billion five year revolving credit facility from a banking syndicate arranged by JPMorgan Chase and Bank of America. Among the banks participating in the syndicate was Royal Bank of Scotland.[337] The same banks provided a second US$ 1 billion 364 days revolving credit facility in December 2005, which was replaced by a US$ 975 million five year revolving credit facility at the end of 2006.[338]

6.29 Vedanta Resources

Vedanta Resources is a mining company listed on the London Stock exchange. It produces aluminium, copper, lead and zinc. Vedanta has a strong presence in India, homeland of its founder Anil Agarwal, but is also active in Zambia and Australia. Vedanta is one of the most controversial mining companies in the world and has a long track record of environmental and human rights violations.

In India’s Niyamgiri forest Vedanta Resources has illegally felled hectares of forest. After the clear cutting, an aluminium smelter has been built without the necessary permits. The smelter was designed to process bauxite from the surrounding mountains. A commission of the Indian High Court has condemned Vedanta for the consequences of the bauxite mining on the indigenous population.

Vedanta Resources has also been criticised in Zambia for a disastrous leak at its Konkola copper mine. On 6 November 2006, the whole of Chingola district faced a water crisis, as a result of Vedanta's contamination of the Kafue river. 75,000 people faced problems with their drinking water supply after the water was turned a toxic blue by copper sulphate.

Bank involvement:

- In December 2003 Vedanta Resources was listed on the London Stock Exchange, raising US$ 825 million. The IPO was managed by JPMorgan Chase and HSBC. Citi was among the other banks participating in the issuing syndicate.[339]
- In June 2004, Vedanta's subsidiary Sterlite Industries raised a three-year US$ 67.6 million loan arranged by ABN AMRO, ANZ and an Indian bank.[340]
- In August 2004, Vedanta's subsidiary BALCO secured a Rs. 7,000 million (US$151.6 million) loan facility from a banking syndicate arranged by ABN AMRO and two Indian banks.[341]
- In December 2004 and January 2005 Vedanta Resources issued US$ 600 million 5-1/2 year bonds in London. The issuance was underwritten by ABN AMRO, Barclays and Deutsche Bank. [342]
- In August 2005 Vedanta's subsidiary Hindustan Zinc secured a US$ 125 million loan from a banking syndicate arranged by ABN AMRO, Calyon and Standard Chartered Bank. Among the other banks participating in the syndicate were Mizuho Bank and Sumitomo Mitsui.[343]
- In September 2005, Sterlite Industries secured a three-year loan from Sumitomo Mitsui and tow other banks. The loan consisted of a ¥ 3,570 million (US$ 31.3 million) tranche and a US$ 19.65 million tranche.[344]
- In January 2006, Vedanta Resources issued convertible bonds with a total value of US$ 725 million. The bond issuance was underwritten by Barclays.[345]
- In June 2007, Sterlite Industries issued 150 million new shares on the American capital market, raising US$ 2,016 million. The issuance was underwritten by Citi, Merrill Lynch, Morgan Stanley and another bank.[346]
- In August 2007 Vedanta Resources secured a one-year US$ 1,100 million loan to financing the acquisition of the Indian iron ore mining company Sesa Goa. The banking syndicate was arranged by ABN AMRO, Barclays, Citi and an Indian bank. Among the other banks participating in the syndicate were: BNP Paribas, Calyon, Fortis, Mitsubishi UFJ, Mizuho Bank, Société Générale and Sumitomo Mitsui.[347]

6.30 Wal-Mart Stores

Wal-Mart Stores is the largest retailer in the world. The company has an annual turnover of 351 billion US$ and runs thousands of supermarkets in the United States and elsewhere, under the slogan 'Save money. Live better'. The company attracts capital from shareholders worldwide. It is also supported by a number of financial institutions, which help it to raise capital on the stock market.

Wal-Mart overtly practices a company policy which violates internationally recognised rights, such as workers' rights to organise and collective bargaining. Wal-Mart is known to censure union information, fire union members, and close departments in order to stop development of unions.

The Norwegian pension fund has highlighted the behaviour of the US-based company, stating: "An extensive body of material indicates that Wal-Mart consistently and systematically employs minors in contravention of international rules, that working conditions at many of its suppliers are dangerous or health-hazardous, that workers are pressured into working overtime without compensation, that the company systematically discriminates against women in pay, that employees are in a number of cases unreasonably punished and locked in."

Bank involvement:

- In March 2004 Wal-Mart Stores issued bonds for a total amount of US$ 750 million. The issuance was underwritten by Credit Suisse, Goldman Sachs and another bank.[348]
- In September 2004 Wal-Mart Stores issued bonds for a total amount of £ 1 billion (€ 1.46 billion). The issuance was underwritten by Barclays, Deutsche Bank and Royal Bank of Scotland.[349]
- In January 2005 Wal-Mart Stores issued bonds for a total amount of US$ 1 billion. The issuance was underwritten by Citi, JPMorgan Chase, Morgan Stanley and three other banks.[350]
- In June 2005 Wal-Mart Stores issued bonds for a total amount of US$ 2 billion. The issuance was underwritten by Bank of America, Citi, Credit Suisse, Goldman Sachs, HSBC, Mitsubishi UFJ, Mizuho Bank and three other banks.[351]
- In August 2005 Wal-Mart Stores issued bonds for a total amount of US$ 2.5 billion. The issuance was underwritten by twenty banks including Bank of America, Barclays, Citi, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JPMorgan Chase, Mitsubishi UFJ, Mizuho Bank, Morgan Stanley, Santander, Standard Chartered and UBS.[352]
- In May 2006 Wal-Mart Stores issued bonds for a total amount of ¥ 50 billion (€ 353 million). The issuance was underwritten by Goldman Sachs and another bank.[353]
- In December 2006 Wal-Mart Stores issued bonds for a total amount of £ 1 billion (€ 1.5 billion). The issuance was underwritten by Barclays, Citi, Deutsche Bank, Goldman Sachs, Morgan Stanley and Royal Bank of Scotland.[354]
- In April 2007 Wal-Mart Stores issued bonds for a total amount of US$ 2,250 million. The issuance was underwritten by twenty banks including Bank of America, Citi, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JPMorgan Chase, Mitsubishi UFJ, Mizuho Bank, Santander, Standard Chartered and UBS.[355]

6.31 Wilmar International

The Singaporean company Wilmar International is active in the entire value chain of the palm oil business. After the merger with the oil palm businesses of Kuok and ADM in 2007, Wilmar became the largest trader of palm and lauric oils in the world, the largest edible oil refiner in the world, one of the largest palm biodiesel manufacturers and the largest trader and processor of edible oils and oilseeds in China. Wilmar's oil palm plantation land bank now encompasses over 570,000 hectares in Indonesia, Malaysia and Uganda, at least two-thirds of which is still to be cleared and planted with oil palms.

Subsidiaries of Wilmar have been sued by the Indonesian authorities for intentional and systematic burning of forests, with the purpose to clear land for plantation development. Wilmar's subsidiaries clear tropical forests without having secured the legally required endorsement and permits required to do so. The companies convert these forests without having conducted independent High Conservation Value Forests (HCVF) assessments, which may result in further destruction of endangered species, amongst others the orang-utan. This also results in strong conflicts with local communities.

Bank involvement:

- In 2004 Wilmar Trading secured a trading facility from a banking syndicate arranged by Standard Chartered.[356]
- In March 2005, Wilmar Holdings secured a three-year US$ 40 million loan from a banking syndicate arranged by a Singaporean bank. Among the banks participating in the syndicate were Citi, Mizuho Bank and Rabobank.[357]
- In July 2005, Wilmar Holdings secured a US$ 40 million loan from a banking syndicate arranged by Standard Chartered Bank.[358]
- In September 2006 Wilmar Trading secured a US$ 75 million trading facility from a banking syndicate arranged by Standard Chartered.[359]
- In April 2007 Wilmar International noted as its principal bankers, among others, ABN AMRO, Bank Mandiri, Fortis, ING, Mitusbishi UFJ, Rabobank and Standard Chartered. [360]

7. Bank Profiles

7.1 Introduction

This chapter presents the aggregate results of the evaluation of the credit policies and the transparency & accountability practices of the 45 banks. The following paragraphs provide for each of the 45 banks a summary of their scores on policies and on transparency & accountability practices, a list of collective standards adhered to by the bank and an overview of the *Dodgy Deals* the bank is involved in. A more elaborate version of each bank profiles is available on the BankTrack website, including links to all policies, sustainability reports and other materials published by the bank.

7.1.1 Collective Standards

The scorings of the individual banks are partly based upon the collective standards, such as the Equator Principles, UNEP FI Statement, Global Compact and others. To sign up to a standard can equal a commitment by the bank to apply certain sustainability criteria to its financial services. For this reason we have compared the collective standards with the scoring tables for specific sector and issue policies as described in 3 and 4.

Scores are awarded for some sector and issue policies to the banks which adhere to some of these collective standards. The scores for these collective standards are awarded to all signatories of these standards, unless their own, individual credit policy scores higher. In this case the highest score is awarded to the bank. Scores for collective and individual policies are never added up; the policy with the highest scoring is awarded to the bank.

The table provides an overview of the scores that are awarded to a bank for signing up to one or more of these collective standards.

Scoring of collective standards							
Sector policies		**Equator Principles**	**UNEP FI**	**UN PRI**	**UN Global Compact**	**EITI**	**Carbon Disclosure**
1	Agriculture	0	0	0	0	0	0
2	Dams	2	0	0	0	0	0
3	Fisheries	0	0	0	0	0	0
4	Forestry	0	0	0	0	0	0
5	Military industry and arms trade	0	0	0	0	0	0
6	Mining	1	0	0	0	1	0
7	Oil and Gas	1	0	0	0	1	0
Issue policies							
1	Biodiversity	1	1	1	1	0	0
2	Toxics	0	1	1	1	0	0
3	Climate change	0	1	1	1	0	1
4	Human Rights	0	0	1	1	0	0
5	Indigenous Peoples	1	0	1	1	0	0
6	Labour	0	0	1	1	0	0
7	Taxation	0	0	0	0	0	0

The reasoning behind the scoring for the different collective standards is as follows:

Equator Principles:
The Equator Principles are based upon the IFC Performance Standards, which are compared with our scoring tables. The content of the Performance Standards is fairly good on many of the issues and sector covered in this report. But to determine the final scoring we have also taken into account the limited scope of the Equator Principles.

The Equator Principles only apply to project finance, which is a niche market within the financial sector. In 2006 the global project finance market had a volume of only US$ 181 billion[361] , compared with US$ 3,881 billion for the global syndicated loans market[362] and US$ 7,653 billion for the global bond and equity market.[363] The Equator Principles therefore apply to no more than 1% of an average bank's financing activities.

However, project finance is applied more frequently in some specific sectors than in others. For example, the electricity sector accounts for 32% of all project finance in 2006, the transport sector for 24%, oil & gas for 15% and petrochemicals for 11%.[364] Project finance is also applied above average in certain countries - especially the least developed countries.

Taking all this into account, we estimate that the Equator Principles apply to a considerable share of a bank's activities in the financing of dams, and has some relevance for oil & gas, mining, biodiversity and indigenous peoples. The scores reflect these estimates.

UNEP Finance Initiative:

The UNEP FI Statement is not restricted to a specific financial service; the environmental principles apply to all financial services. However, supporting the initiative does not restrict banks' financial services, as all principles are voluntary and there exists no compliance mechanism. Signing up to the UNEP FI Statement is hence regarded as a 'vaguely worded' commitment and is accredited with 1 point for three environmental issues.

UN Principles for Responsible Investment:

The United Nations Principles for Responsible Investment (UN PRI) apply to asset management rather than to lending activities. The initiative covers 6 of the selected issues. However, supporting the initiative does not restrict banks' asset management activities, as all principles are voluntary and there is no compliance mechanism. Signing up to the PRI is hence regarded as a 'vaguely worded' commitment and is accredited with 1 point on six sustainability issues.

UN Global Compact:

The 10 principles of the UN Global Compact cover 6 of the selected issues and apply to all business activities. However, supporting the initiative does not restrict banks' lending or investment activities, as all principles are voluntary and there is no compliance mechanism. Signing UN Global Compact is hence regarded as a 'vaguely worded' commitment and is accredited with only 1 point on six sustainability issues.

Extractive Industries Transparency Initiative (EITI):

The Extractive Industries Transparency Initiative (EITI) applies only to the oil & gas and mining sectors. Although these requirements mainly focus on financial transparency, they can be seen as 'vaguely worded' commitments to set sustainability criteria for their clients in these sectors. Banks signing up to EITI are therefore accredited 1 point for their policies on these industries.

Carbon Disclosure Project:

The Carbon Disclosure Project applies only to asset management activities. Asset managers demand from their client's insight in their environmental behaviour. As there are no standards or (exclusion) criteria developed that restrict banks' investments in companies which do not disclose their carbon emissions, the Carbon Disclosure Project is regarded to be a 'vaguely worded' commitment and is accredited with 1 point for Climate Change. A score of 0 is awarded if the bank only supplies data on its operational GHG emissions to the CDP.

7.2 ABN AMRO

ABN AMRO: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	1	ABN AMRO Forestry Policy
2	Dams	2	ABN AMRO Dams policy / Equator Principles
3	Fisheries	0	ESE Risk filter
4	Forestry	1	ABN AMRO Forestry Policy
5	Military industry and arms trade	1	Summary of ABN AMRO Defence policy
6	Mining	1	Summary of ABN AMRO Mining and Metals policy / Equator Principles
7	Oil and Gas	1	Summary of ABN AMRO Oil & Gas policy / Equator Principles / EITI
Issue policies		**Score**	**Comments**
1	Biodiversity	1	ABN AMRO Forestry policy
2	Toxics	1	UNEP FI / UN PRI / UNGC
3	Climate change	1	Carbon Disclosure Project / UNEP FI / UN PRI / UNGC
4	Human Rights	1	ABN AMRO Human Rights position statement
5	Indigenous Peoples	1	Equator Principles / PRI / UNGC
6	Labour	1	ABN AMRO Human Rights position statement / UN PRI / UNGC
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI, not all policies disclosed
2	Deal Transparency	1	EP break-up by sector
3	Institutional Accountability	2	External audit, results not published
4	Deal Accountability	1	Public e-mail address for NGOs

Comments:

- ABN AMRO's *Annual Report 2006* states that: "We have developed several reputational risk policies to identify, assess and manage the non-financial issues present within our business engagements. These are referred to as *Environmental, Social and Ethical (ESE) Risk Management policies*, and currently include: Human Rights, Forestry and Tree plantations, Oil & Gas, Mining & Metals, Dams, Defence industry, Tobacco, Gambling, and Animal Testing." Some of the policies mentioned are shortly described on the website of ABN AMRO, but standards and exclusion criteria are not always disclosed. Only the policies that are disclosed are taken into consideration for scoring.

- ABN AMRO policy on Forestry and Tree plantations covers forestry and agricultural plantations of crops such as oil palm, rubber, cacao and coconut. The policy is not publicly available (anymore), yet the content of it are shortly described in ABN AMRO policy overview. The summarised description is seen as an 'aspirational goal' with respect to Agriculture, Forestry and Biodiversity. Therefore they are rewarded 1 point for each. If the policy were public, ABN AMRO would earn 2 points for both Forestry and Biodiversity.

- Agriculture and Fisheries are relatively small sectors in the ABN AMRO lending portfolio. The ESE Risk filter is used for risk assessment, and ABN AMRO has written and distributed Sustainability Sector Briefings on the food products industry, including fisheries, to inform the bank's staff. However, neither in the ESE Risk filters, nor in the Sector Briefings are standards or requirements for lending disclosed.

- ABN AMRO has developed both lending guidelines on Dams and on Mining and Metals. Neither of these is publicly available, therefore they are not scored in this benchmark.

- ABN AMRO states with respect to Climate Change that "we have not acknowledged any responsibility for the emissions of our clients and believe that do so is inconsistent with the principle that the polluter pays".

- ABN AMRO's Human Rights policy does not set clear standards or requirements on lending practices, not with respect to Human Rights, nor to Labour rights. The policy is therefore graded as a 'vaguely worded' statement.

- With respect to Deal Transparency, ABN AMRO only publishes the sector break-up of the Equator Principle projects. It does not provide an overview of the lending portfolio.

Collective standards

- Carbon Disclosure Project (CDP)
- Equator Principles (EP)
- Extractive Industries Transparency Initiative (EITI)
- UN Global Compact (UNGC)
- UNEP Finance Initiative (UNEP FI)
- UN Principles for Responsible Investment (UN PRI)
- Wolfsberg Principles

Dodgy deals (for details see chapter 6)

- Baku-Tbilisi-Ceyhan pipeline
- Cluster munitions producers
- Dynegy
- Lafayette Mining
- Mountain top removal coal mining
- Sakhalin 2
- Vedanta Resources
- Wilmar International

Comment provided by ABN AMRO:

For the issues this report deals with, ABN AMRO has in place its:

- Oil & Gas Sector Policy
- Mining & Metals Sector Policy
- Forestry & Tree Plantations Policy
- Defence Policy
- Dams Guidelines
- Human Rights Position Statement

We do not make these policies and guidelines public. Respecting client confidentiality means we also cannot reveal details of how we apply them on a case-by-case basis. This means that BankTrack has no insight into these details which affects ABN AMRO's rating in this report.

Respecting client relationships does not mean we do not consider the consequences of our business. Our Environmental, Social and Ethical ("ESE") Risk Filter captures issues in clients and transactions, both in areas covered by policies and where our activity is insufficient to warrant formal policy. Our ESE Risk Governance Charter ensures these are assessed at appropriate levels within the bank. We have ESE risk teams in Group Functions and all our Regional Business Units implementing this approach, drawing on many of the benchmarks BankTrack identifies.

This year we strengthened our ESE Risk Filter, streamlined policies, clarified assessment processes, and began to provide tools to assist greater understanding of key issues. We are committed to further building our sustainable practice.

7.3 ANZ

ANZ: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	
2	Dams	2	Equator Principles
3	Fisheries	0	
4	Forestry	0	Draft ANZ Forests and Biodiversity policy
5	Military industry and arms trade	0	Exclusion criteria, but not disclosed
6	Mining	1	Equator Principles
7	Oil and Gas	1	Equator Principles
Issue policies		**Score**	**Comments**
1	Biodiversity	1	Draft ANZ Forests and Biodiversity policy / Equator Principles / UNEP FI
2	Toxics	1	Draft ANZ Forests and Biodiversity policy / UNEP FI
3	Climate change	2	ANZ Climate Change policy
4	Human Rights	1	UNEP FI / ANZ Human Rights policy
5	Indigenous Peoples	1	Equator Principles
6	Labour	0	
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI, not all policies disclosed
2	Deal Transparency	0	
3	Institutional Accountability	2	External audit, results not published
4	Deal Accountability	0	Only handling of client complaints

Comments:

- According to its website, ANZ is "in the process of preparing a set of public policies and guidelines which will describe in detail how we make our decisions on transactions which have a potential impact on the environment, or raise social policy or ethical issues. The Forests Policy will be the first of these policies. Policies on water, mining and energy will follow."

- ANZ's *Forests and Biodiversity policy* is still in its draft version. The content of the policy would give ANZ a score of 2 for Forestry, Biodiversity and Toxics. Nevertheless, as the policy is not yet formally agreed upon and implemented in ANZ's lending decisions, no points are awarded yet.

- Regarding the military industry, ANZ has defined some activities to which it will not lend – for example the manufacture of certain types of armaments.[365] However, no clear policy or exclusion criteria are given.

- *ANZ and Human Rights* states that ANZ has "enhanced its client screening process by developing industry specific advisory notes that help to identify key social, human rights and environmental issues in each sector we service." However, clear criteria are not described.

Collective standards:
- Carbon Disclosure Project (CDP)
- Equator Principles (EP)
- UNEP Finance Initiative (UNEP FI)

Dodgy deals (for details see chapter 6)
- Cluster munitions producers
- Freeport McMoran
- Gunns
- Lafayette Mining
- Mud volcano in Sidoarjo
- Nam Theun 2
- Samling
- Vedanta Resourc

Comment provided by ANZ:

We've had a quick scan of the work. It is very subjective and more BankTrack commentary than a report; and of course BankTrack is a campaigning organisation so I understand your starting point.

To arrive at a balanced document, acceptable to yourselves and us would require a great deal of detailed discussion and give and take on both sides.

Given that's unlikely to occur within your timeline, you might choose to refer your readers to http://www.anz.com/aus/values/default.asp. For raising specific matters directly with ANZ, please contact Gerard Brown (Gerard.Brown@anz.com).

7.4 Banco Bradesco

Banco Bradesco: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	
2	Dams	2	Equator Principles
3	Fisheries	0	
4	Forestry	0	
5	Military industry and arms trade	0	
6	Mining	1	Equator Principles
7	Oil and Gas	1	Equator Principles
Issue policies		**Score**	**Comments**
1	Biodiversity	1	Equator Principles
2	Toxics	1	Equator Principles / UNGC
3	Climate change	1	Banco Bradesco Climate Change action plan
4	Human Rights	1	UNGC
5	Indigenous Peoples	1	Equator Principles / UNGC
6	Labour	1	UNGC
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI, no sector and issue policies
2	Deal Transparency	0	
3	Institutional Accountability	2	External audit, results not published
4	Deal Accountability	0	Only handling of client complaints

Collective standards:

- Carbon Disclosure Project (CDP)
- Equator Principles (EP)
- UN Global Compact (UNGC)

Dodgy deals (for details see chapter 6)

- Rio Madeira dams

Comment provided by Banco Bradesco:

Concerning the description of the text “Rio Madeira Dam Project”, Bradesco Organization, aligned with Equator Principles, aware of its social and environmental responsibilities, will comply with the commitments assumed, both with the contractor and with the principles adopted and determined in the agreement.

Concerning the policies, Bradesco pursues a constant improvement of the management system and the compliance with the best practices. Such policies are the purpose of constant studies and, when specific needs are identified, improvements are incorporated.

The Organization expressly brings in its Corporate Social-Environmental Responsibility Policy and in its Corporate Code of Ethics the public option for the convergence of its corporate goals with the wishes and interests of the community where it is present, employing ethical and transparent methods.

Also, in compliance with the legislation, in order to preserve the right to privacy and intimacy of clients, the information inherent to the specific operations should be reserved due to bank secrecy.

7.5 Banco do Brasil

Banco do Brasil: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	1	Banco do Brasil Protocolo Verde / Agenda 21
2	Dams	2	Equator Principles
3	Fisheries	1	Banco do Brasil Protocolo Verde / Agenda 21
4	Forestry	1	Banco do Brasil Protocolo Verde / Agenda 21
5	Military industry and arms trade	0	
6	Mining	1	Equator Principles
7	Oil and Gas	1	Equator Principles
Issue policies		**Score**	**Comments**
1	Biodiversity	1	Equator Principles / UNGC
2	Toxics	1	UNGC
3	Climate change	1	Carbon Disclosure Project / UNGC
4	Human Rights	1	UNGC
5	Indigenous Peoples	1	Equator Principles / UNGC
6	Labour	2	UNGC / Combat Slave Labour Initiative / Exclusion list of companies that employ forced & slave labour
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI, no sector and issue policies
2	Deal Transparency	0	
3	Institutional Accountability	0	No internal / external audit mentioned
4	Deal Accountability	3	External Ombudsman

Comments:

- Banco do Brasil's *Annual Report* (p.99) states: "BB has business and social-environmental ethics policies, as well as orientations about the scope of organizational, business and society participation that delimit its administrative and business practices." The *General Policies* are not shared publicly, and the *Letter of SER Principles* does not make any concrete statement on how principles are translated in standards and requirements for lending. No points are granted for the two 'documents'

- In its *Protocolo Verde* Banco do Brasil mentions that internal norms for financing of fishery, logging, rubber and other extractives are becoming increasingly rigorous. However, clear policies, standards or exclusion criteria are not disclosed. The *Agenda 21* is a document that describes all actions and initiatives that Banco do Brasil has taken or underwritten in order to make its business more sustainable. No restrictions on any type of lending are described however, hence no more points are granted.

- Banco do Brasil intends to finance sustainable fisheries. The bank does not set any environmental restrictions to its other fishery clients, hence no extra points are granted.

- Banco do Brasil does not finance people or companies involved in forced or slavery work. A list of people and companies is regularly published by the Brazilian Ministry of Labour and Employment. Moreover, Banco do Brasil underwrites the *Combat Slave Labour Initiative*, which covers the charcoal, iron and steel sector.

Collective standards

- Carbon Disclosure Project (CDP)
- Equator Principles (EP)
- UN Global Compact (UNGC)

Dodgy deals (for details see chapter 6)

- Rio Madeira dam

7.6 Banco Itaú

Banco Itaú: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	Social-Environmental Credit Policy
2	Dams	2	Equator Principles
3	Fisheries	0	Social-Environmental Credit Policy
4	Forestry	0	Social-Environmental Credit Policy
5	Military industry and arms trade	0	Exclusion List
6	Mining	1	Equator Principles
7	Oil and Gas	1	Equator Principles
Issue policies		**Score**	**Comments**
1	Biodiversity	1	Equator Principles / UNEP FI / UNGC
2	Toxics	1	UNEP FI / UNGC
3	Climate change	1	Carbon Disclosure Project / UNEP FI / UNGC
4	Human Rights	1	UNGC
5	Indigenous Peoples	1	Equator Principles / UNGC
6	Labour	1	UNGC
7	Taxation	0	Corporate Policy for the Prevention and Fight Against Illegal Activities
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI, no sector and issue policies
2	Deal Transparency	0	
3	Institutional Accountability	2	External Auditor
4	Deal Accountability	0	Only handling of client complaints

Comments:

- Banco Itaú is currently developing a *Social-Environmental Credit Policy*, which includes various sectors. BankTrack is looking forward to see the fruits of these efforts but as it is a draft at this moment, no credits can be awarded.

- Banco Itaú's *Corporate Policy for the Prevention and Fight Against Illegal Activities* describes topics such as compliance mechanisms, corporate governance or fighting illegal transactions. However, it does not mention the discouraging of tax avoidance by the bank's clients. It is therefore not granted any points.

- Banco Itaú mentions the existence of an *Exclusion List* of sectors. This document is not shared publicly and can therefore not be scored by BankTrack.

Collective standards

- Carbon Disclosure Project (CDP)
- Equator Principles (EP)
- UN Global Compact (UNGC)
- UNEP Finance Initiative (UNEP FI)

Dodgy deals (for details see chapter 6)

- Aracruz pulp
- Rio Madeira dam

Comment provided by Banco Itaú:

During 2006 and 2007 Banco Itaú's Social and Environmental Credit Policies have undergone a major revision. The result is the new Social-Environmental Credit Policy of Itaú Holding Financeira, which is scheduled to be released and published in December of 2007.

7.7 Bank Mandiri

Bank Mandiri: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	
2	Dams	0	
3	Fisheries	0	
4	Forestry	0	
5	Military industry and arms trade	0	
6	Mining	0	
7	Oil and Gas	0	
Issue policies		**Score**	**Comments**
1	Biodiversity	0	
2	Toxics	0	
3	Climate change	0	
4	Human Rights	0	
5	Indigenous Peoples	0	
6	Labour	0	
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	0	
2	Deal Transparency	0	
3	Institutional Accountability	0	
4	Deal Accountability	0	

Collective standards

- none

Dodgy deals (for details see chapter 6)

- Mud volcano in Sidoarjo
- Wilmar International

7.8 Bank of America

Bank of America: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	
2	Dams	2	Equator Principles
3	Fisheries	0	
4	Forestry	2	BoA Forest Practices
5	Military industry and arms trade	0	
6	Mining	1	Equator Principles
7	Oil and Gas	1	Equator Principles
Issue policies		**Score**	**Comments**
1	Biodiversity	1	Equator Principles / UNEP FI
2	Toxics	1	UNEP FI
3	Climate change	2	BoA Climate Change position paper
4	Human Rights	0	
5	Indigenous Peoples	1	Equator Principles
6	Labour	0	
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI, no disclosed criteria of policies
2	Deal Transparency	0	
3	Institutional Accountability	1	Internal Auditing
4	Deal Accountability	0	

Comments:

- Its *Climate Change position paper* states that Bank of America aims to reduce its financed emissions in the Energy & Utilities Portfolio by 7%. There is no such goal for other sectors.

- The rest of Bank of America’s environmental policies are centred around internal guidelines as *Environmental matters* or *Developing countries lending criteria* and external policies like the World Bank Guidelines and the Equator Principles. However, the internal policies are not disclosed or vaguely worded, the World Bank guidelines are only used partly and the Equator Principles apply only to project finance.

Collective standards

- Carbon Disclosure Project (CDP)
- Equator Principles (EP)
- UNEP Finance Initiative (UNEP FI)

Dodgy deals (for details see chapter 6)

- Cluster munitions producers
- Dynegy
- Freeport McMoran
- Mountain top removal coal mining
- Sinopec in Burma
- Uranium weapon producers
- Wal-Mart Stores

7.9 Bank of China

Bank of China: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	
2	Dams	0	
3	Fisheries	0	
4	Forestry	0	
5	Military industry and arms trade	0	
6	Mining	0	
7	Oil and Gas	0	
Issue policies		**Score**	**Comments**
1	Biodiversity	0	
2	Toxics	0	
3	Climate change	0	
4	Human Rights	0	
5	Indigenous Peoples	0	
6	Labour	0	
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	0	
2	Deal Transparency	0	
3	Institutional Accountability	0	
4	Deal Accountability	0	

Collective standards

- none

Dodgy deals (for details see chapter 6)

- Asia Pulp & Paper
- China Datang
- CNPC in Sudan
- Sinopec in Burma

7.10 Barclays

Barclays: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	1	Barclays Guidance Note Agriculture and Fisheries
2	Dams	2	Equator Principles / Barclays Guidance Note Infrastructure
3	Fisheries	1	Barclays Guidance Note Agriculture and Fisheries
4	Forestry	1	Barclays Guidance Note Forestry and Logging
5	Military industry and arms trade	1	Barclays Defence Sector policy and Internal Guidance for lending managers
6	Mining	1	Equator Principles / Barclays Guidance Note Mining and Metals
7	Oil and Gas	1	Equator Principles / Barclays Guidance Note Forestry and Logging / Barclays Guidance Note Infrastructure
Issue policies		**Score**	**Comments**
1	Biodiversity	1	Equator Principles / UNEP FI / Barclays Guidance Note Forestry and Logging
2	Toxics	1	UNEP FI / Barclays Guidance Note Chemicals and Pharmaceuticals
3	Climate change	1	Barclays Environmental policy
4	Human Rights	1	Barclays Statement on Human Rights
5	Indigenous Peoples	1	Equator Principles / Barclays Guidance Notes on various sectors
6	Labour	1	Barclays Guidance Notes on various sectors
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI, not all policies disclosed
2	Deal Transparency	1	Annual & CSR Report
3	Institutional Accountability	1	Internal Audit
4	Deal Accountability	0	

Comments:

- Barclays describes its policy on the defence sector, but standards and criteria are not extensively covered. Barclays excludes trade in controversial weapons and to oppressing regimes, but no such statements are made for production of these weapons. The *Internal Guidance for lending managers* is not made public, and hence cannot be graded.

- Barclays' *Environmental and Social Impact Assessment Policy* is not only applied to project finance transactions but also to other financing transactions "where there is a known application of funds to a potentially sensitive project". For these type of transactions an Environmental and Social Impact Assessment by an independent consultant is mandatory and the Equator Principles are applied. As Barclays does not clarify which percentage of all financing deals in specific sectors is assessed in this way, no extra points are awarded for this broader application of the Equator Principles.

- Barclays has a sophisticated procedure for *Environmental and Social Risk Assessment in Lending* in place. As part of this procedure, Barclays has developed ten guidance documents for its credit officers which describe the main environmental and social risks in over 50 sectors. The content guidance "include an overview of each industry's regulatory situation, and guidance about the sort of measures we would expect companies in that sector to be taking to identify their risks and implement the appropriate actions and controls." Barclays has produced the following guidance notes, which are not published on the website but are available upon request:

    - Agriculture and fisheries
    - Metals and mining
    - Oil and gas
    - Power generation, supply and distribution
    - Chemicals, pharmaceuticals manufacturing and bulk storage
    - General Manufacturing
    - Utilities and waste management
    - Infrastructure (including ports, pipelines and dams)
    - Service industry
    - Forestry and logging

- The content of the guidance notes is generally close to the international standards and best practices as described in chapter 3 of this report. Credit officers are attended to the relevant issues, but no clear preconditions for financial services are set. The guidance notes must therefore be regarded as aspirational policies and score a 1.

- In its *Annual Report* and *Corporate Social Responsibility Report* Barclays does not provide a sector split-up of its entire lending portfolio.

Collective standards:

- Carbon Disclosure Project (CDP)
- Equator Principles (EP)
- UNEP Finance Initiative (UNEP FI)
- Wolfsberg principles

Dodgy deals (for details see chapter 6)

- Cluster munitions producers
- Dynegy
- NHPC dams
- Vedanta Resources
- Wal-Mart Stores

7.11 BBVA

BBVA: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	
2	Dams	2	Equator Principles
3	Fisheries	0	
4	Forestry	0	
5	Military industry and arms trade	1	BBVA Principios, Criterias y Normas
6	Mining	1	Equator Principles
7	Oil and Gas	1	Equator Principles
Issue policies		**Score**	**Comments**
1	Biodiversity	1	Equator Principles / UNEP FI / UNGC
2	Toxics	1	UNEP FI / UNGC
3	Climate change	1	BBVA Environmental Policy
4	Human Rights	1	UNGC
5	Indigenous Peoples	1	Equator Principles / UNGC
6	Labour	1	UNGC / BBVA Code of Conduct
7	Taxation	1	Annual Report
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI, no clear criteria or policies
2	Deal Transparency	1	Annual Report
3	Institutional Accountability	1	Internal audits
4	Deal Accountability	0	Handling of client, employee and supplier complaints

Comments:

- BBVA's *Code of Conduct* is a document focused on labour rights within the bank, and does not set requirements for labour standards with the bank's clients.

- Deloitte audits BBVA's CSR report and the adherence to the GRI Guidelines. It does not audit whether BBVA complies with all its social and environmental lending standards or international agreements

- BBVA's complaint mechanism services the bank's clients, employees and suppliers, but there is no mechanism for third parties, such as individuals who are affected by BBVA's lending behaviour.

Collective standards

- Carbon Disclosure Project (CDP)
- Equator Principles (EP)
- UN Global Compact (UNGC)
- UNEP Finance Initiative (UNEP FI)

Dodgy deals (for details see chapter 6)

- Camisea
- Cluster munitions producers
- Sinopec in Burma

Comment provided by BBVA:

We disagree with the dodgy deals information as we do always comply with all laws (local, international, and Equator Principles) applying to any project we finance or in which we are involved.

7.12 BNP Paribas

BNP Paribas: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	
2	Dams	0	
3	Fisheries	0	
4	Forestry	0	
5	Military industry and arms trade	0	
6	Mining	0	
7	Oil and Gas	0	
Issue policies		**Score**	**Comments**
1	Biodiversity	1	UNEP FI / UN PRI / UNGC
2	Toxics	1	UNEP FI / UN PRI / UNGC
3	Climate change	1	BNP Paribas Approach to environmental responsibility
4	Human Rights	1	UN PRI / UNGC
5	Indigenous Peoples	1	UN PRI / UNGC
6	Labour	1	UN PRI / UNGC
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	1	Non-GRI Sustainability Report; no clear policies
2	Deal Transparency	0	
3	Institutional Accountability	2	External audit
4	Deal Accountability	0	Only handling of clients and employees' complaints

Comments:

- According to its *Environmental and Social Report 2006*, "BNP Paribas has joined a number of leading international financial institutions in deciding not to adopt the Equator Principles. This decision stemmed from their opinion that adopting these Principles would add nothing more to the commitments already undertaken by BNP Paribas in project finance." However, it is not clearly disclosed which standards and criteria BNP Paribas uses for its environmental and social risk assessments.

Collective standards

- Carbon Disclosure Project (CDP)
- UN Global Compact (UNGC)
- UNEP Finance Initiative (UNEP FI)
- UN Principles for Responsible Investments (UN PRI)

Dodgy deals (for details see chapter 6)

- Baku-Tbilisi-Ceyhan pipeline
- Belene
- Cluster munitions producers
- Dynegy
- Freeport McMoran
- Kashagan
- Mountain top removal coal mining
- Nam Theun 2
- Vedanta Resources

7.13 China Construction Bank

China Construction Bank: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	
2	Dams	0	
3	Fisheries	0	
4	Forestry	0	
5	Military industry and arms trade	0	
6	Mining	0	
7	Oil and Gas	0	
Issue policies		**Score**	**Comments**
1	Biodiversity	0	
2	Toxics	0	
3	Climate change	0	
4	Human Rights	0	
5	Indigenous Peoples	0	
6	Labour	0	
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	1	Non-GRI Sustainability Report; no clear policies
2	Deal Transparency	1	Annual Report
3	Institutional Accountability	0	No policies, no audit
4	Deal Accountability	0	Only handling of clients' complaints

Collective standards

- none

Dodgy deals (for details see chapter 6)

- Asia Pulp & Paper
- CNPC in Sudan
- Sinopec in Burma

7.14 Citi

Citi: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	Citi ESRM Policy
2	Dams	2	Equator Principles
3	Fisheries	0	Citi ESRM Policy
4	Forestry	2	Citi ESRM Approach to Commercial Logging
5	Military industry and arms trade	0	Citi ESRM Policy
6	Mining	1	Equator Principles
7	Oil and Gas	1	Equator Principles
Issue policies		**Score**	**Comments**
1	Biodiversity	1	Equator Principles / UNEP FI
2	Toxics	1	UNEP FI
3	Climate change	1	Carbon Disclosure Project / UNEP FI
4	Human Rights	1	Citi Statement on Human Rights
5	Indigenous Peoples	1	Equator Principles
6	Labour	0	Citi ESRM Policy
7	Taxation	0	Citi Tax Standard for Tax Sensitive Financial Products and Strategies
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI, not all policies clearly disclosed
2	Deal Transparency	0	Sustainability Report
3	Institutional Accountability	1	Internal audits by ESRM Unit and Audit and Risk Review Unit
4	Deal Accountability	0	

Comments:

- Citi's *Environmental and Social Risk Management (ESRM) Policy* is based on the standards of the Equator Principles, but covers a broader range of financing, e.g. corporate finance. However, the ESRM policy itself is not shared with the public, and the part of Citi's website about the ESRM policy does not mention any exclusion criteria, nor does it go into detail about standards for different sectors. The ESRM document can therefore not be regarded as a strict and public credit policy, hence no points are awarded.

- Citi´s *Statement on Climate Change* is merely focused on what government policies should look like instead of assuming responsibility as a company. It therefore gives no additional points.

- Citi's *Tax Standard for Tax Sensitive Financial Products and Strategies* is a document that describes the fact that Citi's products and strategies follow US and international tax law. Hence following the policy is a matter of legal behavior, and not of discouraging tax avoidance by clients. Moreover, the document is not shared publicly and can therefore not be granted any points.

- Citi gives a sector split-up of its ESRM sensitive deals in the last year. In order to be awarded scores, it would need to disclose a split-up of the bank's entire lending portfolio.

Collective standards

- Carbon Disclosure Project (CDP)
- Equator Principles (EP)
- UNEP Finance Initiative (UNEP FI)
- Wolfsberg Principles

Dodgy deals (for details see chapter 6)

- Aracruz
- Baku-Tbilisi-Ceyhan pipeline
- Cluster munitions producers
- CNPC in Sudan
- Dynegy
- Freeport McMoran
- Kashagan
- Mountain top removal coal mining
- Vedanta Resources
- Wal-Mart Stores
- Wilmar International

7.15 Crédit Agricole / Calyon

Crédit Agricole: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	
2	Dams	2	Equator Principles
3	Fisheries	0	
4	Forestry	0	
5	Military industry and arms trade	0	
6	Mining	1	Equator Principles
7	Oil and Gas	1	Equator Principles
Issue policies		**Score**	**Comments**
1	Biodiversity	1	Equator Principles
2	Toxics	1	UN PRI / UNGC
3	Climate change	1	Carbon Disclosure Project UN PRI / UNGC
4	Human Rights	1	UN PRI / UNGC
5	Indigenous Peoples	1	Equator Principles
6	Labour	1	UN PRI / UNGC
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI, no individual policies and criteria disclosed
2	Deal Transparency	1	Annual Report
3	Institutional Accountability	2	External Auditors
4	Deal Accountability	0	Only handling of clients' complaints

Comments

- Calyon is Crédit Agricoles (CA) subsidiary specialized in project finance. Only Calyon signed the Equator Principles but as almost all project finance of CA is done by Calyon, credits were given to the entire group.

Collective standards

- Carbon Disclosure Project (CDP)
- Equator Principles (EP)
- Extractive Industries Transparency Initiative (EITI)
- UN Global Compact (UNGC)
- UN Principles for Responsible Investments (UN PRI)

Dodgy deals (for details see chapter 6)

- Baku-Tbilisi-Ceyhan pipeline
- Botnia
- Cluster munitions producers
- Dynegy
- Freeport McMoran
- Mountain top removal coal mining
- Nam Theun 2
- Sinopec in Burma
- Uranium weapon producers
- Vedanta Resources

7.16 Credit Suisse

Credit Suisse: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	
2	Dams	2	Equator Principles
3	Fisheries	0	
4	Forestry	0	
5	Military industry and arms trade	0	
6	Mining	1	Equator Principles
7	Oil and Gas	1	Equator Principles
Issue policies		**Score**	**Comments**
1	Biodiversity	1	Equator Principles / UNEP FI / UNGC
2	Toxics	1	UNEP FI / UNGC
3	Climate change	1	Credit Suisse Climate Change Statement / Carbon Disclosure Project / UNEP FI / UNGC
4	Human Rights	1	UNGC
5	Indigenous Peoples	1	Equator Principles / UNGC
6	Labour	1	UNGC
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI, no clearly disclosed policies or criteria
2	Deal Transparency	0	
3	Institutional Accountability	1	Internal Sustainability Committee / Risk Committee
4	Deal Accountability	0	

Comments:

- Credit Suisse´s *Climate Change Statement* is mainly focused on operational emissions. For financed emissions the statement refers to the Carbon Disclosure Project. Therefore, no additional points are granted for this policy.

Collective standards

- Carbon Disclosure Project (CDP)
- Equator Principles (EP)
- UN Global Compact (UNGC)
- UNEP Finance Initiative (UNEP FI)
- Wolfsberg Principles

Dodgy deals (for details see chapter 6)

- Cluster munitions producers
- Dynegy
- Mountain top removal coal mining
- Mud volcano in Sidoarjo
- Rio Madeira
- Sakhalin 2
- Samling
- Wal-Mart Stores

Comment provided by Credit Suisse:

Credit Suisse employs a thorough internal process to examine particular transactions or client relationships in view of sustainability issues (environmental, social, human rights) and potential reputational risks. The process is based on our commitments to the UNEP FI, the UN Global Compact and the Equator Principles and ensures that relevant issues, such as those mentioned in the BankTrack report, are dealt with appropriately. Our ratings by sustainability rating agencies and index providers confirm that this is a suitable approach.

7.17 Deutsche Bank

Deutsche Bank: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	
2	Dams	0	
3	Fisheries	0	
4	Forestry	0	
5	Military industry and arms trade	0	
6	Mining	0	
7	Oil and Gas	0	
Issue policies		**Score**	**Comments**
1	Biodiversity	1	UNEP FI / UNGC
2	Toxics	1	UNEP FI / UNGC
3	Climate change	1	Carbon Disclosure Project / UNEP FI / UNGC / DB Sustainability Report / DB Presentation on Climate Change
4	Human Rights	1	UNGC
5	Indigenous Peoples	1	UNGC
6	Labour	1	UNGC
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI, no issue and sector policies
2	Deal Transparency	1	Annual Report
3	Institutional Accountability	2	External auditor
4	Deal Accountability	0	Only handling of clients' complaints

Comments:

- Deutsche Bank's *Sustainability Flyer* and the *2006 Sustainability Report* focus greatly on Deutsche Bank's operational footprint, but disregard the impact of the bank's financing activities and its clients' emissions or pollution. Furthermore, the bank's presentation on Climate Change explains how the bank is planning to reduce its own emission, invest in 'green' projects and be active in CO_2 emission trading. None of these steps targets to reduce Deutsche Bank's financed emissions, and are therefore not were not awared any points.

- Deutsche Bank has developed a very professional complaint mechanism. As it is described in the bank's Annual Report, this mechanism very well services clients.

Grievances from third parties, e.g. individuals who are affected by the bank's lending behaviour, are not mentioned and therefore no credits could be awarded.

Collective standards

- Carbon Disclosure Project (CDP)
- UN Global Compact (UNGC)
- UNEP Finance Initiative (UNEP FI)
- Wolfsberg Principles

Dodgy deals (for details see chapter 6)

- Cluster munitions producers
- CNPC in Sudan
- Freeport McMoran
- Mud volcano in Sidoarjo
- NHPC dams
- Rio Madeira
- Turkmen bank accounts
- Uranium weapon producers
- Vedanta Resources
- Wal-Mart Stores

Comment provided by Deutsche Bank:

Within Deutsche Bank there exists a framework of risk principles and guidelines, organizational structures, procedures to measure, monitor and steer risks.

Seen as our framework, we comply with all national and international legal provisions. In addition, we apply the World Bank Standards, the OECD guidelines for multinational companies and embargoes. In all of our business activities we consider the ten principles of the UN Global Compact and the UNEP principles. To name only two measures: our internal, global "New Client Adoption Procedure" ("Know your customer") and the global guideline "Group Reputational Risk Management Program Policy" underline the importance of assessing sensitive deals, activities, and transactions. Our global group policies for lending include social, ethical, and ecological factors. They state that Deutsche Bank will not participate in any financing activities that we believe will entail significant dangers for the environment or for society.

Our approval procedures, which have been established for years, require detailed analyses of transactions and activities, not least from social, ethical and ecological vantage points.

We take each decision individually and consider the social environment and the reputation of the business partners involved. For further information please see our Corporate Social Responsibility Report 2006, Pages 1-59.

7.18 Dexia

Dexia: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	X	Dexia stated it has not been active in this sector for the last 3 years
2	Dams	X	Dexia stated it has not been active in this sector for the last 3 years
3	Fisheries	X	Dexia stated it has not been active in this sector for the last 3 years
4	Forestry	X	Dexia stated it has not been active in this sector for the last 3 years
5	Military industry and arms trade	2	Dexia position towards armaments industry
6	Mining	X	Dexia stated it has not been active in this sector for the last 3 years
7	Oil and Gas	1	Equator Principles
Issue policies		**Score**	**Comments**
1	Biodiversity	1	Equator Principles / UNEP FI / UN PRI / UNGC
2	Toxics	1	UNEP FI / UN PRI / UNGC
3	Climate change	2	Dexia Sustainability Report
4	Human Rights	1	Dexia Human Rights Policy
5	Indigenous Peoples	1	Equator Principles / UN PRI / UNGC
6	Labour	1	UN PRI / UNGC / Principles of Social Development
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI, not all individual policies disclosed
2	Deal Transparency	1	Annual Report
3	Institutional Accountability	1	Internal audit on financing policies
4	Deal Accountability	0	Handling of customer complaints

Comments:

- The *Dexia position towards armaments industry* excludes financing of pure weapon producers or traders. However, it still allows Dexia to finance companies that produce or trade controversial weapons, as long it is not their core business. As a for number of companies producing weapons that sector is a minor part of their activities, this does not prevent Dexia completely from investing in the arms producing industry.

- Dexia states that from 2007 on, Dexia will publish its financed CO_2 emissions in its *Sustainability Report*. BankTrack welcomes this commitment and looks forward to the Sustainability Report.

- Dexia has not been scored in the sector policies for agriculture, dams, forestry and mining, as the company stated that it has not been active in these sectors over the last 3 years.

- Dexia's *Human Rights Policy* refers to important international agreements, but fails to translate the standards into clear lending requirements with which the bank's clients should comply.

- The *Policy on Labour Rights* also fails to translates international standards to clear lending requirements. For the issue of Labour Rights, Dexia also refers to the bank's *Principles of Social Development*, but these principles are not publicly available and can therefore not be graded.

- Dexia has an internal department that audits the bank's finance policies. An external auditor checks on the bank's operational CSR behaviour and publications.

Collective standards:
- Carbon Disclosure Project (CDP)
- Equator Principles (EP)
- Extractive Industries Transparency Initiative (EITI)
- UN Global Compact (UNGC)
- UNEP Finance Initiative (UNEP FI)
- UN Principles for Responsible Investment (UN PRI)

Dodgy deals (for details see chapter 6)
- Baku-Tbilisi-Ceyhan pipeline
- Dynegy

7.19 Fortis

Fortis: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	2	Fortis Agri Core Values
2	Dams	2	Equator Principles
3	Fisheries	0	
4	Forestry	2	Fortis Agri Core Values
5	Military industry and arms trade	2	Fortis Policy on the Defence Industry
6	Mining	1	Equator Principles
7	Oil and Gas	1	Equator Principles
Issue policies		**Score**	**Comments**
1	Biodiversity	1	Equator Principles / UNEP FI / UNGC / UN PRI
2	Toxics	1	UNEP FI / UNGC / UN PRI
3	Climate change	2	Fortis Environmental Statement / UN PRI
4	Human Rights	1	UNGC / UN PRI
5	Indigenous Peoples	1	Equator Principles / UNGC / UN PRI
6	Labour	1	UNGC / UN PRI
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI, not all policies clearly disclosed
2	Deal Transparency	0	
3	Institutional Accountability	2	External Audit by KPMG Sustainability
4	Deal Accountability	0	Only handling of client's complaints

Comments:

- The *Agri Core Values*, described in Fortis' Sustainability Report 2006, are straightforward standards to which agricultural clients must comply. More detailed policies for specific products were only described (or disclosed) for palm oil. This *Supplement on Palm Oil* also points to a more descriptive document which covers all agro-commodities, based on the *Agri Core Values*, but this general policy was not disclosed.

- The *Fortis Policy on the Defence Industry* states that the bank does not want to finance any activity related to anti-personnel mines, cluster munitions, nuclear, biological and chemical weapons. However, Fortis can finance the companies that produce or trade these types of weapons, as long as Fortis' money is not used for those activities.

- The adoption of the *Fortis Policy on the Defense Industry* has led to verified changes in Fortis involvement in uranium weapons producers listed in the relevant dodgy deal section.

- Fortis has developed a *Carbon Neutrality Programme*, which focuses on the bank's own operations and not on the effect of the bank's loans.

Collective standards:
- Carbon Disclosure Project (CDP)
- Equator Principles (EP)
- UN Global Compact (UNGC)
- UNEP Finance Initiative (UNEP FI)
- UNEP Principles for Responsible Investments (UN PRI)

Dodgy deals (for details see chapter 6)
- Cluster munitions producers
- Nam Theun 2
- Sinopec in Burma
- Uranium weapons producers
- Vedanta Resources
- Wilmar International

7.20 Goldman Sachs

Goldman Sachs: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	1	GS Environmental Policy Framework
2	Dams	0	
3	Fisheries	0	
4	Forestry	2	GS Environmental Policy Framework
5	Military industry and arms trade	0	
6	Mining	1	EITI
7	Oil and Gas	1	EITI
Issue policies		**Score**	**Comments**
1	Biodiversity	1	GS Environmental Policy Framework
2	Toxics	0	
3	Climate change	1	GS Environmental Policy Framework
4	Human Rights	0	
5	Indigenous Peoples	2	GS Environmental Policy Framework
6	Labour	0	
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	1	CSR report, not GRI format
2	Deal Transparency	0	
3	Institutional Accountability	0	
4	Deal Accountability	0	

Comments:

- *Goldman Sachs' Environmental Policy Framework* is a rather general document, describing Goldman Sachs actions with regard to sustainability practices. It focuses mainly on internal issues, such as lowering energy and paper use. The *Environmental Policy Framework* also states that the bank will not finance forestry activities in High Conservation Value areas, and makes a statement on non-violation of the rights of indigenous communities.

- Goldman Sachs participated in the Carbon Disclosure Project in 2006 and 2007 but as it declined permission to CDP to publish the results, it could not be rated.

Collective standards

- Extractive Industries Transparency Initiative (EITI)
- Wolfsberg principles

Dodgy deals (for details see chapter 6)

- China Datang
- CNPC in Sudan
- Dynegy
- Mountain top removal coal mining
- Uranium weapon producers
- Wal-Mart Stores

7.21 HSBC

HSBC: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	1	HSBC and Oil Palm
2	Dams	4	HSBC Freshwater Infrastructure Sector Guideline
3	Fisheries	0	Informal statement
4	Forestry	3	HSBC Forest Land and Forest Products Sector Guide
5	Military industry and arms trade	0	
6	Mining	3	HSBC Mining and Metals Sector Policy
7	Oil and Gas	2	HSBC Energy Sector Risk Policy
Issue policies		**Score**	**Comments**
1	Biodiversity	2	HSBC Forest Land and Forest Products Sector Guide / HSBC Freshwater Infrastructure Sector Guideline
2	Toxics	2	HSBC Chemicals Industry Sector Guideline
3	Climate change	2	HSBC Energy Sector Risk Policy
4	Human Rights	1	UN PRI / UNGC
5	Indigenous Peoples	2	EP / HSBC Freshwater & Forest Land Policies
6	Labour	1	UN PRI / UNGC
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	3	GRI, clear policies and criteria
2	Deal Transparency	0	
3	Institutional Accountability	1	Internal auditing
4	Deal Accountability	0	No third party complaint mechanism

Comments

- HSBC is the only bank that receives a score of 4 for a sector policy

Collective standards:

- Carbon Disclosure Project (CDP)
- Equator Principles (EP)
- Extractive Industries Transparency Initiative (EITI)
- UN Global Compact (UNGC)
- UNEP Finance Initiative (UNEP FI)
- UN Principles for Responsible Investment (UN PRI)
- Wolfsberg Principles

Dodgy deals (for details see chapter 6)

- Cluster munitions producers
- Freeport McMoran
- NHPC dams
- Samling
- Vedanta Resources
- Wal-Mart Stores

Comment provided by HSBC:

HSBC acknowledges the benefits of dialogue between NGOs and corporations to resolve issues and foster improvements in business practices. As part of this approach, HSBC welcomes external scrutiny and recognizes the efforts made by NGOs such as BankTrack to encourage change. The comparison between banks creates a competitive drive to promote more discussion and transparency. HSBC has noted an improvement with this year's presentation of the information compared with 2006.

The comparison of different policies advances international standards and best practice on the important issues and challenges facing the world today. The consultation process offered by BankTrack has been appreciated.

HSBC believes that the BankTrack methodology could include more detail on the positive steps being taken by many banks. In the case of HSBC and the issue of climate change, the bank has launched a US$100 million Climate Partnership to combat climate change worldwide by increasing research on the issue, educating our global staff and encouraging behavioural change; produced a carbon finance strategy to help clients combat climate change; launched a US$90 million programme to help HSBC offices reduce their direct impacts; appointed Sir Nicholas Stern as special adviser on climate change; and continues its commitment to being carbon neutral.

7.22 Industrial and Commercial Bank of China

ICBC: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	ICBC environmental credit policy
2	Dams	0	ICBC environmental credit policy
3	Fisheries	0	ICBC environmental credit policy
4	Forestry	0	ICBC environmental credit policy
5	Military industry and arms trade	0	
6	Mining	0	ICBC environmental credit policy
7	Oil and Gas	0	ICBC environmental credit policy
Issue policies		**Score**	**Comments**
1	Biodiversity	0	ICBC environmental credit policy
2	Toxics	0	ICBC environmental credit policy
3	Climate change	1	CDP / ICBC environmental credit policy
4	Human Rights	0	
5	Indigenous Peoples	0	
6	Labour	0	
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	0	
2	Deal Transparency	0	
3	Institutional Accountability	0	
4	Deal Accountability	0	

Comments:

- A recent report discussed the environmental screening of clients by ICBC. The bank has an environmental policy in place which covers all sectors, setting environmental requirements as a precondition for loans.[366] As the content of this policy is not publicly available, it can not be awarded credits.

Collective standards

- Carbon Disclosure Project

Dodgy deals (for details see chapter 6)

- Asia Pulp & Paper
- China Datang
- CNPC in Sudan
- Sinopec in Burma

7.23 ING

ING: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	2	ING Manufacturing & Agriculture Sector Policy
2	Dams	2	Equator Principles
3	Fisheries	0	
4	Forestry	2	ING Forestry & Plantations Sector Policy
5	Military industry and arms trade	2	ING Defence Policy
6	Mining	2	ING Natural Resources & Chemicals Sector Policy
7	Oil and Gas	2	ING Natural Resources & Chemicals Sector Policy
Issue policies		**Score**	**Comments**
1	Biodiversity	2	ING Forestry & Plantations Sector Policy / ING Natural Resources & Chemicals Sector Policy / UNEP FI
2	Toxics	1	UNGC / UNEP FI
3	Climate change	1	ING Environmental Statement / Carbon Disclosure Project / UNGC / UNEP FI
4	Human Rights	1	ING Human Rights Statement / UNGC
5	Indigenous Peoples	2	ING Forestry & Plantations Sector Policy / ING Natural Resources & Chemicals Sector Policy
6	Labour	1	UNGC
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI, not all criteria clearly disclosed
2	Deal Transparency	0	No sector split-up
3	Institutional Accountability	2	External sustainability audit by Ernst & Young
4	Deal Accountability	1	CSR department

Comments:

- ING in its *Annual* and *Corporate Social Responsibility Report* refers to a *General Environmental and Social Risk Policy*. This policy is not public and therefore the contentcan not be graded in this benchmark.

- ING's *Manufacturing & Agriculture Policy* is not made public and can therefore only be graded on the description available on the bank's website and Sustainability Report. Strict exclusion or lending requirements are not described.

- ING's *Forestry & Plantations Policy* is not made public and can therefore only be graded on the description available on the bank's website and Sustainability Report. Strict exclusion or lending requirements are only described with respect to protected areas.

- ING's *Defence Policy* states that "ING does not finance controversial weapons." ING makes however an exception for companies that have limited involvement in controversial weapons, which can still be financed. As "limited involvement" is intended as relative to the company's total turnover, its absolute involvement in controversial weapons can still be considerable.

- The adoption of the Defence Policy has led to verified changes in INGs involvement in cluster munitions producers listed in the relevant dodgy deal section

- ING's *Natural Resources & Chemical Sector Policy* is said to "refer to issues on labour rights, local communities, indigenous people, revenue transparency and biodiversity." The policy is not made public and can therefore only be graded on the description available on the bank's website and Sustainability Report. Strict exclusion or lending requirements are only described with respect to protected areas.

- ING's *Environmental Statement* is targeted at the group's operational footprint, and not on its clients' impact (e.g. financed emissions).

- ING's *Human Rights Statement* is part of the group's Business Principles regarding the labour rights of ING employees. With regard to the bank's lending policy, ING states that it has developed Human Rights Management Guides. As no details are shared publicly, the content hereof can not be graded by BankTrack.

- Policies are well described in ING *Corporate Responsibility policies* (August 2007), but not all standards and criteria are clearly disclosed.

- The financing of Thales took place before ING Group adopted its Defence Policy. In line with its Defence Policy, ING states that will not finance Thales anymore.

Collective standards

- Carbon Disclosure Project (CDP)
- Equator Principles (EP)
- Extractive Industries Transparency Initiative (EITI)
- UNEP Finance Initiative (UNEP FI)
- UN Global Compact (UNGC)
- Wolfsberg Principles

Dodgy deals (for details see chapter 6)

- Baku-Tbilisi-Ceyhan pipeline
- Cluster munitions producers
- Dynegy
- Freeport McMoran
- Kashagan
- Nam Theun 2
- NHPC dams
- Sinopec in Burma
- Wilmar International

7.24 Intesa Sanpaolo

Intesa Sanpaolo: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	
2	Dams	2	Equator Principles
3	Fisheries	0	
4	Forestry	0	
5	Military industry and arms trade	3	Intesa Sanpaolo Arms Sector policy
6	Mining	1	Equator Principles
7	Oil and Gas	1	Equator Principles
Issue policies		**Score**	**Comments**
1	Biodiversity	1	Equator Principles / UNEP FI / UNGC
2	Toxics	1	UNEP FI / UNGC
3	Climate change	1	Carbon Disclosure Project / UNEP FI / UNGC Intesa Sanpaolo Environmental policy
4	Human Rights	1	Intesa Sanpaolo Sustainability Report / UNGC
5	Indigenous Peoples	1	Equator Principles / UNGC
6	Labour	1	UNGC
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI and partly disclosed policies and criteria
2	Deal Transparency	1	Social Report
3	Institutional Accountability	2	External audit
4	Deal Accountability	1	Ethical and Social complaints

Comments:

- Intesa Sanpaolo states that the bank ‘envisages the discontinuation of its involvement in financial transactions related to the trading and manufacture of weapons, weapon components and related products, even though permitted by the 185/90 law.’ This means that no new contracts in the sector are allowed, and that financing of the arms sector will be phased out. Because existing contracts are not discontinued, Intesa Sanpaolo does not score a 4 on this policy.

- Intesa Sanpaolo's *Environmental Management System* targets the bank's operational emissions, and does not take the financed emissions into consideration and therefore no extra credits are awarded.

- Intesa Sanpaolo has a complaint mechanism for customers. Via this mechanism customers can complain about the bank's service level, but also about the bank's ethical behaviour. No statement is made however if unrelated parties which are affected by the bank's lending activities, have a point of entrance in the bank's complaint mechanism.

Collective standards

- Carbon Disclosure Project (CDP)
- Equator Principles (EP)
- UN Global Compact (UNGC)
- UNEP Finance Initiative (UNEP FI)

Dodgy deals (for details see chapter 6)

- Baku-Tbilisi-Ceyhan pipeline
- Cluster munitions producers
- Uranium weapon producers

7.25 JPMorgan Chase

JPMorgan Chase: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	
2	Dams	2	Equator Principles
3	Fisheries	0	
4	Forestry	2	JPMC Forestry and Biodiversity Policy
5	Military industry and arms trade	0	
6	Mining	1	Equator Principles
7	Oil and Gas	1	Equator Principles
Issue policies		**Score**	**Comments**
1	Biodiversity	2	JPMC Forestry and Biodiversity Policy
2	Toxics	1	UNEP FI / UN PRI
3	Climate change	2	JPMC Climate Change policy and commitments
4	Human Rights	1	UN PRI
5	Indigenous Peoples	3	JPMC Indigenous communities policy
6	Labour	1	UN PRI
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	1	Community Report
2	Deal Transparency	1	Clear on sectors, less on regions
3	Institutional Accountability	0	
4	Deal Accountability	0	

Comments:

- JPMorgan Chases *Environmental Risk Management Policy* states that: "JPMorgan Chase will apply the Equator Principles, as appropriate, to all loans, debt and equity underwriting, financial advisories and project-linked derivative transactions where the use of proceeds is designated for potentially damaging projects." In so far this commitment is not translated into specific policies, this commitment to apply the Equator Principles to a wider ranging of financial services has not resulted in higher scores.

- Equator Principles (EP)
- Extractive Industries Transparency Initiative (EITI)
- UNEP Finance Initiative (UNEP FI)
- UN Principles for Responsible Investment (UN PRI)
- Wolfsberg Principles

Dodgy deals (for details see chapter 6)

- Aracruz
- Cluster munitions producers
- Dynegy
- Freeport McMoran
- Mountain top removal coal mining
- Uranium weapon producers
- Vedanta Resources
- Wal-Mart Stores

7.26 KBC

KBC: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	
2	Dams	2	Equator Principles
3	Fisheries	0	
4	Forestry	0	FSC Covenant
5	Military industry and arms trade	3	KBC on Controversial Weapons
6	Mining	1	Equator Principles
7	Oil and Gas	1	Equator Principles
Issue policies		**Score**	**Comments**
1	Biodiversity	1	Equator Principles / UNGC
2	Toxics	1	UNGC
3	Climate change	2	KBC Environmental Policy
4	Human Rights	1	KBC Statement on Human Rights / UNGC
5	Indigenous Peoples	1	Equator Principles / UNGC
6	Labour	1	UNGC
7	Taxation	0	KBC Responsible Tax Strategy
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI, not all criteria clearly disclosed
2	Deal Transparency	1	Annual Report
3	Institutional Accountability	2	External auditors
4	Deal Accountability	0	Only handling of employees and clients' complaints

Comments:

- KBC entered a *FSC covenant* in 2007, implying that the bank will reduce its paper use and switch to recycled and FSC certified paper. This however has no impact on the bank's lending facilities in the forestry, paper and pulp sector. Hence, no points are granted.

- KBC's *Statement on Controversial Weapons* is developed by its Asset Management arm, but it also applies to all the bank's financing activities. The score for this sector policy is based on the content of the policy for its lending activities. Nevertheless, the fact that it comprises all KBC's investments is highly appreciated.

- KBC's *Statement on Human Rights* refers to international best standards on human rights, but does not make clear if these principles play a role in its credit policies. However, in its CSR Report 2006 the bank states: "KBC will not provide loans to those customers of which we know that they do not respect human rights." Therefore 2 points are granted.

- KBC's *Responsible Tax Strategy* includes a statement on 'not supporting clients to evade taxes.' This however, translates into KBC stating that it will only do business with citizens that obey the law. The tax policy does not mention tax avoidance and is therefore not awarded credits.

Collective standards

- Carbon Disclosure Project (CDP)
- Equator Principles (EP)
- UN Global Compact (UNGC)

Dodgy deals (for details see chapter 6)

- Baku-Tbilisi-Ceyhan pipeline
- Nam Theun 2

Comment provided by KBC:

CSR is a long-term process requiring ongoing adaptation and improvement. In this respect, KBC is continually repositioning itself, even pioneering certain areas (e.g., our weapons policy, our SRI funds, our in-house SRI research). We therefore welcome any opportunity to engage pro-actively with our stakeholders, including NGOs, in our common quest for a more sustainable world.

KBC's basic vision on CSR is embedded in its mission statement. More specific commitments are described in KBC's 'Principles for Socially Responsible Business'. Steps have been taken in recent years to uphold our vision and make good on our commitments by working to enhance our transparency via our annual CSR Reports and our web pages dedicated to CSR and our SRI research - all accessible to the public. Our reporting efforts have helped pinpoint our weaknesses, and, among other things, new policies were introduced to shore up our group-wide CSR framework.

Moreover, we understand the importance of stakeholder dialogue, an area which we wish to develop further. This is why we joined local and international CSR networks, given our multinational presence. We are aware that improvements can still be made, but we believe that KBC is moving in the right direction, slowly but surely.

7.27 Merrill Lynch

Merrill Lynch: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	
2	Dams	0	ML Sustainability Website
3	Fisheries	0	
4	Forestry	2	ML Environmental Sustainability Framework
5	Military industry and arms trade	0	
6	Mining	1	EITI
7	Oil and Gas	1	EITI
Issue policies		**Score**	**Comments**
1	Biodiversity	0	
2	Toxics	0	
3	Climate change	1	Carbon Disclosure Project / ML Environmental Sustainability Framework
4	Human Rights	0	Core Principles
5	Indigenous Peoples	1	ML Environmental Sustainability Framework
6	Labour	0	Core Principles
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	0	No GRI, not all policies / principles publicly available
2	Deal Transparency	0	
3	Institutional Accountability	1	ML Public Policy & Responsibility Committee
4	Deal Accountability	0	

Comments:

- Merrill Lynch says that environmental and reputational concerns are included in the due diligence processes. The standards nor any lending requirements are published and accessible for the public, so BankTrack cannot grade them in this benchmark.

- Merrill Lynch's website previously stated that: 'We do not provide project financing for large public infrastructure project financing, such as for dam construction.' As most dams are financed via project financing, this statement would earn Merrill Lynch 3 points. However, the statement is taken offline, and replaced by the bank's new *Environmental Sustainability Framework*, which does not mention dam financing at all. Nor does any other of Merrill Lynch other publicly available sources.

- Merrill Lynch's *Environmental Sustainability Framework* describes its increasing financing of sustainable energy and technology, but these do not come instead of ´conventional´ financing of energy sources. There is no target for lower GHG-emissions and therefore this policy does not get more than 1 point for climate commitments.

- Merrill Lynch states that *Human and Labour Rights* issues fall under the bank's *Responsible Citizenship*, one of the bank's '*Core Principles*'. What *Responsible Citizenship* means is not concrete, nor are the principles translated into lending policies that require Merrill Lynch clients to comply to these principles.

- Merrill Lynch is aware of the negative effect that particularly extractive industries may have on the lives of indigenous communities. The bank does support EITI and declines financing when anti-bribery laws are violated, but has not developed (or made public) a broader lending policy that sets standards and requirements to their clients with respect to the rights of these groups.

- The role of the Merrill Lynch's *Public Policy & Responsibility Committee* is to 'review the management's framework for identifying significant public policy issues that may arise in the Corporation's current or proposed business operations, for applying ethical standards, and for providing direction to appropriately address them.'

Collective standards

- Carbon Disclosure Project (CDP)
- Extractive Industries Transparency Initiative (EITI)

Dodgy deals (for details see chapter 6)

- Cluster munitions producers
- Dynegy
- Freeport McMoran
- Mountain top removal coal mining
- Mud volcano in Sidoarjo
- Rosia Montana
- Uranium weapon producers
- Vedanta Resources

7.28 Mitsubishi UFJ

Mitsubishi UFJ: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	
2	Dams	2	Equator Principles
3	Fisheries	0	MU Sustainability Report 2006
4	Forestry	0	
5	Military industry and arms trade	0	
6	Mining	1	Equator Principles
7	Oil and Gas	1	Equator Principles
Issue policies		**Score**	**Comments**
1	Biodiversity	1	Equator Principles
2	Toxics	1	UNEP FI / UN PRI / UNGC
3	Climate change	1	MU Environmental Statement and Policy / Carbon Disclosure Project / UNEP FI / UN PRI / UNGC
4	Human Rights	1	UN PRI / UNGC
5	Indigenous Peoples	1	Equator Principles / UN PRI / UNGC
6	Labour	1	UN PRI / UNGC
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI, no clear policies or criteria
2	Deal Transparency	0	Split-up in countries, not sectors
3	Institutional Accountability	0	No audit on CSR lending-policies
4	Deal Accountability	0	

Comments:

- In its Sustainability Report 2006, Mitsubishi UFJ mentions environmentally friendly fishing methods that the bank finances. However, no lending criteria or standards that are applied to 'regular' fishery clients are disclosed.

- Mitsubishi UFJ's *Environmental Statement and Policy* is focused on the bank's operational footprint and disregards the impact the bank has via its financing activities.

Collective standards

- Equator Principles (EP)
- UN Global Compact (UNGC)
- UNEP Finance Initiative (UNEP FI)
- UN Principles for Responsible Investment (UN PRI)

Dodgy deals (for details see chapter 6)

- Cluster munitions producers
- Freeport McMoran
- Kashagan
- Nam Theun 2
- Uranium weapon producers
- Vedanta Resources
- Wal-Mart Stores
- Wilmar International

7.29 Mizuho

Mizuho: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	
2	Dams	2	Equator Principles
3	Fisheries	0	
4	Forestry	0	Equator Principles
5	Military industry and arms trade	0	Internal Policy
6	Mining	1	Equator Principles
7	Oil and Gas	1	Equator Principles
Issue policies		**Score**	**Comments**
1	Biodiversity	1	Equator Principles
2	Toxics	1	UNEP FI / UN PRI / UNGC
3	Climate change	1	Mizuho CSR Report / Carbon Disclosure Project / UNEP FI / UN PRI / UNGC
4	Human Rights	1	Mizuho Human Rights policy / UN PRI / UNGC
5	Indigenous Peoples	1	Equator Principles / UN PRI / UNGC
6	Labour	1	UN PRI / UNGC
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI, no clear individual policies / criteria
2	Deal Transparency	1	Annual Report
3	Institutional Accountability	0	No audit on Credit policies
4	Deal Accountability	0	Only handling of clients' complaints

Comments:

- According to Mizuho, the bank has compiled 38 Environmental Guidelines by Industry Sector, including "Oil and Gas Development (Onshore)" and "Oil and Gas Development (Offshore)", "Petrochemicals Manufacturing", "Petroleum Refining", "Pulp and Paper Mills", "Mixed Fertilizer Plants", "Nitrogenous Fertilizer Plants" and "Cement Manufacturing". As these policies are not shared with the public, they cannot be scored in this benchmark.

- Mizuho also has an internal policy on the military industry. As the standards, exclusion and lending criteria are not published, BankTrack cannot include them in this study.

- Mizuho's *Human Rights policy* only targets the bank's own operations, not those of its clients.

- In its *CSR Report 2006*, Mizuho recognizes the company's role in stimulating its customers to reduce greenhouse gas emissions, but it sets no requirements to lending. Hence, no extra credits were given.

Collective standards

- Carbon Disclosure Project (CDP)
- Equator Principles (EP)
- UN Global Compact (UNGC)
- UNEP Finance Initiative (UNEP FI)
- UN Principles for Responsible Investment (UN PRI)

Dodgy deals (for details see chapter 6)

- Baku-Tbilisi-Ceyhan pipeline
- Cluster munitions producers
- Freeport McMoran
- Kashagan
- Mountain top removal coal mining
- Sinopec in Burma
- Uranium weapon producers
- Vedanta Resources
- Wal-Mart Stores
- Wilmar International

7.30 Morgan Stanley

Morgan Stanley: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	
2	Dams	0	
3	Fisheries	0	
4	Forestry	1	MS Environmental Policy Statement
5	Military industry and arms trade	0	
6	Mining	0	
7	Oil and Gas	0	
Issue policies		**Score**	**Comments**
1	Biodiversity	1	MS Environmental Policy Statement
2	Toxics	0	
3	Climate change	2	MS Environmental Policy Statement
4	Human Rights	0	
5	Indigenous Peoples	1	MS Environmental Policy Statement
6	Labour	0	
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	0	
2	Deal Transparency	0	
3	Institutional Accountability	0	No audits on Credit policies
4	Deal Accountability	0	

Comments:

- Morgan Stanley mentions both the Equator Principles and the UN Global Compact in its *"Commitment on the environment"* but has not signed up to either of them, and will hence get no points accredited for these collective standards.

- Carbon Disclosure Project (CDP)

Dodgy deals (for details see chapter 6)

- China Datang
- Cluster munitions producers
- CNPC in Sudan
- Dynegy
- Freeport McMoran
- Mountain top removal
- Vedanta Resources
- Wal-Mart Stores

7.31 Nedbank

Nedbank: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	
2	Dams	2	Equator Principles
3	Fisheries	0	
4	Forestry	0	
5	Military industry and arms trade	X	Nedbank claims no involvement in this sector over last three years; no score
6	Mining	1	Equator Principles
7	Oil and Gas	1	Equator Principles
Issue policies		**Score**	**Comments**
1	Biodiversity	1	Equator Principles / UNEP FI / UNGC
2	Toxics	1	UNEP FI / UNGC
3	Climate change	1	Nedbank Environmental policy / UNEP FI / UNGC / CDP
4	Human Rights	1	UNGC
5	Indigenous Peoples	1	Nedbank Environmental policy / Equator Principles
6	Labour	1	UNGC
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI, no clear issue or sector policies
2	Deal Transparency	1	Annual Report
3	Institutional Accountability	2	External audit
4	Deal Accountability	0	Only handling of clients' complaints

Comments:

- The *Nedbank Environmental Policy* mentions that the bank should regard its financing activities with respect to the ecological footprint of its clients. However, the specific policy is still being developed and is therefore not scored yet.

- Carbon Disclosure Project (CDP)
- Equator Principles (EP)
- UN Global Compact (UNGC)
- UNEP Finance Initiative (UNEP FI)

Comment provided by Nedbank:

Thank you for the opportunity to review and comment on the profile.

Nedbank has a long history of engaging positively with the NGO sector, especially via its Conservation Partnership with WWF-SA, and supports the work of BankTrack in creating platforms for the NGO sector and finance sector to work together.

We remain committed to integrating all aspects of sustainability in our business strategy, operations and performance, and being a responsible corporate citizen with a positive role to play in the development of the African continent.

7.32 Rabobank

Rabobank: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	2	Rabobank Basic CSR policies in the Credit Process / Rabobank Policy on Palm Oil / Rabobank Policy on Soy / Rabobank Group´s approach to gene technology
2	Dams	X	Rabobank claims no involvement in this sector over last three years; no score
3	Fisheries	3	Rabobank Seafood Supply Chain Policy
4	Forestry	1	Equator Principles / Draft Rabobank Wood Supply Chain Policy
5	Military industry and arms trade	2	Rabobank Statement on the Weapon Industry
6	Mining	1	Equator Principles
7	Oil and Gas	x	Rabobank claims no involvement in this sector over last three years; no score
Issue policies		**Score**	**Comments**
1	Biodiversity	1	Equator Principles / Draft Rabobank Wood Supply Chain Policy
2	Toxics	2	Rabobank Basic CSR policies in the Credit Process / Rabobank Farm Inputs sector policy
3	Climate change	2	Rabobank Basic CSR policies in the Credit Process / Draft Rabobank climate policy
4	Human Rights	3	Rabobank Human Rights Policy
5	Indigenous Peoples	3	Rabobank Human Rights Policy
6	Labour	3	Rabobank Human Rights Policy
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI, many undisclosed policies and criteria
2	Deal Transparency	1	Annual Report
3	Institutional Accountability	2	External audit by KPMG
4	Deal Accountability	3	Complaint Desk / Ethics Committee / Issues Manager / Stakeholder Consultation

Comments:

- Rabobank's *Basic CSR policies in the credit process* is not shared publicly and can therefore not be scored in this benchmark. This means that although the policy is relevant for Agriculture, Toxics and Climate Change, no points can be awarded.

- Rabobank's *Climate Policy* and *Policy on Soy* are draft policies and could therefore not be given any points in this benchmark.

- Rabobank's *Wood Supply Chain Policy* would score a 3 on both forestry and biodiversity, but at is still a draft, it could not be scored.

- Rabobank's *CSR issue list Chemical Industry* is not made public and can therefore not be scored in this benchmark.

- Rabobank's *Statement on the Weapon's Industry* states: "Rabobank should, based on moral convictions, refrain from facilitating the weapon industry, unless a company is involved that (primarily) supplies non-controversial or weapon-related products." Hence Rabobank can still finance companies that produce controversial weapons but do not have that as their core activity.

- Rabobank has developed many green products and formulated targets for charting CO_2 emissions of large corporate clients in lending. The bank does not set a target for reduction of its financed emissions.

Collective standards

- Carbon Disclosure Project (CDP)
- Equator Principles (EP)
- Extractive Industries Transparency Initiative (EITI)
- UN Global Compact (UNGC)
- UNEP Finance Initiative (UNEP FI)
- UN Principles for Responsible Investment (UN PRI)

Dodgy deals (for details see chapter 6)

- Wilmar International

7.33 Royal Bank of Canada

Royal Bank of Canada: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	Internal Agriculture policy
2	Dams	2	Equator Principles
3	Fisheries	0	
4	Forestry	2	RBC Position on Forestry, Biodiversity and Indigenous Peoples / RBC Environmental Blueprint
5	Military industry and arms trade	2	RBC Policy on financing military material
6	Mining	1	Equator Principles
7	Oil and Gas	1	Equator Principles
Issue policies		**Score**	**Comments**
1	Biodiversity	1	RBC Position on Forestry, Biodiversity and Indigenous Peoples / Equator Principles / UNEP FI
2	Toxics	1	UNEP FI
3	Climate change	1	RBC Position on Climate Change / Carbon Disclosure Project / UNEP FI / RBC Environmental Blueprint
4	Human Rights	0	Human Rights policy
5	Indigenous Peoples	1	RBC Position on Forestry, Biodiversity and Indigenous Peoples / RBC Environmental Blueprint / Equator Principles
6	Labour	0	Labour Rights Policy
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI, individual policies with unclear standards
2	Deal Transparency	1	Annual Report
3	Institutional Accountability	1	RBC Environmental Blueprint, internal audits
4	Deal Accountability	0	Only handling of clients' complaints

Comments:

- RBC has an internal policy on lending in the agricultural sector. The standards, exclusion and lending requirements are not publicly shared, and therefore no points can be accredited.

- RBC's *Position on Forestry, Biodiversity and Indigenous Peoples* does not clearly exclude clients from financing who do not meet environmental standards or violate the rights of indigenous peoples.

- RBC's *Environmental Blueprint* says RBC 'supports transactions and business activities of qualified parties intending to reduce emissions of greenhouse gases, improve water quality and availability, or facilitate adaptation to climate change' but sets no reduction targets. RBC's *Position on Climate Change* does not set any reduction targets either and is therefore scored as a vague policy.

- RBC's website states that 'Transactions that are directly related to trade in or manufacturing of equipment and/or material for nuclear, chemical, and biological warfare, as well as landmines, are not eligible for RBC financing support or services under any circumstances.'

- RBC's *Human Rights Policy* which is published on the bank's website is focused on internal issues. The policy does not address human rights that RBC's clients may violate. Therefore no points are accredited.

- RBC's *Labour Rights Policy* which is published on the bank's website is focused on internal issues. The policy does not address labour rights that RBC's clients may violate. Therefore no points are accredited.

Collective standards
- Carbon Disclosure Project (CDP)
- Equator Principles (EP)
- UNEP Finance Initiative (UNEP FI)

Dodgy deals (for details see chapter 6)
- Freeport McMoran
- Kayelekera
- Rosia Montana

7.34 Royal Bank of Scotland

RBS: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	
2	Dams	2	Equator Principles
3	Fisheries	0	
4	Forestry	0	
5	Military industry and arms trade	0	
6	Mining	1	Equator Principles
7	Oil and Gas	1	Equator Principles
Issue policies		**Score**	**Comments**
1	Biodiversity	1	Equator Principles / UNEP FI / UNGC
2	Toxics	1	UNEP FI / UNGC
3	Climate change	1	RBS Environmental policy / UNEP FI / UNGC
4	Human Rights	1	UNGC
5	Indigenous Peoples	1	Equator Principles / UNGC
6	Labour	1	UNGC
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI, issue and sector policies unclear
2	Deal Transparency	1	Annual Report
3	Institutional Accountability	2	External audit
4	Deal Accountability	0	Only handling of clients' complaints

Comments:

- The *Environmental Policy* as stated by RBS does not regard the effect of RBS' financing activities in industries that have a large impact on climate change, such as extractive industries or agriculture.

Collective standards

- Carbon Disclosure Project (CDP)
- Equator Principles (EP)
- UN Global Compact (UNGC)
- UNEP Finance Initiative (UNEP FI)

Dodgy deals (for details see chapter 6)

- Baku-Tbilisi-Ceyhan pipeline
- Cluster munitions producers
- Dynegy
- Freeport McMoran
- Mountain top removal coal mining
- Sinopec in Burma
- Uranium weapon producers
- Wal-Mart Stores

7.35 Santander

Santander: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	
2	Dams	0	
3	Fisheries	0	
4	Forestry	0	
5	Military industry and arms trade	0	
6	Mining	0	
7	Oil and Gas	0	
Issue policies		**Score**	**Comments**
1	Biodiversity	1	UNEP FI / UNGC
2	Toxics	1	UNEP FI / UNGC
3	Climate change	1	Santander Environmental Policy / Carbon Disclosure Project / UNEP FI / UNGC
4	Human Rights	1	UNGC
5	Indigenous Peoples	1	UNGC
6	Labour	1	UNGC
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI, no issue and sector policies
2	Deal Transparency	1	Annual Report
3	Institutional Accountability	0	No audits on credit policies
4	Deal Accountability	0	Only handling of clients' complaints

Comments

- Santander's own Environmental Policy is solely targeted at the bank's operational footprint. Financed emissions are not considered.

- Carbon Disclosure Project (CDP)
- UN Global Compact (UNGC)
- UNEP Finance Initiative (UNEP FI)
- Wolfsberg Principles

Dodgy deals (for details see chapter 6)

- Freeport McMoran
- Rio Madeira dams
- Wal-Mart Stores

7.36 Saudi-American Bank

Saudi-American Bank : scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	
2	Dams	0	
3	Fisheries	0	
4	Forestry	0	
5	Military industry and arms trade	0	
6	Mining	0	
7	Oil and Gas	0	
Issue policies		**Score**	**Comments**
1	Biodiversity	0	
2	Toxics	0	
3	Climate change	0	
4	Human Rights	0	
5	Indigenous Peoples	0	
6	Labour	0	
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	0	
2	Deal Transparency	1	Sectoral division, not by geography
3	Institutional Accountability	0	
4	Deal Accountability	0	

Collective standards

- none

7.37 Scotiabank

Scotiabank: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	
2	Dams	2	Equator Principles
3	Fisheries	0	
4	Forestry	0	Scotiabank Sustainability Report
5	Military industry and arms trade	0	
6	Mining	1	Equator Principles / Mining Review
7	Oil and Gas	1	Equator Principles
Issue policies		**Score**	**Comments**
1	Biodiversity	1	Equator Principles / UNEP FI / Scotiabank Environmental policy
2	Toxics	1	UNEP FI / Scotiabank Environmental policy
3	Climate change	1	Scotiabank Sustainability Report / Carbon Disclosure Project / UNEP FI / Scotiabank Environmental policy
4	Human Rights	0	Scotiabank Guidelines for business conduct
5	Indigenous Peoples	1	Equator Principles
6	Labour	0	
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI, unclear / undisclosed policies
2	Deal Transparency	1	Annual Report
3	Institutional Accountability	1	Internal audits
4	Deal Accountability	0	Only handling of clients' and employees' complaints

Comments:

- Scotiabank has specific industry review documents and due diligence processes which address environmental and social issues. Among these is the *Mining Review*. The bank's *Sustainability Report 2006* states that: "The Bank is currently reviewing due diligence practices with respect to the extractive industries, to ensure that they fully reflect material risks such as illegal logging and sustainable forestry issues." As long as no specific financing requirements are developed or disclosed, no points can be awarded.

- Scotiabank's *Environmental policy* states: "Scotiabank has an environmental lending policy in place which seeks to identify and mitigate environmental risks in all of the Bank's commercial and corporate lending activities." As the content of the lending policy is not available, the *Environmental policy* is scored with a zero.

- Scotiabank's *Guidelines for business conduct* do not consider the human and labour rights practices of Scotiabank's clients and therefore does not gain any points.

Collective standards
- Carbon Disclosure Project (CDP)
- Equator Principles (EP)
- UNEP Finance Initiative (UNEP FI)

Dodgy deals (for details see chapter 6)
- Cluster munitions producers
- Dynegy
- Freeport McMoran
- Uranium weapon producers

7.38 Société Générale

Société Générale: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	Natethic
2	Dams	2	Equator Principles
3	Fisheries	0	
4	Forestry	0	
5	Military industry and arms trade	1	Société Générale Financing policies sensitive sectors
6	Mining	1	Equator Principles / Natethic
7	Oil and Gas	1	Equator Principles / Natethic
Issue policies		**Score**	**Comments**
1	Biodiversity	1	Equator Principles
2	Toxics	1	UNEP FI / UN PRI / UNGC
3	Climate change	1	Société Générale Environmental Policy 2005 / UNEP FI / UNGC
4	Human Rights	1	Société Générale Human Rights Policies / UN PRI / UNGC
5	Indigenous Peoples	1	Equator Principles
6	Labour	1	UN PRI / UNGC
7	Taxation	0	SG Comment on Tax havens
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI, some undisclosed policies
2	Deal Transparency	1	Annual Report
3	Institutional Accountability	0	
4	Deal Accountability	0	

Comments:

- Société Générale has a commodities business line procedure (*Nathetic*), that covers some agricultural issues and the extractive industries. The standards and requirements of this procedure are not publicly available and can therefore not be graded.

- Société Générale's *CSR Report 2007* points to financing policies for specific sectors, such as arms, nuclear and merchant vessel industry. No standards or (exclusion) criteria are mentioned, hence the policies cannot be granted more than 1 point.

- Société Générale's own *Environmental Policy* strictly follows the contentof UNEP FI, Global Compact and OECD Guidelines. Its own policy therefore remains a 'vague statement' without standards and criteria, and hence does not improve the score for any of the sectors or issues.

- Société Générale's *Human Rights Policies* are mainly focused on its own employees and supply chain, not on its clients and their HR practices.

- Société Générale writes on its website that the bank has restricted set-up activities in tax-havens. However, the bank "does not rule out working in these countries providing they already have an effective financial and banking sector that meets the economic needs of a local or international customer base". Thus, the bank does not discourage its clients to avoid taxes.

- "As a signatory to the EP, Société Générale commits to answer to the stakeholders of the project finance deals. It has defined an internal process in order to do so." The bank has not developed grievance mechanisms for those affected by regular lending activities.

Collective standards

- Carbon Disclosure Project (CDP)
- Equator Principles (EP)
- UN Global Compact (UNGC)
- UNEP Finance Initiative (UNEP FI)
- UN Principles for Responsible Investment (UN PRI)
- Wolfsberg principles

Dodgy deals (for details see chapter 6)

- Baku-Tbilisi-Ceyhan pipeline
- Camisea
- Cluster munitions producers
- Freeport McMoran
- Ilisu dam
- Kashagan
- Kayelekera
- Mountain top removal coal mining
- Nam Theun 2
- Sakhalin 2
- Vedanta Resources

Comment provided by Société Générale:

Société Générale sets itself a target to publish progressively some sector policies which it estimates sensitive within the scope of its businesses. Moreover, the spirit of the Equator Principles will be gradually come in other types of financing.

7.39 Standard Bank

Standard Bank: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	
2	Dams	0	
3	Fisheries	0	
4	Forestry	0	
5	Military industry and arms trade	0	
6	Mining	0	
7	Oil and Gas	0	
Issue policies		**Score**	**Comments**
1	Biodiversity	0	
2	Toxics	0	
3	Climate change	1	Carbon Disclosure Project
4	Human Rights	0	
5	Indigenous Peoples	0	
6	Labour	0	
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI, some undisclosed policies / criteria
2	Deal Transparency	1	Annual Report
3	Institutional Accountability	0	No audit on Credit policies
4	Deal Accountability	3	Complaint Mechanism and Information Disclosure Policy

Collective standards

- Carbon Disclosure Project (CDP)

Dodgy Deals (for details see chapter 6)

- Lafayette Mining

7.40 Standard Chartered

Standard Chartered: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	SC Sustainability Report
2	Dams	2	Equator Principles
3	Fisheries	0	
4	Forestry	0	SC Sustainability Report
5	Military industry and arms trade	2	SC on Defence Equipment and Armament
6	Mining	1	Equator Principles
7	Oil and Gas	1	Equator Principles
Issue policies		**Score**	**Comments**
1	Biodiversity	1	Equator Principles
2	Toxics	1	UNEP FI / UNGC
3	Climate change	1	SC Environmental Policy / UNEP FI / UNGC
4	Human Rights	1	SC Human Rights Policy / SC Policy on oppressive regimes
5	Indigenous Peoples	1	Equator Principles
6	Labour	1	UNGC
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI, some undisclosed criteria in policies
2	Deal Transparency	1	Annual Report
3	Institutional Accountability	1	Internal audit
4	Deal Accountability	0	Only handling of clients' complaints

Comments:

- Standard Chartered's Sustainability Report states that "lending to high-risk sectors such as forestry, manufacturing, mining and agriculture makes up more than half of the bank's portfolio" and that "lending decision are subject to integrated social and environmental guidance". However, no policies are disclosed, and these can therefore not be scored in this benchmark.

- Standard Chartered's *Statement on Defence Equipment and Armament* excludes direct financing of manufacturing and trade of controversial weapons, like landmines, chemical, nuclear or biological arms, or weapons exported to oppressive regimes. The policy however does allow Standard Chartered to finance companies that are active in production or trade of these weapons.

- Standard Chartered's *Group Environmental and Social Risk Policy* is targeted at clients. It does not go further than compliance to local and national law and adherence to the Equator Principles. The criteria are not disclosed, but there seem to be policies in place.

- Standard Chartered's *Human Rights policy* and its *Statement on Oppressive Regimes* both say that issues are regarded in making lending decisions. However, standards or (exclusion) criteria are not mentioned, therefore policies cannot score higher than a 1.

- Standard Chartered has developed various HIV/AIDS initiatives, among which a *HIV/AIDS policy* and *Health & Safety Guidelines*, but these only focus on the bank's own employees, not on those of clients. Another initiative is an HIV/AIDS education program. None of these initiatives restrict lending to particular clients.

- Standard Chartered has developed a thorough training program on the Equator Principles and Sustainable Lending. The Equator Principles are also applied to export finance and parts are included in broader credit policies.

- Standard Chartered provides an overview of the sectors in which project finance has taken place, but no sector split up for the entire outstanding loan portfolio.

Collective standards
- Carbon Disclosure Project (CDP)
- Equator Principles (EP)
- UN Global Compact (UNGC)
- UNEP Finance Initiative (UNEP FI)
- Wolfsberg Principles

Dodgy deals (for details see chapter 6)
- Freeport McMoran
- Lafayette Mining
- Nam Theun 2
- NHPC dams
- Sinopec in Burma
- Vedanta Resources
- Wal-Mart Stores
- Wilmar International

Comment provided by Standard chartered

Standard Chartered Bank (SCB) is a leading financial institution across Asia, Africa and the Middle East. With a deep presence in many markets, we understand that we play an important role in the development of local economies. We also recognise that our future success is dependent on the growth of these economies over the long term. Sustainable development is essential; for our clients, our communities and our shareholders.

Many of the markets in which we operate are the subject of social or environmental concerns. Our aspiration is to be a "Force for Good" - to meet the business needs of our clients while actively engaging them to conduct business responsibly. We seek to be a positive influence, helping clients to understand and adopt internationally accepted standards, and, in so doing, connect with their local communities and contribute to their development.

7.41 State Bank of India

State Bank of India: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	
2	Dams	0	
3	Fisheries	0	
4	Forestry	0	
5	Military industry and arms trade	0	
6	Mining	0	
7	Oil and Gas	0	
Issue policies		**Score**	**Comments**
1	Biodiversity	0	
2	Toxics	0	
3	Climate change	1	Carbon Disclosure Project
4	Human Rights	0	
5	Indigenous Peoples	0	
6	Labour	0	
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	0	
2	Deal Transparency	0	
3	Institutional Accountability	0	No CSR, no audit.
4	Deal Accountability	0	Only handling of grievances of clients, employees and investors.

Collective standards

- Carbon Disclosure Project (CDP)

Dodgy deals (for details see chapter 6)

- Freeport McMoran
- NHPC dams

7.42 Sumitomo Mitsui

Sumitomo Mitsui: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	
2	Dams	2	Equator Principles
3	Fisheries	0	
4	Forestry	0	
5	Military industry and arms trade	0	
6	Mining	1	Equator Principles
7	Oil and Gas	1	Equator Principles
Issue policies		**Score**	**Comments**
1	Biodiversity	1	Equator Principles / UNEP FI
2	Toxics	1	UNEP FI
3	Climate change	1	Sumitomo Mitsui Environmental Policy / Carbon Disclosure Project / UNEP FI
4	Human Rights	0	
5	Indigenous Peoples	1	Equator Principles
6	Labour	0	
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI, no clear individual CSR policies
2	Deal Transparency	1	Annual Report
3	Institutional Accountability	1	Internal and external auditing
4	Deal Accountability	0	Only handling of clients' complaints

Comments:

- Sumitomo Mitsui's *Environmental Policy* makes little notice of the bank's impact on climate change via its lending activities (financed emissions) and hence does not give the bank any points for this issue policy.

Collective standards

- Carbon Disclosure Project (CDP)
- Equator Principles (EP)
- UNEP Finance Initiative (UNEP FI)

Dodgy deals (for details see chapter 6)

- Cluster munitions producers
- Freeport McMoran
- Kashagan
- Mountain top removal coal mining
- Sinopec in Burma
- Vedanta Resources

7.43 UBS

UBS: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	
2	Dams	0	
3	Fisheries	0	
4	Forestry	0	
5	Military industry and arms trade	0	Exclusion criteria for investments
6	Mining	1	EITI
7	Oil and Gas	1	EITI
Issue policies		**Score**	**Comments**
1	Biodiversity	1	UNEP FI / UNGC
2	Toxics	1	UNEP FI / UNGC
3	Climate change	1	UBS Climate Change Strategy / Carbon Disclosure Project / UNEP FI / UNGC
4	Human Rights	1	UBS Statement on Human Rights / UNGC
5	Indigenous Peoples	1	UNGC
6	Labour	1	UNGC
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI, exclusion criteria not disclosed
2	Deal Transparency	0	
3	Institutional Accountability	2	External auditing
4	Deal Accountability	0	

Comments:

- UBS is one of the founders of the Carbon Disclosure Project and seems to have a pro-active stance in its climate change policies, but standards and criteria for its lending and investment activities are not disclosed. UBS' *Climate Change Strategy* focuses mainly at operational instead of financed emissions, and for the latter refers to the Carbon Disclosure Project again.

- *UBS Statement on Human Rights* says that 'as an employer, UBS acts in line with the principles underlying human rights; with suppliers, our level of influence is lower, but we can act to a certain extent through the contractual agreements we have with them; our level of influence is limited with our clients.' This statement is too vague to be awarded any points.

Collective standards

- Carbon Disclosure Project (CDP)
- Extractive Industries Transparency Initiative (EITI)
- UN Global Compact (UNGC)
- UNEP Finance Initiative (UNEP FI)
- Wolfsberg Principles

Dodgy deals (for details see chapter 6)

- China Datang
- Cluster munitions producers
- CNPC in Sudan
- Freeport McMoran
- Kayelekera
- Mountain top removal coal mining
- Wal-Mart Stores

7.44 UniCredit / HVB

UniCredit: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	
2	Dams	2	Equator Principles
3	Fisheries	0	
4	Forestry	0	
5	Military industry and arms trade	0	UniCredit Weapons Policy
6	Mining	1	Equator Principles / Mining Policy
7	Oil and Gas	1	Equator Principles
Issue policies		**Score**	**Comments**
1	Biodiversity	1	Equator Principles / UNEP FI / UNGC
2	Toxics	1	UNEP FI / UNGC
3	Climate change	1	UniCredit on Climate Change / UNEP FI / UNGC / Carbon Disclosure Project
4	Human Rights	1	UNGC / Country Risk Assessment
5	Indigenous Peoples	1	Equator Principles / UNGC
6	Labour	1	UNGC
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI, no clear standards for CSR lending
2	Deal Transparency	0	
3	Institutional Accountability	2	External audits
4	Deal Accountability	0	Only handling of clients' complaints

Comments:

- Not the entire UniCredit group is a participant in the Equator Principles. Only HVB, UniCredit's full subsidiary, has subscribed to the principles. As HVB is the most important project financier in the group, UniCredit gets the normal EP-scores.

- UniCredit has a *General Group Credit Policy*, which is based amongst others on World Bank Standards. However, which standards are used, and how they are translated in financing requirements is not described or made public. Therefore, no points are granted.

- UniCredit is working on a public version of their recently developed *Weapons Policy* and developing a *Mining Policy*. Once the policies are disclosed, points can be granted.

- UniCredit assesses *Human Rights* issues in the Country Risk assessment procedure. It is not clear which standards are used, nor whether there are any requirements that clients have to fulfill in order to obtain credit facilities. Therefore, no points are granted.

- UniCredit publishes a sector split-up of the year's projects financed in the *Sustainability Report*. No sector split-up is provided for the entire lending portfolio.

Collective standards

- Carbon Disclosure Project (CDP)
- Equator Principles (EP)
- UN Global Compact (UNGC)
- UNEP Finance Initiative (UNEP FI)

Dodgy deals (for details see chapter 6)

- Baku-Tbilisi-Ceyhan pipeline
- Cluster munitions producers
- Freeport McMoran
- Ilisu dam

Comment provided by UniCredit

As a provider of financial services, UniCredit Group is a part of society with an important role to play in supporting the economic performance of the regions where we operate. We can contribute to growth and prosperity just as much as to sustainable development. In our direct sphere of influence, we need to optimise our consumption of power supply and natural resources and reduce the impact we have on the environment. At the same time, we have a direct responsibility for the well-being of our employees, their personal and professional development and integrity based actions in every aspect of our business.

Indirectly - through our financing and investment products - we have a major influence on stable development in terms of the environment and society as well as the economy. Examples of how we implement this include compliance with environmental and social standards in our finance activities, marketing sustainable investment products and funding renewable energy.

As a large commercial enterprise, we also bear considerable responsibility for the development of the societies in the regions where we operate - as an employer, customer and tax-payer as well as through donations and sponsoring projects.
To achieve our goals we conduct a constant dialogue with our stakeholders, particularly our customers and non-governmental organisations (NGOs). This helps us to find out more about their assessment of the risks and rewards of our business, also enabling us to gain valuable insights for our long-term orientation.

7.45 WestLB

WestLB: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	0	
2	Dams	2	Equator Principles
3	Fisheries	0	
4	Forestry	0	
5	Military industry and arms trade	0	
6	Mining	1	Equator Principles
7	Oil and Gas	1	Equator Principles
Issue policies		**Score**	**Comments**
1	Biodiversity	1	Equator Principles / UNEP FI / UNGC
2	Toxics	1	UNEP FI / UNGC
3	Climate change	1	Carbon Disclosure Project / UNEP FI / UNGC
4	Human Rights	1	UNGC
5	Indigenous Peoples	1	Equator Principles / UNGC
6	Labour	1	UNGC
7	Taxation	0	
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	GRI, unclear standards of policies / statements
2	Deal Transparency	0	Only for EP projects, not entire portfolio
3	Institutional Accountability	2	Internal and external audits
4	Deal Accountability	0	

Comments:

- WestLB's Sustainability Report 2006 mentions that the "development of an umbrella policy and other sector-specific concepts" should be completed by the end of 2006. As long as these policies are not disclosed, they can not be scored.

Collective standards

- Carbon Disclosure Project (CDP)
- Equator Principles (EP)
- UN Global Compact (UNGC)
- UNEP Finance Initiative (UNEP FI)

Dodgy deals (for details see chapter 6)

- Baku-Tbilisi-Ceyhan pipeline
- Camisea
- Cluster munitions producers
- Dynegy
- Freeport McMoran
- Mountain top removal coal mining

7.46 Westpac

Westpac: scoring of policies and transparency & accountability			
Sector policies		**Score**	**Comments**
1	Agriculture	2	Westpac Landcare Term Deposit Account / Landcare CarbonSmart
2	Dams	2	Equator Principles
3	Fisheries	0	
4	Forestry	0	
5	Military industry and arms trade	0	
6	Mining	1	Equator Principles / EITI
7	Oil and Gas	1	Equator Principles
Issue policies		**Score**	**Comments**
1	Biodiversity	1	Westpac on Biodiversity / UNGC / UN PRI
2	Toxics	1	UNGC / UN PRI
3	Climate change	2	Westpac on Climate Change / Westpac and the Environment
4	Human Rights	1	Westpac on Human Rights / UNGC / UN PRI
5	Indigenous Peoples	1	Equator Principles / UNGC / UN PRI
6	Labour	1	UNGC / UN PRI
7	Taxation	0	PWC Total Tax Contribution Project
Transparency and Accountability		**Score**	**Comments**
1	Institutional Transparency	2	Stakeholder Impact Report, following GRI, not all policy standards disclosed
2	Deal Transparency	1	Portfolio split-up by industry, not by geography
3	Institutional Accountability	2	CSR audits by Banarra
4	Deal Accountability	3	Community Consultative Council

Comments:

- Westpac on its website says that all lending decisions are underpinned by the bank's *Environmental Lending Policy*. However, the details of this policy, nor explicit social and environmental financing requirements are described, or disclosed to the public. Therefore this policy cannot be granted any points yet.

- "Westpac has identified the need for a second iteration of our approach to managing climate change, through a Group-wide strategic framework and supporting roadmap for managing climate change related risks and opportunities in our lending and investment. This will be released early 2008."

- Westpac's *Human Rights' policy*, *Business Principles* and *Principles on Governance and Ethical Practice* respect and support various international agreements. However, these agreements are non-binding statements, mostly on government level, and Westpac does not describe procedures for (potential) clients that do not comply to these principles.

  In the *Business Principles*, the bank elaborates on human and labour rights of its own employees ("our employment practices promote fundamental human rights"), and those of employees of their suppliers ("we avoid involvement with third parties where we are concerned there could be the potential for breaches or abuses of fundamental human rights"). The bank does not make a clear statement on the human rights being violated by some of their clients, nor on the actions that Westpac will undertake to counteract them.

- Westpac works with the Indigenous Enterprise Partnership and offers support to indigenous people through the Indigenous Capital Assistance Scheme. Nevertheless, in its lending decisions, it has no disclosed policy that excludes or sets strict requirements to borrowers that negatively impact the life and environment of indigenous communities. In the *Business Principles*, Westpac explicitly mentions the "role of the government in resolving ownership issues" and does not describe any influence that possible violations of land-rights may have on the bank's lending decisions.

- Westpac has complaint mechanisms for its employees and customers, which are described in the *Business Principles*. Third parties that are affected by Westpac's financing activities can contact the 'customer complaint' division, but there is no particular mechanism for third party grievances.

- In June 2007 KPMG recommended to Westpac "to consider developing prescriptive policies and guidelines. (...) A range of high-risk sectors and issues are being considered, including: energy, agriculture, forestry, climate change and human rights." Westpac responded as follows: "Westpac is now considering KPMG's key recommendations. Westpac is looking to finalise its response and ESG lending policies in close alignment with a range of internal and external stakeholders, including key NGOs, government and community groups."[367]

- No points can be awarded to policies under development, but BankTrack looks forward to the policies Westpac is developing.

Collective standards

- Carbon Disclosure Project (CDP)
- Equator Principles (EP)
- UN Global Compact (UNGC)
- UNEP Finance Initiative (UNEP FI)
- UN Principles for Responsible Investment (UN PRI)

Comment provided by Westpac:

We welcome the opportunity for benchmarking and ongoing engagement with organisations like BankTrack. We recognise that, like most services companies, our major Environmental, Social and Governance (ESG) impacts occur indirectly, through our everyday lending and investment activities.

Westpac has recently completed a comprehensive review of its policies and processes to enhance the assessment and disclosure of Environmental, Social and Governance (ESG) risks, particularly within our lending activities. This was undertaken independently. We are now responding to the recommendations of that review, including strengthening our focus on developing our policies to address high risk sectors and issues including: energy, agriculture, forestry, climate change and human rights. And of course we will continue to apply the Equator Principles.

At the highest level, Westpac's "Principles for Doing Business" set out our group wide approach to the management of environmental, social and governance policy and practice across our business. We report on our progress and performance annually through our Stakeholder Impact Report and via our website www.westpac.com.au.

8. Conclusion

8.1 Content of policies

To foster sustainable development and to meet the expectations of civil society, banks need to develop adequate and robust credit policies for important sectors and critical issues. They should be implemented in a rigorous and effective way, to ensure that no clients are financed which do not meet the policies' criteria.

Over the past few years many banks have been adopting some form of credit policies, although a fairly large group of banks is still lagging behind. As a first step, many banks are undersigning one or more of the collective standards existing in the financial sector. Among the group of 45 banks researched, 31 banks have for instance adopted the Equator Principles and 30 banks have undersigned the UNEP FI Statement. Other collective standards are the UN Principles for Responsible Investment (11 banks), the UN Global Compact (27 banks), the Extractive Industries Transparency Initiative (10 banks) and the Carbon Disclosure Project (38 banks). Four of the banks discussed here, all from Asia and the Middle East, have not committed to any collective standard at all.

The relevance of undersigning such collective standards is fairly limited, as most of them cover only a limited number of sectors and issues and as the content of these collective standards are usually vaguely worded and aspirational. The only exception to this is the Equator Principles, which are clearly formulated. However, the Equator Principles only apply to project finance, which is a niche market within the financial sector.

With the relevance of collective standards being limited, banks need to develop adequate and robust credit policies themselves. These credit policies should meet best international standards, as defined in international conventions and treaties, guidelines developed by multi-stakeholder initiatives and international best practices. No bank has developed credit policies yet on all seven sectors and seven issues covered in this report, but various banks have developed one or more of such policies. Ten banks have developed no sector or issue policies at all.

The following table provides an overview of how many banks have developed policies on the sectors and issues covered in this report. Many banks (31) have developed some sort of climate change policy, although the content is generally poor and focusing only on operational emissions. A substantial number of banks have developed policies on forestry (13), military industry (12) and human rights (12). However, most human rights policies concentrate on the own employees of the bank and its suppliers and are therefore not credit policies.

Number of banks which have developed sector and issue policies			
Sector policies	**No. of banks**	**Issue policies**	**No. of banks**
Agriculture	9	Biodiversity	6
Dams	4	Climate change	31
Fisheries	3	Human rights	12
Forestry	14	Indigenous Peoples	6
Military industry and arms trade	12	Labour	4
Mining	4	Taxation	1
Oil and Gas	4	Toxics	3

While the number of credit policies developed by the 45 banks researched provides an indication of the attention given to the various subjects, it is more important to assess the content of these policies. A large number of poor policies will not make much of a difference, while one good policy can have a considerable influence.

It is encouraging to see that a few banks indeed have developed sector and issue policies which meet or almost meet best international standards. These policies can set an important example for other banks, increasing the peer pressure to move forward. Some banks are developing, and have shared draft policies with a fairly good content, but as long as these policies are not formally adopted they are not scored in this benchmark.

Having said this, the overall quality of the credit policies developed by the 45 banks is fairly poor. Many policies hardly exceed a vague and aspirational level and often lack clear criteria and objectives. The content of a number of policies in existence, which might have a good quality, are not disclosed at all.

This leads to the conclusion that the large majority of the 45 banks need to devote significantly more attention to developing clear policies on key sectors and issues that meet best international standards. The few banks which have already developed good policies on some sectors and issues should develop similar, or even better, policies on sectors and issues not yet covered. The detailed descriptions of best practices contained in this report may provide useful guidance to banks taking this challenge serious.

8.2 Transparency & accountability

For banks, transparency and accountability are even more important issues than for other companies. As financiers, they share a certain level of responsibility for the impacts of their clients' operations with the managers and owners of these companies. Banks therefore have a responsibility to inform the public not only about their own practices, but also about their clients' activities for which they provide financing.

Progress is apparent with regard to institutional transparency. It was found that 34 out of the 45 banks now meet some basic level of transparency by publishing an externally verified annual sustainability report, following the basic requirements of the GRI

Sustainability Reporting Guidelines and its Financial Services Sector Supplements. Hardly any bank exceeds this basic level, for example by offering detailed information on the credit policies it has developed and the efforts that are undertaken to implement them.

Only 18 banks show a basic level of institutional accountability, by hiring external auditors to audit its sustainability report and policies. No bank exceeds this level by publishing the results of these audits.

With regard to individual deals, the level of transparency is much poorer. None of the banks publishes a list with the basic details of all the deals it is involved in. Some 22 out of 45 banks do not even publish a sectoral or regional breakdown of their portfolio.

Even fewer banks show any form of accountability to local communities and other stakeholders affected by specific deals the bank is involved in. Only 4 banks have set up an independent Bank Policy Complaint Mechanism accessible by external stakeholders.

Overall, transparency and accountability of the 45 banks stays below best international standards. Banks should carefully consider how they can improve their transparency and accountability mechanisms.

8.3 Summary scores

The table below provides an overview of which banks received the highest score for their sector, issue and transparency & accountability policies. As can be derived from the table, overall scoring levels almost never reach the maximum of 4, the only exception being dams. Policies on taxation and deal transparency are notably absent or of low quality. A further observation is that where scores reached a 3 or more it was often thanks to the leadership of a particular bank.

Summary of highest score per sector and issue		
Policies and issues	**Highest score**	**Bank that received highest score**
Agriculture	2	Fortis /ING / Rabobank / Westpac
Dams	4	HSBC
Fisheries	3	Rabobank
Forestry	3	HSBC
Military industry and arms trade	3	Intesa Sanpaolo / KBC
Mining	3	HSBC
Oil and Gas	2	HSBC / ING
Biodiversity	2	HSBC / JP Morgan Chase / ING
Climate change	2	ANZ / Bank of America / Dexia / Fortis / HSBC / JPMorgan Chase / KBC / Morgan Stanley / Rabobank/ Westpac
Human Rights	3	Rabobank
Indigenous Peoples	3	JP Morgan Chase / Rabobank
Labour	3	Rabobank
Taxation	1	BBVA
Toxics	2	HSBC / Rabobank
Institutional transparency	3	HSBC
Deal Transparency	1	ABN AMRO / Barclays / BBVA / China Construction Bank / Crédit Agricole / Deutsche Bank / Dexia / Intesa Sanpaolo / JPMorgan Chase / KBC / Mizuho / Nedbank / Rabobank / RBS / Royal Bank of Canada / Saudi-American Bank / Santander / Scotiabank / Société Générale / Standard Bank / Standard Chartered / Sumitomo Mitsui / Westpac
Institutional accountability	2	ABN AMRO / ANZ / Banco Bradesco / Banco Itaú / BNP Paribas / Crédit Agricole / Deutsche Bank / Fortis / ING / Intesa Sanpaolo / KBC / Nedbank / Rabobank / RBS / UBS / Unicredit / WestLB / Westpac
Deal accountability	3	Banco do Brasil / Rabobank / Standard Bank/ Westpac

8.4 Implementation

Good policies are only the starting point for banks to move forward on the road towards sustainability. Sound transparency and accountability practices are important as well, but the key issue is how the policies are being implemented in the day to day operations of the bank. Their financing and investment decisions should be consistent with the criteria and objectives which banks describe in their credit policies. Banks' credit portfolio should reflect the proper implementation of their policies.

Despite its importance, the implementation dimension could not be evaluated in this report in a similar quantitative way as the other two dimensions. Instead, we have taken a different approach, by describing 30 recent *Dodgy Deals*: controversial clients to which one or more of the 45 banks have recently provided financial services. They range from dams to mines, from controversial weapons to child labour, from oil pipelines to oil palm plantations, and from pulp mills to coal-fired electricity plants.

As almost all banks described in this report are involved in one or more of the *Dodgy deals*, this raises questions about the effectiveness and the proper implementation of the credit policies. For banks which have not yet developed adequate and robust credit policies for a particular sector but are found to be involved in a deal it stresses the urgency to develop and implement such policies. For banks which have developed some adequate or good policies, their involvement in one or more *Dodgy Deals* shows there is no reason for complacency.

Although a challenging task, developing a good policy is far easier than implementing this policy in day-to-day operations. But at the end of the day, this is what civil society is expecting of financial institutions: to put their money where their mouth is.

8.5 Final remarks

This benchmark study provides a snapshot on where 45 large, international banks are in developing adequate credit policies on critical sectors and issues. The report underlines that these policies should be implemented in a rigorous and effective fashion, to ensure that no clients are financed which do not meet the policies' criteria.

While this snapshot does not provide a very encouraging picture, BankTrack certainly acknowledges that several banks have made progress over the past few years. Many banks continue to move, as is illustrated by the existence of various draft policies that could not be taken into account in this benchmark.

With the publication of *Mind the Gap* and through the associated benchmark research project, BankTrack aims to encourage all 45 banks -as well as their peers not covered in this report- to move further and faster. Low scores should be regarded by banks as an encouragement to improve on their policies and practices. When a bank finds itself linked to a specific *Dodgy Deal* it should regard this as a strong encouragement to devote attention to the proper implementation of its policies in day to day operations.

Provided sufficient resources can be secured, this benchmarking exercise will be repeated early 2009 and regularly thereafter. It is hoped and expected that this exercise will reveal positive trends in the scoring of each bank and that the gap that still exists between policies and practices will diminish.

Annex 1 Comparison with previous benchmark study

in January 2006, WWF UK and BankTrack undertook a first benchmark of the social and environmental credit policies of 39 international banks. This resulted in the report *Shaping the Future of Sustainable Finance*.[368] The present report, *Mind the Gap,* is a second and improved version of this bank policy benchmark.

30 of the 45 banks benchmarked in this report were also benchmarked in the previous report. Nine banks included in the previous report were not included in this exercise, because they are public banks or because they fell outside the selection criteria (see paragraph 2.3). The following table provides an overview of the banks covered in the present and the previous benchmark studies.

Banks covered in present and previous benchmark studies					
Bank	**Previous report**	**Present report**	**Bank**	**Previous report**	**Present report**
ABN AMRO	yes	yes	JPMorgan Chase	yes	yes
ANZ	no	yes	KBC	yes	yes
Banco Bradesco	yes	yes	Korean Development Bank	yes	no
Banco do Brasil	yes	yes	Manulife	yes	no
Banco Itaú	yes	yes	MCC	yes	no
Bank Mandiri	no	yes	Merrill Lynch	no	yes
Bank of America	yes	yes	Mitsubishi UFJ	yes	yes
Bank of China	no	yes	Mizuho	yes	yes
Barclays	yes	yes	Morgan Stanley	no	yes
BBVA	yes	yes	Nedbank	no	yes
BNDES	yes	no	Rabobank	yes	yes
BNP Paribas	yes	yes	Royal Bank of Canada	yes	yes
China Construction Bank	no	yes	Royal Bank of Scotland	yes	yes
CIBC	yes	no	Santander	no	yes
Citi	yes	yes	Saudi American Bank	no	yes
Crédit Agricole / Calyon	yes	yes	Scotiabank	yes	yes
Credit Suisse	yes	yes	Société Générale	yes	yes
Deutsche Bank	yes	yes	Standard Bank	no	yes
Dexia	yes	yes	Standard Chartered	yes	yes
Dresdner Bank	yes	no	State Bank of India	no	yes
Fortis Bank	no	yes	Sumitomo Mitsui	yes	yes
Goldman Sachs	no	yes	UBS	yes	yes
HBOS	yes	no	Unibanco	yes	no

Banks covered in present and previous benchmark studies					
Bank	**Previous report**	**Present report**	**Bank**	**Previous report**	**Present report**
HSBC	yes	yes	UniCredit / HVB	yes	yes
Industrial and Commercial Bank of China	no	yes	Wells Fargo	yes	no
ING	yes	yes	WestLB	yes	yes
Intesa San Paolo	no	yes	Westpac	yes	yes

While it was the initial intention to allow for a comparison of the findings of the two benchmark exercises, this objective had to be abandoned when it became clear that the methodology used for this report was too different from that in the first report. For example:

- The first report scored banks on only one dimension while the current evaluation of banks' credit policies and practices was divided into three main dimensions: content, transparency & accountability and implementation;
- In this report, the policies are divided into two categories: seven sector policies - which each cover a sector that in general has a large effect on social issues and the environment - and seven issue policies - which cover important environmental and social issues. The previous report only covered one set of policies, with transparency being one of the policies covered.
- For this report, the description of the best international standards of all sectoral policies was updated, extended and improved. We also added a extra sector policy on Arms trade and the military industry. The Extractive Industries policy covered in the first report was divided into a Mining and an Oil and gas sector policy;
- For this report, the description of the best international standards of all issue policies was updated, extended and improved, while an issue policy on Taxation was added;
- For this report, a refinement was developed for the transparency & accountability dimension. It is now divided into four separate issues: institutional transparency, institutional accountability, deal transparency and deal accountability;
- This report includes the implementation dimension by describing 30 Dodgy Deals that confront policies with practices; the implementation dimension was absent in the first report;
- All banks scored in this report were given the opportunity to indicate which sector was of no relevance to their business and therefore they should not be expected to develop a policy and/or scored. Only a few banks did use this opportunity.
- The first report contained a overall ranking of banks, which was obtained by adding up the scores of each bank on each sector. In this report banks are awarded scores on the content of their policies and on their transparency & accountability practices, but no overall ranking is made based on these scores. As the implementation dimension could not be scored and as the option was given to not be scored on certain sectors, providing such a overall ranking would provide a distorted picture;
- Readers are advised that adding up the sores for each bank and then rank them accordingly will lead to a outcome that BankTrack considers outside the realm of this research and lead to a simplification of a highly complex matter.

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