Brief

Two Steps Forward, One Step Back
NGOs and Private Sector Banks

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The Programme on NGOs and Civil Society
Worldwide, the role of civil society has been increasing at rapid speed. Non-governmental organizations (NGOs) have become significant and influential players and generate much interest. Created in 1986, the Programme on Non-Governmental Organizations and Civil Society aims at contributing towards a better understanding of NGOs and the solutions of complex and conflictive societal problems involving NGOs.

Table of Contents

INTRODUCTION

As the much-publicized seasonal protests against the "usual suspects" attest, NGOs concerned with environmental and human rights issues have kept multilateral institutions such as the World Bank and the International Monetary Fund squarely between the crosshairs. Yet a less publicized trend has gained strength in recent years: NGOs are increasingly scrutinizing the project financing activities of private sector banks. The banks have responded to increased public attention by introducing voluntary self-regulation of their financing activities in the form of the Equator Principles. But despite this seeming détente between the opposing interests, simmering disagreements over wording and oversight of the banks' pledges often break into open warfare when put to the test. Recurring themes in civil society groups' criticisms of the banks include an alleged lack of transparency and the banks' seeming disregard for their own policies when faced with lucrative project financing deals. For their part, private sector banks feel that they have made substantial progress towards socially and environmentally responsible financing.

After giving a short history of the interaction between NGOs and private sector banks this brief will provide some examples of ongoing flashpoints and will discuss some key issues in the relationship between the two groups.

ENTER THE PLAYERS

Financing large capital projects in the developing world was once the exclusive domain of publicly financed multilateral institutions like the World Bank and the European Bank for Reconstruction and Development. However, as part of the development process these same institutions have encouraged developing countries to deregulate, privatise and open up their economies. This has not only created new opportunities for investment by private sector institutions, but also ultimately diminished the policy wielding power of the public sector institutions. For their part, the private sector banks, tantalized by the high returns offered by investments in emerging markets, began moving in wholesale in the 1990s. Between 1990 and 1996, money from private sources for development increased from a mere 30 billion to 212 billion[1].

NGOs have had a long history of conflict with international public policy bodies over environmental and social issues. Years of pressure from NGOs have at least started to create an environment of accountability and oversight to public sector financing of development projects, with the numerous environmental and human rights standards developed by the World Bank and its private financing arm, the International Finance Corporation (IFC).

[1] http://www.villagevoice.com/news/0013,cook,13625,1.html

However, all through the 1980s and 1990s private sector financing was able to pass practically under the NGOs' radar. Almost, that is, for during the 1990s NGOs began to observe two phenomena: private sector banks were increasingly financing the projects to which the NGOs were opposed; and private sector bank involvement in emerging economies was perceived to be of a speculative and non-sustainable manner.[2] Consequently, Friends of the Earth, the large international environmental NGO, put together the "Quantum Leap" working group to train activists to become financially literate.[3]

SHOTS ACROSS THE BOW

The impending conflict between NGOs and private sector banks simmered largely unnoticed until 2000, when the International Rivers Network (IRN) launched a campaign against Morgan Stanley Dean Witter's Discover Card over the bank's participation in the Three Gorges Dam project in China[4]. The campaign dovetailed with the actions of Trillium Asset Management, a socially responsible investor holding Morgan shares, to urge the bank to review its underwriting policies to evaluate and disclose any environmental or human rights impacts a transaction might have. Though the campaign was in the end inconclusive, it set the stage for a much larger confrontation.

Citigroup has a large presence in the developing world and has funded a large number of projects in extractive industries, such as power plants in Thailand and the Philippines and oil pipelines in Peru, Chad, Cameroon, and Ecuador[5]. The Rainforest Action Network (RAN) seized upon Citi's activities to declare it "The Most Destructive Bank in the World". From April 2000 to January 2004, RAN engaged in a concerted, multi-pronged attack on Citi. Activities included letter-writing campaigns, lockouts of Citi branches, credit card cutting-up demonstrations, advertisements in major newspapers and dramatic staged street theatre events. In April 2003, Citi executives asked for a cease-fire of campaign activities and began negotiations towards developing environmental standards. In January 2004, Citi unveiled its "New Environmental Initiatives", a document that outlined the institution's environmental and social commitments[6]. The highly public nature of this conflict brought the role of private sector banks in project financing and the pursuant environmental and social issues to the public consciousness.

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[2] See Collevecchio Declaration preamble in annex to this document
[3] http://www.banktrack.org/?show=32&visitor=1
[4] http://www.irn.org/programs/china/
[5] http://www.ran.org/ran_campaigns/global_finance/citi_victory.html
[6] http://www.ran.org/ran_campaigns/global_finance/citi_timeline.html

THE EQUATOR PRINCIPLES

Around the same time that RAN was placing “Wanted” posters featuring Citi chairman Sandy Weill across Hartford, Connecticut, the banks were developing a response to the sudden increase in public scrutiny. In October 2002 the IFC convened a meeting of several major private sector banks in London to discuss “environmental and social issues in project finance.” In June 2003, ABN Amro, Barclays, Citibank, WestLB along with the IFC unveiled **the Equator Principles**, an approach “for financial institutions in determining, assessing and managing environmental & social risk in project financing.”[7]

In the Principles, projects are categorized from A to C, depending on their sensitivity and according to IFC guidelines. For A and B category projects, an Environmental Assessment is required that addresses various environmental conditions, laws, sustainability issues, hazards, impact on indigenous peoples, participation of affected parties, pollution prevention, and so forth. The minimum standards of the IFC Pollution Prevention and Abatement Guidelines must always be met and in developing countries the more stringent IFC Safeguard Policies must also be followed. For these A and B cases, an Environmental Management Plan based on the Environmental Assessment that addresses the mitigation, monitoring, management of risks and that provides the resultant schedules must be developed. Provisions are made in the Principles for consultations with local groups and NGOs and highly sensitive Category A projects are to be subjected to independent expert review. Because the Environmental Management Plan is made a loan covenant, the borrower risks defaulting on the loan if the Plan is not respected[8].

From the original four participating bank, the number of institutions adopting the principles has grown. By May 2004 twenty-one banks, representing over two thirds of global private lending capacity had adopted the Principles.[9]

THE COLLEVECCHIO DECLARATION

Partly in response to the banks’ movement towards greater social responsibility and partly to build common ground among themselves, in 2002 a group of NGOs began working on a cohesive and unified understanding of the role of financial institutions with respect to environmental and social sustainability. This work culminated in a meeting of NGO in the Italian village of Collevecchio and resulted in the development of the eponymous Collevecchio Declaration. Over 200 NGOs signed this document, which is the cornerstone of the work of BankTrack, an umbrella organisation focusing on private sector financing and representing a dozen major civil society organisations.

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[7] http://www.equator-principles.com/ft1.shtml
[8] See the Equator Principles in Annex 1.
[9] http://www.equator-principles.com/eco.shtml

The Collevecchio Declaration encompasses six key principles. They involve commitments to: sustainability, “doing no harm”, responsibility, accountability, transparency, and to sustainable markets and governance. In terms of sustainability, financial institutions are entreated to consider ecological limits, social equity and economic justice along with profit considerations. They should also “do no harm” by creating procedures and standards to minimize environmental and social harm. Additionally, they should take responsibility for financial risks and social and environmental costs of their activities. With respect to accountability and transparency, stakeholders must be given a say in financial decisions and then be given the ability to follow the activities of financial institutions through robust and transparent disclosure. Finally, financial institutions are enjoined to encourage public policy that fosters sustainability and fully accounts for environmental and social externalities.[10]

ONGOING FLASHPOINTS

Although work continues on both sides of the front to bridge the gap in understanding between the NGOs and private sector banks, it is clear that by comparing the first major milestones on either side of the issue, the Equator Principles and the Collevecchio Declaration, a large difference of opinion remains regarding both what responsibilities financial institutions should bear and how adherence to those rules should be verified.

In fact, the environment remains confrontational, with banks stating that they have made tremendous progress already all the while being chided by NGOs for supposed violations of their stated principles. Two examples of recent flashpoints that might be instructive as to the future relationship between NGOs and private sector banks are presented here, one related to a specific development project and one related to policy issues.

The Baku-Tbilisi-Ceyhan Pipeline

When completed, the Baku-Tbilisi-Ceyhan (BTC) pipeline will carry oil 1700 km from Baku, Azerbaijan on the Caspian Sea to the Mediterranean coastal city of Ceyhan, Turkey via Georgia. The $3 billion project, run by a BP-led consortium, received funding from the IFC and some nine Equator Principles banks, including ABN Amro, Citigroup, Mizuho, and Société Générale.

For environmental groups, the BTC pipeline project breaks with the Principles as it runs through wetlands and a national park in Georgia. For social justice groups, concerns lie with the belief that locals were not adequately consulted regarding the pipeline’s course and that those whom the pipeline displaced did not receive adequate compensation.[11] The Friends of the Earth (FoE) conducted fact-finding missions to the impacted countries

[10] See the Collevecchio Declaration in Annex 2.
[11] Though the banks claim that locals were extensively consulted, see: http://www.equator-principles.com/documents/Principles_in_question.pdf.

and uncovered a number of social and environmental issues.[12] Numerous NGOs report cases of harassment by authorities of activists campaigning against the project.[13] To make matters worse, an apparent technical failure in the weld coating is causing cracks to appear in the coatings, increasing apprehension of a possible looming ecological disaster.[14]

NGOs have distributed their attacks between the BP-led consortium and public and private sector financial institutions providing financing. NGOs consider the BTC pipeline as a test case for the Equator Principles. The fact that there is strong apparent evidence that the project goes against those principles and yet most of the participating Equator banks have continued their involvement causes the World Wildlife Fund to reach the conclusion that it's just "business as usual" in the private sector banks.[15] In addition, the private sector banks stand accused of "passing the buck" on due diligence by relying on BP and the IFC to conduct the studies correctly.[16] Finally, FoE has called into question the credibility of the Principles and the Equator banks due to their participation in the project.[17] The one concrete outcome of NGO agitation against the project and its private sector financiers was that Italy's largest bank, Banca Intesa, decided to sell its $60 million stake. According to some sources, the bank was unhappy with the level of due diligence undertaken.[18]

Still, it is interesting to note that there is comparatively little activism directed against the private sector banks. On the websites of most of the NGOs involved in the fight against the pipeline, there are relatively few mentions of private sector banks compared to the number of references to BP and the public financial institutions. Certainly there has not been a repeat performance of the RAN-Citigroup bust-up. Even though the pipeline was officially inaugurated in May 2005, construction is not expected to be completed until 2009. Consequently, the struggle continues between NGOs and the BTC consortium.

The World Bank Extractive Industries Review

In July 2001 the World Bank embarked on a wide-ranging review of its policies in the oil, gas and mining sectors. The aim of the project was to develop a set of recommendations the World Bank's future role with respect to these industries. In 2003 the report was released and the World Bank received feedback on it from stakeholders.[19]

The initial set of recommendations touched on a number of areas, including ensuring the protection of biodiversity through the creation of "no go" areas, increasing transparency and improving public disclosures related to projects, obtaining consent from local

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12 http://www.foe.org/camps/intl/institutions/bakuceyhan.html#factfinding
13 Ibid., http://www.bakuceyhan.org.uk/press_releases/continued_threats.html
14 http://www.banktrack.org/doc/File/Press/BankTrack%20press%20releases/040603_PPP_report_WW.pdf
15 http://www.wwf.org.uk/News/n_0000001107.asp
16 Ibid.
17 http://www.foe.org/new/releases/204casp.html
18 http://www.bakuceyhan.org.uk/press_releases/intesa.htm
19 http://www.eireview.org/

communities and ensuring indigenous peoples' land rights before approving project financing. One key recommendation was for the World Bank to phase out lending to oil and coal projects and to instead focus its resources on renewable energy projects.[20]

In March 2004 eleven of the twenty-one Equator Banks wrote to World Bank president James Wolfensohn to criticize some of the report's recommendations. Introducing themselves as important stakeholders by virtue of their adoption of the Equator Principles, they requested that the World Bank continue its involvement in extractive industries instead of phasing it out. The banks argued that these industries were important for development and that continued World Bank involvement in these industries was important in order to maintain governance levels and operating standards. The banks' suggestion that they were "less equipped" to assume a governance role suggests that if it were left only to them, the banks would be unable to maintain sustainable and socially responsible investment policies.[21] The banks also suggested that the proposal to ensure "free and informed consent" of local communities was unnecessary as the IFC Safeguards already provided such a mechanism.

When the Equator Banks' letter was leaked to the public the NGO reaction was fast and furious. BankTrack suggested that the Equator Banks were becoming a lobby, and that the purpose of the World Bank review process was to protect the interests of communities potentially affected by development projects, not those of private investors.[22] One Friends of the Earth spokesperson called the letter "outrageous" and called on the banks to honour the spirit of the Principles while another accused the Equator Banks of becoming a "lobby group to block pro-poor reforms." [23]

In September 2004 the World Bank published the final set of recommendations. To the ire of NGOs many of the reports' more far-reaching recommendations, such as discontinuing involvement in oil and coal projects, were cast aside. The World Bank opined that while problematic, these industries still brought significant value to people in developing countries. The NGOs argued that the World Bank's decision failed to show a clear link between these industries and improvements in people's standard of living.[24]

In their letter to the World Bank, the participating Equator Banks raised the BTC pipeline as an example of how the existing rules were effective – despite the huge and very public controversy surrounding this project. So while the Banks have been less successful in managing the public relations game (see previous section), they have proved more agile in the public policy arena.

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[20] http://www.foe.co.uk/resource/press_releases/world_bank_extractive_indu_05032004.html
[21] http://www.foe.org/camps/intl/epbankstowolfensohn.pdf
[22] http://www.banktrack.org/doc/File/Press/BankTrack%20press%20releases/040517_EP_banks_and_the_EIR_WW.pdf
[23] http://www.socialfunds.com/news/article.cgi/article1436.html
[24] Ibid.

KEY ISSUES FOR NGOS

Transparency

Banking has traditionally been a secretive business. Part of each bank's strategic advantage is its ability to conduct business confidentially with its clients. However, this very feature of the banking business makes it very hard to verify how the banks have implemented the Equator Principles or any other set of publicly declared policies. Very few, if any, banks will publicly acknowledge that a project was rejected due to non-compliance with their environmental or social policies for fear of aggravating clients. Additionally, all documents generated through the project evaluation process are generally confidential. Because of this, NGOs accuse banks of having an easy back door to avoid implementing their policies, or to override policies in order to gain a particularly lucrative contract. However, because banks work in syndicates, they must agree and share data amongst themselves. Therefore, the banks argue that they already apply a consistent approach to environmental and social assessments.[25]

Independent Verification

Linked to transparency is the issue of independent verification. Since the Equator Principles are voluntary, each bank generally handled its compliance internally. Although many banks such as ABN Amro have set up separate and independent departments to handle compliance issues, they still remain internal to the bank and so potentially subject to management influence.

One case that NGOs cite as showing the need for independent verification is the OCP pipeline in Ecuador, which received funding from Equator Bank WestLB. When faced with criticism from environmental groups, the bank hired consultants to assess the environmental impact of the project. When the consultants came back giving their thumbs-up to the project an independent study of the pipeline was conducted. Robert Goodland, author of the study and the original author of many World Bank policies, found numerous violations of the World Bank standards upon which the Equator Principles are based.[26]

According to NGOs, it will be impossible to determine if banks are being honest or just paying lip service until they permit independent verification of their activities.[27]

Monitoring

NGOs are unhappy that banks want to limit their participation to the financing phase of projects. They feel that banks should follow through with their commitments to social and environmental responsibility by ensuring that what is laid out in the Environmental Management Plan is really implemented.

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[25] http://www.equator-principles.com/documents/Principles_in_question.pdf
[26] http://www.foe.org/new/news18.html
[27] Ibid.

Banks retort that it is neither their business nor their area of expertise to become involved in the day-to-day monitoring of large engineering projects. For them, part of the process of approving the financing for a project also involves maintaining a belief that the firms contracted to complete the work will do so respecting all the requirements and constraints laid out in the Environmental Management Plan.

Voluntary Participation

NGOs would like to see guidelines such as the Equator Principles enshrined in regulation in order to enable enforcement.

KEY ISSUES FOR PRIVATE SECTOR BANKS

Manage Risks

The banks view the implementation of socially and environmentally responsible policies as an exercise in risk management. By mitigating social, environmental and reputational risks, they also reduce the chance of costly litigation or damage to their reputation.[28] So banks are making a largely financial calculation based on the cost of implementing new policies such as the Equator Principles versus the costs of waging a RAN-Citigroup style conflict with an NGO or the public relations disaster of being involved in a project with particularly egregious violations of human rights environmental consequences. For instance, with respect to the BTC pipeline, NGOs warn that banks participating in the project will remain at risk reputationally as well as financially should the pipeline leak or the project cause continued rights abuses.[29]

Tradeoffs

Private sector banks find dealing with different NGOs to be an exercise in frustration. According to one banker, groups like BankTrack are focused on environmental issues and do not see the trade-offs with other aspects of the decision-making process, such as the benefits of development to local populations or even social concerns more generally.[30] The banks argue that NGOs discount the value of bringing scarce capital to developing markets and the risks the banks must bear in doing so. For instance, the banks put to the World Bank during the Extractive Industries Review that if managed properly, the benefits of extractive industries for development outweighed other possible concerns. They also consider that applying too many or too strict restrictions on project financing will limit development to the detriment of people living in developing economies.[31] Again, the banks feel that their contribution to development is on the whole positive and that NGOs, particularly those focused on a single issue, do not have the perspective required to

[28] http://www.equator-principles.com/documents/Principles_in_question.pdf
[29] http://www.bakuceyhan.org.uk/press_releases/continued_threats.html
[30] http://www.equator-principles.com/eco.shtml
[31] http://www.foe.org/camps/intl/epbankstowolfensohn.pdf

make the concessions between different issues and stakeholders as they must in order to conduct business.

CONCLUSIONS

If this brief has painted a rather bleak picture of the relationship between NGOs and private sector banks, it should be said that there is still some reason for optimism. NGOs and private sector banks will continue to spar over development issues in the coming years. In the case of the Sakhalin II oil project a battle of NGOs and public and private sector financiers is playing out.

Yet the perpetual tug of war between the two groups has resulted in significant changes to project financing policies of Equator Banks. Even BankTrack, in its annual report card for the Equator Banks noted that the fact that the Principles have become a de facto standard means that more and more banks feel the need to review their internal policies and align themselves to the Principles. Additionally, BankTrack reports improvements with respect to transparency, though it finds progress to be uneven.[32] Recently the environmental group Rainforest Action Network worked closely with the investment bank Goldman Sachs to develop an environmental investment policy. Calling the policy a "landmark" and lauding the way in which the NGO and the bank worked together to develop the policy, none of the fiery rhetoric of the past was apparent in a recent RAN communiqués on the topic.[33] At least for now.

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[32] http://www.banktrack.org/doc/File/Press/BankTrack%20press%20releases/050606_PR_Unproven_Principles.pdf
[33] http://www.ran.org/blog/2005/11/22/goldman-a-landmark-statement/

ANNEX 1: THE EQUATOR PRINCIPLES

An industry approach for financial institutions in determining, assessing and managing environmental & social risk in project financing

Preamble

Project financing plays an important role in financing development throughout the world. In providing financing, particularly in emerging markets, project financiers often encounter environmental and social policy issues. We recognize that our role as financiers affords us significant opportunities to promote responsible environmental stewardship and socially responsible development.

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

We believe that adoption of and adherence to these principles offers significant benefits to ourselves, our customers and other stakeholders. These principles will foster our ability to document and manage our risk exposures to environmental and social matters associated with the projects we finance, thereby allowing us to engage proactively with our stakeholders on environmental and social policy issues. Adherence to these principles will allow us to work with our customers in their management of environmental and social policy issues relating to their investments in the emerging markets.

These principles are intended to serve as a common baseline and framework for the implementation of our individual, internal environmental and social procedures and standards for our project financing activities across all industry sectors globally.

In adopting these principles, we undertake to review carefully all proposals for which our customers request project financing. We will not provide loans directly to projects where the borrower will not or is unable to comply with our environmental and social policies and processes.

Statement of Principles

We will only provide loans directly to projects in the following circumstances:

1. We have categorised the risk of a project in accordance with internal guidelines based upon the environmental and social screening criteria of the IFC as described in the attachment to these Principles (Exhibit I).

2. For all Category A and Category B projects, the borrower has completed an Environmental Assessment (EA), the preparation of which is consistent with the outcome of our categorisation process and addresses to our satisfaction key environmental and social issues identified during the categorisation process.

3. In the context of the business of the project, as applicable, the EA report has addressed:

    a. assessment of the baseline environmental and social conditions
    b. requirements under host country laws and regulations, applicable international treaties and agreements
    c. sustainable development and use of renewable natural resources
    d. protection of human health, cultural properties, and biodiversity, including endangered species and sensitive ecosystems
    e. use of dangerous substances
    f. major hazards
    g. occupational health and safety
    h. fire prevention and life safety
    i. socioeconomic impacts
    j. land acquisition and land use
    k. involuntary resettlement
    l. impacts on indigenous peoples and communities

m. cumulative impacts of existing projects, the proposed project, and anticipated future projects
n. participation of affected parties in the design, review and implementation of the project
o. consideration of feasible environmentally and socially preferable alternatives
p. efficient production, delivery and use of energy
q. pollution prevention and waste minimization, pollution controls (liquid effluents and air emissions) and solid and chemical waste management
r. Note: In each case, the EA will have addressed compliance with applicable host country laws, regulations and permits required by the project. Also, reference will have been made to the minimum standards applicable under the World Bank and IFC Pollution Prevention and Abatement Guidelines (Exhibit III) and, for projects located in low and middle income countries as defined by the World Bank Development Indicators Database, the EA will have further taken into account the then applicable IFC Safeguard Policies (Exhibit II). In each case, the EA will have addressed, to our satisfaction, the project's overall compliance with (or justified deviations from) the respective above-referenced Guidelines and Safeguard Policies.

4. For all Category A projects, and as considered appropriate for Category B projects, the borrower or third party expert has prepared an Environmental Management Plan (EMP) which draws on the conclusions of the EA. The EMP has addressed mitigation, action plans, monitoring, management of risk and schedules.

5. For all Category A projects and, as considered appropriate for Category B projects, we are satisfied that the borrower or third party expert has consulted, in a structured and culturally appropriate way, with project affected groups, including indigenous peoples and local NGOs. The EA, or a summary thereof, has been made available to the public for a reasonable minimum period in local language and in a culturally appropriate manner. The EA and the EMP will take account of such consultations, and for Category A Projects, will be subject to independent expert review.

6. The borrower has covenanted to:

   a. comply with the EMP in the construction and operation of the project
   b. provide regular reports, prepared by in-house staff or third party experts, on compliance with the EMP and
   c. where applicable, decommission the facilities in accordance with an agreed Decommissioning Plan.

7. As necessary, lenders have appointed an independent environmental expert to provide additional monitoring and reporting services.

8. In circumstances where a borrower is not in compliance with its environmental and social covenants, such that any debt financing would be in default, we will engage the borrower in its efforts to seek solutions to bring it back into compliance with its covenants.

9. These principles apply to projects with a total capital cost of $50 million or more.

Institutions that Have Adopted the Equator Principles

ABN AMRO Bank, N.V.
Banco Bradesco
Banco do Brasil
Banco Itaú
Banco Itaú BBA
Bank of America
BMO Financial Group
Barclays plc
BBVA
BES Group

Calyon
CIBC
Citigroup Inc.
Credit Suisse Group
Dexia Group
Dresdner Bank
EKF
FMO
HSBC Group
HVB Group

ING Group
JPMorgan Chase
KBC
Manulife
MCC
Mizuho Corporate Bank
Nedbank Group
Rabobank Group
Royal Bank of Canada
Scotiabank
Standard Chartered Bank
The Royal Bank of Scotland
Unibanco
Wells Fargo
WestLB AG
Westpac Banking Corporation

ANNEX 2: THE COLLEVECCHIO DECLARATION

The adopting institutions view these principles as a framework for developing individual, internal practices and policies. As with all internal policies, these principles do not create any rights in, or liability to, any person, public or private. Banks are adopting and implementing these principles voluntarily and independently, without reliance on or recourse to IFC or the World Bank.

Financial Institutions and Sustainability

Financial institutions (FIs) can and must play a positive role in advancing environmental and social sustainability. The Collevecchio declaration, endorsed by over 200 civil society organisations, calls on FIs to embrace six commitments, and take immediate steps to implement them as a way for FIs to retain their social license to operate. These commitments reflect civil society's expectations of the role and responsibilities of the financial services sector in fostering sustainability.

The Role and Responsibility of Financial Institutions

The financial sector's role of facilitating and managing capital is important; and finance, like communications or technology, is not inherently at odds with sustainability.

However, in the current context of globalization, financial institutions (FIs) play key roles in channeling financial flows, creating financial markets and influencing international policies in ways that are too often unaccountable to citizens, and harmful to the environment, human rights, and social equity.

FIs have played a role in irresponsibly channeling money to unethical companies, corrupt governments, and egregious projects. In the Global South, FI's increasing role in development finance has meant that they bear significant responsibility for international financial crises, and the crushing burden of developing country debt.

However, most FIs do not accept responsibility for the environmental and social harm created by their transactions, even though they may be eager to take credit for the economic development and benefits derived from their services. And relatively few FIs, in their role as creditors, analysts, underwriters, advisers, or investors effectively use their power to deliberately channel finance into sustainable enterprises, or encourage their clients to embrace sustainability.

Similarly, the vast majority of FIs do not play a proactive role in creating financial markets that value communities and the environment. As companies FIs concentrate on maximizing shareholder value, while as financiers they seek to maximize profit; this dual role means that FIs have played a pivotal role in creating financial markets that predominantly value short-term returns. These brief time horizons create intense pressure for companies to put short-term profits before longer-term sustainability goals, such as social stability and ecological health.

Finally, through the work of international public policy bodies such as the Bretton Woods institutions, the power of FIs has increasingly expanded as countries have deregulated, liberalized, and privatized their economies and financial markets. Financial institutions have not only actively promoted these policies and processes, but they have benefited from them through increased profit and influence. In too many cases, FIs have unfairly benefited at the expense of communities and the environment. For example, during financial crises, many FIs charged high risk premiums to indebted countries, while at the same time benefiting from public bail-outs.

Some FIs have spoken out against innovative solutions to the debt crisis, such as the sovereign-debt restructuring processes proposed by civil society groups and now being discussed in the International Monetary Fund. And FIs voices have been absent in efforts to address tax havens, a problem that blocks progress towards equity and sustainability. As a result, civil society is increasingly questioning the financial sector accountability and responsibility, and challenging FIs' social license to operate.

As major actors in the global economy, FIs should embrace a commitment to sustainability that reflects best practice from the corporate social responsibility movement, while recognizing that voluntary measures alone are not sufficient, and that they must support regulations that will help the sector advance sustainability.

1. Commitment to Sustainability

FIs must expand their missions from ones that prioritize profit maximization to a vision of social and environmental sustainability. A commitment to sustainability would require FIs to fully integrate the consideration of ecological limits, social equity and economic justice into corporate strategies and core business areas (including credit, investing, underwriting, advising), to put sustainability objectives on an equal footing to shareholder maximization and client satisfaction, and to actively strive to finance transactions that promote sustainability.

2. Commitment to Do No Harm

FIs should commit to do no harm by preventing and minimizing the environmentally and/or socially detrimental impacts of their portfolios and their operations. FIs should create policies, procedures and standards based on the Precautionary Principle to minimize environmental and social harm, improve social and environmental conditions where they and their clients operate, and avoid involvement in transactions that undermine sustainability.

3. Commitment to Responsibility

FIs should bear full responsibility for the environmental and social impacts of their transactions. FIs must also pay their full and fair share of the risks they accept and create. This includes financial risks, as well as social and environmental costs that are borne by communities.

4. Commitment to Accountability

FIs must be accountable to their stakeholders, particularly those that are affected by the companies and activities they finance. Accountability means that stakeholders must have an influential voice in financial decisions that affect the quality of their environments and their lives – both through ensuring that stakeholders rights are protected by law, and through practices and procedures adopted by FIs themselves.

5. Commitment to Transparency

FIs must be transparent to stakeholders, not only through robust, regular and standardized disclosure, but also by being responsive to stakeholder needs for specialized information on FIs' policies, procedures and transactions. Commercial confidentiality should not be used as an excuse deny stakeholders information.

6. Commitment to Sustainable Markets and Governance

FIs should ensure that markets are more capable of fostering sustainability by actively supporting public policy, regulatory and/or market mechanisms which facilitate sustainability and that foster the full cost accounting of social and environmental externalities.