BANKS AND THE ENVIRONMENT/Alex Hetherington

Walking the line of Equator Principles

WHEN it comes to issues of sustainability and the environment, banks hold an influence that reaches far beyond the impregnable walls of their head offices in London, New York or Sandton.

Having historically taken comfort in a mantra of "low environmental impact", banks are now increasingly forced to acknowledge their wider role in environmental custodianship. This is being driven by their role as both purchasers and financiers of goods and services.

It is indeed true that the environmental footprint of an individual bank is relatively small compared with players in other industries. A bank's energy consumption is likely to be limited to corporate electricity use, business travel and employee travel between home and work. Banks do not consume vast amounts of water, nor do they destroy large swaths of biodiversity. Nevertheless, banks need to recognise that their immediate operations do have an effect, and ensure that all their activities are incorporated within their wider environmental reckoning. In short, banks' own environmental controls need to be increasingly rigorous.

However, it is in the wider spheres of their influence that banks are responsible for far greater environmental impact. An obvious area includes its procurement processes, where environmental criteria could be prioritised in the purchasing decisions of goods and services — along with cost, quality and black economic empowerment.

Considering the speed (and structural pain) with which South African business responded to empowerment requirements, one could be forgiven for having high expectations of similar promise if large clients began demanding environmental best practice from suppliers.

> 'Banks wield immense power in their investment decisions'

On the client-facing side of their business, banks wield immense power in their investment decisions. To this end, 40 of the world's banks — accounting for more than 75% of global project loans by volume — signed the Equator Principles in a firm showing of their responsibility as financing institutions. The principles obligate banks to demand from their clients social and environmental assessments; action plans; stakeholder consultation; and independent reviews on high-risk projects.

Although a step in the right direction, any savvy-minded bank will be quick to realise the inherent dangers within the principles if not properly applied, the worst of which would be accusations of "greenwashing".

The World Wildlife Fund (WWF) in the UK last year published a review of the available environmental and social policies of the Equator banks and declared them short of best practice. More important, the report criticised the institutions for lack of transparency around their investment decisions — one of the key issues that the principles were supposed to address.

"Even where banks have the best (environmental and social) policies, little information is available about their systems or practices for implementation," the report lamented. Scoring the banks' activities against a matrix of various ratings, the WWF report concluded that the best-achieving banks were ABN Amro and HSBC, with an equal grade of only a D+. Perhaps most alarming, from a South African perspective, is that only one local bank, Nedbank, has adopted the principles.

While reports, such as that by the WWF, appear damning, in reality they should be perceived as a challenge to the banking industry to resist temptations to sit back and rest on existing laurels. Even though the industry's immediate environmental impact might be manageable, and glossy-sounding initiatives abound, there is clearly work ahead in turning their activities into meaningful and transparent examples of good environmental practice and forging the financial services industry as a social leader in sustainability.

■ *Hetherington consults to WWF-South Africa on its activities in sustainable banking.*