No, really—what *are* the 'Equator Principles'?

Tim Wilson

Contemporary corporate social responsibility ('CSR') often overlaps with marketing, so it is hardly a surprise that the Australian banks who have signed on to the 'Equator Principles' are plastering the fact in 100-point font across city shopfronts.

But do they have much to be proud of? This 'marketing' strategy requires them to serve as regulators of environmental and labor standards in place of governments in developing countries. This strategy also deflects them from delivering to developing countries the most important thing they can do to alleviate poverty—provide quality financial services. They may also be undermining their own business opportunities in the fast-growing markets of Asia.

The Equator Principles are promoted as a set of standards on environmental and social issues that banks voluntarily set as pre-requisites for financing projects worth US$10 million or more. They were developed in 2003 by the International Finance Corporation (IFC), the private sector arm of the World Bank.

The Principles seem nondescript. They are not. They require each signatory to certify that every project complies with around 160 pages of World Bank/IFC regulations and interpretative documents reaching down to details such as the standards for water pasteurization in breweries. The teeth and detail lies in the supporting and explanatory documentation to the Principles in the IFC's *Performance Standards and Environmental, Health and Safety Guidelines*.

In developing countries the Principles turn banks into surrogate environment protection agencies and labor regulators. This has significantly increased the bank red tape necessary to deliver much needed project finance and required recruitment of additional project finance staff who add cost, not value, to project finance business. The Principles even require banks to create mechanisms to adjudicate disputes between clients and local groups.

The competitive advantage of business is not to regulate the economy. But the Principles replicate government regulation through project financing. They impose standards that governments have chosen not to implement, because they de-prioritise economic growth. Instead they appease the demands of NGOs like Greenpeace, WWF, and Friends of the Earth who were not able to convince developing country governments to include them in their domestic regimes.

The aim is to impose on developing countries the environmental standards of the rich West. Two years ago, Oxfam, Greenpeace and Friends of the Earth ran a campaign to get the World Bank to refuse to finance minerals projects in developing countries because of their environmental impact. The Bank rejected the idea, but as compensation, set tougher standards for Bank finance for minerals projects in developing countries, making project finance harder to supply.

It is an anti-development strategy. It makes project finance more expensive. Project financing is an essential part of lifting countries out of poverty. It is necessary for significant infrastructure and development projects that will contribute to economic growth—power plants, mines, transportation, environment and telecommunications infrastructure—and is repaid from the projects' future revenue.

It is standard rule in development economics that standards set for rich countries don't work in developing countries—they are too complicated and too expensive. This doesn't bother green NGOs, who don't attempt to balance the needs of people against the needs of the environment.

The Rio Earth Summit in 1992 worked out how to balance those interests. It secured a global consensus. Since then leading western NGOs like Greenpeace and the Australian Conservation Foundation have worked to undermine it and ensure the environment comes first. The Equator Principles are one tool and the banks are their preferred instrument to use it.

Capitulating banks

The Equator Principles demonstrate how effectively NGOs can 'green-mail' business to adopt their preferred standards. The Equator Principles are represented as a way to add credibility to the CSR policies of signatory banks. In practice they amount to outsourcing CSR, and with it much of their project financing policy.

The Equator Principles are a moving feast. Over 40 financial institutions worldwide have signed on. The IFC website declares the Principles are to be continuously improved. But this 'improvement' amounts to making the rules tighter and

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The Principles might appease the consciences of wealthy investors, but they are bad news for the world's poor

consequently limiting project financing terms for commercial banks. BankTrack—an NGO operated by a small group in the Netherlands—has declared Banks must do more and has set as its goal a toughening of the Equator Principles. Banks that have agreed to the Principles have essentially signed up to a set of principles over which they have limited control.

These Banks evidently think they have signed up to a system that appeases anti-business NGO critics. The experience of HSBC suggests otherwise. Last year HSBC gave several million pounds to WWF. This didn't seem to give it much return. When HSBC recently supported a $2.18 billion initial public offering of Malaysian timber company, Samling, on the Hong Kong stock exchange, it found itself under attack from BankTrack for being associated with this forestry business, despite not having contravened any Equator Principle. HSBC responded by contributing $35 million to WWF to undertake climate change projects.

ANZ recently got a taste of similar treatment. In December it announced it had signed on to the Equator Principles. Soon after, the Australian Conservation Foundation bit the hand that fed them when they launched a campaign against ANZ for providing banking services to Rimbunan Hijau, a Malaysian company which is the largest forester in Papua New Guinea.

The company had just announced it would adopt a system demonstrating its logging was legal. It has long been a target of campaigns led by Greenpeace.

ACF did this while ANZ was providing a donation facility through their community giving programme to the ACF. The ACF then used these funds to commence a web-based multimedia campaign to encourage consumers to boycott ANZ. How grateful.

BankTrack has now turned its attention to ANZ's financing of the new Gunns Pulp Mill in Tasmania, before the final independent environmental and social assessment of the Mill has been completed.

Appeasing your conscience at the expense of the poor

While the Principles might serve as a tool to enable developed country investors to demonstrate good conscience (or at least respond to Green NGO pressure), it is bad news for the world's poor. Developing countries often lack the infrastructure necessary to promote economic development. The private sector provides investment where governments cannot.

Promoting economic growth has to be the first priority of policy in the developing world. Poor countries cannot raise living standards or improve management of the environment without growth. The *World Bank Global Monitoring Report 2007* noted that for every one per cent increase in GDP, the number of people living in extreme poverty decreased by the same amount.

The Equator Principles work against that goal. They attach strings to project financing that add additional costs and delays before the benefits of investment can be reaped. The Equator Principles acts as a tax on economic growth.

They also deliver to anti-growth NGOs something they have always dreamed of—a centralised, uniform system of regulation which they believe they can shape. The record to date indicates they stand a good chance of success.

The most valuable thing an Australian bank can provide in poor countries is effective access to high quality banking services; something most developing countries lack. Why should banks suddenly be the enforcers of environmental and social standards that developing countries have already rejected?

Developed countries should worry as well

The Equator Principles also require banks to follow IFC policy and not finance the sorts of businesses in poor countries that they currently finance in wealthy countries. The Principles include an exclusion list that outlines projects that cannot be financed, including the production or trade in alcohol (except beer or wine), tobacco, gambling and casinos, radioactive materials and certain types of forestry.

The IFC may not want to support these projects, but there is no good reason for commercial banks to be so restricted.

Australian shareholders should also be concerned. By adopting the Equator Principles, Australian banks risk disqualifying themselves from business in important emerging markets, and particularly in the high growth Asian markets. These countries want banks which provide quality and low cost services, not surrogate regulators serving the interests of green NGOs.

Currently, banks are trying to leverage their Equator status with billboards extolling their virtue. Yet it is unlikely that most Australians would have any idea what it means to be an Equator Bank.

Banks cannot appease NGOs. Delivering to poor countries the high quality banking services they require can both assist in poverty alleviation and deliver quality returns to shareholders. That is effective corporate social responsibility.

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