

Eurosif / "Le Monde" indicators for environmental and social performance of international companies

## Banking investments screened for social responsibility

On July 6th, 2006, in London, a new and more demanding version of the Equator Principles will be published. 41 large banks, representing 80% of project financing in the world, will use this new version to commit to making investment choices which respect the environment and human rights. The first version, which included policies from the International Finance Corporation (IFC), a branch of the World Bank Group in charge of investments in the private sector, was created in June 2003. Since then the IFC has updated their procedures, and so have the signatories. Now, the criteria apply to all projects, and not only to those with a budget of over 50 million dollars. The principles will include an evaluation of impacts on biodiversity as well. 44 institutional investors and asset managers representing over 4 000 billion dollars in assets globally have signed up to the "Principles for Responsible Investment" launched by the United Nations on April 27<sup>th</sup> in New York and May 2<sup>d</sup> in Paris. The signatories commit to taking into account social and environmental questions in their investment analysis, but also to requiring companies, where they are present at an executive level, to provide information, evaluations and results concerning these aspects.

### "Sector Guides"

Whether they sign up to the Principles or not, the 18 largest world banks presented in this third part of a series of "Eurosif/Le Monde indicators", published by "Le Monde Economie" (after "CO2 emissions" on March 14<sup>th</sup> and "Gender Equality" on May 10<sup>th</sup>) in partnership with the European Social Investment Forum (Eurosif) and with the support of the European Commission, provide, in a more or less transparent manner (rated from 1 to 3), their sustainable development policies when analysing their portfolios or their clients. For example, HSBC produced "sector guides" (forestry, water, soon to be followed by energy, chemicals and pharmaceuticals) to be used (confidentially) by their asset managers, explains Marine de Bazelaire the CSR coordinator for HSBC France. She declares HSBC rejected 12 projects (on a global level) out of 58 in 2004 as a result of the Equator Principles. Assets managed following socially responsible investment (SRI) criteria make up the other, more traditional, assessment of sustainable

development by a financial group. This is also true for credit lending for local community activities in developing countries or in poor neighbourhoods. The large numbers published by British banks can be explained by their participation in a programme launched by the Bank of England which favours deprived areas.

Until now, the financial world has more or less avoided criticisms which have been directed towards the energy and chemical industries (pollution, greenhouse gas emissions) or the mass distribution sector (human rights). However, recently they have become targets. Non-governmental organisations (NGOs) have understood that it was more effective to attack the financing aspects of industrial projects rather than the companies themselves. The campaigns prove it whether you look at "*French Banks: spare the environment*" started in beginning of 2006 by Friends of the Earth, or "*My Money. Clear Conscience*" launched by the Belgian Network Vlanderen and which resulted in a law forbidding Belgian banks from financing cluster munitions. The same holds true for the list of 39 banks published by Bank Track, a British group of NGOs, in January in their report entitled "*Shaping the Future of Sustainable Finance*" ([www.banktrack.org](http://www.banktrack.org)) on the lack of transparency in sustainable development. Or there is also the carbon assessment for 44 British investment funds' portfolios carried out by Trucost ([www.trucost.co.uk](http://www.trucost.co.uk)). Company directors are now listening to investors, more than NGOs and more than the state.

A.R.

### **PUBLIC DATA**

Information published in this table was collected and processed by the consulting firm Ernst & Young based on company documents available to the general public: annual reports, social balance sheets, "sustainable development" or "socially responsible" reports, web sites, etc. The 18 largest world banks are presented in order of importance of their net proceeds in 2004. Due to the variety of different definitions for "socially responsible investment" we have used a range rather than reporting exact numbers, which are sometimes published by the banks themselves.

### Commitments from the 18 largest\* global banking firms

	Integration of sustainable development principles for banks			Socially responsible investment (SRI)	Micro-finance
	Signatory of "Equator Principles" <sup>(1)</sup>	Analysis of project financing and/or investment	Analysis of client profile	Assets managed in millions of dollars	Amounts published in millions of dollars
<b>CITIGROUP</b> (USA)	yes	2	2	About 1 000	4.5
<b>FORTIS</b> (Netherlands)	yes	2	2	9 000 - 10 000	Not Available
<b>HSBC</b> (UK)	yes	1	2	1 000 - 1 500	1.6
<b>BNP PARIBAS</b> (France)	no	2	2	1 000 - 1 500	2.6
<b>BANK OF AMERICA</b> (USA)	yes	2	2	0	Not Available
<b>ROYAL BANK OF SCOTLAND</b> (UK)	yes	2	2	Not Available	1027.7
<b>CRÉDIT AGRICOLE SA</b> (France)	yes <sup>(2)</sup>	1	2	1 000 - 1 500	0.1
<b>CRÉDIT SUISSE GROUP</b> (Switzerland)	yes	1	2	450 – 500	19.2
<b>JPMORGAN CHASE &amp; CO</b> (USA)	yes	2	2	< 50	Not Available
<b>UBS AG</b> (Switzerland)	no	2	2	450 – 500	Not Available
<b>DEUTSCHE BANK</b> (Germany)	no	2	2	500 – 600	0.9
<b>HBOS</b> (UK)	no	2	2	100 – 150	Not Available
<b>ABN AMRO</b> (Netherlands)	yes	1	1	1 500 - 2 000	9.0
<b>BARCLAYS</b> (UK)	yes	2	3	> 10 000	632.4
<b>SOCIÉTÉ GÉNÉRALE</b> (France)	no	2	2	50 - 100	Not Available
<b>SANTANDER</b> (Spain)	no	3	1	100 - 150	83.1
<b>LLOYDS TSB GROUP</b> (UK)	no	2	2	500 - 600	299.2
<b>GROUPE CAISSE D'ÉPARGNE</b> (France)	no	2	2	200 - 250	64.6

*Italics*: recalculated data

1 > quantitative data available: number of projects analysed, corresponding amounts, etc.

2 > qualitative information on policies or initiatives in this domain

3 > no information given

\* in net proceeds

(1) Commitment to respect social and environmental evaluation criteria when selecting projects

(2) Only Calion Corporate and Investment Bank

Source: Ernst & Young, based on information published by companies.

**Jean-Pierre Sicard:** “More and more investors want to break free from the dictatorship of the ‘short term’ that dominates the market today.”

**Are investors worrying about social and environmental aspects of the projects they finance due to pressure from non-governmental organisations or from society in general?**



Even though it is sometimes dramatic, this pressure is actually quite weak, punctual, isolated and has only very recently increased in frequency. It has few results on how, in general, banks and investors carry out financing. Their interest for sustainable development comes from other causes which tend to merge together today.

**Such as?**

More and more investors want to break free from the dictatorship of the ‘short term’ and the constraints of “quarterly reporting” that dominate the market today. The idea that long-term management can generate better performance is gradually beginning to circulate. For a universal investor, as for the majority of large firms, portfolio performance is linked to economic performance, which in turn depends on major changes such as global warming, growth in developing countries, etc. They are interested in a company’s strategy and try to become permanently associated with it, for example by claiming managerial positions, which allow them to cover questions concerning corporate governance and consider the social and environmental stakes which determine the company’s strategy.

The main instruments for this approach are the pension funds, rather than the NGOs: they are, by definition, long-term investors since their performance scope can be counted in dozens of years. Moreover, the strong union presence, at the top level, makes them more conscious about the consistency between their values and the actions of those managing these funds. And not only in the United States. For example, in France the Establishment of additional retirement funds for civil servants, (Etablissement de retraite additionnelle de la fonction publique) Erafp, who since January 1st, 2005 collects retirement dues deposited on bonuses for civil servants – totalling 1.5 billion euros per year! – decided, at the request of the unions, to invest 100% of these credits using social and environmental criteria. The Retirement reserve fund, which is also managed with equal representation on both sides, invested 600 billion euros, out of 25 billion, using these same criteria.

I think that the dominating ideology in the world of finance, in the United States and in Europe, is leaning towards this new approach which is no longer reserved for “ethical” investors or “responsible investment”. Freshfields, and American law firm, carried out a study for the Finance Initiative for the United Nations Environment Programme, which showed that regulatory and jurisprudence change exposed investors to major legal risks if they didn’t take into account the social and environmental aspects of their activities.

**Isn’t improving and broadening risk management the main motivation for investors when they decide to take these aspects into account?**

I think it’s more a question of inductive reasoning aiming to professionally justify an evolution that is, based on my reasoning, linked above all to the fact that investors, and all citizens or companies alike, cannot escape questions that affect the future of society such as global warming, inequalities between the North and the South, etc.

This collective awareness is the beginning. Afterwards comes pressure from the general public, regulatory changes, instruments for management risk and market mechanisms that coordinate these concerns. For a lot of investors or financial analysts this phenomenon is seen as a return to the basics of their line of work when they had to evaluate strategic prospects of portfolios before the mathematicians and computer engineers tried to construct partially automated markets and act “in real time”, believing they were able to act without any human intervention.

*Interview conducted by Antoine Reverchon*

#### **CV**

**2004** Jean-Pierre Sicard is head of sustainable development for Caisse des dépôts et consignations (CDC).

**2001** Founder and President of Novethic, Resource and expertise centre for corporate social responsibility and socially responsible investment. Novethic is a subsidiary of CDC.

**1998** Responsible for strategic intelligence for the strategic and financial director of the CDC Group.

**1993** Consultant at the Bureau of Information and Economic Forecasting (*Bureau d’informations et de prévisions économiques - BIPE*).