



# Embedding Sustainability in the Finance Sector

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ACCOUNTING<sub>FOR</sub>  
SUSTAINABILITY

**Entec**



# Introduction

This resource is for companies who have made a decision to commit to sustainability. It has information on how to consider what sustainability might mean for you, but focuses on steps, tools, success factors and examples of how to embed sustainability within an organisation.

Based on the experiences of a number of financial organisations – including banks, investment companies and insurance companies – the report considers questions you or your organisation may need to answer in order to address sustainability. Questions like :

*Who should we fund?*

*What is important?*

*How do I know if it is sustainable?*

*Who should I talk to?*

*How do I measure performance now?*

*How do I measure the impact of a decision made today on society, environment and the economy in 20 years time?*

The document is structured around key steps that are required to embed sustainability - including strategy formation, who to involve, what to focus on, how to deliver, what to measure and reporting of progress – steps that could be used by a whole organisation, a department or within a specific project. Quotes or experiences from participating financial organisations are used throughout.

The following organisations have generously provided their support, time and experience:

**As case study partners**

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### What is Sustainability?

Sustainability is a term that has been in common use since the late 1980's. It represents the desire to achieve economic and social prosperity whilst at the same time ensuring any adverse impacts on the environment and society are minimised, for current and future generations.

Financial organisations can influence society, economies and the environment in two ways.

- 1 Through day-to-day operations - the materials you choose to use, where you locate activities, who you choose to hire, the energy you use or waste you produce.
- 2 Through the financial services provided - which activities you finance, the actions your customers take, the impact these services will have.

It is widely accepted that the 'operational' impacts of financial organisations are small in comparison to many other sectors. The focus for most financial organisations, where you have the most influence, will be on the products and services delivered. You should consider whether your product or service has an impact (positive or negative) and whether this can be improved.

*Companies may not specifically refer to the term sustainability, but look out for general principles of sustainability quoted within business goals such as 'meeting peoples needs without compromising the future' or 'achieving financial goals without detriment to environment or society' or 'being a responsible company by delivering social and environmental benefit in everything we do'.*



### **What Does a Sustainable Company Look Like?**

For most companies, the ultimate goal is to achieve 'sustainable business as usual'. But what does this look like? While this is not an exact science, a company that has gone some way towards embedding sustainability would typically have the following attributes:

- a strong understanding and commitment from the top;
- a clear statement of why sustainability is important and relevant to the company;
- sustainability is integrated within business values, long term goals, vision, purpose or mission;
- the short and long term business strategy is sustainable (or has been sustainability tested);
- a clear governance structure is in place;
- published policies and procedures reflect social and environmental considerations;
- sustainability is a core part of product or service design;
- an understanding of potential supply chain impacts on social, environmental and ethical practice (and a desire to work with suppliers to improve performance);
- performance is monitored and assessed in terms of sustainability;
- progress towards becoming more sustainable can be demonstrated, particularly how core products are becoming more sustainable; and
- staff are recognised and rewarded for better performance on sustainability.

Companies that have embedded social, environmental and ethical management practices at the heart of their organisation are the ones that will ultimately gain greatest benefit. It will enable them to foresee changing attitudes and expectations so that they can develop the products and services that will meet the future needs of society.

You should consider the role of your company, product or service and determine how you can optimise business and broader societal benefits whilst at the same time minimising associated negative impacts.



# Strategy

If you are just starting to consider sustainability within your company or are considering how to improve the sustainability performance of a new product or service you need to consider:

- why you are doing it?
- which issues you really need to focus on?
- how you will integrate your ambition into your business strategy?
- what others (internally and externally) will expect of you?

## Step One: Why sustainability?

The first step is to understand the reasons why sustainability is important to your company, your specific area of work or the product or service you are responsible for – the ‘business case’. What made you choose to act? Although there are many common reasons why financial companies have decided to address sustainability, it is vital that you identify and acknowledge your own set of drivers.

Start by writing these down, specifying exactly what they are and how they are influencing your company’s approach. This will enable you to communicate them internally and externally to all people who will help you deliver a more sustainable solution. Without a clear understanding of your sustainability drivers – or the business case – it will be difficult to take action to address them, convince others to act, or know when you have succeeded.

### What’s driving you?

Some of the reasons why financial companies are choosing to deliver sustainability include:

- regulation is forcing them to;
- everybody else is doing it, so there is a risk of being left behind;
- investors, governments and non-government organisations are asking more questions;
- it will cost more if you don’t – loss of return, liabilities, reputation risk;
- you have pressure from within the company to take a proactive approach;
- customers, employees and potential employees are placing greater value on sustainability;
- there is a new market opportunity;
- brand or service differentiation – it will give you the market edge;
- you can save or make more money if you do; and
- it makes sense and is the right thing to do.

In reality, a number of the above drivers will be present for most companies.

*“A need was identified for ‘environmental’ products... targets were financially-driven: to make income from environmental products. However, over time a step change was made from being reactive to proactive – moving from a solely ‘risk based’ focus to also recognising the potential to leverage opportunity”.*



## Embedding Sustainability in the Finance Sector

Your drivers will depend on the type of financial organisation you operate or the specific product or service you are developing. As a starting point, consider the following when developing your business case:

### Your priorities

Decide which drivers are the most important to you and your organisation.

What is this driver asking of you?

What are the key issues for this driver (see step 2)?

How does this translate in terms of social, economic or environmental outcomes?

What impact (positive or negative) could this have on your business (financial, reputation, other)?

### Making informed decisions

Are your decisions based on robust evidence, for example, how much are customers willing to pay – have you asked them?

What does a sustainable product or service look like to them?

What will it cost you if you do nothing?

How much can you really save?

What legal or best practice expectations are there?

What will happen if you do nothing?

### Developing objectives

What is it you want to achieve against your driver?

What is an appropriate response?

How can you address the requirement or issue?

What will this mean for the way your company does business?

#### Example objectives

Develop a new renewable energy portfolio to take advantage of increased demand.

Establish a process to identify possible social and environmental risks in lending decisions.

Improve customer awareness of how we can support them to improve the environment.

### Determine your level of ambition

What would you like to achieve and how quickly do you need to achieve it?

If it is compliance, what will this mean?

If it is market leadership, what does this look like and how will you know when you have achieved it?

What will stop you from achieving it?

What contingencies could you put in place to make sure you can overcome barriers?

### Set Targets

If possible translate objectives and ambition into targets. This would be an overall aim of where you expect to be within a certain timeframe.

#### Example targets

To grow our renewable energy portfolio by 150% before 2010.

To reduce carbon within our lending portfolio by 10% before 2020.

To evaluate the potential economic, environmental and social impacts of all lending decisions by 2010.

*“A lack of local laws and regulations regarding environmental and social risks can encourage banks to better understand and manage risks themselves..... Our company has pulled deals because of environmental risks. There are two reasons, firstly economic – if there is a major environmental liability the client will need to fix the problem and this may impact returns to the bank. Secondly, reputation risk – investors want to avoid negative environmental impacts.”*

#### But sector frameworks or standards have helped

*“For us, all deals are in the region of £100m to £200m+ and will therefore need to comply with Equator Principles. However, we do not see a lot of projects where Equator Principles are an issue; everyone now recognises these stricter principles that have to be adhered to.”*



## Step Two: What do I focus on?

*“This is a rule as much as a step – don’t try and do it all at once, in fact ask the question – is this really relevant to me?”*

In the past some companies have made the mistake of trying to cover every aspect of sustainability across the whole organisation. Often this comes from responding to the sustainability agenda rather than understanding it – and then understanding what role you can play.

*“We found that demonstrating what could be done in one area first really helped create momentum in other areas of the business that previously would not budge”.*

For any organisation, project or product area there is an extensive list of sustainable issues that could be considered including: human rights, working conditions, fair wages, diversity, sourcing, fair contracts, climate change, access to clean water, pollution, revenue sharing, exploitation of natural resources, child labour, resettlement issues or lobbying.

*“As a mortgage lender we need to be aware of how climate change impacts issues such as subsidence. This is on the increase due to dry winters and insurers may change what they are comfortable insuring or willing to pay out on, which will have a knock on effect for the lender”.*



## Embedding Sustainability in the Finance Sector

Areas specific to financial organisations that you may need to focus on include:

### **Mis-selling**

Ensuring products and services are designed to meet the needs of identified consumer groups and sold in a clear and transparent manner. High profile cases of mis-selling in the past have led to a loss in trust. This has clear implications for brand value.

### **Managing debt**

Companies are expected to lend responsibly to help customers avoid accumulating unmanageable debts. This approach also reduces credit risk.

### **Sustainable products**

Companies have the opportunity to invest in more sustainable solutions – for example, clean technologies, green accounts or insurance policies, or ethical investments. You may need to ask; Where is the competitive advantage for your organisation? What is happening now that could be opening up new markets in the future?

### **Access to financial services**

Access to basic financial services, particularly amongst poorer communities and customers is seen by some as a fundamental duty of financial organisations. Innovative products and services, designed in way that meets the needs of new customers, could lead to increased market opportunities.

### **Project financing**

When providing funds for major development or commercial projects, companies should consider the wide range of social and environmental issues, particularly when lending to projects in emerging markets. These are addressed by initiatives like the Equator Principles and the United Nations Environment Programme Finance Initiative. Incorporation of social and environmental standards will enhance the robustness of the project and assist in timely management of risks.

### **Sustainable lending**

Many banks are considering social and environmental risks or opportunities within all lending decisions, not just project finance.

### **Fair pricing**

Making sure charges are appropriate and affordable is a key sustainability issue. This is especially true of insurers who could end up setting premiums that are prohibitively high for perceived 'high-risk' customers such as those on floodplains at risk to a change in climate or in developing countries. Clear communication on pricing is a key element of this.

### **Micro-finance**

There is a rising expectation for banks to provide small scale loans to people who would not qualify for traditional banking credit. This is often the only way they can establish a business and help themselves out of poverty. This is a dynamic, growing market which could have long-term commercial potential.

### **Money laundering**

the globalisation of financial services and concerns about organised crime and the funding of terrorism mean that financial organisations must be vigilant against money laundering, bribery and corruption.

### **Climate change**

Companies need to ensure that they are part of the solution to climate change, both in terms of their operational activities and products and services. This requires an assessment both of mitigation activities (such as a reduction in direct carbon footprint; carbon trading; allocation of capital away from carbon-intensive companies) and adaptation activities (such as weather-proofing the financial institution's own infrastructure; reviewing how portfolios will be affected by rising sea levels, drought etc; developing new insurance products)

### **Regulation**

Financial services have the potential to influence capital they supply, as a result companies are becoming increasingly regulated internationally.

The priority issues that your company should address will include some of these, but there will always be issues specific to your own set of circumstances.



To help identify which areas you should focus on you should:

### **Ask people what they think is important**

This is important because you need to understand what your customers, investors and other stakeholders expect of you. This understanding will enable you to develop an approach that reflects all stakeholders' priorities. The process of engaging stakeholders is also beneficial. By involving key players from the start, you can help to raise awareness, educate, overcome cynicism and create greater support for the identified solutions. In your discussions with your stakeholders you can also begin to identify an appropriate set of qualitative and quantitative performance indicators.

*“Dialogue with clients on social and environmental issues helps raise their awareness of the issues.*

*The bank can provide guidance such as Terms of Reference that clients can use with their consultants”.*

Financial sector stakeholders could include senior managers, employees, customers (often the forgotten about stakeholder, but crucial if your aim is to influence them or if you want them to use your products/services), government agencies (particularly financial and environmental regulators), non-government organisations, shareholders, investment analysts (including socially responsible or ethical investors) and trade associations.

*“Our company held a Group Environment Conference, which brought together a disparate group of people representing different areas of the business. This was used to communicate the key sustainability priorities to the business, highlight the emerging agenda externally (with the help of key speakers) and to explore the implications for different areas of the business and Group as a whole”.*

**See Step Five ‘How to recognise and share success’**

### **Consider relevant frameworks or standards**

There are already a number of published frameworks and standards that address a broad range of sustainability issues including environment, human rights and business ethics. Some are cross-sector and others are sector-specific. If you are unclear on which one might be applicable, you could review those used by your peers and ask your stakeholders to point you towards those you should be considering.

Signing up to an international or national framework or standard can add credibility to your sustainability programme as it will ensure you are addressing issues in a way that is generally regarded as effective. It also indicates to your stakeholders – internal and external – that your approach is aligned with best practice. Your participation may also provide preferential access to valuable guidance, data sources, best practice research, contacts or reviews.

*“Our participation in external networks and working groups – particularly UNEP FI – has provided great benefits, both in building our knowledge and understanding of emerging issues and how we should respond, and in raising our profile externally”.*



## Embedding Sustainability in the Finance Sector

The key frameworks that financial organisations should consider include:

Framework	Bank	Insurance Company	Asset Manager
United Nations Environment Programme Finance Initiative (UNEP FI)	●	●	●
International Finance Corporation	●		
United Nations Principles of Responsible Investment			●
Equator Principles	●		
International Finance Corporation Performance Standards and Environment Health and Safety Guidelines	●		
The Global Reporting Initiative (GRI) G3 (financial sector supplements – social and environmental)	●	●	●
FORGE	●	●	●
Enhanced Analytics Initiative			●
Marathon Club			●
Bank Track	●		●
Institutional Investors Group on Climate Change			●
The Climate Change Principles	●	●	
Climate Wise			●
The Carbon Disclosure Project	●	●	●
UN Global Compact	●	●	●
The OECD Guidelines for Multinational Enterprises	●	●	●
The United Nations Universal Declaration of Human Rights			
International Labour Organisations Declaration on Fundamental Principles and Rights at Work	●	●	●

**See Appendix A for further details**



**Map possible actions by business value and social, environment and economic value**

You may find it useful to map issues onto a matrix that enables you to rate each issue on its impact to society or the environment and its potential impact on the business. This will help you to determine which issues are the most important or that you should deal with first.

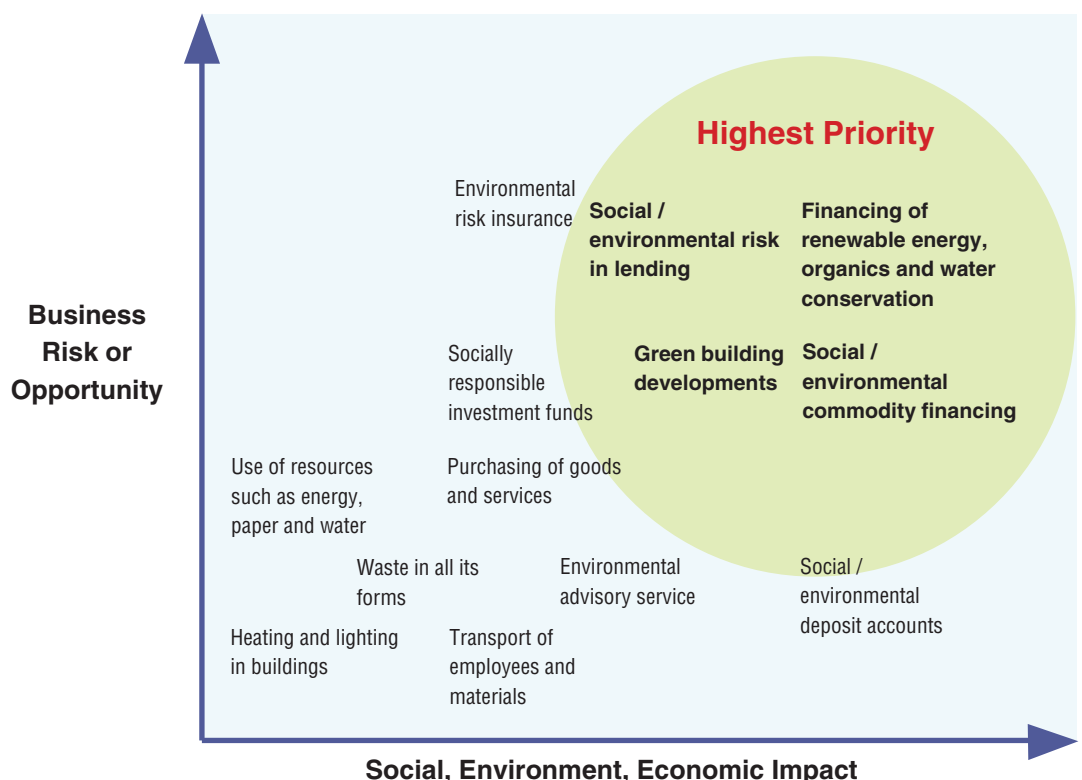
*“Social issues are less clear as there can be different opinions as to the social impacts of an investment. It is more difficult to try and quantify social costs. Social risks tend to be viewed more in terms of reputation risk”.*

This type of ‘materiality’ assessment is a very good way of demonstrating how you have considered each issue and which ones you should prioritise. Be careful though as you will be asked to demonstrate the criteria or method you used to identify the highest priority areas. Most companies will use a mix of risk management, benchmarking and stakeholder engagement to identify priority areas.

One widely accepted method is Accountability’s five part materiality test which encourages you to examine:

- direct short term financial risks;
- policy based performance (performance against what you say you will do);
- business peer based norms (what other peer companies are doing);
- stakeholder behaviour and concerns (including what your customers, shareholders and governments expect); and
- societal norms (including existing and impending regulation).

Once completed, a materiality matrix can be used to monitor how issues are changing. For example, using market knowledge to see if a relatively low priority today could be a high priority area in the future. This will help you to stay ahead of risks and be in a better position to take advantage of future opportunities.





### *Test the sustainability performance of existing products and services*

*“Most progress has been made through understanding our existing business processes, their potential implications and identifying opportunities to adapt or build on them”.*

You need to understand how sustainable your existing products and services are, including where there is room for improvement. There are a variety of tools and techniques available to do this, including:

#### **Benchmarking**

A process used to understand and evaluate the current position of a business in relation to ‘best practice’, particularly for other companies in your sector. The purpose is to identify areas where performance of the business, and/or its products and services, can be improved and the methods by which this may be achieved. Examples of best practice frameworks are included in Appendix A.

#### **Life cycle assessment**

An objective process which evaluates the environmental impacts associated with a product, process or activity to identify and evaluate potential opportunities to make environmental improvements. Life cycle assessment reviews every aspect of the product life cycle from design to end of life.

#### **Sustainability appraisal**

A process by which a company, product, service, project, strategy or plan are assessed against a set of economic, social and environmental criteria. The aim of the appraisal process is to identify and minimise potential adverse impacts and resolve as far as possible conflicting or contradictory outcomes.

#### **Scenario testing**

A method to assess likely performance under different scenarios, associated with specified changes within a given timescale. It can be used to understand the structure of the market and to enhance risk management by examining extreme economic, social or environmental changes.

#### **Environmental and social impact assessment**

A tool used to identify the environmental and social impacts of a project prior to decision-making. It aims to predict impacts at an early stage in project planning and design and find ways and means to reduce adverse impacts identified. Principle 2 of the Equator Principles requires such an assessment to be undertaken for all Category A and B projects. However assessments can have wider applications beyond project finance.

#### **Stakeholder engagement**

As discussed on page 9, engagement is essential to understand what your customers, investors and other stakeholders expect of you. By involving key players from the start, you can help to raise awareness, educate, overcome cynicism and create greater support for identified solutions.



### Asking the right questions

The companies involved in developing this report identified typical questions that they considered to be important when addressing the following areas:

#### Managing risk in lending

- Where is most of your money lent?
- Which sectors are you working with?  
Do they have a good or bad reputation on environment, safety, human rights performance?
- In which countries do you operate?  
What are the risks in those locations (consider social, economic, reputation and environmental risks)?  
What regulatory frameworks exist in those countries?
- Who are your customers and what are their key risks?
- How do you assess social or environmental risk?  
What weight do you put to these risks, how do you manage any issues?
- When do you say no?
- Who within the organisation needs to manage these risks?  
What support do they need?

**See 'Delivery Step Five Making it Happen: Example One'**

#### Improving returns on long term investments

- Are you able to identify long-term trends?  
What process do you currently use?
- How have social and environmental factors been considered?  
What would a change in climate, demographics, biodiversity, environmental regulation, social / environmental taxes, corruption, reputation, others, have on the investment?
- Do you know where the market is likely to move?  
How could social, environmental factors influence this?  
What tools are available to assess this influence?
- Have you a process for identifying sustainable companies, i.e. companies with a secure financial future?
- Which clients are interested in short-term returns or long-term investments?

**See 'Delivery Step Five Making it Happen: Example Two'**

#### Climate change

- Is your product helping or contributing to the problem?
- Do you know the embodied carbon of your products?  
Does this matter?  
Is it possible to measure it?  
What are the risks / opportunities in lending /insuring high carbon activities?
- Are your products and services at risk to a change in climate (temperature, rainfall, sea level rise)?
- Is there a market for new climate products?  
Can you create a new market?
- Who else is doing this?
- Will it really be more sustainable?  
What will happen if you get it wrong?

**See 'Delivery Step Five Making it Happen: Example Three'**



### Step Three: Document your sustainability strategy

When the priorities have been identified it is important that they are documented and made available for others to see and use. This could be within an existing business strategy, project plan or product and service strategy. Under-commitment to embedding what you have learnt in the first two steps into existing business practice will make it more difficult to convert your ambition into action. Some companies or project teams end up with two distinct strategies – one core commercial strategy and another for sustainability. The danger of this approach is that you may end up with conflicting priorities that pull the organisation or team in different directions. You should therefore seek to align or combine your different objectives into one strategic approach.

*“Aligning sustainability within our core business strategy was a key step to embedding sustainability within our company... it made it easier to convince others of its importance when sustainability is highlighted as one of our top business objectives”.*

When developing your strategy, you should consider the following questions.

- Will the investment outlined in the business strategy or plan deliver a sustainable outcome?
- Does the strategy or plan demonstrate a commitment to sustainability?
- Does it provide a framework for decisions on what the company will and won't do?
- Does it provide a reference point to guide the day-to-day activity of employees? Will it help to engage others across the business in sustainability?
- Are the key issues clearly identified? Have all of the risks and opportunities been addressed?
- Does the business strategy or plan provide a framework to develop new sustainable products and services or review existing ones?

If your company already has a sustainability strategy you may want to review it and consider the following.

- moving from being a company that makes a profit and addresses sustainable impacts to being a company that makes a profit because it is sustainable. This can be accomplished by integrating non-financial issues into your core business strategy and identifying opportunities to create value as a result. One test is to see whether your Annual Report and Accounts has a separate section on how you are addressing sustainability or whether sustainability risks and opportunities are addressed throughout the report?
- expanding the range of sustainability areas covered by your strategy. Now is the time to move on from your highest priorities and tackle some of the other risks and opportunities.
- inviting internal and external stakeholders to take a more proactive role in developing and reviewing your strategy. The more you involve them up front, the more they will trust and value the outcomes.

You should also consider documenting the process of how you determined your priorities and show how you have involved external and internal stakeholders. This could become important if you are challenged on the decisions you have made. However, it is important to recognise that you do not need to address all issues at the same time. Your focus should be on your key impacts; these should be your priorities for action.



# Delivery

*“Change and progress takes time, it is important to be realistic about what can be achieved within different timescales”.*

Understanding the issues you need to address to be more sustainable is often easier than implementing a change in your approach. This section looks at some of the steps you could consider and enablers that could help you put words into action. These include:

## Step Four: Motivating decision makers

There is often an indistinct relationship between the people who have a clear idea of how sustainability can be delivered and the people who need to be involved in making more sustainable decisions. This relationship needs to be strengthened.

Before talking to anybody consider what approach you will take to explain what is required and how to influence behaviour. How will you make it relevant? What might motivate and inspire them? What style of approach is most likely to work? This could be a moral case, or be financial savings, or by winning the approval of others.

A range of techniques can be used to influence behaviour from training, awareness raising, incentives, policy delivery, objective setting, performance related pay etc.

*“We have linked remuneration to a three-year cycle of profit return. This was done in order to remove the motivator of chasing short-term returns. We believe that chasing short-term returns is ultimately self-defeating. It is an unsustainable process that in the long-term will produce diminished returns for its clients”.*

## Senior Management and Board Commitment

Support at board level will be vital to ensure effective delivery. Your CEO needs to understand the key issues and be in full support of embedding sustainability; commitment needs to come from the top. Larger companies may consider establishing a Board or steering committee tasked with identifying and addressing social or environmental issues. Meeting as a committee can help facilitate meaningful conversations around specific issues that might otherwise be marginalised during a full Board meeting. Another option is to broaden the scope of more traditional standing committees to include sustainability, for example the audit committee.

*“Establishing a governance structure with explicit lines of responsibility for sustainability was key for us”.*

Of course getting support from senior management can be a challenge and there is no easy solution here. You need to present a clear and compelling business case, with hard numbers showing likely returns. Focus not just on the long term – offer some quick win opportunities as well. These can often capture the interest of those who are eager for progress. And of course you should make it clear how the results you want to achieve will support the core goals of the business.

*“Senior management that are engaged will always ask whether environmental risks have been covered”.*

One way to help get senior management on board is through small-scale change projects. These could be a good way to get things moving, demonstrate early success, make issues real for people, involve them and provide a platform to build on.

If you already have Board commitment and a sustainability committee – you may want to:

- invite external stakeholders to take a more active role in committee meetings so Board members can get direct feedback or information; and
- consider rotating the membership of the committee so that all senior managers or Board members have the opportunity to learn or contribute.



## Embedding Sustainability in the Finance Sector

### Staff at the coalface

Other individuals that need to be involved will depend on your priorities and who is involved in the decision-making process that will affect these priorities. For example, in commercial lending this could be the credit risks teams and the business teams that are responsible for identifying market opportunities; in equity it could be the investment analysts; and for insurance industry these could be the brokers.

It is important to actively engage these individuals as, in most cases, it is important to involve them in the process rather than imposing structures, guidance and/or policies upon them. Every individual will understand their role or business activity better than you so if you can motivate them, they are in the best position to identify the best way forward. Your role may be to facilitate this process, guiding them to create a process that will be effective in delivering your company's sustainability objectives.

*“As the central environmental team, our role is to facilitate knowledge transfer between experts; bringing together environmental and business expertise to identify opportunities”.*

Individuals who are asked to factor sustainability issues into their job function must be provided with training and information to enable them to make informed decisions, manage risks before they happen and to identify future market shifts and so stay ahead of the game. For example, in commercial lending, client facing and credit teams need to understand sustainability to ensure they understand the potential risks associated with a particular client or transaction.

### Using an Environment and Sustainability Team or Experts

Typically, support to decision makers will involve some level of awareness-raising, training and possible external assistance from sustainability and/or technical experts. This may include consultants, but you should also consider the expertise held by your external stakeholders. Non-Governmental Organisations (NGOs) for example may be willing to support you in delivering a more sustainable solution or educating people within the business.

One question that is often raised is – do we need a separate sustainability team? There is no right answer here, but experience suggests that when starting out it is likely that there will be value in establishing a central team that has specific sustainability knowledge and experience. The role of this team will be to provide advice and guidance to colleagues at the ‘coalface’, who will have no, or limited, understanding of sustainability issues. This central sustainability team does not need to be large; however it does need to be able to reach a wide audience, so it will need to have support and recognition from the Board and CEO.

*“We take a non-centralised approach to environmental and social risk assessment. The central team is very small as we want individual lending teams to take responsibility for the decision making process, rather than it being perceived to be the responsibility of the central team”.*

Over time you may consider removing or changing the role of this team. Initially the central team will need to provide individuals with the resources they need to implement their objectives. This is vital as the central team needs to drive knowledge transfer from the centre and into the business if sustainability is truly going to be integrated in to everyday decision making. But once general awareness has been raised the role of this team may evolve into one of monitoring, review and challenging current practice.

*“For any transactions where there is uncertainty with regards to environmental risk these are passed on to the environmental risk policy management team. The team does an excellent job; they provide a review of environmental risks and are able to refer transactions where the deal team has insufficient expertise to assess the potential environmental and social risks. Also their quick turnaround and ability to provide a concise understanding of the issues and the redress that's needed is beneficial”.*



### What has helped us

The organisations involved in developing this report have found the following as key for delivery:

#### **A strong commitment from the top**

*“Our company was established with the belief that sustainability research integrated into a rigorous traditional investment process will deliver superior long-term results”.*

#### **Clear communication of sustainability and a common understanding of why it is important**

*“Getting our internal communications team involved early on really helped raise awareness of our sustainability priorities – I now have people coming to me and asking what they can do. For me good communications planning up front made all the difference”.*

#### **A clear governance structure that includes a Committee to address sustainability priorities**

*“Having a separate sustainability committee has meant we have more time to discuss a wider range of issues that would never have been addressed through the other standing committees”.*

#### **Senior management champions creating an environment where individuals feel empowered to seek out more sustainable business practices**

#### **Establishing a direct feedback channel from stakeholders to the Board**

## Step Five: Making it happen

For a financial organisation, sustainability could be addressed across all or any product or service areas, for example, wholesale and consumer banking, project finance, insurance, asset management and hedge funds. We have focussed on three examples, but the lessons learnt could be applied to any products and services. These three examples demonstrate how a variety of tools and approaches have been used to help embed sustainability within the decision-making process. These include:

- policies;
- training and awareness raising;
- internal or external support networks or collaborative working groups;
- impact assessments;
- intranet (e-learning) with guidance notes, checklists and instructions; and
- stakeholder engagement.

### *Example One: Supporting decision-makers in commercial lending*

Risk and reputation management predominantly drives commercial lending. Banks seek to avoid financial loss and negative publicity from association with adverse social and environmental issues. Client facing and credit risk teams need to understand the potential sustainability risks that relate to clients and the sectors in which they operate. They, along with other interested parties such as legal, require on-going sustainability training and/or awareness-raising to ensure they are able to make a judgement on the level of sustainability risk associated with a particular client or transaction.

*“In our company, credit and business teams gain knowledge through practical experience, reference to sector specific information and reference to sustainability experts within the company for specialist advice as and when necessary”.*



## Embedding Sustainability in the Finance Sector

In assessing sustainability risks, teams involved in commercial transactions will consider a number of factors, including the following.

- What are the country risks?
- What are the industry sector risks?
- What is the market overview?
- What is the quality of the client and what are their capabilities - including: quality of management team, cash flows, business plan, how well they manage their own risks?
- What capacity do they have to manage sustainability risks?
- What commitment do they have?

*“Commitment of the client is more important than capacity as the latter can be built over time if there is the commitment to do so”.*

To factor sustainability within these decisions individuals or teams must be aware of potential risks, know what to look out for or have a process they can follow to deliver the right outcome. Generally there are two approaches that banks currently take:

### 1. Guidance based approach

Teams or individuals are coached on the importance of factoring sustainability risks into transactions and encouraged to make use of sector or issues specific guidance. Sector guidance could focus on high-risk sectors such as energy, mining, forestry or transportation; issue guidance could focus on priority risk areas such as climate change, palm oil, human rights or water quality.

The purpose of guidance is to encourage individuals to think independently, providing information that can be used alongside existing knowledge and experience of the decision maker. Sector specific guidance could include the following information.

- How to identify ‘no go’ areas – i.e. who you will not lend to.

- Identification of where you will draw the line, for example will you work with clients who do not meet agreed international standards on the proviso that they demonstrate a commitment to reach them and are willing to report on progress over time.
- Identification of relevant external standards that should be followed, for example the International Finance Corporation Performance Standards, Environmental Health and Safety Guidelines, the World Commission on Dams Framework and so on.
- Brief descriptions of relevant risks covering social, environmental, reputation and governance aspects.

One criticism of guidance is that there is no guarantee of consistent application, which may not be acceptable to some of your stakeholders.

### 2. Policy based approach

This approach will have greater governance and teams will be mandated to make use of policies and tools. This runs the risk that individuals will follow a ‘tick box’ approach but allows for greater standardisation and monitoring of decision making. The benefit for most financial organisations is that once it is policy it must be done.

*“It is important to consider where your company is at. For the vast majority of people within the industry, sustainability will simply be one of many criteria to be considered and ‘embedding’ is therefore about making it a part of the process”.*

*“In our company, ‘policy’ comes with a number of governance issues such as policies need to be reviewed annually, which can generate considerable workload”.*

As referred to in Step Four, when drafting policies you will need to engage with employees directly involved in the business e.g. client facing staff, project financiers etc. to agree a sensible approach on how you will deliver the policy. Once drafted, you should consult with external experts, including relevant industry bodies and clients themselves. It can also be helpful to consult with interested non-government organisations as they often have great technical expertise.



## *How Barclays is embedding sustainability into lending decisions*

At our Bank, new lending prospects are developed by various business teams across the bank. Any transactions that they wish to progress must be passed to our credit risk team to undergo a process of credit review. Funds cannot be released without credit approval. The business teams therefore involve the credit risk team early in the process.

The credit risk team review the entire transaction including legal, credit, social, environmental and due diligence aspects. They consider direct, indirect and reputation risks. Teams work together to structure the deal appropriately before a final decision is made by credit committee. The bank is guided by a 'do no harm' philosophy and aims to ensure that no material losses are incurred.

The main role of the central environment team is to ensure each credit risk team has sufficient knowledge of social and environmental risks to enable them to make a final decision locally without having to refer to the central environmental team for advice. Increased awareness is achieved through an ongoing process of knowledge transfer incorporating workshops, presentations and ad hoc information provision (e.g. tracking current media interest in particular projects). Business, credit risk, syndication and legal teams are invited to attend events at the same time to promote a common understanding of issues (any other interested parties can also attend). In addition, there are a number of environmental champions who can act as communication channels and help to cascade relevant information locally.

In its coaching role, the central environment team works to ensure credit risk teams are kept up to date on social and environmental issues that are relevant for the business (e.g. key issues or sector specific information). More detailed support is provided in guidance notes, which address over 50 environmentally sensitive sectors and are made available on the Bank's intranet along with the environmental and social impact assessment (ESIA) policy through which the Bank applies the Equator Principles.

By enabling credit risk teams to understand and make most decisions themselves, the central environment team can focus their attention on the larger scale or more complex

decisions. Referrals to the central environment team occur when the credit risk teams feel they need additional advice on particular social and environmental aspects of a deal. External specialist advice can also be sought. If the deal is particularly large, or is likely to attract NGO or media attention, it may also be referred to a senior management committee, either at a business or Group level, before a decision can be reached.

Assessing the significance of social and environmental risks is a skill which is acquired over time through practical experience. A prescriptive approach is not encouraged as social and environmental issues can be complex and wide-ranging. The central environment team want decision-makers to take a flexible approach, appropriate to each circumstance. They are encouraged to think as broadly as possible when considering the risk profile of a deal – a check list of issues would not support this approach.

The Bank believes it benefits from its enlightened approach to assessing social and environmental risks. A greater understanding of potential risks helps to minimise the time taken to reach a decision; avoiding lengthy review processes (which can take months or even years on large deals) for deals that may ultimately be declined. The knowledge obtained can also help the Bank to avoid becoming involved in controversial deals which may have associated financial and reputation risks.

## **Have you already addressed social and environmental risks within your lending portfolio?**

Leading banks are recognising that sustainability can present opportunities within lending. For example new business generated from sustainability-related products such as investing in clean technology or microfinance. Demonstrating they understand a client's sustainability issues also provides banks with the opportunity to establish longer-term relationships and to work with their clients to improve their sustainability performance over time. Some banks are also considering how to achieve social, environmental and financial gains within lending decisions – developing sustainability criteria, applying sustainable appraisal techniques or seeking to understand the influence of carbon or climate change within lending decisions.



### *Example Two: Supporting decision-makers in equities investment*

One barrier to embedding sustainability within the decision-making process of the equities investment sector can be the focus on realising short-term returns for investors. There is, however, a case to be made for reviewing a range of investment products to modify the terms and allow a long-term view to be taken. This includes changing the view of what a successful company/investment looks like from one that provides short-term return but that has uncertain long-term viability to one that will deliver ongoing returns as it will survive long-term in the market place.

Achieving this may mean changing the dynamic or competence of your decision-making team. Examples of techniques being used include the following.

- Undertaking research on sustainability-related risks and opportunities, for example on emerging themes such as climate change, human rights trade corridors or poverty; or on geographic, governance, risk hotspots. This research would then need to be shared with the appropriate investment teams.
- Undertaking a sustainability appraisal of specific investment opportunities – sustainability appraisals provide a checklist of questions or responses that an analyst or team would need to consider.
- Recruiting staff who are trained in sustainability and placing them within mainstream teams.
- Sending teams on external training courses or alternatively trainers competent in sustainability could be contracted to provide in-house training that is customised to the company's activities.
- Providing e-learning or scenario tools to help with case by case examples.

### *How Generation Investment Management is embedding sustainability within their investment decision-making process*

The company's investment team includes analysts and members of thematic research, portfolio management and the business development teams. The industry analysts are responsible for specific sectors, for example global healthcare, and knowledge and understanding of the companies that operate within those sectors. They produce industry-specific guidance, which covers topics such as long-term trends, market domination, quality of the management team and whether the potential investment is part of the solution to a sustainability issue.

The thematic research team publishes thematic papers every six months, which are presented to the advisory board. These papers cover a range of sustainability issues and the risks and opportunities that these present. The team are also responsible for updating and informing the industry analysts and investment team about developments and events in sustainability.

An important part of the company is its definition of sustainability; sustainability for the company includes issues of global health and pandemics, water scarcity, poverty and education, corporate governance and risk, and demography. The company does not consider there to be a separation between the thematic and industry-specific research. Members of the thematic research team work with the industry analysts to develop enlightened industry-specific guidance and thematic research papers, which are used to build the company's ongoing understanding of industries and sustainability and to develop investment ideas.



### *Example Three: Supporting decision-makers in the insurance industry*

Prior to 2004, there was a lack of understanding or enthusiasm for sustainability and environmental issues within the insurance industry. There was no desire or need to consider these aspects within the decision-making processes. However, since that time the situation has begun to change, notably with regards to the industry's response to the challenges of climate change.

This is a challenging and complex topic and as with the banking and investment industries, a key support factor is the provision of specialist sustainability and technical knowledge to provide staff with the information they need to make informed decisions. This support can also help to address a lack of interest amongst employees, regards sustainability, where this exists. Raising awareness is needed in order to begin the process of challenging existing decision-making processes and subsequently to identify solutions.

#### *How HSBC Insurance Brokers Ltd is working to embed sustainability within their products and decision-making processes*

The initial driver for the organisation was an identified need to provide environment-related products and services as part of an existing business provision, in this case advising and broking Environmental Impairment Liability insurance for corporate and property transactions. Recognising the need for specific environmental expertise, the organisation recruited specialists to support decision-makers and client relationship managers. The role of this team of specialists is to act as facilitators – for both knowledge transfer and change. The initial task has been to raise awareness and to support managers in addressing potential environmental risks associated with clients' situations and specific products. This has been achieved through ongoing engagement with a wide range of individuals from across the business and developing a specific decision-support tool that allows managers to access relevant environmental information, understand potential risk areas and identify where they may require further support. By bringing together environmental and business expertise, the team

has been able to identify and address key risks and explore potential business opportunities.

Further benefits have resulted from the organisation's active participation in external initiatives and networks. In particular, involvement in the United Nations Environment Programme Finance Initiative (Insurance Working Group) has been invaluable in being able to attain and maintain knowledge of trends, emerging issues, stakeholder expectations and best practice responses.

As part of a larger group of companies, the organisation's progress has also benefited from an evolving Group strategy on sustainable development. Although it has been important to step up to the commitments expressed at a Group level, it was crucial to interpret the Group strategy in a way that was relevant for the specific activities of an insurance broker. Having said this, the activities of the Group sustainability team have helped to highlight the need to consider key sustainability issues within decision-making and reinforce the organisation's specific programme.

A major component of the organisation's evolving business case for sustainability is the potential impact of climate change, both in terms of addressing the cause and proactively responding to the effects. By bringing together the internal knowledge within the organisation, the external knowledge obtained and the team's own expertise, opportunities have been identified to facilitate a move towards a low carbon economy (for example, providing specific services for low carbon technologies and influencing behaviour by 'greening' mass market products) and to respond to the risks of greater climatic uncertainty (for example, influencing the development of natural catastrophe risk modelling and exploring the potential for micro-insurance to protect the most vulnerable to climate change). Opportunities include both the modification of existing products and services and the development of new ones.

The past 3 years have focused on raising awareness within the business to enable managers to understand key issues and make better decisions with regards environmental risk. The next 3 years will see a transition towards building knowledge to enable opportunities for more sustainable products and services to be identified and developed for customers.



### *What has helped us?*

#### **Conviction that addressing sustainability can deliver financial benefits**

*“We believe that by integrating sustainability into our processes, it will drive optimal returns for our clients”.*

#### **Staff training and access to specialist sustainability knowledge**

*“An essential aspect of the way in which decisions are made, stems from the integration of a small team of partners and analysts who combine financial and environmental expertise”.*

*“There are many different approaches to raising awareness of social and environmental risks, including joint presentations and workshops to credit and business teams. Integrating new entrants can take place through a half or full day workshop”.*

#### **Access to information**

*“Ad hoc information can be provided on items of interest.*

*Proactive methods are also used such as undertaking media searches (factiva) on particular deals to update teams on any relevant developments. Teams can also access guidance notes and policies from our intranet site”.*

#### **Team structure and knowledge**

*“Integration of competence is expected of staff. They are encouraged to learn about sustainability and business issues as part of their job and through additional training, for example analysts with an environmental background are encouraged to take the CFA”.*

#### **Getting external support**

*“When drafting our mining policy, we worked with the International Council for Mining and Metals as well as leading mining companies and also sought advice from NGOs in the field on sustainable methods for metals extraction”.*



# Review

In order to maintain support for sustainability improvements it is necessary to demonstrate how your company has benefited from any changes made. This requires a level of monitoring and reporting back to your stakeholders (internal and external) on progress against the sustainability priorities identified in your company's business strategy.

## Step Six: How to monitor success?

The information that you need to collect will be dependent upon the sustainability priorities that you have identified and included in your company's business strategy (Step 2). During Step Two you should have identified with your stakeholders what information they will expect your company to report in order to demonstrate improvement and performance. This should help to inform the selection of an appropriate set of indicators.

Although these indicators will be specific to your company, it is beneficial to include ones from a range that have been tested and agreed for reporting purposes by a wide-range of companies, including those from the financial sector. This provides the benefit of enabling your stakeholders, including investors and customers, to compare your performance against other financial institutions and will help to provide transparency and comparability – two essential components for any monitoring system. Appendix A outlines a number of relevant frameworks or standards you may consider reporting against. One example is the Global Reporting Initiative (GRI). The GRI framework is composed of a set of three documents:

- GRI Sustainability Reporting Guidelines, the most recent are G3 (2006);
- sector and issues supplements; and
- technical protocols.

The Sector and Issues Supplements include ones for the financial services, providing key performance indicators for the financial services sectors social (Part A) and environmental impacts (Part B). The social performance indicators in Part A,

which include quantitative and qualitative measures, are organised by:

- management systems;
- internal performance;
- suppliers;
- society;
- retail banking;
- investment banking;
- asset management; and
- insurance.

Part B proposes 13 environmental key performance indicators that cover both direct and indirect environmental impacts. It is important to include some measures to monitor the latter, as indirect environmental impacts can be greater. They also tend to represent the areas of greatest risk (reputation) and opportunity.

As with identifying your company's sustainability priorities in Step Two, it is not necessarily to monitor and measure everything. The indicators that you do select should link directly to your company's strategy, i.e. measure what is important to track progress in delivering against your strategy. Don't be afraid to drop or not report on measures that are not relevant to your business or change the measures as your strategy changes but remember you need to track progress over the long-term to determine if your actions are helping to contribute towards social, environmental and economic improvements.



### Other finances sector measures

During conversations held in producing this document the following financial specific 'indicators' were also identified (or are being used by specific banks, insurers etc).

- Number of clients engaged on social and environmental issues.
- Number of clients who comply with internal guidelines/policy and improvements made over time (this can be integrated into mainstream risk management processes).
- Negative publicity received from perceived or actual association with controversial deals.
- Number of staff who have received training.
- Level of ongoing awareness-raising for staff involved in decision-making process.
- Revenue generated by sustainable products (e.g carbon trading, green products).
- New business gained through improved sustainability credentials (though can sometimes be hard to attribute new business to sustainability improvements alone).
- Cost savings from operational efficiencies (e.g. energy savings).
- Impact on brand value.
- Positive feedback from stakeholders on bank's activities, for example from NGOs, SRI analysts.
- Ability to report improvements in sustainability performance (i.e. demonstrate outcomes from actions taken).

## Step Seven: Sharing or reporting success

Organisations that engage seriously in defining sustainability practice will have opportunities to enhance their reputation by telling their story externally. Maintaining a dialogue with your

stakeholders, both internal and external, and reviewing the progress and position of your company, can help to place your company in a good position not just to respond to changing risks, but to identify and benefit from future opportunities.

Sustainability is different to other business-critical issues for a number of reasons; however, two of the most important ones are the number of people who need (and want) to be involved in any reporting or communication you do and the number of different stakeholders you could potentially communicate or report to. The added difficulty is that each stakeholder will often want information from you in very different ways. Just ask anybody who has every produced a sustainability report!

At this point it is advisable to consider the following.

- Talk to your internal and external communications or internal / corporate affairs teams. Get their support and / or use the existing communications mechanisms already in place.
- Ensure your messages are consistent across all communications routes. Some stakeholders will expect to see sustainability embedded in investor communications or within methods of communication with your customers.
- Use stakeholders to verify what you are saying – the relationships you have already developed with internal and external stakeholders will really help at this point.
- Be clear on the quality of information being provided. Auditing of information can play a key role in improving information quality as well as providing a level of assurance to your audience.
- Not wait until the last minute to start putting a report together. Reporting should be programme-led rather than the other way around. If you find reporting a hassle or find it difficult to say anything new then your sustainability programme is not working. Good communications should be continual and ongoing.
- Integrate reporting into your decision-making process and governance structure. Reporting should be a regular agenda item for your Committee.
- Reward performance. Make sure you recognise the progress your organisation or individuals have made, it will help to motivate and inspire others to act.



## Moving Forward – Future Challenges and Opportunities

Whether your company is at the start of the process or has already made some progress, it is worth assessing your current situation with regards identifying your ambition and demonstrating your commitment towards sustainability. For any company or individual involved in a process of change, there are often a number of stages that they typically will go through.

- Ignorance - “There’s no issue or problem here”
- Defensive - “It’s not our fault or it’s not our job to fix it”
- Compliance - “We will do as much as we have to”
- Strategic - “It gives us a competitive edge”
- Partnerships - “We have to make sure everybody does it”

It may be important to recognise where your company, department or a key individual is now right now along this transitional journey. Understanding this will help you to better position your company to address future challenges and therefore capitalise on future opportunities.

In discussions with the financial institutions that have contributed towards this document a number of challenges and opportunities for the future were identified. These are summarised below; however, the key message is that our understanding of sustainability continues to evolve as scientific knowledge, political commitment, management practice, stakeholder awareness (including consumers, investors and others such as non-governmental organisations) and examples of delivery evolve.

### *Challenges to be overcome to achieve ‘sustainable business as usual’*

#### **Little guidance on how to deliver change**

There is a lot of theory and case studies on how to deliver change within an organisation. There is less about how to deliver a change towards more sustainable business practice. This could be because it is difficult to tell if and when anybody has actually done this well – and in a way that is easily transferable to other companies’ situations.

#### **The financial sector has not been doing it as long as other sectors**

While there has been a lot of activity within the last 10 years within leading banks, insurers and asset managers developing new standards of expected practice, other sectors such as oil and gas, retail and consumer product industry have been developing techniques, measures and responses to sustainability for a much longer period. This means that other sectors have had more time to develop systems for delivery.

*“Pre-2004 there was a general lack of understanding about environmental issues, risks and broader sustainability concerns. More than this, there was no desire or need to consider these aspects within the decisions made within the business”.*

#### **Sustainability influences every aspect of a business and requires input from many different people.**

It takes time to raise awareness and engage with every person within an organisation so that they know what it means for them and how to act. Anybody who has produced a sustainability or corporate responsibility report will tell you that the process requires careful planning because of the number of people and business areas that need to be involved.

#### **Sustainability is a misused concept which can sometimes lead to confusion, particularly over the use of varying definitions**

The rise of corporate responsibility in the 90s is a result of this lack of understanding. But as leading companies have developed their approach to corporate responsibility or the way they manage their social or environmental impacts, their understanding and way they define it has become clearer. Many leading banks for example are starting to define more clearly their role in delivering more sustainable environment, society or local economies.



## Embedding Sustainability in the Finance Sector

### **The tools, techniques and practice to deliver sustainability, within the financial sector, are still being developed.**

This can make it difficult to measure and quantify the business benefits of delivering sustainability. At the end of the 1990s reporting on sustainability or corporate responsibility was only undertaken by a small number of FTSE 100 companies. Today more companies are reporting, but only a small number are working to understand how they can deliver sustainability. There is currently a lot of activity within the financial sector to support improved decision making and this should be built upon in the future.

*See Appendix A for further details*

### **Convincing people, including colleagues, investors and clients that sustainability is a business risk or opportunity that needs to be addressed.**

This can be overcome by demonstrating where the company has lost money (by not addressing sustainability), making reference to external pressures including public, political and non-governmental activity and legislation where possible and through perseverance. Examples of specific tools include the following.

- Delivering an iconic project – focussing in on one specific project, product or service and demonstrating what can be achieved by applying innovation around sustainability.
- Benchmarking your company or products against others, this can sometimes highlight a need for action.
- Facilitate a direct discussion between the decision maker and key stakeholder groups.

### **Challenges to be overcome in determining how to address sustainability**

#### **Carbon is here to stay – but when do you stop funding high carbon activities?**

One question continually raised is whether financial organisations should continue to support high carbon activities. Understanding the long-term implications of lending and other decisions made by financial organisation on climate

change is still a challenge for many financial organisations.

What is clear is that disclosure on key social and environmental impacts within a lending portfolio will continue to be raised within the financial sector - as disclosure on supply chain practice was an issue for the retail and manufacturing sectors in the late 1990's. A number of leading banks, including the World Bank, are beginning to investigate how to measure and disclose information on carbon intensity within lending decisions.

#### **Should you walk away from a social or environmental high risk lending transaction?**

*“The project was in India and already had an Environmental Impact Assessment (EIA) carried out by a local agency. There was the potential for conflicts of interest between the sponsoring parties and those with an interest in the EIA. It was a long-term project, running over a number of years, and there had been a number of upgraded EIAs, the last one in 2005. The bank wanted to ensure the EIA met with the Equator Principles and also with the stringent requirements of the Export Credit Agencies. It was felt that there were gaps in the assessment and so it was referred to the environmental credit risk team - those gaps were confirmed. The next stage was to discuss these findings with the customer. This resulted in a desk top review by an external agency, paid for by the client which confirmed the banks earlier conclusions. In order to rectify the situation, the client was required to undertake a full and independent EIA which was declined. [However] the client learned a lot about the Equator Principle requirements and would get the bank involved at an earlier stage in the process for future projects”.*



### **Could sustainable practice cause my company to lose our competitive edge?**

It is often said that if banks impose too many restrictions, the client may seek financial support elsewhere through a lender with lower social or environmental standards. How can banks deal with the issue of competing with local banks that may have lower environmental and social requirements/standards?

A number of trends suggest that banks or insurers that are working to deliver sustainability now will benefit in the future, these include the following.

- Attempts are being made to level the playing field. For example, a joint-initiative between the State Environmental Protection Administration (SEPA) and China's central bank came into force in April 2007. Lending policies of Chinese banks now have to include elements of environmental protection and, as a result, companies that contravene environmental protection laws and regulations will find it harder to access finance locally as well as internationally.
- Company led initiatives like the Equator Principles are more commonly being adopted as expected practice within the sector. For examples, discussions are taking place with Chinese and Indian banks on adopting the Equator Principles. In 2006, a working group of Equator banks considered how to influence non-participating banks to adopt EPs – especially international banks in the emerging markets of China, Russia and India (Environmental Finance – Fund Management – May 2006).
- Leading financial organisations are transforming risks into opportunities. Microfinance is gaining momentum and the first rated microfinance bond was launched in May 2007. Banks are increasingly financing clean technology and some are selling the sustainability expertise they have gained to their clients, or using it to further build client relationships.



# Appendix A

## Examples of external support mechanisms

- Membership of United Nations Environment Programme Finance Initiative (UNEP FI) is frequently stated as helpful, particularly participation in work streams on emerging issues (e.g. human rights, biodiversity, access to water).
- UNEP Financial Initiative (UNEP-FI) Insurance Working Group, *Insuring for Sustainability 2007 Report*.
- International Finance Corporation Performance Standards and Environmental Health and Safety Guidelines are often used as a benchmark of internationally accepted standards.
- UN Principles for Responsible Investment are voluntary and aspirational and they provide a menu of possible actions for incorporating environmental, social and corporate governance issues into mainstream investment decision-making and ownership practices.
- Equator Principles are a voluntary set of guidelines for managing social and environmental issues relating to the financing of development projects (ie.project financing to all sectors). The Principles are based on the policies and guidelines of the World Bank and International Finance Corporation.
- Global Reporting Initiative (GRI) financial sector guidelines are the most definitive set of measures currently available, and were agreed through a multi-stakeholder approach.
- FORGE is a consortium of financial institutions, which has issued 'Guidelines on Environmental Management and Reporting' (2000); and Guidance on CSR management and reporting for the Financial Services sector (2002).
- Enhanced Analytics Initiative is an international collaboration between asset owners and asset managers aimed at encouraging better investment research.
- Marathon Club was set up to stimulate pension funds, endowments and other institutional investors to be more long term in their thinking and actions. Guidance on how to invest for long term performance are provided.
- BankTrack is a network of civil society organisations and individuals tracking the operations of the private financial sector (commercial banks, investors, insurance companies, pension funds) and its effect on people and the planet.
- Institutional Investors Group on Climate Change is a forum for collaboration between pension funds and other institutional investors on issues related to climate change.
- Climate Wise is an insurance sector initiative which has developed six principles to help encourage customers to consider more climate-friendly habits and to influence policy on climate change.
- Examples of sector specific guidance or policies are publicly available on certain bank websites (e.g. HSBC, Barclays, Standard Chartered Bank).
- The 1948 United Nations Universal Declaration of Human Rights contains eight fundamental rights & freedoms.
- International Labour Organisations Declaration on Fundamental Principles and Rights at Work promotes human and labour rights. There are eight ILO conventions that have been identified as fundamental to individuals at work, irrespective of levels of development of individual member states.



- OECD Guidelines for Multinational Enterprises operate in harmony with government policies and societies expectations by providing voluntary principles and standards for responsible business conduct in a variety of areas including employment and industrial relations, human rights, environment, information disclosure, competition, taxation, and science and technology.
- UN Global Compact asks companies to embrace, support and enact a set of 10 principles in the areas of human rights, labour standards, the environment, and anti-corruption.
- Questionnaires such as Dow Jones Sustainability Index and the Carbon Disclosure Project are helpful in understanding the issues that external parties are interested in and in helping to inform disclosure.
- Carbon Disclosure Project is a single source of disclosure of information on greenhouse gas emissions from 2400 companies that institutional investors can access.
- Carbon foot printing and carbon accounting - The Carbon Trust and Defra have joined with BSI British Standards to develop a standard method for measuring the embodied greenhouse gas (GHG) emissions in products and services. Further details can be found on their website: [www.carbon-label.co.uk](http://www.carbon-label.co.uk).

sustainability

at work



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