THE BANKING SECTOR & ECOSYSTEM SERVICES
A META-ANALYSIS

November 2012
Coastal Quest and Blue Earth Consultants, LLC
Coastal Quest and Blue Earth Consultants, LLC

Project supported by the Gordon and Betty Moore Foundation

For additional information please visit www.Coastal-Quest.org or www.BlueEarthConsultants.com or send an email request to info@coastal-quest.org.

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EXECUTIVE SUMMARY

Non-governmental organizations (NGOs), intergovernmental organizations (IGOs), civil society organizations (CSOs), businesses, and governments are starting to use ecosystem services—the benefits people obtain from ecosystems—as a means to support natural resource protection. The concept of ecosystem services helps decision makers understand the values that ecosystems provide and consider these values when making resource management, policy, and business decisions. While the concept has gained traction in recent years, the extent to which organizations, governments, and business are implementing it remains unclear. The degree of banks’ attention to ecosystem services is especially opaque, as few banks share information regarding the considerations that shape their financing decisions. Yet banks’ decisions and activities have a huge impact on ecosystem services across the globe. Banks underwrite and invest in companies that extract or use natural resources and that alter the function of ecosystem services. In turn, most of these companies rely on the benefits ecosystems provide for their long-term financial success.

Blue Earth Consultants conducted a meta-analysis that evaluates the extent to which banks identify, assess, and mitigate their impacts on the sustainability of natural resources and ecosystems, as well as the degree to which banks proactively finance projects that have a positive impact on ecosystems. The report focuses on banks’ financing decisions, not their internal operations such as carbon emissions or water use, since banks’ financing activities generally exert a greater impact on natural resources. For this study we conducted web-based research and a literature review of 61 commercial/state-owned, investment, and bilateral/multilateral banks. They included a broad cross-section of banks selected by: 1) bank type (commercial/state-owned, investment, and bilateral/multilateral), 2) size of assets, 3) geography (countries or regions in which the banks were based and operate), and 4) the approach used to incorporate sustainability in their activities. We also conducted semi-structured interviews with 41 representatives from 22 banks and with 6 cross-cutting experts in the banking sector. In-depth research was conducted for 15 “snapshots” of banks that incorporate innovative ways of implementing ecosystem services approaches. The subjects of these snapshots were selected based on information gained from the semi-structured interviews, web-based research, and literature.

REPORT SECTIONS AND HIGHLIGHTS

1. Introduction
The introduction provides background to the report, a discussion of its purpose and the research methods used, and a description of the report outline.

2. Overview of Bank Types and Environmental Sustainability
Section 2 provides an overview of the banking sector, including bank types and activities. It describes key milestones in banks’ evolving approach to environmental sustainability, as well as factors motivating banks’ increasing attention to natural resources and ecosystems.

Key findings include:

- Inherent differences exist between commercial/state-owned, investment, and bilateral/multilateral banks in terms of their purposes, activities, and sources of funds. In addition, banks vary by size, scope, countries of operation, corporate culture, and motivations for considering sustainability.
- Commercial/state-owned and investment banks tend to adopt environmental policies and procedures for four main business reasons: 1) risk management, 2) compliance with regulation, and 3) environmental benefits (such as nutrient cycling and photosynthesis).
and directives, 2) protection against financial costs, 3) a means to capitalize on business opportunities. 4) Bilateral/multilateral banks are motivated to adopt sustainability policies as part of their efforts to maintain their social license to operate, as well as by their understanding of their environmental and social impacts. 5)

3. Banks' Consideration of Natural Resources and Ecosystems through Policies
Section 3 discusses banks' high-level policies and sector-specific guidelines related to natural resources. Such policies are important means by which banks demonstrate attention to natural resources and ecosystems, and their adoption indicates senior leaders' support for sustainability. Policies can help to guide a bank's actions and direct staff attention to sustainability.

Key findings include:
- Bilateral/multilateral banks have the most robust policies regarding natural resources and, unlike most commercial/state-owned banks and investment banks, explicitly mention ecosystem services in their environment policies and strategies.
- Commercial/state-owned banks and to a lesser extent investment banks have policies and sector-specific guidelines that commit them to actions related to environmental sustainability, but the rigor and extent of their implementation vary significantly.
- In addition to developing internal policies, a growing number of banks are signing on to global principles and standards, the most common of which is the Equator Principles.

4. Banks' Consideration of Natural Resources and Ecosystems through Bank Management Structure
A bank's management structure influences the degree to which policies are implemented and the way in which natural resources and ecosystems are considered in financing decisions. Section 4 describes banks' use of both the hard and soft mechanisms that help to ensure assessment of natural resources and ecosystems.

Key findings include:
- For all banks, buy-in from senior leadership is an important component of the bank's attention to natural resources. This buy-in can help to combat traditional incentive structures and a corporate culture that may not be conducive to consideration of natural resources.
- Bilateral/multilateral banks are the most advanced in creating management structures that support the consideration of natural resources. Not only do they staff an array of technical environmental experts who provide assistance to projects, but several have ensured that senior leaders have responsibilities related to sustainability.
- Overall, leading practices include integrating sustainability teams or experts into the overall structure of a bank, ensuring that environmental issues are a central part of all financing decisions, and staff training that is robust and ongoing.

5. Banks' Consideration of Natural Resources and Ecosystems in their Financing Activities
Bank financing activities can exert a significant, if indirect, impact on natural resources and ecosystems. In addition, their financing of particular projects or particular sectors (e.g., agriculture, forestry, fisheries) can result in extensive environmental impacts. Section 5 describes banks' attention to natural resources in their financing activities.

Key findings include:
- Banks' consideration for natural resources and ecosystem services varies by the type of financing. It is the most robust for project finance but remains significantly more limited for corporate loans and investment bank activities.
- Risk assessment remains banks' primary means of considering natural resources.
- Explicit attention to ecosystem services is nascent. Overall, bilateral/multilateral banks are ahead of commercial/state-owned and investment banks.
in their consideration of natural resources and ecosystems, including explicit attention to ecosystem services.

**6. Banks’ Approach to Monitoring and Reporting**

Monitoring and reporting provides a transparent means for banks, stakeholders, government officials, customers, and the public to assess banks’ activities and environmental impacts. A number of monitoring and reporting tools exist, including internal and external audits of risk management systems, externally verified sustainability reports, deal disclosures, and public forums. Section 6 describes banks’ approach to monitoring and reporting.

Key findings include:

- Bilateral/multilateral banks lead the sector in monitoring and reporting. Several have disclosure policies that establish a commitment to opening bank records and details to the public.
- Sustainability reports abound, but the quality and degree of transparency vary significantly.

**7. Engagement with Non-Governmental Organizations and Civil Society Organizations**

This section describes banks’ motivations for and approaches to partnering with NGOs and CSOs. Banks’ increasing attention to natural resources and environmental sustainability over the past decade is partly due to activism and public scrutiny by the nonprofit sector, specifically NGOs. Currently, banks are expanding the scope of their collaborative relationships with NGOs and CSOs to improve the reach of their socially and environmentally focused efforts. Section 7 describes banks’ motivations for and approaches to partnering with NGOs and CSOs.

**8. Bank Priorities Related to Natural Resources**

Research shows that banks share common priorities related to natural resources in their sector-specific priorities (e.g., forestry and agriculture) and issue priorities (e.g., climate change).

Key findings in this section include:

- Energy generation constitutes the greatest sector priority for all bank types, followed by forestry, metals and mining, and agriculture for commercial/state-owned banks, and agriculture, forestry, and metals and mining for investment banks. Bilateral/multilateral banks show strong engagement in the agriculture, forestry, fisheries, and transportation and infrastructure sectors.
- All banks share a focus on climate change.

**9. Leading Banks and Innovative Projects**

Section 9 identifies leading banks and innovative projects related to natural resources and ecosystems.

Key findings include:

- Leading banks are those that integrate natural resources and ecosystem consideration throughout their internal operations.
- Bilateral/multilateral banks frequently utilize best practices in these areas; they also have integrated environmental considerations more thoroughly into daily operations than commercial/state-owned and investment banks.

**Leading Banks Integrate Natural Resources and Ecosystem Considerations into All Four Internal Areas**

Leading banks have strong policies, effective management structures that ensure implementation and oversight of policies related to natural resources, robust consideration for natural resources in financing policies, and transparent monitoring and reporting. Bilateral/multilateral banks tend to be on the cutting edge and have adopted best practices in these four areas.
10. Challenges, Barriers, and Lessons Learned

Banks face many challenges and barriers that prevent them from paying more comprehensive and meaningful attention to natural resources; Section 10 identifies the lessons learned from their efforts to increase that attention. Challenges relate to internal factors, including banks’ lack of data, tools, and capacity, as well as their business concerns and corporate culture. Other challenges are related to factors external to the bank, such as the lack of established monetary values for ecosystems services, and the limited environmental regulation and liability found in some countries. While applicable to all bank types, these challenges are more pronounced for commercial/state-owned and investment banks that must make a financial profit. Figure 1 highlights the challenges commonly faced by banks, which are described in detail in the report.

In addition, our research identified the following lessons from banks that have attempted greater consideration for natural resources and ecosystems in their financing activities. A full discussion of these lessons can be found in the report.

Lesson 1: It is important to make the business case for greater consideration of natural resources and ecosystem services.

Lesson 2: Senior leadership buy-in and support for meaningful integration of natural resources and ecosystems is key.

Lessons 3: External pressures, such as NGO activism, are huge drivers causing banks to increase their attention to natural resources and ecosystems.

Lesson 4: Partnerships with NGOs can help banks and NGOs achieve goals.

Lesson 5: A need exists for efficient and simple tools that can assist banks in their consideration of natural resources and ecosystems.

Lesson 6: Legislation and policies play a significant role in compelling banks’ actions and creating changes.

Lesson 7: Banks want to learn from their peers regarding best practices and ways to overcome barriers.

Figure 1. Matrix of External and Internal Bank Challenges to the Considerations of Natural Resources and Ecosystems

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11. Opportunities and Levers to Facilitate Change
Section 11 describes the business opportunities for banks that increase their attention to natural resources. It also identifies a suite of levers that could incentivize banks to improve their consideration of natural resources. These levers are described in detail in the report.

Key findings in this section include:

- A number of business opportunities exist for banks, including reputational benefits, new products and services, increased market share, and new markets.
- Four primary levers can help to compel banks to increase their attention to natural resources and ecosystems: senior leadership, external scrutiny/demand, legal requirements, and new tools and practices.

Four Levers to Advance Banks’ Practices
- Foster senior leadership buy-in
- Leverage the power of consumer scrutiny/demand
- Create mandatory frameworks
- Support new tools and best practices
INTRODUCTION

BACKGROUND

Over the past decade, thought leaders and practitioners in the sustainability field have looked to ecosystem services—the benefits people obtain from ecosystems—as a means to support natural resource and environmental protection. Ecosystem services are typically categorized into four broad service areas: provisioning services, regulating services, cultural services, and supporting services. First articulated by the academic community, the concept helps communities, businesses, and decision makers understand the true values and benefits that ecosystems provide, and ensures that these values are integrated into resource management, policy, and business decisions. Over the past decade, the concept of ecosystem services has gained traction among non-governmental organizations (NGOs), intergovernmental organizations (IGOs), civil society organizations (CSOs), and governments, which incorporate the concept into discussions.

Although an increasing number of institutions are beginning to use ecosystem services as a means to identify and highlight the true value of nature’s services and to implement pilot projects related to ecosystem services, the extent to which agencies, organizations, and businesses incorporate ecosystem services in practice is nascent and often unclear. This ambiguity is especially true in the case of the banking sector. Few banks publicly disclose how consideration for ecosystem services affects their financing decisions. Yet banks indirectly exert a huge influence on ecosystem services worldwide through their financing activities. Most companies that banks underwrite and invest in have an impact on ecosystem services, whether through extraction of natural resources (such as forest products or fish) or through impacts on the function of ecosystem services (such as filling wetlands for a transportation project). In turn, the maintenance of ecosystem services in the long term bears significantly on the success of many companies that depend on a sustainable supply of natural resources.

PURPOSE

The goal of this report is to provide a meta-analysis of the banking sector’s approach to ecosystem services. Specifically, it assesses the extent to which banks identify, consider, and mitigate their financing activities’ impacts on natural resources and ecosystems; and, potentially, the extent to which they proactively finance projects that have positive impacts on natural resources and ecosystems. It also analyzes the extent to which banks consider the benefits that ecosystems provide and their importance for long-term investment success. The report focuses on banks’ financing activities as opposed to their internal operations (e.g., their use of energy or employees’ paper consumption) because their financing activities have the potential to exert a more significant impact on natural resources.

The project’s six objectives were to:

1. Identify existing bank actions related to natural resources;

ii. Provisioning services provide resources such as water, timber, and seafood; regulating services support ecological processes, such as weather and nutrient regulation; cultural services, such as recreation and natural beauty, promote humans’ emotional and spiritual well-being; and supporting services underpin ecological processes and functioning, such as nutrient cycling and photosynthesis. Millennium Ecosystem Assessment, 2005.

iii. The Gordon and Betty Moore Foundation funded a seminar series on ecosystem services and the extent to which practitioners are implementing this approach. The series looked at six case studies of ecosystem services implementation that demonstrated a range of effectiveness. More information about the series can be found at its website: www.moore.org/ecosystemservicesseminar.aspx.
2. Identify leading banks and their best practices, priorities, and programs; the approaches they employ; and key elements of their activities;

3. Identify existing and emerging trends across bank types;

4. Identify gaps in knowledge and other challenges and barriers and share practices that have, or could help banks to overcome barriers and challenges;

5. Identify lessons learned; and

6. Identify opportunities, incentives, and levers that could encourage more widespread and comprehensive consideration of natural resources and ecosystems.

METHODS
Blue Earth Consultants, which assisted Coastal Quest in implementing this report, employed the following methods as a part of its research and analysis.

Web-Based Research and Literature Review: Blue Earth Consultants conducted web-based research and a literature review of leading banks, trends, and challenges related to commercial/state-owned, investment, and bilateral/multilateral banks.

Semi-Structured Interviews: Based on information gained during its web-based research and literature review, Blue Earth Consultants identified individuals at institutions with whom it would be productive to conduct interviews. Blue Earth Consultants chose potential informants from: 1) a cross-section of banks by bank type, size, and geography; 2) banks that are integrating sustainability and/or ecosystem services into their activities; and/or 3) banks that play an important role in financing activities that involve forest products, clean water, carbon, and fisheries. Blue Earth Consultants conducted 41 semi-structured interviews with staff from 22 institutions, as well as 6 cross-cutting experts in the banking sector who could provide high-level perspectives on the bank types and their approaches to sustainability. Blue Earth Consultants asked informants questions related to the banks’ policies, management structures, financing activities, and monitoring/reporting procedures, as well high-level questions related to emerging trends, challenges, opportunities, gaps in knowledge, and lessons learned. Please see Appendix A for a list of the banks and number of informants interviewed for this report.

Bank Inventory: Based on information gained from web-based research and semi-structured interviews, Blue Earth Consultants generated a list of 61 commercial/state-owned, investment, and bilateral/multilateral banks to research in greater detail. The list comprised a broad cross-section of banks by: 1) bank type (commercial/state-owned, investment, and bilateral/multilateral), 2) size of assets, 3) geography (countries or regions in which the banks were based and operate), and 4) the approach used to incorporate sustainability into their activities. Given that we sought out banks that consider environmental sustainability to some degree in their financing activities, our trends may be slightly skewed toward more widespread consideration of natural resources and ecosystems in banks’ activities than actually exists. Blue Earth Consultants assessed key elements of these banks’ activities (including policies, management structures, financing activities, and monitoring and reporting); their engagement with eight industry sectors (agriculture, chemicals, energy generation, fisheries, forestry, infrastructure and transportation, metal and mining, and oil and gas); and their mitigation of impacts and consideration of three issues of importance (biodiversity, climate, and freshwater supplies), based on publicly accessible information. In examining industry sector engagement and issue priorities, we selected sectors.

iv. Please note that accessing clear and specific information about bank activities was a significant challenge for this project. It is difficult for the public to ascertain and verify details of banks’ activities through online data; even published bank reports remain high-level and are vague about the ways in which they consider or dismiss impacts on natural resources. Regulation and concerns about sharing proprietary information or trade secrets may prevent banks from sharing information deemed to be sensitive.

v. Please note that it was difficult to get bank staff to agree to interviews, especially investment bank staff. In some cases these discussions had to be cleared by the banks’ legal counsel, and/or we had to provide a full list of our questions in advance.
and issues based on existing literature and areas of interest to the Foundation. In addition to the information on the banks we assessed in detail, this bank inventory provides information on 40 banks for which we did not interview a representative. The inventory is Appendix B.

**Snapshot Selection and Write-Up:** Based on information from the semi-structured interviews, web-based research, and literature, Blue Earth Consultants selected 15 banks from which to obtain additional information. This was used to create “snapshots” of the banks emphasizing innovative examples of their implementation of ecosystem service approaches and activities, and/or noteworthy examples of their policies, management structures, financing activities, and monitoring and reporting.

**Additional Analysis and Write-Up:** Blue Earth Consultants analyzed and synthesized the data from its web-based research, literature review, and semi-structured interviews to write this report.

**REPORT OUTLINE**

This report is organized in the following parts.

*Section 2: Overview of Bank Types and Sustainability,* provides an overview of the banking sector, including bank types and activities, as well as background contextual information about banks’ approaches to environmental sustainability over the past two decades. It identifies key milestones in their approaches and factors motivating their increasing attention to natural resources and ecosystems.

Sections 3 through 6 examine trends in the four broad activities through which banks commit and/or implement commitments to natural resources and ecosystems. These include: 1) policies, including internal policies as well as participation in global standards and/or declarations (Section 3: Banks’ Consideration of Natural Resources and Ecosystems through Policies), 2) management structure (Section 4: Banks’ Consideration of Natural Resources and Ecosystems through Bank Management Structure), 3) financing activities (Section 5: Banks’ Consideration of Natural Resources and Ecosystems in Their Financing Activities), and 4) monitoring and reporting (Section 6: Banks’ Approach to Monitoring and Reporting). We describe why these activities are important and the trends within these activities, and identify how far each type of bank has progressed in each broad activity area.

Within these four report sections, the graphic in Figure 2 indicates how far along a continuum of limited, moderate, and leading practices each of the bank types is in terms of policies, management structures, financing activities, and monitoring.

**Figure 2. Sample Graphic of Leading, Moderate, and Limited Bank Practices**

Information for this graphic is based on research conducted on 61 banks across the following sectors: commercial/state-owned, investment, and bilateral/multilateral.

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vi. We identified these four activities based on a synthesis of the broad topic areas used in existing reports and published articles.
and reporting. To determine placement along this continuum, we incorporate information from the 61 researched banks and from informant interviews. Leading practices are those that, implemented by a few select banks, represent emerging and best practices. Moderate practices are those that have been adopted by a wide range of banks and therefore are not particularly innovative or comprehensive. Limited practices are baseline practices that have been implemented by the vast majority of banks and represent the first (though limited) step in addressing environment and natural resources issues in bank activities. In the graphic, a brief description of the types of activities that constitute the limited, moderate, and leading practices are described in bullet form. Finally, bulleted information in these graphics represents trends identified from the 61 banks researched and included in Appendix B.

Sections 7 through 11 identify cross-cutting themes in banks. Section 7: Engagement with Non-Governmental Organizations and Civil Society Organizations outlines banks’ collaborations with NGOs and CSOs. Section 8: Bank Priorities Related to Natural Resources identifies banks’ current priorities related to natural resources and ecosystems. Section 9: Leading Banks and Innovative Projects identifies leading commercial/state-owned, investment, and bilateral/multilateral banks, as well as innovative projects undertaken by each of these bank types. Section 10: Challenges, Barriers, and Lessons describes the challenges and barriers impeding banks’ consideration for natural resources and ecosystems, and the lessons learned from their efforts to increase that consideration. Section 11: Opportunities and Levers to Facilitate Change describes business opportunities that exist for banks that increase their consideration for natural resources and ecosystems, and outlines the strategies and levers through which external institutions could encourage them to do so.

Section 12 is a brief conclusion to the report, including a discussion of emerging trends.
In this section we provide an overview of the banking sectors, including bank types and activities. We also provide background contextual information about banks’ approaches to environmental sustainability over the past two decades and identify key milestones, as well as the factors motivating banks’ increasing attention to natural resources and ecosystems. Finally, we present high-level findings from the meta-analysis. It is important to note that the actions banks have taken in regards to consideration of natural resources are voluntary; almost none are required by legislation.

**Bank Types**

The banking sector as a whole manages a tremendous amount of capital. As of March 2012, the world’s 30 largest banks collectively managed over US $56 trillion in assets. By comparison, the entire world’s aggregated gross domestic product (GDP) for 2010 was $63.3 trillion.

For the purposes of this report, we divide the banking sector into three main categories: commercial/state-owned banks, investment banks, and bilateral/multilateral banks.

**Commercial/state-owned banks** are institutions whose primary functions are to accept deposits from clients and engage in lending activities by granting loans and advances. They also offer a number of client services, such as credit services, private banking, and cash management. Although state-owned banks are owned by governments, unlike privately owned commercial banks, we group them with commercial banks for the purpose of this report. Although we assumed that state-owned banks might be more advanced than commercial banks due to stronger mandates to support the public good, including consideration of natural resources and ecosystems, our research showed that both bank sectors generally performed the same functions, and informants described no difference in their approaches to sustainability and natural resources. Globally, over 40% of the world’s banks are state-owned, but the phenomenon is especially prevalent in Asia (Russia, China, and India), where between 60%–75% of all banks are state-owned.

**Investment banks**, the 10 largest of which collectively managed over US $16.4 trillion in assets in 2011, are banks whose primary functions are underwriting securities, securities trading, asset management, and mergers and acquisitions.

**Bilateral/multilateral banks** are banks that provide financial support and technical advice for economic and social development activities in specified countries. Bilateral banks are located in a specific country and provide aid and support for projects in developing countries or emerging markets; multilateral banks collect capital contributions from multiple donor countries. As an example of scale, the World Bank Group, one of the world’s leading multilateral banks, approved more than US $42 billion in financing in fiscal year 2011, US $6.1 billion of which went to projects specifically...
classified as focused on “environment and natural resource management.”

**BANKS’ EVOLVING APPROACHES TO ENVIRONMENTAL SUSTAINABILITY**

In this section we describe banks’ evolution in considering environmental sustainability as a part of their financing activities and, more recently, their attempts to integrate ecosystem services into those considerations. Environmental sustainability, let alone ecosystem services, is a relatively new focus for commercial/state-owned and investment banks, and only over the past two decades have many of them adopted policies and procedures to integrate environmental sustainability into their decision-making and financing activities.

Beyond the ethical rationale, four main business reasons motivate commercial/state-owned and investment banks to consider natural resources and ecosystems. First is a desire to manage environmental risk. Banks face a number of risks associated with the environment and natural resources, such as direct liability risks associated with environmental damage caused by companies they have financed (for example, if a collateralized property is contaminated and requires cleanup). They may also face indirect risks from unforeseen project costs, such as cash flow problems resulting from cleanup costs a company incurs as part of its operations. Finally, banks face reputational risks associated with their participation in environmentally degrading activities. These reputational risks often arise from increased public scrutiny and NGO activism and pressure.

Second, for banks based in developed countries, the need to comply with domestic regulation and directives has motivated the integration of sustainability initiatives. In the United States, a series of court cases, notably the Fleet Factors Case in 1990, clarified that banks can be held liable for environmental damage wrought by clients. More recently, the Securities and Exchange Commission issued its Guidance Regarding Disclosure Related to Climate Change, which, while not imposing any new requirements, emphasizes and clarifies climate change–related disclosure reporting requirements. Other countries and regions also have initiated rules that promote sustainability principles in banking. In 1998, Brazil launched its Green Protocol, which creates “social and environmental criteria for the process of analysis and concession of project finance, considering the magnitude of its impacts, risks, and the necessity of mitigatory and compensatory measures” for signatories. In the European Union, Directive 2004/35/EC includes a liability scheme to prevent environmental damage and to ensure compensation when natural habitats are damaged. Such regulation has underscored banks’ desire to assess environmental risk as a part of their risk management system.

Third, banks seek to protect against financial costs. Degradation of natural resources can increase banks’ costs and decrease their profits, whether by disruption of clients’ business activities, decreased yields due to loss of raw materials, natural disasters such as floods and extreme weather events (which will likely increase with climate change), or human-caused disasters. For instance, in 2010 BP investors saw the company’s share price drop 35% between the start of the Deepwater Horizon oil spill and its containment. This plunge was attributed to the massive costs and resulting multibillion-dollar decrease in company valuation stemming from cleanup costs, fines, and lawsuits incurred by BP.

Finally, banks may capitalize on business opportunities through greater consideration for natural resources and ecosystems. Researchers have found that banks may reap financial benefits from participating in green markets such as carbon credits. For example, Credit Suisse, seizing on this trend, launched a US $200 million carbon-backed forest financing facility. There are additional opportunities to capitalize on new financial products, including

Recently, the United States has started to move toward this model, as the long-standing separation of commercial and investment banks has become blurred. Following the Great Depression, Congress passed the Glass-Steagall Act to separate institutions that take deposits from those in capital markets. However, in 1999, after years of financial liberalization, the Clinton Administration signed the Gramm-Leach-Bliley Act (GLBA), which repealed key provisions of the Glass-Steagall Act and created universal banks that engage
access to new markets or niche markets for certified sustainable products and the chance to benefit from socially responsible investment funds. For instance, Lifestyles of Health and Sustainability (LOHAS) describes a rapidly growing market for personal health and energy, as well as alternative energy and modes of transport. In the United States, LOHAS currently represents a US $290 billion market. Banks can also capitalize on increasing customer desire for companies with green brands.

Figure 3 shows the level of importance of each of these motivations in compelling banks to incorporate sustainability into their operations. The graph compares findings from a published survey of banks' expressed motivations (dark blue) with findings from our research (green). One motivation is consistently ranked as key: reputational risk. Our research found that external pressures (NGO activism and legal compliance) are also important to banks' consideration of natural resources.

Figure 3. Bank Motivations to Address Biodiversity in their Operations

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<td>Reduce Credit Risk</td>
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<td>Environmental NGO Pressure</td>
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<td>Brand Differentiation</td>
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<td>Wish to Act Ecologically Responsible</td>
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<td>Improve Staff Morale</td>
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- Coastal Quest & Blue Earth Informants 2012
- Hardwiring Green Survey Results 2010*

As with commercial/state-owned and investment banks, bilateral/multilateral banks' attention to the negative environmental and social impacts of their work has evolved over the past 20 years. For these banks, which use public resources to fund public projects, increased attention to sustainability is a result of efforts to maintain their social license to operate, as well as their growing awareness of their impact on the environment and societies.

viii. The difference in our findings compared to those in the published study may be a result of differing research methods: our research relied on interviews and web-based research, as opposed to surveys completed by bank staff.
ECOSYSTEM SERVICES
Although the majority of commercial/state-owned, investment, and bilateral/multilateral banks have integrated the concept of environmental sustainability into their practices, specific consideration for ecosystem services is nascent. Very few commercial/state-owned and investment banks explicitly use the term ecosystem services; as one informant explained, concepts like ecosystem services, biodiversity, and natural capital are “generally alien” to them.24 Bilateral/multilateral banks, however, do use the term ecosystem services and are making advances in incorporating ecosystems services or environmental services into their decision-making. Although few banks use the term ecosystem services, many do consider elements of ecosystem services, such as climate, clean water, agriculture, and forests (for forest products).ix

As the report highlights below, the extent and ways in which banks are integrating consideration of ecosystem services into their financing activities is varied and remains limited. The information presented below was gleaned from the literature, web-based research, and informant interviews, and provides a broad analysis of banks’ approaches to incorporating natural resources and ecosystems considerations and mitigations into their practices, as few banks specifically employ the concepts or terminology “ecosystem services” or “natural capital.”

KEY MILESTONES
Over the past three decades, there have been several key milestones in the banking sector’s integration of sustainability considerations, which are presented in Figure 4. This information draws on existing literature and on information provided by informants. These milestones signaled and/or precipitated a shift in banks’ approaches to natural resources.

Figure 4. Key Milestones in the Banking Sector’s Integration of Sustainability and Ecosystem Services Considerations x

<table>
<thead>
<tr>
<th>Policies and Regulations</th>
<th>Initiatives and Bank Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011 SEC’s Guidance Regarding Disclosure Related to Climate Change</td>
<td>2012 WAVES Initiative; The Natural Capital Declaration</td>
</tr>
<tr>
<td>2004 EU’s Directive 35/EC</td>
<td>2007 Potsdam Initiative</td>
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<tr>
<td>2003 Equator Principles</td>
<td>2002 GRI</td>
</tr>
<tr>
<td>1999 Dow Jones Sustainability Group Indices</td>
<td>1998 IFC’s Safeguard Policies</td>
</tr>
<tr>
<td>1997 Bank of America becomes the first Fortune 500 bank to adopt the CERES Principles</td>
<td>1994 UNEP hosts first international roundtable discussion on commercial banks and the environment</td>
</tr>
<tr>
<td>1993 Convention on Biological Diversity, Article 14(2)</td>
<td>1992 UNEP’s Financial Institutions Initiative; The Statement by Banks on the Environment and Sustainable Development</td>
</tr>
<tr>
<td>1990 Fleet Factors Case</td>
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</tr>
</tbody>
</table>

ix. We draw this conclusion from interviews and reviews of existing literature; publicly accessible information for most banks describe their approaches to sustainability, but rarely describe their approach to ecosystem services, if one exists. Moreover, the banking sector shares limited information on its sustainability initiatives, projects, and policies, and few acknowledge or focus on ecosystem services.

x. Descriptions of the highlighted milestones can be found in Appendix D.
DIFFERENCES AMONG BANKS

It is important to remember that in spite of the broad trends presented throughout this report, there are significant differences among banks. As noted, inherent differences exist among commercial/state-owned, investment, and bilateral/multilateral banks based on their purpose, primary activities, sources of funds, and level of staff training. At the most basic level, the distinction is between banks whose purpose is to generate revenue (commercial/state-owned and investment banks) versus bilateral/multilateral banks that aim to advance development and alleviate poverty. The different mandate, purpose, and structure of bilateral/multilateral banks creates motivations and structures that have led to more robust considerations for natural resources and ecosystems.

Banks also vary in size, scope, countries of operation, engagement of senior leadership, corporate culture, and motivations for engagement in sustainability. The size of a bank may affect considerations for natural resources, as smaller banks may more easily integrate such considerations into their practices because of the smaller scale of their operations and their more limited financing activities. Furthermore, banks that operate primarily in developed countries as opposed to emerging countries must comply with different levels of environmental regulation and/or enforcement. In general, banks based in the United States and western Europe must comply with stricter environmental legislation, public scrutiny, and NGO activism (even for projects based in developing countries), factors that necessitate at least a modicum of attention to environmental and natural resource impacts. The role of environmental compliance and progressive sustainability measures may be less pronounced in emerging countries that lack strong regulation and/or enforcement mechanisms. Despite these variations, trends do exist within as well as across bank types. We describe these trends in more detail in the following sections.

xi. What we refer to in this report as a bank’s senior leadership are its senior representatives, including but not limited to its president, chief financial officer, senior managers, and board of directors.
BANKS’ CONSIDERATION OF NATURAL RESOURCES AND ECOSYSTEMS THROUGH POLICIES

WHY POLICIES ARE IMPORTANT
High-level bank policies, whether a mission statement, “aspirational” policy statement, or engagement policy, are a primary way in which banks demonstrate consideration for natural resources and ecosystems. As one informant explained, policies are “a very helpful starting point” for greater consideration for natural resources and ecosystems, and are usually the result of “soul-searching” on the part of senior leadership. Policies are important because they can guide banks’ actions, but also because they reflect at least a basic commitment to improving environmental stewardship and directing some attention to natural resources and ecosystems. As banks’ policies must be approved by senior leadership, they also indicate senior leadership backing for the bank’s environmental sustainability commitments.

Beyond high-level policies, industry sector-specific guidelines are an important way of integrating consideration for natural resources and ecosystems into banking activities, especially for sensitive sectors such as mining and oil/gas. HSBC, for instance, has sector-specific policies addressing the following industries: chemicals, defense equipment, energy, forest land and forest products, freshwater infrastructure, and mining and metals. Specifically, its Forest Land and Forest Products Sector Policy states that the bank “will not provide financial services which directly support: illegal logging; operations in Ramsar World heritage Sites; and operations in wetlands on the Ramsar List.” Beyond such internal policies, many banks also adopt voluntary standards or declarations, some of which outline specific procedures and hold banks accountable for certain activities. Figure 5 presents key findings for the relative standing of commercial/state-owned banks, investment banks, and bilateral/multilateral banks in terms of adopting leading, moderate, and limited policy practices.

POLICY TRENDS
High-Level Policies
A majority of the 33 commercial/state-owned banks and 13 investment banks researched have policies that incorporate sustainability considerations and protection of the environment and natural resources, but these are often high-level and the degree of implementation varies by bank. Some banks have comprehensive policies outlining specific procedures, while others have a single mission statement or presidential statement about natural resources. Roughly half of these policies center on environmental risk or risk reduction. Goldman Sachs has an Environmental Policy Framework and commits “to developing effective market-based solutions to address climate change, ecosystem degradation and other critical environmental issues, and to creating new business opportunities that benefit the environment.” Credit Suisse on the other hand, has a Statement on Sustainability that outlines high-level sustainability aims.


xiii. Leading practices are emerging and best practices implemented by a select few banks. Moderate practices are adopted by a wide range of banks and therefore are not particularly innovative or comprehensive. Limited practices are baseline practices implemented by the vast majority of banks and represent the first (limited) step in addressing the environment and natural resources in bank activities. The graphic provides a brief description of the types of activities that constitute the limited, moderate, and leading policy practices.
Best Practice: Policy Review and Update

A leading policy practice is a commitment to review and update policies. Because policies can become outdated, leading banks commit to updating them based on lessons learned and new knowledge gained. Triodos Bank has a Sustainability Research Department whose purpose is to keep the bank abreast of pertinent trends, legislation, and research regarding sustainability issues, to ensure policy relevance. The bank also has an advisory panel of international experts on various stakeholder issues that meets quarterly to advise on standards, methodology, and issues. Wells Fargo’s Environmentally and Socially Responsible Lending Statement states: “To ensure we address evolving best practices, we will conduct ongoing reviews and updates of approaches to environmental and social risk management statements, tools and procedures.” The Nordic Investment Bank attempts to quantify the effects of its financing, and publishes estimates of the reduction in various pollutants as a result of projects it has financed. Leading bilateral/multilateral banks engage external stakeholders in reviewing revisions to environmental guidelines and policies. JBIC states in its Guidelines for Confirmation of Environmental and Social Considerations that it will “conduct a comprehensive review of the Guidelines within five years of their enforcement” and will seek input from a variety of sources, including governments, companies, and NGOs, “while maintaining transparency in the process.” However, these efforts to update and monitor the impacts of policies seem to be the exception rather than the rule. Financial institutions primarily highlight their front-end screens rather than the impacts of their policies. For information on bank trends related to monitoring, see page 35.

Figure 5. Policy Practices—Leading, Moderate, and Limited

Information for this graphic is based on research conducted on 61 banks across the following sectors: commercial/state-owned, investment, and bilateral/multilateral.

- **Leading**
  - Environmental policy that explains how the environment is considered in bank governance and financing activities
  - Positive and negative screens employed
  - Detailed sector-specific guidelines and policies
  - Commitment to reviewing and updating policies
  - Stakeholder engagement

- **Moderate**
  - High-level policies or mission statement
  - Negative screens
  - Adherence to one or more voluntary standards
  - Sector-specific guidelines or policies described

- **Limited**
  - High-level policies or mission statement only, little evidence of implementation
Unlike commercial/state-owned and investment banks, which may only have high-level policies related to sustainability, most bilateral/multilateral banks have a full range of policies, safeguards, and environmental management systems (EMS) in place to ensure consideration of environmental and social impacts of their decision-making at multiple points while funding and developing projects. According to a United Nations report, the World Bank and regional development banks “all have integrated sustainable development at the core of their policies.” The European Bank for Reconstruction and Development, for instance, committed to advancing sustainable development in its founding agreement. The Inter-American Development Bank (IDB) mandate includes provisions for a number of environmental goals, including strengthening environmental institutions, increasing the quality of environmental operations IDB supports, and supporting the sustainable management of natural resources, including practices related to water resources, forestry, and marine resources, among others.

Sector-Specific Guidelines
Nearly half of commercial/state-owned and investment banks we researched have instituted sector-specific guidelines for industry sectors that rely heavily on natural resources and/or have a significant impact on natural resources directly or through their supply chain. Sector guidelines for energy, forestry, metals and mining, and agriculture sectors were most common among banks we researched. Leading banks have integrated sector-specific guidelines that outline assessment criteria and management oversight to ensure that projects and financing activities align with stated policy objectives and goals. However, as the nonprofit BankTrack has noted, these guidelines differ widely in robustness; some banks exposed to sector-specific risks have “no investment policy” while leaders have a “policy(s) that includes both the essential and additional elements in its lending and investment and its asset management activities.” Bilateral/multilateral banks also employ guidelines. The African Development Bank, for instance, employs checklists for a variety of issues, including gender and climate change, and water and sanitation, to inform its review processes.

Policies Related to Ecosystem Services
Very few commercial/state-owned and investment banks have policies that explicitly discuss ecosystem services, whereas many bilateral/multilateral banks are beginning to adopt policies that explicitly mention ecosystem and environmental services. Our findings are consistent with published surveys, one of which found that less than half of commercial/state-owned and investment banks have policies that specifically mention biodiversity and ecosystem services. Examples of those that do discuss ecosystem services explicitly include National Australia
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Bank, Caixa Economica Federal (Caixa), and Rabobank; in addition, many banks have signed on to the Natural Capital Declaration, described on page 23. Among bilateral/multilateral banks, the World Bank Group’s Environment Strategy 2012–2022 outlines actions related to ecosystem services that will support strategic direction, including support for the valuation of ecosystem services. In 2012, the International Finance Corporation (IFC) updated its sustainability performance standards, stating that it “recognizes the importance of ecosystem services and their role in climate change mitigation as well as adaptation.” As one informant explained, this explicit inclusion of ecosystem services in IFC policy makes the concept “very formal and [makes it] a legal concept.” This same informant stated, “It may be that the World Bank does the same thing in a couple of years.”

Voluntary Standards
In addition to internal policies, many banks have adopted external standards and declarations highlighting their commitment to improving environmental sustainability, whether through adoption of a risk management system (Equator Principles) or increased monitoring and reporting (the Global Reporting Initiative). In the text box below we describe several of these voluntary standards and declarations. Appendix B indicates whether the banks researched for this report have adopted these standards (among others). The increased number and prevalence of voluntary standards related to environmental sustainability (as well as to health and social responsibility) over the past few decades both reflect and contribute to banks’ growing engagement with sustainability. These standards vary from broad statements of commitment to specific frameworks for project evaluation, monitoring, and reporting. Research and interviews indicate that banks adopt voluntary frameworks for a range of reasons, including a desire to implement ways to assess and manage environmental and social risks, an effort to confront negative publicity for specific projects they finance, a desire to promote a more sustainable brand, and/or a desire to learn from other banks’ best practices.

POLICY HIGHLIGHTS
- Our research shows that bilateral/multilateral banks have the most robust policies in place regarding natural resources and, unlike commercial/state-owned banks and investment banks, explicitly mention ecosystem services in their environmental policies and strategies.
- Commercial/state-owned banks, and to a lesser extent investment banks, also have policies that commit them to actions related to environmental sustainability, but the rigor and extent of implementation of these policies varies significantly. Many policies are focused on risk management.
- A growing number of banks are showing awareness of the environmental risks inherent in doing business in specific sectors, and nearly half of commercial/state-owned and investment banks have sector-specific guidelines, though there is significant discrepancy in their comprehensiveness and implementation.
- In addition to developing internal policies, a growing number of banks are signing on to global principles and standards, the most common of which is the Equator Principles. A majority of commercial/state-owned and investment banks researched for this report have signed on to external standards and declarations.
Voluntary Standards/Declarations

The Equator Principles, launched in 2003, is a "credit risk management framework" that banks use to determine, assess, and manage environmental and social risk for project finance decisions with capital costs exceeding US $10 million. Signatories commit to not providing loans to “projects where the borrower will not or is unable to comply with their respective social and environmental policies and procedures.” To date, 77 banks have signed on to the Equator Principles. While the Equator Principles represent an important step in consideration of natural resources, they have limitations. First, they are based on the IFC’s performance standards, which according to informants often lack relevance to commercial and investment banks. Second, the Equator Principles apply only to project finance decisions and do not relate to other bank activities, such as credit offerings or equity investments. Finally, as a voluntary framework with no enforcement mechanism, the principles have been criticized for not being consistently implemented by signatories.45

The Natural Capital Declaration, officially launched at the Rio+20 Summit, is a formalized statement by members of the banking sector pledging greater consideration of natural capital impacts throughout decision-making processes and in designing financial instruments, with the long-term goal of minimizing negative impacts resulting from banking and finance activities. At the time of writing, the Declaration has 39 signatory financial institutions. Signatories can receive guidance from the United Nations Environment Programme Finance Initiative (UNEP FI) on how to implement the commitments, utilizing the UN’s technical, science, and policy expertise. While the Equator Principles are limited to project finance, the Natural Capital Declaration extends to loans, investments, and insurance. However, some prominent environmental groups, such as the Rainforest Action Network and BankTrack, are concerned that this declaration will only serve to monetize invaluable resources that should be off limits to any business activities, such as logging, mining, or development.46

The Global Reporting Initiative (GRI) is a standardized framework for companies to self-report on business practices related to a series of social, environmental, and economic indicators. A non-profit organization founded in 1997, GRI aims to have its reporting methodology become as ubiquitous among corporate entities as is current financial reporting. GRI reporting has experienced consistent growth since its inception, with close to 2,000 companies filing official reports in 2010 and countless more using the GRI framework for reporting their activities. While the GRI template asks about a range of ecological factors, reporting on all indicators is not required, allowing the reporting organization to determine which components are most material to its own practices. Accordingly, the existence of a GRI report does not inherently mean that a company is acutely analyzing its effects on biodiversity or other ecological factors. Additionally, there are no specific action guidelines or performance standards to which reporting companies must adhere; it is simply a report on the actions that have been taken.47
BANKS’ CONSIDERATION OF NATURAL RESOURCES AND ECOSYSTEMS THROUGH BANK MANAGEMENT STRUCTURE

WHY MANAGEMENT STRUCTURES ARE IMPORTANT
Without meaningful implementation, policies can constitute mere “public relations puff,” as one informant noted. A bank’s management structure—its internal divisions and organization, its systems for training staff and making decisions, and its corporate culture—helps to determine the degree to which policies are implemented and to which natural resources and ecosystems are considered as a part of financing decisions.

Our research indicates that management structures are important because they ensure that a bank’s environmental policies and guidelines are implemented and that both hard mechanisms (e.g., criteria for lending decisions) and soft mechanisms (e.g., incentives for lending to sustainable companies and projects) exist to ensure that natural resources and ecosystems are considered. Informants expressed widespread agreement that policies are just a starting point; an integrated approach to financing, management, and monitoring is needed for success. A majority of informants indicated that the most effective way to ensure effective implementation of

Mission-Driven Banks

A noteworthy development in the banking sector is the emergence and success of a small but growing number of mission-driven banks—commercial banks formed with the goal of encouraging social and economic sustainability through their practices. The Global Alliance for Banking on Values (GABV) is a member organization currently comprising 19 banks, based on five continents, all of which pledge commitment “to social banking and the triple bottom line of people, planet and profit.”

These banks lend to green businesses, provide technical support and education to business and nonprofit customers to help them improve sustainability practices, and in some cases develop innovative new financing models to support loans for solar or other green investments. Northern California’s New Resources Bank, for example, employs a sustainability assessment tool with loan customers that establishes baseline performance and helps the bank assist customers in improving their practices.

Although mission-oriented banks may have sustainability directives in place, quantifiable metrics on which to base decisions are often lacking. Currently, banks are largely on their own when establishing such criteria. Developing sound metrics was cited by informants as a key challenge going forward, as it is difficult to do and there is no legal requirement to do so. Though small compared to other banking sector competitors, GABV members as a group outperformed most major financial institutions through the recent economic downturn, as judged by return on assets (ROA), and have experienced steady growth in the years since.
bank policies is through an integrated approach—one that incorporates policies into financing activity decisions, provides clear governance and management oversight, and conducts regular monitoring and evaluation of policy implementation and environmental impacts.

Figure 6 shares key findings for leading, moderate, and limited management structure practices of commercial/state-owned banks, investment banks, and bilateral/multilateral banks.  

**MANAGEMENT STRUCTURE TRENDS**

Our research shows the following trends regarding sustainability and banks’ management structures.

**Senior Leadership**

Senior leadership buy-in is key to integrating natural resource and ecosystem considerations into bank practices, but varies among banks. Informants from all bank sectors resoundingly agree that senior leadership buy-in for environmental sustainability, and natural resources issues is a critical step for ensuring their integration throughout the bank. Senior leadership can encourage and enforce strong implementation of sustainability policies; conversely, the lack of

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**Figure 6. Management Structure Practices—Leading, Moderate, and Limited**

Information for this graphic is based on research conducted on 61 banks across the following sectors: commercial/state-owned, investment, and bilateral/multilateral.

<table>
<thead>
<tr>
<th>Limited</th>
<th>Moderate</th>
<th>Leading</th>
</tr>
</thead>
<tbody>
<tr>
<td>› Lack clear oversight and governance structure.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>› Lack designated staff for financing decision-making oversight.</td>
<td></td>
<td></td>
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<tr>
<td>› Lack sustainability and/or CSR team.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>› Lack strong oversight and governance structure for ensuring compliance with stated environmental goals.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>› Sustainability team or CSR team may be present but lack significant integration into financing decision making and oversight (or may have limited influence over decision-making).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>› Strong senior leadership buy-in and support for sustainability and natural resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>› Explicit governance and oversight structure in place to ensure compliance with environmental policy or goals.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>› Sustainability team or designated staff review integrated into financing decision making</td>
<td></td>
<td></td>
</tr>
<tr>
<td>› Staff training and engagement on environmental issues.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>› Stakeholder and client engagement.</td>
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</tbody>
</table>

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xvi. Leading practices are emerging and best practices implemented by a select few banks. Moderate practices are adopted by a wide range of banks and therefore are not particularly innovative or comprehensive. Limited practices are baseline practices implemented by the vast majority of banks and represent the first (limited) step in addressing the environment and natural resources in bank activities. The graphic provides a brief description of the types of activities that constitute the limited, moderate, and leading practices in regards to management structure practices.
strong senior leadership engagement may lead to halfhearted implementation. As informants explained, consideration for natural resources and ecosystems “depends on the leadership of the bank; if the leadership of the bank cares about such things then [it] will get filtered down through the organization,” and “[it is a] recipe for success to have senior management that thinks that [the bank] needs to change.”

Designated Sustainability Staff/Teams
A majority of the commercial/state-owned and investment banks we researched have designated staff, sustainability teams, or corporate social responsibility (CSR) teams that assess compliance with stated policies and objectives and review bank sustainability and/or corporate responsibility measures. However, the power and influence of these staff members within the bank varies. Our research shows that a leading practice among banks is to integrate the oversight of the staff, sustainability team, or CSR team directly into their financing divisions and financing review and decision processes, which informants believe ensures greater implementation of principles.

One leading bank, for instance, is assigning senior staff who are knowledgeable and have influence as CSR officers to ensure that CSR principles are integrated throughout the bank. Another leading bank has an integrated environmental and financial risk assessment process because it makes the most business sense for its agricultural loan portfolio. This bank found that the loans it makes using this process are more successful over the long term. Furthermore, its loan officers want to integrate the environmental and financial assessments because their bonus and incentive structure is based on the life of the loan.

The question of integration is compounded by the global scale of banks; while some banks have only one CSR and/or environmental and social risk assessment (ESRA) team (or other equivalent type of team) at bank headquarters, more progressive banks have CSR and/or ESRA teams for specific countries, or send the CSR and/or ESRA teams to regional offices to help adapt policy implementation to individual geographic contexts.

Staff Training
A leading practice among commercial/state-owned and investment banks is to educate staff and build a strong company culture around sustainability and environmental management. Although many banks have sustainability teams, some banks train a wide array of staff, including junior analysts and bankers, in the importance of sustainability and natural resources, to ensure the principles are integrated into lending decisions and become part of the bank’s culture. As one informant explained, “Bankers can be a dangerous species and one that is not going extinct. It is important to educate and train staff about the importance of environmental and social factors and risks.”

Our research shows that staff training can take many forms, including informal “brown-bag” meetings and ongoing updates or newsletters that share insights and outcomes of implementing environmental and sustainability considerations in practice. The New Resources Bank, for instance, holds numerous meetings to discuss and determine ratings for the
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bank’s sustainability assessment, a process that helps educate staff. The National Australia Bank requires compliance training on incorporating environmental social governance (ESG) risk awareness for all its Australian employees. Several informants noted that their bank found one-on-one, “relationship-based” training more effective than traditional lectures. Informants also agreed that it is important to allow staff to reject projects. As one informant explained, “[the bank] has to give employees the ability to turn down a deal—that is important—because otherwise if the bank has a policy and the pressure to do the deal, there is conflict.” Another informant stated that strong mandates help ensure that “social and environmental [considerations] are in our DNA.”

MANAGEMENT STRUCTURE HIGHLIGHTS

- Bilateral/multilateral banks are most advanced in creating management structures that support the consideration of natural resources. Not only do they staff an array of technical environmental experts who provide assistance to projects, but several have ensured that senior leaders are assigned responsibilities related to sustainability.
- For all banks, buy-in from senior leadership is an important component of robust consideration of natural resources and ecosystems, and can help to combat traditional incentive structures and a corporate culture that may not be conducive to considering natural resources.
- Leading practices include integrating sustainability teams/experts into the overall bank structure, ensuring that environmental issues are a central part of all financing decisions, and robust and ongoing staff training.

Best Practice: Trained Technical Experts

A leading practice that is most commonly used by bilateral and multilateral banks is to assign technical and issue-specific experts to assist with projects and financial decisions throughout project and financing development. KfW, for instance, solicits input from sector-specific experts prior to financing projects that may have sensitive impacts. Leading banks also ensure that technical experts are integrated into the bank’s decision-making framework in a way that allows them to affect decisions.
WHY FINANCING ACTIVITIES ARE IMPORTANT
Although banks exert impacts on ecosystem services through their internal operations (e.g., the use of energy, water, and paper in their buildings), they exert more significant impacts indirectly, through their financing activities.56 A bank’s decision to direct funds to finance a project such as construction of a hydrologic dam or a road through an old-growth forest can have extensive ramifications for ecosystem services and environmental degradation. In addition, banks’ engagement in particular industry sectors, such as agriculture, forestry, and oil and gas, have the potential for extensive ecosystem service and environmental impacts. Figure 7 presents key findings for leading, moderate, and limited financing activity practices of commercial/state-owned banks, investment banks, and bilateral/multilateral banks.

FINANCING ACTIVITY TRENDS
Our research found the following trends related to banks’ consideration of natural resources and ecosystems in their financing activities.

Financing Activity Type
Banks’ approaches to and ability to consider impacts on natural resources and ecosystems vary by type of financing activity. Project finance (financing for large infrastructure and industrial projects) is the most common activity in which natural resources and ecosystems are considered,57 and is undertaken primarily by commercial/state-owned banks and development banks.58 Because project finance deals are large and often involve development banks, which impose environmental and social safeguards on projects (and to which the Equator Principles apply for banks that are signatories), it is easier to see where money is directed for these projects than for other commercial/state-owned bank activities, such as corporate loans.59

Banks tend to consider natural resources and ecosystems less in making investments, because it is harder for them to track where money goes and difficult to be prescriptive with clients about how to act.59 According to informants, investment banks tend to look at their impacts on natural resources and ecosystems at three levels: at the client level, the asset level, and the portfolio level. At the client/deal level, banks primarily focus on risk assessment as a means to consider environmental impact; investment banks (as with commercial/state-owned banks) rely on environmental and social risk assessment (ESRA) tools and sector-specific guidelines (see below for more details). At the asset level, many investment banks have sector-specific criteria and/or criteria for investments in sensitive areas. Informants note that

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xvii. Leading practices are emerging and best practices implemented by a select few banks. Moderate practices are adopted by a wide range of banks and therefore are not particularly innovative or comprehensive. Limited practices are baseline practices implemented by the vast majority of banks and represent the first (limited) step in addressing the environment and natural resources in bank activities. The graphic provides a brief description of the types of activities that constitute the limited, moderate, and leading practices in regards to financing activities.

xviii. Our research is consistent with a published survey that found that banks account for biodiversity and ecosystem services the most in project finance (over 50%) compared with export credit (roughly 30%) and corporate lending (45%). UNEP FI Biodiversity & Ecosystem Services Work Stream. 2010. Demystifying Materiality: Hardwiring Biodiversity and Ecosystem Services into Finance. Web. 2 July 2012. http://www.unepfi.org/fileadmin/documents/CEO_DemystifyingMateriality.pdf.
the portfolio level is the hardest in which to consider natural resources and ecosystems.

Figure 8 highlights findings from published studies that show that commercial/state-owned banks primarily consider biodiversity and ecosystem services in project finance deals and that asset owners/managers tend to approach biodiversity and ecosystem services by working with companies in their portfolios.

**Risk Management**
Our research indicates that the primary way in which all bank types consider the environment and natural resources in their financing activities is in the risk assessment phase. For commercial/state-owned and investment banks, traditional risk assessment, including evaluation of a client’s potential to default on a loan, is a long-standing part of bank operations. Over the past 15 years, banks have started to formally integrate environmental risks (as well as social and health risks) into their risk management process. Banks have realized that a host of environmental risks, including degradation of ecosystems (deforestation, pollution, habitat destruction), natural hazards resulting from climate change and environmental degradation, and supply chain instability can have significant financial consequences.

Researchers and informants identified the following key types of risk that affect banks. While elements of these types of risk affect bilateral/multilateral banks,

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**Figure 7. Financing Activity Practices—Leading, Moderate, and Limited**
Information for this graphic is based on research conducted on 61 banks across the following sectors: commercial/state-owned, investment, and bilateral/multilateral.

<table>
<thead>
<tr>
<th>Limited</th>
<th>Moderate</th>
<th>Leading</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Lack risk management structure that accounts for environmental impacts</td>
<td>- Risk-management system applied to at least some investments</td>
<td>- Risk-management tool or process applied to all financing activities</td>
</tr>
<tr>
<td>- Limited/no sector-specific considerations</td>
<td>- Limited review of and updates to environmental management system</td>
<td>- Regular review and update of environmental management system</td>
</tr>
<tr>
<td></td>
<td>- Some sector-specific guidelines</td>
<td>- Sector-specific guidelines applied for sensitive sectors in which bank works</td>
</tr>
<tr>
<td></td>
<td>- Negative screens applied</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Voluntary sources of company data</td>
<td>- Positive and negative screens applied to client finance requests</td>
</tr>
<tr>
<td></td>
<td>- Willingness to engage clients to encourage compliance</td>
<td>- Has robust data on companies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Engage clients to encourage compliance; willingness to exit financing for ongoing client non-compliance</td>
</tr>
</tbody>
</table>

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they are most relevant to commercial/state-owned and investment banks.\(^{xx}\)

**Reputational and Brand:** Involvement in controversial project financing or with clients who cause significant harm to societies and the environmental can injure a bank’s reputation and brand. NGO activism has played an important role in bringing banks under scrutiny for their financing activities. One informant indicated that the bank’s incorporation of new environmental standards was directly influenced by reputational risk: “We were under attack for mining projects in Papua New Guinea, and other projects, too; Friends of the Earth attacked us so much and gave a lot of publicity to the impacts, so in early 2000s, talked to our head of risk [and decided to] engage Friends of the Earth.”\(^61\) Another informant explained their bank’s involvement with the Equator Principles in the following way: “[We] did it out of self-defense, not out of love for any principles as such. What happened is that the bank was under attack by environmental groups.”\(^{62}\)

**Liability:** These risks include direct risks related to banks’ liability for damage to the environment through litigation and/or regulation.

**Regulations:** Domestic regulations, as well as international directives, affect banks directly if they require banks to take certain actions related to natural resources (such as screening and reporting on natural resources use and impacts). They can also affect banks indirectly by imposing stricter regulations on companies that the bank finances and/or by restricting access to resource areas.

**Operational and Financial:** Environmental risks can lead to a loss of return through 1) increased credit risk, 2) increased insurance premiums, 3) disruption of business activities, and 4) decreased yields and/or uncertain stability of raw materials; the fourth factor can also include increased credit risk or loss of shareholder value based on destructive activities.\(^{63}\) Both informants and literature mentioned loss of shareholder value and credit risk associated with the BP oil spill in the Gulf of Mexico, including the reduction in share price by 35% between the start and containment of the spill.\(^64\) One informant stated, “It was logical to include sustainability because if we do not assess sustainability risk then we lose money — commercial reason.”\(^65\)

**Social License to Operate:** For all banks, but particularly bilateral/multilateral banks, given their mandates and goals, mitigating environmental risks.

\( ^{xx} \) The environmental risks banks face vary by several factors. First, the financial activity engaged in by the bank has different risks. Project finance, for instance, carries different risk attributes and potential to mitigate risk than do corporate loans. Second, risks vary significantly by industry sector. Industries associated with higher risks are those that depend heavily on natural resources (e.g., forestry) and/or ecosystem services (water); those that have significant impacts on natural resources and/or ecosystem services (e.g., forestry, oil and gas, and mining); and those that have an impact on natural resources/ecosystems through their supply chains. Third is the country in which a company operates; its regulations, government capacity and effectiveness, and social context will affect environmental risk. Finally, the visibility of a company’s activities may affect banks’ reputational risks. UNEP FI Biodiversity & Ecosystem Services Work Stream. Biodiversity and Ecosystem Services: Bloom or Bust? Rep. UNEP Finance Initiative, Mar. 2008. Web. 2 July 2012. http://www.unepfi.org/fileadmin/documents/bloom_or_bust_report.pdf.; Mulder, Ivo, and Thomas Koellner. “Hardwiring Green: How Banks Account for Biodiversity Risks and Opportunities.” Journal of Sustainable Finance & Investment. Web. 2 July 2012. http://www.tandfonline.com/doi/abs/10.1080/20430795.2011.582323.; Mulder, Ivo. Biodiversity, the Next Challenge for Financial Institutions? A Scoping Study to Assess Exposure of Financial Institutions to Biodiversity Business Risks and Identifying Options for Business Opportunities. Rep. Gland, Switzerland: IUCN, 2007. Print.
and impacts is an important component of maintaining their social license to operate. Given that they use public funds to support projects on behalf of the public good, it is important that bilateral/multilateral banks limit the harm their projects do. This awareness among these banks’ senior leadership has resulted in robust policies and safeguards to identify and mitigate impacts on natural resources and ecosystems.

The risks identified above pose real concern for banks and the clients they serve. Commercial/state-owned and investment bank informants stated that reputational and liability risk (including credit risks), followed by regulatory risk, were of highest concern and motivated them to change their behavior toward incorporating environmental and natural resource concerns.\textsuperscript{xii} Research shows that to assess, avoid, and mitigate environmental risks associated with financing, many banks integrate environmental risks into their credit risk-management procedures.\textsuperscript{xxi}

One informant stated that “reputational, financial, and regulatory risks all matter,” and described the extensive ways in which the bank tries to mitigate and remediate liability risk.\textsuperscript{66}

Figure 9 shows direct and indirect impacts and risks that banks and their clients (whether a company in the case of commercial/state-owned and investment banks or countries in the case of bilateral/multilateral banks) face in relation to the ecosystem. This figure focuses on banks’ financing activities as opposed to their internal operations (e.g., their use of energy or employees’ paper consumption). In Figure 9, the dashed lines represent indirect impacts (blue) or risks (gold), while the solid lines represent direct impacts or risks. Banks have a direct impact on their clients by offering them access to credit and equity. In doing so, the banks assume direct risk associated with any client defaults; banks indirectly assume risk associated with their clients’ direct impacts on the ecosystem. Clients are exposed to risks associated with their resource use (and long-term availability of these resources) which could negatively impact their social license to operate.

Our research found three specific trends related to banks’ approaches to risk management.

\textbf{Trend 1—Environmental Risk-Management Systems:} A strong majority of the commercial/state-owned banks and a majority of the investment banks we researched had some type of environmental risk-management system, but the extent to which banks assess environmental risk varies significantly. Many banks’ risk-assessment tool relies on the framework established by the Equator Principles (see page 23). Some banks apply an environmental risk-assessment tool only to projects and loans of a certain size or involving a specific sector (e.g., forestry, chemicals, oil and gas), and deals may or may not be rejected by offering them access to credit and equity. In doing so, the banks assume direct risk associated with any client defaults; banks indirectly assume risk associated with their clients’ direct impacts on the ecosystem. Clients are exposed to risks associated with their resource use (and long-term availability of these resources) which could negatively impact their social license to operate.

\textbf{Best Practice: Management Oversight of Risk Management 67}

A leading practice among banks is to adopt an integrated system for project review that combines risk assessment with a management oversight structure. Deals may be rejected based on the findings.
One informant stressed the importance of a strong risk-management system that empowers and supports its staff in making good choices regarding deals, saying: “[The ESRA team has] the ability to say no to deals” and “can elevate issues pretty easily. [It plays an] advisory and financial role. [It] also looks at all investments. If we take on new deals with environmental impacts, it has to come through us.”

Figure 9. Bank and Client Cycle of Direct and Indirect Impacts and Risks


xxiii. Our research is consistent with published surveys. A survey published in 2010 found that more than a quarter of bank respondents “officially factored biodiversity and ecosystem services into their environmental management.” UNEP FI Biodiversity & Ecosystem Services Work Stream.

Trend 2—Company Data: The data on which banks rely to conduct their risk assessments differ in quality. Informants indicated that banks make financing decisions based on a number of data sources, including client-completed questionnaires, past credit scores, and internal credit profiles, while many leading banks rely on third-party sources (such as PricewaterhouseCoopers LLP’s [PwC] third-party assessments) or require legally binding information from company boards to verify information. Some informants explained that they also rely on guidance documents or their long-standing relationships with clients and sectors to assess risks; for example, one informant stated that if “we have a 50-year long relationship [with a company], we understand their strategy, know their management commitment, and environmental health and safety statistics.”

Trend 3—Company Engagement: Banks may reject transactions if clients’ high-risk activities continue or if clients do not comply with the bank’s requirements. One informant stated: “If there is a negative social and environmental impact, we look at the clients’ action plan to get them into compliance. [In addition, we conduct] an annual review of our clients to make sure they remain in compliance. We will exit [the relationship] if they are not in compliance; we also require in-line documentation and will provide an independent assessor.” However, numerous informants believe that it is better to work with companies and improve their environmental performance than to reject financing activities altogether. As one informant explained, the client will otherwise simply find money somewhere else. Additionally, a number of banks choose to work with clients who are not in compliance or may not pass screens on the assumption that they will become compliant in the future (see client engagement, below).

Environmental Safeguards
A strong majority of bilateral/multilateral banks have policies containing safeguards that serve as guidelines for considering the environmental and social impacts of their programs and projects. These safeguards outline a screening process for proposed projects based on various themes and policies (e.g., forestry, indigenous people, and natural habitats). The World Bank, for instance, has 10 environmental, social, and legal safeguards (consisting of operational policies), that focus on areas such as natural habitats, forests, and indigenous peoples and are applied to all projects activities to ensure that they “are economically, financially, socially, and environmentally sound.” These safeguards establish strict guidelines for projects supported by the World Bank. The borrower is responsible for conducting the environmental assessment. In its Global Capital Increase (GCI) 9, IDB sets a target of devoting 25% of the bank’s total lending to a growing portfolio on climate change, environmental sustainability, and renewable energy. One informant explained that staff generally adhere closely to safeguards because if they do not, their careers are negatively affected.

Screens
Many commercial/state-owned and investment banks use negative screens or “blacklists” that prevent them from investing in companies or sectors that engage in certain activities. For example, some common negative screens list companies or projects that engage in forced labor or weapons creation, or that have negative impacts on Ramsar-listed sites or UNESCO...
World Heritage sites. One informant stated: “We use a combination of negative criteria to avoid harm.” ING Group incorporates both negative screens for certain sectors (the defense industry, for example) and lists of restricted companies.77

Client Engagement
Many banks will work with clients to improve their environmental performance. One informant explained that his bank works with clients that have low environmental performance. As part of this effort the client and bank develop time-bound plans of action and incorporate funding into the loan for addressing the outlined actions. In addition, this informant stated that if a client returns in the future, they review the client’s progress towards improving their environmental performance and implementation of outlined actions.78 Though some banks declare that they hold clients accountable to the agreements, some informants stated that in actuality, the pressure to complete investments can make it difficult to walk away, especially as it might “hurt the client” and affect relationships with long-standing clients.

Bilateral/multilateral banks engage with countries by providing an array of technical advisory services, including working with national development banks and private banks to help them implement environmental risk-management systems. Many banks work with countries to encourage domestic policies that promote consideration of ecosystems services, but informants note that banks currently are “less prescriptive” in working with countries on these policies than they used to be. FMO, the Dutch development bank, has developed two environmental and social toolkits that help country clients improve their environmental and social risk management: the E&S Risk Management Tool for Private Equity Investment and the Microfinance Institutions and Small and Medium Enterprises Sustainability Guidance E-Learning Tool.80

Explicit Consideration for Ecosystem Services in Financing Activities
Very few commercial/state-owned, investment, or bilateral/multilateral banks explicitly consider ecosystem services in their financing activities, although some commercial/state-owned or investment banks may consider particular elements of ecosystem services, such as biodiversity or water. Several informants explained that the cross-cutting nature of ecosystem services as a whole makes it difficult to assess; it is easier to approach elements of ecosystem services. As one informant stated: “We have not yet found a large enough opportunity to have a business platform related to financing ecosystem services.”81

FINANCING ACTIVITIES HIGHLIGHTS
• Our research, which confirms findings from previous studies, shows that natural resources and ecosystems are considered most commonly in project finance, activities in which commercial/state-owned and bilateral/multilateral banks are primarily engaged. As noted, consideration of natural resources is less common in corporate loans and equity investments.
• While risk assessment is the primary method through which all banks assess environmental impacts, the rigor and implementation of these assessments vary. Bilateral/multilateral banks have the most robust systems, most of which rely on rigorous environmental safeguards. Moreover, bilateral/multilateral banks, in contrast to most commercial/state-owned and investment banks, have incentives for staff to adhere to the safeguards, as their careers may be adversely affected by ignoring them.
• Commercial/state-owned banks and investment banks employ negative screens for deals, while only a handful use positive screens.
• Very few commercial/state-owned, investment, or bilateral/multilateral banks explicitly consider ecosystem services in their financing activities, though they do consider specific elements, such as forestry, fisheries, and energy.
BANKS’ APPROACH TO MONITORING AND REPORTING

WHY MONITORING AND REPORTING ARE IMPORTANT
Below we describe banks’ approach to monitoring and reporting their activities related to environmental sustainability. Transparent monitoring and reporting on environmental performance goals provides a means for banks, as well as for stakeholders, government officials, customers, and the public, to review, verify, and critique banks’ activities related to environmental and natural resources impacts. Monitoring and reporting entities such as BankTrack identify a number of important monitoring tools, including internal and external audits of risk-management systems, and engagement with stakeholders to set and periodically evaluate the bank’s efforts to integrate environmental considerations into its operations.

Monitoring and reporting on results in a transparent manner are key to bank accountability. Reporting may include externally verified sustainability reports or statements (for example, for its sustainability report, HSBC relies on independent assurance from PwC, and Vancity relies on independent assurance from Ernst & Young), disclosure of bank deals, internal or external audits of a risk-management system, engagement with stakeholders regarding the results of the audits, and forums to ensure that civil organizations can assess and discuss the bank’s financing activities. Reporting could also include a system for receiving and responding to complaints about specific deals.

Informants stated that external monitoring and reporting play a key role. One informant stated that banks “publicly make their actions sound much better than they actually are,” while another said that banks “lie about [activities] because Standard & Poor’s will rate them on their credit-worthiness” based on these activities. External monitoring and reporting can help outsiders determine what is accurate and what is not. Figure 10 shares key findings for leading, moderate, and limited monitoring and reporting practices of commercial/state-owned banks, investment banks, and bilateral/multilateral banks.

MONITORING AND REPORTING TRENDS
Our research found the following trends related to monitoring and reporting by commercial/state-owned banks.

Reporting
A majority of the commercial/state-owned banks we researched produce sustainability or environmental reports, or at least annual reports, that highlight their general activities related to environmental

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xxiv. BankTrack highlights the importance of institutional transparency, which refers to publications that identify banks’ goals and steps toward achieving those goals. An externally verified annual sustainable report, as well as publication of sector and issue policies, reflects high institutional transparency. It also highlights the importance of deal transparency, which BankTrack describes as the “most convincing proof of a bank’s commitment to transparency.” This includes disclosure of all bank deals, including corporate loans, project finance, investment banking services, asset management, and other types. Deal transparency would include basic details regarding deals in which the bank is involved, as well as deals that are pending or have been rejected.

xxv. Leading practices are emerging and best practices implemented by a select few banks. Moderate practices are adopted by a wide range of banks and therefore are not particularly innovative or comprehensive. Limited practices are baseline practices implemented by the vast majority of banks and represent the first (limited) step in addressing the environment and natural resources in bank activities. The graphic provides a brief description of the types of activities that constitute the limited, moderate, and leading practices in regards to monitoring and reporting.
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sustainability as well as the environmental performance of their internal operations (including greenhouse gas [GHG] emissions, energy use, and paper consumption). In addition, signatories to the Equator Principles often report on the number of their loans by category (A, B, and C), by region, and by industry sector. However, none of the banks we researched conducted monitoring and reporting explicitly for ecosystem services.

Likewise, a strong majority of bilateral/multilateral banks produce annual reports that share environmental information, and a number of banks produce sustainability reports. In 2012, for instance, the IFC adopted a new Access to Information Policy that has clear guidelines and expressly states what, when, and how environmental and social information will be shared. The European Bank for Reconstruction and Development’s (EBRD) 2011 Sustainability Report not only tracks sustainable projects but also provides information on specific investments in areas like renewable energy, outlines the bank’s compliance with and implementation of its EMS and policies, and provides case studies. Those banks that do not provide a sustainability report, such as the African Development Bank and the Japan Bank for International Cooperation (JBIC), produce annual reports with information on bank approvals by sector, including the environment and agriculture. In addition, a few bilateral/multilateral banks have adopted disclosure policies that allow the public to access information from bank records, and several have created forums for discussions with clients, other financing institutions, and the general public about their activities and impacts.

Best Practice: Third-Party Verification

A leading practice among commercial/state-owned and investment banks is to monitor and report on their progress toward sustainability goals, with third-party verification of their activities. Such reports often include measures of the social, financial, and environmental parts of a business. A prime example of this type of verification is PwC’s assurance of HSBC’s Sustainability Report, mentioned above. Another example is Vancity’s externally verified Accountability Reports, produced every two years. Additional information can be found on page 35.

Best Practice: Stakeholder Feedback

A leading practice among commercial/state-owned and investment banks is to solicit feedback from stakeholders on reports and approaches. As one informant noted, “diversity encourages sustainability.” By providing opportunities for stakeholder feedback, banks can improve the quality of their reports and offer a venue for constructive feedback. In its Corporate Social Responsibility 2011 report, Rabobank mentions its engagement with stakeholders regarding sector initiatives, sustainability issue identification, and building responsible business practices.

xxvi. “Category A: Projects with potentially significant adverse social or environmental impacts that are diverse, irreversible or unprecedented; Category B: Projects with potentially limited adverse social and environmental impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures; Category C: Projects with minimal or no social or environmental impacts.” HSBC. 2011. HSBC Holding plc Sustainability Report. Web. 25 June 2012. http://www.hsbc.com/1/PA_esf-ca-app-content/content/assets/sustainability/120525_sustainability_report_2011.pdf.

xxvii. Our research is consistent with a study published in 2010 that found that less than 30% of banks reported on meeting biodiversity targets; those that do primarily use such mechanisms as GRI as part of their commitments under the Equator Principles. UNEP FI Biodiversity & Ecosystem Services Work Stream. 2010. Demystifying Materiality: Hardwiring Biodiversity and Ecosystem Services into Finance. Web. 2 July 2012. http://www.unepfi.org/fileadmin/documents/CEO_DemystifyingMateriality.pdf.
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None of the banks we researched included natural capital on their balance sheets or other financial documents. Many informants indicated that there is limited agreement on how to accurately account for ecosystem services and natural capital, and stated that it is challenging to account for internal, let alone client, impacts in this regard. Moreover, as one informant explained, banks currently face so many additional challenges related to the economy that natural capital “is very low on the list,” even when senior leadership does understand the merits. Some banks, however, are taking the step of assessing their internal GHG emissions and water usage.90

Figure 10. Monitoring and Reporting Practices—Leading, Moderate, and Limited

Information for this graphic is based on research conducted on 61 banks across the following sectors: commercial/state-owned, investment, and bilateral/multilateral.

Natural Capital

None of the banks we researched included natural capital on their balance sheets or other financial documents. Many informants indicated that there is limited agreement on how to accurately account for ecosystem services and natural capital, and stated that it is challenging to account for internal, let alone client, impacts in this regard. Moreover, as one informant explained, banks currently face so many additional challenges related to the economy that natural capital “is very low on the list,” even when senior leadership does understand the merits. Some banks, however, are taking the step of assessing their internal GHG emissions and water usage.90

MONITORING AND REPORTING HIGHLIGHTS

- Our research shows that bilateral/multilateral banks have the most advanced monitoring and reporting. Several bilateral/multilateral banks, such as the World Bank, have disclosure policies that establish a commitment to opening bank records and details to the public. Several have created forums for open dialogue on environmental concerns with clients, other financing institutions, and the general public.
- Both commercial/state-owned and investment banks generally produce sustainability reports, though the degree of attention to natural resources and ecosystems varies significantly and none of them include natural capital in their financial documents.
- A growing number of banks are requesting third-party verification of their sustainability reports.
Banks’ increasing attention to natural resources and environmental sustainability over the past decade is partly due to the nonprofit sector—specifically, to NGO activism and public scrutiny. However, banks have also fostered collaborative relationships with NGOs, including environmental NGOs, and other CSOs for a variety of reasons. Traditionally banks engaged with NGOs as a part of their philanthropy efforts, providing donations and other financial support to nonprofits. Bilateral/multilateral institutions have long engaged with NGOs to extend their capacity and address their development goals. Our research shows that all bank types are expanding the scope of their collaborative relationships with NGOs and CSOs to improve the reach of the banks’ socially and environmentally focused efforts. While bilateral/multilateral banks remain focused on development projects, commercial/state-owned and investment banks pursue a wide range of objectives. This section of our report provides a description of current and emerging trends in banks’ relationships with NGOs/CSOs. As the nature and business approaches of commercial/state-owned and investment banks are highly distinct from those of bilateral/multilateral institutions, so too are the relationships they form with NGO/CSOs. Accordingly, they are discussed in separate subsections.

Commercial/State-Owned and Investment Banks

Commercial/state-owned and investment banks increasingly are forging relationships with NGOs. The reasons for this engagement appear to be related to banks’ efforts to protect and/or advance their reputation and brand; to build institutional capacity to address risk management, compliance, and the adoption of best practices; to gain access to new markets; and in some cases to improve environmental and social outcomes. While the partnerships may take distinct forms, interviews and research identified three primary themes in how commercial/state-owned and investment banks engage in NGO partnerships.

Theme 1—Corporate Giving: Corporate philanthropy remains a common phenomenon as banks offer grants, donations, or philanthropic-based funding vehicles to NGOs working in their areas of interest. In 2010, for example, Wells Fargo’s foundation arm awarded US $219 million in environmentally focused grants to organizations working on renewable energy, energy efficiency, and sustainable agriculture. In other cases, banks tie their relationships to financial products as a way to engage customers and raise funds for causes supported by partnering organizations. For instance, Bank of America offers checking accounts and credit cards that funnel donations to The Nature Conservancy’s (TNC) conservation efforts.

Theme 2—Information and Technical Direction: Many of the banks that recognize the importance of and broader need to incorporate environmental sustainability into their practices have strong relationships with outside organizations like NGOs that can help their staff understand important current and upcoming issues. Additionally, NGOs may act as a more thorough resource for due diligence on clients than the banks could achieve on their own. In some instances these advisory-based relationships can be
intensive and structured, designed to examine core bank and client activities and address their impacts on key ecosystems and the environment. One such example is the Australia and New Zealand Banking Group (ANZ), which has partnered with the World Wildlife Fund (WWF) to better integrate sustainability into ANZ’s business practices. The partnership strives to improve the bank’s institutional awareness of and ability to address salient environmental issues through training sessions and briefings with senior-level executives and bank managers. The lessons garnered from these sessions with WWF are intended to inform bank decisions relating to clients and transactions across sectors and jurisdictions.93

Theme 3—Collaborative Pursuits: There are increasing instances of banks and NGOs working together to pursue external projects that address the aims of both organizations. For instance, Credit Suisse has partnered with WWF in an effort to jointly engage the agricultural sector to improve sustainability throughout the industry. WWF’s aim is to better leverage financing influence to improve production- and supply chain-related ecological concerns, while the bank wants to determine how these considerations may be measured and quantified to inform improved investment decisions.94 The two entities are sharing their institutional expertise to establish significant yet practical frameworks to address these goals.

The NGOs that partner with banks are incredibly varied, depending upon the scale, geography, and goal of a given partnership. There are, however, some common players, especially in the field of ecosystem services. Our research shows that WWF is far and away the most frequent collaborator. Other regular collaborations exist with leading environmental and conservation groups such as Conservation International, which maintains strategic partnerships with Bank of America and JP Morgan Chase,95 and TNC.

BILATERAL AND MULTILATERAL BANKS
As bilateral/multilateral banks are chartered institutions with the aim of promoting development in target regions, they are natural partners for mission-oriented organizations. Bilateral/multilateral banks’ relationships regularly extend to NGOs as well as CSOs such as governments, IGOs, and community groups. A strong majority of the bilateral/multilateral institutions analyzed in this report had some affiliation with environmental advocacy organizations, whether through direct partnerships or joint membership on mission-aligned advisory councils. These partnerships offer a means to better advance strategic goals by utilizing the combined capacity and resources of the banks and the collaborating NGO/CSOs.

Our research uncovered four themes in the types of projects and goals involved in these collaborations.

Theme 1—Sustainable Development and Civil Engagement: Many partnerships focus on the economic development of underserved or impoverished communities, and some focus in particular on advancing economies in such a way as to maintain the biodiversity and ecological integrity of the communities and regions. One such example is the Critical Ecosystem Partnership Fund (CEPF), whose member organizations are the World Bank, L’Agence Française de Développement, Conservation International (CI), The Global Environment Facility (GEF), the government of Japan, and the John D. and Catherine T. MacArthur Foundation. Primarily through grant funding, CEPF “support[s] the development and engagement of civil society in Earth’s biodiversity hotspots, the most biologically rich and threatened areas. This transcends political boundaries and fosters coordination and joint efforts across large landscapes for local and global benefits.”96 The projects at all times strive for development ends that will maintain the existing natural capital in the communities of focus.

Theme 2—Specific Environmental Issues: Bilateral/multilateral banks often work with NGO/CSOs to support “public good” projects that might otherwise be ignored by the private sector. The EBRD is spearheading a project with the International Maritime Organization (IMO) to “help countries reduce the risk of harmful aquatic organisms invading non-native waters through ballast water.” Traditional practices have brought invasive species into ports and biologically sensitive marine areas and have in some cases,
The Banking Sector and ecosystem Services: a meta-analysis according to the EBRD, played a contributing role in the collapse of entire commercial fisheries. The EBRD and IMO project works to train stakeholders and improve infrastructure in European ports to support a transition to improved practices.

Theme 3—Establish Ecosystem Service Valuation and Markets: Bilateral/multilateral banks have played a direct role in attempting to further the monetization of ecosystem services and environmental factors in conjunction with their primary economic development goals. The World Bank, in collaboration with the International Emissions Trading Association (IETA), in 2003 launched the Community Development Carbon Fund, a public/private initiative that provides small-scale carbon financing to “projects that combine community development attributes with emission reductions to create ‘development plus carbon’ credits.” The project’s aim is to support significant economic development while providing quantifiable environmental benefits.

Theme 4—Environmental Governance Capacity: As a primary role of bilateral/multilateral banks is to support the development of the regions in which they work, another key partnering activity involves supporting environmental governance with relevant regulatory bodies. This can include the facilitation and support of policy development, regulatory transparency and accountability, and resource tenure rights, among other activities. The World Bank, for example, launched the Good Environmental Governance Program in Indonesia with the aim of developing innovative performance measures for environmental management in collaboration with CSOs, IGOs, and other donor countries. The program is part of a larger East Asian initiative to support strong governance as it pertains to natural resources.

Given the extent to which multilateral banks partner with NGO/CSOs, it is difficult to point to the most common partners. Banks often target groups that are active and have capacity to work in a given area. However, as with the commercial/state-owned and investment banks, there are a number of organizations that frequently collaborate with bilateral/multilateral banks, including WWF, CI, and TNC, as well as IGO-backed institutions like UNEP or GEF.

NGO ENGAGEMENT HIGHLIGHTS
- In addition to long-standing engagements with NGOs through philanthropic giving, commercial/state-owned and investment banks increasingly are collaborating with NGOs and CSOs to gain technical assistance and extend the reach of their social and environmental goals.
- Although bilateral/multilateral banks are focused on economic development, they also collaborate to advance environmental goals and initiate partnerships with NGOs/CSOs for several reasons, including addressing specific environmental issues, bolstering governance capacity, and enabling conditions to develop and expand markets for ecosystem services.
The commercial/state-owned, investment, and bilateral/multilateral banks in this analysis share many of the same sector priorities (industry sectors in which they are primarily engaged) and issue priorities (natural resource topics on which they are focused). Energy generation constitutes the greatest sector priority for all bank types. Following that, commercial/state-owned banks’ priorities are related to forestry, metals and mining, and agriculture; investment banks’ priorities are related to agriculture, forestry, and metals and mining; and bilateral/multilateral banks demonstrate strong engagement in numerous sectors, including agriculture, forestry, fisheries, and transportation and infrastructure.

In terms of issue priorities, banks share a focus on climate, though the way in which they engage in this issue varies. Commercial/state-owned and investment banks tend to focus on reducing their own GHG emissions, though they do emphasize renewable energy financing. Investment banks also provide advisory and management services regarding carbon and emissions trading markets. Bilateral/multilateral banks have taken a more robust approach to climate, not only financing renewable energy projects but also adopting specialized programs whose goal is improving climate adaptation at a broad scale, beyond just improving energy production. Bilateral/multilaterals are also more involved in freshwater issues than commercial/state-owned and investment banks, through activities such as financing water infrastructure projects. These priorities are described in more detail by bank type.

As noted previously, Blue Earth Consultants developed an inventory of 61 banks and then analyzed information from interviews and literature, combined with additional in-depth research, to track the extent to which these banks consider the environmental impacts of specific industry sectors (agriculture, chemicals, energy generation, fisheries, forestry, infrastructure and transportation, metal and mining, and oil and gas) and relevant environmental issues (biodiversity, climate, and freshwater) in their business operations and policies. Banks selected were determined to have at least one of the following: 1) a specific policy governing engagement in a sector or issue; e.g., a forestry policy; 2) recognition of considerations regarding a sector or issues incorporated in bank documents and policies; e.g., recognition of the importance of not reducing biodiversity; and 3) a specific program or service related to the sector; e.g., a reforestation program. This information was analyzed and trended in order to highlight priority sectors of engagement as well as priority issues for the different bank types.
COMMERCIAL/STATE-OWNED BANK PRIORITIES
Most of the 33 commercial/state-owned banks we researched participate in the industry sectors of energy generation, forestry, and metals and mining. Climate was the focal issue for 26 institutions, slightly more than three-quarters of those researched. This trend is not surprising, considering that climate closely relates to energy production and forestry management. For a graphical representation of the results, please see Figure 11.

INVESTMENT BANK PRIORITIES
Investment banks primarily engage in the industry sectors of energy generation, agriculture, and forestry. As with commercial/state-owned banks, climate is the most prominent priority issue investment banks address; 11 of the 13 investment banks we researched consider climate. Figure 12 provides a more detailed breakdown of the investment sector and issue priorities.

BILATERAL/MULTILATERAL BANK PRIORITIES
Among the 15 bilateral/multilateral banking institutions investigated as part of this report, we found a more equal distribution across priorities. Climate was the leading issue for bilateral/multilateral institutions, but biodiversity and freshwater ranked much higher for these banks than it did for commercial/state-owned and investment banks. Bilateral/multilateral institutions also exhibit greater participation in fisheries, agriculture, forestry, and infrastructure and transportation sectors than do commercial/state-owned and investment banks, which is consistent with their development focus. Figure 13 provides a more detailed breakdown of the priority sectors and issues for bilateral/multilateral banks.

**Figure 11. Distribution of Commercial/State-Owned Bank Priorities and Issues**

### SECTOR PRIORITIES
- Energy—Power Generation
- Forestry
- Metals and Mining
- Agriculture
- Oil and Gas
- Fisheries
- Infrastructure and Transportation
- Chemicals

**Figure 12. Distribution of Investment Bank Priorities and Issues**

### ISSUE PRIORITIES
- Climate
- Freshwater
- Biodiversity

xxix. Efforts to determine priority sectors and issues were dependent on the availability of information. Completing a comprehensive analysis of sector and issues participation for each of the 61 banks was difficult, due to inconsistent transparency in reporting, irregular availability of web-based information, and/or language barriers. Because of this, it is possible that more state-owned banks engage in forestry, for example, or have environmental policies in place that guide their financing, than is represented in these results. The Bank of China and the China Development Bank, for example, both provided only limited information on their websites, making it difficult to ascertain their engagements.
Figure 12. Distribution of Investment Bank Priorities and Issues

SECTOR PRIORITIES
- Energy – Power Generation
- Agriculture
- Forestry
- Metals and Mining
- Oil and Gas
- Chemicals
- Fisheries
- Infrastructure and Transportation

ISSUE PRIORITIES
- Climate
- Biodiversity
- Freshwater

PERCENT OF BANKS

Figure 13. Distribution of Bilateral/Multilateral Bank Priorities and Issues

SECTOR PRIORITIES
- Energy – Power Generation
- Agriculture
- Fisheries
- Forestry
- Infrastructure and Transportation
- Metals and Mining
- Oil and Gas
- Chemicals

ISSUE PRIORITIES
- Climate
- Biodiversity
- Freshwater

PERCENT OF BANKS
LEADING BANKS AND INNOVATIVE PROJECTS

Regardless of bank type, banks that are in the lead with regards to ecosystem services are those that have strong policies, effective management structures that ensure implementation and oversight of policies related to natural resources, robust consideration for natural resources in financing policies, and transparent monitoring and reporting. Bilateral/multilateral banks frequently utilize best practices in these areas; they have also integrated environmental considerations more thoroughly into daily operations than commercial/state-owned and investment banks. Some strong leaders exist among commercial/state-owned banks, but we had more difficulty finding examples of leading investment banks, in part because of the difficulty in accessing information, but more significantly because it is more challenging to apply natural resource considerations to investment bank financing activities than it is for other bank types. In this section, we identify and describe leading banks and highlight innovative projects in which each bank type is engaged.

COMMERCIAL/STATE-OWNED BANKS

We identified several Brazilian banks, Rabobank, and Yes Bank as leaders in the commercial/state-owned sector, based on their demonstration of best practices in multiple categories examined for this report (policies, management structure, financing activities, and monitoring and reporting).

Many informants indicated that Brazilian banks such as Caixa Econômica Federal, the Brazilian Development Bank (Banco Nacional do Desenvolvimento Economico e Social: BNDES), Itaú Unibanco, Banco do Brasil, and Banco Santander Brazil are “way ahead of the curve” and “doing a great job [and are] very creative” in regards to their approaches to natural resources. The leading role of Brazilian banks can be partly attributed to that country’s Green Protocol. Though only the state-owned banks are required to sign on to the Protocol, it serves as an example of how others should operate.

Rabobank is another leading commercial/state-owned bank. Its focus on encouraging best practices in client operations distinguishes it from other banks, which predominantly focus on their own activities rather than those of clients. In addition, Rabobank promotes staff awareness of and attention to environmental issues by requiring each division, including the executive team, as well as individual employees, to set their own CSR targets. The bank also has leading monitoring and reporting practices; it reports regularly on its progress through sustainability reports, which are audited by an internal group, Audit Rabobank Group. The Group not only audits the data presented in the report, but also the procedures used to collect data. Rabobank has relatively unique sector-specific policies for fisheries and aquaculture, among others. For more information, please see the Rabobank snapshot in Appendix C.

xxx. The Green Protocol (Protocolo Verde) is a memorandum of understanding (MOU) between Brazil’s Ministry of Environment and federal financial institutions, including Banco do Brasil, Banco Nacional de Desenvolvimento Econômico e Social, Caixa Econômica Federal, Banco de Amazônia S.A., and Banco do Nordeste de Brasil. When the MOU was first signed in 1995, it was valid for five years, and has since been reaffirmed and prolonged. The agreement outlines the need for financial institutions to respond to Brazil’s pressing social and environmental threats and the opportunity for financial institutions to play a leading role in establishing the necessary conditions to support sustainable development. As signatories, the banks commit to integrating socio-environmental considerations into their business practices by such activities as increasing financing for sustainable businesses, incorporating social and environmental considerations and impacts into risk and credit assessment criteria and investment activities, and reporting on their progress toward implementing the Green Protocol.

Yes Bank, another leading commercial/state-owned bank, has a robust environmental policy that outlines specific objectives, activities, and procedures. Yes Bank has a demonstrable commitment to building an environmentally conscious workforce through training, sustainability seminars, and a regular publication, *The Responsible Times*, that focuses on environmental and sustainability issues. In addition, each new staff member receives a briefing on the bank’s engagement to consider environmental impacts. Yes Bank won the IFC and Financial Times award for Best Sustainable Bank of the Year for the Asia/Pacific region in 2011, and the Emerging Markets Sustainable Bank of the Year in Asia in 2008. These successes can be attributed, in part, to the clear dedication from senior leadership to support sustainable development and develop a deeper understanding of natural capital, as evidenced by the CEO’s participation in the UNEP FI as a Banking Commission board member.

Several commercial/state-owned banks have innovative projects related to the consideration of natural resources and ecosystems. Nedbank’s Green Affinity Accounts, Caixa’s Legal Wood Action Program, and BNDES’s commitment to forestry were selected because they represent the different ways in which commercial/state-owned banks can engage to initiate positive impacts on the environment. The Green Affinity Accounts represent a clear way in which a bank can capitalize on its current products and service offerings to raise awareness among its customers and directly contribute to advancing ecosystem health. Caixa, through the Legal Wood Action Program, demonstrates how a financial institution can work in conjunction with government efforts to address environmental threats. Finally, BNDES’s various forestry-focused programs show the ways in which a financial institution can take significant action to reduce deforestation and promote sustainable use of natural resources. Table 1 describes these innovative projects in more detail.

**INVESTMENT BANKS**

As noted previously, it was more difficult to gain information on investment banks than on the other types of banks. Consequently, it was more difficult to isolate

### Table 1. Description of Innovative Commercial/State-Owned Bank Projects and Programs

<table>
<thead>
<tr>
<th>Project/Program</th>
<th>Description</th>
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</table>
- There are Green Affinity credit card, savings, and investment accounts, as well as insurance offerings.  
- NedBank makes an initial contribution, as well as an annual gift to the Green Trust, each time a new customer joins.  
- Funds from the Green Trust are distributed in partnership with the WWF to finance environmentally focused projects. Types of initiatives financed through the trust include activities such as encouraging South Africa’s wine producers to adopt best practices, farm sustainably, and preserve biodiversity.  
- Since its creation in 1990, the Green Trust has raised nearly US $14 million and financed over 180 projects. |
| **Legal Wood Action, Caixa Economica Federal** | - The goal of the Legal Wood Action Program is to influence the construction sector in Brazil to avoid using wood sourced from harmful deforestation.  
- It is a coordinated effort between Caixa, the Ministry of the Environment, and the Brazilian Institute of Environment and Natural Resources (Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis-IBAMA).  
- To help reduce illegal logging, Caixa requires all construction companies it finances to receive a Forest Origin Document for wood used in construction. The Forest Origin Document is a way to monitor the origin of all native species of wood in Brazil.  
- The bank also strongly encourages financing developers to plant trees on their project sites. |
| **Commitment to Forestry, BNDES** | - BNDES contributes to the protection and sustainable management of the Amazon rainforest in a variety of ways, the most notable of which include:  
  - BNDES Forestry—Provides credit lines to support reforestation and maintenance in previously degraded or barren lands  
  - BNDES Forestry Compensation—Provides financial support for restoring legal reserves degraded as a result of agribusiness activity  
  - The Amazon Fund—A fund managed by BNDES that directly contributes to efforts to stop deforestation and promote sustainable forest uses  
  - BNDES’s increase in disbursement amounts from US $128 million in 2008 to US $354 million in 2011, and the recent commitment of the bank to invest US $60 million over the next five years through the Amazon Fund, demonstrate the bank’s commitment to protecting Brazil’s forestry resources. |
leaders, as few of the banks investigated excelled in the four focal categories of this report. Based on our research, two investment banks emerged as leaders: UBS and Triodos Bank.

UBS Bank has a detailed policy outlining the ways in which it incorporates environmental considerations into its financing activities, as well as how it engages with clients to consider impacts on the environment. UBS seeks to build a staff cognizant of the bank’s environmental policy and potential impacts through trainings, seminars, workshops, and continued dialogue. In 2011, over 19,000 employees received training on environmental topics, of which 3,600 received specialized training in their areas of focus. Furthermore, employees who have been with the bank for an extended duration receive refresher courses, a procedure that is relatively novel to UBS. The bank applies positive and negative screens to financing activities, sets exclusion criteria based on the client’s interests in offered SRI funds, and has sector-specific policies. The bank is relatively forthright in its monitoring and reporting and has demonstrated an increasing commitment to disclosing environmental impacts over the past few years, as evidenced by the 114% increase in the total number of environmental and social risk assessments conducted by UBS’s Global Environmental and Social Risk Committee.

Triodos Bank was created with sustainability principles firmly engrained in its core mission, and it offers a range of products and services that seek to consider, minimize, and/or mitigate impacts to the environment by engaging with similarly mission-driven businesses and initiatives. In addition, Triodos Bank has developed lending criteria and identified

Table 2. Description of Innovative Investment Bank Projects and Programs

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Bank</th>
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</thead>
<tbody>
<tr>
<td>Great Barrier Reef Bond, Goldman Sachs</td>
<td>Goldman Sachs, KPMG, and the Great Barrier Reef Foundation (GBRF) collaborated to develop an innovative financing mechanism to support research investigating coral reef adaptation to climate change.</td>
</tr>
<tr>
<td>• Goldman Sachs is responsible for raising the expected AU $50 million in capital for the bond, and for its management.</td>
<td></td>
</tr>
<tr>
<td>• The GBRF is responsible for fund allocation to stimulate addition coral reef climate adaptation research.</td>
<td></td>
</tr>
</tbody>
</table>

Integrated Biodiversity Assessment Tool (IBAT), JPMorgan Chase & Co.

• JPMorgan Chase provided early-stage guidance and funding to support the development of IBAT, a decision support tool used to identify global biodiversity risks. |
• Launched in 2008, the tool was built through a collaborative effort between BirdLife International, Conservation International, International Union for Conservation of Nature, and UNEP World Conservation Monitoring Centre. |
• IBAT provides a consolidated information database on two primary types of locations: “legally protected sites” and “globally important sites for biodiversity.” |
• JPMorgan Chase now uses the tool to assist in its due diligence process for client companies and projects.

The Water Program, HSBC

• HSBC pledged US $100 million over five years to work with three separate NGOs on projects designed to enhance “water provision, protection, information and education.” |
• With the Earthwatch Institute, HSBC is deploying thousands of employees in 20 cities around the world to gather data on local water quality that will be aggregated and used to support and inform resource management initiatives. |
• HSBC is funding Water Aid’s efforts to use community-based approaches to connect 1.1 and 1.9 million people with water and sanitation, respectively. |
• The program supports WWF’s projects to protect and restore five river basins in Africa, Asia, and Latin America.

The Banking Sector and ecosystem Services: a meta-analysis

“non-sustainable products or services,” which are automatically ineligible for financing (e.g., biomass-dependent energy products). Unlike the sector-specific lending criteria of most banks, those of Triodos serve as a jumping-off point for reviewers, as opposed to ultimate guidance. As a result, Triodos staff can go beyond the requirements of the criteria if it is in keeping with the original ideas and intentions behind their creation. It also means that Triodos staff can apply the same reasoning for issues and sectors for which criteria remain to be defined.120 Sustainability is “first on everyone’s mind [at Triodos. When making a loan, the bank] looks at how beneficial it is for people and for the environmental, and then [looks] at success of lending,” (i.e., will it be repaid).121

For additional information, please see Appendix C.

Below we present three projects that demonstrate the ways in which investment banks can actively participate to have a positive impact on the environment.

The majority of investment bank projects involved philanthropic or granting programs, indicating that this is the most effective way for an investment bank to engage. The projects below demonstrate how an investment bank can also contribute its skills and intellectual capital to environmental initiatives. Table 2 describes the innovative projects in more detail.

BILATERAL/MULTILATERAL BANKS

Two multilateral financing institutions, the World Bank and the IFC, and one bilateral, the German development bank KfW, emerged as leaders. The three institutions described below demonstrate how development banks can finance projects without sacrificing considerations for the environment.

The World Bank has been an active frontrunner in the dialogue about ecosystem services. The Bank incorporates environmental considerations into much of the work it does, and has the ability to apply significant amounts of resources to advance the health of ecosystem services. In 2011, the Bank made a loan upwards of US $400 million to Mexico to support enabling conditions that would help the country achieve its climate mitigation targets.123 Additionally, the Bank has experience with developing payment for ecosystem services (PES) frameworks, and seeks to weave considerations for ecosystem services into its products and services, which include lending, financing, consultancy services, and technical assistance.124

Since the creation of its environmental policy in 2001, the Bank has made increasing strides to bring natural capital considerations to the forefront of business dialogues, as demonstrated by its Wealth Accounting and the Valuation of Ecosystem Services (WAVES) program (see text box). Lastly, the Bank shows leadership in that it uses its granting program to complement lending activities in order to achieve outcomes for sustainable development, as presented in the description of the Espírito Santo Biodiversity and Watershed Conservation and Restoration Project in Table 3.

The IFC is highly regarded by informants as a leader in the banking sector, as it often sets the standard for commercial/state-owned banks through its work with the private sector. Many informants commented that the IFC is the industry leader and the example to
which other bilateral/multilateral institutions look for guidance.° Beyond having one governing policy, IFC has a Sustainability Framework that includes the institution’s Policy on Environmental and Social Sustainability, Performance Standards, and Access to Information Policy.° Together, the three components (framework and two policies) outline the institution’s activities and serve as a model for others. IFC’s monitoring and reporting is exceptional compared to other financial institutions. Information, including process and procedure, is readily available online in accessible formats.

Furthermore, IFC works with clients to develop an Environmental and Social Annual Monitoring Report (AMR) that outlines the agreed-upon roles and standards for each party. This report is revisited annually throughout the engagement to assess progress and verify accuracy of the client’s environment and social risk rating.° The IFC recently updated its Sustainability Framework to include more considerations for maintaining biodiversity and ecosystem services. For example, Performance Standard 6 was redesigned to become “Biodiversity Conservation and Sustainable Management of Living Natural Resources.” The newly crafted performance standard outlines ecosystem services in detail and draws the connection to businesses and operations that are dependent on ecosystem services, which is unique.°

Research has identified KfW as a leader, in part due to the bank’s consideration for environmental impacts and biodiversity. As one informant stated, KfW “is the top environmental bank” because of the way it integrates environmental considerations throughout all its operations and activities.° The bank has an environmental policy, the implementation of which applies to all in the KfW Bankengruppe; it solicits advice from sector-specific experts on financing projects with the potential for sensitive impacts; and monitors and reports on implementation and progress through online publications and to the supervisory board of KfW.° Additionally, KfW requires that its environmental criteria be met for an entire project, not just the activities that it will finance.°

Bilateral/multilateral banks frequently use grant programs to build enabling conditions that foster strong development and economic growth. The three examples below demonstrate how a grant program can be used to support an existing loan, how bilateral financing can be used to encourage additional funding from private sources, and finally, how a grant program can stimulate sustainable business.

### Table 3. Description of Innovative Bilateral/Multilateral Bank Projects and Programs

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Banking Sector and Ecosystem Services: A Meta-Analysis</th>
</tr>
</thead>
</table>
| **Espírito Santo Biodiversity and Watershed Conservation and Restoration Project, The World Bank** | - The overarching objective of this project is to encourage the adoption of sustainable land use practices among farmers in two watersheds in Espírito Santo, Brazil. The change in land use is designed to increase the quality and quantity of the downstream water supply. To incentivize farmers to adopt sustainable best practices, this project is developing two PeS schemes.°
- The project was initiated, in part, to support two complementary projects: Florestas para Vida and Espírito Santo Water and Coastal Pollution Management Project, “Projeto Aguas Limpas,” an ongoing World Bank loan to support water supply and sanitation services and infrastructure for the state of Espírito Santo,°
- Financing for the US $12 million project came from a grant from the Global Environment Facility, from the Aguas Limpas loan, and from private and NGO financing.
- Results of the PeS establishment are forthcoming, as the project is scheduled to close at the end of 2013. |
| **Chile Marine Renewable Investment Program, Inter-American Development Bank (IDB)** | - The Multilateral Investment Fund, which is part of the IDB Group, has made a US $5 million equity investment in the Chilean Renovarum Renewable Energy Fund (the Fund). The intention was that this initial investment would attract additional private investment.
- The Fund will invest in up to eight small-scale hydro projects to strengthen Chile’s renewable energy capacity, limit the country’s dependence on foreign oil, and reduce emissions to combat climate change.
- If successful, it would increase Chile’s renewable energy production by 128%.° |
| **Support for the Coral Triangle, Asia Development Bank** | ADB works to improve management of fisheries and other marine resources in the Coral Triangle through a variety of projects, including:
- **Japan Fund for Poverty Reduction Alternative Livelihood Grant**: A three-year project initiated in 2011 to support the transition of 550 households in 14 countries to eco-friendly and sustainable businesses, to limit the stress of harmful fishing practices on the environment. Funding will help create seaweed culture, fish processing, boat transport services, and livestock-rearing businesses.°
- **Sulu–Sulawesi Marine Ecoregion Sustainable Fisheries**: Funds from the grant to the Sulu–Sulawesi Marine Ecoregion are used to provide technical assistance and increase governance and management capacity, but a portion goes to developing sustainable livelihood alternatives. As of 2011, best practices had been adapted by shrimp farmers, and a certification for trade of small reef fisheries had been established in Indonesia.° |

Despite recent advances in the extent to which banks consider natural resources and ecosystem services in their financing activities, significant challenges and barriers exist, preventing more meaningful and comprehensive integration. Our research identified four broad themes related to challenges and barriers, which are highlighted in Figure 14. These challenges stem from internal and external factors related to lack of data/knowledge, tools, and capacity (e.g., banks’ lack of internal capacity and tools to assess environmental impacts, no established monetary values exist for ecosystem services) and from internal and external factors related to banks’ business concerns and existing culture (e.g., existing incentives structures and a fear of losing the competitive advantage, lack of regulation and limited ability to change clients’ actions).

While the challenges described below apply to all bank types, some barriers prove more significant for certain types of bank than for others. As commercial/state-owned banks and investment banks must produce a financial profit, they are more concerned with maintaining a competitive advantage and with the limitations of existing markets for ecosystem services. In addition, commercial/state-owned banks and, especially, investment banks tend to have corporate cultures and incentive structures stacked against natural capital consideration. Although bilateral/multilateral institutions are less impeded by financial profit motivations, they face similar constraints in the lack of data, tools, and capacity.

**INTERNAL GAPS IN DATA/KNOWLEDGE, TOOLS, AND CAPACITY**
Banks’ internal gaps in knowledge and limited capacity for incorporating consideration of natural resources into their financing activities constitute a significant challenge. These challenges are described in detail below.

**Internal Data Challenge 1—Lack of Awareness:** Informants explain that a primary gap in knowledge is the lack of understanding among senior leadership and staff about the connection between banks’ financing activities and subsequent environmental impacts. Many senior leaders simply are unaware of the importance of natural resources and ecosystem services to their bank’s decisions, or they do not see the value of integrating environmental considerations into the bank’s decisions. This is true of junior staff, as well. Informants resoundingly emphasized the importance of “making the business case” for greater consideration of natural resources and ecosystems.

**Internal Data Challenge 2—Lack of Capacity:** The majority of informants noted that a lack of internal capacity to integrate natural resource and ecosystem considerations into financing activities can be a major challenge, especially in developing countries. This constraint may exist even when senior leadership and staff understand the relevance of these considerations, since few bankers are trained to address environmental issues and most lack in-depth awareness of natural resource concerns, let alone ecosystem service processes. Though banks are increasingly forming environmental social governance (ESG) or sustainability teams, it can be difficult to integrate their knowledge and perspectives into the day-to-day practices of the bank. These teams often consist of separate divisions within an institution and their knowledge is not always disseminated to other bank staff. Moreover, the cost of creating tools and integrating them into a bank’s operations can be high. Roughly a third of respondents cited the costs and challenge of incorporating new frameworks or adjusting to new regulations as being problematic for their sector. Some informants stated that the costs are such that smaller institutions simply cannot afford to comply. Even bilateral/multilateral bank staff, committed to valuation of ecosystem services to inform financing, admit that banks lack the resources necessary to do so.

**Internal Data Challenge 3—Difficulty Assessing Impacts on Natural Resources:** As noted previously, it is currently easier for banks to assess the impacts of their project finance activities on natural resources than it is to assess the impacts of their corporate loans and investment banking activities. Several
informants emphasized the challenges that banks, and particularly investment banks, face in assessing the scale and complexity of a corporation’s environmental impacts, let alone the impacts of an entire investment portfolio. One informant explained that it is difficult for investment banks to distinguish the different activities of a large conglomerate, particularly if, for example, 95% of subsidiary activities are acceptable but 5% are problematic. Further compounding this challenge is the reality that companies have limited control over their supply chains. Moreover, given the lack of international standards, it is hard to determine if a company’s product is produced sustainably at every point. As a result, it can be more difficult for bankers to evaluate environmental risks and potential impacts for some types of financing activities than for others.

**Internal Data Challenge 4—Limited Data on Companies’ Impacts:** Even banks that attempt to consider natural resources and ecosystems in their decision-making have limited access to information about the natural resource impacts of the companies with which they do business. Most banks rely on questionnaires, completed by the companies, to determine whether or not companies are causing environmental degradation. As a result, it can be difficult to ascertain and verify the implications of companies’ activities. This challenge is cited as particularly true for corporate loans.

**EXTERNAL GAPS IN DATA/KNOWLEDGE, TOOLS, AND CAPACITY**
Several significant challenges exist to banks’ abilities to incorporate ecosystem services considerations.

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**Figure 14: Matrix of External and Internal Bank Challenges to the Considerations of Natural Resources and Ecosystems**

<table>
<thead>
<tr>
<th>Gaps in Data/Knowledge, Tools, and Capacity</th>
<th>Business Concerns/Constraints</th>
</tr>
</thead>
<tbody>
<tr>
<td>› Lack of Awareness</td>
<td>› Corporate Culture and Incentive Structure</td>
</tr>
<tr>
<td>› Lack of Internal Capacity</td>
<td>› Fear of Losing Competitive Advantage</td>
</tr>
<tr>
<td>› Difficulty Assessing Impacts on Natural Resources</td>
<td>› Lack of Bank Transparency</td>
</tr>
<tr>
<td>› Limited Data on Companies</td>
<td>› Limited Markets for Ecosystem Services</td>
</tr>
<tr>
<td>› Cross-Cutting Nature of Ecosystem Services</td>
<td>› Lack of Regulation</td>
</tr>
<tr>
<td>› No Established Monetary Values to Ecosystem Services</td>
<td>› Limited Ability to Influence Client Activities</td>
</tr>
<tr>
<td>› Inadequate Standardized Tools, Best Practices, and Frameworks</td>
<td></td>
</tr>
<tr>
<td>› Challenges of One-Size-Fits-All Tool</td>
<td></td>
</tr>
</tbody>
</table>

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**xxxiii.** As mentioned by informants and shown in the documentary *A Decent Factory*, even companies that seek to assess supply chain compliance are not always successful and must rely on their clients’ and suppliers’ ability and willingness to report information accurately. Web. 24 June 2012. [http://icarusfilms.com/new2005/dec.html](http://icarusfilms.com/new2005/dec.html).
The Banking Sector and Ecosystem Services: A Meta-Analysis

Research Challenges and Looking Ahead

In the process of researching this report, we identified a number of questions and issues that could provide fruitful avenues for future investigation. Initially we intended to research some of these issues as part of this report, but discovered that they require significantly more work than was possible within the scope of this project. Nonetheless, future exploration of these issues would help elucidate banks’ true level of commitment to and engagement with natural capital considerations. The following list is not exhaustive, but represents a starting point:

- Identify the banks that are leading investors and lenders in each industry sector—forestry, fisheries, agriculture, etc. Also identify sustainable practice leaders in these sectors and determine their primary investors.
- Compare banks’ “sustainable” investments to their total investment portfolios, to better determine the true level of their engagement and commitment. For example, Bank of America has pledged US $50 billion in sustainable financing over the next ten years. This information should be compared to its total projected investments.
- Within specific industry sectors, compare the percentage of banks’ sustainable to non-sustainable investments (e.g., FSC-certified investments vs. total forestry investments).
- More clearly determine the state of existing ecosystem service markets (e.g., carbon and water offsets) and assess the current scale of bank investment in order to identify trends and leaders.
- Assess the efficacy of existing policies in influencing client activities, if this information is accessible.

External Data Challenge 1—Cross-Cutting Nature of Ecosystem Services: The cross-cutting nature of ecosystem services makes it difficult for bank staff to address the issue, as no single (or even several) criteria can encompass the numerous services and benefits found in natural systems. One informant explained that it is more likely that banks will approach ecosystem services by focusing on specific issues (e.g., biodiversity, water) rather than as a whole concept. Furthermore, incorporating the broad scale of ecosystem services can also mean increasing the scope of banks’ responsibility, something bankers, and specifically their legal teams, are often hesitant to do.

External Data Challenge 2—No Established Monetary Valuation for Ecosystem Services: Informants explained that making the business case for ecosystem services can be an uphill battle, as few ecosystem services have a monetary value assigned to them. Since no established monetary values exist for ecosystem services, banks have difficulty considering them based on financial criteria. One informant explained: “Trying to measure ecosystem impacts, or biodiversity loss, is a whole new ball game. We haven’t seen anyone that is leading the charge.” Another stated: “No bank is set up at the moment to get on top of these immense [biodiversity] issues; banks would need a kind of fundamentally new way

“We are not able to monetize the value of biodiversity and ecosystem services because we do not know a methodology to do so.”

—Caixa Econômica Federal, in a statement to The Economics of Ecosystems and Biodiversity (TEEB)
to do business to factor in natural capital into business.”

Two-thirds of responding informants cited the inability to monetize ecological functions as a key barrier to their inclusion. One informant stated: “It is important to get the value of ecosystem services into the market. The way to do that is to put a monetary value on them.” Even bilateral/multilateral banks that are committed to valuating ecosystem services may lack capacity necessary to do so. Staff noted that banks have limited budgets that might not allow for valuation of ecosystem service considerations. Furthermore, informants note that many of the initiatives related to ecosystem services (e.g., WAVES) rely on external funding as opposed to core bank funding.

**External Data Challenge 3—Lack of Standardized Tools, Best Practices, and Frameworks:** While some broad standards and guidelines have been or are being developed, current tools often are not applicable to the full range of bank functions. The Equator Principles, for example, apply only to project finance. Furthermore, there are no standardized frameworks for banks’ integration of natural resources. Scholars have further noted the challenge created by the lack of consistency in how banks approach natural resources, and suggest the adoption of agreed-upon principles and criteria across a banking sector.

**Internal Business Challenge 1—Corporate Culture/Incentive Structure:** Existing corporate cultures and incentive structures often impede more comprehensive and meaningful consideration of natural resources. Informants note that the corporate cultures of commercial/state-owned and investment banks, and particularly of investment banks, create an environment in which it can be more important to “make the deal” than to ascertain whether the deal will have negative impacts on natural resources and the environment. Investment bankers increase their income through bonuses resulting from completed deals and through short-term profits, leading to entrenched strategies that do not lend themselves to the long-term thinking needed to support ecosystem service investment. As one informant explained, “Many investors are there to make money and get quick bonuses; it can be difficult to address this mentality.”

In some cases, staff may even be ridiculed by peers for identifying and focusing on the environmental elements of decisions.

**Internal Business Challenge 2—Fear of Losing Competitive Advantage:** Bank leadership worries that a greater consideration of natural resources will translate to a loss of business. Some informants expressed concern that if a bank is serious about integrating natural resources and ecosystem services into its decision-making, it will be constrained and lose competitive advantage, as other banks will not impose the same criteria on their project activities. The difficult economic climate of recent years has exacerbated this problem, leading some banks to “turn a blind eye,” as one informant stated, to natural resources and ecosystem considerations.

**Internal Business Challenge 3—Lack of Bank Transparency:** Although most banks publish reports regarding their sustainability initiatives, a lack of bank transparency makes it difficult for the public to ascertain and verify details of their activities and impacts on natural resources and ecosystems. This lack of transparency is due in part to the reality that many banks do not want to share proprietary information and disclose trade secrets. Published reports thus are frequently high-level, while the true nature of a given bank’s activities remains unclear. This lack of information impedes the ability of the public and stakeholders to monitor and evaluate banks’ impacts on natural resources.
EXTERNAL BUSINESS CONSTRAINTS
In addition to internal business concerns, banks face business challenges beyond their control that currently impede their consideration of natural resources. These challenges are described in detail below.

External Business Challenge 1—Limited Markets for Ecosystem Services: Even when ecosystem services are monetized, there are often significant challenges in establishing a market for those services. For a project to be lucrative for a large investment bank, it must be of a certain scale. According to informants, most projects related to ecosystem services are not large enough to make them attractive investment opportunities. As one informant explained: “We don’t have micro-financing activities. For us to make a real business out of something, it has to have sufficient scale—scalability is a huge issue—[there’s] not much scale in things we’d like to see happen.” Another point is that many ecosystem services are simply not fungible. The informant explained the challenges surrounding emerging water markets: “If you save a ton of water in California, it doesn’t save water in Texas. We haven’t found them fungible and scaled-up enough to engage.”

External Business Challenge 2—Lack of Regulation: As banks are not required to increase their consideration of ecosystems services (whether through policies, risk-assessment systems, or reporting), only a limited number do so, and not in any standardized way. Laws requiring banks to pursue greater consideration for natural resources would alter corporate culture and create an impetus for developing more adequate tools.

External Business Challenge 3—Limited Ability to Influence Client Activities: Informants from commercial/state-owned and investment banks noted that it can be difficult to influence clients and compel them to change their actions, especially if companies can easily gain capital from another bank that does not have stringent environmental requirements. As one informant stated: “If you are investing on behalf of a third party [i.e., a client is asking you to invest], it is a different story. In these scenarios there is a different level of leverage, and the bank cannot tell a client it is not OK. We cannot tell [them] how to invest in a company; we have limited power here.” Bilateral/multilateral banks also face constraints regarding what they can require of client countries. Informants explained that bilateral/multilateral banks have limited ability to leverage conversations about ecosystem services through policy dialogues at a country level. The extent to which a country wants to integrate ecosystem services depends on the country of operation.

CHALLENGES AND BARRIERS HIGHLIGHTS
• Significant gaps in knowledge exist among commercial/state-owned and investment banks related to the concept of ecosystem services, the connection between banks’ financing activities and natural resources, and the positive role natural resources play in investment success.
• The corporate cultures and existing incentive structures among many commercial/state-owned and investment banks make it difficult to implement greater consideration for natural resources and ecosystems in decision-making.
• Even banks that recognize the value of considering natural resources in decision-making may lack the internal capacity and/or tools necessary to implement this.
• All banks face barriers to accessing verifiable information about clients’ activities, limitations to their ability to alter clients’ actions, and limited markets for ecosystem services.
• Above all, the concept of ecosystem services is cross-cutting, complex, and lacks concise valuation methods, which makes it difficult for banks to account for ecological value or natural capital.

LESSONS LEARNED
Although significant challenges exist, many banks have overcome them to increase their integration of natural resources and ecosystems into decision-making. The lessons gleaned from these banks can inform other banks as they move toward greater consideration of the environment. The lessons make clear that both carrots and sticks play key roles in altering and improving bank practices. The key lessons derived from our research into how best to incorporate ecosystem services into banking practices are described below.
Lesson 1—Importance of Making the Business Case: Informants agreed that those driving these issues, whether bank staff or external organizations, need to make a strong business case for greater consideration of natural resources and ecosystem services. However, informants noted that it is important not to overemphasize the possibility of immediate short-term profits, as these can be hard to achieve. Rather, they advocate highlighting other benefits associated with a focus on natural resources, such as the potential for new markets. As one informant explained: “You need to show the senior leadership the benefits in terms of strategy/positioning the bank, getting new clients, possibly achieving new profits.” The potential for gaining new clients, informants believe, can motivate senior leadership, as “companies that take care of the environment and social considerations tend to be better companies, and less corrupt, than others” and therefore attract a growing number of new clients, which could motivate senior leadership. Informants describe a number of approaches they have used to educate senior leadership about the value of natural resource considerations, including workshops, film screenings, and other activities, but emphasize the importance of backing the presentations with numbers. Another informant explained: “It centers around the ability to quantify. Bankers work with numbers. another informant explained: “it centers around the ability to quantify. Bankers work with numbers. The reason energy has taken off around the ability to quantify. Bankers work with numbers.”

Lesson 2—The Importance of Senior Leadership Buy-In: Informants emphasize that the support of senior leadership is key for meaningful integration of natural resources and ecosystems into decision-making. Only with senior leadership buy-in can policies be developed and implemented in a meaningful way. Executive direction can prove instrumental in driving the corporate culture of the bank; as one informant explained, who drives an initiative internally can “determine if it is [simply] a sustainability initiative or an integral way of doing business.”

Lesson 3—The Role of External Pressure: Numerous sources show that external factors such as stakeholder pressure, NGO activism, and regulation are huge drivers in causing banks to increase their attention to natural resources and ecosystems. A strong majority of responding informants stated that mandatory standards have proved or could prove useful in overcoming the barriers to incorporating natural resource considerations into common business practices. Half of the informants cited NGOs, influential investors, or other external entities as playing a vital role in surmounting challenges.

Lesson 4—Value of NGO Partnerships: The monitoring and reporting of bank activities by NGOs and nonprofits is a strong lever for change, particularly when a bank’s reputation may be at risk. One informant indicated that NGOs can help banks share information about the positive work they and their clients are engaged in, stating: “Sometimes we have a good story, but we don’t communicate it well. NGO dialogue is a big part of [sharing that story].” Two organizations mentioned repeatedly by informants included BankTrack, a “global network of civil society organizations and individuals tracking the operations of the private financial sector,” and Friends of the Earth, “a global network representing more than two million activists in 76 different countries.”

Lesson 5—The Need for Efficient and Simple Tools: As ecosystem services are outside financial institutions’ historical realm of expertise, informants and scholars agree that banks need decision-making tools that are simple to use and do not require significant time or resources to implement. Tools must be applicable to relevant sectors and it must be clear how they are to be used. Numerous informants noted that an array of tools exist, but are either irrelevant to their practices or are not used because banks either do not understand their purpose or don’t know how to implement them. Informants and published experts have also noted the value of having a “one-stop shop” for sector-specific guidelines.

Lesson 6—Importance of Legislative/Policy Frameworks: Although informants noted the importance of making a strong business case for considering natural resources and ecosystems in bank decisions, they also emphasized the important role regulation has in compelling banks’ actions and creating change. This opinion is consistent with ideas expressed in published studies, which highlight the challenges associated with the lack of regulation or a global framework that penalizes negative impacts on natural resources and ecosystems.

Lesson 7—Desire to Learn from Each Other: Informants expressed strong interest in reading this report and in learning what other banks are doing regarding best practices. Banks want to learn from each other and improve their actions.
In this section we describe opportunities and levers that could encourage banks to increase and/or improve their consideration of natural resources and ecosystems in their financing activities. The opportunities are related to the business motivations that could compel banks to improve—motivations that could be leveraged and/or built upon. We also highlight specific levers that could incentivize banks to improve, and identify the four levers we think could have the most impact.

BUSINESS OPPORTUNITIES FOR BANKS

Described below are the business opportunities our research found for banks, particularly commercial/state-owned and investment banks that increase their consideration of natural resources and ecosystems in decision-making. Note that these are business opportunities for banks; we describe the opportunities for outside institutions to influence bank actions in the next section on levers.

Opportunity 1—Enhance Reputational Benefits:

Although some informants expressed concern about acting as “first movers” in relation to sustainability, natural resources, and ecosystems, others maintained that early adoption of policies and strategies related to natural resources can actually benefit a bank’s brand and reputation. In fact, one informant described how early and public adoption of certain voluntary standards was once a potent differentiator for their brand, though this advantage has been muted as incorporation of the standard has become more common. Accordingly, the informant noted, “It would be wise of banks to be bold and go to the next step.”

Opportunity 2—Develop New Products and Services:

According to researchers, greater focus on natural resources and ecosystems offers banks an opportunity to provide new products and services. Current examples include “green” credit cards and specialized sustainability-focused investment funds. Researchers also note that banks that integrate sustainable practices can build their in-house capacity and ability to provide advisory services to clients related to sustainability and due diligence.

Opportunity 3—Increase Market Share and Expand into New Markets:

Researchers show and informants confirm that increased attention to natural resources and ecosystems can also offer access to new markets, such as payments for ecosystem services and markets for certified sustainably produced commodities. However, adequate regulation and/or oversight are necessary for these markets to function properly. While recognizing the sizable opportunity of the carbon market, for example, informants cited their desire for adequate regulatory frameworks to be instituted.

LEVERS

As described in Section 10, banks face a number of internal and external challenges that currently impede more comprehensive and meaningful consideration of natural resources in financing activities. At the core of these challenges are three issues: 1) lack of awareness among bank staff about the importance of natural resources to banks’ financial success, 2) lack of interest/desire to alter bank practices and incentives to increase attention to natural resources, and, 3) lack of knowledge and capacity to enhance attention to natural resources, even in those banks attempting to do so.

Based on the research conducted for this meta-analysis, and particularly incorporating the lessons learned and the opportunities noted for banks, we believe that there are four primary levers that can be used to address these challenges and “move the needle” in consideration of natural resources and ecosystems in banks’ financing activities. We think that the majority of efforts should be applied to the “herd” of commercial/state-owned and investment banks that engage in common practices but are
falling short in implementing leading practices. In addition, we think some focus should be placed on working with leading banks to advance best practices and develop tools to improve other banks’ consideration of natural resources. This would likely mean particular focus on bilateral/multilateral banks, which are the bank types most advanced in the consideration of natural resources and ecosystems. In addition, efforts to work with the most progressive small-scale independent banks such as those in the same market as New Resource Bank and Triodos Bank to improve their practices could prove useful in convincing the private sector to follow suit. Please note that the suite of possible levers outlined below describe high level ways to engage. It would be important to tailor these levers for a particular bank based on the bank’s scale, size, sector focus, and current level of consideration for natural resources and ecosystems.

**Lever 1 — Foster Bank Senior Leadership Buy-In on the Importance of Environmental Sustainability:** Informants repeatedly emphasized the significant role senior leadership plays in influencing bank culture, shaping policies and implementation, and creating incentives to improve the consideration of natural resources in decision-making. Raising awareness and understanding, and increasing buy-in about the importance of natural resources and ecosystem services to successful financing activities, is needed among senior leadership, as well as bank staff, in order to shift practices. Gaining this buy-in will require a multipronged approach, including:

- Conducting strategic outreach to senior leadership to gain an audience,
- Supporting compelling and credible research that makes the “business case” and illustrates the financial benefits of increasing attention to natural resources,
- Providing examples of peers’ success and lessons learned in increasing attention to natural resources,
- Promoting an industry-led effort to bring banks together to agree on new, meaningful, and cost-effective principles and criteria (see below) to eliminate fears about losing the competitive advantage, and
- Fostering a new generation of environmentally conscious bank leaders by supporting integration of natural resource considerations into the curriculum of business schools.

**Lever 2 — Leverage Power of Consumer Demand/Scrutiny:** Informants agreed that external actors are a main source of pressure and incentives for changing banks’ actions. Leveraging this power could include:

- Assisting NGO activism that highlights negative banks and financing practices and/or showcasing positive banks and financing practices, and
- Convincing influential institutions (e.g., pension funds, endowments) to move their funds to banks that currently employ best practices or commit to employing best practices related to the consideration of natural resources. These institutions can help compel broader change by highlighting their actions through such means as editorials in major newspapers, like *The Wall Street Journal*.

**Lever 3 — Create Mandatory Frameworks:** Informants also agreed that compliance with regulation plays a huge role in shaping banks’ actions. Developing and enhancing mandatory frameworks is a critical, though long-term, strategy that would rely significantly on legislative advocacy in developed countries, as well as engagement with bilateral/multilateral institutions to help improve laws in developing countries. These efforts could entail:

- Funding NGO advocacy targeted to creating and enhancing legislation in developed countries to encourage banks’ consideration of natural resources, such as mandatory environmental risk-management systems and/or transparent reporting and monitoring,
- Promoting emerging efforts related to green accounting,
- Supporting the World Bank and other development banks in their efforts to increase countries’ attention to natural capital consideration through such global efforts as WAVES and the 50:50 campaign, and
- Encouraging bilateral/multilateral banks to use their policy prescriptions for individual countries to motivate countries’ increased attention to natural capital considerations.
Lever 4—Support Distribution of Tools and Development of Next-Generation of Best Practices:

Banks, even those interested in improving their consideration of natural resources, often lack the resources and/or capacity to implement existing tools. Moreover, there is a need for a “simple, cheap, and standardized” tool for banks to use for risk assessment and sector-specific activities, as well as for valuation of ecosystem services. Efforts to address these challenges could include:

- Funding the valuation of ecosystem services in specific geographic areas and/or for specific sectors,
- Assisting the development of standardized metrics to help banks assess their impacts on natural resources,
- Supporting technical assistance, e.g., funding consultants to help implement ESRA systems and share models of successful management structures,
- Creating a best-practices toolkit for clients working in specific sectors and/or regions,
- Developing an externally verified database with information on clients companies’ environmental records, to improve banks’ abilities to assess potential deals and client relationships and create an incentive for companies to improve their practices,
- Assisting current efforts by bilateral/multilateral banks, the existing “first movers” and leaders in considering natural resources, to develop and implement toolkits, best practices, and pilot projects.
CONCLUSION

Over the past two decades, banks have begun to increase their consideration of environmental sustainability factors in their financing activities. As the concept of ecosystem services has gained more traction, a few banks (mostly bilateral/multilateral banks) have started to integrate it into policies and decision-making processes, but widespread consideration for ecosystem services among commercial/state-owned and investment banks remains limited. This report has described trends with respect to banks’ attention to natural resources in their financing activities, but there are some overarching and emerging trends that highlight where the banking sector has placed its focus in regards to natural resources and ecosystems, and where it is headed.

One emerging trend is banks’ increasing move to go beyond compliance, engaging in voluntary activities related to consideration for natural resources. As described earlier, there is little to no regulation requiring banks to consider ecosystem services (or even natural resources) in their banking practices. Nonetheless, leaders in all bank types are developing a range of best practices related to sector-specific guidelines, implementation of ESRA tools, and staff oversight and education. Individual banks are creating internal teams or departments devoted to understanding emerging environmental markets and investment opportunities. They are devoting staff capacity to address these issues while strengthening screening and due-diligence processes through the application of sector-specific guidelines and policies. They also are adopting new tools, such as IBAT, that help staff better understand environmental and natural resources impacts associated with their financing activities. Moreover, banks are showing greater attention to reporting and transparency. A growing number of commercial/state-owned and investment banks are using the GRI framework to report on their environmental and sustainability impacts. Rabobank, for example, shares how it incorporates GRI’s Financial Services Sector Supplement Indicators in its annual reporting. Citigroup is attempting to tackle the onerous task of reporting and disclosing the GHG emissions impacts of a subset of clients, energy producers. Finally, banks are demonstrating leadership by signing on to new declarations related to ecosystem services, notably the Natural Capital Declaration, and by adopting existing principles such as the Equator Principles.

While bank staff generally are knowledgeable about the sectors in which they work, banks recognize that they do not always have the expertise to undertake adequate consideration for natural resources and sustainability in their activities. Consequently, banks are increasingly joining bank voluntary associations or alliances as members to learn from other banks’ experiences (such as the Global Alliance for Banking Values). They also are forging new partnerships and collaborations with NGOs, CSOs, and IGOs. These partnerships can involve a single bank and NGO, or they may constitute a global effort involving numerous partners (such as WAVES). Finally, outside institutions are working to help banks more meaningfully consider natural resources in their decision-making through the development of tools such as green cost accounting principles, methodologies, and frameworks that better facilitate the consideration of natural resources.

Additionally, in recent years we have seen the emergence and growing role of mission-driven banks, such as Triodos and the New Resources Bank, that were created to engage in socially and environmentally responsible banking. In the wake of the economic crisis and associated heightened public scrutiny on banks, these banks are gaining ground as consumers increase their demand for responsible banking practices. Even non-mission-driven banks are growing more attentive to the business opportunities in improving environmental sustainability practices. These banks are offering an array of “green” products and services that commonly involve the bank donating a portion of the money deposited in savings accounts or a percentage of a credit transaction to achieve environmental outcomes.
The concept of ecosystem services is a complex one, and integrating it into the banking sector will require a tremendous effort. This report provides a meta-analysis of the existing and emerging trends across the banking sector in regards to natural capital and how environmental considerations can be incorporated to improve environmental sustainability. The report further highlights the notable amount of effort and energy being devoted across the sector to a better understanding of these issues. Despite increasing excitement over this topic, additional effort is needed to shift incentive structures and paradigms to focus on long-term outcomes as opposed to short-term returns.
APPENDICES

Appendix A:
Informant List

Appendix B:
Inventory of 61 Banks from Commercial/
State-Owned, Investment, and Bilateral/
Multilateral Bank Types

Appendix C:
Noteworthy Examples of Banks Engaged
in Ecosystem Services

Appendix D:
Additional Information for Highlighted
Milestones
## APPENDIX A: INFORMANT LIST

<table>
<thead>
<tr>
<th>Name</th>
<th>No. of Informants</th>
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<tbody>
<tr>
<td><strong>Cross-Cutting Experts</strong></td>
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<tr>
<td>Business for Social Responsibility</td>
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<td>Global Alliance on Banking Values</td>
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<td>Global Reporting Initiative</td>
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<td>HIP Investor</td>
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<td>Association of Development Financing Institutions in Asia Pacific</td>
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<td>UNEP Finance Initiative</td>
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<td><strong>Investment Banks</strong></td>
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<td>Bank of America Merrill Lynch (former staff)</td>
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<td>Goldman Sachs</td>
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<td>ING Group N.V.</td>
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<td>JP Morgan Chase &amp; Co.</td>
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<td>UBS</td>
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<td>HSBC</td>
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<td>New Resources Bank</td>
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<td>Vancity</td>
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<td>Wells Fargo</td>
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<td>Banco Nacional de Desenvolvimento Económico e Social</td>
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<td>Caixa Economica Federal</td>
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<tr>
<td><strong>Bilateral/Multilateral</strong></td>
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<td>FMO-Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.</td>
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<td>The Inter-American Development Bank Group</td>
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<td>International Finance Corporation</td>
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<td>KfW Bankengruppe</td>
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<td>World Bank</td>
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APPENDIX B:
INVENTORY OF 61 BANKS FROM COMMERCIAL/STATE-OWNED, INVESTMENT, AND BILATERAL/MULTILATERAL BANK TYPES

Information contained in this inventory has been gleaned from bank websites. Checkmarks indicate which principles, operations, sectors, or issues the banks engage in. Banks that receive a checkmark for Bank Operations have incorporated natural resources and ecosystems into their activities. Checkmarks for sectors and issues indicate an increased focus on a specific sector or issue, but does not always indicate the bank’s use of sector- or issue-specific policies.

COMMERCIAL/STATE-OWNED

Country Headquarters (Regions Served)

<table>
<thead>
<tr>
<th>Bank Name</th>
<th>Policies</th>
<th>Management Structure</th>
<th>Foreign Activities</th>
<th>Working &amp; Reporting</th>
<th>Agriculture</th>
<th>Fishing &amp; Aquaculture</th>
<th>Forestry</th>
<th>Infrastructure &amp; Transportation</th>
<th>Mining &amp; Natural Resources</th>
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<th>Biodiversity</th>
<th>Climate &amp; Carbon</th>
<th>Water &amp; Sanitation</th>
<th>Business for a Better World</th>
<th>Equator Principles</th>
<th>Global Alliance for Banking on Values</th>
<th>Global Reporting Initiative</th>
<th>Natural Capital Declaration</th>
<th>Principles for Responsible Investment</th>
<th>UN PRI Declaration</th>
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ABN Amro Group has developed a Sustainability Risk Policy outlining the bank’s position and principles around sustainability risk management and its activities. The bank also employs a Sustainability Risk Management Framework and client assessment tools in its decision-making. It has developed specific guidance for certain high-risk sectors, including agriculture, forestry, and fisheries. The bank’s progress toward meeting its sustainability goals is shared in its sustainability report.

Australia and New Zealand Banking Group Limited

The bank has developed clear policies and guidelines for environmentally sensitive sectors (including forestry and forests, water, energy, and extractive industries). The bank seeks to be “an early adopter,” where appropriate, by complying before a published law or recommendation takes effect; and take an active role in discussions of corporate governance best practice and associated regulation in Australia and overseas.” ANZ also seeks to work with clients to ensure their compliance with environmental laws and regulations. Finally, ANZ maintains an Environmental Management System and reports publicly on their environmental performance.

Banco do Brasil

The bank embraces sustainability in written policies (including its Principles for Environmental Responsibility) and its Business Agenda 21, which outlines the incorporation of consideration of social and environmental impacts in its decision-making. In addition, the bank employs several directorates that are responsible for overseeing its implementation of sustainable principles. When making project finance decisions, the bank applies the Equator Principles and conducts social and environmental assessments to determine the level of risk and clients’ environmental responsibility. The bank also publishes sustainability reports on its website. Its commitment to sustainability includes a strong commitment to water resource stewardship through its Agua Brasil program. The bank signed a letter of intent with the National Water Agency (ANA), the Banco do Brasil Foundation, and WWF-Brasil to create the program.

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<th>Bank Name</th>
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### COMMERCIAL/STATE-OWNED

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<tr>
<td>Bank Operations</td>
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</table>

#### Banco Nacional de Desenvolvimento Econômico e Social
Brazil (Global)

The bank integrates sustainability throughout its activities. Its sustainability objectives are outlined in its Socio-Environmental Policy and guidance documents. The bank has dedicated teams and a corporate committee charged with ensuring the integration and implementation of sustainability into its activities. To assess financing activities, the bank uses credit risk and impact assessments as well as monitoring. It is particularly focused on forestry, with five initiatives and programs, including BNDES Forestry, BNDES Forestry Compensation, Amazon Fund, BNDES Rain Forest Initiative, and Investments and Participations Fund. The Amazon Fund grants money based on environmental criteria and requires all funded projects to transparently monitor and report on their activities; reports are posted on the web.

#### Banco Santander S.A.
Spain (Global)

Applies multiple policies, including a Social and Environmental Policy, Human Rights Policy, Code of Conduct in the Securities Markets, and a General Code of Conduct. Participates in the Roundtable on Responsible Soy and engages in numerous international initiatives, including UNEP FI, Principles for Responsible Investment, and Carbon Disclosure Project. The bank is a leader in the renewable energy sector. As part of its financing activities, it must consider “biodiversity conservation and sustainable management of natural resources.” The bank also requires all projects subject to the social and environmental policy to submit an annual report proving their compliance with the policy, and the bank’s internal auditing group is responsible for overseeing compliance with the policy. The bank has also developed an internal climate change office that is not only a reference center but also analyzes risks, guidelines, and regulations that may affect the bank.

#### Bangkok Bank
Thailand (Global)

Through its innovative Buluang Green Loan, the Bangkok Bank supports customers who adopt environmentally friendly technologies. Limited or no information was found on the bank’s website.
### COMMERCIAL/STATE-OWNED

**Bank of China**  
**China (Global)**  
The bank not only incorporates national environmental policies and regulations, but has adopted an “environmental veto system.” It controls lending to high-impact sectors and has increased its exits from these types of loans. The bank has increased loans to support renewable energy, environmental protection, and energy conservation, and has adopted “green credit products … that focused support on clean energy, wastewater treatment, waste disposal, power plant desulfurization, and watercourse rehabilitation projects.” The bank reports annually on its corporate social responsibility.

**Barclays Group**  
**United Kingdom (Global)**  
The bank applies an Environmental and Social Impact Assessment Policy and also educates “customer-facing” staff on environmental risk. It uses a “Group-wide Environmental Management System, the core components of which are certified to independent international standard ISO 14001.” The bank’s management structure includes a Group Operations Committee and environmental and social risk-management team. The latter assesses clients working in environmentally sensitive sectors a minimum of every two years. Environmental assessments are performed by third parties that have sector-specific and geographic knowledge. In addition, project assessments measure impacts using “International Finance Corporation’s policies, World Bank Guidelines, and the Equator Principles.” Unlike the Equator Principles, the bank applies its policy to all project financing. The bank also reports annually on its environmental and social performance; annual reports are available on its website.

**BNP Paribas**  
**France (Global)**  
The bank has a broad environmental charter and applies sector-specific guidelines. Its Corporate Social Responsibility Department oversees the implementation of the bank’s sustainable development strategy. In addition, the Transaction Acceptance Committee (comprising decision makers, CSR Department staff, and experts in communication, compliance, and legal) helps make decisions about risk. The bank also uses a “Risk Academy” to train staff regarding various types of risk, including environmental. In addition, environmental, social, and governance criteria are “applied to a growing proportion of the assets under Group management.” The bank produces an annual corporate social responsibility report. Finally, the bank seeks to offer “green” products for clients, and its foundation supports research into climate change.

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<td>Barclays Group</td>
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<td>BNP Paribas</td>
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### COMMERCIAL/STATE-OWNED

**Country Headquarters**
(Regions Served)

<table>
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<tr>
<th>Bank Type</th>
<th>Country</th>
<th>Regions Served</th>
<th>Sustainability Policies</th>
<th>Voluntary Principles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Caixa Economica Federal</td>
<td>Brazil (National: Brazil)</td>
<td>The bank integrates sustainability through the application of three key policies: its Corporate Credit Policy, Environmental Policy, and Corporate Social Responsibility Policy. In order to achieve its sustainability objectives, the bank developed a two-year strategy in 2008 that included a commitment to “permanently engage stakeholders with Caixa’s sustainability policies and practices.” The bank conducts socio-environmental analysis before issuing credit greater than US $6 million. For some sectors, environmental licensing or socio-environmental sustainability assessments are required. In an effort to combat illegal logging, Caixa requires builders to sign a Forest Origin Document for projects financed by the bank as part of the Ação Madeira Legal (Legal Wood Campaign). Caixa produces sustainability reports and GRI reports.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>China Construction Bank</td>
<td>China (Global)</td>
<td>Limited information is available on bank’s website; information gleaned from... The bank requires clients to adhere to environmental protection laws and states that it uses sector-specific guidelines for funding “energy and pollution-intensive sectors.” The bank has also developed quota systems for lending to these sensitive sectors, and has a system for identifying when departments are nearing their quota limits.</td>
<td></td>
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</tr>
<tr>
<td>China Development Bank</td>
<td>China (Global)</td>
<td>Limited information available on bank’s website.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CI Banco</td>
<td>Mexico (Latin America, Mexico)</td>
<td>The bank’s Sustainability Committee helps develop guidelines and policies and includes three environmental specialists. The bank was the “first Mexican bank to adopt the Principles of Ecuador, which are guidelines on the environmental risks for project financing.” It also participates in UNEP FI and is “committed to provide preferential loans to businesses with environmentally responsible, renewable energy projects and sustainable buildings and businesses that have pledged to reduce its environmental footprint.”</td>
<td></td>
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</tr>
</tbody>
</table>
**COMMERCIAL/STATE-OWNED**

**Country Headquarters (Regions Served)**

- Citigroup Inc.  
  United States (Global)

Citigroup applies its Environmental Policy Framework, which is composed of policies, programs, and initiatives, to the entire group. The framework is organized into three categories:

- Reducing direct operational impacts,
- Managing environmental and social risks associated with client transactions, and
- Increasing funding of environmentally sustainable business opportunities.

The bank has several committees that help develop, ensure implementation of, and support review of its environmental policies. The bank’s corporate sustainability staff “works across Citi’s businesses and regions to help develop and implement Citi’s environmental sustainability and human rights initiatives, including business opportunities, operational footprint and external stakeholder engagement.” The bank supports alternative energy through two alternative energy groups, one housed in the capital markets organization and another in the global sustainability organization. The bank works to support efforts to improve energy efficiency and scalability.

Finally, the bank has reported publicly on its environmental sustainability performance. Citigroup is one of the only banks to report annually on its clients’ GHG impacts.

- Deutsche Bank  
  Germany (Global)

Deutsche Bank has a sustainability policy, which the management board oversees and the group sustainability officer enforces is implemented. The bank also has an Environmental Steering Committee and a Group Reputational Risk Committee. The bank’s “Sustainability Management System is certified in accordance with the international ISO 14001 standard.” The bank states that it has “developed special competence in energy and climate change.” It also provides renewable energy infrastructure financing. Finally, the bank produces a CSR report annually.

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**Table continues**
### COMMERCIAL/STATE-OWNED

**Country Headquarters**
(Regions Served)

<table>
<thead>
<tr>
<th>Bank Name</th>
<th>Region</th>
<th>Sustainability Practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>HSBC</td>
<td>United Kingdom (Global)</td>
<td>The bank not only has an Environmental Risk Standard, but is a signatory to the Equator Principles and has sector-specific risk policies (chemicals, defense equipment, energy, forest land and forest products, freshwater infrastructure, and mining and metals). The bank engages stakeholders in providing input on policies and regularly reviews its sector policies to ensure they are current. It has sustainability risk managers in 27 countries to ensure not only that policies are implemented, but that risk staff are educated about sustainability risk. The bank also seeks to work with clients who are not in compliance to help them improve their practices, and requires clients in the forestry sector to obtain third-party certification. The bank’s sustainability reports are independently audited by PricewaterhouseCoopers.</td>
</tr>
<tr>
<td>Industrial Commercial Bank of China</td>
<td>China (Global)</td>
<td>The bank applies several environmental risk policies and has issued guidance documents, including ICBC Post-Loan Management Approach Focusing on Environmental Protection by Industrial Customers and Notice on Further Strengthening of Loan Environmental Risk Prevention and Control Procedures. In addition, the bank has developed a “green credit” system that helps it determine risk and control financing to sensitive sectors. The bank does not provide transparent information on its financing activities.</td>
</tr>
<tr>
<td>Itaú Unibanco S.A.</td>
<td>Brazil (Global)</td>
<td>The bank has a Sustainability Monitoring Committee that includes members of the board of directors and oversees adherence to sustainability practices. The bank also reports on its environmental impacts using the GRI reporting framework.</td>
</tr>
</tbody>
</table>
The Banking Sector and Ecosystem Services: A Meta-Analysis

COMMERCIAL/STATE-OWNED

Land Bank of the Philippines
Philippines (National: Philippines)

The bank adheres to a Corporate Environmental Policy that outlines its commitment to "support and actively promote environmental protection." In addition, the bank has an Environmental Program and Management Department that is responsible for implementing its environmental commitments. The bank "extended PHP 4.7 billion loans to environment-related projects to promote cleaner production and environment friendly business practices." It is beginning to use the GRI reporting framework. The bank engages in carbon credit markets through the UN Clean Development Mechanism and works to support renewable energy through its Renewable Energy for Wiser and Accelerated Resources Development (REWAd) program.

National Australia Bank
Australia (Global)

The National Australia Bank explicitly references ecosystem services on its website and applies an environmental policy. The bank’s environmental governance is overseen by its Group Environment Committee, which includes members from each region of operation. It applies a screen to assess whether its Environmental Credit Policies should be applied to an application. In addition, each of the bank’s business lines is required to "develop and maintain an environmental risk assessment checklist to guide" staff through the bank’s extensive "environmental credit risk assessment process." The bank may use third-party expert reports and site visits in its environmental assessments. It has specific policies for project finance and reports annually on its environmental performance in its Environmental Dig Deeper Paper, including providing a GRI report.

Nedbank Group Ltd.
South Africa (National: South Africa)

The bank’s Environmental Policy outlines specific risks, types of environmental harm to avoid, and management oversight. It also uses a risk-assessment process to screen for potential environmental impacts and assess potential lending. Through the bank’s Green Trust, the bank is funding projects focused on best practices in agriculture, MMA implementation, and applications of ecosystem approaches to reduce fishing. The bank is also developing innovative approaches to supporting and encouraging environmental sustainability, including its Green Affinity Accounts and the Capital Green Mining Awards.

Appendix B: Inventory of 61 Banks from Commercial/State-Owned, Investment, and Bilateral/Multilateral Bank Types, Continued
**COMMERCIAL/STATE-OWNED**

**New Resources Bank**

**United States (Subnational: United States)**

New Resources Bank’s Green Team established an environmental policy for the bank and has launched internal sustainability challenges and organized speaker series on environmental and sustainability issues. The bank is innovative in that it aims to have “a loan portfolio invited 100% in businesses that are advancing sustainability.” Starting in 2009, the bank committed to making only “mission-related loans.” The bank also provides special accounts for nonprofits and makes donations to sustainable efforts based on customer debit card usage. The bank conducts some level of monitoring and reporting, but the information on its website is unclear.

**RBS Group**

**United Kingdom (Global)**

In 2011 the bank adopted environmental, social, and ethical risk policies for four sectors (oil and gas, mining and metals, defense, and forestry), and it applies the Equator Principals to project finance decisions. The bank has a robust governance and management structure in place for ensuring integration of sustainability considerations in decisions. Its governance and management structure includes the Group Sustainability Committee, a board-level committee that in 2011 updated the bank’s sustainable business principles, engaged stakeholders, and developed sector-specific policies. The bank also reports publicly on its progress toward meeting sustainability goals (including significant reporting on internal operations).

**Rabobank**

**The Netherlands (Global)**

Rabobank has a strong CSR policy that includes working with its clients to improve their operations and investments, and supporting climate-neutral and energy-efficient services. In addition, the bank employs sector-specific policies in agriculture, biofuels, aquaculture and wild catch fisheries, forestry, climate change, minerals and mining, oil and gas, biodiversity, and freshwater. The bank sets annual CSR targets and monitors its progress towards them. This monitoring is seen as "an integral part of Rabobank Group’s planning and control cycle, helping ensure CSR is embedded in [its] operations." Implementation is overseen by a Cooperative & Sustainability Business Directorate. Audit Rabobank Group conducts audits on its sustainability reports in consultation with third-party auditors. The audits include "not only data verification, but also checking that data collection procedures have been properly followed."
COMMERCIAL/STATE-OWNED

Royal Bank of Canada
Canada, United States (Global)

RBC’s Environmental Blueprint not only shares the bank’s policies and priorities, but also its objectives for “align[ing] environmental stewardship with banking practices.” The implementation of the Blueprint is overseen by the bank’s corporate environmental affairs group. The bank also conducts assessments of its financing activities and is committed to transparently reporting on its key environmental performance indicators.

Sberbank
Russia (Regional: Russia, moving into E. Europe and China)

Sberbank has an environmental policy that applies to its activities. In addition, the bank requires clients to comply with legislation, and “in certain sectors, such as chemical and forestry industry, [its] policies require a mandatory environmental expert review of proposed investment projects.” The bank’s staff will review the experts’ reviews and monitor project compliance.

Société Générale
France (Global)

The bank has defined environmental sustainability guidelines that set standards for engagement in all of its banking and financial activities. It conducts both a client and a transaction assessment, and employs an exclusion list. The bank integrates its CSR goals through an operating committee that meets regularly and is comprised of managers of each business line and corporate division. In addition, each business line has a steering committee that meets twice a year, and an executive committee that conducts two reviews each year of existing projects to ensure that the CSR policy is being effectively implemented. The board of directors conducts an annual assessment of the bank’s CSR progress. The bank was also the first French bank to develop a host of stock-market products aimed at diversifying investments in sustainable development sectors (e.g., biofuel, solar energy, water, forestry resources). The bank also reports on its environmental impacts using the GRI reporting framework.
Commercial/State-Owned

Country Headquarters
(Regions Served)

Standard Chartered
United Kingdom (Global)

Standard Chartered’s environmental policies and application of the Equator Principles are the foundation of the bank’s sustainability risk-management approach. In addition, it has developed position statements that outline its standards and approach for key high-risk industries (including renewable energy, forestry and palm oil, mining and metals, oil and gas, and freshwater). The bank’s policies and standards apply to “lending, debt, capital markets activities, project finance, principal finance and advisory services.” The bank produces sustainability reports that include its performance on its sustainability key performance indicators.

Unicredit Group
Italy (Global)

Unicredit Group revised its operational governance in 2010 to help improve its ability to encourage sustainability. The bank encourages “staff, external collaborators, and commercial partners to espouse principles of transparency and conscientious management.” In addition, it employs an EMS in its decision-making that is registered with the European Union Eco-Management and Audit Scheme guidelines. The bank also “provides customers with the opportunity to implement socially responsible and sustainable investment strategies.” Finally, the bank produces annual environmental statements.

Vancity
Canada (National: Canada)

Vancity employs an Ethical Policy that guides bank decisions and activities. Its board of directors and executive leadership team drive its strategic direction. The bank also develops environmentally focused financial products, including a Shared Growth Term Deposit that invests client “money in projects that improve the social and environmental well-being of local communities while [the client] earns a guaranteed, competitive interest rate.” The bank also integrates sustainability into its annual reports and provides GRI reports.
**COMMERCIAL/STATE-OWNED**

**Country Headquarters**
(Regions Served)

**Wells Fargo**
United States (National: United States)

Wells Fargo adopted the Carbon Principles and is an associate member of the Equator Principles. The bank seeks to employ best practices in financing environmentally sensitive industries. In 2011, it provided US $2.8 billion in environmental loans and investments. In addition, the bank invested more than US $450 million in solar photovoltaic projects and more than US $200 million in wind projects. By 2020, the bank aims to provide US $30 billion in loans and investments aimed at building a greener economy. It publishes annual GRI reports that provide information on the bank’s environmental impacts.

**WestLB**
Germany (Global)

The bank’s Sustainability Principles have four key requirements that apply to its activities, including: “actively taking into account and integrating economic, ecological and social aspects,” sustainable action is an integral element of the bank’s entrepreneurial behavior,” and “sustainable action means compliance with accepted sustainability standards.” The bank has adopted the principles of the German Code of Corporate Governance, and utilizes negative screens and sector-specific guidance for its activities in sectors such as energy, fisheries, forestry, metals and mining, oil and gas, and freshwater. It works with clients to encourage the application of sustainability standards. The bank also publishes summary sustainability information every two years in its sustainability report and provides updates annually.

**YES Bank**
India (National: India)

YES Bank employs a detailed Environmental and Social Policy. The bank provides products and services in agribusiness, rural, and social banking (ARSB), microfinance, sustainable investment banking, and private equity. Its ARSB division seeks to finance and work with insurance and reinsurance companies to support “distribution of need-based insurance products for the agri-sector.” In addition to developing innovative banking products, the bank publishes an annual sustainability report to share information on its activities and sustainability progress.

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**Appendix B: Inventory of 61 Banks from Commercial/State-Owned, Investment, and Bilateral/Multilateral Bank Types, Continued**

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<td>WestLB</td>
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<tr>
<td>YES Bank</td>
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</table>
The Banking Sector and Ecosystem Services: A Meta-Analysis

INVESTMENT

Country Headquarters (Regions Served)

Bank of America Merrill Lynch
United States (Global)

The bank relies heavily on developed policies and practices to ensure that sustainability and environmental stewardship are integrated throughout the bank. It pays special attention to environmentally sensitive sectors such as “mining, utilities and oil and gas.” The bank also has sector-specific policies for energy, forestry, and climate. It states that it is “changing [its] risk and underwriting processes to factor in the projected costs of carbon emissions when [it] evaluate the business models of companies, such as those that burn coal to generate electricity.” In addition, the bank has developed strong oversight processes through board-level committees to ensure the implementation of a variety of environmental and sustainability policies (e.g., Credit Policy, Energy Policy, Developing Country Lending Criteria, and Climate Change Policy, and the Equator Principles). As part of the bank’s financing activities, environmental impacts are taken into account through the company’s risk assessment and environmental due diligence process. The bank also conducts internal audits to ensure implementation and compliance with stated policies and procedures, and uses the GRI framework in its sustainability reports.

Bank of Tokyo-Mitsubishi UFJ
Japan (Global)

As a member of the Equator Principles, the bank applies the principles to its investment decisions. It also seeks to “provide access to emission rights, which aid global warming prevention,” using its credit card operations. In addition, the bank facilitates the uptake of socially responsible investment (SRI) funds. Finally, the bank monitors and reports on its environmental impacts.

Credit Suisse Group
Switzerland (Global)

The bank integrates its sustainability goals and adheres to its Statement of Sustainability, which is linked to its Code of Conduct. In addition, it employs environmental coordinators in its four business regions to further promote and ensure integration of its environmental standards. Notably, “in 1997, Credit Suisse became the world’s first bank to obtain ISO 14001 certification for its EMS.” The bank’s EMS is reviewed annually by a third party to ensure it is relevant and up to date. It uses sector-specific guidance and an internal reputational risk review process in its financing decisions. In addition, the bank produces sustainability reports and has participated annually in the Carbon Disclosure Project since 2002.

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<td>Bank of America Merrill Lynch</td>
<td>United States (Global)</td>
<td>Agriculture</td>
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<td>Bank of Tokyo-Mitsubishi UFJ</td>
<td>Japan (Global)</td>
<td>Forestry</td>
<td>Climate &amp; Carbon</td>
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<tr>
<td>Credit Suisse Group</td>
<td>Switzerland (Global)</td>
<td>Oil &amp; Gas</td>
<td>Global Reporting Initiative</td>
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Appendix B: Inventory of 61 Banks from Commercial/State-Owned, Investment, and Bilateral/Multilateral Bank Types, Continued
INVESTMENT

Country Headquarters (Regions Served)

Goldman Sachs
United States (Global)

The bank applies its Environmental Policy Framework to its activities and is committed to “developing effective market-based solutions to address climate change, ecosystem degradation and other critical environmental issues, and to creating new business opportunities that benefit the environment.” The bank’s Environmental Markets Group ensures implementation of the framework, while specific business units “are responsible for implementation.” In addition, the bank has a system of oversight and due diligence integrated into its risk-assessment review process. It is also active in conducting research, engaging stakeholders, and educating internal and external entities.

Industrial Development Bank of Turkey
Turkey (Regional: Turkey and Bahrain)

The bank integrates a set of environmental and sustainability principles, has an ISO 14001-compliant environment management system, and applies sustainable development criteria to its investment projects. As part of its financing decisions, the bank seeks to minimize environmental impacts by applying standards, assessing risks, adhering to legal requirements, publicly disclosing “environmental sensitivities,” and producing sustainability and GRI reports. The bank employs an environmental management team that ensures the implementation of its environmental and sustainability principles. This team’s efforts are supported by senior leadership. TKSB has a significant focus on developing and supporting renewable energy and projects that reduce the effects of climate change.

ING Group N.V.
United States (National: United States)

Since 2003, the bank has integrated its Environmental and Social Risk Policy Framework, which shares standards and is applied “to all business operations and client engagements.” In addition, the bank employs sector-specific policies in fisheries, forestry and plantations, agriculture and manufacturing, and natural resources and chemicals. It also uses the GRI framework to report on its sustainability performance.
### INVESTMENT

#### Country Headquarters

<table>
<thead>
<tr>
<th>Bank Type</th>
<th>Region</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>JPMorgan Chase &amp; Co.</td>
<td>United States (Global)</td>
<td>The bank has an Environmental and Social Risk Assessment Policy that outlines how it incorporates &quot;environmental and social impacts into its analysis and financing decision-making process.&quot; The policy outlines the type of transactions it applies to, including transactions greater than US $10 million, activities that may have adverse environmental or social impacts, and a suite of transaction types (e.g., bilateral or syndicated lending transactions, debt or equity private placement transactions, and carbon offset origination projects). In addition, the bank conducts enhanced assessments for certain environmentally sensitive sectors. It also conducts training modules on environmental and social risk management, and since 2008 has trained more than 10,000 staff. The bank uses the GRI framework and develops CSR reports.</td>
</tr>
<tr>
<td>Mizuho Trust and Banking</td>
<td>Japan (Global; has two international subsidiaries)</td>
<td>The bank employs a high-level environmental policy, but does offer several sustainability-focused services, including Mizuho Eco-Asset, which “supports funding for customers who adopt a positive approach to environmental issues.” Through this program, the “loan applicant pledges a 6% improvement in CO2 emissions intensity within three years or a 6% reduction in CO2 emissions within three years.” The bank also offers the Mizuho Eco-Private Placement, where “customers meeting certain conditions can receive financing for environment-related facilities or obtain environmentally conscious working capital at below-market rates.” A third offering is the No-Interest Financing/Interest Subsidy Delivery Project for Special Support to Achieve the Kyoto Protocol Target, which aims to finance companies that “pledge to reduce emissions to reach Kyoto Protocol.” The bank also sells the African Development Bank’s Clean Energy Bonds. It publishes CSR reports and follows the GRI framework and the Carbon Disclosure Project.</td>
</tr>
<tr>
<td>Morgan Stanley</td>
<td>United States (Global)</td>
<td>The bank has an Environmental Policy Statement that includes ways to limit impacts to the environment and outlines the bank’s governance and oversight structure to ensure that the policy is implemented. The bank’s board of directors regularly reviews and updates the policy. In addition, the bank has developed a Global Sustainable Finance Group that reports to its chief financial officer and to the bank’s Environmental Committee, which is composed of senior leadership and has a dedicated Environmental Risk Group. The bank reports on its progress toward meeting stated goals in its sustainability reports, and shares the number of enhanced environmental due diligence actions performed for specific sectors.</td>
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#### Table: Inventory of 61 Banks from Commercial/State-Owned, Investment, and Bilateral/Multilateral Bank Types, Continued

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<tbody>
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<td>Management Structure</td>
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<td>Financing Activities</td>
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<td></td>
<td>Monitoring &amp; Reporting</td>
<td>Energy-power Generation</td>
<td>Forests</td>
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<td></td>
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<td>Fisheries</td>
<td>Global Alliance for Banking on Values</td>
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<td>Forestry</td>
<td>Global Reporting Initiative</td>
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<td>Infrastructure &amp; Transportation</td>
<td>Incentives for Better World</td>
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<td>Oil &amp; Gas</td>
<td>Principles for Responsible Investment</td>
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<td>Biodiversity</td>
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</table>
INVESTMENT

Country Headquarters
(Regions Served)

Nomura Securities Co., Ltd.
Japan (Global)

Nomura Holdings has an Environmental Policy outlining its commitment to support “environmentally friendly goods and services” and “assess environmental risks.” The bank has an environmental management system that is “based on the PDCA (Plan-Do-Check-Act) cycles.” In addition, its Environmental Working Group engages in “environmental preservation activities.” The bank sells IFC Green Bonds as part of its financing activities, and produces a citizenship report using the GRI framework.

Sumitomo Mitsui Trust Group
Japan (Global)

Limited information is available on the bank’s website. The bank has a mission statement that states its commitment to supporting environmental and natural resources stewardship.

Triodos
The Netherlands (Regional: Belgium, Germany, Netherlands, Spain, United Kingdom)

The bank has a strong mission-driven focus and employs strict social and environmental lending criteria to ensure consideration of these issues in its activities. Decisions about the bank’s direction and engagements are overseen by a trust, “which is responsible for ensuring that decisions about financial profit are not made at the expense of the our social and environmental goals.”

UBS
Switzerland (Global)

The bank’s Environmental Policy is applied across “all transactions, services and activities involving environmental issues entered into by or on behalf of UBS in the course of business.” To ensure implementation of the policy, the bank’s group executive board approves the environmental policy as well as the ISO 14001 environmental management system review. The bank’s group chief risk officer is responsible for developing criteria and a framework for incorporating environmental risks into decision-making. In addition, each business division is responsible for implementing the policy’s principles. For sensitive environmental sectors, the bank applies sector-specific guidelines in areas including agriculture, energy, and metals and mining. To foster stronger understanding and implementation, the bank incorporates environmental issues training. It reports annually and shares the number of transactions evaluated by its environmental team. It also engages stakeholders on some environmental issues.
### BILATERAL/MULTILATERAL

**Country Headquarters**

- **African Development Bank**
  - Côte d’Ivoire (Regional: Africa)

  The bank has developed a “broad strategic and policy framework under which all Bank Group lending and non-lending operations will be made to promote environmentally sustainable development in Africa.”

- **Asian Development Bank**
  - Philippines (Global)

  Limited information is available on the bank’s website. The bank has a mission statement that states its commitment to supporting environmental and natural resources stewardship.

- **Corporacion Andina de Fomento**
  - Brazil (Regional: Latin America)

  The bank has a suite of policies that incorporate environmental issues into management, and applies efficiency and sustainability criteria. In 2004, the bank created its Office of the Vice President of Social and Environmental Development; its aim is to “support business initiatives with social and environmental benefits, focusing on innovation, replicability and sustainability.” The office’s objectives include “generation of credit and other financial solutions,” “strengthening public policies and institutions,” “strengthening partnership between the public and private sectors,” and “supporting CAF’s business areas.” Examples of bank projects include developing “credit lines for projects that reduce GHG,” “credit lines for clean, alternative and efficient energy projects,” and “prepayment of certified emission reductions.”

- **The European Bank for Reconstruction and Development**
  - UK (Global)

  The bank has an environmental policy in place and has listed sustainability requirements. The bank supports strong corporate governance, but states that it has influence “principally in the activities of the EBRD as an investor and as a law reformer.” The bank supports transparency and accountability through monitoring and reporting activities, as well as a system of “checks and balances.” It publishes specific sustainability reports, and since 2010 has raised EUR 114 million through its Environmental Sustainability Bonds. In addition, in 2011 the bank “mobilized grant cofinancing of EUR 1.4 billion from the EU Cohesion Fund for investment in water and wastewater, urban transport, district heating and waste management.”

### Appendix B: Inventory of 61 Banks from Commercial/State-Owned, Investment, and Bilateral/Multilateral Bank Types, Continued

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<td>Policies</td>
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<td>African Development Bank</td>
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<td>Asian Development Bank</td>
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<td>Corporacion Andina de Fomento</td>
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<td>The European Bank for Reconstruction and Development</td>
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Appendix B: Inventory of 61 Banks from Commercial/State-Owned, Investment, and Bilateral/Multilateral Bank Types, Continued

BILATERAL/MULTILATERAL
Country Headquarters (Regions Served)

The European Investment Bank
Luxembourg (Global)
The bank launched the European Principles for Environment in 2006. In addition, it “promotes markets in environmental goods and services that serve to correct for under-investment (e.g., the carbon market in the case of low carbon technologies, and the emerging market in ecosystem services).” Because of the bank’s position, it “can provide various types of assistance to environmental projects, where it judges that worthwhile projects would otherwise not go ahead.” The bank also supports use of the polluter-pays principle. Its Environmental and Social Practices Handbook shares how the bank implements and ensures consistency with its environmental policy. The bank releases reports focused on specific lending areas, such as climate change and water.

FMO-Nederlandse Financiering-Maatschappij voor Ontwikkelingslanden N.V.
Netherlands (Global)
The FMO has an Environmental, Social, and Corporate Governance Policy as well as an Environmental and Social Policy that outlines the responsibilities of stakeholders, staff, and clients. It also employs a set of performance standards and an associated tool based on its environmental and social standards. For assessing its investments, the bank has specific investment criteria and an Excel-based environmental and social risk-management tool that, “based on a number of characteristics of investments … provides an overview of the most relevant E&S risks, as scores for the effectiveness of E&S risk management and the main E&S opportunities. Two types of risks are distinguished: sector risks and country issues.” The bank provides sustainability reports and uses the Gri framework.

The Inter-American Development Bank Group
United States includes Inter-American Investment Corporation (IIC) (Regional: 26 countries in Latin America and the Caribbean)
The implementation of the bank’s Environmental and Safeguard Compliance Policy is overseen by a designated team. In addition, its Global Capital Increase 9 increased the bank’s commitments to “25% of total lending going to a growing portfolio on climate change, environmental sustainability, and renewable energy.” The bank is engaged in a number of innovative projects focused on the environment, including a US $5 million equity investment in the Chilean Renovaturm Renewable Energy Fund. It produces sustainability reports that incorporate the Gri framework.
BILATERAL/MULTILATERAL

Country Headquarters
[Regions Served]

International Finance Corporation
United States (Global)

The bank has developed three key policies focused on environmental impacts and sustainability: a Sustainability Framework, performance standards, and a policy on environmental and social sustainability. Performance Standard 6 was updated in 2012 to specifically address the ecosystem service impacts of investees. In addition, the bank is committed to transparency and in 2012 issued a new policy focused on allowing access to information. The bank addresses sector-specific concerns, including issues related to agribusiness, drift net fishing, climate change, and development.

International Fund for Agricultural Development
Italy (Global)

IFAD abides by its Environmental and Natural Resource Management Policy and has ten guiding principles aimed at natural assets. In addition, IFAD employs sector-specific policies for areas including biodiversity, crop production, energy, and fisheries and aquaculture. The bank has had a formal administrative procedure for assessing environmental impacts since 1994. Governance is overseen by its governing council, which is the group’s “highest decision-making authority.” In climate finance, the bank supports “opportunities for poor rural people and smallholders to benefit from new and existing climate finance.” IFAD also fosters commercial institutions “promoting internationally recognized environmental standards, including the screening of investments through appropriate environmental assessment procedures.” The bank’s Environmental and Natural Resource Management Policy includes metrics for monitoring the implementation and success of the policy.

The Islamic Development Bank
Kingdom of Saudi Arabia (Global)

Limited information is available on the bank’s website. The bank “operates according to the Islamic Shari’ah principles.”

Appendix B: Inventory of 61 Banks from Commercial/State-Owned, Investment, and Bilateral/Multilateral Bank Types, Continued
The Banking Sector and Ecosystem Services: A Meta-Analysis

Appendix B: Inventory of 61 Banks from Commercial/State-Owned, Investment, and Bilateral/Multilateral Bank Types, Continued

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<th>Bank Operations</th>
<th>Sectors</th>
<th>Issues</th>
<th>Voluntary Principles</th>
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<td>Japan Bank for International Cooperation</td>
<td>Japan (Global)</td>
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<td>KfW Bankengruppe</td>
<td>Germany (Global)</td>
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<td>The Nordic Investment Bank</td>
<td>Finland (Global)</td>
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**BILATERAL/MULTILATERAL**

Country Headquarters (Regions Served)

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<th>Japan Bank for International Cooperation</th>
<th>Japan (Global)</th>
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<td>The bank integrates social and environmental considerations in transactions, funding projects, and review processes. In addition, in 2009 the bank revised its Japan Bank for International Cooperation Guidelines for Confirmation of Environmental and Social Consideration. It also monitors investments to ensure that clients adopt and implement environmental standards.</td>
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<th>KfW Bankengruppe</th>
<th>Germany (Global)</th>
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<td>KfW’s environmental and social responsibility is ingrained in the bank’s activities through a legislative mandate. In addition, the bank abides by Federal Republic of Germany and the European Union Environmental policies, and applies an environmental management system overseen by the management director for the environment. The bank states that it will “regularly update the environmental management system and check its effectiveness in project decisions and with regard to in-house environmental protection. As necessary, [it] call[s] on external support to supplement [its] in-house expertise in environmental issues and [it gives] staff appropriate training.” The bank also conducts monitoring through its Central Sustainability Unit, and produces sustainability reports that are reviewed by the board of supervisory directors and published on the bank’s website.</td>
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<th>The Nordic Investment Bank</th>
<th>Finland (Global)</th>
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<td>The bank’s owners have given it “an explicit environmental mandate.” The bank includes environmental reviews as part of its loan process. The review process includes an evaluation of risk, evaluation of the client’s capacity and concern for potential impacts, and “costs resulting from the ecological and social aspects of the project.” The bank monitors and reports on its impacts in environmental reports, and shares information on impacts on its website. The bank also supports sustainability by financing projects that enhance the environment or that limit environmental impacts.</td>
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The Banking Sector and Ecosystem Services: A Meta-Analysis

BILATERAL/MULTILATERAL

Country Headquarters
(Regions Served)

The OPEC Fund for International Development
Austria (Global)

Limited or no information was found on the bank’s website.

World Bank Group
United States

The bank applies environmental safeguard policies to limit risk and environmental and social impacts “as a result of bank-funded projects.” It also employs specific safeguard policies to address sensitive sectors such as natural habitats, safety of dams, and projects on international waterways. The bank group is composed of multiple unique development organizations, including “the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA).” In addition, “each organization plays a different but collaborative role in advancing the vision of equitable and sustainable growth.” For these two organizations, the bank incorporates environmental and natural resource concerns in its strategies, investment goods, policy generation, and environmental safeguards. The bank’s other organizations, including the IFC (described above), Multilateral Investment Guarantee Agency (MIGA), and the International Centre for the Settlement of Investment Disputes (ICSID), approach ecosystem services in slightly different ways. MIGA and ICSID were not included in this bank inventory.

Appendix B: Inventory of 61 Banks from Commercial/State-Owned, Investment, and Bilateral/Multilateral Bank Types, Continued
APPENDIX C: NOTEWORTHY EXAMPLES OF BANKS ENGAGED IN ECOSYSTEM SERVICES

The following snapshots provide descriptions of 15 banks that are engaged in activities in which impacts on natural resources and ecosystem services are considered. These snapshots highlight banks with innovative and noteworthy approaches or programs related to natural resources and/or ecosystem services. Blue Earth Consultants selected these banks based on information gleaned from web-based research, literature review, and discussions with expert informants. Blue Earth Consultants vetted these banks against selection criteria: existing assessments, geographical representation, area for ecosystem services engagement, and bank size. Included in each snapshot is a ranking of the bank’s participation in eight industry sectors (agriculture, chemicals, energy generation, fisheries, forestry, infrastructure and transportation, metal and mining, and oil and gas) and three issues (biodiversity, climate, and freshwater), as researched in the report inventory (see Appendix B). All information was acquired from websites, reports, and other publicly accessible documents.

xxxiv. In many parts of the world, no distinction exists between commercial and investment banks—rather, countries rely on “universal banks.” Universal banks have long constituted the primary model for financial institutions in Europe, as well as in some regions of Latin America and Africa. Only recently has China started to adopt the concept of universal banking. For the purposes of this report, descriptions of commercial and investment banks refer either to banks that solely perform the activities of commercial and investment banks, or to the commercial or investment “arm” of a universal bank.

xxxv. To rank industry sector participation and consideration of issues, Blue Earth Consultants used qualitative terms to refer to data trends found in Appendix B, which reported information found on bank websites and public documents. Blue Earth Consultants has not assessed the veracity of banks’ claims of participation or consideration of each issue. We ranked banks based on their participation in eight sectors (agriculture, chemicals, energy generation, fisheries, forestry, infrastructure and transportation, metals and mining, and oil and gas) using the following rankings: Low–0–2, Medium–3–5, High–6–8. We also ranked banks’ participation in three issues (biodiversity, climate and carbon, and freshwater) using the following rankings: None–0, Some–1, Significant–2–3, respectively. In addition, we identify the voluntary principles to which these banks subscribe. Please note that this is not a comprehensive list of all voluntary principles in which the banks participate; rather, it is a subset used for this report.
The majority shareholder of Banco do Brasil is the Brazilian government. Because of this, it is required to adhere to the Green Protocol, which provides direction for all of the bank’s activities related to the environment.\(^{xxxvi}\) Business Agenda 21 of Banco do Brasil is the policy that underpins all of the bank’s social and environmental responsibilities related to sustainability. Two groups within the bank are responsible for the design, creation, and implementation of Banco do Brasil’s social and environmental responsibilities: the Unit for Sustainable Development (Unidade de Desenvolvimento Sustentável) and the Employee Relations and Social Responsibility (Relações com Funcionários e Responsabilidade Socioambiental) group. Additionally, the board of directors approves and regularly revisits all policies. The bank has a Sustainability Forum in which members from all divisions come together four times a year to determine ways to better implement the actions of Business Agenda 21. The Forum provides the opportunity to identify risks to implementation, monitor progress, answer questions, and garner suggestions for improvements to the implementation process.

Banco do Brasil incorporates environmental considerations into its risk assessment and lending criteria and offers access to sustainable financing based on practices related to forestry (BB Florestal) and agriculture (PRONAF Agroecologia), among others.\(^{158}\) In addition, it has adopted the reporting structure of the Global Reporting Initiative (GRI). The bank postulates that it has provided over R $20 billion in lending related to social and environmental considerations in 2009 alone.\(^{159}\)

Noteworthy Innovation with Ecosystem Services or Natural Resources

In 2010, Banco do Brasil, World Wildlife Fund (WWF) Brazil, the Banco do Brasil Foundation, and the National Water Agency (ANA) entered into an agreement to create the program Água Brasil,\(^{xxxvii}\) which seeks to address water issues in both rural and urban areas by working to increase consumer and community awareness of water usage and waste; to promote sustainable agriculture that reduces agriculture’s impacts on water quality and availability; to abet management and conservation best practices; to refine the bank’s lending and risk assessment criteria; and to increase the institution’s portfolio of socio-environmentally responsible projects. The program operates in 14 basins and five cities in Brazil, which are representative across a spectrum of factors, including size and geographic location.

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\(^{xxxvi}\) The Green Protocol (Protocolo Verde) is a memorandum of understanding (MOU) between Brazil’s Ministry of Environment and national financial institutions, including Banco do Brasil, Banco Nacional de Desenvolvimento Econômico e Social, CAIXA Econômica Federal, Banco de Amazônia S.A., and Banco do Nordeste de Brasil. When the MOU was first signed in 1995, it was valid for five years, and has since been extended. The agreement outlines the need for financial institutions to respond to Brazil’s pressing social and environmental threats and the opportunity for them to play a leading role in establishing the necessary conditions to support sustainable development. As signatories, the banks commit to integrating social and environmental considerations into their business practices by such activities as increasing financing for sustainable businesses, incorporating social and environmental considerations and impact into risk and credit assessment criteria and investment activities, and reporting on their progress toward implementing the Green Protocol. Source: Ministério do Meio Ambiente. 1995. Protocolo de Intenções Pela Responsabilidade Socioambiental.

\(^{xxxvii}\) Additional information is available at Água Brasil’s website: http://www.bb.com.br/portal/bb/home16,8501,8501,21,0,1,1,bb?codigomenu=5217&codigoref=15247&br ead=6.
CORPORACION ANDINA DE FOMENTO
Bilateral/Multilateral

Overview
Corporacion Andina de Fomento (CAF) is a development bank established in 1970. Currently it is composed of 18 shareholder countries in Latin America, the Caribbean, and Europe, as well as fourteen private banks from the Andean region. Venezuela is one of CAF’s founding shareholders. The bank integrates sustainable development through credit operations, grants and technical support, and financing structures to public- and private-sector projects in Latin America. In recent years CAF has surpassed the combined funding of the World Bank and Inter-American Development Bank in its support of infrastructure projects in the Latin America region.160

The bank has a suite of policies that incorporate environmental issues into management. These include safeguard guidelines that integrate environmental management practices into all financial operations and into each loan process. The bank also applies eco-efficiency and sustainability criteria. In 2004, it created the Office of the Vice President of Social and Environmental Development, which focuses on sustainability and innovation while supporting business initiatives with social and environmental benefits. CAF currently is seeking to “create synergy with the Millennium Development Goals; the Global Pact; the three conventions of the United Nations on desertification, biodiversity and climate change; and the Agenda 21 of Sustainable Development of the United Nations (Río+20).” 161

Noteworthy Innovation with Ecosystem Services or Natural Resources
CAF has innovative, environmentally focused programs that emphasize the establishment of sustainable development practices; these programs include BioCAF, BioTrade, Forests, PLAC+e, and PROPEL. The BioCAF program encourages best practices in markets that exploit biodiversity and have environmental impacts. Through BioTrade, CAF “promotes the use of alternative markets of ecosystem services, such as carbon markets and clean development mechanisms.”162 CAF’s Forests program aims to prevent deforestation and promote forest conservation among its shareholder countries. Through PLAC+e, CAF promotes the mitigation of climate-related problems by actively promoting the reduction of GHG. Lastly, CAF’s PROPEL program finances small- to medium-scale projects that promote clean, alternative, and energy-efficient ventures.

Headquarters:
Venezuela

Primary Products and Services Offered:
loans, structured finance, syndicated loans, financial advice, bonds and guarantees, partial guarantees, equity investments, treasury services, technical cooperation, lines of credit

Voluntary Principles:
N/A

Website:
www.caf.com

Industry Sector Participation:
Medium

Consideration of Issues:
Significant
CREDIT SUISSE GROUP
Investment

Overview
Credit Suisse is a global banking institution with 550 offices in 50 countries. Credit Suisse has numerous policies, guidelines, and functional descriptions that outline how the bank incorporates sustainability in its internal and external operations, products, and services. Credit Suisse’s Statement of Sustainability explains the bank’s commitment to balancing economic, environmental, and social issues as they pertain to bank operations. In addition, the bank’s risk management includes considerations for long-term sustainability through identification of risk types and responsibility, assessment of risk and recommendations, and review and decision-making. Credit Suisse has a formal partnership with WWF aimed at creating sustainable investment products and services. The partnership’s projects include examining the U.S.-based agriculture sector to identify sustainable investments and assessing ways to measure sustainability and incorporate information into investment products (e.g., funds or sector-specific indexes). The partnership also conducted a study of banks’ roles in the transition to a low-carbon economy, which includes consideration of climate-change risks and opportunities to address them, as well as supporting high conservation value habitat mapping and surveys high carbon forest stock in Kalimantan, Indonesia. The bank is included in multiple sustainability indices that assess its sustainability against environmental, social, economic, and other CSR criteria, including Dow Jones STOXX Sustainability Indexes (USA/CH), Dow Jones Sustainability World Index (USA/CH), and FTSE4Good Indexes (UK). Since 2002, the bank has participated in the Carbon Disclosure Project.

Noteworthy Innovation with Ecosystem Services or Natural Resources
Credit Suisse applies a robust sustainability risk management system to all transactions and interactions, in addition to financing decisions that have the potential for significant environmental and/or social impacts. The key element of this model is the presence of a team of sustainability risk managers, including qualified ecologists, in each of its four global business regions, who are responsible for risk assessments and training bankers in the application of sector-specific sustainability policies and guidelines.

Headquarters:
Switzerland

Primary Products and Services Offered:
Private Banking: Advisory services and financial solutions to private, corporate, and institutional clients. Private Banking comprises the Wealth Management Clients and Corporate & Institutional Clients businesses.
Investment Banking: Financial products and services include global securities sales, trading and execution, prime brokerage and capital raising and advisory services, and investment research.
Asset Management: Products are offered from a range of investment classes, from alternative investments such as hedge funds, private equity, credit, index, real estate, and commodities, to multi-asset class solutions, including equities and fixed income products, as well as emerging markets.
Voluntary Principles: Equator Principles, UNEP FI Declaration

Website:
www.credit-suisse.com

Industry Sector Participation:
Medium

Consideration of Issues:
Some
Overview
FMO provides financing to private corporations, financial institutions, and private equity funds in developing countries. It has an Environmental and Social and Corporate Governance Policy (ESG) that describes the governance structures and the processes by which the bank adheres to the policy. FMO incorporates ESG principles in four stages of its credit process: client selection, appraisal and approval, contracting, and monitoring. Not only does FMO use negative screens to refrain from engaging in activities on the exclusion list (e.g., species regulated under CITES, hazardous materials, and significant critical habitat degradation), it also requires clients to adhere to the same exclusion list. The bank relies almost entirely on the principles and guidelines set forth by the IFC in addition to national law. Using a risk ranking system, FMO evaluates its clients and imposes certain requirements; this typically requires an Environmental and Social Action Plan (ESAP) that outlines an agreement between FMO and the client to achieve or maintain compliance within a timeframe, which is monitored using the bank’s Sustrack monitoring system. The management board is ultimately responsible for creating policies, while day-to-day implementation lies with the directors of the five divisions (Energy, Financial Institutions, Agribusiness & Diverse Sectors, Private Equity, and Financial Markets) and the manager for sustainability, who collaborates with an in-house ESG specialist to resolve any issues or questions on sustainability.

Noteworthy Innovation with Ecosystem Services or Natural Resources
In support of its commitment to advancing sustainability principles among its clients, the bank has developed innovative tools, the Environmental and Social Risk Management Tool for Private Equity Investment and the Microfinance Institutions and Small and Medium Enterprises Sustainability Guidance E-Learning Tool, both of which are freely available for download from its website.

The risk-management tool helps private equity investors to better understand the environmental and social risks related to projects, and is highly integrated and aligned with IFC performance standards. The tool provides information on environmental and social risks for lending institutions and instructions on how to incorporate environmental and social sustainability principles into business practices. The bank provides a staff contact for users to access additional information and assistance, if needed. Another innovative feature FMO has applied in some of its financings is the “margin reduction scheme,” whereby clients pay a lower risk margin after implementing agreed-upon environmental risk-mitigating measures.
GOLDMAN SACHS
Investment

Overview
Goldman Sachs is a leading global investment banking, securities, and investment management firm that provides a wide range of financial services to a substantial and diversified client base that includes corporations, financial institutions, governments, and high-net-worth individuals. Goldman Sachs’ Environmental Policy Framework outlines the bank’s environmental considerations related to operations, market making and investments, research, public policy (through funding the Center for Environmental Markets), business selection, and risk management. Goldman Sachs also addresses environmental considerations through the application of sector guidelines and policies to business selection decisions. To ensure that environmental risks are accounted for in decision-making, the bank’s Environmental Markets Group provides training and guidance to staff and helps review transactions that could have environmental sensitivities across nine specific sectors (including forestry, water, metals and mining, and biofuels). The bank also engages in advancing effective market-based solutions to critical environmental issues (see below). It has developed partnerships with NGO groups, such as the Natural Resources Defense Council on energy efficiency issues and the World Resources Institute on water risk issues. Goldman Sachs raised over $24 billion in financing and invested close to $4 billion in clean energy and environmentally beneficial projects from 2006 through 2011. It recently extended its long-standing commitment to support clean energy by establishing a decade-long target of $40 billion in financing and investment to promote clean technology.

Noteworthy Innovation with Ecosystem Services or Natural Resources
Goldman Sachs has developed a number of innovations that help foster stronger environmental considerations, including Center for Environmental Markets and GS SUSTAIN. The Center for Environmental Markets “conducts independent research with partners to explore and develop public policy options and tools for furthering market-based solutions to environmental challenges.” In addition, Goldman Sachs seeks market-making and investment opportunities in multiple environmental markets, including renewable energy and emission trading, and seeks to develop environmental markets, such as “market maker in emissions trading (CO2, SO2), weather derivatives, renewable energy credits, and other climate related commodities.” GS SUSTAIN is the long-term investment strategy of Goldman Sachs’ Global Investment Research division (GIR). GS SUSTAIN is focused on identifying the companies in each industry best positioned to deliver long-term outperformance through sustained industry leadership and profitability. The GS SUSTAIN framework integrates analysis of companies’ ESG performance with traditional economic analysis.
HSBC
Commercial/State-Owned

Overview
HSBC is a global banking institution with locations in more than 85 countries. In addition to the United Kingdom, HSBC has a significant presence in Brazil and Mexico, with over 1,000 offices in each country (as compared to 480 in the United States). HSBC offers a comprehensive list of services to its clients in both established and emerging markets.

HSBC has five sector-specific policies related to sustainability and consideration of impacts on natural resources (forest land and forest products, energy, chemicals, mining and metals, and freshwater infrastructure). Policies are developed in consultation with customers, NGOs, and sector- and/or market-specific groups within HSBC’s own Global Banking and Markets business that have expertise in particular sectors, such as renewable energy finance. HSBC’s Group Corporate Sustainability team is responsible for developing policies, all of which undergo review by an HSBC Holdings board subcommittee. The bank has environmental risk managers in 27 countries that oversee implementation of its policies and conduct employee trainings, all of which serve to support implementation. HSBC produces annual sustainability reports that include quantitative and qualitative data on performance measurements such as number of customers and deals operating under the Equator Principles, verified by PricewaterhouseCoopers.

Noteworthy Innovation with Ecosystem Services or Natural Resources
HSBC has adopted an innovative customer sustainability rating. The credit risk department rates clients in the five “sensitive” sectors based on the clients’ commitment, capacity, and track record of complying with HSBC’s sustainability policies. HSBC has integrated the sustainability rating with its credit risk rating, which increases efficiency during deal assessments and monitoring. Unlike most banks, which have different departments responsible for credit risk assessment and sustainability risk assessments, HSBC integrates these activities into one department and facilitates the display of all information in one place. HSBC now uses a computer system to create fully functioning, integrated technology systems. At any one time, the bank can search and print out a list of customers based on their sustainability rating in a given sector and display a comprehensive picture of the client. This information is reported annually in the bank’s Sustainability Report, which is made available at www.hsbc.com/sustainability.
INTERNATIONAL FINANCE CORPORATION
Bilateral/Multilateral

Overview
IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector. IFC helps developing countries achieve sustainable growth by financing investment, mobilizing capital in international financial markets, and providing advisory services to businesses and governments. IFC also provides risk mitigation and advisory services, including corporate governance, resource efficiency, and sustainable and inclusive investing. In FY12, IFC investments reached an all-time high of more than $20 billion. Through its advisory services, IFC helps private enterprises adopt recognized environmental, social, and trade standards. Currently IFC is helping banks in client countries to adopt and implement risk-management systems, to improve their awareness of the environmental and social impacts of their financing decisions.

Attention to environmental and social risks and impacts has been central to IFC’s financing decisions for more than a decade. In 1998, IFC modified and adopted the World Bank’s Safeguard Policies for its own use. These provided guidelines for IFC and its clients on how to prevent and mitigate undue harm to people and their environment in the identification, preparation, and implementation of projects. IFC adopted the Policy and Performance Standards on Social and Environmental Sustainability in 2006. The bank recently updated its performance standards. The revisions, which became effective on January 1, 2012, reflect the evolution in good practices around environmental and social risk management that should be addressed at the company level, as well as developments in IFC’s changing business model that include increased attention to climate change, supply-chain management, conservation of natural resources, and ecosystem services.

Noteworthy Innovation with Ecosystem Services or Natural Resources
Recently, the IFC took a “big step forward” in regards to explicit engagement with ecosystem services. Its updated Performance Standard 6 on Biodiversity Conservation and Sustainable Management of Living Natural Resources introduces new requirements for companies to systematically assess their impacts on ecosystem services and consider the ways in which their supply chains impact natural habitats. Ecosystem services are defined as the benefits that people, including businesses, derive from ecosystems. The objective is to ensure that companies maintain the benefits from ecosystem services and look beyond their immediate project footprint to better assess how their operations affect natural resources that surrounding communities depend on. Performance Standard 6 also establishes the objective of maintaining “the benefits of ecosystem services” and specifically calls on clients to “avoid impacts on biodiversity and ecosystem services.” As the performance standards define client roles and responsibilities for managing projects and the requirements for IFC support, the explicit reference to ecosystem services signals growing attention to this concept in financing decisions.
The International Fund for Agricultural Development (IFAD), an international financial institution, is a specialized agency of the United Nations (UN). IFAD’s goal is to enable poor rural people to improve their food and nutrition security, increase their incomes, and strengthen their resilience. Since 1978, IFAD has invested almost US $14 billion in grants and low-interest loans to developing countries through projects empowering about 400 million people to break out of poverty. IFAD also acts as an advocate for poor rural women and men. Its multilateral orientation provides a strong global platform for discussing rural policy issues and increasing awareness of why investment in agriculture and rural development is critical to reducing poverty and improving global food security. IFAD’s resources are available to any member state.

Since the early 1990s, IFAD has been conscious of the need to consider the impacts of its practices on the environment. In 1994, IFAD introduced formal procedures for environmental assessment that apply to all of its projects. In 2010, the bank launched its Environment and Natural Resource Management Policy (ENRM), which uses ten best practices related to biodiversity, crop production, energy, fisheries and aquaculture, forestry, infrastructure, land, livestock, rural financing, value chains, and water, to guide IFAD’s implementation of a more holistic and ecosystem-based approach. For example, one of the best practices for land is “to support and promote ... integrated land management at scale to manage trade-offs and improve or maintain ecosystem service flows.” The best practices are provided as a resource for staff and partners in developing and engaging in new projects and programs. Moreover, IFAD operates under a results-based measurement framework, and the success of ENRM policy implementation will be assessed against defined indicators.

Noteworthy Innovation with Ecosystem Services or Natural Resources
IFAD currently is active in bringing payments or rewards for ecosystem services programs to rural communities throughout Africa. These programs seek to enhance the environment while encouraging the local users to become stewards and to receive benefits in return. For example, IFAD is financing pilot projects in Kenya, Uganda, Tanzania, and Fouta Djallon, Guinea, under the Pro-Poor Rewards for Environmental Services in Africa (PRESA) program implemented by the World Agroforestry Center (ICRAF). PRESA works in seven sites across East and West Africa to introduce payment for ecosystem services such as carbon sequestration and improved hydrological services.
JAPAN BANK FOR INTERNATIONAL COOPERATION
Bilateral/Multilateral

Overview
Japan Bank for International Cooperation (JBIC) is a financial institution operated by the Japanese government that conducts lending, investment, and guarantee operations. Its mission is to support Japan’s external economic policy through economic cooperation between Japan and overseas countries, by providing resources to foreign investments and by fostering international commerce. JBIC further strives to invest in companies and resources that will contribute to the stability and sustainability of the Japanese economy. JBIC has 21 offices in 18 countries.

Among the four tenets guiding JBIC’s operations is the goal of “promoting the overseas business having the purpose of preserving the global environment, such as preventing global warming.” In practice, JBIC has implemented environmental and social guidelines that are incorporated into a review process for all financing activities and is carried out by the bank’s Environmental Assessment Office. As JBIC strives to advance the Japanese economy as a whole, it has investments in every industry sector analyzed in this report, and its guidelines apply to all sectors. The bank has instituted a monitoring protocol to ensure that investees adhere to environmental and social guidelines. The review and monitoring process involves, among other things, a project environmental impact assessment, examination of mitigation measures undertaken, and evaluation of potential impacts to the environment and communities. The assessment employs client questionnaires, analysis of information from governments and stakeholder groups in the country of operation, and, at times, on-the-ground inspections. JBIC has taken specific interest in developing carbon markets; in 2004 the bank co-founded the Japanese Greenhouse Gas Reduction Fund, which has helped facilitate the purchase of over 100,000 tons of CO2-equivalent carbon credits.

Noteworthy Innovation with Ecosystem Services or Natural Resources
To combat the effects of climate change, JBIC collaborates with a Lifestyles of Health and Sustainability (LOHAS) magazine called Sotokoto to offer a carbon credit purchasing scheme to reduce GHG emissions. The scheme, whereby JBIC facilitates the transfer of carbon credits to customers who have purchased magazine subscriptions, is part of a larger effort by the bank to educate the public about climate change and sustainability initiatives that are accessible to individuals. In doing so, the bank is taking an unconventional approach to influencing and educating customers and stakeholders about bank actions and environmentally motivated consumer choices.
JPMORGAN CHASE & CO.
Investment

Overview
JPMorgan Chase & Co. (JPM) is a leading global financial institution operating in more than 60 countries. An Environmental and Social Risk Assessment Policy guides the bank’s integration of environmental and social impact analysis into its decision-making processes. JPM has developed specific credit lending policies to direct activity in sectors that affect biodiversity, and researchers have pointed to JPM as a leader in addressing biodiversity issues. The bank uses an online environmental and social risk management training module to build bankers’ capacity to engage clients on key environmental issues by educating them about “key risks within certain sectors” and providing “detailed case studies.” To date, over 10,000 staff members have completed the training. The bank publishes annual corporate responsibility reports that its shares publicly on its website. JPM is also a member of Conservation International’s Business and Sustainability Council, which consists of “corporate leaders committed to taking positive actions for nature conservation and sustainable development within their companies.”

Noteworthy Innovation with Ecosystem Services or Natural Resources
JPM uses innovative tools to assist in due diligence and screening processes. In particular, it uses the Integrated Biodiversity Assessment Tool (IBAT), designed to provide businesses with current biodiversity information that can help inform their decision-making process. JPM provided a series of grants to Conservation International to develop the tool in collaboration with multiple actors, including Birdlife International, IUCN, and UNEP, with the goal of informing business by providing current and relevant biodiversity information. JPM uses this tool to assess clients operating in sensitive sectors and in assessments for assets and due diligence.
Overview
The National Australian Bank (NAB) takes a comprehensive approach to consideration of natural resources and ecosystems, integrating it into policies, governance structures, financing decisions, and monitoring and reporting. NAB explicitly recognizes in its environmental policies both its direct impacts on natural resources, through internal operations, and its indirect impacts, through client activities. The bank also recognizes that environmental factors, including climate change, can affect risk at the asset, business, and enterprise levels. To assess and manage this risk, NAB maintains a risk governance and oversight framework that starts at the board level, ensuring implementation throughout the bank. NAB also requires individual businesses to manage risk in a way that is consistent with the bank’s requirements. It has adopted robust monitoring and reporting, undertaking annual corporate responsibility reports and reporting on GHG emissions. Additionally, the bank produces a series of “Digging Deeper” reports that expand on selected issues, such as the bank’s engagement with environmental issues and supply chains.

In recent years, NAB has won two environmental awards (2011 United Nations Association of Australia World Environment Day Awards for Sustainability Leadership and the Clean Glasgow Awards), and has been a finalist for four sustainability awards.

Noteworthy Innovation with Ecosystem Services or Natural Resources
NAB is one of the first banks to refer explicitly to the concept of ecosystem services and to acknowledge the importance of natural capital, recognizing that “without a natural value lens across decision-making … [the bank] may be blind to significant risks and threats to future business sustainability.” The bank also states the importance of “incorporating consideration of biodiversity and ecosystem services into our business policies and procedures, from risk assessment to operations and supply chain decisions.” Currently NAB is investigating how to integrate consideration for ecosystem services into its business model, including the risk management and framework. It also is undertaking research into biodiversity-related product and services. NAB was one of the first signatories to the Natural Capital Declaration.
RABOBANK
Commercial/State-Owned

Overview
Rabobank, a global bank with a presence in 44 countries, began as a cooperative, agriculturally focused bank in the Netherlands. Today it remains a cooperative bank and focuses on food and agribusiness. Rabobank offers retail and wholesale banking services as well as asset management and investment services.

Rabobank’s corporate social responsibility (CSR) policies focus on four areas: 1) encouraging clients to act responsibly through the adoption of best practices, 2) assisting clients to invest responsibly, 3) supporting community partnerships, and 4) striving to reduce impacts on climate by reducing the bank’s greenhouse gas emissions. Rabobank has a significant number of policies, the majority of which relate to agribusiness, that specifically outline its engagement in particular production industries, such as soy, cacao, palm oil, coffee, cotton, forestry, and aquaculture. The bank also has sector-specific policies related to mining and oil and gas, as well as region-specific policies, as evidenced by its Social Environmental Policy for Brazil. In addition to encouraging individual staff to adopt sustainability practices in their everyday actions, the bank requires each member of the Rabobank group to set targets for CSR that are reviewed and monitored annually. Oversight rests with the Cooperative and Sustainable Business Directorate and the executive board.

Noteworthy Innovation with Ecosystem Services or Natural Resources
Rabobank is one of the few banks we researched that has sector-specific policies targeting fisheries and aquaculture. It has two separate policies to govern these sectors: the Wild Catch Supply Chain Policy and the Aquaculture Supply Chain Policy. The bank seeks to encourage all actors in the supply chain to adopt sustainable best practices in order to move these industries to be more sustainable and environmentally friendly. Not only does the bank evaluate customers based on their practices, its aquaculture policy considers impacts to water quality and biodiversity, among others; its wild catch policy requires companies to obtain certification from a credible certifying organization such as the Marine Stewardship Council (MSC).
TRIODOS BANK
Investment

Overview
Triodos Bank was founded to be a “sustainable bank.” Its environmental policy articulates this commitment, and the bank finances only clients who contribute positively to society and the environment. It predominantly serves European markets, lending to small and medium-sized companies. Triodos Bank has branches in the Netherlands, Spain, Belgium, the United Kingdom, and Germany, but engages in markets outside of Europe through its fund and investment offerings. The bank offers a range of socially responsible investment (SRI) funds, bonds, and equity, which invest in businesses, institutions, and charities that demonstrate strong environmental and social performance.

The bank’s policy also describes its commitment to developing a company culture and EMS that fosters the effective implementation of its policies and transparent reporting on environmental policy indicators. In addition to the EMS, Triodos Bank uses both negative and positive screens to make lending and investment decisions, the summaries of which are available online. To verify a company’s credibility, Triodos Bank workers meet entrepreneurs in person, and where appropriate seek out third-party certification as an indicator of performance. The bank has developed lending criteria and identified “non-sustainable products or services” that are automatically ineligible for financing (e.g., biomass-dependent energy products). Triodos Bank also publishes details of all its loans so that customers can assess the social and environmental credentials of its funding decisions.

Noteworthy Innovation with Ecosystem Services or Natural Resources
Triodos Bank is an innovative example of a bank’s engagement with ecosystem services for the following two reasons:

1. Founded with the purpose of promoting environmental and social sustainability: Triodos’s sustainable development and environmental considerations are engrained in its mission; consequently, they are ubiquitous throughout the bank’s operations and culture. As a result, projects that do not promote and contribute to the advancement of a more sustainable society are not considered.

2. Demonstrates that a bank conscious of environmental and social impacts can be profitable: Despite not prioritizing economic return in its lending decisions, Triodos Bank grew by 30 percent in 2009, a time when many banks were struggling.
Overview

UBS is the world’s largest private wealth asset manager and the second-largest European bank. The bank offers asset management, investment banking, and wealth management, and operates in over 50 countries. Criteria and frameworks for incorporating environmental risk into bank decision-making are developed by UBS’s group chief risk officer. The institution’s environmental policy is applied to “all transactions, services and activities involving environmental issues entered into by or on behalf of UBS in the course of business.”

UBS claims to be the world’s first bank to obtain ISO 14001 certification for its worldwide EMS. The bank applies sector-specific guidelines to a host of industries, applies a position on controversial activities, and has committed to seven additional voluntary guidelines and principles, including GRI and the UN’s Principles for Responsible Investment.

Noteworthy Innovation with Ecosystem Services or Natural Resources

Two UBS practices represent innovative engagement with ecosystem services:

1. UBS has assimilated the services of an advanced automated analytics software from RepRisk to monitor client ESG risks. The software allows for a more thorough vetting process than the bank would otherwise be able to employ. RepRisk receives information from a variety of sources, such as government agencies and various media sources, that allows UBS to monitor the activities and reputation of its clients. The software can alert the bank to any potentially serious client activities, including negative impacts on the environment.

2. UBS is one of a small handful of institutions that employ an impact-based incentive structure for general partners. This structure, which is applied to funds-of-funds, involves an impact coefficient that is calculated based on the number of predefined social benchmarks achieved by investments. The coefficient, which falls between zero and one, is multiplied by a given percentage, with the resulting figure representing the proportion of a fund’s returns earned by the general partners. In this manner, compensation is tied to both the financial and social performance of a fund.
WELLS FARGO

Overview
Wells Fargo is the fourth-largest bank in the United States, with US $1.3 trillion worth of assets under management as of March 2012. The bank focuses on three primary lines of business: community banking, wholesale banking and wealth, brokerage, and retirement. Wells Fargo claims over 70 million customers worldwide. As it does business across the globe, Wells Fargo has major offices in London and Hong Kong, in addition to its headquarters in San Francisco, California.

Wells Fargo is a signatory to both the Equator Principles and the Carbon Principles, commitments that the bank believes serve as key drivers in facilitating discussion and understanding of ESG principles among senior lending managers. All investments must pass through risk-management screening, and Wells Fargo employs a separate Environmental Affairs and Social Responsibility team that works in conjunction with the Credit Risk Management Group. In addition, the bank uses the GRI framework in its sustainability reporting and has begun to actively seek out environmentally responsible investment opportunities. To complement and expand upon the environmental and social impact of its investments, Wells Fargo also fosters relationships with a wide range of NGO and nonprofit partners. In 2011, Wells Fargo’s foundation arm contributed US $213 million to over 19,000 organizations.

Noteworthy Innovation with Ecosystem Services or Natural Resources
Wells Fargo strives to be a leader in financing sustainable investments. In 2011, the bank provided US $2.8 billion in environmental loans and investments, bringing its total to over US $11.7 billion since 2005. The bank invested more than US $450 million in solar photovoltaic projects and more than US $200 million in wind projects, and has pledged to provide US $30 billion in loans and investments aimed at “building a greener economy” by 2020. Most of these investment dollars are projected to support clean technology, renewable energy, and energy-efficiency projects. In general, the bank seeks “relationships with companies that are managing their businesses in a responsible manner.” Wells Fargo uses enhanced due diligence questionnaires and guidance to direct its engagement in potentially harmful industry sectors such as mining, and has developed teams of sector-specific specialists to inform lenders of risks and opportunities.
APPENDIX D: ADDITIONAL INFORMATION FOR HIGHLIGHTED MILESTONES FROM FIGURE 4 OF REPORT

Timeline Description:

**WAVES Initiative:** Described on page 47.

**Natural Capital Declaration:** Described on page 23.


**Equator Principles:** Described on page 23.

**Global Reporting Initiative:** Described on page 23.


**IFC’s Safeguard Policies:** Safeguards describe how to “prevent and mitigate undue harm to people and their environment in the identification, preparation, and implementation of projects.” The safeguard policies formed the basis for the Equator Principles. See: http://www.ifc.org/wps/wcm/connect/Topics_EXT_Content/IFC_External_Corporate_Site/ifc+sustainability/sustainability+framework/Safeguards++Pre2006/.

**Bank of America:** Was “the first major US financial services company to endorse the CERES principles, a code of ethics defining corporate environmental policy. These principles were developed by a coalition of investors, companies and environmental groups called the Coalition for Environmentally Responsible Economies (CERES).” From: Web. 9 July 2012. http://www.iisd.org/business/banking/sus_timeline.aspx.


**UNEP Initiative:** Was developed “to promote the integration of environmental considerations into all aspects of the financial sector’s operations and services.” From: Web. 9 July 2012. http://www.iisd.org/business/banking/sus_timeline.aspx.


**Fleet Factors Case:** Court held that a secured lender can be liable for environmental damage that occurs on a client’s property. The case prompted many US banks to integrate environmental risk into their risk assessment tools. From: Dongmei, Qu. “Lenders Liability of Commercial Banks in Environmental Tort: Focusing on American Law.” Journal of Politics and Law 3.2 (2010): 94-100.
ENDNOTES

EXECUTIVE SUMMARY


5. Informant interview.

SECTION 1


SECTION 2


The Banking Sector and Ecosystem Services: A Meta-Analysis


19. Ibid.


23. Informant interview.

24. Ibid.


26. Ibid.

SECTION 3

27. Informant interview.

28. Ibid.

29. Ibid.


36. Informant interview.


39. Ibid.


44. Informant interview.


SECTION 4


57. Informant interviews.


61. Informant interview.

62. Ibid.


64. Ibid.

65. Informant interview.

66. Ibid.

67. Ibid.

68. Ibid.


70. Ibid.

71. Informant interview.

72. Ibid.

73. Ibid.


77. Informant interview.


79. Informant interview.


81. Informant interview.
The Banking Sector and Ecosystem Services: A Meta-Analysis

SECTION 7


SECTION 9

Informant interviews.


136. Ibid.


SECTION 10

140. Informant interview.

141. Ibid.


145. Informant interview.


147. Informant interview.

148. Ibid.


SECTION 11


APPENDIX C


164. Ibid.


166. Ibid.


172. Ibid.


178. Ibid.


182. Informant interview.


Ibid.


Ibid.


Informant interview.