



The activities of banks have come increasingly under the spotlight in recent years and the advent of the 'credit crunch' in 2008 has added to a growing trend for banking operations to become more ethically orientated. This has come from a variety of sources, through institutional investment, with the rise of the Socially Responsible Investment (SRI), and from a recognition by NGOs and other organisations that the banking sector occupies a key role in providing funding and support to business and governments around the world - sometimes with negative environmental and social consequences.

The impacts of banking have two fundamental dimensions; internally in the way that banks manage the social and environmental issues that arise through their operations, and externally in the way that they conduct their business.

The issues

Key internal issues

As large employers and purchasers in their own right, banks have a significant direct role to play in managing and minimising the negative environmental and social issues in their own operations.

Broadly speaking, as with any large organisation, these direct impacts include the following:

- Energy use
- Water use
- Employment practice
- Procurement activities (which may have a poverty and human rights dimension with regard to issues such as the purchase of staff uniforms)
- Fair wages (which have raised poverty issues in the UK, with a focus upon cleaners and contract staff)



Key external issues

The major impacts of banking with regard to poverty and human rights lie in their policies and practice on lending and investment and include the following:

- Dams
- Military industry and arms trade
- Human Rights
- Indigenous Peoples
- Labour

Dams

The construction and funding of major dams has been an increasing priority over the past decade. The World Commission on Dams estimates that dam construction has displaced between 40 and 80 million people worldwide, often without adequate compensation or the restoration of their livelihoods. Such activities can therefore be a major contribution towards the exacerbation of poverty.

Military industry and the arms trade

War is one of the major sources of global poverty. Campaigning organisation 'War on Want' estimates that 80% of the world's poorest countries have suffered a war in the past 15 years and that nine of the ten countries with highest rates of child mortality have been affected by conflict in recent years.

Human Rights

The link between poor human rights and poverty are well established. Within the context of banking and finance the issue arises where banks lend money to companies or projects that do not sufficiently protect the human rights of those employed by the company in question or of people who are affected by the project.

Indigenous Peoples

Indigenous people are increasingly affected by a number of industrial sectors funded and supported by the banking industry. As sectors such as agriculture, forestry, oil & gas and mining seek to develop operations in undeveloped areas of the world, their priorities can clash with those of indigenous peoples. This can result in poverty impacts such as landlessness, destruction of existing social structures, forced migration and a range of health issues.

Labour

Labour conditions and the right to a fair wage are critical aspects of poverty alleviation. Banking policies with regard to the rights and benefits provided to workers of those companies in which a bank invests are therefore critical.

Possible solutions

There is no one clear label or system which indicates the policy and practice of banks with regard to poverty and other social and environmental issues. However, there are a number of initiatives which indicate the engagement of banks on the issue and also approaches towards demonstrating progressive practice.

The Equator Principles

The Equator Principles are a set of guidelines developed by the banks for managing social and environmental issues related to the financing of development projects. Many of the UK's high street banks are signed up to these Principles.

Industry sectors covered include mining, oil and gas, and forestry. Participating banks are required to report annually on their progress in applying the principles and integrating them into their investment practices.

World Commission on Dams (WCD)

The WCD has developed, through a multi-stakeholder process, a framework covering key areas for improved planning of dams, including the need to fully assess all available options for meeting water and energy needs; addressing outstanding social issues from existing dams before building new ones, gaining public acceptance for key decisions and the importance of protecting healthy rivers. A number of UK high street banks are committed to following the WCD framework for their infrastructure investment activities.

UN Norms – Human Rights and the Rights of Indigenous Peoples

The United Nations has produced two sets of standards, referred to as "Norms" - these are the "UN Human Rights Norms for Business" and the "UN Declaration on the Rights of Indigenous Peoples". Banks have been encouraged to accept and apply these through their investment operations, to ensure that companies and countries in receipt of finance respect and abide by these standards.

Socially Responsible Investments

These terms cover the core activities of banks and the way they identify and seek to minimise negative social and environmental impacts of investment activities. Socially responsible investment (SRI), which currently makes up between 5 – 10% of total UK investment activity, tends to avoid investment in so called "sin stocks", generally recognised as companies involved in alcohol, tobacco, arms, gambling and pornography. In addition, SRI funds tend to use their shareholdings in other sectors to positively engage and to drive improvements in company performance on a range of social and environmental issues. An indicator of engagement in this issue is membership of the UN Principles for Responsible Investment.

BANKING INDUSTRY

Recommendations

- ☉ *Procure banking services from organisations which have signed up to the Equator Principles and the World Commission on Dams framework.*
- ☉ *Ensure banking services are provided by companies which have signed up to and require investee companies to accept the UN Human Rights Norms for Business and the UN Declaration on the Rights of Indigenous Peoples.*
- ☉ *Procure banking services from organisations which have signed up to the UN Principles for Responsible Investment.*

REFERENCES/FURTHER INFORMATION

BankTrack (2007) Mind the Gap: Benchmarking Credit Policies of International Banks.
www.banktrack.org/download/mind_the_gap

Eurosif – The European Social Investment Forum, has a series of SRI studies by country:
www.eurosif.org/publications/sri_studies and also a series of sector theme reports: www.eurosif.org/publications

International Rivers provides the following introduction to the World Commission on Dams.
www.internationalrivers.org/en/way-forward/world-commission-dams/world-commission-dams-framework-brief-introduction

UN Principles for Responsible Investment, including a list of signatories: www.unpri.org

War on Want (2008) Banking on Bloodshed: UK high street banks' complicity in the arms trade.
www.waronwant.org/campaigns/corporations-and-conflict/banking-funding-the-arms-trade/inform/16327-banking-on-bloodshed

This sheet is part of a series of 14 on different commodities written for EAUC's Promoting Poverty Aware Procurement project to enable universities and colleges to be more aware of poverty issues when they make procurement decisions. For more information about the project visit www.eauc.org.uk/promoting_poverty_aware_procurement_on_campus