

Happy Birthday Equator Principles - Who's not at the party?

By Andy Mason, SRI Analyst, Standard Life Investments, 01/06/2013

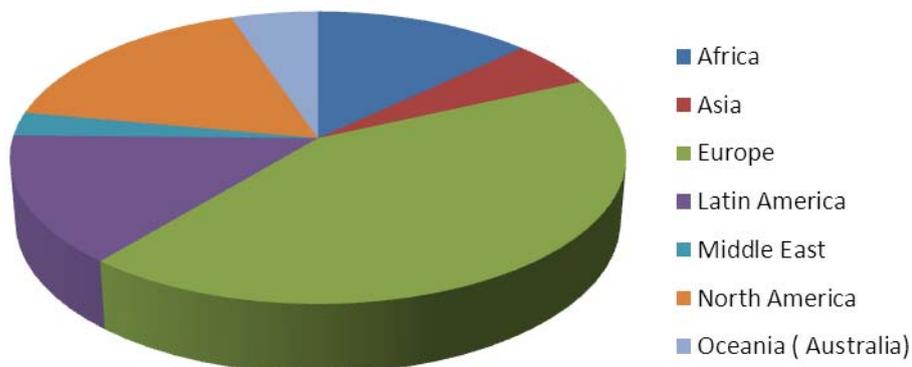
This month saw the 10th Anniversary of the Equator Principles. A voluntary standard for managing social and environmental risk in project finance transactions, and the launch of the latest version of the standard, EP III.

After an extensive consultation period, which was probably gruelling for some, the 'EP banks' are celebrating with 'handshakes all round' on the completion of EP III. In my opinion, this is well-deserved. Generating input from and consensus amongst its 77 signatories, clients, investors, industry bodies and NGOs is no mean feat. I have difficulty reaching agreement on what a family of five should have for lunch.

However, on closer inspection, there are questions around who exactly is invited to the celebration - or, for that matter, who wants to attend. Over forty percent of EP signatories are European banks. Previously this could have been accredited to the - predominantly European - initial signatories, or to Europe's appetite for project finance. After ten years, however, surely this should have changed.

According to the latest data from *Project Finance Magazine*, European banks do not dominate the top ten mandated lead arrangers (MLAs) of project finance in 2012. This space is reserved for the Asian banks who continue to drive their economies with large infrastructure projects. Of course, the level of exposure to project finance is not the only driver to become a signatory to the EPs and many banks use the principles to inform their other social and environmental lending policies. Nor are the Europeans completely dominating the celebrations: the former Chair of the EPs was from a North American bank, South American banks make up almost 14% and Africa has ten banks which are signatories.

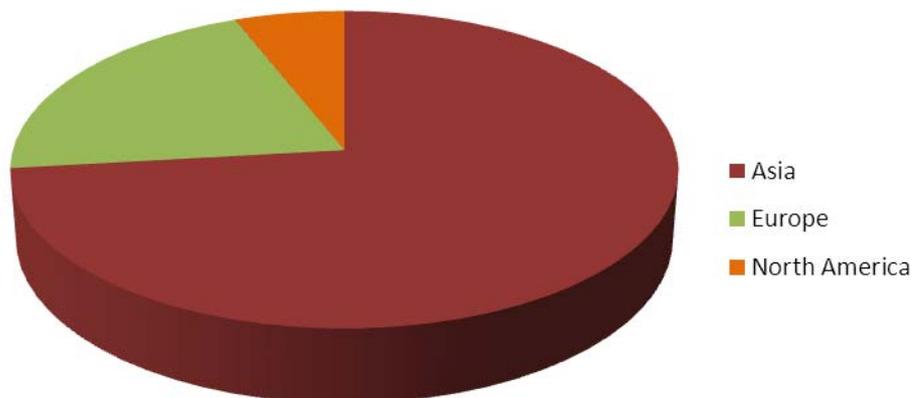
Geographical make up of EP signatories



Source: Equator Principles

Even with this global mix the question of where are the Asian banks remains. Three Japanese banks have bucked the Asian trend and feature among both the ranks of the top ten MLAs of project finance in 2012 and as signatories of the EPs. Besides this group the EP's only other Asian signatory is the Industrial Bank of China, or if we were to be very generous could include HSBC, as a result of its strong ties to the region. The reasoning behind this lack of representation remains uncertain, however Asia's project finance activity is unambiguous, as represented below.

Global League Tables: Top Ten MLA – Full Year 2012



Source: Project Finance Magazine

I should make clear that this is not a recruitment drive on behalf of the Equator Principles nor is it a criticism of how Asian banks approach social and environmental issues when providing project finance loans. It does however raise questions over:

- How relevant the EPs are to the largest project finance deals?
- Why some Asian banks have chosen to abstain?
- What approach they take instead?
- Finally, what, if any, will the celebrations for the twentieth anniversary of the EPs look like?