

Freshwater Infrastructure Sector Guideline

Objectives

Fresh water is a finite and vulnerable resource, essential to sustain life, development and the environment. The United Nations Millennium Development Goals set a target of reducing by half the number of people who do not have access to clean water and sanitation by 2015. Provided sustainability risks are well managed, this represents a significant opportunity for the HSBC Group. However, whilst the opportunities are large, so are the potential risks if the Group supports projects that do not deliver the anticipated sustainability benefits, or have adverse environmental and social impacts.

The purpose of this guideline is to ensure that HSBC's involvement in freshwater infrastructure projects is consistent with our long-standing commitment to sustainability, given the high environmental and social risks inherent in the sector. In addition to stating where we are and are not prepared to participate, the guideline outlines the standards that customers operating in this area are expected to meet.

Scope

This guideline applies to direct lending or other forms of project finance only, including corporate lending and other financial support where the use of proceeds is known to be project-related. It covers water resource management, water services and infrastructure but, at this stage, excludes water usage and other human activities that have an impact on water.

Sector lending guideline

HSBC's sector guidelines expand on our *Environmental Risk Standard*, issued in 2002, and on our adoption in 2003 of the Equator Principles, a set of voluntary guidelines that apply to project finance (log on to www.hsbc.com/equatorprinciples for more information). In adopting the Principles, the Group has undertaken to ensure all new, applicable project finance proposals fall within its requirements. In addition, in respect of facilities involving dams, the Group will follow the World Commission on Dams (WCD) Framework for Decision-making ('WCD Framework').

In particular, we will not provide facilities and other forms of financial assistance, including any involvement in debt and equity capital markets activities and advisory roles, to:

- Dams that do not conform to the WCD Framework.
- Projects located in, or substantially impacting on:
 - critical natural habitats, where the project significantly degrades or converts them;
 - sites on the Register of Wetlands of International Importance of the Ramsar Convention on Wetlands ('Ramsar List') (see overleaf); and
 - UNESCO World Heritage Sites.

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Sector lending standard

HSBC prefers to finance projects in this sector that are operating within the following internationally, regionally or nationally accepted standards:

- WCD recommendations – established in 1997, the WCD recommended international guidelines and standards for dam construction and other water infrastructure projects to follow (see www.dams.org).
- United Nations Environment Programme (UNEP) Dams and Development Project – based on the WCD's recommendations, this is the main international body aiming to improve decision-making, planning and management of dams.
- World Bank and International Finance Corporation (IFC) safeguard policies – part of the World Bank Group, the IFC promotes the private sector investment needed for the World Bank Group to achieve its aims, including the Millennium Development Goals.
- The Ramsar Convention on Wetlands – an inter-governmental treaty providing the framework for national action and international co-operation for the conservation and use of wetlands (see www.ramsar.org).
- Integrated River Basin Management – a means of balancing water management across whole river basins, in order to achieve economic, social and environmental goals.
- The European Union Water Framework Directive – established in 2000 to bring EU water policies into one framework and to ensure that all water bodies attain good ecological status by 2015, and do not deteriorate.

Social impacts

Certain World Bank/IFC safeguard policies and WCD standards cover social as well as environmental impacts on affected societies. These include land title and land use rights, the rights of indigenous peoples, community relations and workers' rights, economic benefits from land use, proper use and disposal of chemicals, biological control agents and non-organic wastes. HSBC will ensure that customers observe international standards in respect of these social impacts.

Summary

This sector guideline outlines the framework for HSBC's involvement in freshwater infrastructure projects. It is based on widely recognised international standards, which are considered acceptable to many stakeholders including industry participants, multilateral development agencies and some international non-governmental organisations.

This is, however, a complex and evolving sector and one where standards vary country by country. It is, therefore, not possible for HSBC to put in place a prescriptive guideline covering all aspects in detail at the local level. Although individual offices are expected to make reasoned, common sense judgements in implementing this guideline, exceptions will be rare.