Responsible Banking

Special Focus on

Micro, Small and Medium Enterprises

MSME

giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

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Foreword

The IICA-GIZ CSR Initiative is a bilateral project between the Indian Institute of Corporate Affairs (IICA), a think tank and training institute established by the Ministry of Corporate Affairs and the Deutsche Gesellschaft fur Internationale Zusammenarbeit (GIZ) GmbH.

The report prepared under the aegis of the project provides a snapshot of the role and significance of the financial institutions (FIs) in fostering Business Responsibility (BR), particularly in the context of MSMEs in India, and is in line with the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business released by the Ministry of Corporate Affairs.

Responsible banking lays stress on the environmental and social consequences of projects and financial products, rather than just the economic and financial impact. The study was conducted with the objective of understanding the extent and ways in which the international and national FIs foster BR among enterprises through responsible lending and also map international and national BR instruments related to FIs for sustainable lending.

A special focus was placed on MSMEs in this report as they constitute over 90% of the total enterprises in most economies of the world and are credited with generating the highest rates of employment growth as well. As per the available statistics (4th Census of MSME Sector in India), this sector employs an estimated 59.7 million persons spread over 26.1 million enterprises. It is estimated that in terms of value, the MSME sector accounts for about 45% of the manufacturing output and around 40% of the total export of India.

I strongly recommend this report to the policy makers, financial institutions, banks, MSMEs, CSR practitioners and all other stakeholders. It will help them develop a deeper understanding of the concept of BR. This will further facilitate the growth of responsible MSMEs leading to the strengthening of the BR agenda at large.

Dr. Bhaskar Chatterjee
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The accuracy and completeness of information provided herein and opinions stated herein are not guaranteed or warranted to produce any particular results and the advice and strategies, contained herein may not be suitable for every individual or organization. The IICA-GIZ CSR Initiative Project shall not be liable for any loss incurred as a consequence of the use and application, directly or indirectly, of any information presented in this document.

This document is written with the objective of highlighting the complexity of the subject and is not meant to make a value judgement or endorse any organization or individual.Information in this document relates to a subject that is changing regularly.

No responsibility is held for any changes to websites or phone numbers listed within the book.

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Executive Summary

"No success or achievement in material terms is worthwhile unless it serves the needs or interests of the country and its people." -Mr. J.R.D. Tata

Numerous definitions of 'Corporate Social Responsibility' (CSR) appear in literature. The definition given by 'The World Bank' appears most appropriate in the context of our study. The World Bank defines CSR as "the commitment of business to contribute to sustainable economic development working with employees, their families, the local community, and society to improve their quality of life, in ways that are both good for business and good for development"[1]. Historically CSR has been associated with large corporations. However, in this document CSR has been referred to as 'Business Responsibility' (BR) as this term addresses a more complete range of issues and broadens the panorama of responsible practices. This is also in line with the 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business' released by IICA in the year 2011 under aegis of 'Ministry of Corporate Affairs' (MCA), Government of India (GOI). The guidelines were formulated under IICA-GIZ CSR initiative.

Small business is the engine of economic growth and development in many parts of the world, providing significant employment, varied products and essential services. In India, Micro, Small and Medium Enterprises (MSMEs) contribute 8.72% to the Gross Domestic Product (GDP[2]). In addition to generating gainful employment and wealth, it is imperative for MSMEs to broaden the gamut of BR agenda to ensure that they become responsibly competitive.

Financial Institutions (FIs) support the growth of these MSMEs with targeted credit and equity financing. This report aims to assess the relationship between promoting economic growth among MSMEs and BR in the context of FIs. The report puts forth a comparative study of these BR practices in place among the International and Indian banks and the way they shape responsible businesses through responsible financing.

The methodology adopted to comprehend select corporate policies and practices of FIs was primary and secondary survey of select FIs. International principles and conventions pertinent to FIs that provide an array of opportunities for sustainable lending were also studied.

There are very few studies that discuss the importance of financial sector with respect to their role in supporting responsible businesses. This study brings to table key differences between the way FIs adopt responsible behaviour in the developed economies and India. The differences are highlighted in the framework of adoption of 'Global Sustainable Lending Principles' (GSLPs) and choice of activities that help businesses achieve social and environmental responsibilities. This study finds that while international FIs have well defined socio-environmental policies integrated in the lending portfolio, few Indian banks have similar policies in place; nonetheless they ensure financial inclusion through priority sector lending (PSLs) and special schemes of assistance or development programmes. Reserve Bank of India (RBI) is pivotal in Indian banking to mandate inclusive banking for all banks operating in India.

Banks across the world have initiated special programmes of assistance and development projects and have made efforts to address and support various developmental concerns. As an exploratory study, this report provides a snapshot on the role and significance of FIs in fostering BR, particularly in the context of MSMEs in India. The need of the hour is to go beyond ongoing credible initiatives and innovate to

[1] Striking a better balance, Vol. I, The World Bank Group and extractive industries, the final report of the extractive industries review, December 2003, p. 1

[2] Annual Report 2010-11, Ministry of MSME, Government of India, Page no: 19, Chapter II: Growth & Performance

exploit the available opportunities for carrying forward business and socio-environmental responsibility agenda in tandem. BR in its broader and more holistic framework, as outlined in the National Voluntary Guidelines is relatively a new concept and thus needs to evolve. Most of the welfare initiatives that have been in practice both by the banks as also the business houses are philanthropic activities and mainstreaming social, environmental and economic responsibilities calls for a new paradigm, experimentation and execution.

Government has several schemes aimed towards inclusive banking, to which public sector banks (PSBs) in particular have to subscribe to, in addition to RBI guidelines. Some of these policies are described below:

Scheme	Description
Partner in Government initiatives on inclusion	All public sector and regional cooperative banks are partners in the implementation of government welfare schemes for the weaker and underprivileged section of the society. In the Kisan Credit Card (KCC) Scheme,[3] the PSBs and cooperative banks provide KCC to small (relatively poor) farmers to meet their requirements for short-term crop loans. Similarly in Swarna Jayanti Swa Rozgar Yojna (SJSRY),[4] they provide assistance to the 'Below Poverty Line' (BPL) families in rural areas for self-employment. There are a number of such schemes where funding is provided to various target groups identified by the government to meet their specific needs.
PSLs	1. All domestic public and commercial banks are required to ensure 40% of their Net Banking Credit (NBC) as priority sector (PS) advances. Out of this 40%, 18% is for agriculture sector, 10% for weaker sections and 5% for women. 2. All foreign national banks operating in India are required to ensure 32% of their NBC as PS advances. Out of this 32%, 10% is for MSME sector. No sub-target has been fixed for other sectors like agriculture, weaker section and women. 3. All Regional Rural Banks (RRBs) are required to ensure 60% of their NBC as PS advances. Out of this, 15% is for weaker sections.
Reservation Policy	All public sector and cooperative banks are required to reserve 49% of human resource for in-house employment from backward and weaker sections of the society like Scheduled Caste (SC), Scheduled Tribes (ST), Other Backward Communities (OBC), Physically Handicapped (PH) and Ex-servicemen.
Right to Information Act[5]	All public sector and cooperative banks are supposed to maintain a separate cell to deal with 'Right to Information' applications.
Special assistance to Minority	All public sector and cooperative banks (operating in these areas) are required to open new branches in under-banked/un-banked areas in 90 minority concentration districts in India. New private sector banks are required to ensure

[3] http://www.ccsindia.org/ccsindia/policy/live/studies/wp0011.pdf
[4] http://angul.nic.in/sgsy.htm
[5] www.righttoinformation.gov.in

Scheme	Description
Concentration Districts[6]	that at least 25% of their total branches are in semi-urban and rural centres on an ongoing basis.
Prevention of Money Laundering	All FIs follow the provisions as contained in Prevention of Money Laundering Act[7] to make them financially more stable and transparent.
Aid for natural calamity	All banks provide assistance in cash and kind to people affected by riots/disturbances/natural calamities.
Welfare of Physically Handicapped (PH)	All banks are required to ensure that 1. Bank Branches/ATMs are made accessible to persons with disabilities. 2. Banking facilities are provided to Visually Impaired Persons. 3. Banks should make at least one third of new ATMs installed as talking ATMs with Braille keypads and place them strategically in consultation with other banks to ensure at least one talking ATM with Braille keypad is available in each locality to cater to needs of visually impaired persons[8].
Welfare of Senior Citizens	1. All Banks have Special deposit schemes/products for senior citizens at higher rate of interest as compared to similarly placed schemes for other customers. 2. Banks ensure separate queue for senior citizens at the banks' counters for speedy disposal of their work.
Proper Grievance Redressal Mechanism	Public and private sector banks have a proper 'Grievance Cell' for customers and for weaker/minority communities.

Source: Reserve Bank of India Guidelines. www.rbi.org.in/scripts/NotificationUser.aspx

A sample of six Indian banks has been studied under this report to analyse their BR practices. It has been found that the Indian banks also take some initiatives to address BR issues voluntarily beyond RBI guidelines or directives of other government bodies. Some of the social and environment initiatives of the six banks have been captured and mentioned in the Table given below. It can be seen from the table below that most of the voluntary initiatives of banks are undertaken as per RBI guidelines and only few of them are beyond the guidelines such as opening of schools in the rural areas or addressing issues such as carbon footprint. A short snapshot of select few voluntary initiatives by six banks is given as under;

SNo.	Bank	Social and Environmental Initiative
1.	Punjab National Bank (PNB)[9]	• Identified 34 pilot projects for implementation in future as per their Annual Report 2008-09 across 13 states for mobile population, rickshaw pullers, vegetable vendors, women, ethnic minorities, socially challenged and other un-served sections. • Tied up with "Kabongram Asa Kashung Shang Social Upliftment

[6] www.minorityaffairs.gov.in/newsite/main/FAQ_Ministry.pdf
[7] www.sebi.gov.in/guide/antimoney.pdf
[8] www.rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?Id=5139&Mode=0
[9] Punjab National Bank, Annual Report 2008-09 pg. 33-41

S.No.	Bank	Social and Environmental Initiative
		Society" (KAKSSUS), a non-government organization (NGO) to enable micro finance activities to reach farmers in the North-Eastern States; so far an amount of Rs 2.69 crores has been disbursed to 874 farmers. • Financial assistance for setting up 5,500 Common Service Centres (CSCs)/E-kiosks for the entire state of Bihar. • During Financial Year (FY) 09 it had established 11 Rural Self-Employment Training Institutes (RSETI) to provide training to the rural BPL youth and women in self-employment activities. • Provides Mobile banking services for weaker/underprivileged section of the society, micro finance, e-kiosks and self-employment training for rural youth.
2.	Canara Bank	• Undertaken several technology initiatives to further financial inclusion process like multi-lingual bio-metric ATMs, voice-enabled mobile bio-metric ATM and launch of Smart Card project. • Memorandum of Understanding (MoU) signed with the Government of Karnataka for implementation of the Smart Card based payment system for 'National Rural Employment Guarantee Programme' (NREGP)/'Social Security Pension' in Chitradurga, Bellary and Gulbarga districts. • Launched 'Gramin Vikas Vahini'- vehicles to spread financial literacy. Within this, 50 vans were operational in 50 districts across India. • Rural Development and Self-Employment Training Institutes (RUDSETIs) have been engaged in training of rural youth for taking up self-employment programmes. Twenty three RUDSETIs, co-sponsored by the Bank, have trained more than 219,000 unemployed youth, with a settlement rate of 68%. • 'Rural Clinic Service Scheme' provides basic health care services in remote areas that lack medical infrastructure facilities. Under the scheme, the bank encourages doctors to set up clinics in identified rural areas. As of March 2009, total number of such clinics was 515.
3.	State Bank of India (SBI)	• Under a novel scheme of 'Adoption of Girl Children' designed by the SBI Ladies Club, over 15,300 poor and destitute girl children were adopted by various branches throughout the country to meet their education expenses. • In order to support its client MSMEs, the bank initiated a special programme in 1989, called 'Project UPTECH' that helped link up its select loanee enterprises to engage with technical consultants to help upgrade their capacities for improved product quality, better productivity and reduced pollution.
4.	ICICI Bank[10]	• Since 2003, ICICI Bank has facilitated employee donations to social causes through 'Give India Foundation' (www.giveindia.org), a platform that enables employees to support

[10] ICICI Annual Report 2008-09 pg. 41-43

S.No.	Bank	Social and Environmental Initiative
		social causes by donating to 100 civil society organizations (CSOs) duly screened for transparency and credibility. Currently about 5,000 bank employees participate in the payroll-giving programme. • 'Read to Lead' programme invests in India's future by facilitating access to elementary education for 100,000 out-of-school children from 6-13 years of age. It aims to provide low income children, including girls, tribal children and children from remote rural areas, with access to education by strengthening the government system of education.
5.	Axis Bank[11]	• Through the Axis Bank Foundation, the bank seeks to define and effectively fulfil its CSRs as a corporate citizen and has therefore agreed to allocate up to 1% of its net profit every year to the Foundation for its activities. • The Foundation has committed grants for projects running up to three years. The programmes cover 12 States through 536 education centres that includes 47,055 children (24,313 girls and 22,742 boys).
6.	YES BANK[12]	• YES BANK enrolled Kashmir Apiaries Export a large honey processor and one of the largest exporters of honey with established honey procurement facilities and relationships with large groups of small honey producing farmers in Northern India. This deal has helped 2,000 farmers, providing individual loans of an average of INR 25,000. The facility provided farmers with immediate access to credit facilities. The farmers were able to obtain higher selling prices for their honey stock, and in turn KAE was able to increase sales turnover. • YES COMMUNITY, a 'Responsible Banking Retail' initiative aims at providing a platform to sensitize and encourage communities surrounding our branches on socio-environmental issues. With the theme of 'Planet Earth' the goal of YES COMMUNITY is to benchmark efforts of society for a safer and healthier society by engaging communities surrounding our retail branches across the country. • Being the only Indian bank to be signatory to 'United Nations Environment Programme Finance Initiative (UNEP FI) sustainable lending principles' puts forth climate change as one of the key sustainable focus areas. • The bank is the first Indian signatory to the 'Carbon Disclosure Project' (CDP) and has accounted its carbon footprint.

In India, lending is largely limited to the credit risk policy; the environmental and social risks make their way only through regulatory directives. On the contrary, international FIs like International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA) strongly consider the socio-environmental issues strongly while lending to corporations and medium sized enterprises.

[11] Axis Bank Annual Report 2008-09 pg. 38, 45
[12] Yes Bank, Corporate Governance Report 2007-08

In recent times some of these activities, including provision of micro finance, are increasingly going beyond philanthropy and being integrated in their core business. The banks have begun to see the business case behind BR initiatives and the RBI has taken a step forward through its guidelines (2007) on development of society and environment to enable and foster BR practices among the banks. However, most of the banks have a limited approach to such initiatives by adherence only to mandatory guidelines and support government schemes. Also, unlike their international counterparts, most Indian banks do not publish any separate report documenting and highlighting their responsible behaviour.

This study does not aim to make any recommendations. The major findings are concluded as provided in Chapter 6, titled 'Manifestations of business responsibility in corporates and MSMEs and the role FIs play'. However, there are certain issues that need the attention of the Government, RBI, banks, policy makers and knowledge organizations. Some of these open issues that can act as a starting point to draw up a possible actionable agenda or lead to further debate are provided below:

Outreach

FIs are an important vehicle for addressing the challenge of **financial exclusion** given their clear financial intermediary role. RRBs, Cooperative banks, Non-Banking Financial Companies (NBFCs) and Micro finance Institutions (MFIs) through their presence in the rural and remote areas are able to reach out to the communities who are not in the ambit of formal commercial banking. MFIs have the flexibility to lend at an interest that provides them with sufficient spread to cover the costs of micro lending and maintaining small loans, a flexibility that large commercial banks do not enjoy. Only 5.18%[13] of all MSMEs in India were linked with formal institutional financing in the year 2007. A recent report by GIZ 'Financial Inclusion of Micro Enterprises in the Informal Sector –Missing Middle, 2010' states that the financial requirement of the MSMEs in the range of Rs 30,000 to Rs 5 lakhs is not often met by formal institutional finance and is referred to as 'Missing Middle'. Considering the fact that of all the working enterprises, 95.05%[14] are micro enterprises, the loan requirements are also likely to be small, ranging upto Rs 10 lakhs per enterprise. However, the figures of poor financial linkages suggest that FIs have only a few financial products that can meet the need of this category of MSMEs with the various limitations that latter have. This raises the need for developing wider range of financial products by the FIs to address 'the missing middle'. Given this scenario what is it that the FIs need to do to ensure inclusive financing reaches out to millions of enterprises starving of credit? This issue becomes the most fundamental one while reviewing the issue of BR in the context of MSMEs.

Reviewing Social and Environmental Norms

Consideration of social and environmental risks in financial analysis has already emerged as an important factor at the credit appraisal stage especially among sensitive sectors in India where large enterprises are under scrutiny by the local communities, NGOs and regulatory authorities. In the case of small enterprises also, the banks regularly draw up their own negative lists of industries to discourage lending due to the social and environmental risks associated. However, there are still widespread concerns about the role of banks in ensuring that ongoing enterprises do not violate environmental rules and social norms across several sectors that are considered vulnerable. For

[13] 'Quick Results: Fourth All India Census of MSMEs, 2006-07, Development Commissioner (MSME), Ministry of MSME, GOI, 2009, Pg. 2'

[14] 'Quick Results: Fourth All India Census of MSMEs, 2006-07, Development Commissioner (MSME), Ministry of MSME, GOI, 2009, Pg. 3'

example, in the case of polluting industries, pollution control authorities have categorized certain sectors as most vulnerable, referred to as 'red category' and others as 'yellow' and 'green' depending on the severity of pollution they create. What can be the role of banks in supplementing the efforts of the regulatory authorities to check blatant flouting of social and environmental norms, as reported often in the media? It is not known as to what could be the adverse implications for the banks that resort to be extra conscious about flouting of social and environmental parameters among their loanee enterprises. How do the banks weave in social and environmental concerns with least damage to their individual portfolio of loans? Do we see a differentiation opportunity among some select individual banks that puts them in an advantageous position at least in the medium term? Or there is a need for some collective mechanisms among the federation of banks thus classifying it as collective BR? One of the ways FIs can encourage their own socio-environmental accountability without affecting their individual financial bottom line is if RBI mandates the inclusion of social and environmental performance of enterprises integral to banks' lending decisions. With an already existing heavy regulatory hand it will however certainly not be voluntary BR of the banks.

BR Loan Opportunities

A new trend among a select few banks has begun to emerge where credit is directly targeted at meeting the requirements of energy reduction, environmental protection and social ventures. These types of loans have so far been called 'green loans' and 'CSR loans'. Some banks have also been known to create special portfolio to lend to socially relevant business ventures that help to promote sustainable development. BR focussed financing can make it viable for the banks to lend where the opportunity gives a good size. Government funds through ongoing schemes can be pooled in by way of subsidies through linking up with credit so that it has positive implications on collective social good.

Sustainable Advisory Services–An emerging trend

Most small enterprises find it challenging to identify and procure business advisory services that can help them become more responsible. The capacity of enterprises and availability of these services in the local vicinity are often an area of concern. Therefore, going beyond responsible lending and investments many FIs, both international and domestic are ramping up efforts to offer additional sustainable business advisory services and facilitate relevant business linkages for MSMEs to help them become socially and environmentally more sustainable. If these services are seen by the MSMEs as commercially advantageous, it can help to achieve a better bonding between the banks and MSMEs. SBI through its UPTECH programme since 1989 that has benefited hundreds of its loanee enterprises through services targeting at energy conservation, quality control and technology inputs provides a relevant example that can be emulated profitably by other banks.

More recently, some Indian banks offer carbon management services, ranging from Clean Development Mechanism (CDM) project development, carbon accounting and verification, CER application and carbon brokering. YES bank's 'Sustainable Investment Bank and Private Equity' team in partnership with 'Carbon Desk' offers carbon advisory services to the bank's existing corporate banking clients as a value adding tool in 'responsible banking relationship'. Going further, YES bank has formed a technical partnership with TUV Nord, a management systems certification agency. Here the bank offers social and environmental accountability advisory services to Small and Medium-sized Enterprises (SMEs) clients, where the SMEs then

validate their environmental management systems and social accountability models through ISO and SA certifications from TUV-Nord.

Similarly in 2008 ICICI bank signed an agreement with 'Agrienergy', a technical agency to offer carbon advisory services to its SME clients. Their range of services for developers in India includes identification of potential CDM projects, advisory services for registration and issuance of carbon credits, financing CDM projects, arranging private equity, etc.

Therefore, banks and FIs can serve as critical enablers in this sense by acting as a guide and repository of information which will facilitate the growth of responsible MSMEs.

Need for an Indian Code of Conduct for Banks

There are more than 160 international banks who are signatories to the most well-known and stringent 'code of conduct' relevant to the banks, called 'Equator Principles' (EP). Many more from the developed and developing economies are said to be willing adopt this principle. Despite the fact that Indian banks have contributed significantly to the area of BR, yet none of them is a signatory to EP. **This raises the question whether some of the Indian banks should comply with the EP or they should have an Indian code of conduct, unique to Indian requirements.**

Public Reporting by Banks

The study shows that Indian banks like their international counterparts practise BR whether 'guided' or 'voluntarily'. However, there is no annual CSR report or sustainability report of Indian banks unlike regularly released by many of the International Banks. The lone exception is the one from Small Industries Development Bank of India (SIDBI) for the FY 2010. **Should the banks report to be recognised as responsible corporate citizen?**

Mandated or Voluntary BR

The bulk of the BR practices of Indian banks have been guided by RBI and Ministry of Finance, GOI. **Considering the fact that BR is considered to be voluntary in nature, should the BR be mandated and if so, to what extent? Should the welfare agenda of the Government be run by the banks that may lead to higher** Non-Performing Assets (**NPAs**)**, thus potentially affecting their commercial sustainability? Has the mandated welfare agenda led to an internalization of BR among the banks and if so, to what extent?**

List of Annexures

Annex 1 : Progression of financial sector towards responsibility

Annex 2.1 : Genesis of sustainable finance instruments

Annex 2.2 : Objectives of sustainable finance instruments

Annex 2.3 : Global outreach

Annex 2.4 : Standards/Principles constituting the instrument

Annex 3 : BR practices of select international banks

Annex 4 : Social and environment initiatives of select international banks

Annex 5 : SME initiatives of select international banks

Annex 6 : List of PSs and weaker sections under PS

Annex 7 : BR practices of select Indian banks

Annex 8 : MSME initiatives of select Indian banks

Annex 9 : The World Bank guidelines

List of Abbreviations

ADB	Asian Development Bank
BPL	Below Poverty Line
BR	Business Responsibility
CCIL	Clearing Corporation of India Ltd
CDM	Clean Development Mechanism
CLCSS	Credit Linked Capital Subsidy Scheme
CSO	Civil Society Organization
CSR	Corporate Social Responsibility
DICGC	Deposit Insurance Credit Guarantee Corporation
EP	Equator Principles
ESI	Employees State Insurance
ESG	Environment Social and Governance
FAO	Food and Agricultural Organization
FDI	Foreign Direct Investments
FEDAI	Foreign Exchange Dealers Association of India
FIMMDA	Fixed Income Money Market and Derivatives Association of India
FIs	Financial Institutions
FMC	Foundation for MSME Clusters
GOI	Government of India
GIZ	Gesellschaftfür Internationale Zusammenarbeit (GIZ) GmbH
GRI	Global Reporting Initiative
IICA	Indian Institute of Corporate Affairs
IFC	International Finance Corporation
ISIS	Intermarket Surveillance Information System
KVIC	Khadi and Village Industries Commission
MCA	Ministry of Corporate Affairs
MDG	Millennium Development Goal
MFI	Micro finance Institutions
MIGA	Multilateral Investment Guarantee Agency

MNE	Multi National Enterprises
MSME	Micro, Small and Medium Enterprise
NABARD	National Bank for Agriculture and Rural Development
NBC	Net Banking Credit
NBFC	Non-Banking Financial Company
NPA	Non-Performing Assets
OBC	Other Backward Classes
OECD	Organization for Economic Cooperation and Development
PH	Physically Handicapped
PPP	Public Private Partnership
PRI	Principles of Responsible Instruments
PSB	Public Sector Bank
PSL	Priority Sector Lending
REGP	Rural Employment Generation Programme
RBI	Reserve Bank of India
RRB	Regional Rural Bank
SC	Scheduled Caste
SCB	Scheduled Commercial Bank
SEBI	Securities and Exchange Board of India
SHG	Self-Help Group
SMERA	SME Rating Agency of India Limited
SRI	Socially Responsible Investment
ST	Scheduled Tribe
TUFS	Technology Up gradation Fund Scheme
UN	United Nations
UNEP FI	United Nations Environment Programme Finance Initiative
UNESCO	United Nations Educational, Scientific and Cultural Organization

Definition of Common Terms

Banks	A bank is a FI licensed by a government that accepts deposits and channels those deposits into lending activities. Its primary activities include providing financial services to customers while enriching its investors. Banks are important players in financial markets and offer services such as investment funds and loans. (Source: YES Bank)
BR[15]	BR refers to the commitment of an enterprise to operating in an economically, socially and environmentally sustainable manner while balancing the interests of diverse stakeholders. (Source: http://www.responsible-business.in/)
FIs[16]	A FI is an institution that provides financial services for its clients or members. Probably the most important financial service provided by FIs is acting as financial intermediaries. Most FIs are highly regulated by government bodies. Broadly speaking, there are three major types of FIs: Deposit-taking institutions that accept and manage deposits and make loans (this category includes banks, credit unions, trust companies, and mortgage loan companies); Insurance companies and pension funds; and Brokers, underwriters and investment funds. (Source: YES Bank)
Philanthropic Activities	The act of philanthropy is a spiritual act, an expression of caring for one's fellow human beings. It is a belief in the future and that the future can be good. It is investing in that future. It is helping to make the dream come true. (Source: www.picharity.org)
Responsible Investment	Investment in enterprises/projects that respects social, environmental and ethical issues with economic criteria of running their operations. (Source: YES Bank)
Sustainability	The outcome achieved by balancing the social, environmental and economic impacts of business. It is the process that business goals are pursued without compromising any of the three elements. (Source: National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business, (MCA)
MSME	Micro, Small and Medium Enterprises as per MSMED Act 2006
Financial Inclusion	"The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost" (Source: http://www.nabard.org/financial_inclusion.asp)
Responsible Banking	A banking strategy that imbibes BR as a standard business practice and directs financial and business services to organizations that demonstrate socio-environmental accountability while not negating financial profitability. Responsible banking can be further divided into 3 banking functions: 'Responsible Lending', 'Responsible Investing' and 'Sustainability Advisory Services'.
Responsible Lending	The act of a FI basing lending decisions on triple bottom line (TBL) performance.

[15] In this document CSR or ESR has been referred to Business Responsibility (BR) as this term addresses much larger issues and broadens the panorama of responsible business behaviour (RB). This is also in line with the National Voluntary Guidelines framed by IICA under Ministry of Corporate Affairs (MCA).

[16] No distinction has been made between Banks and Financial Institutions in this study. Both the terms have been used interchangeably.

1. Introduction

The business enterprises in general and MSMEs in particular associate mostly with local community, large buyers, 'Credit Rating Agencies', FIs, business schools, academic institutions, raw material suppliers, machinery providers, internal buyers, CSOs, regulatory bodies, etc. in their operations . The interaction of these business enterprises with the stakeholders is frequent and direct. These relationships can play a vital role in transforming MSMEs into responsible businesses. The FIs can also play a vital role in shaping BR practices of business enterprises and MSMEs in particular along with the other stakeholders since they interact with them on day-to-day basis. Henceforth, FIs can significantly influence the economic growth and development of MSMEs and are better placed in bringing about the desired changes.

1.1 Aim of the Study

Stakeholders play a key role in providing MSMEs the competitive edge of 'Profit plus' business. FIs, owing to the continued interaction are most imperative in shaping BR behaviour of MSMEs and can influence their economic and social development.

Figure 1.1: Various Stakeholders of a Business Enterprise/SME

The objectives of the study can be succinctly stated as:

1. To understand the extent and ways in which the international and national FIs foster BR among enterprises through responsible lending
2. To map international and national BR instruments related to FIs for sustainable lending, especially to MSMEs

The study has also examined the principles, codes of practices, voluntary standards, policy guidelines, etc. pertaining to responsible lending of *eight international banks*. It has also examined the significance of non-financial parameters, credit appraisal criteria and type of information asked while investing in enterprises with special focus on MSMEs. The eight examined global banks are: HSBC Holdings PLC, Barclays PLC, Citi Bank (Citigroup Inc.), ABN AMRO Bank N.V., ANZ (Australia New Zealand Banking Group Limited), Standard & Chartered PLC, HVB (Hypo Vereins Bank), BNP Paribas S.A. and three International FIs – IFC, MIGA and ADB (Asian Development Bank).

With respect to Indian banks, the study has examined six Indian banks' general policy guidelines, significance of non-financial parameters, credit appraisal criteria and type of information asked while investing with special focus on MSMEs. The six national banks studied are: PNB, SBI, Canara Bank, ICICI Bank, Axis Bank and YES BANK. The role of the RBI to enable BR and accountability amongst MSMEs and larger organizations has also been studied.

1.2 Methodology of the Study

In order to have a holistic understanding of the role of FIs in India in shaping BR in MSMEs-

- Global principles relevant to FIs and BR have been identified and analysed for the sample of banks studied.
- Sixteen FIs operating in developed and developing economies other than India have been identified and analysed with respect to their BR resources, policies and projects.
- Six Indian banks have been identified and analysed with respect to their BR resources, policies and projects.
- Analyses have been based on secondary survey for the international banks while primary survey with questionnaire-based interviews and interactive discussions were used for the banks in India.

The following section elucidates the five principles, 16 international FIs, and six Indian banks undertaken to conduct the study.

1. Key protocols affecting FIs:
   a. The EP
   b. The Johannesburg Principle, May 2004
   c. London Principles of Sustainable Finance, September 2002
   d. United Nations Environment Programme Finance Initiative (UNEP FI)
   e. UN Principles for Responsible Investment April 2006 (UN PRI)

2. International FIs:

Categories	FIs/ Banks
Financial Arms of the World Bank	1. IFC 2. MIGA 3. ADB
FIs signatory to EP	4. HSBC Holdings PLC 5. Barclays PLC 6. Citibank (Citigroup Inc.) 7. ANZ 8. Standard Chartered PLC 9. HVB 10. ABN AMRO Bank N.V. 11. BNP Paribas S.A.

Categories	FIs/ Banks
FIs non-signatory to EP	12. Monte de Paschei, Italy 13. Bank of China (BOC) 14. Brazilian Development Bank (BNDES) 15. Development Bank of Philippines 16. Land Bank of the Philippines

3. Indian Banks

Categories	FIs/ Banks
Public sector banks	1. PNB 2. Canara Bank 3. SBI
Private sector banks	4. YES BANK 5. Axis Bank 6. ICICI Bank

The criteria for sampling are:

- Among the 67 signatories to the EP, eight have been identified to analyse their 'BR' practices[17] based on parameters like business volume, presence, and outreach.
- In the case of developmental FIs, random sampling has been done. However, the impact among communities by the developmental FIs has been taken into consideration while selecting.
- In India commercial banks are either private or public. Both types of banks have been selected for analysis. It has also been noticed that BR of PSBs has striking similarities and mostly guided by RBI guidelines and various ministries of the Government. Hence despite there being large number of PSBs present in the country, only three PSBs (which are volume wise large also) have been taken into consideration to analyse BR practices of the Indian PSBs.

1.3 Limitation of the Study

The study is neither meant to be a conclusive research from an academic point of view nor a judgmental study, rather it aims to provide the starting point to develop actionable agenda. The secondary information available and the details therein do not offer scope for a detailed census based and exhaustive primary information.

1.4 Target Audience

The study intends to cater to the following segments of the financial sector:

- Policy makers on sustainable lending in public and private sector banks in India
- Pension funds and their investment advisors (Fund Managers for New Pension Scheme)
- Investment banks and money managers
- Government representatives across central, as well as regional and local government bodies
- Business leaders
- Academia
- Investor coalitions

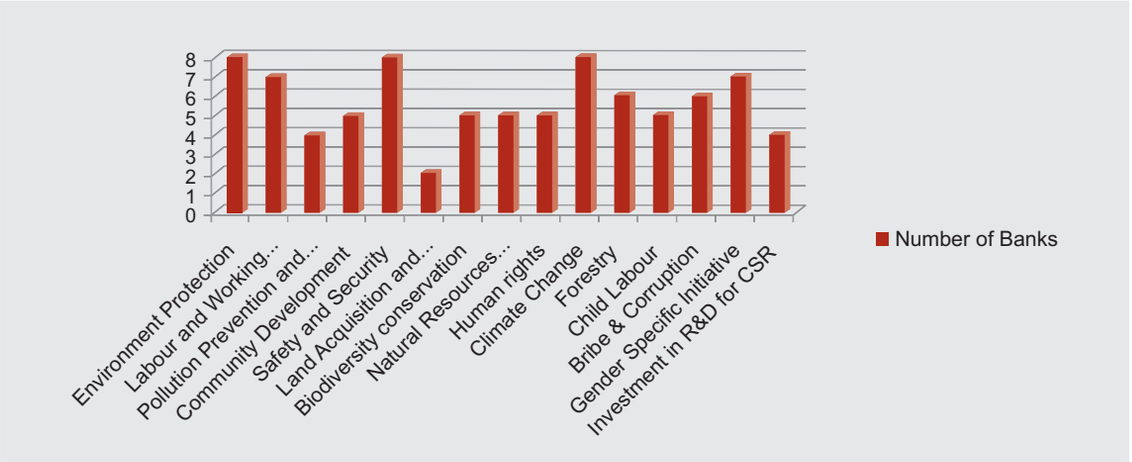
[17] By virtue of following EPs bank has to take into consideration the social and environmental implication of the project while lending.

- Development agencies and CSOs concerned with the advancement of sustainable development in relation to financial services
- Media
- MSMEs
- FIs

Sustainability Issues of International FIs following EP and not following EP

Sustainability as part of corporate policy of the FIs following EP (as mentioned in ***Table 1***) is given below in ***Figure 1***.

Figure 1: Sustainability Issues as part of Corporate Policy of International EP Banks

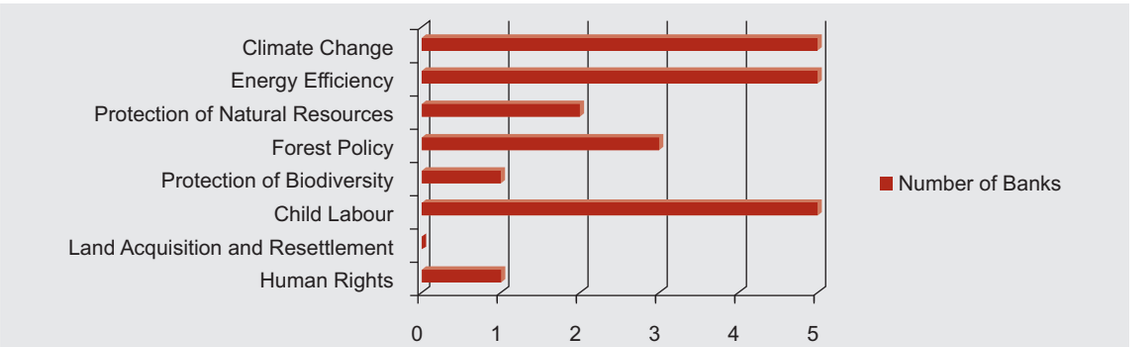


Source: CSR and Sustainability Reports of the banks studied

As inferred from ***Figure 1*** that all the 8 banks give emphasis on climate change, environment and safety and security issues. Hence these three areas are part of corporate policy of all the 8 banks. Anti- bribery, forestry and labour issues are also being given substantial emphasis as 6 of the 8 banks have addressed these issues as part of their corporate policy. The issue of land acquisition does not seem to figure by these banks; only 2 out of 8 banks have this issue as part of their corporate policy. Lending or investing in big projects for acquisition of lands has become a major socio-economic issue.

Sustainability as part of corporate policy of the international banks other than EP (as mentioned in ***Table 2***) is given below in ***Figure 2*** and ***Figure 3***. Figure 2 depicts the social and environmental issues as focus point while Figure 3 exclusively deals with governance issues.

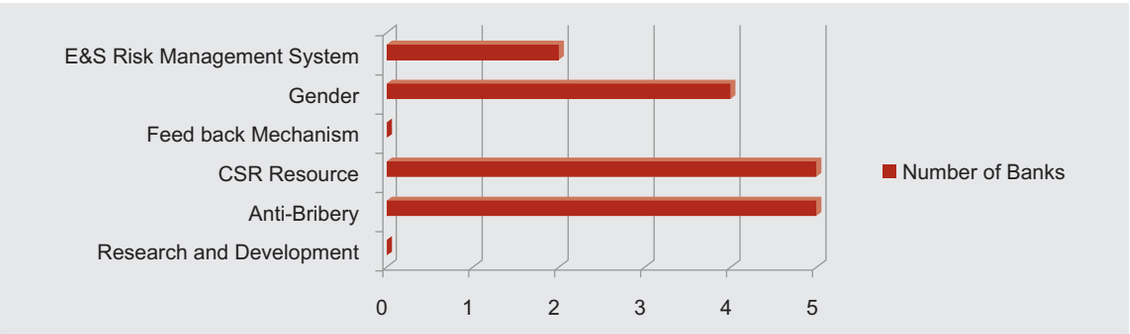
Figure 2: Sustainability (Social and Environmental) as part of Corporate Policy of International Banks other than EP



Source: CSR and Sustainability Reports of the banks studied

It can be found from ***Figure 2*** that the international banks that do not follow EP give more emphasis on energy efficiency, child labour, and climate change as all the 5 banks non-signatory to EP which are being studied under this report have incorporated these areas as part of their corporate policy. Agenda of land acquisition does not get emphasised by the banks other than EP as none of the 5 banks have this agenda as part of their corporate policy. Hence a similar trend can be found among international banks irrespective of their adherence to principles while addressing sustainability as part of their corporate policy. Sustainability related to environment along with child labour and anti-bribery remains top priority for all the international banks studied in this report.

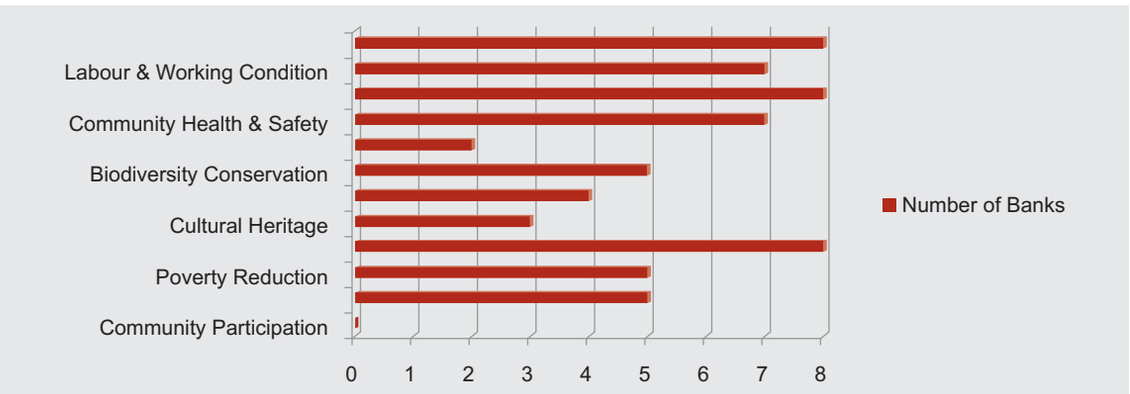
Figure 3: Sustainability (Governance) as part of Corporate Policy of International banks other than EP adopted



Source: CSR and Sustainability Reports of the banks studied

It can be seen in ***Figure 3*** that all the 5 banks have incorporated anti-bribery, resources for BR as the part of their corporate policy. The agenda of gender has also been given emphasis by most of the banks.
Other than sustainability as part of corporate policy, banks also follow and give emphasis on some of the sustainability areas which are related to their functioning within the organization and also while lending. These issues are not necessarily part of the bank's corporate policy. Sustainability focus areas of the banks are given in ***Figure 4***

Figure 4: Sustainability Focus Area of International EP Banks



Source: Sustainability Reports of the Banks

A reference can be drawn from ***Figure 4*** that banks give emphasis on the various issues among which social and environmental issues, pollution prevention, working condition, risk control and community health are given emphasis by all the 8 banks. Even though all the issues mentioned here are not necessarily a part of the corporate policy of the banks but banks may take initiatives to address these concerned factors as well.

Indian Scenario

BR embedded in the business operation, as is understood in the international context currently, is relatively a new concept in India and also evolving. However, various welfare initiatives have been in practice by the business houses as philanthropic activities.

In recent times all these activities have moved beyond philanthropy and integrated in their core business. Banks have started to see the business case behind BR initiatives and RBI has taken a step forward through its guidelines on development of society and environment to enable and foster BR behaviour amongst the banks. Although most of the banks have a limited approach to such initiatives, adhere only to mandatory guidelines and support government schemes. Also, unlike their international counterparts, most Indian banks do not publish any separate report on their sustainability practices/initiatives. Government has several schemes aimed towards inclusive banking, to which PSBs must subscribe to RBI guidelines.

In addition to PSLs, all banks undertake some kind of initiatives either through partnerships with CSOs or through foundations as the face for philanthropic activities or through bank headquarters. Largely these initiatives are philanthropic in nature say donating funds for floods, natural calamities, and other disasters.

Six Indian banks have been studied under this report to analyse their BR practices. It has been found, that Indian banks also take initiatives to address BR issues on their own that are sometimes even beyond RBI guidelines or directives of other government bodies. Most of the initiatives are guided as per guidelines and only few of them are beyond guidelines like opening of schools in rural areas or carbon footprint.

1.5 Findings

- FIs/Banks at national and international level play a substantive role in sustainable development.
- Most of the global sustainable lending principles have been adopted by banks in developed economies but have negligible presence in the developing economies.
- The role and initiatives of the society in creating awareness not only about social and environmental responsibilities of the banks but also from the human rights point of view are significant at the international level, whereas in India the role and initiatives of the civil society in creating awareness is relatively less.
- International FIs/ Banks have their own well defined corporate policies to take care of social and environmental issues for their lending portfolio whereas Indian banks though focus upon social and environmental issues do not have any well-defined policy for the same.
- Indian banks do not have their self-declared corporate policies like their counterparts in developed economies. However, Indian banks have a number of special schemes and products where it ensures priority lending to smaller enterprises, ex-servicemen and weaker/underprivileged sections of the society such as women, SC/ST, backward classes and minority communities, etc. They also provide funding to number of schemes related to rural development, tribal areas, remote areas, farmers and other small businesses.
- The Indian banks ensure job opportunity to weaker section of the society by providing reservations in employment within their banks, guided by regulations.
- Role of RBI in Indian banking is significant in ensuring inclusive banking which is mandatory to be followed by them. Similar extent of directives in developed countries, particularly the USA and the UK were not seen in their banking systems probably because of the structure and state of their economies and social systems.
- The banks and FIs in India also play a significant role by implementing several of the Government of India schemes in social and environment areas, eg., Pradhan Mantri Grameen Rojgar Yojna (PMGRY), KCC and SJSRY. Within India, it is estimated that the initiatives by PSBs are more than private sector banks in their financial inclusiveness.
- International banks studied under this project, both in the developed and developing countries tend to focus more on environmental issues than their Indian counterparts, in terms of number of

banks involved and variety of initiatives that they undertake.

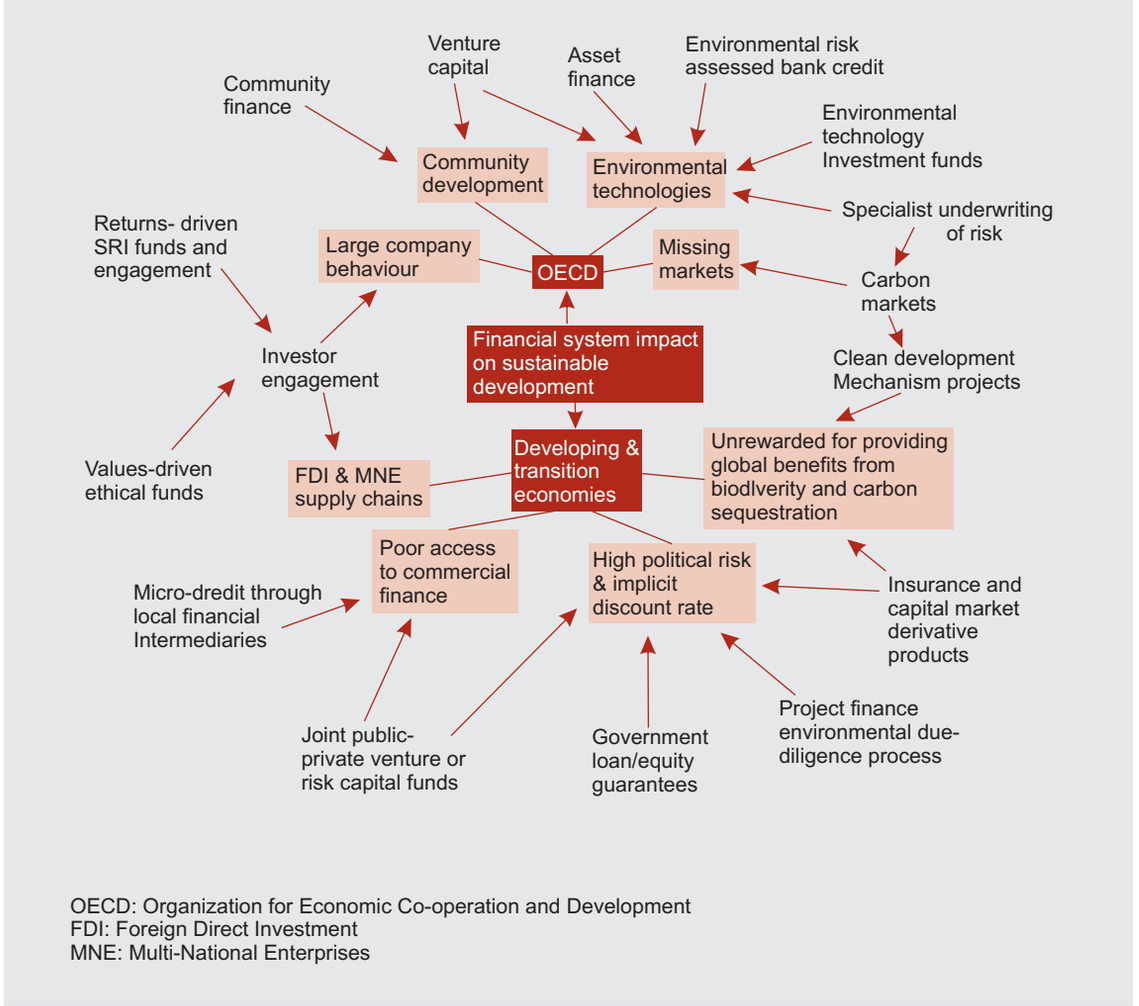
- The Indian banks while lending to MSMEs place very high emphasis on the issues like financial risk, business risk and managerial risk while environmental and social risks are generally limited to regulatory directives. Sometimes banks are only interested in knowing about statutory compliances like No Objection Certificate (NOC) from the concerned bodies or pending legal case against the owner which are very much like "safeguards" in nature and do not address the larger responsibility issues like involvement of child labour, minimum wages, security of the workers, working condition, usage of raw material, fuel, etc. Based on the secondary information available of date, similar situation may prevail in the International banks as well, but this aspect has not been studied sufficiently so far. However, international FIs like IFC, MIGA strongly take into consideration the social and environmental issues while lending to medium enterprises.
- Indian banks have set up transparent feedback systems and proper grievance mechanism cells for their customers like their international counterparts. Some significant examples are 'Know Your Customer' norms, 'Right to Information' and 'Banking Ombudsman' system.
- Banks do not have any particular package to meet the financial requirements of micro and small firms which constitute almost 80% of MSMEs. Micro financing caters the need of tiny and household units and banks provide loans for requirements above Rs 10 lakhs. The gap between the two is not met, which is often termed as "Missing Middle".

2. Evolution of banking system across the world

Banks have come a long way from the temples of the ancient world (money used to be kept in temples in ancient times) to evolve the concept of banking and beyond in the current era. The basic business practices -- issuing credit, levying interest, lending money have not changed substantially, but there has been progress with sustainable responsible investments, inclusive financing, clean-technology financing, sustainable reporting adding a new dimension to FIs and making them cognizant to socio-environmental concerns. TBL accountability (People, Planet, and Profit) is the mantra of FIs because of increased shareholder and stakeholder awareness of the critical development issues facing India and rest of the world. Furthermore, there is an obvious profit and business sustainability motive in TBL hence it has become critical to weave BR philosophy into business strategy. Responsible banking is the result of BR in FIs.

The pace at which financial sector is integrating stakeholder concerns into their core business activities is startling. Though not a novel concept but the approach towards socio-environmental responsibility has broadened in the last decade, from the piecemeal approach, to a more holistic and focused one with dedicated teams and policies well integrated into corporate governance.

Figure 2.1 Different financial innovations tackle different sustainable development issues



Source: Organization for Economic Cooperation and Development (OECD) Report.

2.1 Sustainable development and financial sector

The role of the financial innovations in processes, products and markets is depicted in sustainable development, and shows how different innovations address various issues of sustainable development. For example, development of key new technologies in energy, water and waste in OECD economies are supported by innovations in venture capital, asset finance, environmental risk assessed bank credit and specialized environmental funds, all of which provided access to capital. Specialist underwriting[18] of risk by insurers has also been essential to enable this access to capital risk underwriting has also been an important element in the market innovation for trading carbon and carbon equivalent emission allowances. It has potential for benefits to the developing and transition economies by providing transparent markets to cash-in carbon credits from CDM projects. Innovations in insurance for forestry and weather derivatives also have potential to deliver important economic and environmental benefits to these economies.

Government has a significant role to play in promoting sustainable/responsible financing by putting in place clear policies and regulations, taxation norms, investing in capacity building in BR space and encouraging FIs for inclusive financing thereby achieving sustainable lending.

2.1.1 Financial Inclusion and the MSME focus[19]

Policymakers in governments, regulatory bodies and international institutions increasingly recognise the impact of financial exclusion has on economic development and social cohesion, both in advanced as well as in developing economies. Access to finance is one of the important parameter for employment, economic growth and poverty reduction.

In developing countries, where on an average only 20 % of the people have access to a range of financial services, this challenge is part of a wider issue of the development of the financial sector. In advanced economies, where in some countries still around 10% of the population finds it financially excluded, the issue might concern a minority in society.

In most countries, access to financial services is limited and largely for-profit FIs do not provide finance to low-income and poor households, as well asSMEs, referred to as "**missing middle**". Reason being, smaller transactions tend to be less profitable, and assuring the creditworthiness of lower-income borrowers and smaller firms, with little collateral, is believed to be more difficult, hence preventing their mainstreaming into the economy. The proportion of credits to small scale industries (as percentage of net bank credit) has been on the decline since 1997-98 and has touched a low of a mere 8% in 2006-07[20]. The poor disbursement and management of credit to MSMEs have also been linked to the fact that there is no transparency regarding their financial condition. Indeed, inclusive finance, savings, appropriately designed loans and insurance products for low income households and MSMEs, can help them to create wealth, acquire capital, manage risk and alleviate poverty.

MSMEs dominate the industrial sector and make a remarkable contribution in terms of generating large-scale employment and at the same time tackling regional disparities in growth. This reiterates the fact that MSMEs play a crucial role in the economic development of India and hence need to be promoted on a sustainable basis by addressing the vital issues one of which is access to finance.

[18] Underwriting refers to the process that a large financial service provider (bank, insurer, investment, house) uses to assess the eligibility of a customer to receive their products (equity, capital, insurance, mortgage or credit)

[19] Source: Building Inclusive Financial Sector for Development: A policy paper by Orr, Ann and Sharma, Krishnan; United Nations, New York May 2006.

[20] Alternative Economic Survey, India 2007-2008: Decline of the Developmental State -- Alternative Survey Group

2.2 Responsible Banking

Responsible Banking comprises three main functions:

- Responsible Lending
- Responsible Investments/Socially Responsible Investment (SRI)
- Advisory Services

This report will focus on the Responsible Lending element of 'BR' since all three of the above mentioned are vast subject that demand deep levels of research and respective reports of their own.

2.2.1 Responsible Lending

Innovations can make a material impact on sustainable development and hence it is important for investors, lenders and insurers to integrate sustainability in their decisions rather than creating more niche products like 'green investment funds'. The financial sector thus needs to be evaluated based on their role in the market for the following:

- Pricing assets and exercising ownership
- Providing finance and re-finance
- Risk management

It is through these channels of influence that the market mechanisms of the financial services sector affect the decisions of business to engage in sustainable activities. For the market to work efficiently, to reflect the increase in environmental and corporate governance legislation and to have impact on branding and reputation, these functions must take into account their influence on sustainable development. Asset prices need to reflect sustainability performance; ownership needs exercised to promote sustainable asset utilization; commercial finance accessed for technology developers and entrepreneurs in developing countries; due diligence account for sustainability risks, and risk management products are in demand to insure against these emerging risks.

One of the key issues for development of sustainable livelihoods in developing and transition economies is limited access to commercial finance, rather than aid or concessionary finance. Promising innovations directly dealing with this issue include the financing of local micro-credit intermediaries and the use of venture or risk capital in joint initiatives between private equity firms and a number of international FIs.

2.2.2 SRI

SRI has attracted keen interest from OECD economies in recent years, where much of this investment is in secondary capital markets of the OECD countries. However, the active engagement with companies carried out by these investors will have an impact on sustainable development in developing nations through the Foreign Direct Investments (FDI) and supply chains of Multi-National Enterprises (MNE). Going beyond now, venture capital has been used as a tool for economic development in a variety of developing regions. In many regions with less developed financial sectors, venture capital plays a role in facilitating access to finance for MSMEs, which in most cases would not qualify for receiving bank loans.

The impact of investors and insurers on sustainable development is not only on their own environmental footprint, but also plays pivotal role in allocating financial capital between different economic activities. This role as an intermediary suggests that the financial sector is critical through which price variation, regulation and pressure from civil society can direct financial capital to sustainable

economic activity. Some may argue that FIs are a barrier to companies who adopt more sustainable business practices, perceiving it as an unwarranted cost. However, there has been progress in identifying viable opportunities for responsible financing.

The use of investment policy as a tool for the expression of personal or political ideas dates back a long time. Today, individual investors have been able to invest in funds which reflect a variety of ideologies -- environment protection, education and health, religious ideologies such as Islamic investment funds, shunning of "sin stock [21]", etc.

Based on available literature on sustainable funding, the growth of activity at global level in the field of sustainable finance is spurred by three factors:

1. Companies are increasingly interested in the field of BR as a way of gaining competitive advantage.
2. There is an increased awareness of the threat posed by climate change especially to the insurance industry. It may lose a great deal of money due to physical risks like dynamic weather patterns and flooding.
3. The adoption of BR principles/guidelines and regulations has made fund managers more aware of the sustainability implications of investment decision.

2.2.3 Sustainability Advisory Services

Apart from responsible lending and investing in MSMEs, some Indian banks have started to offer carbon management services, ranging from CDM project development, carbon accounting and verification, CER application and carbon broking. Details of these activities undertaken by select Indian banks will be covered in the last section since this is a relatively emerging trend amongst domestic and international banks/FIs.

2.3 Global Sustainable Financing Instruments

Intermarket Surveillance Information System (ISIS) came up with a Report in 2002 after undertaking a survey of 10 founder banks for **EP**[22] that highlights the inconsistent application of policies internationally, perfunctory training, and a lack of systematic performance measurement, management and reporting of project environmental impacts. Engagement with stakeholders was limited and confrontational.

For the EP banks the launch of the principles has been a considerable success and banks reported that it has improved efficiency and relations with internal and external clients. The EPs have now been adopted by 67 FIs representing more than 80% of global private project finance capacity. Rachel Kyte, Director-Environmental and Social development, IFC, concluded that "the EP brand has become synonymous with environmental and social risk banking".

The Johannesburg Stock Exchange (JSE's) SRI Index[23] which was launched in May 2004 in response to the hot debate on sustainability globally and particularly in the South African context has participation figures of 105 companies in the index as in 2008. The **London Principles**[24] Project (LP), commissioned

[21] Currently, individual investors have been able to invest in funds which reflect a variety of focus areas -- environment protection, education and health, religious ideologies such as Islamic investment funds, negative screening in terms of not investing in certain "sin stock" such as stock of companies in businesses such as tobacco, casinos, etc.

[22] The EPs are a voluntary set of standards for determining, assessing and managing social and environmental risk in project financing.

[23] The SRI Index has been a driver for increased attention to responsible investment into emerging markets like South Africa.

[24] London Principles are principles voluntarily adopted mainly by City of London banks by which signatories agree to providing access to finance for sustainable development, such as for disadvantaged communities and for development of environmentally beneficial technologies.

by the City of London in 2002 from Forum for the Future's "Centre for Sustainable Investment" examines the role of the UK financial services sector in promoting sustainable development had 18 founder member FIs. On a similar pattern, the global reach of other sustainable finance instruments like **Principles of Responsible Investment**[25] (PRI) has global reach of 362 signatories (as on May 1, 2008).

The financial sector path to responsibility started its journey in 1986, has come a long way and with scope to do more (Annexe 1 lays down some initiatives from 1986-2006).

2.3.1 Analyses of Sustainable Financial Instruments

Need for Sustainable Financial Instruments

The global sustainable financial principles have come into being to make business (investment) environmentally, socially and also economically more responsible and inclusive in nature. It has been observed that in the pursuit of profit maximization business enterprises ignore the impact being created at the 'Bottom of the Pyramid' (BoP) due to their operations. For long, CSOs were trying to create awareness among the business communities especially the banks to become a more responsible business group. Their efforts bore fruit with the London Principles in 2002. Slowly the momentum gathered and Johannesburg Principles and UNPRI came up. These global sustainable financial principles are recent phenomena imperative to the global financial communities. (See Annex 2.1 and 2.2 for details)

Global Outreach – number, countries and global economy

The sustainable financial principles create a massive impact on the FIs making them recognise and understand the importance of being a part of these principles. Till date these principles are followed by large scale FIs of developed countries and very few of developing countries. Though participation from the developing world is a concern, considering that larger FIs will have more impact through its projects it seems that bringing on board these institutions will set precedence for the smaller FIs as well. (See Annex 2.3 for details)

Nature of guidelines – voluntary

EP: Institutions adopt and implement these principles voluntarily and independently without reliance on or recourse to IFC or the World Bank.

Johannesburg Principles: Johannesburg principles are also voluntary in nature and JSE has created an index and on the basis of their judgment on the companies' performance in compliance toTBL. However, for South African companies listed on JSE, they must comply with the environmental and social norms existing in South Africa[26].

London Principles: These are set of voluntary guidelines which are followed by select FIs of UK to promote sustainable market finance.

UN Principles for Responsible Investment: The principles are voluntary and not prescriptive, but instead provide an opportunity of possible actions for incorporating Environment Social and Governance (ESG) issues into mainstream investment decision-making and ownership practices.

Principles constituting the instruments

The principles laid down by the global sustainable financial principles are broadly based on various parameters of sustainable development. The EP focus on environment and social issues. The EP stress

[25] The PRI were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices.

[26] www.globalcorporategovernance.com/n_africa/316_322.htm

on issues like proper management of project financing, in line with environment, health and safety (EHS) guidelines of IFC. It also looks in to the management system; structure and action plan of the project so that it remains in accordance with environmental and social compliances. More importantly EP encompasses grievance management for communities affected due to the project. Finally, EP also focuses on regular monitoring of the project and compels member FIs to publish reports on the work done in accordance with the laid guidelines.

The London Principles emphasise on the efficient use of technology, financing for the development of green technology, equity ownership, with the special focus on the disadvantaged communities and risk management.

UNPRI give emphasis on ESG issues which would be taken into account for investment analysis and decision making. UNPRI also tries to promote acceptance of its guidelines amongst the investment communities.
(See Annex 2.4 for details on the principles lay down by these 4 sustainable financial instruments)

Applicability in terms of limit to finance
Unlike the other principles, which are applicable across the board, regardless of transaction size, the EP applies only to projects of above US$ 10mn[27]. In order to ensure that all significant and sensitive projects are covered by the 'EP', without holding up small business banking.

[27] http://www.equator-principles.com/index.shtml

3. Evolution of Indian banking system and its inclusive nature

The growth and geographic outreach of Indian banks has had a significant impact on financial inclusion and availability of financial services to individuals, SHGs and MSMEs through rural branches, MFIs, NBFCs, 'Business Correspondents' (BCs) and 'Mobile Technology Platforms' in deep pockets of rural India which traditionally relied on local money lenders to service their credit needs.

Also, keeping in mind that the MSME sector in India employs close to 60 million people in skilled and semi-skilled positions, providing financial services to these organizations eventually has a trickledown effect to those working in MSME organizations. Therefore there is an inextricable link between financial inclusion and responsible banking for MSMEs which is created once banks develop and execute strategy to provide financial services to MSMEs.

The banking sector in India has come a long way. Post-independence, it has transformed internally as well as externally also at the policy level and at the functional level. In recent years banks have become more innovative and technology driven than ever before. International banks have brought in more competition in terms of service excellence, operational efficiency and new age technology. In addition, banks are also leveraging rural banking to transform their business. Besides, the financial services sector in the country has been displaying a varying growth rate in the recent past coupled with an array of services that has grown manifold. The financial sector as a whole is estimated to employ between 3.5 million to 4 million people[28]. The annual growth rates since 2000-01 are given in Figure 3.1.

Figure 3.1: Growth Rate of Financial Services (Banking and Insurance)

Source: CSO (11th Five Year Plan Vol. 3, P No: 259)

Since the economic reform of early nineties, presence of both domestic private and foreign banks has increased in India. The financial sector in India has been primarily dominated by the banking system with scheduled commercial banks (SCBs) occupying a predominant position in the financial system. The PSBs accounted for 70%[29] of the total assets of SCBs as of March 2007. Foreign banks operating in India account for about 8% of the assets of SCBs only. Regional Rural Banks (RRBs) and co-operative banks, with two broad segments of urban and rural cooperative banks also form an integral part of the Indian financial system.

[28] 11th Five Year Plan Vol.3

[29] www.rbidocs.rbi.org.in/rdocs/Speeches/PDFs/83282.pdf

3.1 Outreach, Employee and Financial Strength

The fabric of Indian financial system has been primarily dominated by the banking institutions. Commercial banks in India are primarily categorized as public and private. However, specifically for reaching to the rural communities and lower income community of the urban areas, regional rural banks[30] and urban cooperative banks have been set up.

Currently (group wise bank averages for 2008-09[31]) India has 78 SCBs[32], among which there are 27 PSBs, 21 private banks and 30 foreign banks. They have a combined network of 64,608 branches (refer Table 3.1) and 17,000 ATMs. Figure 3.2 also puts forth the growth of banks in India where it is visible that despite of the initial boost of banks in the rural areas, the growth has declined in during 1990-2000 while it is increasing marginally in the urban and metropolitan areas.

Table 3.1: Growth of Banks in India (1980-2009)

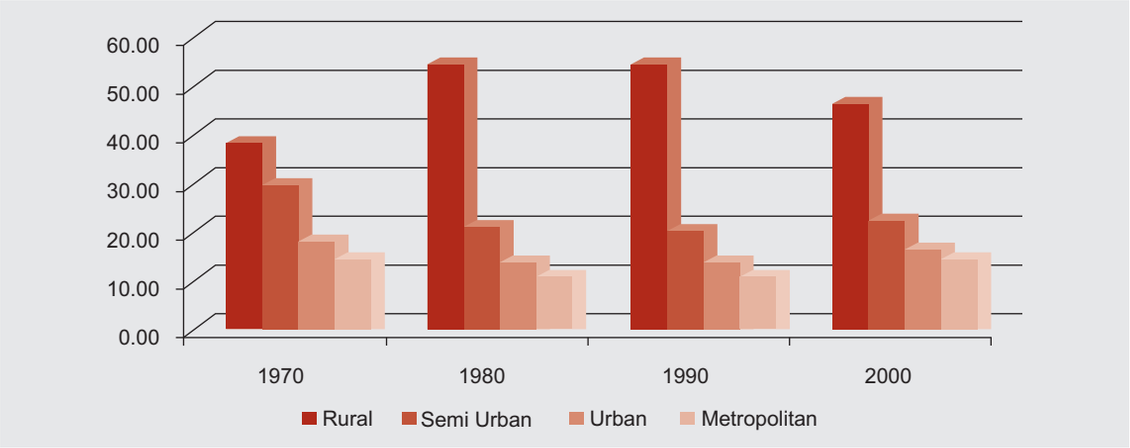
Year	Nationalized Banks		Domestic Private Banks Branches		Foreign Bank Branches	
	Branches	Percentage	Branches	Percentage	Branches	Percentage
1980	25,825	86.99	3,849	12.93	13	0.04
1985	35,629	88.01	4,833	11.91	20	0.05
1990	41,874	91.06	3,961	8.60	148	0.32
1995	44,764	91.11	4,213	8.56	157	0.32
2000	47,494	89.33	5,437	10.21	237	0.44
2005	48,971	88.18	6,321	11.36	245	0.44
2009	55,438	85.80	8,877	13.73	293	0.45

Source: Issues of Statistical Tables Relating to Banks in India

However, in terms of presence and outreach, domestic private banks and foreign banks are still trailing. Inclusive in approach, the PSBs largely have a presence throughout the country. PSBs have maximum presence in the rural and less developed areas, contrary to the private sector and foreign banks albeit more in number have more reach in the urban areas. However, with the introduction of RRBs, cooperative banks and MFIs in financial structure of India has created an access for the under-served and un-served communities.

Introduction of RRBs, cooperative banks, and MFIs in the banking system has enabled access to finances to the rural and backward population of the country.

Figure 3.2: Decade wise growth of Banks in India



Source: Reserve Bank of India

[30] See chapter 3 section 3.4 for details
[31] www.rbi.gov.in/statistics 2008-09
[32] http://www.rbi.org.in/scripts/AnnualPublications.aspx?head=A%20Profile%20of%20Banks

The regional presence of banks in India is laid down in *Table 3.2* and it is observed that the nationalized banks have maximum presence in the eastern region, while the private sector banks show a weak presence. However, Indian private sector banks and foreign banks have larger presence in the more industrialized southern and western region respectively.

Table 3.2: Region-wise presence of Banks in India

Type of Banks	Nationalized	Indian Private Sector Banks	Foreign Banks
North	167	98	31
South	150	135	39
East	198	64	19
West	123	87	43

Source: Scheduled Banks Statistics (RBI)

RBI is an autonomous body, with minimal interference from the government. The stated policy of bank on the Indian rupee is to manage its volatility but without any fixed exchange rate. However, unlike global FIs, Indian banks do not adhere to most of the global sustainable financial principles apart from the RBI guidelines. Hence there is plenty of opportunity to become more credible FIs through working towards environment and social compliances.

Table 3.3: Fact File on Indian Banking Scenario

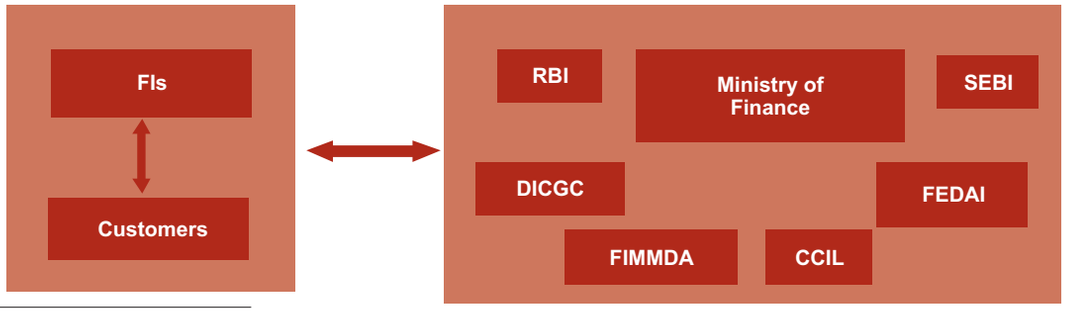
Population having Bank Account	59%
Population per Branch	15,000
Penetration in Bank accounts in Urban areas	>100% (Most individuals have more than 1 account)
Penetration in Bank accounts in Rural Areas	20%
Number of villages	638,365
Number of villages per branch	20
Average Population of a village	1,161

Source: http://www.rbi.org.in/scripts/statistics.aspx

In India less than 60% of the population has bank accounts in any of the scheduled commercial banks that cater to 15,000 individuals per branch. These figures show that commercial banks have not reached out to everybody in the country. In urban areas number of bank accounts is more than 100% due to the fact that most of the people hold more than one bank account. Rural population mostly has access to finance through SHGs, MFIs and local money lenders, as commercial banks could only reach up to 20% of the rural population[33] in India. However, these SHGs, MFIs are linked to several commercial banks directly or through CSOs. To address the approach of selective opening of branches by commercial banks, GOI has made mandatory for all banks to have 25 % of its branches in rural areas.

3.2 Regulatory System in India: Importance and Impact

Figure 3.3: Regulatory Bodies



[33] Refer to Table 3.2

3.2.1 RBI

RBI was inaugurated in 1935 as a shareholders' institution to establish a banking institution with central banking character. It was nationalized in 1949 in terms of the RBI (Transfer to Public Ownership) Act, 1948.

The Preamble to RBI Act laid out the objectives "to regulate the issue of bank notes and the keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage." Unlike most central banks, RBI was specifically entrusted with an important promotional role since its inception, to finance agricultural operations and marketing of crops. In fact, the Agricultural Credit Department of RBI was created simultaneously with the establishment of RBI in 1935.

By the 1990s, more than 90%[34] of banking assets in banks were owned by the Government. In this institutional setting there was a perception given that banks cannot fail and that depositors are effectively fully protected. It was believed that only after the change in banking policy (took place in 1991), emphasizing competition along with interest rate deregulation and elimination of credit allocation, that banking regulation and supervision by the Reserve Bank could become effective.

The role of RBI in changing environment recognizes the differences among various segments of the Indian banking system and accommodates appropriate flexibility in the regulatory treatment. The changing role of financial regulation and supervision of RBI can be characterized by less emphasis on 'micro' regulation and more focus on 'prudential' supervision, risk assessment and containment. The commercial banks have started to implement Basel II[35] from 2007. However, RBI continues to focus on supervisory, capacity-building measures to identify gap, assess and quantify the extent of additional capital, which may have to be maintained by such banks due to operational and market risk.

RBI and BR

Finally, while recognizing the importance of consolidation, competition and risk management to the future of banking, RBI will continue to lay stress on corporate governance, ownership pattern of private banks, expansion of foreign banks and financial inclusion. RBI has issued a guideline specifically for BR activities[36] with focus on providing loans to MSME sector.

In 2005, the Board for Regulation and Supervision of Payment and Settlement System has been constituted and the Banking Codes and Standards Board of India (BCSBI) formed in 2006 to develop a comprehensive code of conduct for fair treatment of bank customers.

3.2.2 Ministry of Finance and Income Tax Department

The Ministry of Finance and Income Tax Department deal with matters involving government revenue and its collection and remittance to the Government. They also scrutinize high-value dealings as part of anti-money laundering[37] measures, for instance, foreign banks submit returns relating to anti-money laundering, as in statement of high value receipts.

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[34] Evolution of Central Banking in India, note by Rakesh Mohan.

[35] The emphasis of supervision has been shifting in the recent period from the traditional Capital, Assets, Management, Earnings, Liquidity and Interest Rate Sensitivity (CAMELS) approach to a more risk-based approach. Basel II, which encompasses the risk analysis, uses a 'three-pillar' concept – minimum capital requirements, supervisory review and market discipline – to ensure financial stability.

[36] In December 2006, RBI issued a guideline on CSR, Sustainable Development and Non-Financial Reporting – "Role of Banks" which provides banks guidance on the concepts of BR, sustainable development and non-financial reporting and their importance among businesses and financial institutions today. It also traces the global initiatives being taken by the financial sector in these areas.

[37] Money laundering is the practice of disguising illegally obtained funds so that they seem legal. It is a crime in many jurisdictions with varying definitions.

3.2.3 Securities and Exchange Board of India (SEBI)

SEBI[38] was set up in 1988 as part of the SC (R) Act 1956. It is the regulator for the securities of market in India and establishes regulatory policy, carries out implementation. Also the body has the power to enforce regulatory rules and impose punishment on wrong-doing. Grievances and appeals from SEBI rulings are heard by the Securities Appellate Tribunal.

3.2.4 Ministry of MSME

The Ministry of MSME operates a credit guarantee scheme through SIDBI for providing credit guarantee to banks for their loans to MSME based on the viability of the project and not collateral mainly to step up the credit to the MSME sector. The mission of the 'Credit Guarantee Trust for Micro and Small Enterprises' (CGTMSE) is to create the availability of bank credit to MSMEs without the hassles of collaterals/third party guarantees and is a major source of support for the first generation entrepreneurs to realize their dream of setting up a unit of their own micro and small enterprise. The main objective is that the lender should give importance to project viability and secure the credit facility purely on the primary security of the assets financed. The other objective is that the lender availing guarantee facility should endeavour to give composite credit to the borrowers so that the borrowers obtain both loan and working capital facilities from a single agency.

During the FY 2008-2009, CGTMSE has shown commendable growth in its performance in terms of number and amount of guarantee covers issued under CGS on all India bases. CGTMSE was able to surpass the set target of covering 50,000 proposals for INR 1,500 crores under its CGS during FY 2009. CGTSME issued the 50,000th 'Credit Guarantee Approval Certificate' to BoI (Bank of India) for their collateral free loan of INR 1 crores to Solus Security Systems Pvt. Ltd. the CEO, CGTMSE indicated that cumulatively, as at March 30, 2009, 146326 proposals for INR 4,725 crores had been approved by CGTMSE since inception and the trust was hopeful of rapidly scaling up the coverage during FY 2010.

3.3 Inclusive Nature and Behavior of Indian Banks[39]

As an important driver of the Indian economy, banks need to broaden their role to extend beyond the commercial sector and incorporate the social sector as well. The financial sector hence believes in mainstreaming the poorer section for the well-being of the country.

Nationalization of major banks in 1969 saw banking policy give a thrust to branch expansion in the rural and semi-urban areas and stepping up of lending to PSs viz. agriculture, small scale industry, self-employed and small business sectors and weaker sections. It is understood that inclusive banking cannot be at the cost of weakening FIs and that policies for inclusive banking have to go hand in hand with encouraging strong and efficient FIs. The thrust of inclusive financing for the poor thus was mainly through government sponsored credit-cum-subsidy programmes. National Bank for Agriculture and Rural Development (NABARD) was set up as an apex development bank with a mandate for facilitating credit flow for promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts largely provides refinance for lending done by the rural cooperative credit structure.

Imperative to this initiation of inclusive nking was the launch of the SHG Bank linkage programme by NABARD in 1992. The programme gained momentum when the Reserve Bank allowed banks to open savings accounts for SHGs despite them not having any legal form. This facilitated collective decision - making and provided 'door step' banking to the poor. Banks, as wholesalers of credit, provide resources, while NGOs organize the poor, build their capacities and facilitate the process of empowering them.

[38] www.sebi.gov.in
[39] http://students.indlaw.com/display.aspx?4384

The other strategic move in this phase was the creation of 'Rural Infrastructure Development Fund' (RIDF) in NABARD, into which PSBs were required to make deposits towards deficit in their (PSLs). The fund is utilized to lend to State Governments for the creation of rural infrastructure. A similar fund was set up in SIDBI as well as by foreign banks.

RBI[40] directs that in view of gathering momentum regarding sustainable development and various initiatives being taken by different organizations, including banks and FIs worldwide, it is imperative to highlight the developments taking place, raise the level of awareness and focus the attention of banks in India on issues of social responsibility and sustainable development. Further, it is being observed that there is a visible trend to promote environmentally and socially responsible lending and investment in emerging markets in the financial sector. Responsible banking is the new approach evolved out of the new market realities.

According to RBI[41], socio-environmental impact of banks and financial sector are relatively low because most of them are delivered through the activities of other businesses that rely on FIs – businesses in a loan or investment portfolio. However, despite the relatively indirect nature of their environmental and social impacts, banks need to examine the effects of their lending and investment decisions. The substandard environmental and social practices have ramifications to business. The risks that such impacts create can be regulatory, financial, and reputational, while banks are increasingly becoming accountable for the effects of their portfolios have on the environment and society. The risks that often get transferred to FIs include increased loan defaults, decreased value of investment and loss of collateral due to decreased asset values, liability for damages arising from negligent investment advice and loss of reputation and standing as a result of association with polluting businesses.

Specific focus on financial inclusion commenced in November 2005, when RBI advised banks to make available a basic banking **'no-frills' account with low or 'nil' minimum balance** as well as charges, with a view of expanding the outreach of such accounts. KCCs was introduced and banks are asked to consider introduction of a 'General purpose Credit Card' (GCC) facility up to Rs 25,000 at their rural and semi-urban branches. This is similar to revolving credit, which entitles the holder to withdraw up to the limit sanctioned.

A decentralized strategy has been adopted for ensuring financial inclusion with the State Level Bankers Committee (SLBC) identifying one district for 100% financial inclusion. As of now this has been achieved in 68 out of 611 districts in the country. Twelve million "No Frills" accounts have been opened till March 2007, with 11 million of them in PSBs.

Recognizing that the RRBs with their dominant presence in backward and tribal areas can become powerful instruments of financial inclusion, measures have been taken to strengthen them through consolidation of the 196 banks into 92 banks, making sponsor banks responsible for their performance, liberalizing branch licensing in their area of operation, recapitalizing RRBs having negative net worth and providing them with facilities to upgrade their staff skills. Working groups have been set up to explore how these banks could be supported to bring in core banking solutions and adopt ICT solutions for financial inclusion.

A growing phenomenon of inclusive banking is the lending by MFIs that are societies, trusts, cooperatives or "not-for-profit" companies or NBFCs registered with RBI. This sector currently covers 8.32 million borrowers.[42] The NBFC segment within this sector accounts for 42.8% of the borrowers

[40] RBI circular RBI/2007-08/216, DBOD. No. Dir. BC. 58/13.27.00/2007- 08 dated 20th Dec. 2007

[41] RBI circular RBI/2007-08/216, DBOD. No. Dir. BC. 58/13.27.00/2007- 08 dated 20th Dec. 2007

[42] Sa-Dhan Report 2007

and is the fastest growing segment. Interest rates on lending to MFIs/NBFCs are completely deregulated; bank lending to such entities for micro finance is treated as PSLs. Private sector and foreign banks are observed to be actively supporting this sector and is now attracting private equity and philanthropic funding.

In 2002, there were more than 2,000 small urban cooperative banks in the country providing banking services to local communities but with disrupted services. Over the recent period, recognizing their importance in financial inclusion, a regulatory and supervisory framework has been put in place to weed out the non-viable banks in a non-disruptive manner through a consultative process with the registrar of cooperative societies and sector representatives.

In January 2006, the Reserve Bank permitted banks to utilize the services of NGOs/SHGs, MFIs and other CSOs in providing financial and banking services based on business facilitator (BF) and BC models. The BC model allows banks to do 'cash in-cash out' transactions at a location much closer to the rural population, thus addressing the last mile problem. Banks are also entering into agreements with Indian postal authorities for using the enormous network of post offices as BCs for increasing their outreach and leveraging the postman's intimate knowledge of the local population and trust reposed in him.

In last few years India's economy is growing at the rate of 7-8 % yet 60% of the population is living at the rate of INR 20 per day. The focus of the government hence has been to bridge this gap and have inclusive and sustainable development. Banks and FIs have direct linkage with the people hence with these institutions hastening initiatives on inclusion will foster sustainable development of the country.

4. Global FIs - BR Practices

Amongst thousands of bank worldwide there are just a few that adhere to any one of the global financial principles. The following section brings forward the sustainable lending behaviour of FIs from developed and developing economies.

The global FIs BR practices can be broadly classified into three categories namely

A. Policies
B. Sustainable lending initiatives
   a. Risk Management
   b. Creation of Opportunities
   c. BR Initiatives

4.1 Global FIs and BR Practices

4.1.1 Concept of BR in Banks

Milton Friedman said "**business of business is business**" which applies to all the banks but in the last decade the approach has changed immensely to "**profit plus**". Most banks have incorporated the essence and importance of responsibility towards the society and environment in to their agenda and have realized that it's imperative for its own existence to become a responsible business institution. Also, they have moved on from philanthropic activities to more meaningful business solutions to the socio-environmental issues. This has helped strengthen the relationship with its customers, community, promote transparency and sensitize all its stakeholders. Most banks now emphasize on reducing carbon footprint, efficient energy-utilization, combating climate change, promote clean technology, inclusive banking and child labour, amongst others as areas of promoting and practicing BR.

IFC strives for developmental outcomes in the private sector projects. An important component of these outcomes is the social and environmental sustainability of projects, which IFC expects to achieve by applying a comprehensive set of social and environmental performance standards. Through its sustainability policy 'Policy on Social and Environmental Sustainability' (the Sustainability Policy), IFC puts into practice its commitment to social and environmental sustainability (Refer Annex 9).

Other than EP following FIs may have BR policy and sustainability focus areas, but their practices and initiatives are limited.

4.1.2 FIs policies related to sustainability

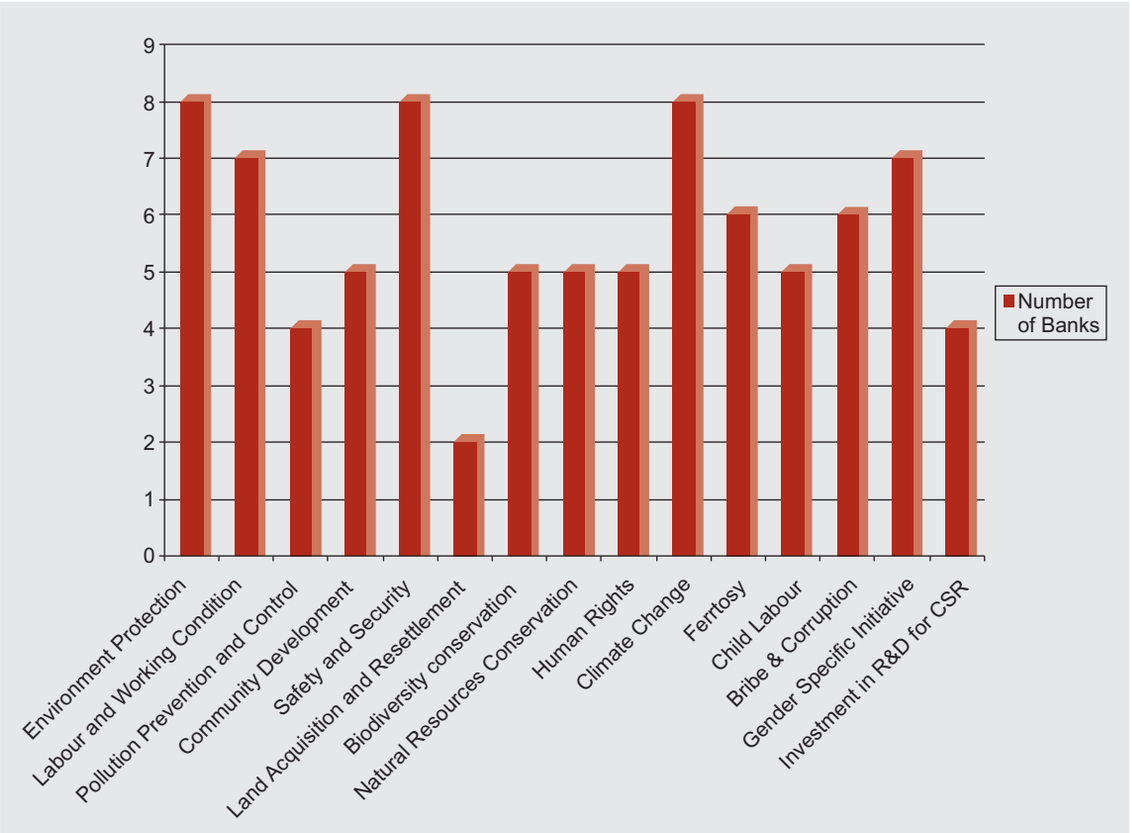
Many international FIs have put in place a corporate policy to promote sustainable development through the organization and their clientele. Under such a policy, FIs primarily focus on governance and how to weave in socio-environmental sustainability with the business goal. Terminologies like ESG Guidelines, ESE (Environment, Social and Ethical) performance have become part of their corporate policy. FIs have developed code of conduct for operations, grievance mechanism cell and policy on money laundering etc. to become more accountable and transparent hence sound corporate governance. ABN AMRO has a global policy of employee whistle blowing to enable employees to raise concerns about suspected criminal or unethical conduct, with the choice of doing it anonymously. In 2007, it also took steps to ensure that staff completed anti-money laundering training and was aware of their responsibility to act honestly and report any suspected wrongdoing.[43]

[43] ABN AMRO Sustainable Review Report 2008 Page No. 13

It is important to advise and engage employees in decision making of issues on sustainability and governance. Every year, HSBC has conducted regular surveys for its employees and in 2007, 88 %[44] of its total employee came out with suggestions.

Over the years, this has also led to practices of lending which is an important premise of banking. A number of social and environmental indicators such as environment protection, labour and work place policy, management and conservation of natural resources, community health – safety and security, land acquisition and resettlement, to mention a few form an integral component of the credit policy of the bank. Sustainability addressed in the corporate policies of the eight international FIs that are subject of this study is set forth in *Figure 4.1* below:

Figure 4.1: Sustainability Issues as part of Corporate Policy



Source: CSR Reports of the Banks

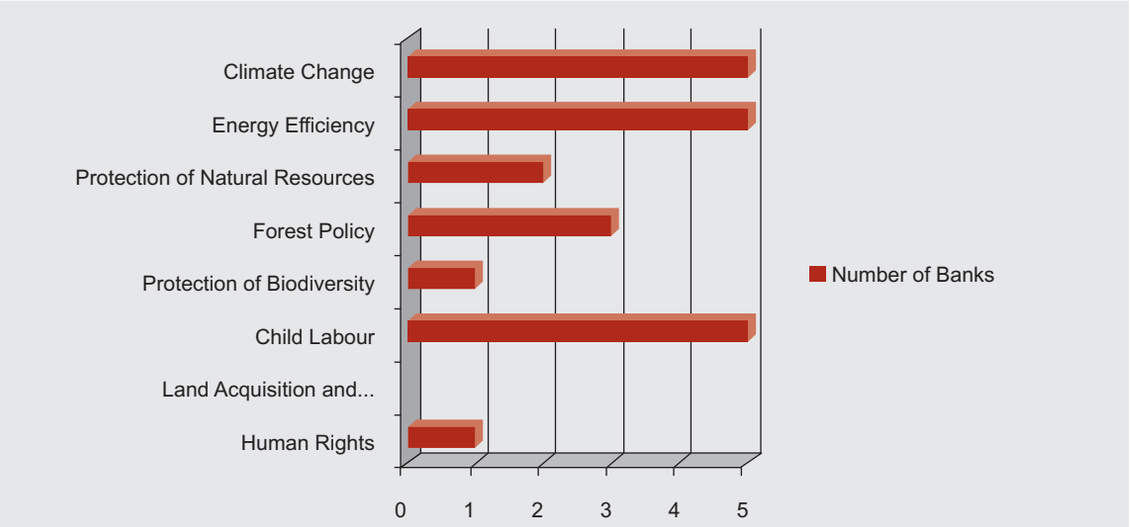
All eight banks under the study are signatory to EP hence adhere to most of the sustainability parameters and have made their way to the corporate policy. They have initiated projects that aim to protect the forests and forest area, and do not support projects that affect the biodiversity, natural resources, local forest communities, illegal logging or heritage site conferred by United Nations Educational, Scientific and Cultural Organization (UNESCO).

Forestry, along with agriculture, accounts for 20% of global greenhouse gas emissions. According to the UN Food and Agriculture Organization (FAO), 3% of the world's forest land was lost between 1990 and 2005.

Sustainability as part of corporate policy for five banks other than EP adopted is represented in *Figure 4.2* and *4.3*

[44] Source: HSBC Sustainability Report 2007 Page No. 27

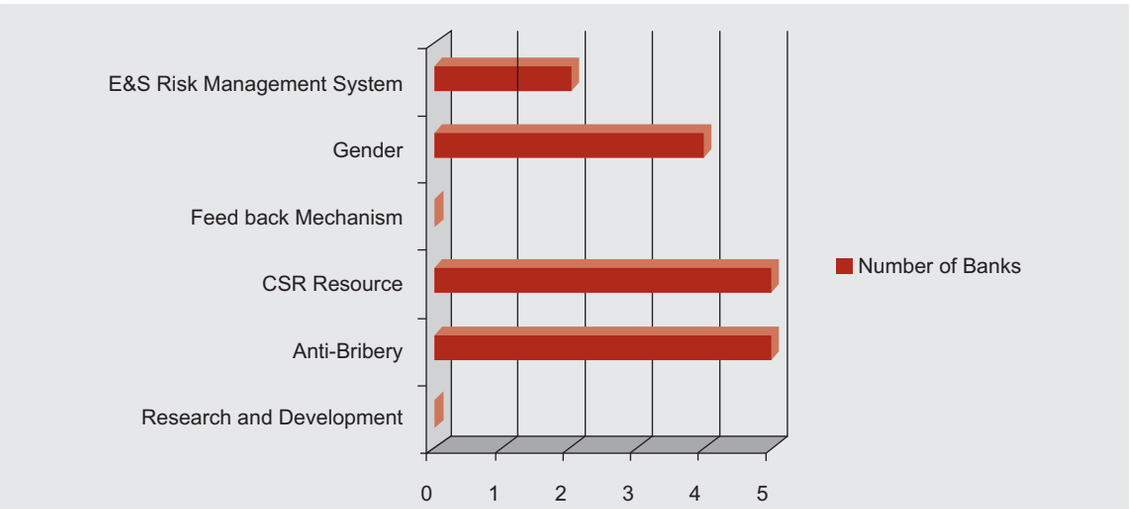
Figure 4.2: Sustainability (Social and Environmental) as part of Corporate Policy of Banks other than EP adopted



Source: Sustainability Reports of the Banks

It is evident that environmental issues like climate change, energy efficiency are the most prominent areas of focus while issues like land acquisition and human rights do not top the list of importance. Policy on human rights is visible in one bank only.

Figure 4.3 Governance Issues as part of Corporate Policy of the Banks other than EP adopted



Source: Sustainability Reports of the Banks

4.1.3 FIs initiatives towards BR

IFC's mission is to promote sustainable private sector development in developing countries, help poverty alleviation and improve the standard of living. It believes that sound economic growth, coupled with sustainable private investment, is for crucial to poverty reduction. ADB however attempts to reduce poverty[45] and improve the quality of life of people in Asia. The bank emphasizes that poverty reduction and improvement in the quality of life realized from development must be extended equitably and should reach every segment of society, including indigenous people. Banks like Standard Chartered have also made 'Millennium Development Goal' (MDG) as one of their focus area; HSBC focused on reduction of carbon footprint and has already become carbon neutral in 2007. [46]

[45] It defines poverty as deprivation of the essential assets and opportunities to which every human is entitled.

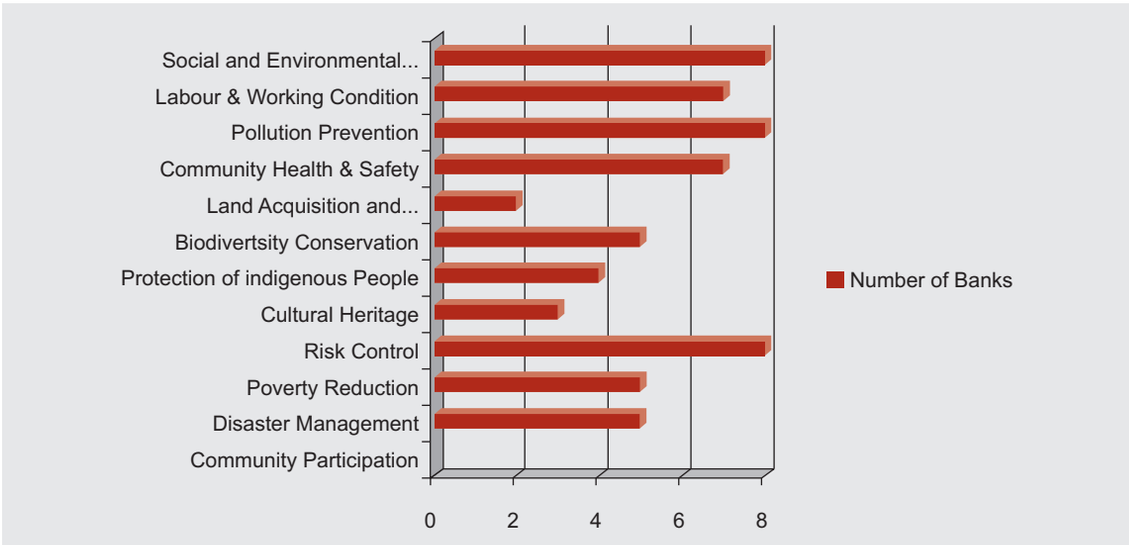
[46] HSBC Sustainability Report 2008

- ABN AMRO is reducing its carbon impact by increasing its energy efficiency and purchasing green power for its Dutch operations. They have introduced new product for the emerging carbon market and undertaking CDM projects under Kyoto Protocol.
- BNP Paribas is becoming more accountable and actively engaged at the international platform like 'Climate Disclosure Leadership Index'.
- In 2007, HSBC's carbon dioxide (CO_2) emissions amounted 897,000 tonnes. The bank purchased an equivalent tonnage of CO_2 offsets to become a **carbon neutral company.** Introducing technology to cut down travel (523,000 air miles~185 tonnes of CO_2 - US$604,000 financial saving) in a month in HSBC's group head office in London, reducing the usage of papers have addressed their quest of reducing carbon footprint.
- Barclays PLC has taken the initiative in the global retail and commercial banking with 'Energy Saving Programme' under which remote technology was installed in 240 branches to reduce gas, electricity and water usage by 25 %. That has saved 13 GWof energy and £750,000. The bank has also adopted the policy of keeping its energy use to 2 % per employee.

FIs other than EP signatory have also taken various initiatives on sustainable development issues, most importantly environment protection and reduction of carbon emission. Five banks under the study also have very strong forest policy especially BNDES (Brazilian Development Bank) that has specific forest policy for the protection of Amazon forests, its river basin and biodiversity.

Other than sustainable issues as part of the corporate policy, FIs also tend to follow and give emphasis to some of the sustainability focus areas as an entity or while lending. These issues are not necessarily reflected in their corporate policy. Sustainability focus areas of the banks are illustrated in ***Figure 4.4***

Figure 4.4: BR Initiatives of EP Banks



Source: Sustainability and Annual Reports of the Banks

Areas like pollution prevention, social and environmental protection or working condition may not be a part of bank's corporate policy[47] but under their sustainable initiatives. However, FIs other than EP signatory focus on few areas like poverty reduction, carbon emission reduction, energy efficiency by reaching the underserved communities through various programmes. Banks through its special programmes, schemes and foundations reach to the backward communities to address issues like health and education.

[47] Corporate Reports and Websites of the Banks

- BNP Paribas Foundation, through *Project Banlieues,* has contributed almost € 350,000 to 83 associations that work to provide "integration through knowledge" for children and youth in disadvantaged neighbourhoods.[48]
- Banks also promote social initiatives through collaboration with CSOs or Government bodies.
- HSBC has launched a US$10 million "Future First Programme" in 2006 which provides education and life skills to street children, foster care and orphanages. This 5-year initiative is a collaboration between HSBC Global Education Trust and SOS Children's Villages.[49] At the end of F.Y. 2007, 37,000 street children throughout the world were covered under the programme.

Besides, social and environmental issues banks also lay prominence to the ethical performance and governance issues of the institution in order to augment it further as a responsible institution.

4.2 Global FIs BR Practices while lending

4.2.1 FIs signatory to EP

EP is one of the global sustainable lending principles (refer Chapter 2) and emphasizes largely on sustainable factors a bank must ensure while lending. This ensures sustainability not within the bank but also spreading its impact on the lenders.

HSBC Bank in its corporate policy states that the bank does not lend to any project which falls under the heritage site declared by UNESCO. Banks have also become very sensitive towards protection of environment and are beginning to increase lending to projects that have a positive impact on reducing carbon footprint, use clean technology and use natural resources prudently. Some of the sustainable lending initiatives by the banks are enumerated below:

- ABN AMRO introduced new product for the emerging carbon market pursuing CDM projects under the Kyoto Protocol.
- HSBC launched carbon finance strategy in 2006, to support clients in developing clean technologies and non-fossil fuel energy solutions that are technically and commercially viable.
- HSBC sends a complimentary green kit to customers containing 'eco products', information and advisory on the difference they could make on opening a paperless current account.
- Citibank is engaging participants in China's financial services sector on how to integrate environment risk in their credit policy. This is in line with China's green credit policy that aims to improve compliance with environment regulations and reduce access to commercial credit for Chinese companies that evade environment assessments for all pollution checks.
- Standard Chartered has financed projects worth over US$3 billion on renewable energy and clean technology and remains committed to growing its business further.
- Barclays is funding a programme for four years with GBP 1.3 million with not-for-profit organization, SolarAid, to make small-scale solar power accessible to rural communities in Kenya.

4.2.2 FIs non-signatory to EP

Even though they are not signatories to EP, but do take into account sustainability parameters while lending.

- Development Bank of Philippines has priority areas like infrastructure and logistics, MSME sector, social services and environmental development. Of the PHP 82.04 billion total loan portfolio, 60% was channelized to these sectors.

[48] Source: BNP Paribas CSR Report 2007 Page No. 155

[49] Source: HSBC Sustainability Report 2007 Page No. 29

- LANDBANK, another bank in Philippines, has witnessed a continued expansion of its loan portfolio towards PSs – farmers, fishermen, MSMEs and micro-enterprises, livelihoods, agribusiness and agri-infrastructure.
- Bank of Italy has invested US$ 320 million in renewable energy and US$5.6 million as micro finance in 2008.
- BOC has clear requirements on energy saving and emission reduction, and takes into account environmental safety factors in its lending decisions. BOC has established a mechanism of tracking, monitoring and analysing industries with high pollution and high energy consumption records and drew up a list of such enterprises. BOC enhanced its communication with environmental protection authority in order to receive timely information on the performance of industries pertaining to pollution. BOC has further implemented the concept of green credits in its business and restricted credit to industries working to overcapacity or operating with out-dated production facilities, high energy consumption and a record of environment pollution.

4.3 Global FIs sustainable lending practices for MSME sector

MSMEs play a pivotal role in the growth of economy of the country. They contribute substantially to industrial output, gross domestic product, exports and employment, besides being innovative. MSMEs typically contribute to around 50 % of GDP and 60% of employment internationally, contribute between one quarter and one third of manufactured exports and account for usually less that 10%[50] of FDIs. In most economies, MSMEs comprise more than 95 % of market participants, and contribute to around 50% of direct value added or production. Overall, MSMEs are estimated to contribute between 25% and 35% of world's manufactured exports. According to United Nations Economic Commission for Europe (UNECE), the MSME sector includes 15.7 million individual entrepreneurs and 7.8 million incorporated enterprises in 27 transition countries[51]. The incorporated MSMEs in these countries together employ about 45 million people.

Table 4.1: Region wise behaviour of SMEs at global level[52]

S. No.	Country/ Region	Strength of SMEs	Key Highlights
1	USA	25 million	• Employ 53% of private workforce • Account for 51% of private sector output and represent 96% of US exports • Provides approx. 75% of net new jobs • Considered as the heart of the American economy because of their innovations
2	European countries	20 million	• Provide employment to 77 million people • Account for 11% share in total exports • Around 94% of total Italian firms are reportedly SMEs, contributing about 40 % of total GDP and 43% of total employment
3	Other developed economies		• Constitute over 95% of total enterprises and more than half of the total employment in economies like Australia, Canada, Germany, United Kingdom, France • Around 99% of 7million units of Japan are SMEs which account for about 80% of total employment of around 55 million persons and around 52% of the Japanese exports.

[50] World Association for Small and Medium Enterprises Annual Report 2004-05
[51] World Association for Small and Medium Enterprises Annual Report 2004-05
[52] www.insme.org/library/various reports

The characteristics of SME reflect not only the economy but also the cultural and social dimension of a country. Hence the *sector plays a very crucial role in terms of economic factor, social and environment aspects.* No economic development can be sustainable if it does not take into consideration the social and environmental developmental of the region. Also it has to envisage the impact (negative) being created on society and environment by the economic activity henceforth becoming more responsible in its business. FIs can play a very important role not only in supporting the SME sector by financing but also in shaping up its BR.

4.3.1 Global FIs SME financing initiatives

- **Barclays Bank:** It increased lending balances to SMEs – (businesses with a turnover under GBP20mn) in the UK by 6% during 2008 to a total of GBP15bn, with a commitment to make at least a further 10% (GBP 1.5bn) available to SMEs in 2009. Barclays was the first bank in UK to take part in the new European Investment Bank credit supply scheme, with an agreement worth GBP300mn in place to assist SMEs. Barclays has also been a leading supporter of the Enterprise Finance Guarantee, which has been developed by the UK government to provide finance to eligible companies. Barclays assisted SMEs in emerging markets through initiatives such as Amalgamated Bank of South Africa (ABSA) Network of Enterprise Development Centres in South Africa. ABSA's loans and advances to customers increased to GBP 32.7bn in 2008, up from GBP 29.9bn in 2007. It has launched a free web-based service called Credit Focus to help all small businesses in the UK irrespective of them being customers of Barclays – to assess their own customers' creditworthiness.

- **ABN AMRO:** Much of the growth that ABN AMRO has been seeing is under the Business Credit Programme. This represents 11% of the total SME market. Under this programme, businesses can borrow amounts ranging between EUR 5,000 and EUR 125,000 without any specific collateral being required.

  It is often difficult for businesses opening up for exports to obtain information on their foreign customers and involve payment risks. The new package of services implies businesses can now obtain the requisite information on debtors online. They can also use a transaction policy to insure export transactions for up to EUR 100,000 against the risk of non-payment. Cover percentages of up to 85% are possible, depending on the status of the foreign debtor, the payment terms and the country in which the debtor is based. The package also includes assistance with foreign collections. If a debtor fails to pay, the insurance will provide for payment within 30 days of date of collection.

- **Standard Chartered:** In 2008 Standard Chartered made a commitment to the UK Government's Millennium Development Goals -- Call to Action by launching a new programme which includes innovative financial products, skills development, business mentoring and research to help the crucial SME sector attain its growth potential.

  In 2008, Standard Chartered also introduced an employee e-Learning module on Sustainable Lending as mandatory learning for all credit officers and relationship managers in Wholesale and SME banking. Standard Chartered provided 150 of its African SME clients with a unique opportunity to build links with SMEs in China and beyond.

- **Rabo Bank:** Rabo Bank Group maintained its share of 38 % of its total loan portfolio in the SME sector in 2007.[53] Rabo Bank provides start-up loans for SMEs in the Netherlands.

[53]Measured by the TNS NIPO market research agency

Environmental and social considerations while lending to MSME sector

Loan Application forms for the SME Sector of the FIs like MIGA, Arkansas Department of Environmental Quality IFC and Borrego Spring Bank were analysed to identify the importance given to the social and environmental issues/impacts of the project while lending for the same:

Environment related information:

- Description of the environmental issues related with the project
- Environmental Assessment of the project
- About waste water management, Air Emissions, Pollution Prevention and Waste Reduction
- Whether enterprise has environmental permits related to Mining, Underground storage tanks, Air Pollution, Hazardous Waste, solid Waste, Water Pollution
- Environment benefits of the project
- Location of the project in respect to environmentally sensitive area
- Test of Hazardous Toxic Substance if any, use and type of chemicals
- Certificate received from concerned Environmental Protection agency and State Department for Health

Social aspect information

- Percentage of local employee be involved in the project
- Worker wages and compare these wages that these workers might have been received elsewhere in the country
- Percentage of Female Employee
- Location of the project area (Rural/Urban)
- Whether area is near to heritage, strategic, environmentally sensitive areas.
- Compliance with the local authority rules.
- Land acquisition policy
- Negative impact of the economic, social, or livelihood resources and social/cultural places.
- Whether the owner of the business is a from some special category like war veteran, war disabled, widow war personnel or some other special categories

Albeit limited number of SME loan application forms have been studied and analyzed, it can be said that international FIs give significant importance to environmental and issues while lending to small enterprises.

4.4 Role of IFC in ensuring Social and Environmental criteria in Lending[54]

IFC, the private sector arm of the World Bank Group, is the largest multilateral provider of financing for private enterprise in developing countries. Being proponent of the EP, it is important to evaluate its sustainable practices and incorporation of sustainability factor into its core business. IFC finances private sector investments, mobilizes capital in international financial markets, facilitates trade, helps clients improve social and environmental sustainability, and provides technical assistance and advice to businesses and governments. Since its inception in 1956 till 2006, IFC has committed more than US$56 billion of its own funds to private sector investments in the developing world and mobilized an additional US$25 billion in syndications for 3,531 companies in 140 developing countries. With the support of funding from donors, it has also provided more than US$1 billion in technical assistance and advisory services.

[54] i) IFC Annual Report 2007-08

[55] ii) Gaining Ground: Integrating ESG Factors into investment process in emerging markets, March 2009.

Its environmental review procedures are based on World Bank Environmental Guidelines published in 1988. It strives for positive development outcomes in the private sector projects it finances in emerging markets, which consist of the social and environmental sustainability of issues by applying a comprehensive set of social and environmental performance standards.

The policy on social and environmental sustainability is also known as 'Sustainability Policy', includes industry specific standards and pollutant specific standards. In IFC, the principles of CSR are now referred to as Enterprise Social Responsibility (ESR). The organisation is striving to establish itself by making an inroad into its private sector operations. Annex 9 has details on the World Bank Environmental Guidelines.

The performance standards are considered as the most essential documents to help IFC and its clients manage and improve their social and environment performance through an outcome based approach. Central to these requirements is a consistent approach to avoid adverse impacts on the workers, communities, and above all the environment. Its website also says that if avoidance is not possible then to reduce, mitigate or even compensate for the impacts as appropriate. The performance standards also provide a solid base from which clients may increase the sustainability of their business operations.

It is mentioned that IFC's social and environmental review of a proposed project is an important factor in its decision to finance the project or not, and determines the scope of financing. It also emphasizes that by adhering to the performance standards it has been enhancing the predictability, transparency and accountability of its actions.

As its corporate policy, it believes that socially and environmentally responsible businesses can enhance its clients' competitive advantage, profitability, good will and trust and create value for all parties involved in the process directly.

Under its corporate policy, IFC make financial assistance available to support its client, help the prospective clients to improve their social and environmental performance even beyond the performance standard, finances innovative projects that promote local environmental benefits, supports initiatives for the conservation of biodiversity and purchasing carbon credits from projects in emerging markets that reduce greenhouse gas emissions.

From time to time there is also a demand to review and possibly adopt the changes to improve IFCs social and environmental policy. Hence, during April 2004 and 2005, a group consisting of 14 socially responsible investing firms and organizations representing over $117 billion in assets had filed[55] a letter with IFC for such review and change, which is yet to take place. In addition to that, the gap analysis[56] done by Jodie Thorpe et. al. (2003) for sustainability reflects a gap between IFC's policy framework and practice in a number of places. The gap is wider as compared to the leading international frameworks, initiatives and guidelines which have business relevance, reasonably wide stakeholder support and broad applicability frameworks and guidelines.

The analysis can be summarized as:

[55] William Baue, 2005, 'New International Finance Corporation Sustainability Standards: Watershed or Watered Down?' published in Sustainability Investment News.

[56] Jodie Thorpe, Seb Beloe, Philippa Moore and Peter Zollinger (2003) for SustainAbility, 20-22 Bedford Row, London WCIR 4EB, United Kingdom Safeguard Policies Gap Analysis, November 2003 Final Report.

Table 4.2 Global FIs BR behaviour

	BR practices of EP FIs	BR practices of FIs non-signatory to EP
Corporate Policies	Most of the EP FIs have **well defined corporate policies which mention sustainable development issues** such as environment protection, work place policy, management and conservation of natural resources, pollution prevention and abatements, community health, land acquisition and resettlement, biodiversity conservation and child labour.	FIs also have focus on certain sustainability issues such as environment and carbon emission as part of their corporate policies. For the rest they are by and large dormant.
	During project finance, most banks give emphasis to **social and environmental issues.**	
Governance		Almost all FIs have anti-bribery policy, BR resources but not as effective as EP FIs.
BR Activities	All most all the EPFIs **focus on sustainability.** These initiatives mainly relate to climate change, carbon footprint, and child labour and poverty alleviation. These areas demand most of the allocated resources of the organization.	FIs focus on poverty reduction, carbon reduction, energy efficiency and reaching to underserved communities through various programmes.

5. Indian Banks and BR

The Swadeshi movement inspired the sporadic establishment of banks by Indians for the Indian community between the period between 1906 and 1911. A number of banks established then have survived such as Bank of India, Corporation Bank, Indian Bank, Bank of Baroda, Canara Bank and Central Bank of India. The reforms era growth in banking has focused on the more profitable urban market but recently banks are coming up with new innovative products and schemes which include some products focused on inclusion such as 'Kisan Mitra Scheme' launched by PNB in December 2006 and 'Kisan Bandhu Scheme' that approves BFs and correspondents to reach to remote rural areas.

Banks have a tremendous opportunity to support the ongoing efforts to attain sustainability. Integrating environmental and social issues into strategic operations is important, and this is how, FIs can ensure financing is channelled towards sustainable development. **Responsible banking places importance on the environmental and social consequences of projects and financial products, rather than just the economic impact.** This encompasses incorporation of environmental and social assessments into financial analysis or development of products with an explicit environmental and social focus, SRI funds to illustrate.

In order to make an impact, RBI has suggested that banks need to integrate concepts of BR in their business strategy. The approach and tools to achieve this is succinctly stated :[57]

1. **Commitment to Sustainability:** Banks must broaden their missions from profit maximization to social, environmental and economic sustainability.

2. **Commitment to 'Do No Harm':** Banks should commit to "do no harm" by preventing and minimizing the environmentally and socially detrimental impacts of their portfolios and their operations.

3. **Commitment to Responsibility:** Banks should bear full responsibility for the environmental and social impacts of their transactions.

4. **Commitment to Accountability:** Banks must be accountable to their stakeholders, particularly those that are affected by the operations of companies they finance.

5. **Commitment to Transparency:** Banks must be transparent to stakeholders, not only through robust, regular and standardized disclosure, but also through being responsive to stakeholder needs for specialized information on banks' policies, procedures and transactions.

The circular of 20th December 2007 was the first ever policy level guidance document from RBI to the Indian banks as a regulatory body to conform to BR and report the activities undertaken.

5.1 Indian Banks BR Practices[58]

5.1.1 Banks concept of BR and sustainability

BR in India is relatively a new concept and also evolving. However, various welfare initiatives have been in practice by the business houses as philanthropic activities.

[57] RBI/2007-08/216

DBOD. No.Dir. BC. 58/13.27.00/2007- 08, Page no 23

[58] Refer to Annex 7 for detail

In recent times all these activities have moved beyond philanthropy and integrated in their core business. Banks have started to see the business case behind BR initiatives and RBI has taken a stab through its guidelines on development of society and environment to enable and foster BR behaviour amongst the banks. However, most of the banks have a limited approach to such initiatives, adhere only to mandatory guidelines and support government schemes. Also, unlike their western counterparts, most Indian banks do not publish any separate report on their sustainability approaches.

5.1.2 Indian banks policies related to sustainability

Albeit the concept of sustainability is new but banks have always been doing or focusing on sustainable issues in some way or the other and eventually have made way to their corporate policy .[59]

5.1.3 Responsible banking through legal regulation/Government schemes

In India environmental aspects are governed primarily by environmental legislation of the Ministry of Environment and Forests (MoEF) and the Central Pollution Control Board (CPCB).[60] A borrower is required to undertake an Environment Impact Assessment (EIA) in order to obtain 'Environmental Clearance', which is the major prerequisite for executing projects and hence asked for by the banks in all project finance deals in India. The national environmental policy and a set of acts, rules and notifications, related to water pollution, air pollution, hazardous substances management, eco-sensitive zones and environment protection are to be followed. These must also be obtained in order to establish an industry or carry out operations. Project is approved only when it obtains various clearances[61] and standards for compliance set by the CPCB.[62] The regulatory authorities (Ministry of Environment & Forest and State Level Impact Assessment Authority) are responsible for monitoring compliance of the project activities. Indian regulations are very specific and provide detailed account of the activities to be carried out, procedures, acceptable environmental standards[63], authorities and division of power and responsibilities.

In addition, the Government has several schemes aimed towards inclusive banking, to which PSBs must subscribe by RBI guidelines. Some of these policies are described below:

Scheme	Description
Partner in Government initiatives on inclusion	All public sector and regional cooperative banks are partners in the implementation of government welfare schemes for the weaker and underprivileged section of the society. In the KCC Scheme,[64] the PSBs and cooperative banks provide KCC to small (relatively poor) farmers to meet their requirements for short-term crop loans. Similarly inSJSRY,[65] they provide assistance to the BPL families in rural areas for self-employment. There are a number of such schemes where funding is provided to various target groups identified by the government to meet their specific needs.
PSLs	1. All domestic public and commercial banks are required to ensure 40% of their Net Banking Credit (NBC) as PS advances. Out of this 40%, 18% is for agriculture sector, 10% for weaker sections and 5% for women.

[59] Refer to Annex 7 for detail
[60] Rupanwita Dash's Comparative Analysis Of The Equator principles And Indian Legislation, February
[61] 2008, http://ifmr.ac.in/cdf/downloads/cdf_cae_feb08.pdf, last retrieved on 2/Dec/2008
[62] Environmental clearance, forests clearance, genetic engineering approval committee clearance
[63] Emission standards, effluent standards, solid waste management
[64] http://www.ccsindia.org/ccsindia/policy/live/studies/wp0011.pdf
[65] http://angul.nic.in/sgsy.htm

Scheme	Description
	2. All foreign national banks operating in India are required to ensure 32% of their NBC as PS advances. Out of this 32%, 10% is for MSME sector. No sub-target has been fixed for other sectors like agriculture, weaker section and women. 3. All RRBs are required to ensure 60% of their NBC as PS advances. Out of this, 15% is for weaker sections.
Reservation Policy	All public sector and cooperative banks are required to reserve 49% of human resource for in-house employment from backward and weaker sections of the society like SC, ST, Other Backward Communities (OBC), Physically Handicapped (PH) and Ex-servicemen.
Right to Information Act[66]	All public sector and cooperative banks are supposed to maintain a separate cell to deal with 'Right to Information' applications.
Special assistance to Minority Concentration Districts[67]	All public sector and cooperative banks (operating in these areas) are required to open new branches in under-banked/un-banked areas in 90 minority concentration districts in India. New private sector banks are required to ensure that at least 25% of their total branches are in semi-urban and rural centres on an ongoing basis.
Prevention of Money Laundering	All FIs follow the provisions as contained in **Prevention of Money Laundering Act**[68] to make them financially more stable and transparent.
Aid for natural calamity	All banks provide assistance in cash and kind to people affected by riots/disturbances/ natural calamities.
Welfare of Physically Handicapped (PH)	All banks are required to ensure that 1. Bank Branches/ATMs are made accessible to persons with disabilities. 2. Banking facilities are provided to Visually Impaired Persons. 3. Banks should make at least one third of new ATMs installed as talking ATMs with Braille keypads and place them strategically in consultation with other banks to ensure at least one talking ATM with Braille keypad is available in each locality to cater to needs of visually impaired persons.[69]
Welfare of Senior Citizens	1. All Banks have Special deposit schemes/products for senior citizens at higher rate of interest as compared to similarly placed schemes for other customers. 2. Banks ensure separate queue for senior citizen at the banks' counters for speedy disposal of their work.
Proper Grievance Redressal	MechanismPublic and private sector banks have a proper 'Grievance Cell' for customers and for weaker/minority communities.

Source: Reserve Bank of India Guidelines. www.rbi.org.in/scripts/NotificationUser.aspx

[66] www.righttoinformation.gov.in
[67] www.minorityaffairs.gov.in/newsite/main/FAQ_Ministry.pdf
[68] www.sebi.gov.in/guide/antimoney.pdf
[69] www.rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?Id=5139&Mode=0

5.2 Indian Banks' BR activities

The sample selected for the study in addition to their business and targets have certain focus areas in which they engage in BR activities. **From the information available, there are no major BR initiatives undertaken by Indian banks linked directly with the lending practices. All borrowers are required to follow the statutory laws laid down by the Government and relevant regulators related to environmental and social issues. Once the approvals are in place, banks lend subject to realization of their credit risk policy.**

5.2.1 Indian Banks and its BR Resources

It is observed that most Indian banks do not have a dedicated team to address specific sustainability issues. YES BANK has specific resources for specific sustainable issues taken up by a separate division called 'Responsible Banking'. The corporate foundations have full term professional employees who carry forward the sustainable activities. ICICI Bank also has specialist human resource team to provide advisory on carbon disclosure projects. Apart from these banks also have specific cell to seek customer feedback and address the issues. Especially, PSBs have dedicated resources to comply with laws impacting BR like RTI application, PSLs and (full form) Small Scale Industries (SSI) sector lending. SBI has created 'Minority Cell' at head office level with designated nodal officers to monitor the progress in lending to minority communities.

5.2.2 Indian Banks BR

In addition to PSLs all banks undertake some kind of initiatives either through partnerships with CSOs or through foundations as the face for philanthropic activities or through bank headquarters. Largely these initiatives are philanthropic in nature say donating funds for floods, natural calamities, and other disasters. Refer Annex 5.2 for a snapshot on BR initiatives by the Banks correct the numbering. A short snapshot of select few voluntary initiatives by six banks is as under;

Table 5.1: Indian Banks Social and Environmental initiatives

	Bank	Social and Environmental Initiative
1.	**PNB**[70]	• Identified 34 pilot projects for implementation in future as per their annual report 2008-09 across 13 states for mobile population, rickshaw pullers, vegetable vendors, women, ethnic minorities, socially challenged and other un-served sections. • Tied up with "Kabongram Asa Kashung Shang Social Upliftment Society" (KAKSSUS), an NGO to enable micro finance activities to reach farmers in the North-Eastern States; so far an amount of Rs 2. 69 crores has been disbursed to 874 farmers. • Financial assistance for setting up 5,500 CSCs/E-kiosks for the entire state of Bihar. • During FY09 it has established 11 Rural Self-Employment Training Institutes (RSETI) to provide training to the rural BPL youth and women in self-employment activities. • Provides Mobile banking services for weaker/underprivileged section of the society, micro finance, e-kiosks and self-employment training for rural youth.

[70] Punjab National Bank, Annual Report 2008-09 pg. 33-41

	Bank	Social and Environmental Initiative
2	**Canara Bank**	• Undertaken several technology initiatives to further financial inclusion process like multi-lingual bio-metric ATMs, voice-enabled mobile bio-metric ATM and launch of Smart Card project. • MoU signed with the Government of Karnataka for implementation of the Smart Card based payment system for NREGP/ 'Social Security Pension' in Chitradurga, Bellary and Gulbarga districts. • Launched 'Gramin Vikas Vahini'- vehicles to spread financial literacy. Within this, 50 vans were operational in 50 districts across India. • RUDSETIs has been engaged in training of rural youth for taking up self-employment programmes. Twenty three RUDSETIs, co-sponsored by the Bank, have trained more than 219,000 unemployed youth, with a settlement rate of 68%. • 'Rural Clinic Service Scheme' provides basic health care services in remote areas that lack medical infrastructure facilities. Under the scheme, the Bank encourages doctors to set up clinics in identified rural areas. As of March 2009, total number of such clinics was 515.
3	**SBI**	• Under a novel scheme of 'Adoption of Girl Children' designed by the SBI Ladies Club, over 15,300 poor and destitute girl children were adopted by various branches throughout the country to meet their education expenses. • In order to support its client MSMEs, the bank initiated a special programme in 1989, called 'Project UPTECH' that helped link up its select loanee enterprises to engage with technical consultants to help upgrade their capacities for improved product quality, better productivity and reduced pollution.
4	**ICICI Bank**[71]	• Since 2003, ICICI Bank has facilitated employee donations to social causes through 'Give India Foundation' (www.giveindia.org), a platform that enables employees to support social causes by donating to 100 CSOs duly screened for transparency and credibility. Currently about 5,000 Bank employees participate in the payroll-giving programme. • 'Read to Lead' programme invests in India's future by facilitating access to elementary education for 100,000 out-of-school children from 6-13 years of age. It aims to provide low income children, including girls, tribal children and children from remote rural areas, with access to education by strengthening the government system of education.
5	**Axis Bank**[72]	• Through the Axis Bank Foundation, the Bank seeks to define and effectively fulfil its CSRs as a corporate citizen and has therefore agreed to allocate up to 1% of its net profit every year to the Foundation for its activities. • The Foundation has committed grants for projects running up to three years. The programmes cover 12 States through 536 education centres that includes 47,055 children (24,313 girls and 22,742 boys).

[71] ICICI Annual Report 2008-09 pg. 41-43
[72] Axis Bank Annual Report 2008-09

	Bank	Social and Environmental Initiative
6	YES BANK[73]	• YES BANK enrolled Kashmir Apiaries Export a large honey processor and one of the largest exporters of honey with established honey procurement facilities and relationships with large groups of small honey producing farmers in Northern India. This deal has helped 2000 farmers, providing individual loans of an average of INR 25,000. The facility provided farmers with immediate access to credit facilities. The farmers were able to obtain higher selling prices for their honey stock, and in turn KAE was able to increase sales turnover. • YES COMMUNITY, a Responsible Banking Retail initiative aims to provide a platform to sensitize and encourage communities surrounding our branches on socio-environmental issues. With the theme of 'Planet Earth' the goal of YES COMMUNITY is to benchmark efforts of society for a safer and healthier society by engaging communities surrounding our retail branches across the country. • Being the only Indian Bank to be signatory to 'UNEP FI sustainable lending principles' puts forth climate change as one of the key sustainable focus areas. • The Bank is the first Indian signatory to the 'Carbon Disclosure Project' and has accounted its Carbon Footprint.

Mainstream business advisors have huge potential and are willing to support BR in small business provided they have the necessary knowledge and skills. Rural Entrepreneurship Development Institutes is collaboration between Canara Bank, Syndicate Bank and Dharmasthala Manjunatheshwara Educational Trust that has set up 20 vocational training centres across India. Canara Bank provides finance to individuals who want to set up their own unit – self-employment.

SME forums and awards (HSBC: Living Business Award, YES BANK-Business Today SME Award, ICICI-CNBC Emerging India award) are being organized to support SMEs and assist them, incentivize them and encourage them to go beyond business and become responsible entrepreneurs.

5.3 RBI Guidelines and MSME Sector

GOI announced policy to step up the credit facility to MSME with banks setting their own targets for advances to MSME sector and achieve a minimum 20% year on year growth[74]. This aimed to double the flow of credit to the MSME sector in a span of 5 years (2005-06 to 2009-10). RBI has set a target of 40 % for PSLs out of the total NBC for the all scheduled commercial banks, lending to small scale sector is considered as PSLs but no sub-target is predetermined. RBI has also set guidelines as 32 % of NBC for all foreign national banks operating in India as PS advances of which 10 % will be for MSME sector. Further, PSBs have been advised to open at least one MSME specialized branch in each district. These banks have been permitted to categorize their MSME general banking branches having 60 % or more of their advances to MSME sector.

Lending to PSs falls under the PS lending and is considered as responsible initiative in itself. BCSBI have formulated a code of bank's commitment to Micro and Small Enterprises. This is a voluntary code, which sets minimum standards of banking practices to be followed when they are dealing with Micro

[73] Yes Bank, Corporate Governance Report 2007-08.
[74] MSMED ACT, 2006 Section 3

and Small Enterprises (MSEs) as defined in the Micro Small and Medium Enterprises Development (MSMED) Act, 2006. It provides protection to MSE and explains how banks are expected to deal with MSE for their day to-day operations and in times of financial inadequacy.

5.3.1 Indian Banks BR for MSME sector[75]

5.3.1.1 MSME Lending Policy of the Banks

Although Indian banks focus on MSME financing, it is seen that there is limited focus on ensuring sustainability of the enterprises. Findings of a United Nations Industrial Development Organisation (UNIDO) report[76] states that Indian banks have a particular focus on MSME sector in providing loan and have requisite policies in sustainable lending:

- Acknowledgement for receipt of loan application by the branches.
- Simple loan application form.
- Time norms for disposal of application ranging from 2 to 9 weeks.
- No collateral security for loans up to Rs.5 lakhs.
- On good track record and financial position no collateral for advances over 5 lakhs and up to 25 lakhs.
- Single window concept for composite loans up to Rs. 100 lakhs.
- Funding at preferential rate of interest.
- Funding for technology up gradation under schemes such as CLCSS (Credit Linked Capital, subsidy for Technology), CLCS-TUFS
- Support to schemes of KVIC and SIDBI like REGP and Equity type soft loans.
- Proactively detecting sick and viable units in time so as to nurse them back through appropriate re-structuring.
- Offer concessional rate of interest to MSMEs who get themselves rated by Rating Agencies like SMERA and others.
- Loan and cash award to MSMEs for obtaining ISO 9000 Certification (Canara Bank)
- There are no special incentives for the MSMEs that are following good BR practices.
- Indian banks' generally do not have a big emphasis on providing BDS services to MSMEs unlike international banks like Standard Chartered that has an initiative on offering BDS services to MSMEs.

The above-mentioned points indicate that **Banks do have several initiatives particularly for the MSME sector, but most of them are aimed at providing financial support only.** It also specifies that banks have formulated various products for lending such that finance is easily accessible to the small entrepreneurs. However, **very few initiatives have been taken towards fostering sustainable behaviour among MSMEs** such as loan for energy saving equipments or solar water heaters by Canara Bank.

Most banks have various schemes for MSME sector, ranging from technology upgradation, easy loan payment to loan access. YES BANK has partnership with CGTMSE to facilitate provision of collateral free and third party guarantee free credit facilities for the micro and small enterprises. Most of the schemes (Table5.2) are financial schemes and only a few deals with sustainability issues of the MSME sector. Annex 6 details initiatives of the Banks particularly related to SME Sector.

[75] Refer to Annex 8 for detail
[76] Role of Financial Institutions & Credit Rating Agencies in shaping ESR in MSME's in India (2008) by Prof. Alka Munjal

Table 5.2: Scheme Sloated by Banks

PNB	
Sarthak Udyami	This scheme provides financial support to SSIs for setting up new units or for the expansion, renovation and modernization of existing business units. It also aims at helping SSIs acquire fixed assets like land, machinery and working capital facilities.
PNB MSME Sahayog Scheme	For contingencies like additional purchase of raw material including packing material/handling charges for the execution of bulk orders, taking part in national/international trade exhibition, payment of consultancy charges, machinery repair, labour payments, etc.
PNB Vikas Udyami	For acquiring ISO-9000 certification, Expenses on consultancy, documentation, audit certification fees, equipment and calibrating instruments required would be taken into account for determining loan requirement.
PNB Pragati Udyami	The financial assistance to both new and existing units, for acquiring fixed assets i.e. land, factory, building, plants, machinery and working capital facilities for Service industry like Advertising Agencies, Marketing/Industry Consultancy, Typing/Xerox Centre, Industrial Testing Labs, Cyber Café, Auto-repair, Laundry and Dry Cleaning, ISD/STD Booths, Cable TV Networks, Beauty Parlour and Creche, etc.
PNB Artisan Credit Card	To provide hassle free financial support to Artisans and to make credit delivery simple and easy. No collateral is required and credit limit is upto Rs 2 lakh.
Laghu Udyami Credit Card	To provide hassle free financial support to Small Business units, Retail Traders, Artisans, Village Industries, Micro and Small Enterprises (Manufacturing and Services) and Tiny Units, Professionals and Self-Employed Persons, etc. Credit Limit is up to Rs 10 lakh.
PNB Kushal Udyami	Loans to Craftsman and Qualified Technician Entrepreneurs Small Scale Industries To set up SSI units, for purchase of fixed assets and meeting working capital needs. • For acquisition of fixed assets (plant, machinery, land, building, tools, etc.). • For working capital requirements within the ceiling limits of Rs 3
SBI	
General Purpose Term Loan	For meeting general commercial purposes like substitution of high cost debt, research and development, shoring up net worth and funding business expansion. The tenor of the loan is normally 3 years, and the pricing is fine-tuned to suit the risk profile of the borrower. The repayment is structured in monthly or quarterly instalments, according to the cash generation cycle.
Liberalized Credit	The Liberalized scheme offers a range of financial products including the following: Term loans for acquisition of fixed assets Working capital loans financing current assets Letter of credit for acquisition of machinery and purchase of raw materials Bank guarantee in lieu of security deposits to be made with government department/other departments for execution of orders. Deferred payment guarantees for purchase of machinery on deferred payment basis. Bill facility for purchase of raw materials and for sale of finished goods. Composite loans (term loans plus working capital) up to Rs 25 lakh.

SBI	
Stree Shakti Package	Women Entrepreneurs comprise those Small Scale Units managed by one or more women entrepreneurs who have stake not less than 51% of the equity
Cash Credit (Axis Bank)	To meet SME's day-to-day working capital needs, cash credit is provided against the primary security of stock, debtors, other current assets, etc., and/or collateral security of movable fixed assets, immovable property, personal or corporate guarantee, etc. Interest is charged not on the sanctioned amount but on the utilized amount.
Working Capital Demand Loan (Axis Bank)	Working capital facilities in the form of 'Working Capital Demand Loan' instead of cash credit facility. The primary or collateral security will be as mentioned in cash credit facility. Here also interest is levied on the amount drawn rather than on the amount utilized
Export Finance (Axis Bank)	Finance for export activities in the form of pre-shipment credit against firm order and or Letter of Credit and post-shipment credit. Credit is available for procuring raw materials, manufacturing the goods, processing and packaging the goods and shipping the goods. Finance is provided in Indian or foreign currency depending upon the need of the borrower.
Short-Term Loan (Axis Bank)	Working Capital facilities to meet SMEs day-to-day working capital needs and Term Loan for your capex. However, there may be occasions where SMEs may need ad hoc or short-term finance for general corporate purposes, meeting temporary mismatches in working capital or for meeting contingent expenses. In such situations Short-Term Loan is provided for tenure up to a year so as to ensure that business runs smoothly
Term Loan (Axis Bank)	Long-term funds for capex or capacity expansions or plant modernization and so on. Keeping these requirements in mind term loan is provided up to acceptable tenor with suitable moratorium, if required, and repayment options structured on the basis of SMEs estimated cash flows. These loans are primarily secured by a first charge on the fixed assets acquired through the loan amount. Suitable collateral security is also taken whenever required.
Clean Bill Discounting (Axis Bank)	To fund SMEs receivables. Bank discount bills or receivables from SMEs credit worthy clients and provide credit against that. This facility is provided for a period of 3-6 months depending upon the tenor of the bill.
LC Backed Bill Discounting (Axis Bank)	Discount trade bills drawn under Letters of Credit issued by reputed banks to fund SMEs receivables. This facility is provided for a period of 3-6 months depending upon the tenor of the bill or Letter of Credit.
Co-Acceptance of Bills (Axis Bank)	The bank provides co-acceptance of trade bills depending upon the needs of the borrower
Credit Facilities against Guarantee or Stand by Letter of Credit (SBLC) (Axis Bank)	Various foreign companies set up subsidiaries in India. Bank provides funding to such companies against guarantees or SBLCs of acceptable foreign banks

5.3.1.2 SME Lending Prerequisites

In accordance with RBI guidelines lending to SME sector is considered as PSLs perceived as responsible behaviour of Banks. The Loan Application forms for the MSME sector mostly deals with information on financial, business and managerial risks. There is a very small section that deals with issues and risks related to environment and society. There is limited information about: (i) Ethical values of the owner; (ii) Labour laws; (iii) Paying minimum wages to workers; (iv) Taking care of the their labour; or (v) Working conditions in their factories and like.

The 'Credit Appraisal' and 'SME Loan Application' forms of Canara Bank and Axis Bank demonstrate information related to environment, social and governance issues like:

- Requirement of 'Techno Economic Viability Study' which takes care of all the clearances from environmental perspective

Social Issues

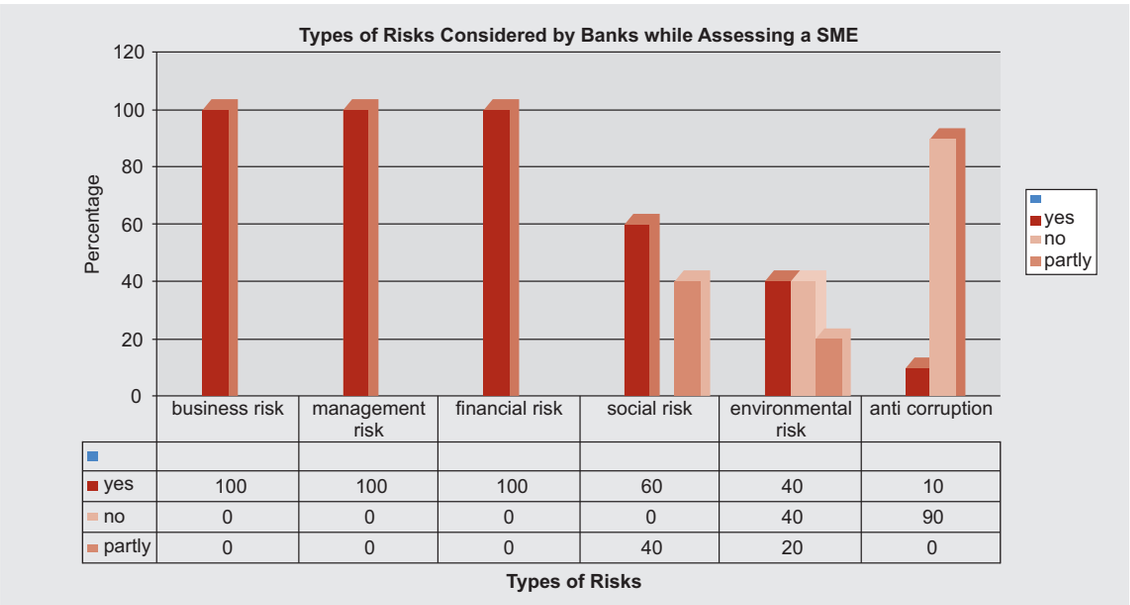
- Location of the factory -- backward area
- Benefits from the enterprise like Employee State Insurance Scheme andProvident Fund (PF) to the employee
- Position regarding statutory dues (such as employees, state insurance, PF, bonus, gratuity, etc. Also indicate the provisions made thereof)

Governance Issues

- Reports/Notes on accounts in schedule of the statutory auditors of the company and comments of directors thereon with observations.
- Whether directors are disqualified under Section 274(8) of companies act[77]

Auditors' comments on corporate governance practices followed in case of limited companies.

Figure 5.1: Types of Risks Considered by Banks



	business risk	management risk	financial risk	social risk	environmental risk	anti corruption
yes	100	100	100	60	40	10
no	0	0	0	0	40	90
partly	0	0	0	40	20	0

Source: UNIDO Report on Role of Financial Institutions and Credit Rating Agencies in shaping ESR in MSME's in India by Prof. Alka Munjal

[17] Section 274 (1) of the Companies Act, 1956 states that a person shall not be capable of being appointed as director of a company, if (a) he is of unsound mind; (b) he is an undischarged solvent; (c) he has applied to be adjudicated as an insolvent and his application is pending; (d) he has been convicted by a court for any offence involving moral turpitude; (e) he has not paid any call in respect of the shares of the company held by him; (f) an order disqualifying him for appointment as director has been passed by the Court in pursuance of Section 203 of the Companies Act, 1956 and is in force; (g) such person is already a director of a public company which –

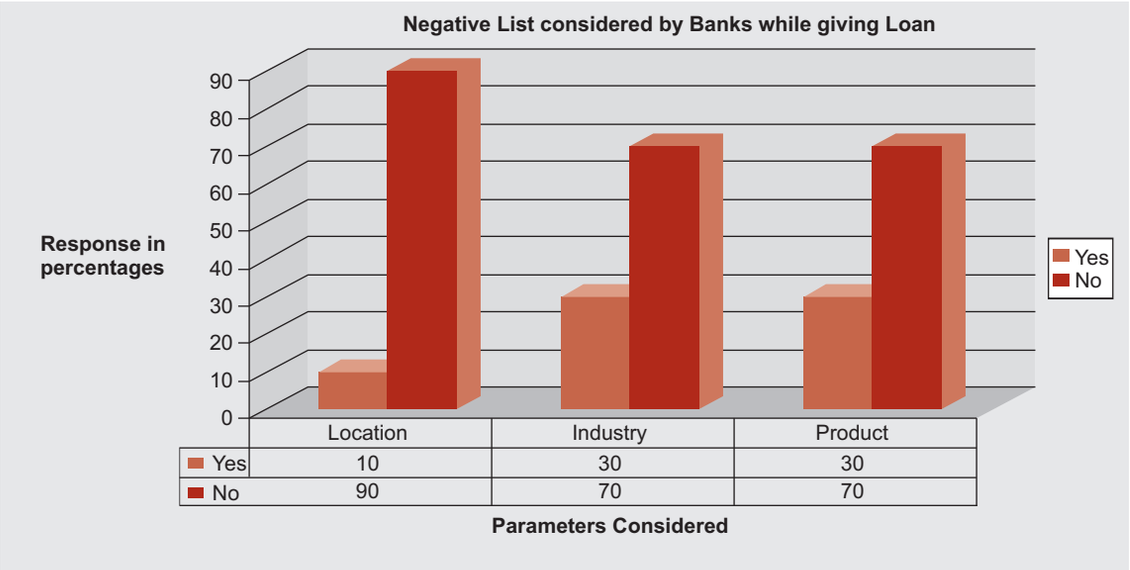
(A) has not filed the annual accounts and annual returns for any continuous three financial years commencing on and after the first day of April, 1999; or

(B) has failed to repay its deposit or interest thereon on due date or redeem its debentures on due date or pay dividend and such failure continues for one year or more:

Provided that such person shall not be eligible to be appointed as a director of any public company for a period of five years from the date on which such public company in which he is a director failed to file annual accounts and annual returns under sub-clause (A) or has failed to repay its deposit or interest or redeem its debentures on due date or pay dividend referred to in clause (B)."

Further findings of the UNIDO Report suggests that financial, business and management risks are most critical for the banks and states that only 90 % of the surveyed banks do consider corruption while 40 % of the banks are concerned to the environmental and social issues while lending to business enterprises. However, the report did not find any physical evidence of the practices and observes that lending is largely discretionary.

Figure 5.2: Negative list considered by Banks while giving loans



Source: UNIDO Report 2008 by Alka Munjal

Also, FIs do not make an effort to gather information on the industry that the MSME unit belongs to, say hazardous or polluting through improper disposal of wastes. Only 30% FIs said during the personal interview that they did consider the nature of the industry and the type of product produced by MSME.

5.4 India Banks BR – Summary

Banks, like any other business house, take up various social and environmental initiatives, over the years especially in the developed countries it has become a practice by the banks to focus on enabling responsible behaviour of the enterprises. Therefore banks are now imbibing various initiatives to become socially responsible while lending for a business purpose. The Table 5.3 showcases responsible behaviour of Indian Banks:

Table 5.3: Indian Banks/ Financial InstitutionFIs' BR/ Sustainable Behaviour

S.No.	Areas	BR at internal level	BR at external level (while banking/lending)
1.	**Environmental Issues**	• Most banks have started supporting approaches to environmental challenges like energy conservation, optimum utilization of natural resources in its internal working.	• Public and private sector banks have no separate policy on environmental issues in the Indian context for lending purpose. • Environmental aspects of project finance by the public and private sector banks are governed primarily by laws of the country.
2.	**Other social financial inclusive issues**	• Banks do not have a formalized BR format, but they perform number of activities which may be similar to what is depicted by other organizations as part of their way of social responsibility.	Banks do priority sector lending PSLs.
3.	**MSME specific BR issues**	1. Most of the Indian public and private sector banks have a separate MSME Policy/ Charter. 2. Major MSMEs specific internal BR initiatives on the part on Indian Public Banks are: • No collateral security for loans up to Rs 5 lakhs and shorter processing time.	1. In order to ensure lending to MSME sector, all domestic public and commercial banks have fixed target subject to achieve a minimum 20% year on year growth in credit to MSMEs with the objective to double the flow of credit to the MSME sector within a period of 5 five years.
4.	**Philanthropic activities**	Indian banks undertake philanthropic activities.	

6. Manifestations of Business Responsibility in Corporate Sector Entities and MSMEs and the Role FIs Play

BR refers to ensuring the economic success of a business by the inclusion of social and environmental considerations into a company's operations. It means contributing positively to society and managing your enterprise's environmental and social impacts. And it can bring direct benefits to your business and secure its long-term competitiveness. It is about business practices that not only delivers commercial objectives but that also has a positive social impact.

"Inclusive growth" as a strategy of economic development received attention owing to a rising concern that the benefits of economic growth have not been equitably shared. Growth is inclusive when it creates economic opportunities along with ensuring equal access to them. The inclusive growth by encompassing the hitherto excluded population can bring in several other benefits as well to the economy.

MSMEs are particularly important in supporting economic growth and livelihoods in developing countries, because they (inter alia):

- tend to use more labour-intensive production processes than large enterprises, boosting employment and leading to more equitable income distribution;
- provide livelihood opportunities through simple, value-adding processing activities in agriculturally-based economies;
- nurture entrepreneurship; and
- support the building up of systemic productive capacities and the creation of resilient economic systems, through linkages between small and large enterprises .

Business could take action to help preserve the environment. Energy efficiency, pollution prevention, waste minimization and recycling can deliver cost-savings and so contribute to the viability of the enterprise. Such measures may also help to improve relations with the community, regulators and other authorities. They can also open the door to new business opportunities with customers looking for 'green' suppliers. Such measures essentially maintain economic success and help achieve commercial advantage by building reputation and gaining the trust of people that work with or live around the company.

6.1 Role FIs can play

6.1.1 Status of BR in Banks in India

BR within most banks is largely limited to philanthropy. While some feel that lending to MSMEs in itself is a form of BR (Employment generation), Canara Bank has created 'Centres of Excellence' to work with and support these small enterprises. Farmers training, banking linkages to SHGs for self self-employment and no frills account are few other activities that have made their presence felt as BR initiatives. In the last few years, most PSBs have launched several initiatives to support and develop MSMEs. As one of its biggest initiatives, SBI has centralized the entire processing system for financing MSMEs. SIDBI is also implementing a World Bank-led multi multi-agency/multi multi-activity Project on Financing and Development of MSMEs.

[78] Small and Medium-Sized Enterprises (SMEs) and Corporate Social ResponsibilityCSR: A Discussion Paper-Tom Fox of International Institute for Environment and Development (IIED).

Most multi-national banks are signatories to the principles of sustainable lending which reflects their commitment towards sustainability. However, this is not very prominent in the Indian banks. Indian banks believe that it is important to have financial inclusion and they can cater this through their PSL and micro finance initiatives. The larger goal can be achieved only when "individualistic approach" is changed and stringent compliance is coupled with social obligation.

In terms of their own BR initiatives, private sector banks often work through their social arm as corporate foundations that take up the BR activities or purely through philanthropic activities. Education, poverty alleviation, health and livelihoods are the focus areas of these foundations.

Others mainstream their social-environmental responsibility with their business. YES BANK has a pioneering philosophy of responsible banking that mainstreams sustainability in external engagements with various stakeholders including clients, civil society, and academia and industry associations. Responsible banking is a strong differentiating factor in the market and it engages with the Bank's client to adopt best practices in BR and mainstream sustainability in their core activities.

Some of the private sector banks like ICICI and YES BANK have adopted the policy of minimal use of paper and efficient use of energy in their operation to reduce the carbon footprint. Banks have also started giving training to their employee so that sustainable issues can be promoted and practiced at the fullest.

6.1.2 Focus on MSMEs

FIs are pivotal to business and in order to transform the economy, it is important that the financial sector gears up to catering to MSMEs become more responsible and in turn, fuel growth in the coming decades. However, financing is limited to sub-targets within the overall priority sector lendingPSLs to ensure more equitable flow of funds to agriculture, small industries and marginalized sections of the society. The financial sector needs to step up lending to the sector. Depending on the requirements of each niche market segment and sectors, credit delivery should vary from pure debt finance to providing risk capital or a hybrid of both.

It has been the endeavour of both the Government and the Reserve Bank RBI to expand banking sector across the length and breadth of the country to ensure reasonably priced credit in a timely manner to all deserving borrowers. Notwithstanding the significant expansion in bank network in un-banked areas after bank nationalization in India, there are still large segments of society that remain outside the financial system. Hence, the recent focus has been on providing access to affordable banking services to every person.

Dr. K. C. Chakrabarty, Deputy Governor, RBI remarked "India cannot return to the 8%-9% Gross Domestic Product (GDP) growth trajectory unless the small and medium enterprises (SMEs) are encouraged . The micro, small and medium enterprises (MSMEs) sector contributes significantly to the manufacturing output, employment and exports of the country. It is estimated that in terms of value, the sector accounts for about 45% per cent of the manufacturing output and 40 percent% of the total exports of the country. The sector is estimated to employ about 42 million persons in over 13 million units throughout the country.

Recession had its effects on all sectors and MSMEs were not different. MSMEs feed a lot of sectors such as housing, automobile and components, textiles, gems and jewellery, leather and white good sectors that were negatively hit by the recession thus affecting the growth of these MSMEs. Since MSMEs form

[79] SME: The New David of Indian Industry, The Mint, September 30, 2009
[80] 2008-09 Annual Report (Page no 9), Ministry of MSME, Government of IndiaGOI

an integral part of the value chain and hence with the economy bouncing back, markets and exports getting better the industry is being benefited as well. RBI and PSBs have also taken several measures to pump sufficient liquidity into the banking system in order to assist the MSMEs with required credit.

MSMEs face a lot of challenges in taking up BR:

- Justify the allocation of time and resources to activities beyond the daily running of the business.
- Time and resources are limited by the size of the company, particularly a lack of dedicated BR personnel.
- Getting employees involved in BR activities
- Making connections with communities
- Lack of information
- Too many short short-term projects
- Getting equal commitment from all sides of a project
- Measuring the intangible benefits.

BR for MSMEs should focus less on terminology, policies and procedures and more on practicalities or 'doing things'.

MSMEs hence require a lot of assistance in order to become a socially and environmentally responsible enterprise. At the moment there isn't not much support in terms of fundsing and Government support. Business support organizations appear fragmented and rarely discuss BR.

FIs in such case are strategically placed in the value chain such that they are able to influence and guide the MSMEs towards sustainability. FIs are widely spread, provide credit and other services and cherish a strong relationship with the MSMEs.

It is reflected that the one of the major problems faced by the MSME sector is lack of adequate capital for growth and technology up gradation and only 10 percent% of MSMEs have access to institutional funds. To address the three topmost challenges of Industrial infrastructure, access to finance and chaotic regulatory environment, plethora of schemes such as Credit Guarantee Scheme, MSME Cluster Development Scheme and ISO 9000 Reimbursement Scheme have been introduced. Government has also introduced schemes to encourage competitiveness, innovation in designs and processes and quality up gradation.

The PSBs have an array of products that provide credit for small enterprises, farm and non-farm activities. They have separate targets for priority sector lending (PSLs) which include credit facility to MSMEs though no distinct targets are allocated and efforts are to increase lending to small enterprises every year. However, it is seen that the MSME credit has plummeted since 1995 from 12 percent% to 6 percent% though banks underplay this. MSMEs despite being promoted as a priority sectorPS are inadequately funded due to denial by banking institutions or have never approached any form of financial institutionFIs. Nonetheless, there has been an effort to change this perception by offering grants, incentives and other support to MSMEs.

The private sector banks follow suit and do not provide any preferential rates to MSMEs but in some cases it has been observed that environmental and social projects have certain weight ages in the credit risk analyses. Banks strongly feel that the MSME sector is not guided by BR and always under the threat of booking good business to get funds and other assistance.

Since most of the small enterprises are feeding to the larger companies, it is also felt by the banking fraternity that the demand to supply ethically and have environmentally favourable processes in place is vital. Technological innovation has helped the MSME sector to not only control environmental hazards, but also boost production as well as cut costs. Banks should also emulate in India its own programme through which the MSME's are actively involved in BR initiatives.

[81] SME: The New David of Indian Industry, The Mint, September 30, 2009

6.2 Way Forward

Going forward it is imperative that FIs conduct their business in such a way that it meets their financial, social and environmental responsibilities concurrently. At its core, it is simply about having a set of values and building practices that underpin their everyday actions. These values that may include transparency, fairness, and mutual respect are then reflected in the way they treat their employees, their customers and the community at large.

This study does not aim to make any recommendations. However, one needs to consider on the fact that there are certain open issues that need to draw the attention of the Government, RBI, banks, policy makers and knowledge organizations. These issues are provided below are few of such open issues as a starting point that can help to draw up an actionable agenda in the domain of responsible behaviour.

6.2.1 Outreach

FIs are an important vehicle for addressing the challenge of financial exclusion given their clear financial intermediary role. RRBs, Cooperative banks, NBFCs and MFIs through their presence in the rural and remote areas are able to reach out to the communities who are not in the ambit of formal commercial banking. MFIs have the flexibility to lend at an interest that provides them with sufficient spread to cover the costs of micro lending & and maintaining small loans, a flexibility that large commercial banks do not enjoy. Only 5.18% of all MSMEs in India were linked with formal institutional financing in the year 2007. A recent report by GIZ 'Financial Inclusion of Micro Enterprises in the Informal Sector – Missing Middle, 2010' states that the financial requirement of the MSMEs in the range of Rs 30,000 to Rs 5 lakhs is not often met by formal institutional finance and is referred to as 'Missing Middle'. Considering the fact that of all the working enterprises, 95.05% are micro enterprises, the loan requirements are also likely to be small, ranging upto Rs. 10 lakhs per enterprise. However, the figures of poor financial linkages suggest that financial institutionFIs have only a few financial products that can meet the need of this category of MSMEs with the various limitations that latter have. This raises the need for developing wider range of financial products by the financial institutionFIs to address 'the missing middle'. Given this scenario what is it that the FIs need to do to ensure inclusive financing reaches out to millions of enterprises starving of credit? This issue becomes the most fundamental one while reviewing the issue of BR in the context of MSMEs.

6.2.2 Reviewing Social and Environmental Norms

Consideration of social and environmental risks in financial analysis has already emerged as an important factor at the credit appraisal stage especially among sensitive sectors in India where large enterprises are under scrutiny by the local communities, NGOs and regulatory authorities. In the case of small enterprises also, the banks regularly draw up their own negative lists of industries to discourage lending due to the social and environmental risks associated. However, there are still widespread concerns about the role of banks in ensuring that ongoing enterprises do not violate environmental rules and social norms across several sectors that are considered vulnerable. For example, in the case of polluting industries, pollution control authorities have categorisedcategorized certain sectors as most vulnerable, referred to as 'red category' and others as 'yellow' and 'green' depending on the severity of pollution they create. What can be the role of banks in supplementing the efforts of the regulatory authorities to check blatant flouting of social & and environmental norms, as reported often in the

[82] CSR and banks: The role that banks could and should play in addressing financial exclusion by Therese Wilson, Griffith Law School, 2008.

[83] 'Quick Results: Fourth All India Census of MSMEs, 2006-07, Development Commissioner (MSME), Ministry of MSME, Govt. Of IndiaGOI, 2009, Pg. 2'

[84] 'Quick Results: Fourth All India Census of MSMEs, 2006-07, Development Commissioner (MSME), Ministry of MSME, Govt. Of IndiaGOI, 2009, Pg. 3'

media? It is not known as to what could be the adverse implications for the banks that resort to be extra conscious about flouting of social and environmental parameters among their loanee enterprises. How do the banks weave in social and environmental concerns with least damage to their individual portfolio of loans? Do we see a differentiation opportunity among some select individual banks that puts them in an advantageous position at least in the medium term? Or there is a need for some collective mechanisms among the federation of banks thus classifying it as collective BR? One of the ways financial institutionFIs can encourage their own socio-environmental accountability without affecting their individual financial bottom line is if RBI mandates the inclusion of social and environmental performance of enterprises integral to banks' lending decisions. With an already existing heavy regulatory hand it will, however, certainly not be voluntary business responsibilityBR of the banks.

6.2.3 BR loan opportunities

A new trend among a select few banks has begun to emerge where credit is directly targeted at meeting the requirements of energy reduction, environmental protection and social ventures. These types of loans have so far been called 'green loans' and 'CSR loans'. Some banks have are also been known to create special portfolio to lend to socially relevant business ventures that help to promote sustainable development. BR focussed financing can make it viable for the banks to lend where the opportunity gives a good size. Government funds through ongoing schemes can be pooled in by way of subsidies through linking up with credit so that it has positive implications on collective social good.

6.2.4 Sustainable Advisory Services – An emerging trend

Most small enterprises find it challenging to identify and procure business advisory services that can help them become more responsible. The capacity of enterprises and availability of these services in the local vicinity are often an area of concern. Therefore, going beyond responsible lending and investments many FIs, both international and domestic are ramping up efforts to offer additional sustainable business advisory services and facilitate relevant business linkages for MSMEs to help them become socially and environmentally more sustainable. If these services are seen by the MSMEs as commercially advantageous, it can help to achieve a better bonding between the banks and MSMEs. State Bank of IndiaSBI through its UPTECH programme since 1989 that has benefited hundreds of its loanee enterprises through services targeting at energy conservation, quality control and technology inputs provides a relevant example that can be emulated profitably by other banks.

More recently, some Indian banks offer carbon management services, ranging from CDM project development, carbon accounting and verification, CER application and carbon brokering. YES bank's 'Sustainable Investment Bank and Private Equity' team in partnership with 'Carbon Desk' offers carbon advisory services to the bank's existing corporate banking clients as a value adding tool in 'responsible banking relationship'. Going further, YES bank has formed a technical partnership with TUV Nord, a management systems certification agency. Here the bank offers social and environmental accountability advisory services to SME clients, where the SMEs then validate their environmental management systems and social accountability models through ISO and SA certifications from TUV-Nord.

Similarly, in 2008 ICICI bank signed an agreement with 'Agrienergy', a technical agency to offer carbon advisory services to its SME clients. Their range of services for developers in India includes identification of potential CDM projects, advisory services for registration and issuance of carbon credits, financing CDM projects, arranging private equity etc.

Therefore, banks and financial institutionFIs can serve as critical enablers in this sense by acting as a guide and repository of information which will facilitate the growth of responsible MSMEs.

6.2.5 Need for an Indian Code of Conduct for Banks

There are more than 160 international banks who are signatories to the most well well-known and stringent 'code of conduct' relevant to the banks, called 'Equator Principles' (EP). Many more from the developed and developing economies are said to be willing adopt this principle. Despite the fact that Indian banks have contributed significantly to the area of business responsibilityBR, yet none of them is a signatory to EP. This raises the question whether some of the Indian banks should comply with the EP or they should have an Indian code of conduct, unique to Indian requirements.

6.2.6 Public Reporting by banks

The study shows that Indian banks like their international counterparts practise BR whether 'guided' or 'voluntarily'. However, there is no annual CSR report or sustainability report of Indian banks unlike the case with International Banks, which release reports regularly released by many of the International Banks. The lone exception is the one from Small Industries Development Bank of India (SIDBI) for the financial year FY 2010. Should the banks report to be recognised as responsible corporate citizen?

6.2.7 Mandated or Voluntary Business ResponsibilityBR

The bulk of the BR practices of Indian banks have been guided by RBI and Ministry of Finance, Govt. of IndiaGOI. Considering the fact that business responsibilityBR is considered to be voluntary in nature, should the BR be mandated and if so, to what extent? Should the welfare agenda of the Government be run by the banks that may lead to higher NPAs, thus potentially affecting their commercial sustainability? Has the mandated welfare agenda led to an internalisation internalization of business responsibilityBR among the banks and if so, to what extent?

ANNEXURES

Table 1.1 Progression of financial sector

Year	Environment and social impacts		Consumer and economic impact	
	Business and multi stakeholder initiatives	Political and legal activity	Business and Multi-stakeholder initiatives	Political and legal activity
1986				UK Financial Services Act establishes statutory basis for self-regulation of investment-related services and new self-regulatory organizations with disciplinary powers.
1989				UK government's Jack Committee reports on the law related to banking services standards.
1992	UNEP and a group of commercial banks launch the UNEP Statement by Banks on the Environment and Sustainable Development, catalysing the UNEP Banking Initiative.		British Bankers Association launches first code of practice for banks to loud criticism from the National Consumer Council.	
1995	UNEP launches the UNEP Statement of Environmental Commitment by the Insurance Industry.	Friends of the Earth campaign against Merrill Lynch and Morgan Stanley over financial links to Three Gorges dam project in China.		
1996	US Export-Import bank decides not to finance the Three Gorges dam citing inadequate environmental impact information. Tries lobbying with other OECD states to accept common environmental standards.			

Table 1.1 Progression of financial sector

Annex 1

Year	Environment and social impacts		Consumer and economic impact	
	Business and multi stakeholder initiatives	Political and legal activity	Business and Multi-stakeholder initiatives	Political and legal activity
	• Launch of the VfU reporting indicators (internal environmental footprint).			
1997	UNEP Banking Initiative becomes the UNEP FIs Initiative and issues revised Statement by FIs on the Environment and Sustainable Development.	• EPA report on non-disclosure of environmental risks by companies. • FoE's Michelle Chan-Fishel and Julie Tanner start financial campaigning capacity building projects with other NGOs. • PIRC and NGOs propose shareholder resolution demanding environmental and human rights actions from Shell. Development.	July – British Bankers Association introduces revised banking code with undertaking to name and shame banks that fail to sign up.	• Publication of "Wall Street – How It Works and for Whom" by Doug Henwood. • UK chancellor Gordon Brown announces establishment of a new financial super-regulator bringing together regulators of seven different sectors under one roof. • December – Consumers Federation of America accuses the credit card industry of irresponsible lending.
1998	Following FoE campaign ABN AMRO publishes environmental policy.	FoE and National Wildlife Federation initiate Quantum Leap project to train environmental NGOs about commercial banks. • FoE Netherlands campaign against ABN AMRO over finance of Freeport McMoRan mining. • Corporate Sunshine Working Group forms to enforce and expand US		

Table 1.1 Progression of financial sector

Year	Environment and social impacts		Consumer and economic impact	
	Business and multi stakeholder initiatives	Political and legal activity	Business and Multi-stakeholder initiatives	Political and legal activity
		Securities and Exchange Commission (SEC) corporate social and environmental disclosure requirements.		
2000	• EPI-Finance indicators (external environmental footprint) in 2000. • FORGE I guidelines issued covering management and reporting of environmental risks.	• Campaign for Community Banking Services launches in UK to fight for local access to banking services. • Labour groups and NGOs joint campaign against PetroChina initial public offering in New York attributed with reducing success of the offering. • Ilyse Hogue joins RAN and RAN launches global finance campaign.		• Ex-SEC lawyer Mercer Bullard establishes FundDemocracy.org to fight for investor rights. He publishes articles on potential market-timing, abuses for TheStreet.com, later cited in Eliot Spitzer's complaint. • July – Japan's Financial Services Agency super-regulator is formed out of the merger of the Financial Supervisory Agency and the Ministry of Finance's Financial System Planning Bureau.
2002	• London Principles for sustainable finance launched during World Summit on Sustainable Development. • IFC and ABN AMRO host workshop with other lenders on social and environmental project risks. • SPI-Finance initiative's financial	West LB subject to NGO campaign over role as lead funder of Ecuador Pipeline. • FoE, RAN, WWF-UK and the Berne Declaration form informal network to promote sustainable finance in the commercial sector.	• Wall Street settlement over conflicts of interest. Total cost to the ten investment banks involved: $ 1.4 billion.	

Table 1.1 Progression of financial sector

Annex 1

Year	Environment and social impacts		Consumer and economic impact	
	Business and multi stakeholder initiatives	Political and legal activity	Business and Multi-stakeholder initiatives	Political and legal activity
	sector reporting guidelines on social impacts released, although only the social indicators were adopted in 2002 as yet still draft Global Reporting Initiative (GRI) sector supplement. • FORGE II guidelines issued on management and reporting of BR. • November – socially responsible investor Real Assets filed shareholder resolutions with Canada's "big five" banks in an effort to force greater transparency on social, environmental and ethical issues in their annual reports.	• South Africa's King II Report on corporate governance requires Fis to implement TBL reporting.		
2003	• February – second meeting of bankers in the EP process, following which stakeholder consultations ensue. • April – word leaks out about EP, including a draft, identifying ABN Amro, Barclays, Citibank and WestLB as adoptee. • May – third meeting of bankers regarding EP in which it was decided the principles would apply across the globe rather than just to emerging markets. • Barclays, as a	• A group of eight NGOs draft the Collevecchio Declaration on Financial Institutions and Sustainability. • NGO campaign against financial firms for financing rainforest destruction by Indonesia's Asia Pulp and Paper Company. • March – RAN agrees ceasefire with Citigroup pending outcome of negotiations. • May – more than 30 international banks and	• July – Barclays Bank attacks the financial services industry for irresponsible marketing and encouraging unsustainable debt levels.	• January – US consumer groups urge Federal Reserve to stop abusive bank overdraft charges. • May – Ireland establishes new financial super-regulator, the Financial Services Regulatory Authority • September – NY AG Eliot Spitzer launches investigation into late trading and market timing abuses in the US mutual fund industry. • Fund Democracy publishes a Pro-

Table 1.1 Progression of financial sector

Year	Environment and social impacts		Consumer and economic impact	
	Business and multi stakeholder initiatives	Political and legal activity	Business and Multi-stakeholder initiatives	Political and legal activity
	member of the Business Leaders Initiative on Human Rights, undertakes "road test" to the UN Norms. • UNEP's FIs Initiative and Insurance initiative merge to form the UNEP Finance Initiative. • June – Official launch of Equator Principles with ten signatories. • September – Senior Vice-president at Bank of America quoted by San Francisco's Contra Costa Times as saying: "We are struggling whether we should have a [CSR] report We really don't have anything that is urging us in that direction." • October – Mizuho Financial Group Inc becomes the first Japanese bank to adopt the EP. • October – NGO Network Vlaanderen launches campaign against Belgian banks over financial support of arms industry. • November – the IFC announces its intention to include human rights in its sustainable development safeguard policies.	corporations are sued under the Alien Torts Claims Act (ATCA) for $ 100 billion in damages for their role in supporting apartheid in South Africa. • July – former senior director at Cantor Fitzgerald, the US-owned broking firm, wins almost £ 1million in damages for being forced from his job by the obscenity-laced bullying of his boss. • October – Swiss Re announces intention to go carbon neutral.		Investor Blueprint for Mutual Fund Reform, elements of which are subsequently implemented.

Table 1.1 Progression of financial sector

Annex 1

Year	Environment and social impacts		Consumer and economic impact	
	Business and multi stakeholder initiatives	Political and legal activity	Business and Multi-stakeholder initiatives	Political and legal activity
2004	• January – Citigroup and RAN reach accord on new Citigroup environmental commitments. • February – funding closes on BTC pipeline. • April – a leaked draft letter appears to indicate that some EP signatories are lobbying the World Bank to reject proposals in the Extractive Industries Review to stop financing oil and coal projects in developing countries. • May 2004 – eleven of the banks that have adopted the EP have write a joint letter to the World Bank president, James Wolfensohn, to express their views on the Extractive Industries Review (EIR). Another bank sends a separate letter to Wolfensohn stating its concerns. • May – EKF of Denmark becomes the first export credit agency to adopt the EP. • May – BBVA adopts the EP, first Spanish bank to do so. • May – European Investment Bank subscribes to EP for projects outside the EU.	• January – NGOs' Quantum Leap and Focus on Finance project is replaced by Banktrack, an NGO network focusing on the environmental accountability of commercial finance. • Banktrack report attacks financing of Baku-Tbilisi-Ceyhan pipeline project. • March – a group of Italian NGOs forms MancaIntesa (meaning "lacks understanding"), to coordinate a RAN-style campaign against Italian bank Banca Intesa over environmental and ethical issues. • May – FoE UK commences campaign against HSBC regarding its failure to use influence through banking relationship over palm plantation owner Lonsum, accused of keeping villagers away from reclaiming land that had been forcibly taken from them. • September – responsible investor FandC and accountants KPMG issue "Banking on		August –Citigroup's massive sale and smaller buyback minutes later of government bonds raises the hackles of competitors, regulators and European government treasuries. • September – Citigroup's private banking unit is closed by Japanese regulators for compliance problems, prompting regulators in South Korea and Taiwan to launch reviews of their own on local Citigroup operations. • November – NY AG Eliot Spitzer launches investigation into conflicts of interest and corruption in the insurance sector. • The Hong Kong insurance commissioner calls in the territory's self-regulatory organizations to ensure they are enforcing the insurance code.

Table 1.1 Progression of financial sector

Year	Environment and social impacts		Consumer and economic impact	
	Business and multi stakeholder initiatives	Political and legal activity	Business and Multi-stakeholder initiatives	Political and legal activity
	• June – Unibanco of Brazil becomes the first emerging market bank to adopt the EP. • July – banks meet with NGOs to discuss progress on the EP. • December – Banca Intesa withdraws from the BTC project. • December – FIs call for extension of IFC safeguard review period.	human rights" report. • SEC agrees to establish an Office of Global Security Risk to examine company disclosures regarding their operations in countries that might support terrorism and improve disclosure of such risks to investors. • December – HSBC announces intention to become carbon neutral.		
2005	• March – EP signatories meet with NGOs in Zurich. • July – KPMG report on sustainability reporting finds financial services sector doubled the number of reports since the previous survey in 2002. • August – BES adopts the EP, the first Portuguese FI to do so. • October – UNEPFI publishes a legal framework for the integration of environmental, social and governance issues into institutional investment, providing critical legal commentary to pension fund trustees. • November –	• United Nations commences International Year of Micro-credit. • April – Credit Suisse First Boston, finds itself the target of new global protests for its decision to underwrite Shell's controversial Sakhalin II pipeline. • July – $ 54 million was paid to 67 employees by Morgan Stanley in New York over discrimination and sexism at work. • August –activists to banks: behave better in the Boreal. Market activists invite bank executives to develop new best	• February – Citigroup CEO Charles Prince announces five point ethics plan, including group-wide ethics training and performance management.	

Table 1.1 Progression of financial sector

Annex 1

Year	Environment and social impacts		Consumer and economic impact	
	Business and multi stakeholder initiatives	Political and legal activity	Business and Multi-stakeholder initiatives	Political and legal activity
	Nedbank is the first African bank to adopt the EP. • December – Goldman Sachs introduces environmental policy of its own initiative. First investment bank to adopt such a policy.	practices. • November – three female brokers who used to work at Merrill Lynch & Co have won $ 2 million from the company in what their lawyers say is the largest sex-discrimination award in National Association of Securities Dealers arbitration.		
2006	• February – IFC adopts new environmental and social standards. • May – UNEPFI and UN Global Compact launch the Principles for responsible investment with signatories representing $ 4 trillion of funds under management. • July – EP are revised to reflect new IFC standards. Current signatories comprise 85% of global commercial finance capacity. • July – Shanghai Pudong Development Bank becomes first Chinese bank to issue a CSR report.	• March – French NGO les Amis de la Terre challenges the French banking industry to integrate sustainability into their corporations within three years, or face heightened activism. • August – New York judge refuses to dismiss $ 1.4bl claim by six female employees against Dresdner Kleinwort Wasserstein for alleged gender discrimination related to pay and equal rights.	• April – UK banks threaten end to era of free current accounts.	• UK banks ordered by Office of Fair Trading to reduce charges for late payments on credit cards. • The consumers association launches campaign against high bank overdraft charges. • May – Japanese Financial Services Agency proposes new regulations to curb abusive practices in consumer lending. • August – UK Office of Fair Trading indicates coming crackdown on excessive overdraft penalty fees.
2007 to till date	Number of initiatives in the financial sector having Environment, social, Consumer and economic impacts have increased many fold			

Table 2.1.1: Genesis of sustainable finance instruments

London Principles of Sustainable Finance	At the Johannesburg World Summit on Sustainable Development, in September 2002, the political, business, and civil society leaders of over 180 nations met to consider how economic prosperity, social wellbeing, and the environment could all be enhanced using an integrated approach. The results of this Summit met with a mixed response, with many NGOs and some governments claiming that much more needed to be done. However, one of the key achievements at Johannesburg was a spirit of engagement by different business sectors with the sustainable development agenda, in a way that would have been unthinkable a decade before. One of the sector initiatives that UK Prime Minister Tony Blair presented at this Summit concerned the financial services sector. The LP, as the initiative was known, was collaboration between the Corporation of London, Forum for the Future and DEFRA. At the time, the initiative gained a broad base of support amongst the financial services community, both in the UK and internationally.
The EP	For a number of years, banks working in the project finance sector had been seeking ways to develop a common and coherent set of environmental and social policies and guidelines that could be applied globally and across all industry sectors. In October 2002, a small number of banks convened in London, together with the World Bank Group's IFC, to discuss these issues. The Banks present decided jointly to try and develop a banking industry framework for addressing environmental and social risks in project financing. This led to the drafting of the first set of EP by these banks which were then launched in Washington, DC on June 4th 2003. These Principles were ultimately adopted by over forty FIs during a 3-year-implementation period. A subsequent updating process took place in 2006 leading to a newly revised set of EP that was released in July 2006.
Johannesburg Principles	The JSE's SRI Index was launched in May 2004 in response to the burgeoning debate around sustainability globally and particularly in the South African context. The SRI Index was a pioneering initiative – the first of its kind in an emerging market, and the first to be launched by an exchange, and has been a driver for increased attention to responsible investment into emerging markets like South Africa.
UN Principles for Responsible Investment	In early 2005 the United Nations Secretary-General invited a group of the world's largest institutional investors to join a process to develop the PRI. Individuals representing 20 institutional investors from 12 countries agreed to participate in the Investor Group. The Group accepted ownership of the Principles, and had the freedom to develop them as they saw fit. The Group was supported by a 70-person multi-stakeholder group of experts from the investment industry, intergovernmental and governmental organizations, civil society and academia. The Principles for Responsible Investment emerged as a result of these meetings and interactions. The process was coordinated by the UNEP FI and the UN Global Compact. The PRI reflects the core values of the group of large investors whose investment horizon is generally long, and whose portfolios are often highly diversified. However, the Principles are open to all institutional investors, investment managers and professional service partners to support.

Annex 2.2

Table 2.2.1: Objectives of sustainable finance instruments

London Principles of Sustainable Finance	Examines the role of the UK financial services sector in promoting sustainable development. It was commissioned by the Corporation on behalf of DEFRA, as one of the sector initiatives that the Prime Minister would take to the World Summit, and carried out by Forum for the Future's Centre for Sustainable Investment (CSI). The aim was threefold – • to identify financial product, process and market innovations that address sustainable development risks and opportunities • to draw out of this experience lessons for future innovation by both FIs and government • To put in place mechanisms to ensure continuing progress in the financing of sustainable development by UK-based FIs. One of these mechanisms is the set of seven London Principles of Sustainable Finance which propose conditions under which financial market mechanisms can best promote the financing of sustainable development. The Principles are intended as a framework to allow financing institutions and policy-makers to identify where future innovation is needed, in order to improve the way the financial system as a whole finances sustainable development.
The EP	The EP FIs EPFIs have consequently adopted these Principles in order to ensure that the projects we finance are developed in a manner that is socially responsible and reflect sound environmental management practices. By doing so, negative impacts on project-affected ecosystems and communities should be avoided where possible, and if these impacts are unavoidable, they should be reduced, mitigated and/or compensated for appropriately. It is believed that adoption of and adherence to these Principles offers significant benefits to the company, borrowers and local stakeholders through the borrowers' engagement with locally affected communities. It is therefore recognized that the role as financiers affords opportunities to promote responsible environmental stewardship and socially responsible development. As such, EPFIs will consider reviewing these Principles from time-to-time based on implementation experience, and in order to reflect ongoing learning and emerging good practice. These Principles are intended to serve as a common baseline and framework for the implementation by each EPFI of its own internal social and environmental policies, procedures and standards related to its project financing activities. Loans will not be provided to projects where the borrower is not or is unable to comply with respective social and environmental policies and procedures that implement the EP.
Johannesburg Principles	The Second King Report on Corporate Governance urges companies to embrace the TBL as a method of doing business. At the same time, any attempt to develop TBL practices needs to be balanced with the need for companies to make a return for their shareholders. Although responsible business activity was already bedded down for many SA companies, owing to the complex nature of the country's history, and the fact that the country had been a leader internationally in establishing a progressive corporate governance code (the King Code), companies still needed guidance on what their practices needed to encompass and investors were looking for a way to invest in companies that had good practices in relation to the TBL. As a means of helping to focus the debate, the JSE has developed Criteria to measure the TBL performance of companies in the FTSE/JSE All Share Index, with the aim of compiling an Index comprising those companies that pass the Criteria requirements. The SRI Index further offers an aspirational sustainability benchmark, recognizing those listed companies incorporating sustainability principles into their everyday business practices and to serve as a tool for investors to assess companies on a broader base.
UN Principles for Responsible Investment	The PRI aim to help investors integrate consideration of ESG issues into investment decision-making and ownership practices, and thereby improve long-term returns to beneficiaries.

Table 2.3.1: Global Outreach

Instrument	Membership to the instrument	Countries spread	Impact on global economy
London Principles of Sustainable Finance	18 members		
The EP	Introduced in 2003, 67 international banks have signed up to the voluntary EP. Banco Standard was the 67th bank to sign on 30th April 2009.	Argentina, Australia, Belgium, Brazil, Canada, Chile, China, Columbia, Costarica, Egypt, France, Denmark, Germany, Italy, Japan, Netherlands, Norway, Oman, Portugal, South Africa, Spain, Sweden, Switzerland, Togo, UK, USA, Uruguay	In 2002, the founding signatory banks - ABN AMRO, Barclays, Citigroup, Credit Lyonnais, Credit Suisse, HVB Group, Rabobank, Royal Bank of Scotland, WestLB, and Westpac Banking - collectively accounted for 30% ($ 14,5bl) of the project loans syndicated worldwide.
Johannesburg Principles	As of 2008 total members were 140 of which 75 % follow the principles regularly.		
UN Principles for Responsible Investment	As of 1 May 2008, there were 362 signatories – 133 asset owners, 152 investment managers, and 77 professional service partners. This is up from around 180 a year before.	Australia, Belgium, Brazil, Canada, Denmark, Finland, France, Germany, Hongkong, Iceland, Indonesia, Japan, Netherlands, Singapore, Spain, Sweden, Switzerland, UK, USA	As of May 2008, European investors lead the way with 148 signatories representing US $ 9.7 trillion in assets under management (AUM). North America counts 70 signatories with US $ 2.3 trillion. Oceania has 69 signatories with US $ 570 billion. Asia has 28 signatories representing US$ 1.46 trillion. Latin America had 24 (US $ 107 billion Assets Under Management) signatories and Africa 21 (US $ 232 billion).

Annex 2.4

Table 2.4.1: Standards/Principles constituting the instrument

London Principles of Sustainable Finance

Economic Prosperity

Principle 1: Provide access to finance and risk management products for investment, innovation and the most efficient use of existing assets

Principle 2: Promote transparency and high standards of corporate governance in themselves and in the activities being financed

Environmental protection

Principle 3: Reflect the cost of environmental and social risks in the pricing of financial and risk management products

Principle 4: Exercise equity ownership to promote efficient and sustainable asset use and risk management

Principle 5: Provide access to finance for the development of environmentally beneficial technologies

Social development

Principle 6: Exercise equity ownership to promote high standards of CSR by the activities being financed

Principle 7: Provide access to market finance and risk management products to businesses in disadvantaged communities and developing economies

The EP

Principle 1: Review and Categorization

When a project is proposed for financing, the EPFI will, as part of its internal social and environmental review and due diligence, categorize such project based on the magnitude of its potential impacts and risks in accordance with the environmental and social screening criteria of the International Finance Corporation.

Principle 2: Social and Environmental Assessment

For each project assessed as being either Category A or Category B, the borrower has conducted a Social and Environmental Assessment ("Assessment") process to address, as appropriate and to the EPFI's satisfaction, the relevant social and environmental impacts and risks of the proposed project. The Assessment should also propose mitigation and management measures relevant and appropriate to the nature and scale of the proposed project.

Principle 3: Applicable Social and Environmental Standards

For projects located in non-OECD countries, and those located in OECD countries not designated as High-Income, as defined by the World Bank Development Indicators Database, the Assessment will refer to the then applicable IFC Performance Standards and the then applicable Industry Specific EHS Guidelines. The Assessment will establish to a participating EPFI's satisfaction the project's overall compliance with, or justified deviation from, the respective Performance Standards and EHS Guidelines. The regulatory, permitting and public comment process requirements in High-Income OECD Countries, as defined by the World Bank Development Indicators Database, generally meet or exceed the requirements of the IFC Performance Standards and EHS Guidelines. Consequently, to avoid duplication and streamline EPFI's review of these projects, successful completion of an

Assessment (or its equivalent) process under and in compliance with local or national law in High-Income OECD Countries is considered to be an acceptable substitute for the IFC Performance Standards, EHS Guidelines and further requirements as detailed in Principles 4, 5 and 6 below. For these projects, however, the EPFI still categorizes and reviews the project in accordance with Principles 1 and 2 above. The Assessment process in both cases should address compliance with relevant host country laws, regulations and permits that pertain to social and environmental matters.

Principle 4: Action Plan and Management System

For all Category A and Category B projects located in non-OECD countries, and those located in OECD countries not designated as High-Income, as defined by the World Bank Development Indicators Database, the borrower has prepared an Action Plan (AP) which addresses the relevant findings, and draws on the conclusions of the Assessment. The AP will describe and prioritise the actions needed to implement mitigation measures, corrective actions and monitoring measures necessary to manage the impacts and risks identified in the Assessment. Borrowers will build on, maintain or establish a Social and Environmental Management System that addresses the management of these impacts, risks, and corrective actions required to comply with applicable host country social and environmental laws and regulations, and requirements of the applicable Performance Standards and EHS Guidelines, as defined in the AP.

For projects located in High-Income OECD countries, EPFIs may require development of an Action Plan based on relevant permitting and regulatory requirements, and as defined by host-country law.

Principle 5: Consultation and Disclosure

For all Category A and, as appropriate, Category B projects located in non-OECD countries, and those located in OECD countries not designated as High-Income, as defined by the World Bank Development Indicators Database, the government, borrower or third party expert has consulted with project affected communities in a structured and culturally appropriate manner. For projects with significant adverse impacts on affected communities, the process will ensure their free, prior and informed consultation and facilitate their informed participation as a means to establish, to the satisfaction of the EPFI, whether a project has adequately incorporated affected communities' concerns.

Principle 6: Grievance Mechanism

For all Category A and, as appropriate, Category B projects located in non-OECD countries, and those located in OECD countries not designated as High-Income, as defined by the World Bank Development Indicators Database, to ensure that consultation, disclosure and community engagement continues throughout construction and operation of the project, the borrower will, scaled to the risks and adverse impacts of the project, establish a grievance mechanism as part of the management system.

Principle 7: Independent Review

For all Category A projects and, as appropriate, for Category B projects, an independent social or environmental expert not directly associated with the borrower will review the Assessment, AP and consultation process documentation in order to assist EPFI's due diligence, and assess EP compliance.

Principle 8: Covenants

An important strength of the Principles is the incorporation of covenants linked to compliance. For

Category A and B projects, the borrower will covenant in financing documentation:
a) to comply with all relevant host country social and environmental laws, regulations and permits in all material respects;
b) to comply with the AP (where applicable) during the construction and operation of the project in all material respects;
c) to provide periodic reports in a format agreed with EPFIs (with the frequency of these reports proportionate to the severity of impacts, or as required by law, but not less than annually), prepared by in-house staff or third party experts, that (i) document compliance with the AP (where applicable), and (ii) provide representation of compliance with relevant local, state and host country social and environmental laws, regulations and permits; and
d) to decommission the facilities, where applicable and appropriate, in accordance with an agreed decommissioning plan. Where a borrower is not in compliance with its social and environmental covenants, EPFIs will work with the borrower to bring it back into compliance to the extent feasible, and if the borrower fails to re-establish compliance within an agreed grace period, EPFIs reserve the right to exercise remedies, as they consider appropriate.

Principle 9: Independent Monitoring and Reporting
To ensure ongoing monitoring and reporting over the life of the loan, EPFIs will, for all Category A projects, and as appropriate, for Category B projects, require appointment of an independent environmental and/or social expert, or require that the borrower retain qualified and experienced external experts to verify its monitoring information which would be shared with EPFIs.

Principle 10: EPFI Reporting
Each EPFI adopting the EP commits to report publicly at least annually about its EP implementation processes and experience, taking into account appropriate confidentiality considerations.

UN Principles for Responsible Investment

1. Incorporate ESG issues into investment analysis and decision-making processes.
2. Active owners and incorporate ESG issues into our ownership policies and practices.
3. Seek appropriate disclosure on ESG issues by the entities in which we invest.
4. Promote acceptance and implementation of the Principles within the investment industry.
5. Work together to enhance our effectiveness in implementing the Principles.

MIGA

MIGA is one of the World Bank's promoted institutions and also known as its insurance arm. Since 1988, MIGA has issued more than US $1 billion in insurance coverage facilitating approximately US $8 billion in investments in Asia. In total, MIGA has issued US $5.4 billion in insurance covering approximately US $30 billion in foreign direct investment in 66 developing countries.[85]

It also aims to develop the performance parameters that are essential for maintaining the social and environmental standards. It has members from 25 industrialised countries, 148 from developing countries such as Asian and Pacific, Africa, Middle East, North Africa, Middle East and North Africa, Europe and Central Asia, Latin America and the Caribbean. It uses a structured system for the categorization of projects and follows purely an outcome based approach.

Like the IFC, MIGA also strives for positive development outcomes in the private sector projects for which it provides guarantee support. An important component of positive development outcomes is the social and environmental sustainability of projects, which MIGA expects to achieve by applying a comprehensive set of social and environmental performance standards.

Under such policy, while lending a number of aspects such as the environment protection, labour and work place policy, management and conservation of natural resources, human rights policy, pollution prevention and abatements, community health – safety and security, land acquisition and resettlement, biodiversity conservation, child labour, cleaner production and financing energy efficient initiatives are asked and analysed.

As per its policy document published as on October 2007, MIGA's mission is to promote sustainable private sector foreign direct investment in developing countries, helping to reduce poverty and improve people's livelihoods. It believes that sound economic growth, grounded in sustainable private investment, is crucial to poverty reduction. In its operations, MIGA expects clients to manage the social and environmental risks and impacts of their projects. An important component of the client's management of its social and environmental performance is the client's engagement with the affected communities through disclosure of relevant project information, consultation and also participation.

Like IFC, it also follows the same procedure to categorize the projects into four categories (A, B, C and FI) before formal sanction of the projects. Under its Community Engagement and Support Programme it emphasises that effective community engagement is central to the successful management of risks and impacts to the affected communities. Through the Performance Standards, it requires project companies to engage with affected communities through disclosure of information, consultation, and active participation in a manner commensurate with the risks to and impacts on the affected communities.

ADB

Under ADB's lending policy, a number of indicators such as preference to the reduction of poverty, environment protection, management and conservation of natural resources, pollution prevention and abatements, land acquisition and resettlement are being given due preference.

ADB's major objective is to reduce poverty[86] and improve the quality of life of all people in Asia. The poor may be denied access to assets because they belong to an ethnic minority or a community considered socially inferior. The bank emphasizes that poverty reduction and improvement in the

[85]For details see http://profile.iiita.ac.in/pkmaurya,surfed on March 15, 2009.

quality of life realized from development must be extended equitably and reach each segment of society, including indigenous peoples.

ADB's battle to halve the proportion of very poor people in Asia and the Pacific by 2015, have five basic components as follows:

- **Labour market** policies and programmes designed to generate employment, improve working conditions and promote the efficient operation of labour markets
- **Social insurance** programmes to cushion the risks associated with unemployment, ill health, disability, work-related injury and old age
- **Social assistance and welfare service** programmes for the most vulnerable groups with no other means of adequate support, including single mothers, the homeless, or physically or mentally challenged people
- **Micro and area-based schemes** to address vulnerability at the community level, including micro-insurance, agricultural insurance, social funds and programmes to manage natural disasters
- **Child protection** to ensure the healthy and productive development of children

As per the Operation Manual Bank Policies (OM Section F2/BP) on Involuntary Settlement issued on 25th September 2006 says that under its long term strategic framework it provides an effective opportunity for the people who are dispossessed or displaced to get development benefits. It addresses loss of land, resources and means of livelihood or social support system, which people suffer as a result of its projects or the project components in its developing member countries.

Under its policy, first of all it avoids involuntary resettlement wherever feasible. In some cases if possible even to minimize the resettlement it prefers to go for an alternative viable project options. Wherever it is unavoidable as per its policy, under the project the affected people receive assistance so they will be at least well off as they would have been in the absence of the project. In such as case it is essential that the project affected people are fully informed and closely consulted before and after the implementation of the project.

It also emphasizes that particular attention is paid to the poorest affected people, households headed by females, people having no legal title to land and other assets, people with disabilities, elderly people and belonging to the vulnerable sections and indigenous communities. The involuntary settlement policy also ensures that the social and cultural institutions existed in the area are protected. In case of the absence of the formal, legal title to the land is not a bar to the ADB's policy entitlements. Moreover, the bank also ensures that the full resettlement costs are included in the presentation of the project costs and benefits.

ADB's **environment policy** is grounded in its Poverty Reduction Strategy and long-term strategic framework. (i)Environmental sustainability is also one of three crosscutting themes of the long-term strategic framework. (ii) To reduce poverty through environmentally sustainable development, its policy contains five main elements such as promoting environment and natural resource management interventions to reduce poverty directly, assisting developing member countries to mainstream environmental considerations in economic growth, (iii) helping maintain global and regional life support systems that underpin future development prospects, building partnerships to maximize the impact of ADB lending and non-lending activities and integrating environmental considerations across all its operations.

During 2004 ADB's Board of Directors approved a **comprehensive disaster and emergency assistance policy** that provides rehabilitation and reconstruction assistance. The said aims to assists the members from the developing countries with prevention, preparation and mitigation of the impact of future

[86]It defines poverty as deprivation of the essential assets and opportunities to which every human is entitled.

disasters. Also to improve organizational arrangements within the bank for planning, implementing and communicating effectively on disaster and emergency-related assistance.
Community Participation in Procurement is one of the major agenda for ADB.
In the interest of project sustainability or to achieve certain specific social objectives of the project, it is desirable in selected project components to call for the participation of local communities and/the NGOs in the delivery of services or increase the utilization of local know how and materials or even employ the labour-intensive methods in construction/rehabilitation of a road and operation and maintenance of the road.

In ADB, **procurement of goods and works under disaster and emergency assistance** also incorporates greater flexibility. Engagement of the **domestic contractors for contract-works** is awarded with a margin preference of 7.5 % to others.

ABN-AMRO Bank N.V., Netherlands

ABN-AMRO is a leading international bank with total assets of approximately EUR 597 billion. It has over 3,000 branches in 66 countries and territories, and has a staff of about 105,000 full time equivalents worldwide. ABN-AMRO is listed on the Euronext, London and New York stock exchanges and operates through three Strategic Business Units.

As shared in domain, its wholesale clients provide integrated corporate and investment banking services to corporate, institutional and public sector clients worldwide. Private Clients and Asset Management provide private banking services to wealthy clients and investment products to financial intermediaries and institutional clients.

The ABN-AMRO Bank N.V. believes that the EP will set a common baseline particularly relevant for one of the most vulnerable areas such as 'project financing in emerging markets'. Its public domain also says that the group is strongly committed to taking further initiatives for sustainable development as well.

As per its public domain, ABN-AMRO has been striving to reduce its direct carbon impact by increasing energy efficiency and making green power purchases in its Dutch operations. It has also introduced new products for the emerging carbon markets. In 2005, ABN-AMRO arranged the world's first bank intermediated carbon credit trade between two private-sector organizations, i.e., a Fiji based exporter of carbon credits and a UK utility.

The bank is also pursuing a number of CDM and Joint Implementation (JI) projects under the Kyoto Protocol, and is developing products for clients trading allowances under the EU Emissions Trading Scheme (EU ETS).

Barclays PLC, UK

The bank's public domain reflects that they like other leading banks, have adopted the EP which given the bank an opportunity to further formalize their commitment to their clients. The bank has an Executive Director to take into account the CSR initiatives.

Through its climate action strategy, it has achieved carbon neutral status in its UK and European operations for 2007. The bank had strategy to reduce CO2 emissions by improving energy efficiency, buying renewable energy and offer products and services that help customers tackle their carbon emissions. During 2007, most visible symbols of the bank's commitment were to reduce carbon footprint at the new ABSA Capital building in South Africa.

It is also reported that measures such as rainwater harvesting, solar heating, natural cooling, lighting sensors and recycled materials was expected to make the complex at Sandton Court, Johannesburg 34.2% more energy-efficient than a traditional office. It has also developed a number of products and services to help clients in the institutional, commercial and retail markets manage their energy use and reduce their carbon footprints.

The bank is also making the carbon trading and risk management expertise of Barclays Capital available to our larger commercial clients. Barclays Capital is a leader in the EU emissions trading market, trading more than 600 million tons since 2005.

Barclays Commercial Bank is building its reputation in the renewable energy market. With colleagues in Spain, we are providing long-term finance for more than 2,700 MW of renewable generating capacity, enough to supply electricity to more than 1.45 million homes for a year. The bank's schemes range from small-scale hydroelectric projects to onshore wind farms.

Citigroup Inc., USA

Citigroup (NYSE: C), the preeminent global financial services company with some 200 million customer accounts in more than 100 countries, provides consumers, corporations, governments and institutions with a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, insurance, securities brokerage, and asset management.

Citi Asia Pacific promotes environmental sustainability across the organization by reducing the environmental footprint of the buildings and operations, developing innovative, environmentally-oriented products and services for our clients. SRI research reports are also published by the bank from time to time. It also sanctions grant to the work of environmental NGOs.

In 2007, Citi also invested in Sindicatum Carbon Capital (SCC), a greenhouse gas (GHG) emission reduction credits project developer. It focuses on reducing GHG emissions from nitric acid plants, coal mines and landfills primarily in the emerging markets, including China. As a result of these emission reductions, SCC generates carbon credits under the Kyoto Protocol.

During the same year, it also announced a 10-year, US $50 billion global initiative to combat climate change. It has developed 'Climate Positive' criteria to better identify transactions that should be counted towards this target and Citi Asia Pacific is financing and investing in companies that are pursuing alternative energies such as solar, wind and geothermal, is a key intermediary in carbon emissions trading.

Making private equity investments in renewable and alternative energy, clean technologies, energy efficiency, carbon credit markets, waste and water management and sustainable forestry are its other key priority areas. It also supports community programmes in Asia Pacific that help to protect the environment. It is also reported that more than one third of the 211 community projects were environment-related.

As per its public domain, the New Ventures' mission is to accelerate the growth of SMEs that contribute to environmental sustainability such as organic foods and fibbers, non-timber forest products, renewable energy, and clean technologies. It provides entrepreneurs with mentoring and technical assistance linking them with the potential investors. It also provides ongoing sustainable enterprise support through partnerships with local institutions.

HypoVereinsbank (HVB), Germany

The bank has € 691 billion assets in total, around 8.5 million customers and over 65,000 employees. The group is the second largest private commercial bank in Germany, the number one in Austria and is also the leading bank in the growth markets of central and Eastern Europe. It has been very successful for a long time in environmental and sustainability management.
Since September 2000 HVB has been included in the Dow Jones Sustainability Index (DJSI), which shows the performance of enterprises in the whole world which are rated among the leading 10% in their sector as far as sustainability is concerned.

As per Kai Henkel, Head of Global Project Finance at HVB 'The EP with their guidelines in the area of social and environmental responsibility are an important step towards a more vigorous advancement of sustainability in global project financing. They will help ecological and social standards and also promote transparency in business dealings'.

HVB has also adhered to World Bank standards in lending dates back to 1998. According to the group, sustainability creates new growth and earnings potential, reduces credit risks and optimizes work flows so, it has upheld such policies.

ANZ, Australia

As mentioned in its public domain, ANZ has been monitoring the progress of the EP since its inception and has formally adopted the EP from December 2006.While implementing the principles, the bank has developed their own social and environment policies that are being applied across all of our lending and investment decisions, including project finance activities in developing countries.

Its approach to corporate responsibility focuses on the issues and opportunities most relevant to the business and priorities has always been to provide simple, uncomplicated products and services tailored to the customers' needs. It has always been making business decisions by taking into account the economic, social and environmental issues.

As shared, it has another commitment for the social and financial inclusion of the disadvantaged community as well. Under its health and safety policy it has committed to ensure that the way in which ANZ conducts its operations does not put the health and safety of any person at risk. It provides safe, healthy and secure workplaces for employees, contractors and visitors. It also provides appropriate health, safety and security information and training; promote the wellbeing of employees, consultation with employees and contractors on workplace health, safety and security related issues.

The bank strives to achieve continuous improvement in health and safety by establishing and reviewing measurable targets and objectives, and reviewing the operation and performance of our health and safety initiatives. The bank also complies with relevant health and safety legislation and above all provides adequate resources to achieve the above objectives.

Development Bank of Philippines (DBP)

DBP is one of the largest banks of Philippines focused on poverty alleviation through different country side programme for the disadvantages communities as well as industrial sectors. DBP has its development directions following some of the priority areas like infrastructure and logistics, SME sector, social services and environmental development. Of the PHP 82.04 billion total loan portfolio, 60 % was channelized to these sectors.
DBP is one of the first Philippine banks to integrate environmental considerations in all aspects of its

operations. DBP provides financing as well as technical assistance to projects that are environmentally sound. The Bank also plays an active role in encouraging clients, and its participating financial institutions (PFIs) under its wholesale lending programme to include environmental considerations in their business and thrusts.

The DBP, in its developmental mission and initiatives, is committed to environmental protection and sustainable development and shall integrate and implement environmental considerations into all aspects of its operations and services, asset management, and business decisions.

In pursuit of this policy, DBP commits to:

- Develop, implement and continually improve an Environmental Management System;
- Encourage other institutions to pursue environmental protection and pollution prevention through the Bank's lending and technical assistance programmes, and pursue environmental management practices, including environmental due diligence inquiry in risk assessment and management;
- Comply with relevant environmental laws, regulations and agreements to which DBP subscribes;
- Set and review environmental objectives and targets along identified significant environmental aspects; and
- Ensure that all employees at all levels are made aware of and are actively involved in the Bank's Environmental Policy and programmes through appropriate training and information

Land Bank of the Philippines

The Land Bank of the Philippines is a government FI that strikes a balance in fulfilling its social mandate of promoting countryside development while remaining financially viable.

This dual function makes LANDBANK unique. The profits derived from its commercial banking operations are used to finance the Bank's developmental programmes and initiatives.

Over the years, LANDBANK has successfully managed this tough balancing act as evidenced by the continued expansion of its loan portfolio in favour of its PSs: the farmers and fisherfolk, small and medium enterprises and micro-enterprises, livelihood loans and agribusiness, agri-infrastructure and other agri- and environment-related projects.

Today, LANDBANK is by far the largest formal credit institution in the rural areas. Its credit delivery system is able to penetrate a substantial percentage of the country's total number of municipalities. LANDBANK also ranks among the top five commercial banks in the country in terms of deposits, assets, loans and capital. From its initial role as the financing arm of the agrarian reform, LANDBANK has evolved into a full-service commercial bank. But the essence of its existence has not changed at all – and that is to make the countryside continuously throb with life.

Table 2.3.1: Table 3.1: BR Initiatives of the bank's non-signatory to EP

Banks	Maspachi-Italian Bank	Bank of China
Background	• 30 thousand Employees • 3,000 Branches • 6.4 Million Customer • Female Employee: 28 %	• 10,789 branches • Assets of RMB 6,955.694 billion • Total number of employee 223,202. • Female 46.56%, 8% minority community.
Sustainability focus Area	• Sustainability is a fundamental dimension in managing the supply chain. • Corporate Governance • Risk to Reputation • Financial Inclusion (with special attention to services for immigrants, as an opportunity for the banks to - grow and develop the business) • Climate Change	
Bank as lender	• Environment and Society Co2 emissions per capita -58% (from 2004 to 2008)* • Renewable energy loans 320 million in 2008-09 (+43%) • Social and environmental screening of suppliers 33% of turnover • Direct contributions to the community 60 million • Social responsible investors/Total Institutional 2.4%	• Bank established temporary outlets in Beijing, Qingdao, Hong Kong and other Olympics host cities, installed 8,000 ATMs, launched currency exchange services at 9,000 outlets, and signed on 220,000 chartered merchants for its bank cards. • Bank also set up 1,300 fixed and mobile foreign currency exchange counters at 6 Olympic sites and installed nearly 40,000 POS terminals, making the bank card payment acceptable at all merchants in the Olympic venues. • To promote the development of SMEs, BOC made onsite visits to understand their credit requirements and provided them with customized financial products. • The Bank also gave guidance to SMEs in financial distress and lent support to basically sound enterprises experiencing temporary operational difficulties. • Focusing on "process management", BOC created a new SME credit management system of strict credit rules, clear lending criteria, premise rectification of credit limits and sound post-lending tracking mechanism, all of which have greatly improved SME loan approval efficiency at the Bank. • RMB 138.7289 million and the social contribution • Government-subsidized student loans increased by RMB 1, 232 million to RMB 8, 372 million, and BOC assisted nearly 920,000 students to complete their studies.

Banks	Maspachi-Italian Bank	Bank of China
Bank as an entity	• Energy policy that has enabled it to reduce its environmental impact (CO2 emissions by 58% in five years). In particular, the decision to acquire hydroelectric power from the free market enabled it to save 25% of the expenses otherwise incurred in the protected market, with a benefit at the same time for the community and the environment. • Since 2007, checking employee perceptions about the conditions and tools available to them for better serving customers • It supports the United Nations' Global Compact (www.ungobalcompact.org). • 3,104 branches and present throughout Italy, in many small towns (about 13% of its branches are located in towns with fewer than 5,000 inhabitants. There are 3,641 ATMs and 146 specialised centres serving SMEs • In cooperation with the Italian Union for the Blind, about 60% of ATMs have now been made accessible to the visually impaired using voice synthesis systems. • In terms of the handicapped (1,546 people) apply the Accessibility Project, with workstations and special equipment adapted to individual needs. • Generate major economic benefit in communities by hiring local personnel and purchasing products and services from local suppliers (they are about 58% of the total). • 180,000 € for social projects in various Italian cities with details of distribution as under 1% - Other 1% - Scientific 5% - Economic 4% - Social and ecological 10% - Cultural 79% - Sports Distribution of sponsorships by purpose Responsible Business Management 1% • Some 178,000 customers are participating, for more than 2 million pieces of correspondence conducted without paper each year.	• A project loan of RMB 40 million to finance the enterprise's two coal-bed gas generator and CDM emission reduction projects. • In 2008, BOC implemented a one-vote veto for the credit approval process, set clear requirements on energy saving and emission reduction, and took into account environmental safety factors in its lending decisions. • BOC established a mechanism of tracking, monitoring and analysing industries with high pollution and high energy consumption records and drew up a blacklist of enterprises in such industries. • BOC enhanced communication with the environmental protection authority in order to receive timely information on the performance of industries in regard to pollution prevention and emission reductions. • BOC launched a number of green credit products during the year and supported clean energy sectors such as nuclear power and large and medium-sized hydroelectric stations, as well as energy-conservation facilities and projects and select wind and solar generation projects. • BOC Jiangxi Branch actively supported an emission reduction project by Fengcheng Pipeline Gas Co., Ltd. After completion, the project is expected to reduce 21.6 million cubic meters of emissions and provide clean energy to 30,000 households, or around 100,000 people. • BOC recycles office waste to reduce pollution and encourages the recycling of resources. In 2008, the Head Office collected 2,699 toner cartridges and delivered them to relevant manufacturers for recycling.

Brazil Bank

General Projects

- **Basic Sanitation:** Projects on collecting, treatment and final disposition of industrial, commercial, residential and hospital solid residues. The projects should involve investments related to the closing of eventual garbage deposits existing in the region.
- **Projects included in the Programs of Hydrographic Basin Committees:**
  Implementation of collecting networks with adequate final destination and sanitary sewage treatment systems. Management of hydric resources: management modernization, monitoring and improvement of information systems; services and processes directed to controlling and inspecting the different uses of water and to implementing initiatives in the environmental education area.
- **Eco-efficiency: Rationalization in the Use of Natural Resources:**
  Reduction in the consumption of energy for producing goods and providing services. Substitution of fossil fuels (diesel oil and gasoline) for renewable sources (biodiesel, ethanol, hydric, eolian or solar energy). Increase in internal and external recycling of materials. Voluntary use of cleaner technologies: systems of prevention, reduction, control and treatment of industrial residues, effluents and pollutant discharges.
- **Restoration and Conservation of Ecosystems and Biodiversity**
  Restoration of river-edge forests and erosion control. Formation, restoration, maintenance, preservation, monitoring and compensation of Legal Reserve Areas and Permanent Preservation Areas. Tourism projects contributing to the development of Integral Protection Conservation Units and Natural Property Private Reserves integrating the National System of Nature Conservation Units. Research of Brazilian's nature substances for the development of pharmaceutical products, cosmetics and spices.
- **Clean Development Mechanism**
  Viability study, project preparation costs, Project Conception Document [PDD] and other costs related to the validation and registry process.
- **Planning and Management**
  Environmental or integrated management systems; qualification of enterprises' technical staffs and constitution of an organizational unit dedicated to environmental matters; environmental certification. Environmental Impact Studies and respective actions aiming at preventing or mitigating environmental impacts.
- **Restoration of Environmental Liabilities**
  Restoration of degraded, mined or contaminated areas, such as: old depositions, deposits of solid residues or abandoned earth embankments, lending areas, discharges, liberation of liquids, oils and greases, percolation of harmful substances, contaminated water table, presence of amianthus or transformers with ascarids, modified areas subject to erosion and land collapses, salty land, Legal Reserve Areas and Permanent Preservation Areas degraded or used for other purposes.
- **Share Level**
  Up to 100 % for projects in Northern and North-eastern Low Income Cities or Lower Average Income Cities (within SUDENE's field of activity). Up to 90% for projects in Northern and North-eastern Lower Average Income Cities and High Income Cities (within SUDENE's field of activity) or Low Income Cities or Lower Average Income Cities from the other regions of the country. Up to 80% for projects in other cities BNDES has as one of its prioritized actions the support to micro, small and medium size companies all over the country, in view of its role in the creation of jobs and generation of income.

The operations presented by micro, small and medium size companies are financed by means of BNDES's **accredited financial agents,** which are responsible for the analysis of credit approval and guarantees. Such banks, public or private, due to their closeness to customers, have better conditions to

evaluate financing requests. Companies usually refer to those institutions where they already registered and/or have some type of banking relationship.

BNDES manages third party funds, to which it is accountable. For such reason, either BNDES or the qualified FIs should follow the standards of good banking practice in the granting of credits, such as, for instance, the constitution of adequate guarantees and the checking of registry conformity and the fiscal and parafiscal status of the interested to obtain financing.

There is availability for financial support lines and specific programmes offering the best conditions of costs, terms and share levels, to support investments in industrial, infrastructure, trading and services and farming and cattle raising sectors.

The **Guarantee Fund for the Promotion of Competitiveness - FGPC** was created with the purpose of guaranteeing part of credit risk for FIs in operations of micro and small companies and medium size exporter companies that will use BNDES's financing lines.

BNDES Card - The BNDES Card is an instrument that grants revolving credit up to BRL 500 thousand so that micro, small and medium size companies may make productive investments. By means of the Card the MSMEs may have access to a pre-approved and automatic-use credit line. First credit card in the 56 years of the Bank's history, the BNDES Card was launched in September 2003. The "Product List" of the BNDES Card's Portal amount to 35 thousand items, such as light transportation vehicles, equipment for commercial automation, computers and peripheral products, software, refrigerators, gondolas, sewing machines, stationary engines, pumps and equipment for service sites, kits for natural gas engines, health care and dentistry equipments, commercial furniture and paper for book edition.

After requesting Card BNDES, through the website, the company will have its order analysed by the issuing bank, who will define its credit limit. The maximum limit of the BNDES Card is BRL 500 thousand, which does not mean that the purchase is limited to this amount, as the company may appeal to other means of payment to complete the total of the operation or even own more than one card, issued by the accredited banks - Banco do Brasil, Bradesco or Caixa Econômica Federal. Besides the issuing banks, the BNDES Cards works in partnership with Visanet (under Visa flag) and, springing from the contract with Caixa Econômica Federal, also with Redecard (under Mastercard flag).

All operations are carried out in the BNDES Card's Portal, from card request, calculus simulation of installment values, to acquisition of products, which are financed in up to 48 monthly, fixed and equal instalments.

Enabling the access to the BNDES card is a way to democratize the resources managed by the Bank. The Card was created so micro, small and medium-size businessmen could purchase production, machinery, and equipment goods that would improve the overall performance of their businesses. It is a tool that supplies its holders with rotating pre-approved automatic credit through the emitting FI and also with automatic financing divided into fixed instalment payments. For the supplying company, the Card means an extra attractive as regards its products, enabling business transactions with the guaranteed payment after 30 days from the sale, before a discount rate of 3%.

Social development Initiatives

- Expand the productive credit offer to low-income entrepreneurs by means of Micro-credit Programs;
- Foster the performance of Social Investments from Companies;
- Expand the health, education and social assistance services to the population;

- Implement collective solutions to maintain jobs, associated to development and to business growth;
- Reduce regional unbalances, through structuring projects, local productive arrangements, and integrated projects in regions of extreme poverty; and
- Stimulate projects or activities of social nature, having efficacy and innovation, making them paradigmatic to other institutions and may become public policies.
- Support to operations in health, education and social assistance services

Urban and Regional Development

Purposes

Strengthen managerial, normative, operational and technological capacity, through the Modernization of Tax Administration and Management of the Basic Social Sectors [PMAT] frame Brazilian cities and metropolis' demands, by means of investments destined to urban planning, structuring, multi-sectoral rehabilitation and rearrangement, through support to Urban Multi-sectoral Integrated Projects and to Urban Transport Projects; and universalize access to basic sanitation services and to the restoration of areas environmentally degraded. Strengthening of state tax administrations' managerial, ruling, operational and technological capacity through the 'modernization of revenue administration and tax' and 'Finance and Equity Management of State Governments' [PMAE].

BNDES financing lines to support investments for urban and social development:

In order to adequate better the financial supporting instruments; BNDES has created the following financing lines, offering special conditions for urban and social development projects:
Support to PMAT

- Support to Urban Integrated Multiple-Sector investments
- Support to Urban Transportation Projects
- Support to Environmental Sanitation and Hydric Resources Projects
- PMAE.

Annex 4

Table 4.1: E.P. Banks Major Environment and Social Initiatives

	Name of Bank	Economic significance	Banks major CSR initiative	
			Social	Environmental
1.	ABN Amro Bank, Netherlands	• Total asset € 1.120 bn • 4000 branches in 53 countries • 99 Thousand Employee	• In China partnering with Mercy Corp to support the only private non-profit secondary school in the Beijing area for children of Chinese migrants who left farming in search of work in the city. • In Brazil, Chile and Romania, volunteers take part in NESsT (Non profit Enterprise and Self-sustainability Team) project, helping social enterprises to set up business plans and get started.	• Reducing its strict carbon impact by increasing energy efficiency and making green power purchase in its Dutch operation • Introduce new product for the emerging carbon market • Pursuing CDM under Kyoto Protocol
2.	BNP Paribas	• Total Asset € 1,694,454 million • 85 countries • 163,000 Employee	• More than 1,000 partnerships set up by the Group's Retail Banking network in France, in particular with educational establishments. 83 local partnerships set up through the Project Banlieues social outreach initiative. • BNP Paribas Foundation, through Project Banlieues, has contributed almost € 350,000 to 83 associations that work to provide "integration through knowledge" for children and teens in disadvantaged neighbourhoods.	• In 2007, BNP Paribas Investment Partners acquired a 29% stake and became the largest shareholder in Impax Asset Management, an asset management company specialised in the environmental sector. • BNP Paribas is one of four banking groups included in the 24 French companies selected by the Climate Disclosure Leadership Index of the CDP France. Since 2003, CDP, a British NGO created in 2000, has been sending annual surveys to the world's 500 largest companies, requesting information on how they monitor their green house gas emissions. BNP Paribas has been part of this initiative· since the word goes. CDP ranks companies on the basis of their responses, and the top third are included in CDP France's Climate Disclosure Leadership Index. • BNP Paribas Commodity Futures is

	Name of Bank	Economic significance	Banks major CSR initiative	
			Social	Environmental
				one of the most significant institutions making up the membership of the London Clearinghouse, by amounts cleared and in terms of EUA futures executed: Commodity Futures accounts for approximately 20% of the orders on the European Climate Exchange (ECX), which is the largest platform for carbon emissions trading in Europe. • In 2007, BNP Paribas put in a strong performance as finance arranger for projects that enabled significant reductions in Co2 emissions. The wind farm construction project in South Korea made it possible to avoid 420,000 tonnes of C o 2 emissions. A n o t h e r project saved 4 m i l l i o n tonnes of Co2 emissions from an oil f i e l d i n Azerbaijan, as the CERs were purchased by BNP Paribas. • Again in Azerbaijan, the Group worked on a joint project with the Carbon Team to finance a 500-megawatt gas plant. The Group also took part in a methane capture project in a coal mine in China, which g e n e r a t e d 17,800,000 CERs.
3.	HSBC	• Total Assests: US$ 2,354 bn • 10000 Branches in 83 Countries • 330,000 Employee	• In 2007, the bank invested US$ 117.5 m i l l i o n in supporting communities a r o u n d t h e w o r l d. Education remained the l a r g e s t a r e a o f i t s community investments, with 44 % of t o t a l cash donations. Environmental projects received 24 %,	• In 2007, HSBC's Co2 emissions to talled 897,000 tonnes. The bank has purchased the equivalent tonnage in CO2 offsets to remain a carbon neutral company. Carbon F i n a n c e Strategy, l a u n c h e d in 2006, supports clients who are developing clean

	Name of Bank	Economic significance	Banks major CSR initiative	
			Social	Environmental
			while 32% was donated t o projects outside of these categories. • Launched in 2006, the US$ 10 million Future First programme provides education and life skills to street children, children in foster care and orphans. This five-year initiative is collaboration between HSBC Global Education Trust and SOS Children's Villages.	technologies and non fossil fuel energy solutions that are both technically and commercially viable. • 'There's no small change' This large-scale marketing campaign launched by HSBC in the US included marketing materials printed on Forest Stewardship Council-certified and 100% recycled paper. Customers who opened a paperless HSBC current account received a complimentary green kit which contained 'eco products', information and guidance on the small changes they could make. • Donations of US$ 1 million were made to local environmental organizations. • In July 2007, HSBC launched a unique green equipment financing product in Hong Kong to provide an incentive for businesses to switch to low-carbon and energy-efficient technologies. Additionally, for every HK$ 2,000 of the loan amount, the bank donates HK$ 1 to WWF Hong Kong to promote environmental conservation. • HSBC continues to roll out video collaboration technologies across the Group. This technology reduces the need for business travel. The findings of a one-month monitoring trial of the use of rooms equipped with such technology at HSBC's Group Head Office in London, as a way of displacing a return flight, demonstrated a reduction of 523,000 air miles – a saving 185 tonnes of CO2 and a financial saving of US$ 604,000.

	Name of Bank	Economic significance	Banks major CSR initiative	
			Social	Environmental
4.	Citi Bank	• 323,000 employees • 100 countries • 1,500 branches	• Invested US$ 28 million toward US$ 200 million goals in 73 countries and territories. • Reached 22,344,441 individuals through financial education and asset building programmes. • In 2008 the bank has invested more than US$ 13.2 million to establish and launch a new strategic focus within education, titled Building Bridges to college and career. This initiative will increase access to and success in post secondary education for low income and first generation students by supporting efforts that address the multiple barriers linked to college enrolment and earning a degree.	• Citibank fully integrated the Risk assessment framework of carbon principle in to its environment and social risk management approach. • Citibank also committed to its US$ 50 billion initiative and piloted sustainable IT initiatives to save energy and cut costs. • In 2008 the Citi foundation continued its support for enterprise community partners Green Communities Programme with a US$ 500000 grant to fund environmentally sustainable, affordable housing developments in the United States. These developments will provide hundreds of low to moderate income families with the opportunity to live in "green" residences. In addition to funding new housing developments, the Green Communities programme is focusing on retrofits of existing affordable housing so as to maximize potential energy savings and minimize water use and carbon emissions. • Citi is engaging with participants in China's Financial services sector on how to integrate environment risk in to their credit policy. For e.g., China's Green Credit policy aims to improve compliance with environment regulations by restricting access to commercial credit for Chinese companies that bypass environment assessments for all pollution checks. • Project Green for e-receipt instead of paper receipt.

	Name of Bank	Economic significance	Banks major CSR initiative	
			Social	Environmental
5.	Standard & Chartered	• 73,800 Employee • 75 Countries • Total Assets: US$435 bn • 1,600 Branches	• To educate one million people on HIV and AIDS by 2010, bank extended its education programmes to SME customers in Africa, as well as to global corporations and to students around the world. • The challenges of preventable blindness and malaria also threaten lives and economic prospects across our markets. In October 2008, under the banner of 'Seeing is Believing – A New Vision', the bank made a commitment to provide eye-care services to 20 million people in 20 cities by 2015. • Nets for Life, a programme to tackle malaria in Africa, has distributed over one million anti-malarial nets since 2006. Bank has extended its commitment to supply a further five million nets by 2013.	• Standard Chartered have already financed over $ 3 billion of renewable energy and clean technology projects and remain committed to growing its business further. • Website features a 'carbon calculator' that is unique in covering 70 countries. People use it to estimate their personal carbon footprint and it helps them understand how to reduce their contribution to climate change, as well as stimulating them to change their behaviour. • South Korea SinAn solar power plant: This is Korea's flagship solar project and one of the largest in the world. It began operating in two phases during 2008, ultimately with almost 25 MW capacities. The plant produces 33,000 MW of electricity a year – enough to supply 7,200 households with non-polluting energy year after year. This project alone helps Korea reduce Co2 emissions by 24,000 tonnes a year – the equivalent of planting 168,000 trees.
6.	Barclays	• 156,000 Employee, • Barclays Commercial Bank loans and advances 67.5 bn, • Barclays Global Investors net new assets US$ 99bn.	• Barclays is funding a four-year £ 1.3m programme with a not-for-profit organization, SolarAid, to make small-scale solar power accessible to rural communities in Kenya. Solar power can help address several critical challenges facing Africa, contributing towards better education, health, safety and livelihoods by providing energy to light buildings and power radios	• Global energy use -2% per employee from 2007. • In Global Retail and Commercial Banking the continuation of an energy saving programme produced savings equating to 13 GW of energy and £ 750,000. • Remote technology was installed in 240 branches to reduce gas, electricity and water usage by a target of 25%.

	Name of Bank	Economic significance	Banks major CSR initiative	
			Social	Environmental
			and mobile phones. • In 2008, Barclays expanded the financial education component of its micro-banking programme in Ghana by launching a partnership with 'Theatre for Change', which uses interactive theatre to educate market traders and their families on basic financial issues.	• Its Group-wide sourcing process includes criteria for measuring and assessing its suppliers' sustainability. During the tendering process for relevant categories, it requires the supplier to provide data on the product or service's environmental and social footprint. Tenders for supplies deemed to have a potentially high sustainability impact or risk, such as print or corporate wear, require suppliers to complete our sustainable supply chain questionnaire on their sustainability policies and management processes.
7.	HVB	• 800 braches • 25,000 Employee		• In private real estate financing, bank offers its customers an energy performance certificate known as the "Ener - gieausweis" free of charge via our Vereinsbank Victoria Bauspar AG subsidiary. The Energieausweis provides reliable information on the energy quality of a building demonstrates ways to save energy and outlines concrete modernisation recommendations. Victoria Bauspar AG was able to issue more than 6,000 such certificates in 2007. The recommended modernisation volume for each Energieausweis totals around € 37,000, identifying the potential to save some 5,700 Kilograms of CO2. Thus the bank is helping its customers not only to cut costs but also to recognise ways of protecting the

	Name of Bank	Economic significance	Banks major CSR initiative	
			Social	Environmental
				environment. • In buying 21 hybrid vehicles in 2007, HVB acted as something of a pioneer among Germany's banks in seeking to reduce the CO2 emissions of its vehicle pool in private and corporate customer operations. The hybrid vehicles are mostly used in big cities; the advantage of hybrid technology, switching between electric and petrol propulsion, is particularly beneficial in city traffic, as the battery is recharged by braking, which facilitates operation in electric mode. HVB has set itself a limit that cars from the bank's in-house fleet with a traditional engine should not emit more than the 120 grams of CO2 per kilometre stipulated by the European Union. Already in 2008, 230 vehicles out of a total of nearly 400 in the HVB fleet have been replaced by low- CO2 models. This measure alone has helped it to save more than 31,000 litres of fuel and reduce its CO2 emissions by around 89 tonnes. • HVB has made it its business to finance innovative companies in the renewable segment and has directly helped to shape the rapid development of this industry over the last few years. • In 2007, bank poured a total amount of € 1.2 billion into numerous wind, hydroelectric, biomass and biogas power plants.

	Name of Bank	Economic significance	Banks major CSR initiative	
			Social	Environmental
	ANZ		• The ANZ Community Fund enables people in ANZ branches throughout Australia to identify, fund and support projects or initiatives that are important to their local communities. Each Local CEO or Rural Market Manager can approve the contribution of funds to projects that help enrich local communities. Every dollar invested into local projects is matched by ANZ, up to $ 10,000 per market, or $ 350,000 per year. The ANZ Community Fund aims to recognise and strengthen the connection between people, its branch network and the communities in which it operates. In 2006, $ 396,810 was distributed to local communities through the Community Fund.	• ANZ was honoured as 'Best in Class' for its approach to climate change in a report released by the CDP. ANZ was one of 50 FT500 companies included on the CDP Climate Leadership Index.

Sustainability and MSME Financing

Barclays PLC

Commercial organizations faced similar challenges to individual customers – particularly access to credit. Barclays increased lending balances toSMEs – (businesses with a turnover under £20m) in the UK by 6% during 2008 to a total of £ 15bl, with a commitment to make at least a further 10% (£ 1.5bl) available to SMEs in 2009. Barclays was the first UK bank to take part in the new European Investment Bank credit supply scheme, with an agreement worth £ 300m in place to assist small and medium businesses. Barclays has also been a leading supporter of the Enterprise Finance Guarantee, which has been developed with the UK government to provide finance to eligible companies. Barclays assisted SMEs in emerging markets through initiatives such as ABSA's network of Enterprise Development Centres in South Africa. ABSA's loans and advances to customers increased to £ 32.7bl in 2008, up from £ 29.9bl in 2007. It has launched a free web-based service called CreditFocus to help all UK small businesses –whether they are Barclays customers or not – to assess their own customers' creditworthiness.

ABN-AMRO

ABN-AMRO economists are forecasting a rise of 4.4% this year in the total volume of lending to the Dutch SME and corporate sectors, with much of this increase being attributable to SME clients.

SME credit extended by ABN-AMRO in the first quarter of 2005 rose 5% from the level recorded in the fourth quarter of 2004. The rising number of loans may point to an improvement in the outlook for the SME sector. This sector is largely dependent on domestic demand, which was disappointing in 2004.

The bank's economists are expecting private consumption and domestic investment to be slightly higher this year, with growth rates of 0.7% and 2.9% respectively being forecast. The initial evidence for this is that both consumer confidence and producer confidence have strengthened for the past three months. The higher level of job vacancies and the rising number of temporary jobs available also point to an improving labour market.

Much of the growth that the bank been seeing has been under our Business Credit programme, and we recently signed our 50,000th facility." This represents 11% of the total SME market. Under this programme, businesses can borrow amounts of between € 5,000 and € 125,000, without any specific security being required.

ABN-AMRO and Euler Hermes, which is part of the Allianz Group and the world leader in the credit insurance market, have today announced the signing of a distribution agreement to launch a new product. This product comprises a series of services designed to help small and medium-sized exporters to manage and arrange insurance for their receivables risks and thus substantially reduce the risks involved in exporting.

It is often difficult for businesses first starting to export to obtain information on their foreign customers and the payment risks involved. The new package of services means businesses will be able to obtain the information they need on debtors online. They can also use a transaction policy to insure export transactions for up to € 100,000 against the risk of non-payment. Cover percentages of up to 85% will be possible, depending on the status of the foreign debtor, the payment terms and the country in which the debtor is based. The package also includes assistance with foreign collections. If a debtor fails to pay, the insurance will provide for payment within 30 days of collection.

Standard Chartered (S&C)

In 2008, S&C made a commitment to UK Government's Millennium Development Goals Call to Action by launching a new programme which will include innovative financial products, skills development, business mentoring and research to help the crucial SME sector fulfil their growth potential.

Society is still failing to win the war on HIV/AIDS, with 6,800 new infections daily. To meet its commitment to educate one million people on HIV and AIDS by 2010, S&C extended education programmes to SME customers in Africa, as well as to global corporations and to students around the world. In 2008, S&C also introduced an employee e-Learning module on Sustainable Lending as mandatory learning for all credit officers and relationship managers in Wholesale and SME banking. Standard Chartered provided 150 of its African SME clients with a unique opportunity to build links with SMEs in China and beyond. The delegation travelled to Guangzhou and the World SME Expo in Hong Kong.

Standard Chartered opened a spacious flagship Financial Centre in Abu Dhabi, boasting a dedicated Saadiq Islamic Banking Centre, a Priority Banking Centre, and a SME team. The new state-of-the-art branch is part of a dynamic expansion plan the Bank has embarked on to increase its distribution footprint in convenient locations in the UAE.

The SME business is managed within Consumer Banking in two distinct segments: small businesses, and medium enterprises, differentiated by the annual turnover of the counterparty. Medium enterprise accounts are monitored in line with Wholesale Banking procedures, while small business accounts are monitored in line with other Consumer Banking accounts.

Main challenge remains to the bank is to embed sustainability criteria into our financing decisions in small to medium-sized enterprise banking.

Rabo Bank

The Rabobank Group maintained its position in the SME sector in 2007. The share in this market, as measured by the TNS NIPO market research agency, was 38%. Rabo Bank provides start-up loans for SMEs in the Netherlands.

The Groeifaciliteit scheme was developed by SenterNovem, an agency of the Dutch Ministry of Economic Affairs that promotes sustainability and innovation. Under this scheme, a guarantee can be obtained for additional risk capital that can help reinforce an SME's financial buffer.

Environmental damage insurance: premium volumes concern policies in the agricultural and SME sectors.

In 2007 the descriptions of BR issues for the primary sectors were updated, and, following talks with industry associations, engagement questions relating to important BR issues for 25 SME sectors were included in the industry information system, BIR. This will make it easier for account managers to discuss BR with their clients.

Satisfaction among customers in the SME segment rose in 2007 compared with 2006. Entrepreneurs in this segment value personal attention through close contacts with their account manager or adviser. Services to small businesses improved. They are satisfied with the speed of telephone responses and feel welcome at Rabobank. This group of customers would, however, like more transparency in banking

charges. The relationship with larger SME customers remained good. This group is happy with their account manager and therefore feels committed to Rabobank.

BNP Paribas

In order to strengthen its position on the SME market and actively assist the development of Algerian companies, BNP Paribas El Djazaïr created the Académie des PME (the SME Academy) modelled after the TEB Kobi Akademi in Turkey.

Business customers have been divided into two segments: small businesses (up to € 750,000 of annual turnover, branch service model designed to also capture individual side potential) and SME (up to € 5 million of annual turnover, service model based on dedicated relationship managers). In each category the focus is given to high potential/high income/low risk clients. Enhancement of product offer especially in cash management, trade finance and structured finance deals with SMEs.

HVB

HVB's comprehensive know-how – which is unique in Germany – on issues regarding SMEs on the domestic and European market make us appealing to enterprises and entrepreneurs. 400,000 of them already maintain business relations with us, making us the largest financier for SMEs in Germany.

In the area of Markets and Investment Banking, we bundle our expertise of the global capital market. SMEs interested in tapping the capital market as well as multi-national and institutional customers know the value of our financing and risk-management solutions. We are the specialists when it comes to structured capital market solutions.

Annex 6

List of PSs and the weaker section under the PSLs for Indian Banks as mandated by RBI

1. Agriculture,
2. Small Enterprises Equipment/System for development of new and renewable source of energy,
3. Retail Trade,
4. Micro Credit,
5. Education,
6. Food and agro based industries,
7. Advances to Small Road and Water Transport Operators,
8. Retail Traders,
9. Professionals and Self-Employed Persons,
10. Consumption Loans (not exceeding 1,000 per individual for funeral, birth, marriage etc.)
11. Loans and Advances to Software Industry (The loans to the software industry having credit limit up to Rs. 1 crore from the banking system, will be eligible for inclusion under PS. Loans given to software professionals up to Rs. 10 lakhs will be covered and reported under the category of "loans to professionals and self-employed").

The weaker sections under PS shall include the following:

1. Small and marginal farmers with land holding of 5 acres and less, and landless labourers, tenant farmers and share croppers;
2. Artisans, village and cottage industries where individual credit limits do not exceed Rs. 50,000;
3. Beneficiaries of SJGRSY;
4. SCs and STs;
5. Beneficiaries of Differential Rate of Interest (DRI) scheme;
6. Beneficiaries under SJSRY;
7. Beneficiaries under the Scheme for Liberation and Rehabilitation of Scavengers (SLRS);
8. Advances to Self-,Help Groups;
9. Loans to distressed poor to prepay their debt to informal sector, against appropriate collateral or group security.
10. Persons from minority communities as may be notified by Government of India from time to time.

In States, where one of the minority communities notified is, in fact, in majority, item (10) will cover only other notified minorities. These States/Union Territories are Jammu and Kashmir, Punjab, Sikkim, Mizoram, Nagaland and Lakshadweep.

Indian Banks BR Initiatives

1. Punjab National Bank[87]

The Total Assets of the Group increased to Rs.253591 crore registering YOY growth of 24.5% over Rs.203716 crore in March'08. Bank remains committed to meeting the genuine credit requirements of the productive sectors of the economy in a transparent and equitable manner. During the FY09, Advances increased by Rs. 35,201 crore to Rs.1,54,703 crore recoding a YOY growth of 29.5%.

Outreach

With **4668 branches** including 238 extension counters, the Bank has the largest network of offices amongst nationalized banks. During the year 2008-09 the number of branches increased by 163 branches. Bank has launched ambitious **'Project Namaskar'** under which one lakh Touch Points will be established in unbanked villages by 2013 to extend Bank's outreach and create a large customer base. With Branch and Kiosk Model along with FI-BC, Bank proposes to cover entire Indo Gangetic belt. Each Kiosks would have 4 BCs and would be provided with CBS terminal, information and internet. During FY09 PNB achieved the landmark of having ALL branches networked with Core Banking Solution (CBS), thereby becoming the FIRST Nationalised bank to achieve this milestone. Currently more than 38 million PNB customers spread across 2560 centres in the country can access the facility of 'one bank - one account'.

Financial Inclusion

Bank has achieved **100% financial inclusion in 21048 villages.** By end March 2009, opened **48.43 lakh "No Frill" accounts.** To provide basic financial services to the financially excluded poor in a holistic manner, Bank has identified **34 pilot projects across 13 states for ` mobile population, rickshaw pullers, vegetable vendors, women, ethnic minorities, socially challenged and other un-served sections** etc. Bank tied up with Kabongram Asa Kashung Shang Social Upliftment Society (KAKSSUS), an NGO to enlarge micro-finance activities to farmers spread in the **North-Eastern States;** 874 farmers have been disbursed an amount of Rs 2.69 crore. Bank is providing financial assistance for setting up 5500 Common Service Centres (CSCs)/E-kiosks covering the entire Bihar State. Bank has also launched unique initiatives focusing on the marginalized sections of the economy. Some such initiatives are Project for **Rickshaw pullers** wherein assistance is provided to supplement their daily livelihood. Providing doorstep transaction facility to dairy farmers linked to Mother Dairy. Project For **Migrant Construction Workers** At Bangalore During FY09 Bank has established **11 Rural Self Employment Training Institutes (RSETI)** for providing training to the rural BPL youth and women in productive self employment activities. Bank has opened 9 Financial Literacy and Education Counselling Centres with the objective of building abilities of the general populace for absorption of credit and its proper utilization for income generating activities. The bank has also Opened **Three Dedicated Micro finance** branch exclusively for financial inclusion of the urban poor and Self Help Groups. The Bank is looking at introducing new products such as health insurance, micro insurance and pension for the rural population. Bank has set up **exclusive FI Back Offices** at Delhi, Chandigarh, Jaipur and Hyderabad. Three more such FI Back Offices are to be started at Lucknow, Patna and Chandigarh.

Priority Sector Advancement

Priority sector (PS) advances crosses the landmark Rs.50, 000 crore level to reach Rs. 50793 Crore. Thus PS advances account for **41.53 % of the total adjusted Net**

[87]Source: Financial Figure PNB.pdf

Credit of the Bank (National Goal: 40 %). Bank has met all prescribed national goals in respect of credit to Priority Sector, Agriculture, Weaker Section, Minorities etc. **Total Agricultural credit as % to Adjusted Net Bank Credit was 19.72%**
(National Goal: 18%). The **number of farmers** financed during the year more than **doubled** to 13.41 lakhs compared to 6.14 lakhs farmers financed in the previous year. More than 6.37 lakh New Farmers were financed during the year compared to 3.02 lakh **new farmers** in 2007-08. The number of **Kisan Credit Cards (KCCs)** issued during the year increased by 67.2% to 4.46 lakhs compared to 2.67 lakh cards issued last year. Total KCCs issued so far is around 28.32 lakh. More than 8.29 lakh **Small and Marginal farmers** were financed by the Bank compared to 3.55 lakh farmers financed in the previous year. The amount disbursed to these farmers during the year increased to Rs.6150 crore compared to Rs.4408 crore in the previous year recording a growth of 40%. Bank has launched PNB Krishak Saathi Scheme to provide finance to all farmers to redeem their outstanding dues to moneylenders. More than 15100 farmers assisted with Rs 51.09 crore for repayment of debt taken from moneylenders. Credit to **weaker sections** at Rs 13509 crore was 11.19% of ANBC (National Goal: 10% of ANBC). Advances to **minority communities** at Rs 7319 crore works out to 14.41% of Priority Sector advances against the target of 13% by March 2009.

2. Canara Bank[88]

The Bank's advances (net) witnessed a robust 28.9% growth in 2008-09 to reach Rs. 1,38,219 crore.

Outreach

The Bank has a pan India presence of 2729 branches, with an addition of 54 branches during the year (2008-09). Among which more than 50 per cent (1426) branches are present in semi urban and rural areas. As in the previous year, the Bank has 111 specialized branches catering to the specific financial needs of different clientele categories. Among these specialised branches 38 branches are for SMEs, 10 for Agri Finance, 3 for Mahila Banking, 1 for physically challenged particularly and other categories. To cater to the banking needs of women, **3 exclusive Mahila Banking Branches and 6 Mahila Banking Divisions** have been set up by the Bank in the State of Karnataka, Kerala, Tamil Nadu and Uttar Pradesh.

Financial Inclusion

The Bank mobilized 5.62 lakhs no-frill accounts (CanSaral) during 2008-09 and reached a cumulative level of 17.29 lakhs since inception. The total savings in the no-frill accounts reached a level of Rs. 276 crore in 16,57,749 accounts. The Bank took several technology initiatives to further financial inclusion process like multi-lingual bio-metric ATMs, voice-enabled mobile bio-metric ATM and launching of Smart Card project. The Bank signed a memorandum of understanding with the Government of Karnataka for implementation of the Smart Card based payment system for National Rural Employment Guarantee Programme (NREGP)/ Social Security Pension in Chitradurga, Bellary and Gulbarga districts.

As a measure of taking the financial products to the excluded, the Bank also sanctioned 1,24,732 General Credit Cards (GCC) since inception and the total exposure under GCC as at March 2009 stood at Rs.217 crore spread over 1,08,069 GCC accounts. In a novel initiative, the Bank has launched 'Gramin Vikas Vahini'- vehicles to spread **financial literacy**. Under the initiative, 50 vans were operational in 50 districts across India. The Bank has so far formed 1056 Farmers' Clubs to promote financial inclusion. The Bank started Credit **Counselling Centre** in three districts in Karnataka to

[88]Source: i) Canara Bank Directors Report 2008-09 ii) Canara Bank Progress at a Glace2008-09

enhance financial literacy. The Bank also brought out two comic books, titled '**Money' and 'Savings'** in its attempt to step up financial literacy.

During the year, the Bank has formed 64659 Self-Help Groups (SHGs) taking the cumulative number of SHGs formed to 2.75 lakhs as at March 2009. With 52,358 SHGs credit linked during the year, the cumulative tally under credit linking reached 2.25 lakhs since inception. The Bank established an exclusive institute in Karnataka to extend training to SHGs. The total exposure of the Bank under SHG finance rose to Rs. 728 crore, spreading over 87,627 SHGs. Konnur branch in Hubli, Karnataka was adjudged the second best branch under SHG finance by NABARD for the year 2007-08.

Priority Sector Advances

Priority Sector Advances of the Bank as at March 2009 increased by Rs.5560 crore to Rs.48763 crore, covering 35 lakhs borrowers recording a y-o-y growth of 13%. Priority Sector Advances formed over 46% of the Bank's Adjusted Net Bank Credit (ANBC), well above the 40% stipulated norm.

With a focus on credit delivery to **agriculture,** the Bank's advances under agriculture rose by Rs. 2148 crore to reach Rs. 20144 crore, covering 26 lakh farmers. Agriculture credit as a proportion of ANBC rose to 19.01%, surpassing the mandatory targeted level of 18%. Advances to agriculture (direct) reached a level of Rs. 15510 crore, with a 20% y-o-y growth and accounting for 14.64% of ANBC. Under **Kisan Credit Card Scheme,** the Bank issued 2.51 lakh cards during the year, with credit coverage of Rs.1815 crore. As at March 2009, the cumulative number of Kisan Credit Cards reached 26.97 lakhs, involving credit coverage of Rs.12075 crore.

The Bank's advances under Vidyasagar **Education Loan Scheme** recorded a growth of 32.5% to reach Rs.2301 crore, covering more than 1,46,800 students as at March 2009.

The Bank also extended financial assistance to other priority sectors, such as, retail traders, housing and micro credit. As at March 2009, advances to these sectors reached a level of Rs.12303 crore.

During the year, the Bank actively participated in various **Government Sponsored Schemes,** such as, PMRY, SGSY, SJSRY, SLRS and DRI. As at 31st March 2009, the outstanding advances under these schemes aggregated to Rs.553 crore, involving 1.32 lakh beneficiaries.
In support of the underprivileged sections of the society, the Bank's advances to SC/ST beneficiaries reached Rs.2863 crore as at March 2009. Advances to weaker sections aggregated to Rs.10809 crore, with 22 lakh borrowers, forming 10.20% of ANBC against the norm of 10%. As in March 2009, advances by the Bank to minority communities aggregated to Rs. 5452 crore.

As at March 2009, the total amount of advances to nearly 10.05 lakh women stood at a level of Rs.12147 crore constituting 8.97% of the Bank's net credit, well above the 5% stipulation by the Government of India.

Some of the Social Initiatives

The Bank, through its Canara Bank Centenary Rural Development Trust, has established exclusive training institutes to promote entrepreneurship development among rural youth and encourage them taking up self-employment activities. During the year, 4 new training institutes were opened at Hassan, Chikkaballapur, Davangere and Thrissur, taking the tally to 18 such training institutes. These institutes have so far trained 75227 unemployed youth, comprising 60% women and recording an impressive settlement rate of 72%. The Trust is also supporting the activities of Society for Educational and Economic Development (SEED), a voluntary organization based in Sriperumbudur working for the welfare of the socially marginalized children.

The Bank, under the Rural Development and Self Employment Training Institutes (RUDSETIs), has been engaged in training of rural youth for taking up self-employment programmes. 23 RUDSETIs, co-sponsored by the Bank, have trained more than 2,19,000 unemployed youth, with a settlement rate of 68%.

Canara Bank's Rural Clinic Service Scheme provides basic health care services in remote areas, lacking basic medical infrastructure facilities. Under the Scheme, the Bank encourages doctors to set up clinics in identified rural areas. As at March 2009, the total number of such clinics rose to 515.

The Bank donated a hi-tech, custom built, solar powered 'Mobile Sales Van' to assist women entrepreneurs, SHGs and artisans to market their products.

Regional Rural Banks (RRBs)

Canara Bank sponsored 3 RRBs in three States with a network of 780 branches, viz., Pragathi Gramin Bank in the State of Karnataka, Shreyas Gramin Bank in the State of Uttar Pradesh and South Malabar Gramin Bank in the State of Kerala. Priority sector advances constituted 89.54% among total advances which was Rs 6625 crore as on March 2009. All these RRBs totally have made 1096 villages as money lender free and promoted 1661 Farmers Clubs.

Entrepreneurship Development among Women

The Centre for Entrepreneurship Development for Women was established during 1988 at Head Office, Bangalore. At present 30 such Centres are functional at various Circles across the country. These Centres cater to the needs of the women by providing counselling services, conducting entrepreneurship development/skill training programmes, conducting seminars and providing marketing support by organizing exhibitions. The Bank has established a training institute for women at Harohalli, Karnataka to impart training to rural women in various self employment ventures.

Implementation of Official Language

The Bank has notified 2201 of its branches under Rule 10 (4) of Official Language Act, 1976. Official Language Implementation Committees have been constituted at 2726 branches to motivate and guide the employees towards effective implementation of Official Language Policy of the Government of India. The Bank has also made provision in ATM screens of the Bank for carrying transactions in 10 Indian languages. Tele-banking facility has also been provided in Hindi and English and other 6 major regional languages. The corporate website of the Bank is fully bilingual. 'Rajbhasha Net' was released in the internal network 'Cannet' of the Bank and electronic address booklet of the Bank 'Canpata' has been developed bilingually and has also been hosted on Cannet.

Right to Information Act

During 2005-06, under the Right to Information Act, 2005, the Bank set up an exclusive Right to Information Act outfit to provide information and bring transparency. During the year under review, the Bank dealt with all the 1445 applications/ appeals received as per the provisions of the Act.

Promotion of Sports

In line with its rich tradition of promoting Sports, the Bank has on its roll 48 sportspersons of outstanding calibre in various disciplines. During the year, many of the sportspersons have participated in International / National events.

In compliance with Prevention of Money Laundering Act, 2002, the Bank has put in place software to generate Cash Transaction Reports, Counterfeit Currency Detected Reports and Suspicious Transaction Reports and the same are submitted to the Financial Intelligence Unit – India, Ministry of Finance, New Delhi.

3. State Bank of India

The total advances is 5,42,503 crore. The Bank had a total strength of 205896 as on the 31st March 2009. The total number of Persons with Disabilities, employed as on 31.03.2009, were 1767. As on 31st March 2009, 19.20% of the Bank's total staff strength belonged to Scheduled Castes and 6.52% belonged to Scheduled Tribes.

Outreach

The bank has 11448 branches among which 6600 branches are presented in rural and semi-urban areas. There are 972 specialized branches which have been set up in different parts of the country exclusively for the development of agriculture through credit deployment. These branches include 427 Agricultural Development Branches (ADBs) and 547 branches with Development Banking Department (DBDs) which cater to agriculturists and 2 Agricultural Business Branches at Chennai and Hyderabad catering to the needs of hi-tech commercial agricultural projects.

Priority Sector Lending

The Bank has consecutively for the second time crossed the 18% Benchmark in Agri Priority Sector advances with achievement of 18.46% in FY '09. The Bank has surpassed the GOI target for credit flow to Agriculture by achieving Agri. disbursements of Rs. 28,442 crores in 2008-09 against the target of Rs. 28,000 crores and financed 10.68 lac new farmers against the target of 7.40 lac during the year. To improve quality of lending and diversification of portfolio, Area Development Schemes have been prepared under National Business Plan, covering thrust areas viz. Horticulture, Dairy, Fisheries, Food Processing, Biotechnology, etc. Thrust continues to be laid on Contract Farming and Value Chain Financing. Bonding with Farmers: To enhance customer awareness and ensure continued relationship with the farming community, various initiatives have been taken under 'Bonding with Farmers'. The credit assistance provided by the Bank to Scheduled Castes and Scheduled Tribes stands at Rs.12,939 crores and forms 7.9 % of total Priority Sector advances of the Bank as on the 31st March 2009.

Financial Inclusion

The Bank is the market leader in SHG-Bank credit linkage programme having credit linked so far 13.73 lakh SHGs and disbursed loans to the extent of Rs. 8,050 crores. Bank has rolled out several unique products like SHG Credit card and SHG Gold Card. Coverage of unbanked village increased from 12,515 in March 2008 to about 53,000 up to March 2009.

Regional Rural Banks

Post amalgamation, the Bank has got 17 RRBs with a network of 2557 branches spread over 122 districts and 17 states in the country. The advances of the sponsored RRBs stood at Rs.17,273 crores and Rs.10,242 crores respectively as on 31st March 2009.

Provision for Minority Communities

Minority cells for co-ordination have already been created at Local Head Office level and Nodal Officers have been designated to monitor the progress in lending to minority communities as well as to redress the grievances of minority communities. As per Sachar Committee recommendations, our bank has opened 177 new branches in under-banked / unbanked areas in MCDs during the financial year 2008-09.

Social Initiatives

In the financial year 2008-09, the Bank sanctioned donations amounting to Rs.8.76 crores to various NGOs/Trusts/Societies for their projects with social orientation and also to Relief Funds including the

Bihar Flood tragedy. Under a novel scheme of Adoption of Girl Children designed by the SBI Ladies Club, over 15,300 poor and destitute girl children were adopted by various branches throughout the country to meet their education expenses. The Club members also personally mentor the children adopted.

The Bank also approved setting up of a special cell named "SBI Cell for Public Leadership" in the prestigious Indian School of Business, Hyderabad – which is currently ranked 15th among Global B Schools. The Cell proposes to undertake research in the area of Leadership in Public Sector with special reference to PSUs functioning in India.

4. ICICI Bank

Total Assets 3,800 billion; Branches: 1,419; Employee: 63,000

ICICI Bank has always viewed Business Responsibility (BR) as integral to its core mission of delivering value to its stakeholders. The Bank's BR activities have taken three broad strategic directions: BR through commercial activities, BR in partnership with civil society and BR through the ICICI Foundation for Inclusive Growth.

I. BR through Commercial Activities

By ensuring that its products and services meet fundamental social needs, ICICI Group's commercial activities have for over five decades sought to provide value to its customers and society alike, through project finance, consumer finance, technology-based retail banking and financial services for small enterprises. ICICI Bank continues to offer value to its customers and society through its commercial activities, seeking to build sustainable business models that are consistent with the Bank's own growth and profitability while simultaneously stimulating the development of all sectors of India's economy.

Under-served customer groups:

ICICI Bank's Rural, Micro Banking and Agri Business Group (RMAG) caters to the financial needs of farm and non-farm sectors, including under-served customer groups like agri-enterprises, Self Help Groups (SHGs), individual farmers and low-income households. To provide access to financial services to low-income and other under-served customer groups, RMAG has undertaken a range of initiatives:

Financial services for agri-enterprises:

During this fiscal year, RMAG provided financial services aggregating about Rs.151.00 billion to about 3,000 agri-enterprises, supporting the employment of significant number of people. It provides credit and banking services to SMEs active in the agricultural value chain and has enhanced credit access for farmers.

SHGs and micro lending:

ICICI Bank's SHG and micro lending programmes facilitate access to financial services for low-income households, a segment of the Indian population that ICICI Bank has been serving for close to a decade. Through direct credit linkages to SHGs promoted by Self Help Promoting Institutions, the Bank has provided loans to SHGs. With a micro lending book of Rs. 25.82 billion,
ICICI Bank's micro lending initiative reached 2.58 million low-income households in India this year.

Cattle funding:

Cattle farming provide a means of livelihood for millions of farmers in India. The Bank's cattle funding initiative enables farmers to take a loan to purchase even a single cow, enabling small cattle farmers to grow their dairy businesses. It has partnered with dairies to provide financing to farmers to

purchase milch cattle. During fiscal 2009, ICICI Bank disbursed cattle loans to the tune of Rs. 1.00 billion benefiting about 31,000 farmers.

Godown (Warehouse) Security System

Bank launched warehouse receipt-based financing to strengthen farmers' inventory holding capacity by allowing them to take a loan against the produce (stored in a warehouse) and avoid distress sales. ICICI Bank has deployed Micro ICICI Godown Security System to monitor the warehouses. The system uses GSM-based technology with attached wireless motion, fire and shutter sensors. Any intrusion, fire or motion inside the godowns is detected and immediately informed to the registered user of the system. This innovation has enabled the Bank to finance small and medium farmers and aggregators in their godowns, making it possible for them to benefit from the increases in off-season prices.

II. BR in Partnership with Civil Society

In these partnerships, ICICI Bank seeks to achieve a number of medium-term goals, which include: **Offering its employees and customers high quality philanthropy products and services.** In this area, ICICI Bank has partnered with CSO Partners () and its various partners. **Payroll-giving:** Since 2003, ICICI Bank has facilitated employee donations to social causes through GiveIndia (), a donation platform that enables individuals to support social causes by donating to 100 non-government organisations (NGOs) that have been screened for transparency and credibility. Currently about 5,000 Bank employees participate in the payroll-giving programme, which allows them to donate a part of their salary to a cause of their choice every month.

Employee volunteering

Given that there are a number of civil society organisations that could benefit from the skills of ICICI Bank's employees, the Bank has been working with Mitra () to offer a number of options for Bank employees to volunteer with civil society organisations (CSOs).

Flood relief

In 2008, India experienced massive flooding in the states of Bihar, Orissa, Assam and parts of West Bengal, causing significant damage to human life, property and crops. ICICI Bank responded immediately, mobilising funds to help people affected by the floods by appealing to its Internet banking customers and its employees. More than 55,000 individual customers responded, for a total contribution of Rs. 32 million. Nearly 63,000 employees of the ICICI Group supported the cause by contributing a day's salary, and several ICICI Group companies made a matching employer contribution, for a total of Rs. 107 million. The ICICI Group is working through CSO Partners, GiveIndia as well as Sphere India and its partners to utilise this amount for the rehabilitation of flood victims in Orissa, Bihar and West Bengal.

Developing partnerships designed towards building India's talent pool Read to Lead

ICICI Bank's "Read to Lead Programme" invests in India's future by facilitating access to elementary education for 100,000 out-of-school children from 6-13 years of age. It aims to provide low income children, including girls, tribal children and children from remote rural areas, with access to education by strengthening the government system of education. Read to Lead is a nationwide initiative, spanning 14 states — Andhra Pradesh, Bihar, Delhi, Gujarat, Haryana, Jharkhand, Karnataka, Maharashtra, Orissa, Rajasthan, Tamil Nadu, Tripura, Uttar Pradesh and West Bengal. ICICI Bank, through CSO Partners, has partnered with various NGOs who have vast experience in this field to share their knowledge and help the Bank run this programme effectively. The Bank's partners have been chosen on

the basis of their years of experience in the field of education, the sustainability of their models and their outreach.

III. BR through ICICI Foundation for Inclusive Growth

Given its size and level of engagement with the Indian economy, ICICI Bank believes that its own long-term growth and profitability are directly linked to the inclusive growth of all sectors of the nation's economy. It is therefore in the interest of stakeholders to invest in inclusive growth. To give a focus to its commitment to making India's economic growth more inclusive, the ICICI Group started the ICICI Foundation for Inclusive Growth () on January 4, 2008. The ICICI Foundation for Inclusive Growth (IFIG) envisions a world free of poverty in which every individual has the freedom and power to create and sustain a just society to live in. IFIG's mission is to create and support strong independent organisations which work towards empowering the poor to participate in and benefit from the Indian growth process. IFIG's first year has been a period of learning, building the Foundation's vision, mission and strategy. Rather than build departments within a large monolithic foundation, IFIG has chosen to collaborate with and foster the development of independent organisations with focused expertise in five areas: (i) basic health, (ii) elementary education, (iii) financial inclusion, (iv) civil society organisations (CSOs) and (v) environmental responsibility.

IFIG's work and strategic partnerships to support inclusive growth are guided by its core beliefs: IFIG believes that good health and basic education are fundamental pre-requisites to achieving inclusive growth. In line with this belief, IFIG supports ICICI Centre for Child Health and Nutrition (ICCHN) () to strengthen the ability of the government to deliver basic healthcare and nutrition to every child from the time of conception to the age of three. ICCHN supports field-based action-research projects across India, facilitates state-civil society resource partnerships to strengthen public systems and programmes.

Annual Report 2008-2009 and develops a variety of knowledge, policy and capacity building initiatives to address key sectoral gaps. Throughout, the focus is on generating and translating strategies with the greatest potential for securing large-scale and sustainable improvements in child survival and development in India.

IFIG also supports ICICI Centre for Elementary Education (ICEE) (), an inter-disciplinary organisation that works to strengthen the ability of the government to provide high quality education to every child from pre-school through elementary school. ICEE seeks to improve teacher performance, advance curricular reform, build a discourse on education through research and support the development of elementary education as an academic discipline in India. It provides financial and resource support to NGOs, and collaborates with NGOs, state governments and academic institutions to deepen and broaden institutional reform in India's state system of elementary education. While healthy and educated individuals have the capacity to transform their lives, IFIG believes that their ability to do so depends on the quality of their access to transformative tools such as finance. Financial services enable individuals and enterprises to smooth consumption and allocate resources most productively, for example, by allowing them to better manage risk (e.g. insurance) and take advantage of future opportunities (e.g. saving today to build capital for tomorrow). A well-functioning financial system and access to financial services can also enable households to engage with the larger economy by providing payment and settlement systems (e.g. electronic payment systems) and by transmitting price information through the economy. Access to comprehensive financial services is therefore an essential part of the development process and inclusive growth.

Through its support to IFMR Trust Advocacy Unit (ITAU) (), IFIG works to ensure that every individual and every enterprise in India has complete access to financial services. Since its creation in

2008, the IFMR Trust Advocacy Unit team has applied its focus and resources to initiate research projects, provide support to new institutions, establish partnerships, and document and disseminate knowledge. Its central intent has been to become a creative and strategic group that can deploy its ideas, energies and funding to create leveraged impact on the state of access and use of high quality financial services for the financially excluded in India.

For the Indian growth process to be truly inclusive, health, education and access to complete financial markets are necessary but not sufficient conditions. Ensuring that every individual has the freedom and the power to create and sustain a just society and thereby benefit from the Indian growth process requires additional efforts on the part of civil society and policymakers. Grassroots organisations and regulatory infrastructure, for example, must be strengthened to ensure that the market does not exploit marginalised sectors of the population or the environment.

Through its support to CSO Partners, IFIG seeks to support social change and build a defence against exploitation of all kinds by strengthening CSOs. CSO Partners works towards inclusive growth by strengthening CSOs and forging key partnerships for them from its expanding network of support partners and contributors, including corporate groups, governments, and individuals. CSO Partners aims to equip CSOs with financial and human resources to achieve high standards of quality and efficiency by mobilising resources and facilitating support services for CSOs.

Through Environmentally Sustainable Finance (ESF) (), an initiative at the Centre for Development Finance, IFIG supports policy and regulations that ensure that growth and development processes proceed in an environmentally sustainable manner. ESF focuses on research and action to inform environmental policymaking and implementation, integrate environmental sustainability into development initiatives, and support scalable commercial and non-profit interventions to make India's economy more environmentally sustainable from the bottom up.

IFIG provides active support and mentorship to these five partners – a strategy that it believes will build knowledge and specialisation in each field and ensure long-term impact. To achieve maximum impact, IFIG's strategic partners in turn work closely with additional partners at the community level, enhancing knowledge, building networks and advocating for changes necessary to catalyse inclusive growth and create a just society.

5. Axis Bank

Total Assets: 147, 722.05 crore
Total Advances: 81,556.77 crore
Total Investments: 46,330.35 crore
Branches: 235 out of which 230 are in semi urban and rural areas.
3500 ATMs: 4.3 per branch

The Bank looks at agri-business as an inclusive and profitable business proposition. The strategy was to finance the value chain and foster corporate partnerships. During the year, seven Agri Business Centres were created to exclusively focus on high potential geographies. At Agri Business Centres, the business is carried out under three segments: retail agriculture, corporate agriculture and commodity business (i.e. financing against warehouse receipts). These customer specific segments are manned by separate officers and offer a wide range of products suitable for each segment.

The retail agriculture organisational model consists of 46 strategically placed agriculture clusters, and the Bank offers its retail agri products to farmers through 249 of its branches. This has helped in raising

levels of business without any compromise on risk management or customer service. The corporate agriculture team consists of client-specific relationship managers and a team of credit analysts having sectoral expertise. Under commodity business, the Bank has created 9 commodity business centres to which 74 branches are linked. Besides relying on the services of collateral managers, the Bank also has an exclusive team of officers for onsite and offsite monitoring, so as to avoid operational, market and credit risks and these teams are provided with a state-of-the-art software, developed by Bank's IT team.

The agricultural loans outstanding formed 11.51% of the Bank's domestic loan book. The total agriculture loan outstanding in the Bank was 15.14% of the Bank's Adjusted Net Bank Credit (ANBC). During the year, the Bank's agricultural borrower base grew by 33.45% over the previous year and closed with 1,42,789 clients.

The Bank has 86 microfinance relationships in 18 states of which 4 are in the North East with a corresponding client outreach of around 18.50 lacs. Most of the beneficiaries are poor women engaged in small and marginal enterprises. In line with our overall strategy to support MFIs operating in underdeveloped parts of the country, the bank has supported upcoming MFIs in remote areas of Bihar, Tripura and Madhya Pradesh. The Bank also continued its strategy of extending loans under various central government sponsored schemes.

Through the Axis Bank Foundation, the Bank seeks to define and effectively fulfil its Corporate Social Responsibilities as a corporate citizen and has therefore agreed to allocate up to one percent of its net profit every year to the Foundation for its activities. During the year, the Foundation partnered with sixteen more NGOs, taking the partnership to a total of 41 NGOs, for educating underprivileged children and special children all over India. The Foundation has committed grants for projects running up to three years. 536 education centres, involving 12 States are covered by the Foundation programmes. 47,055 children are covered under the programmes that include 24,313 girls and 22,742 boys.

6. YES BANK LTD.

The sustainability approach at YES BANK is encapsulated in the Responsible Banking (RB) strategy and is an integral part of the way the Bank works towards mainstreaming sustainability in external engagements with various stakeholders including clients, civil society, academia and industry associations. The RB strategy is mainstreamed within the Bank as 'Responsible Banking in Thought' and 'Responsible Banking in Action'.

RESPONSIBLE BANKING IN THOUGHT is a think tank incubating innovative business models for social issues. The core function of the team is to develop high quality "intellectual capital".

Thought Leadership

YES BANK is fully committed to:

- Adding long term value to society
- Differentiating itself in the marketplace based on a strong 'sustainability mandate'
- Building in flexibility and openness as part of its core strategy

Representation in the sustainability space is imperative and the Bank has engaged with global thought leadership forums like the Clinton Global Initiative (CGI), Triple Bottom Line Investing (TBLI), Tällberg Forum, and Cleantech Forum amongst many others. The Bank has also become signatory to Carbon Disclosure Project.

The **YES COMMUNITY** program is being implemented through micro-events organized at all YES BANK's branches around the theme of 'Planet Earth'. YES COMMUNITY aims to contribute to society and the environment towards the best interest of its stakeholders. The 'Planet Earth' micro-events focus on the following sub-themes:

- **Pollution Prevention**
- **Recycling and Minimizing Waste**
- **Conserving Energy**
- **Conserving Water**
- **Improving Sanitation and Cleanliness**

The team offers Responsible Corporate Citizenship Advisory Services to large corporations, emerging institutions, NGOs and social businesses involved in the environmental, education and health sectors, where social entrepreneurship is seen by the Bank as a key driver to inclusive development in India. RCC has been engaging with leading institutions like Buldana Urban Cooperative Credit Society, Jain Irrigation Systems Ltd., Shriram Transport Finance Corporation Ltd., Clinton HIV/AIDS Initiative (CHAI), and Malnutrition Matters, Canada.

RESPONSIBLE BANKING IN ACTION comprises of four special business verticals with products aligned to our sustainability strategy, identifying new markets and promoting sustainable development. YES BANK has successfully established three dedicated business verticals;

- Agribusiness, Rural & Social Banking (ARSB)
- Microfinance
- Sustainable Investment Banking (SIB)
- Private Equity

Climate Change Initiative

YES BANK is a **first Indian signatory** to the **Carbon Disclosure Project** and has documented its Carbon Footprint. It is also the **first Indian Bank** from the private sector to become signatory to UNEP Statement by Financial Institutions on the Environment and Sustainable Development. YES BANK also advocates a proactive response to climate change from its peers in the banking community, industries and society as well.

Annex 8

Indian banks initiatives particularly related to MSME Sector

1. ICICI Bank

The bank has come up with a voluntary set of guidelines to meet up its commitment towards the MSME sector. The guidelines aim to gap the bridge between the bank and the MSME sector and enhance the engagement more strongly. Through this guideline the bank intends to become friendlier with the MSME sector by providing information on various financial issues and the innovative products they come up with for the MSME sector.

In keeping view of RBI directives ICICI bank has also come up with various programmes and schemes for the MSME sector which will enhance the credit to this sector. A separate business group viz. Small Enterprises Group (SEG group) was set up to cater to all banking requirements of SME sector.

At present, the SEG group covers customers through over 200 locations throughout the country. SEG group has over 2000 professionals and has acquired over 9,00,000 customers. The bank also has set up business banking group and cluster banking group which support the different financial requirements of the SME sector. Cluster banking group provides customized banking solutions to various clusters like life sciences, chemicals, auto component, apparels etc. Through other programmes the bank also tries to link up small entrepreneur with large corporate.

The program lending involves a cluster-based approach wherein a lending program is implemented for a homogeneous group of individuals / business entities, which comply with certain laid down parameterised norms. Each program has a specific scoring model that evaluates the borrower or its group entities. This scoring model evaluates both quantitative and qualitative information of the borrower. A customer become eligible for funds depending on minimum cut-off score stipulated in the program and other conditioned as stipulated in the program from time to time. The entire pre approved limit has to be approved by the credit management risk group and SME Policy and Risk Group (SPRG) before being placed for approval.

The Bank has a regular mechanism for monitoring and reporting of the portfolio performance.

2. YES BANK LTD

The SME group focuses on companies with sales turnover of INR 50 Million to 1000Million.YES BANK proposes to tap the huge potential in SME segment through its presence across 50 branches in India. SME sector is a dominant strategic focus area of YES BANK. It intends to cater to the financial and banking services needs of this sector through a uniform approach in terms of marketing, products as well as risk assessment.

YES BANK's focus on Knowledge Banking would act not only as a key differentiator but also a key enabler for this sector where lack of information at the right time is often a big handicap. It targets companies in "Sunrise Sectors" like Food & Agribusiness, Retailing, Textiles, Auto, Engineering, Gems & Jewellery and Life Sciences. The division would market entire suite of YES BANK products based on relationship driven, CRM based targeting. SME is a Relationship driven group that delivers superior financial solutions to CRM identified clients, backed by best quality service & superior technology platform.

3. Axis Bank

The Micro, Small and Medium Enterprises (MSME) Sector is the backbone of the Indian economy contributing significantly to economic growth, employment generation, poverty alleviation and balanced regional development. The sector has the second largest share of employment after agriculture, with more than half of those employed being women. Lending to the MSME Sector forms a major part

of the bank's credit portfolio to the non-farm sector and contributed 28.44% to the bank's priority sector advances. This constitutes an important area of lending for the bank, and to fully exploit the large business potential in this sector the bank has set up 24 SME Centres across the country to extensively focus on the credit requirements of MSME clients. The Bank has built strong sales and relationship teams to source new relationships and deepen existing ones, and has strengthened the credit appraisal teams to improve the quality of credit appraisal and reduce the turnaround time. The lending to MSME continued to be impressive and the bank achieved its overall priority sector lending commitments.

Various Services Offered for MSME's are as under: -

- Cash Credit
- Working Capital Demand Loan
- Export Finance
- Short Term Loan
- Term Loan
- Clean Bill Discounting
- LC Backed Bill Discounting
- Co-Acceptance of Bills
- issued by Foreign Banks
- Letter of Credit
- Bank Guarantee
- Solvency Certificates

4. Punjab National Bank

SME is a thrust area of the Bank. During FY09 Credit to SME increased by 30.2% to Rs 23,700 crore. To meet the needs of the SME units in a holistic manner

- Bank has adopted 15 SME clusters
- Established 7 MSME Centres (HUB) across 6 states to provide quality lending and speedy decisions
- Increased number of MSME branches from 35 to 149 during FY09.

Bank has also adopted a number of measures to facilitate credit delivery to the SME Sector as recommended by **Dr. K.C. Chakrabarty Working Group on Rehabilitation of Sick SMEs set up by RBI.** Some of them are:

- To meet all financial needs of micro enterprises under Credit Guarantee Scheme of CGTMSE at the branch level higher loaning powers have been vested with Incumbents.
- The requirement of audited accounts for non-corporate micro enterprises having sales less than Rs 40 lakh has been waived.
- To obviate the need for detailed project reports with every proposal, common industrial activities prevailing in a district are being identified for preparation of standard project reports.

There are various schemes, which are related only to SSI's. They are

- Sarthak Udyami (SSI)
- PNB MSME Sahayog scheme
- PNB Vikas Udyami
- PNB Pragati Udyami
- PNB artisan credit card
- Laghu Udyami credit card
- PNB Kushal udyami

5. State Bank of India

The Bank has financed over 8 lakhs SSI units in the country. It has 55 specialized SSI branches, 99 branches in industrial estates and more than 400 branches with SIB divisions.

The Bank finances for Small Business activities which are of special significance to a large number of people as many of these activities can be started with relatively lower investment and with no special skills on the part of the entrepreneurs.

There are various Loans which are related only to SSIs. Some of them are

- General Purpose Term Loan
- Liberalized Credit
- Entrepreneur Scheme
- Equity Fund Scheme
- Stree Shakti Package

6. Canara Bank

The Bank covered 29,684 accounts with an exposure of over Rs. 638 crore as at March 2009 under Credit Guarantee Scheme for Micro and Small Enterprises (CGMSE), occupying No.1 position among the nationalized banks in terms of number of accounts covered. Advances to MSME reached Rs.23823 crore, registering a y-o-y growth of over 28%. The bank has 38 specialised branches for SMEs.

Considering the importance of MSME sector in the national economy, the Bank has developed specific loan products to meet the diverse requirements of entrepreneurs in the segment. Cluster based lending is adopted to cater to the units in industrial clusters. Area/ cluster specific loan products introduced to meet specific requirements.

The bank has implemented Prime Minister's Employment Generation Programme (PMEGP), the ambitious project of Government of India for employment generation through enterprise creation. Another scheme for rejuvenation, modernization and technology upgradation of Coir Industry was also taken up for implementation by the Bank.

To enable the MSME sector to face the challenges of economic slowdown, the bank acted swiftly and rolled out a special package to provide relief to MSME. The comprehensive package includes, among other facilities, additional/adhoc working capital, extended tenability for receivables, concession in interest and debt restructuring. MSME Care Centres were established across the country to resolve the grievances of MSME.

The bank received an amount of Rs. 5.4 crore from the Ministry of Micro, Small and Medium Enterprises, Government of India, during the year as a Nodal Agency for Technology Up gradation of SSI units under Credit Linked Capital Subsidy Scheme (CLCSS) and amount utilized during the year stood at Rs. 8.8 crore.

Canara Bank has a well stated SME Policy. Under that while lending to MSME sector bank follows the below mentioned procedure-

Loan applications from units under SME sector will be disposed off within a reasonable time as mentioned below, provided such applications are complete in all respects.

1. Loans up to Rs.25000/- within 2 weeks
2. Loans beyond Rs.25000/- and up to Rs.5 lakhs, within 4 weeks
3. Loans over Rs.5 lakhs, and up to Rs.25 lakhs, within a maximum period of 6 weeks
4. Loans over Rs.25 lakhs, within a maximum period of 8 weeks

Token of Service on receipt of each application for credit facilities shall be issued.
Security :

- NO collateral security/third party guarantee in respect of loans to SEs as under:
  i. Up to Rs.5 lakhs
  ii. Up to Rs 100 lakhs in respect of units whose borrowal accounts are covered under Credit Guarantee fund for Micro & Small Enterprises (CGMSE) subject to norms.
- In respect of other SE and ME units, collateral security/third party guarantee as determined by Bank is insisted on merits of each case, subject to RBI / GOI guidelines.

Annex 9

World Bank Environment, Health and Safety Guidelines[89]

The principal elements of World Bank policy regarding right-of-way alignment, land acquisition, compressor station sitting and creation of access (e.g., roads) in otherwise inaccessible environmentally sensitive areas are summarized below. The sponsors must provide information regarding rights-of-way, their lengths, general locations and the sponsors' policies regarding alignment of these rights-of-way in relation to the following guidelines:

a) All new rights-of-way should be aligned taking environmental factors into consideration, in a manner which will minimize to the extent possible, the need for physical alteration and the impact on sensitive natural environments, cultural resources, agricultural lands, and residential and commercial areas.
b) Land acquisition must be carried out in accordance with World Bank resettlement guidelines which require identification and quantification of any impacts on land-based livelihood, and compensation to landowners and people relying on the land for their livelihood.
c) Where rights-of-way are to be established through remote and currently inaccessible environmentally sensitive areas, the potential impacts on the natural environment, indigenous populations, population immigration and natural resource exploitation must be assessed and measures adopted to minimize these impacts. Typically, positive measures should be provided to control population influx to remote areas due to increased access created by the pipeline right-of-way, and to prevent associated secondary impacts.
d) Environmental impacts of proposed projects should be minimized through such measures as visual impact considerations in sitting and design, restricting right-of-way use by non-authorized persons, erosion and sediment control during and after construction, and use of low-impact maintenance procedures.

[89]Source: The World Bank policies and guidelines, supplemented with information from OECD sources and the….pls let it all be in one line proposed revisions to the World Bank guidelines

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