Mainstreaming Sustainability in Indian Financial Institutions

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Corporate Social responsibility and sustainable reporting

Are we interested in such developments

- The State Environmental Protection Administration of china produced the country's first official estimate of GDP adjusted downward for environmental losses.
- According to these calculations, it would cost $84 billion to clean up the pollution produced in 2004, or 3 per cent of GDP for that year. But more realistic estimates put environmental damage at 8-13 per cent of China's GDP growth each year, which means that China has lost almost everything it has gained since the late 1970s due to pollution

- ***Pan Yue*** **"Vice-minister of China's State Environmental Protection Administration"**

How to create models of finance that include CSR

The Triple Bottom Line

- Commitment to corporate social responsibility moves companies to a "triple bottom line"
- of **financial strength**, **social justice**, and **environmental sustainability**.
- Public information and comparative benchmarking influence consumers, investors, public interest groups, and governments to put pressure on company performance to meet environmental and social standards.

NGO sustainability tools for FDI

- A number of NGOs have moved to an approach of constructive engagement that aims to help investors make responsible decisions on the ground.
- For example, **Friends of the Earth (FoE)** has developed a model forest policy that provides financial institutions with guidelines on how to handle their responsibilities in the field of the management and conservation of forests.
- FoE has prepared a “development screen” that suggests criteria for evaluating whether or not private sector projects will contribute positively to development.
- As another example, the **Amazon Financial Information Service** provides a webpage with resources to assist project developers and financiers in performing due diligence on potential investments.

Emerging SRI approaches in developing countries

- **Association for Sustainable and Responsible Investment in Asia (ASrIA)** was formed in 2000 as a not-for-profit association dedicated to promoting SRI in Asian capital markets.
- ASrIA aims to increase momentum for sustainable investing by:
  - Raising awareness and providing information;
  - Facilitating the provision of high quality SRI products and services;
  - Driving the development of policies within both the financial and the public sectors;
  - and, Developing an outreach program to educate the Asian investment industry in SRI techniques and practices.

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Financing energy efficiency for SMEs

- **Facilitating lending to SMEs.** The program offers the kind of equipment financing that small and medium enterprises need to improve the efficiency of their energy use and lower their energy costs. It also helps commercial banks improve their lending practices for SMEs to acquire all types of equipment

Financing energy efficiency for SMEs

- Introduced to the energy efficiency business through the 3 Country Energy Efficiency Project (3CEE). 3CEE Project, five of India's largest banks – holding 35% of the country's total bank assets – have developed **new energy efficiency lending programs**
- Indian banks have targeted small and medium enterprises (SMEs), where **energy waste is often particularly high, but knowledge about more efficient options and the financing to implement them is scarce**
- The banks have slotted energy efficiency lending schemes into existing SME lending practices. Bank managers point out that the program **helps improve cost competitiveness and profitability of SME clients**

Financing energy efficiency for SMEs

- **Financing energy efficiency for major environmental benefits**: reduction in greenhouse gas emissions and other pollution
- **Improving the capacity of commercial banks**: This model will accelerate the engagement of commercial banks , with utility customers to support energy efficiency. It will also help the banks improve their lending and risk management practices.

Water management :
The next stop in agribusiness

- **Pro-conservation policies** should be adopted on both state and national levels
- More farmers should become pro-active, serving on state and district water boards
- Every state needs a **trained agricultural economic development specialist**
- The state should play a greater role in **educating the public** about agriculture's role and the importance of water management for society

Initiatives

- **Self-Employed Women's Association program** in enabling the women of impoverished areas of Gujarat state to build common infrastructure in their neighborhoods, bringing water and sewerage to their homes, has been lauded as an example of successful microfinance
- In 2001, Sustainable Asset Management (SAM) launched the **Sustainable Water Fund** to respond to trends facing the sector and to provide a vehicle for diversified investment targeted at companies practicing sustainable management by "adding value in environmental and social as well as economic terms".
- The fund will identify transnationals operating in distribution and management and advanced water treatment who are deemed by the fund to be operating a sustainable business
- It will influence private sector investment in developing countries by valuing such investment highly in assessing sustainable business practice

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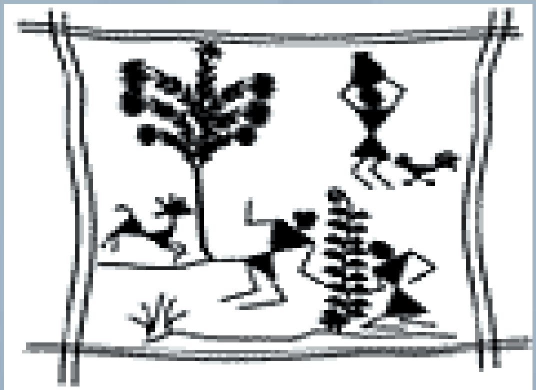
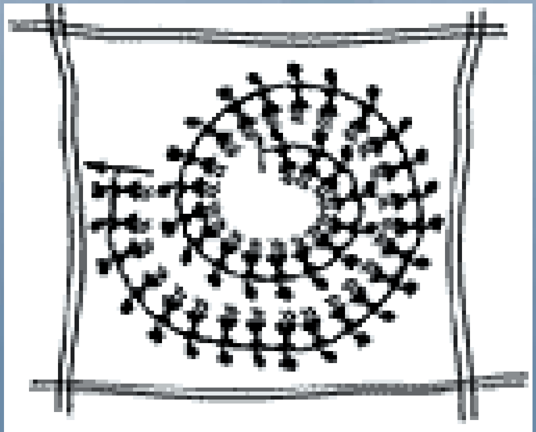
Models of finance :



Environmental Initiatives

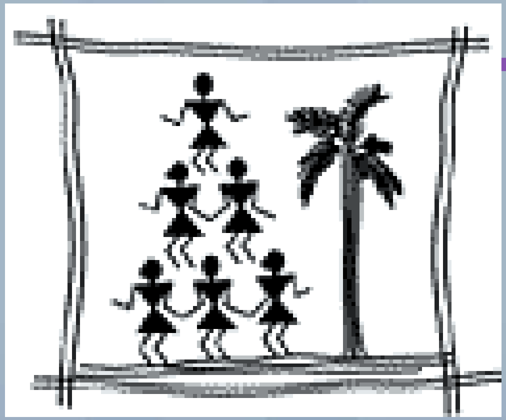
- Promotion of Plantations Industry.
- Promotion of Forestation with a long term perspective



Micro Finance

- Financing small agricultural operations
- Retail Loans

Models of finance :



Education Loans

•Education Loans (Higher Education)
•Education Loans (Any activity which is supposed to generate economic benefits

Housing/Community Loans

•Housing Loans
•Festival/Marriage loans

Create and enhance Intellectual Capital

Intellectual Capital in Organisations

- **Organizational learning culture** - create conditions that encourage learning, and invest in staff and business development
- **Hiring criteria** – deeper understanding of these issues and can demonstration past interest and involvement in sustainability concerns
- FIs will be **hiring NGO activists** and community development workers to help develop their sustainability strategies and products and will be developing unique and unusual partnerships with community-based organizations and other stakeholders
- **Internal training** of staff on CSR
- Developing **Social venture entrepreneurs** and traditional entrepreneurs

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Educating The Generation Next

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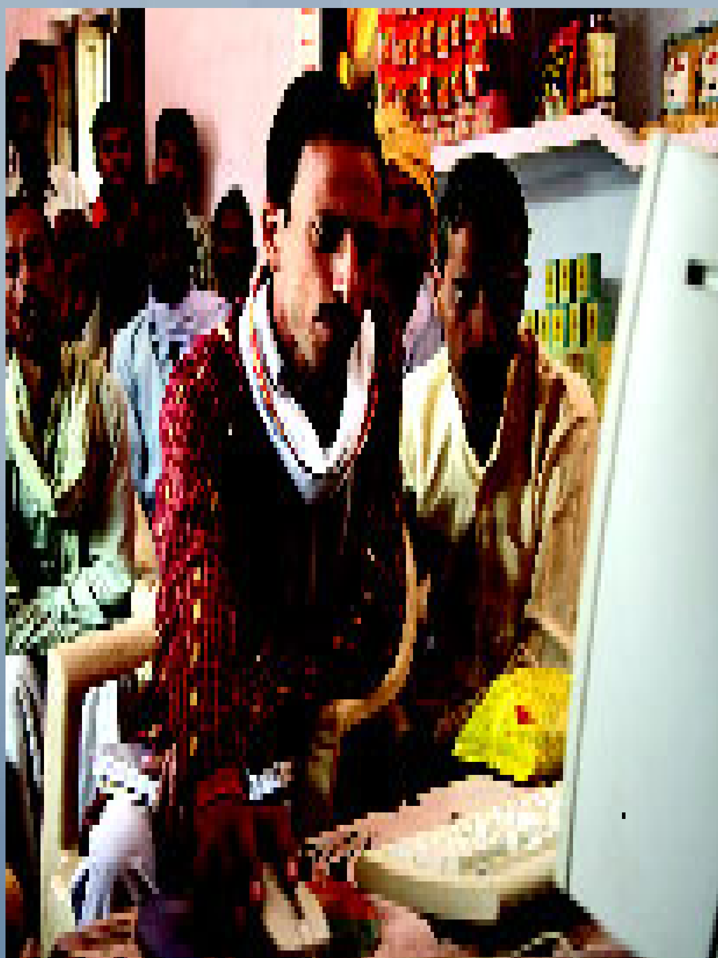
Empowerment of Women with education an skills

Technological Upgradation of Ignorant



Sustainable Finance :

Risks and Opportunities faced by FIs

Risks

- With increased education and awareness, the public will come to understand that financial institutions can integrate profits and principles. With this understanding the public will demand it more, **impacting capital flows**.
- The public will expect FIs to **screen their clients** and not to lend without understanding where their money is going.
- In future, banks could be expected to facilitate socially and environmentally responsible lifestyles.
- Once FIs know more about the social and environmental performance of a potential client, they will be pressured to include this information in their decision-making. FIs will be asking what their appropriate role will be in making these decisions; **banking will become more complicated**.

Opportunities

- FIs will be instrumental in helping companies evaluate and adopt **new environmental technologies** to retrofit their businesses for a carbon-constrained economy.
- FIs will be **measuring and reducing the carbon footprint of their portfolio**. Once they crack this carbon footprint, they could apply this methodology to other issue areas.
- FIs are expected to be working with **developers to finance the creation of housing developments that take water conservation into account**.
- Financing green urban developments in future that mitigate their environmental impacts. Waste disposal and toxins also received a few mentions as future environmental issues that will be of concern to the financial sector.

- FIs will be **tackling issues of social inclusion**, working on strategies to facilitate access by all to home insurance, car insurance, a basic account, pensions, etc. The focus will be on making basic banking universally available.
- FIs will have greater social responsibility for helping to **create a financially literate society** in order for society to function. FIs will be tackling basic equity issues generated by predatory lenders, payday loans, money laundering, bribery and corruption, and redlining.
- Social security, pension plans and other challenges to the FI sector to help society adapt to the changing age structure, including delivering FI services to old people in their homes

Sustainability Management & Reporting

Benefits:

Human Resource	Feel Good atmosphere Among employees
Risk Management	Genuine culture offsets risks
Brand Differentiation	Reputation of Integrity And best practices
Good Corporate Citizens	Government Persuasion
Attention Diversion	Distraction from Core Operations

Drivers for increased transparency

- **Brand development** : desire by FIs to differentiate themselves in the marketplace through their reporting leadership.
- Desire to more effectively measure their sustainability performance and to **nurture positive relations with stakeholders**. This will result in another generation of measurement and management techniques looking at the sustainability footprint of those with whom they conduct business. Development banks especially are expected to be thinking hard about these issues and to be blazing this trail.
- Governments mandating sustainability reporting

UNEP please realize that the greatest defaulters and the great opportunity is right here in China and India. Move your base right here. The time has come for Beijing or Delhi protocol.

Thank you