Over the past few years, an increasing emphasis has been placed on companies and institutions’ responsibility for the environment and society. Corporate Social Responsibility (CSR) entails how companies and institutions take into consideration the impact on society of their operational activities. CSR relates to how these operational activities affect the principles and values related to both internal methods and processes, and the interaction with other parties and stakeholders.

The European banking industry has long ago realised the central importance of having a defined CSR policy – banks fully understand the worth of CSR because they are such central actors in any modern economy. Together, members of the European Banking Federation (EBF) account for a total of combined assets three times the total EU GDP and in 2006 they accounted for 1.5% of the total number of people employed in the EU. Some 5,000 banks in 31 European countries are represented.

There are clear and tangible gains to be had for banks which carry out well-devised and successful CSR strategies. They can increase their profile in the community they serve, boost local, national and cross-border economic performance, enable societal development, whilst simultaneously strengthening their profitability.

If one considers the current CSR landscape in the EU, the following aspects are noticeable: a far greater awareness on the part of European policy-makers; higher expectations from third parties, i.e. industry bodies, banks’ clients and suppliers; and increasing interest from academic experts. The European Commission’s Green Paper from 2001 offers two definitions of CSR. Firstly, CSR is referred to as “essentially a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment”, and secondly CSR is underlined as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis”. It is clear that any attempts to define and limit CSR are based on an assumption of the voluntary character of this type of corporate behaviour.

CSR can be defined and limited in different ways according to which topics, levels of analysis, or parties involved. The European Commission’s Green Paper from 2001 offers two definitions of CSR. Firstly, CSR is referred to as “essentially a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment”, and secondly CSR is underlined as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis”. It is clear that any attempts to define and limit CSR are based on an assumption of the voluntary character of this type of corporate behaviour.

CSR is included in the EBF Guiding Principles, to the extent that banks’ work in this field should be highlighted, and that information on their achievements ought to be broadly conveyed.

The aim of this publication is to make progress on collecting a non-exhaustive listing of banks’ best practices, and to highlight the extent to which European banks have already made CSR a full part of their business strategy. Finally, this publication should serve as a reference point for banks wishing to further develop their CSR policy.

The modus operandi for this document was to carefully study the European trends in CSR behaviour amongst banks taking account of all relevant current developments, and combining this with examples obtained from individual Member banks. The EBF and its Members aim to create a better informed debate at European level and to show the outstanding commitment of the European banking sector to a sustainable future in a very highly competitive environment. Valuable progress has already been made by a great many financial institutions, of varying size and character, in designing practical, high performing CSR programmes which meet the wishes of their stakeholders.
CSR practices are more frequently implemented in financial institutions’ core business, which are credit and investments.

Project finance is one of the methods to procure capital for investment opportunities in the so-called area of structured finance. As with many other financing methods, project finance experienced a rapid increase in the 1990s, as it was closely connected to emerging markets, new investment policies by international financial institutions that were aimed at liberalising capital markets and increasing foreign direct investments pursuant to market globalisation.

Project finance has distinct characteristics tied to:
- the size of the projects and their potential impact,
- the organisational and structural modalities.

This then leads to analysing how to fairly balance the risk and interests of the various participating parties, including protecting the interest of those who are directly and indirectly affected - that is the local community that reside within or close to the area impacted by the project.

There are many examples of banks recognising their responsibility to prevent or limit social and environmental harm that may have been caused by activities financed by them; they have adopted, or are in the process of adopting, appropriate analysis and verification procedures. These innovative practices have a direct impact on financing by virtue of the adoption of the “precautionary principle”: The principle is monitored by employing operational guidelines for staff and investors to be used throughout the planning process, management of human resources and implementation of the relevant projects.

These issues involve all the players from the various sectors, from finance to civil society organisations, from public institutions to the business community, from trade associations to trade unions, from workers to private individuals and the discussions take place at the international, national, regional and local levels.

Diverse tools have been developed to date to assess environmental and social impacts of bank-financed activities in developing countries - refer to Table 1 in Annex.

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Diverse tools have been developed to date to assess environmental and social impacts of bank-financed activities in developing countries - refer to Table 1 in Annex.

The Equator Principles have emerged as an international framework for project finance. The trend for CSR is to focus more on how companies and financial institutions can contribute through their core business, on top of traditional philanthropic donations.

The documents and guidelines mention different approaches, depending on the proponent and key stakeholders, different aims and goals - depending on the effectiveness of the adopted procedures, and the actual intention to improve and assess socio-environmental impact caused by the project. At the same time, however, they indicate common reasons and intentions: the willingness to participate in the initiative and an acknowledgement that the local community, population and the environment in general belong to stakeholders, whom enterprises, whether financial or manufacturing, must take into account.

Most banks have an official policy statement on standards of business conduct, a Code of Conduct (or Ethical Code or Sustainability Policy, etc.), which inter alia, shows the ‘responsibilities’ expected of each and every employee in the bank, the standards of appropriate business conduct, reporting of Code-related issues, and displaying to stakeholders how the bank acts in an ethical and professional manner.

The Code of Conduct enables clear understanding of the following matters:
- the mission, vision and values underlying the bank’s culture;
- the map of the bank’s reference stakeholders;
- the areas of responsibility towards individual stakeholders;
- the principles and standards of behaviour that translate into concrete commitments;
- the bank’s values towards each group of stakeholders;
Labour Relations

- the procedures and mechanisms of implementation and control that put the ethical code into practice and ensure that it is correctly applied across corporate processes and decisions;
- the ad hoc Committees (e.g. Ethical Committees) and their respective responsibilities for implementing and periodically revising the Code.

First and foremost, responsible business operations need to be guided by sound corporate governance and strategic management tools that identify the guiding criteria for a fair and efficient governance of stakeholder relations.

A policy statement is therefore a tool for governing the enterprise/stakeholder relationship, whilst also being a set of rules of conduct for the members of the organisation. This certainly has a noticeable positive effect on staff motivation levels. This theme is explored further below in labour relations.

In 2005, the Banking Committee for European Social Affairs (BCESA) and the European Association of Savings Banks (ESBG) and the European Association of Cooperative Banks (EACB) signed a joint statement with the representatives of UNI-Finance, which is the European finance trade union federation, on social and employment aspects regarding CSR.

The joint statement was signed after lengthy negotiation, and represents a landmark achievement by social partners operating in a specific business sector at European level. This agreement underlines the importance of CSR activities, which are implemented by banks on a voluntary basis with regard to corporate business and industrial relations without any predetermined models. At the same time, it promotes policies implemented by banks at EU level on specific issues such as the following: vocational training, care standards, work/life balance, equal opportunity and internal communication.

Taking one of these cases e.g. work-life balance, there is a growing interest in Europe for this provision, and the banks are responding to this challenge in a dynamic fashion. For instance, through a policy designed for older employees to scale back their working hours without compromising their pension entitlements and nearly maintaining the salary at the same level as it was when working full time. When surveyed, staff responded in an overwhelmingly positive way, in stating that this policy has had a positive impact on their working conditions. Another example is the cooperation with local, occupational health care where a bank carries out extensive rehabilitation work to help long term sick-listed employees return to work.

Community Involvement

Community involvement is a cornerstone of all accomplished CSR policy initiatives and extends far beyond the standard philanthropic measures. The banks have introduced innovative schemes such as: free sponsorship to young entrepreneurs; provision of academic scholarships and research proposals; life-long learning for disadvantaged sectors of society; financial support for art and culture – enabling community access and participation; innovative partnership with stakeholders that can allow companies to face new challenges, and work jointly on research activities and promotion of services which can develop concrete models of sustainable development for banks.

For example banks support foundations engaged in drug prevention measures for the youth with a mentorship and parental training programmes. Bank employees can for example also be mentors for pupils at the senior level of the compulsory school during one school year.

Accountability

It is becoming clear that there ought to be a transparent and verifiable commitment to adoption of CSR practices. This can be achieved through explicit reference to CSR work banks are engaged in, via the following means: devoting sections of Annual Reports to CSR issues; publishing of Sustainability Reports and/or distinct policy statements on CSR; and web-based information. Indeed, most large European banks publish separate yearly reports on their sustainability achievements.

A dramatic change has been in the type of CSR reporting which has changed from purely environmental reporting up until 1999, to sustainability (social, environmental and economic) reporting which has now become mainstream among G250 companies (68 percent) and fast becoming so among N100 companies (48 percent). Although the majority of N100 companies (80 percent) in most countries still issue separate CSR reports, there has been an increase in the number

3. N100 - Top 100 Companies in 16 countries (The biggest national companies in the “Fortune” list 2002-2005).
of companies publishing CSR information as part of their annual reports.

CSR is connected to various indicators. A central reference here is the index developed by the Global Reporting Initiative (GRI), the world’s most widely used sustainability reporting framework. This framework sets out the principles and indicators that companies and organisations can use to measure and report their economic, environmental, and social performance.

The cornerstone of the framework is the Sustainability Reporting Guidelines. The third version of the Guidelines – known as the G3 Guidelines - was published in 2006, and is a free public good. Other components of the framework include Sector Supplements (unique indicators for industry sectors), and Protocols (detailed reporting guidance) and National Annexes (unique country-level information).

The financial sector shows more than a two-fold increase in reporting since 2002; refer to Graphs 2 and 3 in Annex.

Banks influence the environment directly and indirectly. Investments and lending activities have an indirect impact on the environment. Ensuring that credits are used for environmentally-friendly purposes is gaining ground: some banks offer incentives towards credit facilities for so-called ‘green’ investments. These investments can take the form of improving a buildings’ insulation, more efficient heating systems which use alternative energy sources. The bank will not ask for collateral and will offer discounted loans to such clients, for these types of investments.

There are several examples on how banks are linking the traditional credit risk assessment with the borrower’s environmental knowledge risk assessment. In other words, there are approaches whereby a bank can assess the environmental credit risk of the banks’ counterparts and then factor in the results of this assessment at some stage of the creditworthy assessment process.

The business of banking has, just like other sectors, a direct impact on the environment through consumption of paper and energy, waste management, procurement and means of transport used. Direct environmental impact can be reduced by keeping environmental order in banks themselves, through limiting the consumption of energy and paper, ensuring good waste management and requiring suppliers’ to conform to environmental standards. A bank can minimise the impact in a systematic manner through implementing an environmental policy; it can even go further and apply for environmental certification, in accordance with ISO 14001. Costs can be reduced by using scarce resources efficiently.

On the topic of emissions, banks often measure CO2 emissions arising from their own activities and set up ambitious plans to lower these emissions. They make their levels public and set targets to decrease environmental impacts; some have become carbon neutral in their overall business approach. A simple yet integrated example is a 4 step programme whereby the bank measures CO2 emissions, commits to tackling energy consumption, utilises renewable sources with fewer or no CO2 emissions, and purchases emissions reductions from carbon offset projects; the overall net result is that such a bank can be termed carbon neutral.

S. Source: KPMG International Survey of Corporate Responsibility Reporting 2005

(www.kpmg.it/frnmnet/View.aspx?da_id=2241)

The European marketplace in which banks operate today demands new solutions and product offerings, geared towards recent customer segments. These new customer segments number: people who are not yet fully integrated in society; and therefore not in the mainstream financial system; so-called ‘atypical’ workers (e.g. temporary); the not-for-profit sectors; low-income families; micro-enterprises operating in disadvantaged areas of the country, and migrants.

For the banks concerned, this scenario represents both a challenge in terms of designing suitable products for this distinct segment, and the possibility of developing a new type of business beneficial to all.

Some chief examples of responding to the newer segments outlined above – which foster social inclusion, would be microfinance, migrant banking and financial education.

Considering the target group of migrants, it is noticeable how banks can still further develop this potential customer base and consequently, how a sizeable grouping could become more active economically, and more integrated in society. In practice this is achieved by introducing more tailored financial services, adapted to distinct needs. As a further benefit, this inclusion can support the development of the migrants’ community of origin by the transfer of remittances.

The European Investment Bank (EIB) and the EBF held in 2007 a FEMIP conference treating remittances from migrant workers in the Euro-Mediterranean area. This is indicative of the increasing momentum behind establishing an adequate framework for remittances. Some of the decisions which were taken include: providing migrant communities with more information about transfer facilities and costs involved; modernisation of the banking sector in the partner countries; developing North-South partnerships on areas such as risk management and regulatory awareness; and, strengthening the link between transfers and the investment in the country of origin – one way of achieving this is through microfinance initiatives.

It is hoped that this FEMIP project will continue to bring attention to the whole question of remittances and how to enable increased cooperation in this area, thereby underlining its highly significant economic development role.

On the demand side, it is important to promote Financial Education projects involving the various target groups, following a life-cycle approach. This is accomplished in two ways. Firstly by drawing up agreements with strategic partners which are recognised by the target groups, aiming at better informing consumers on financial services and products which they will use in their daily life. Secondly, by developing contacts with the local authorities (at provincial, regional and local government level) and other geographical networks towards certain target groups. These target groups not only include migrants but many other parties such as primary schools, secondary schools, higher education, universities, the general public and business world.

Some current, concrete initiatives involve surveys and analyses which provide insight into the challenges and opportunities related to financial literacy in the target groups of children, teens, students and young adults. Another consists of developing new products, advisory service concepts, educational materials and events intended to stimulate financial skills and knowledge. Perhaps the best example is an educational website with fun, online exercises for children, tips and advice for parents on how to educate children financially, and teaching material.

6. FEMIP is the EIB’s specialised financial facility established in October 2002 to speed up the modernisation of the economies of the Union’s partner countries under the Barcelona Process.
Socially Responsible Investment (SRI) means that investments are only made in companies which meet defined criteria related to environmental, social and governance aspects. The criteria generally concern environmental considerations, respect for human and labour rights and anti-corruption. Some investors refrain from investing in specific industries such as the weapons and tobacco industries for instance.

Institutional investors, such as pension funds and life insurance companies, have led the field within SRI. This trend is supported by the idea that selection criteria related to ethical, environmental and social considerations may have a positive effect on companies’ investment returns in the longer term. At the same time, critics claim that when the pool of investments is restricted, the risk increases, but this can be managed.

With banks and corporations under scrutiny from the general public, it is not surprising that attention is turning to socially responsible investments. SRI still represents only a limited part of total stock market investments in Europe and the United States, but the proportion is gradually increasing, refer to Graph 1 in Annex. Cooperation between business sectors and customers that are committed to CSR issues is necessary if SRI is to have any effect.

There are two approaches to SRI: negative screening and positive screening. Negative screening excludes sectors or companies from investment if involved in certain activities based on specific criteria, such as arms manufacture, publication of pornography, animal testing, human rights etc. Another approach is positive screening or best in class approach. The selection is done, within a given investment universe, of stocks of companies that perform best against a defined set of Corporate Governance or Social, Environment and Ethical criteria. It is feasible to even combine both negative and positive screening.

There are several agencies specialising in ethical and social analysis/screening and their services are usually based on internationally recognised CSR standards, such as United Nations (UN), International Labour Organisation (ILO), Organisation for Economic Co-operation and Development (OECD) principles. Among these, the UN Principles for Responsible Investment has emerged as a leading international standard regarding SRI (human rights, labour rights, environment and anti-corruption).

Partnership & Networking

This forms a key element of any progressive CSR programme. Banks indicate their commitment to CSR by membership of various networks such as “CSR-Europe,” “Global Compact” - through its national networks also, UNEP Financial Initiative, Global Reporting CERES, World Business Council for Sustainable Development, Eurofis, etc.

Economic Aspects of CSR

It is instructive to view CSR in the context of the EU’s economic challenges, in particular intense global competition and an ageing population. In a statement to the March 2005 European Council, the European Commission observed that CSR “can play a key role in contributing to sustainable development while enhancing Europe’s innovative potential and competitiveness.”

As already outlined, CSR practices can and do contribute to the achievement of a number of public policy objectives, including:

- market integration and social inclusion;
- investment in the development of skills, learning and employability;
- better innovation performance (e.g. via more intensive interaction with external stakeholders);
- a more rational use of natural resources and reduced pollution;
- a more positive image of business, possibly contributing to more favourable attitudes towards entrepreneurship;
- progress towards human and development goals such as poverty reduction.

When CSR enables the above
outcomes to occur, financial benefits accrue to companies and to society as a whole.

Let us briefly explore the various layers of activity upon which CSR has an economic impact. At the level of individual companies, CSR policies have a quantifiable and more or less immediate effect on the bottom line: likely to be a gain, for example, in the case of measures to reduce energy consumption; and a cost in the case of initial steps to enhance training, or install new procedures for staff consultation or the assessment of environmental effects. (In the case of small institutions, these costs may be considered prohibitive.) One commentator observes that “CSR practices would affect economic performance if they would help firms to do better compared to other firms”, for example: through investment if they enable firms to attract more capital or engage in investments that have higher returns than other companies; through human capital if they enable firms to employ better or more motivated staff (better labour relations may facilitate the introduction of new technology or innovation); or through demand, if growing demand for CSR allows firms to build a brand image and possibly charge a premium for their products and services.

There are more general advantages to institutions which pursue CSR in the form of greater sensitivity to the market-place, managerial competence, organisational learning, etc. Entire sectors may gain, for example, if changes in the business model improve international competitiveness.

At the level of the economy as a whole, CSR-sensitive behaviour by individual banks/companies, such as efforts to improve the skills of the workforce and increase energy efficiency, bring efficiency gains, or so-called “aggregating benefits”, over the longer term. These should be set against the overall cost of the policies and possible resulting price effects. Reputational gains may be less easily aggregated at the level of the system if one local company gains at the expense of another, but if institutions are competing outside local markets the gains could be seen at national level. In any case such efforts tend to have a spill-over effect on other companies in the same market, changing perceptions and business profiles more widely. CSR may also bring indirect benefits, for example, reduced regulation, or a more positive perception of business or, via better labour relations, a closer relationship between wage and productivity developments.

There is a strong logic for an assessment of CSR in financial and economic terms. Social and environmental concerns – which are important for governments, society and individuals, will have an impact on companies’ reputations; these concerns are also part and parcel of the external commercial operating landscape. More fundamentally, these matters are economically important because they have a bearing on the longer term health of society and the prospects for climate change.

Upon due consideration of all these initiatives, a picture emerges of recurrent themes in relation to industry best practice. The key components of successful CSR policies can be summarised as follows:

- Continuous support of senior management and all staff alike
- Reporting CSR – internally and externally, on a long-term basis, with regular reviews
- A multi-stakeholder approach for best possible outcomes
- Integral part of corporate strategy of the bank
- Self-perpetuating and a cornerstone of innovation

The consensus leads us to suggest that the advantages for banks in pursuing well-devised CSR initiatives lie in the following areas:

- Encourages sustainable behaviour by consumers and partners
- Supports evolution of separate business models for various segments
- Provides tangible benefits for society as a whole (economic, environment and societal development)
- Engenders higher employee motivation, and superior performance levels
- Makes banks more aware of their potential role in society
- Affords positive publicity and/or increased brand recognition

9. Dirk Pilat of the OECD, “The drivers of potential economic growth and the potential role for CSR,” 19th April 2005 (under disclaimer that views do not necessarily reflect those of the OECD or its member countries).
Graph 1 - Section 1 Credit and Project Finance

Total asset under management for SRI funds domiciled in Europe (end of June 2007, mln Euro)

<table>
<thead>
<tr>
<th>Date</th>
<th>Total Asset Under Management (mln Euro)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 1999</td>
<td>11,074</td>
</tr>
<tr>
<td>Dec 2001</td>
<td>14,482</td>
</tr>
<tr>
<td>Jun 2003</td>
<td>12,150</td>
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<tr>
<td>Jun 2004</td>
<td>19,034</td>
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<td>Jun 2005</td>
<td>24,127</td>
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<tr>
<td>Jun 2006</td>
<td>34,009</td>
</tr>
<tr>
<td>Jun 2007</td>
<td>48,735</td>
</tr>
</tbody>
</table>

Source: Green, social and ethical funds in Europe. 2007 Review. Vigeo/Avanzi SRI Research

Table 1 - Section 1 - Credit and Project Finance: Useful References

- **UNEP declaration by financial institutions**
- **Pollution Prevention Abatement Handbook of the World Bank**
- **Safeguard Policies of the International Finance Corporation**
- **IFC Sector Guidelines**
- **Global Compact and GRI for Financial Sector**
- **FORGE GROUP** “Guidelines on Environmental Management and Reporting for the financial sector”; http://www.abi.org.uk/forge
- **EPI-FINANCE 2000, SPI-FINANCE 2002**
  - www.epifinance.com/
  - www.spifinance.com/
- **OCSE Guidelines for multinationals**
- **Social Analysis Sourcebook of the World Bank**
- **Collevecchio declaration**
- **Equator Principles**
  - http://www.equator-principles.com/
- **OECD Guidelines**
- **WWF Guidelines for Investment in Operations that Impact Forests**
Graph 2 – Section 5 Accountability

Figure 5: Corporate responsibility (CR) reporting by sector, Top 100 in 16 countries (2002*, 2005)

Source: KPMG International Survey of Corporate Responsibility Reporting 2005
(www.kpmg.it/fmknet/View.aspx?da_id=2241)
Graph 3 – Section 5 Accountability