Fair Finance India

FAIR FINANCE INDIA - POLICY ASSESSMENTS 2019

ANALYSING ESG POLICIES, DISCLOSURES AND COMMITMENTS OF BANKS IN INDIA

Fair Finance Coalition, September, 2019

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FAIR FINANCE INDIA COALITION MEMBERS

GLOSSARY

BRR	Business Responsibility Report
IBA	Indian Banks' Association
CDP	Closure Development Programme
CEDAW	Convention on the Elimination of all forms of Discrimination Against Women
CRC	Convention on the Rights of the Child
ESG	Environment, Social and Governance
FFGI	Fair Finance Guide International
FI	Financial institution
FIAP	Financial Inclusion Action Plans
FTSE	Financial Times Stock Exchange
GDP	Gross Domestic Product
GHG	Green House Gases
GPFI	Global Partnership for Financial Inclusion
GRI	Global Reporting Initiative
HDFC	Housing Development Finance Corporation Limited
ICCPR	International Covenant on Civil and Political Rights
ICESCR	International Covenant on Economic, Social and Cultural Rights
IDFC	Infrastructure Development Finance Company
IFC	International Financial Corporation
ILO	International Labour Organisation
IOB	Indian Overseas Bank
IPCC	Intergovernmental Panel on Climate Change
ISO	International Standards Organisation
IUCN	International Union for Conservation of Nature
LFPR	Female Labour Force Participation Rate
MNEs	Multi National Enterprises
MSMEs	Micro, Small and Medium Enterprises

NAP	National Action Plan
NAPCC	National Action Plan of Climate Change
NDCs	Nationally Determined Contributions
NGO	Non Governmental Organisation
NGRBC	National Guidelines for Responsible Business Conduct
NVG	National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business
NVGRF	National Voluntary Guidelines on Responsible Financing
OECD	Organisation for Economic Cooperation and Development
PNB	Punjab National Bank
RBI	Reserve Bank of India
RTI	Right to Information Act
SBI	State Bank of India
SDGs	Sustainable Development Goals
SEBI	The Securities and Exchange Board of India
SHG Bank	Self Help Groups Bank
SHWW	Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal Act)
SRI	Socially Responsible Investment
TCFD	Task Force on Climate Related Financial Disclosures
UDHR	Universal Declaration on Human Rights
UN CBD	UN Convention on Biological Diversity
UN-CRC	UN Convention on the Rights of the Child
UNEP	UN Environmental Programme
UNEP-FI	United Nations' Environment Programme Finance Initiative
UNFCCC	United Nations Framework Convention on Climate Change
UNGPs	UN Guiding Principles on Business and Human Rights
UNPRI	UN Principles for Responsible Investment

EXECUTIVE SUMMARY

As custodians of large sums of the public's money, financial institutions have a considerable and wide impact not only on the economy but also on the prosperity of the society that the economy is intended to serve and on the environment on which we all depend.

Seeing the increasing importance and influence that banks and other businesses have had over recent decade several countries have taken policy action for responsible and sustainable financing. Sustainable and responsible investing and green financing are also rapidly becoming significant.

Fair Finance Guide International (FFGI), an international civil society network active in 11 countries, seeks to strengthen banks' and other financial institutions' commitment to social, environmental and human rights standards.

For this assessment, the Fair Finance India coalition selected a sample of eight Indian banks (public and private). The assessment was based on 10 FFGI themes under three categories– Environment – Nature and Climate Change; Social – Labour Rights, Human Rights, Gender Equality, Financial Inclusion and Arms; Governance – Transparency and Accountability, Corruption and Tax.

Assessed banks have scored highest on the themes of Financial Inclusion followed by Corruption. Under the Environment category, almost all the banks scored zero in the themes Nature and Climate. Banks have scored low on some themes in the Social category especially Human Rights, Labour Rights and Arms.

Indian banks have an opportunity for promoting transparency to foster higher levels of trust and certainty amongst investors and the wider public, and for promoting wider economic stability. Banks can have a positive impact on the environment and reduce risks of climate change by screening for companies that are committed to protecting biodiversity, reducing their greenhouse gas emissions and supporting a low carbon economy. By taking decisions to support companies that support living wages and gender equality and those which respect human rights, banks can demonstrate their respect and support for business and human rights.

This assessment can serve as a baseline that enables the Indian banking sector to prepare itself for facing and addressing challenges of sustainability. It also provides an opportunity for Indian banks to assume the leader's role in transforming the Indian banking sector to set a benchmark for sustainable, responsible and fair finance.

BACKGROUND

> "THE CONTRIBUTION OF FINANCIAL INSTITUTIONS INCLUDING BANKS TO SUSTAINABLE DEVELOPMENT IS PARAMOUNT, CONSIDERING THE CRUCIAL ROLE THEY PLAY IN FINANCING THE ECONOMIC AND DEVELOPMENTAL ACTIVITIES OF THE WORLD. IN THIS CONTEXT, THE URGENCY FOR BANKS TO ACT AS RESPONSIBLE CORPORATE CITIZENS IN THE SOCIETY, ESPECIALLY IN A DEVELOPING COUNTRY LIKE OURS, NEED BE HARDLY OVEREMPHASIZED. THEIR ACTIVITIES SHOULD REFLECT THEIR CONCERN FOR HUMAN RIGHTS AND ENVIRONMENT"
>
> (P. Vijaya Bhaskar) Chief General Manager, Reserve Bank of India[1]

> "ECONOMIC GROWTH THAT COMPROMISES ON ENVIRONMENT AND SOCIAL WELL-BEING BECOMES LOPSIDED AND UNSTABLE. A SUSTAINABLE, STABLE AND INCLUSIVE ECONOMY THUS DEPENDS VERY MUCH ON HOW ROBUST AND RESPONSIBLE IS THE MOBILIZATION AND ALLOCATION OF CAPITAL – THE KEY FUNCTION OF THE FINANCIAL SECTOR"
>
> V. G. Kannan, CEO, Indian Banks' Association

A nation's financial institutions have an exceptionally important role to play in its development story. As allocator of capital necessary for financing infrastructure, building businesses, fuelling small enterprises, meeting individual exigencies and much more, India's financial sector is an engine of its economic growth.

One feature that distinguishes banks from other businesses is the nature of the stake that the wider public has in them. Increasing financial inclusion, as part of the Pradhan Mantri Jan Dhan Yojana (PMJDY) launched by the Government of Indiain 2015, has widened the already considerable depositor base of India's banks. As on March 27, 2019, the number of accounts has grown to 35.27 crore.[2] As custodians of very large sums of the public's money, financial institutions' fiduciary responsibilities are a matter of major public interest.

At the same time,because of their crucial role in financing private and public sector businesses, decisions made by the banks and other financial institutions also have a considerable wider impact. They contribute materially not just to the good of the economy, but also to the prosperity of the society that the economy is intended to serve and to the environment on which we all depend. In short, banks' decisions shape our everyday lives.

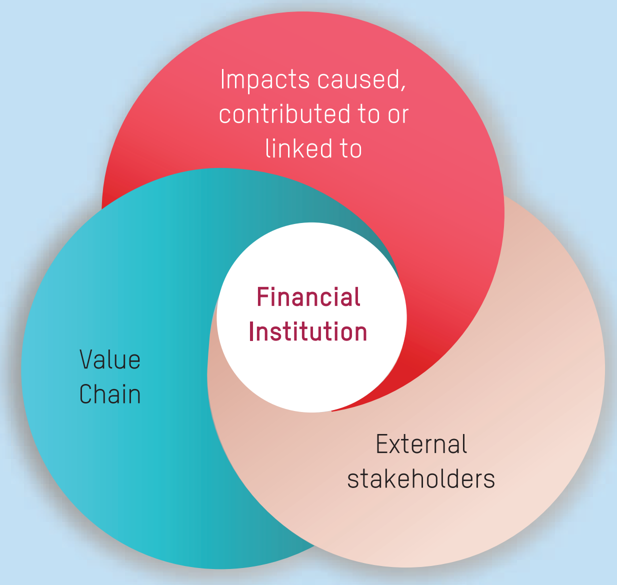
GLOBAL AND NATIONAL POLICY DEVELOPMENTS

With the increasing importance and influence that banks and other businesses have been enjoying over recent decades and their growing influence on countries' economic, social and environmental prosperity, legislators and innovators have been trying to find ways of ensuring that corporate growth stories occur within the context of appropriate checks and balances. This has resulted in a number of legislative developments, regulations, guidelines and initiatives to encourage responsible businesses. One of the most significant developments in recent years has been the UN Guiding Principles on Business and Human Rights[3] (UNGPs) endorsed by the United Nations Human Rights Council in 2011 provide a framework for businesses for respecting human rights. The Sustainable Development Goals (SDGs)[4] launched in 2015 clearly articulate the role of businesses in achieving these goals by 2030. In the financial sector, frameworks such as the UN Principles for Responsible Investment (launched in 2006)[5], Equator Principles (revised in 2006 to align with the IFC Performance Standards)[6], IFC Performance Standards,[7] OECD Guidelines for Multinational Enterprises – Responsible Business Conduct Matters[8] and most recently UNEP Principles for Responsible Banking[9] are very significant frameworks/guidelines. A public private partnership has also recently been established, including among others, the governments of Lichtenstein, the Netherlands and Australia, that "aims to put the financial sector at the heart of global efforts to end modern slavery and human trafficking."[10] Also to feature at this year's UN General Assembly in September will be a joint initiative of the global banking industry including India's YES Bank and the United Nations' Environment Programme Finance Initiative (UNEP-FI): the Principles for Responsible Banking.[11]

India made significant moves towards a more conducive ecosystem for responsible businesses in 2011, when the government formulated and launched the National Voluntary Guidelines (NVGs) on Social, Environmental and Economic Responsibilities of Business.[12] This was followed by the Securities and Exchange Board of India (SEBI) developing the Business Responsibility Reporting (BRR)[13] framework in 2012 and making it a part of the listing obligations for the top 100 companies (and later top 500) listed on Indian stock exchanges. In 2016, after signing a memorandum of understanding (MoU) with Global

BOX 1. NATIONAL GUIDELINES: IMPLICATIONS FOR FINANCING POLICIES AND PRACTICES

A distinctive feature of the NVGs and NGRBC is that they call for businesses to be responsible not just for their actions but for the actions of those with whom they have business relationships. They say that businesses (and in NGRBC their governance structures) should not be complicit with "**any third party** that violates any of the principles contained in these Guidelines."[18] NGRBC's Principle 5, using UNGP language says that where a business is "**causing, contributing or otherwise linked to adverse human rights impacts"** it should take corrective actions. In doing so, the guidelines speak directly to businesses such as banks, financial institutions, law firms and insurance companies which provide services to companies that enable a wide range of socially and environmentally impactful activities.



THREE DIMENSIONS OF ACCOUNTABILITY

Businesses are also explicitly directed to their **value chains** in Principles 1, 2, 3 and 5 of the NVGs and NGRBC. Here, banks have a responsibility to create value for their customers and also to ensure that they do not derive value from transactions that do harm to others.

Principle 4 of the NVGs and NGRBC is dedicated to **stakeholder engagement**. Stakeholders include all those impacted by a business now and in the future. For a bank, this includes consideration of those who are affected by projects they help finance as well as those who work for and are impacted by companies they lend to and their supply chains.

Reporting Initiative, the mandate was extended to top-500 BSE listed companies. In response to the NVGs and BRR,the Indian Banks' Association (IBA) formulated and published National Voluntary Guidelines for Responsible Financing (NVGRF),[14] in which four intrinsic components are defined – good governance, strong emphasis on capital preservation and its quality, effective risk management and proactive social and environmental interventions through investing and lending.[15]

Recently, the NVGs were replaced by the National Guidelines on Responsible Business Conduct (NGRBC),[16] which, like its predecessor, has clear implications for banks and other financial institutions (see Box 1) as well as all other types of businesses. India has also initiated the process of developing a National Action Plan (NAP) on business and human rigts.[17]

SUSTAINABLE AND RESPONSIBLE INVESTING

Sustainable and responsible investing (SRI) or investing based on the environment, social and governance (ESG) criteria is getting traction in capital markets both nationally and globally to address the risks that flow from project finance, corporate lending and other kinds of financing, as well as for promoting sensible investments. In 2018, the assets under management applying the SRI lens in the five major markets (Europe, United States, Japan, Canada and Australia – Newzealand region) was $30.7 trillion recording a 34 per cent year on year growth globally.[19] The SRI market in India is also gaining pace and mirroring global trends.[20]

GREEN FINANCING

According to the International Energy Agency's 2019 World Investment Report,investments in the renewable energy sector have increased by 55 per cent globally since 2010.[21] According to this report, in India the total renewable power investments exceeded those in fossil fuel-based power for the third successive year over the period from 2015-2018.[22]

Demand for green financing strategies is thus well established in India. Various mechanisms such as green bonds and catalytic and transformational financing have been initiated which are aimed at facilitating India's Nationally Determined Contributions (NDCs)[23] required to meet the Paris Agreement.[24]

In 2018, the State Bank of India issued green bonds of US$ 650 million, proceeds of which will be used for financing environmentally friendly projects.[25] Other banks including YES Bank and IDBI Bank too have successfully issued green bonds. SEBI's disclosure requirements on Green Debt Securities Issuance and Listing,[26] published in 2017 are an important signpost of the new landscape.

INTRODUCING THE FAIR FINANCE GUIDE

FAIR FINANCE GUIDE INTERNATIONAL

Fair Finance Guide International (FFGI)[27] is an international civil society network initiated by Oxfam which seeks to strengthen banks' and other financial institutions' commitments to social, environmental and human rights standards. Recognising the strategic importance of financial institutions, FFGI uses its own internally developed methodology,[28] based on internationally recognised standards, for assessing banks and other financial institutions' disclosed commitments to Corporate Social Responsibility within their core businesses. Called the Fair Finance Guide, this methodology rests on the premise that financial institutions should adhere to legislation and regulation in countries where they operate and also comply with widely supported international standards even where these are not included in local legislation.

FFGI is currently active in 11 countries: Belgium, Brazil, France, Germany, Indonesia, India, Japan, The Netherlands, Norway, Sweden and Thailand. In every country, a coalition of civil society groups, with expertise in areas relevant for monitoring and assessing the financial sector, operates and publishes annual assessments of banks using the Fair Finance Guide. Country coalitions often include development and human rights organisations, labour unions, environmental groups and consumer organisations. FFGI A central aim is to encourage and foster a 'race to the top' among banks and other financing entities - from a sustainability perspective.

FFGI thus assesses financial institutions' support for activities through their financial services that contribute to sustainable development. FFGI believes that financial institutions should record these expectations and make them publicly known in their policies for specific issues and sectors. This is important so that consumers and other interested parties can compare financial institutions, and a wider range of stakeholders impacted by banks activities can be made aware of their commitments.

ABOUT THE FAIR FINANCE GUIDE

The Fair Finance Guide is an assessment methodology and scoring system based on existing international standards and conventions as well as a range of other widely accepted guidelines in areas pertaining to responsible businesses (see Figure 1).

FIGURE 1. COMPOSITION OF THE FAIR FINANCE GUIDE AND ITS ALIGNMENT WITH OTHER GOALS AND STANDARDS

FAIR FINANCE GUIDE IS COMPRISED OF

INTERNATIONAL CONVENTIONS (E.G. ILO CONVENTIONS)

INTERNATIONAL RESPONSIBLE BUSINESS STANDARDS (E.G. UNGPS)

INTERNATIONAL RESPONSIBLE FINANCING STANDARDS (E.G. EQUATOR PRINCIPLES)

Alignment with SDGs across all themes

Alignment with domestic standards, for example, NVGs, NGRBC and BRR

CROSS-CUTTING THEMES	SECTOR THEMES	OPERATIONAL THEMES
Climate change Nature Human rights Labour rights Gender equality Tax Corruption Animal Welfare Health	Arms Financial Sector Fisheries Food Forestry Housing & Real Estate Manufacturing Industry Mining Oil & Gas Power Generation	Transparency and Accountability Financial Inclusion Consumer Protection Remuneration

The Fair Finance Guide's themes are in broad alignment with the Sustainable Development Goals. The FFG themes are grouped into three categories: cross-cutting, sector and operational. The cross-cutting and sectoral themes are largely, though not entirely, focused on the conditions, if any, that financial institutions place on companies that they lend to; whereas cross-cutting themes apply across sectors, sectoral themes are specific to particular sector. The operational themes are focused on the financial institutions 'internal policies. Of the 23 themes, nine are core themes, meaning that FFGI coalitions must include these themes as part of their assessment of banks.

AN EXCEPTION TO THIS RULE IS THE ASSESSMENT OF ELEMENTS THAT ARE FORMULATED FOR OPERATIONAL THEMES, SUCH AS TRANSPARENCY AND ACCOUNTABILITY, BECAUSE THESE ELEMENTS LARGELY CONCERN THE BUSINESS OPERATIONS OF THE FINANCIAL INSTITUTION.

Policy assessment using the Fair Finance Guide focuses on a **financial institution's expectations of investee companies' and/or clients' behaviour.**

India, as a champion of the SDGs,[29] is committed to encouraging businesses including financial institutions to become more sustainable and transparent. Domestic policies and regulatory measures have underlined these commitments and have evidenced India's leadership in this arena with NVGs and now NGRBC. The Fair Finance Guide methodology emphasises banks' causes of, contributions to and links to different kinds of impacts; on the salience of various kinds of stakeholders who may be distant from a bank's decisions but are nonetheless affected by them (such as workers of financed companies); and on the need for banks to be attentive to the means through which they generate value and to the various actors within their value chains. Hence, FFG is a tool that can support the financial sector to do justice to the intent of having national responsible business guidelines.

In addition, some policies and procedures relating to **internal domains of financial institutions** are also assessed. Fair Finance Guide International expects that the policy of the financial institution, or at least a summary of it, is made public, for example through their website or in the annual report. The name or the topic of the policy document is not relevant, for example elements on labour rights can be included in a human rights policy. When comparing the policies of financial institutions, Fair Finance Guide International does not assess the way the financial institution takes decisions on its investments and financial services, but the underlying principles. An exception to this rule is the assessment of elements that are formulated for operational themes, such as Transparency and Accountability, because these elements largely concern the business operations of the financial institution. Essentially, the score arrived at for each theme is the number of elements included in the policy documents, the website or annual report of a financial institution, divided by total number of elements expected.

FAIR FINANCE ASIA

Fair Finance Asia is a regional level network of Fair Finance coalitions working to promote sustainable and transparent financing policies and practices in Asia. It consists of coalitions in Japan, Indonesia, Thailand and India and is also actively working in Cambodia, Vietnam and the Philippines.

FAIR FINANCE INDIA

Fair Finance India is a civil society led coalition working towards ensuring a sustainable financial sector in the country. Fair Finance India stimulates greater transparency and accountability in the financial sector by encouraging the integration of human rights standard and ESG criteria in banks and other financial institutions' policies. The Fair Finance India coalition believes that transformational changes in policies and practices can end poverty and extreme inequalities. This can be achieved only with an active and engaged civil society working with multiple stakeholders. This can also strengthen the financial sector in India to ensure that due diligence is done by banks for corporate investments and lending. It integrates and prioritises ESG factors and human rights standards in policies and practices. Fair Finance India is a part of both of the Fair Finance Asia regional network as well as Fair Finance Guide International.

FAIR FINANCE INDIA BANK ASSESSMENT: METHODOLOGICAL NOTE

SAMPLING

The Fair Finance India coalition undertook a rigorous process[30] of sampling to arrive at selected banks. An attempt is made to balance the focus and nature of the assessment with the need to try to ensure diversity and representativeness among the sampled banks. Eight banks were taken as a sample for this assessment to ensure that banks with significant project finance and corporate lending and risk exposure in their business models were included in the sample since these are areas of key interest for the Fair Finance India coalition. At the same time, it was also essential to include a balance of public and private banks whilst focusing on scheduled commercial banks with a significant depositor base to ensure the relevance of the sample for consumers and the wider public. The purposive criteria used for selecting the banks included a commitment to sustainability and a footprint within the Asian region. Additionally, among the optional themes, financial inclusion was selected as it was deemed to be highly relevant to the Indian financial sector and to national policy priorities.

POLICY ASSESSMENT

The assessment focuses primarily on responsible financing, that is, the extent to which financial institutions integrate various progressive conditions in their financing of companies and other entities. There are also It expects that a financial institution's policy, or at least a summary of it, is made public, for example, through its website or in its annual report.

The assessment sheets used by Fair Finance India and other members coalitions of Fair Finance Guide international contain in-built scoring systems. After data is entered on policies and other publically disclosed content for each, scores are generated. The score arrived at for each theme is the number of elements included in policy documents, website or the annual report of a financial institution divided by the total number of elements expected.

For this policy assessment, information and policies such as annual reports for 2017-18 and the current available information available on the websites were considered. Data for each of these elements was taken only from publicly available information. These assessments went through two rounds of validation, both internal and external, to make sure that all the available data was assessed and interpreted correctly. After completing the assessments, they were shared with the respective banks to get feedback. Follow-up calls were also made to banks to ensure that they had received the data sheets (Table 1).

TABLE 1: THE TIMELINE FOR DATA COLLECTION AND VALIDATION

Process	Timeline
Data Collection	February 2019 – May 2019
Internal Data Validation	May 2019
External Data Validation	May 2019
Opportunity to Comment (Emails to 8 banks)	June 06, 2019
Follow-up calls to 8 banks	June 2019
Finalisation of assessment and scores	July 2019

ASSESSMENT AND STUDY FOCUS

This assessment of banks' policy commitments focuses on the following FFGI themes:

GENDER EQUALITY: This is in alignment with India's commitment to gender equality as reflected in its support for SDG 5. In its focus on marginalised groups in its various principles, NGRBC pays inbuilt attention to gender equality thereby committing a gender lens across all the nine principles. The theme draws from international frameworks such as UDHR, ICCPR, ICESC, CEDAW, ILO conventions, UNGPs, OECD Guidelines for MNEs, IFC Performance Standards and WEPs.

LABOUR RIGHTS: This is based on ILO conventions and other international standards such as the Global Living Wage Coalition, UN-CRC, CEDAW and ISO 45001:2018. NVGRF's Principles 6 and 7 provide specific guidance on these issues. These are also covered under NGRBC's Principle 3 and SDGs 1, 3, 4, 5, 8 and 16.

HUMAN RIGHTS: This draws from UDHR, UNGPs, ICCPR, ICESCR, CEDAW, CRC and the UN Declaration on the Rights of Indigenous People. These issues are covered under Principle 5 of NGRBC and Principle 7 of NVGRF. India's commitment to developing NAP on business and human rights specifically focuses on these issues. SDGs 5, 8, 10 and 16 are most closely aligned with this theme.

ARMS: This is developed based on international humanitarian law and international conventions on weapons.

NATURE: This draws from international frameworks such as the UN Environmental Programme (UNEP), UN Convention on Biological Diversity (CBD), CEO Water Mandate, CDP's Water Programme, International Union for Conservation of Nature (IUCN), IFC Performance Standards and OECD Guidelines for MNEs among many others. These issues align with several SDGs particularly Goals 6, 12 and 15. These issues are also covered under NGRBC's Principles 6 and 8.

Theme	Bank's own activities	Activities of companies the bank finances
Climate Change	Y	Y
Nature		Y
Gender Equality	Y	Y
Human Rights	Y	Y
Labour Rights	Y	Y
Financial Inclusion	Y	
Arms		Y
Tax	Y	
Corruption	Y	Y
Transparency & Accountability	Y	

CLIMATE CHANGE: This derives from various international standards and frameworks most importantly UNFCCC, IPCC, the Kyoto Protocol, the GHG Protocol, CDP and TCFD. These issues are primarily covered under SDGs 7, 12 and 13. NVGRF's Principles 3 and 4 provide specific guidance on these issues. These issues are also covered in NGRBC's Principles 2, 6 and 9.

TRANSPARENCY AND ACCOUNTABILITY: This refers to standards present in, inter alia, GRI, Equator Principles, UNGPs and the UNGP Reporting Framework. These are also addressed in NGBRC's Principles 1, 4 and 5.

TAX: This draws from GRI and OECD Guidelines and also aligns with NGBRC's Principle 1.

CORRUPTION: This draws from the UN Convention against Corruption, OECD Guidelines and ISO 20400, and is addressed in NGBRC's Principle 1.

FINANCIAL INCLUSION: Apart from the above mentioned FFGI core themes, Fair Finance India has also taken up financial inclusion as an area of focus. For this it draws from international frameworks and principles such as GPFI, FIAP, Key Principles of Micro-Finance and UNPRI. It is also a key policy priority of the Government of India and a regulatory priority of RBI, whilst finding some alignment with NGBRC's Principle 8.

Thematically, all the focus areas in this assessment have some alignment with national guidelines on responsible business and wider policy and regulatory priorities, direct in the case of human rights, labour rights, nature, climate change, transparency and accountability, tax, corruption and financial inclusion. The arms theme is indirectly aligned with respect for human rights since it concerns the most fundamental human right: the right to life.

REPORT FOCUS AND STRUCTURE

Environment	Nature Climate Change
Social	Labour Rights Gender Equality Human Rights Financial Inclusion Arms
Governance	Transparency and Accountability Corruption Tax

The focus is, thus, on financial institutions' readiness to meet internationally held standards on responsible business and responsible finance collated within the Fair Finance Guide. Financial institutions' performance against these standards, not least because they also find alignment with progressive national standards, serves as an indicator of the future-readiness of India's financial sector as well as how well positioned it is to support the nation in its journey towards sustainable development.

For the purposes of this report, the contributions of financial institutions to sustainable development are grouped under three domains: Environment, Social and Governance (ESG). Its assessment of eight Indian banks considers 10 themes of the FFGI methodology.

FINDINGS

ENVIRONMENT

The global threat of climate change is real and its impact, with extreme events becoming the new normal, is visible across the world – wildfires in California and Greece, drought in South Africa and heat waves and floods in the Indian states of Tamil Nadu and Kerala respectively. Fifty percent of the noticed temperature increase between 1951 and 2010 can be attributed to human activities.[31]

Implications of climate change for the finance sector are reported to be higher than on other industries. It is estimated that the financial services industry accounts for 72 per cent ($ 692.8 billion) of the total potential financial impact of climate change[32]. Investors around the world are demanding urgent government action on climate change.[33]

NVGRF's Principles 3 (on minimizing environmental footprint in internal operations) and 4 (on environment all friendly products, services and investment) outline the responsibilities of financial institutions towards the environment through necessary actions and disclosures.

This section analyses the policies of eight Indian banks based on the FFGI methodology focusing on the two themes of 'Nature' and 'Climate Change'.

NATURE

India is among the world's top 10 'most bio-diverse' countries[34] with 7-8 per cent of all recorded species, including over 45,000 plant species and 91,000 animal species.[35] The accelerating decline of global biodiversity is one of the most urgent environmental concerns.

Interdependence between biodiversity and economic growth[36,37] has led to the rise of concepts such as natural capital and natural capital finance.[38] An analysis shows that 74 per cent of the FTSE index sectors potentially have high-very high dependencies on natural resources.[39] UK and France's central banks have issued warnings about the risks that the global financial system faces due to erosion of biodiversity.[40]

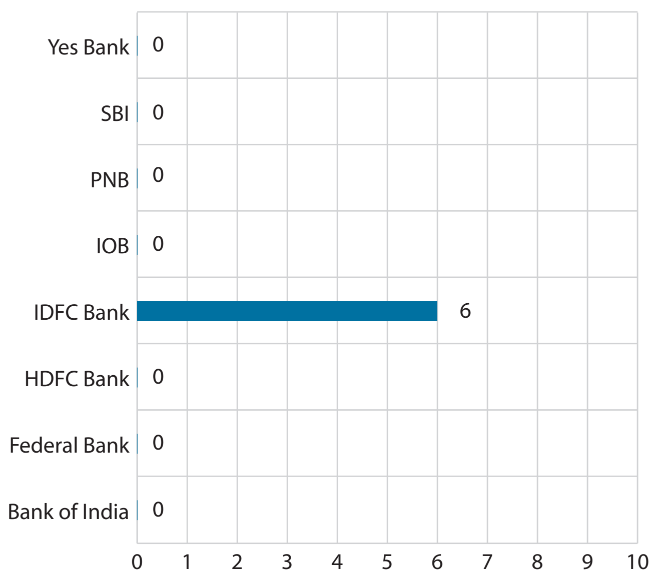
NVGRF's Principle 4 urges financial institutions to recognise and address "biodiversity conservation through their lines of credit and investment."

BANKS' COMMITMENTS IN THIS AREA

INVESTEE COMPANIES

With the exception of IDFC Bank, none of the other assessed Indian banks demonstrated policy commitment to any of the areas covered under this theme. IDFC Bank is a member of the Equator Principles and is committed to following its clauses on environmental protection with respect to project financing as per IFC Performance Standards (the scores of the eight sample banks against the Fair Finance Guide are given in Figure 2).

FIGURE 2: SCORES OF SAMPLE BANKS AGAINST THE FAIR FINANCE GUIDE (/10)



CLIMATE CHANGE

According to the UN Intergovernmental Panel on Climate Change (IPCC)[41], India will be among the worst hit countries that may face the consequences of natural calamities affecting the lives and livelihoods of vulnerable and marginalised communities.

India's National Action Plan on Climate Change[42] (NAPCC) encourages private sector companies to invest more in the development of innovative and cleaner technologies to mitigate their GHG emission levels. India's ratification of the Paris Agreement,aimed at limiting the global temperature increase to 2 degrees, also puts a huge responsibility on the private sector to try and bring down its carbon emissions.

Financial institutions are expected[43] to establish measurable reduction objectives aligned with this target, and disclose a) their share of green house gas emissions of the companies that they finance and b) their share in the companies and projects they are invested in. They are also expected to establish measurable reduction objectives in line with the 2°C limit(and further to 1.5°C) set in the Paris Agreement, for their financed emissions.

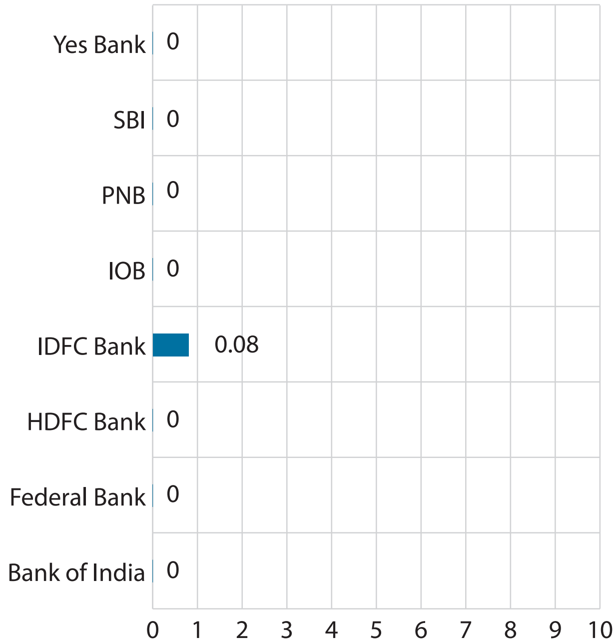
In alignment with NVGRF's Principles 3 and 4 this theme takes into account both the financial institutions' own emissions and those of the companies that they finance.

BANKS' COMMITMENTS IN THIS AREA

INTERNAL OPERATIONS

With the exception of IDFC Bank, none of the other eight assessed banks demonstrated policy commitment to any of the areas covered under this theme. IDFC Bank is a member of the Equator Principles and is committed to adopting provisions for minimum standards for due diligence to determine, assess and manage environmental risks (scores for the sample banks are given in Figure 3).

FIGURE 3: SCORES OF SAMPLE BANKS AGAINST THE FAIR FINANCE GUIDE



INVESTEE COMPANIES

In 2017, IDFC Bank published a report[44] on the implementation of the Equator Principles which specifies that it has processes in place to monitor and review its portfolio projects after sanction from an environment and social risk lens to ensure compliance with EP and national legislations on an ongoing basis.

SOCIAL

Social responsibility is critical in today's interdependent global economy. As the UNGPs state, whether it is about human rights, labour rights or communities' rights, the actions of business enterprises can affect people's enjoyment of their human rights either positively or negatively. Like other businesses, financial institutions can cause, contribute to or be linked to human rights violations when they do not pay sufficient attention to this risk.

In India, since the 1969 bank nationalisation,[45] there have been continuous efforts aimed at making the banking system more inclusive of and accessible to economically and socially marginalised groups through financial inclusion drives.[46]

This section analyses the policies of eight Indian sampled banks based on the FFGI methodology focusing on the areas of 'labour rights', 'human rights', 'gender equality', 'financial inclusion' and 'arms'.

LABOUR RIGHTS

India is one of the founding members of the International Labour Organisation (ILO). Out of its eight core conventions, India has ratified six on forced labour, child labour, equal remuneration, discrimination[47] with national laws in place conforming with ILO conventions on these issues.

India has 40 labour laws[48] governing employee-employer relations in various industries and different types of workplaces. Over 80 per cent of India's labour works in the unorganised or informal sector[49] and most of the current labour laws do not cover these people. These labour laws are in the process of being changed and condensed into four labour codes on wages, social security, occupational health and safety and industrial relations.[50]

This theme emphasises the responsibilities of business and financial institutions to respect and promote labour rights and working conditions.

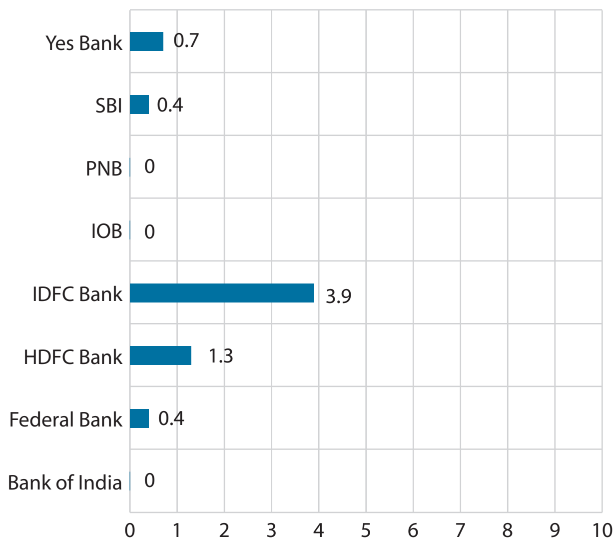
THE CONSTITUTION OF INDIA GUARANTEES FUNDAMENTAL RIGHTS AND IS THE FOUNDATION OF INDIA'S COMMITMENT TO HUMAN RIGHTS. THE FUNDAMENTAL RIGHTS INCLUDE THE RIGHT TO LIFE, PERSONAL LIBERTY, EQUALITY AND EQUAL PROTECTION OF THE LAW, FREEDOM OF SPEECH AND EXPRESSION, FREEDOM OF RELIGION AND RIGHT TO FREEDOM FROM EXPLOITATION.

BANKS' COMMITMENTS IN THIS AREA

INTERNAL OPERATIONS

Three out of the eight assessed banks did not have policies that mentioned any commitment to international labour rights' standards or national laws and guidelines for the welfare of workers. Just two banks supported their employees to freely associate and form unions. These banks also had policy commitments discouraging discrimination, child labour and forced labour (Figure 4).

FIGURE 4: SCORES OF SAMPLE BANKS ON LABOUR RIGHTS AGAINST THE FAIR FINANCE GUIDE (/10)



INVESTEE COMPANIES

IDFC Bank being a member of the Equator Principles has policy commitment to assessing four core labour standards (freedom from forced labour, child labour and discrimination and gives the right to freely associate and occupational health and safety)[51] when determining the risks of the projects that it finances. HDFC Bank has policy commitments to EHS (Environment, Health and Safety) principles in its sustainability report.

HUMAN RIGHTS

India has ratified a number of international human rights instruments such as the Convention on the Elimination of all forms of Discrimination Against Women (CEDAW) (1979), Convention on the Rights of the Child (CRC) (1989) and Convention on Rights of Persons with Disabilities (2006) among others with relevant laws in place in conformity with their conventions.[52]

The Constitution of India guarantees fundamental rights and is the foundation of India's commitment to human rights. The fundamental rights include the right to life, personal liberty, equality and equal protection of the law, freedom of speech and expression, freedom of religion and right to freedom from exploitation. Indian human rights laws protect vulnerable groups such as low wage workers, Scheduled Castes, Scheduled Tribes, Other Backward Classes and disabled people, children and women. These groups are protected against discrimination, caste and gender based harassment and are required to be provided equal remuneration and opportunities by private actors.

OHCHR has issued advice[53] regarding the application of the UNGPs in the context of the banking sector. It explicitly states that "banks should have in place policies and processes appropriate to their size and circumstances, including a human rights due diligence process to identify, prevent, mitigate and account for how they address their impacts on human rights."

NVGRF's Principle 7 explicitly states that "financial institutions should respect and promote human rights" in their operations and investments.

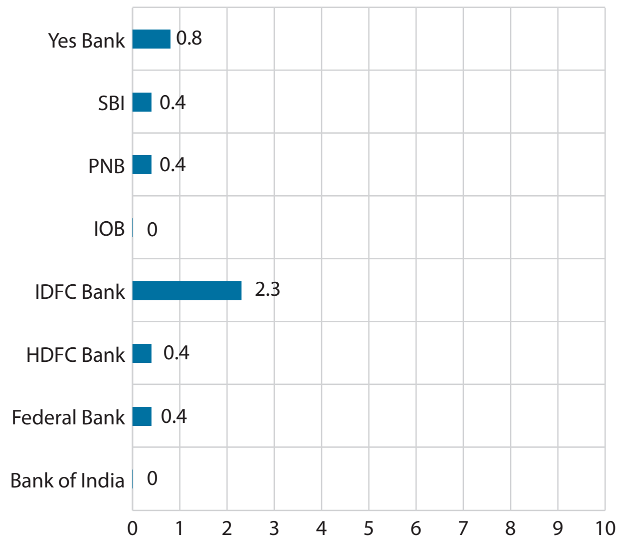
BANKS' COMMITMENTS IN THIS AREA

INTERNAL OPERATIONS

Two ofthe eight sampled banks had no policy commitment to national and international human rights standards. The other banks indicated some kind of commitment to human rights in their policies.

Five of the eight banks made varying commitments to human rights, referencing the United Nations Declaration, non-discrimination, equality, a harassment free workplace, unions and grievance mechanisms to address human rights violations. One of the banks was committed to the United Nations Global Compact (UNGC) (Figure 5).

FIGURE 5: SCORES OF SAMPLE BANKS ON HUMAN RIGHTS AGAINST THE FAIR FINANCE GUIDE (/10)



INVESTEE COMPANIES

IDFC Bank performed considerably better than the others in recognising its commitment to integrating human rights criteria in assessing risks in project finance as per the Equator Principles.

GENDER EQUALITY

India ranks 108 out of the 149 countries ranked on the Global Gender Gap Index.[54] India's female labour force participation rate (LFPR) fell to a historic low of 23.3 per cent in 2017-18, meaning that over three of four women over the age of 15 years in India was neither working nor seeking work. (The age of 15 is the cut-off used for global comparisons by ILO).[55] The representation of women in senior level positions was especially very poor across all sectors which is also reflected in the financial sector.

Various developments have taken place in India to promote participation of women in the workforce. The Sexual Harassment of Women at the Workplace (Prevention, Prohibition and Redressal) Act (2013)[56] (SHWW Act) was enacted to provide a safer environment for women to work in. The Companies Act (2013) mandated[57] companies to appoint at least one woman director on their boards to enhance gender diversity. However, many listed companies in India are yet to comply with this.[58]

Enabling women's advancement is a critical element of sustainable finance and well within the purview and responsibility of financial institutions.[59] NVGRF's Principle 7 discusses the role that financial institutions can play in supporting women's empowerment.

BANKS' COMMITMENTS IN THIS AREA

INTERNAL OPERATIONS

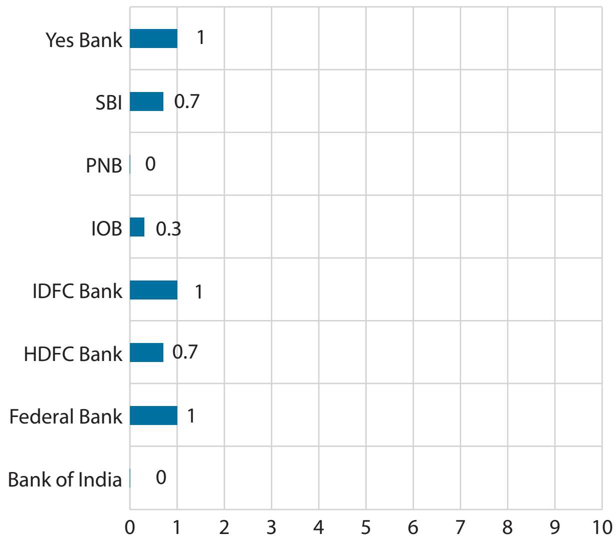
Preventing sexual harassment is one of the most widely adopted policy areas, with six of the eight banks having policies on dealing with sexual harassment. However, only two banks had systems in place to manage pay equity between the genders.

Three banks had systems in place to prevent and mitigate gender-based discrimination among their customers. Out of the three, one bank mentioned that it did not discriminate between its customers based on gender and had a mechanism in place to implement this. The other two banks recognised self-help groups (SHGs) as a mechanism of empowerment of its female customers. However because (a) SHGs do not reach all women and (b) the scheme also does not address all facets of gender discrimination, it alone does not represent their full commitment to overcoming gender discrimination among customers.

GOVERNMENT SCHEMES PROMOTING FINANCIAL INCLUSION SUCH AS THE PRADHAN MANTRI JAN DHAN YOJANA62 THAT AIMS TO BRING ABOUT COMPREHENSIVE FINANCIAL INCLUSION AND PROVIDE BANKING SERVICES TO ALL HOUSEHOLDS IN THE COUNTRY HAVE PLAYED A KEY ROLE IN PROVIDING BANK ACCOUNTS TO 80 PER CENT63ADULT INDIANS.

None of the banks reported guaranteeing equal participation and access to women to senior level positions. Neither did they mention providing targeted professional development such as training for employees for promoting equal access for women to senior level positions (Figure 6).

FIGURE 6: SCORES OF SAMPLE BANKS AGAINST THE FAIR FINANCE GUIDE (/10)



INVESTEE COMPANIES

IDFC Bank was the only bank assessed which had policy commitments to gender with respect to the companies that it invests in as per the Equator Principles.

FINANCIAL INCLUSION

Financial inclusion is a key priority of the Government of India and an area in which India can demonstrate a number of important achievements. The vision for India's financial sector reforms is guided by objectives[60] of 'inclusion, growth and stability' which has been extended further to develop comprehensive recommendations[61] for financial inclusion of small businesses and low-income households. Government schemes promoting financial inclusion such as the Pradhan Mantri Jan Dhan Yojana[62] that aims to bring about comprehensive financial inclusion and provide banking services to all households in the country have played a key role in providing bank accounts to 80 per cent[63] adult Indians. RBI has been promoting financial inclusion through schemes such as the SHG-Bank Linkage Programme, schemes for marginalised groups such as Scheduled Castes and Scheduled Tribes and a range of priority sector lending measures pertaining to agriculture, micro, small and medium enterprises (MSMEs) and in other areas.

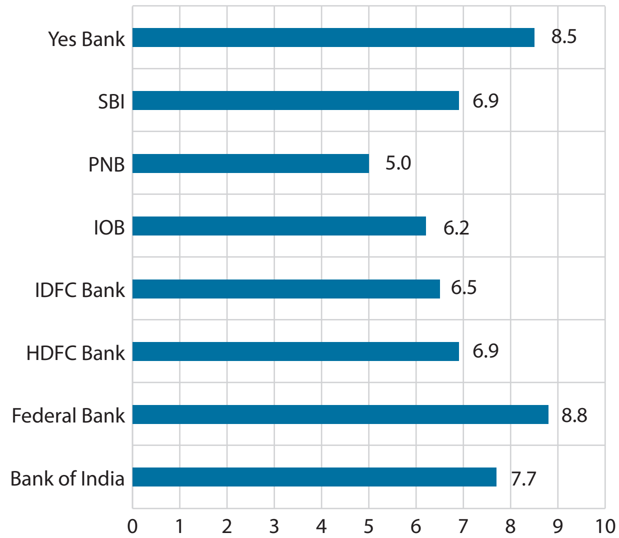
This theme looks at a bank's efforts to include customers who are perceived to be at a higher risk of exclusion from the formal banking system such as poor and marginal groups, people living in rural areas, people in different regions of India, MSMEs and migrant workers who need to send remittances back home. For the purposes of this assessment, marginal groups include women (for example SHG Bank Linkage activities) as well as Scheduled Caste and Scheduled Tribe populations. Other areas covered by this thematic assessment include financial literacy, costs of basic banking, credit processing information, transparency regarding a client's rights,risks of products or services and housing finance, and because it is also linked to access to finance, technology.

BANKS' COMMITMENTS IN THIS AREA

All eight banks had policies, services or products that specifically target poor and marginalised groups though there was variance in the level of detail that they provided regarding the particular services provided. Similarly, all banks had set up branches in rural areas and also provided branchless, cashless and mobile banking services (Figure 7).

> **BY SIGNING THE 2030 AGENDA FOR SUSTAINABLE DEVELOPMENT INDIA RECOGNISES THAT "THERE CAN BE NO SUSTAINABLE DEVELOPMENT WITHOUT PEACE AND NO PEACE WITHOUT SUSTAINABLE DEVELOPMENT**

FIGURE 7: SCORES OF SAMPLE BANKS IN FINANCIAL INCLUSION – FAIR FINANCE GUIDE (/10)



In the area of share of loans channelled to MSMEs there was some degree of variance between different financial institutions' disclosed commitments. Only three of the eight banks indicated that their share of loans channelled to MSMEs was above 10 per cent. In line with regulatory requirements, all eight banks indicated that they did not necessarily require collateral for MSMEs to borrow.

Three banks were taking clear steps to communicate risks (including risks of indebtedness) associated with financial products or services to low-literate clients and MSMEs. Five had policy commitments to providing terms and conditions in the national or local languages.

All banks had made some commitments to improving financial literacy among low-income, marginal groups and MSMEs and none of them required a minimum balance whilst five provided information on credit processing time. However, not all banks clearly communicated whether they charged clients for opening a basic bank account. Four of the banks offered details about domestic remittance processes and five provided information about the low-income housing finance that they offered.

ARMS

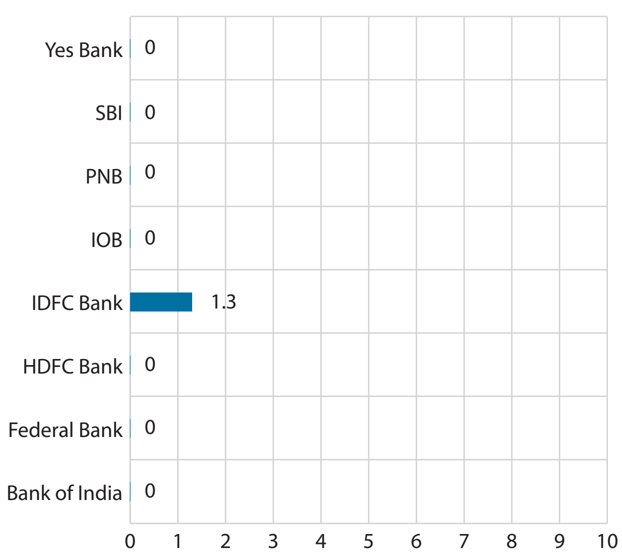
By signing the 2030 Agenda for Sustainable Development India recognises that "there can be no sustainable development without peace and no peace without sustainable development.[64]" SDG 16 on peace, justice and strong institutions includes a target on reducing illicit financial and arms flows by 2030.

This theme focuses on the need to ensure that no arms are produced that do not distinguish between combatants and non-combatants in violation of international humanitarian law. This includes clauses that caution against investments in anti-personal landmines, cluster munitions, nuclear weapons, chemical weapons and biological weapons.

This thematic assessment also focuses on arms investments made in States on which a multilateral embargo has been posed concerning issues of armed conflict, risk of serious violations of international law in countries which severely violate human rights.

BANKS' COMMITMENTS IN THIS AREA

FIGURE 8: SCORES OF SAMPLE BANKS IN ARMS – FAIR FINANCE GUIDE (/10)



IDFC Bank was the only assessed bank that had an exclusion list which includes sectors engaged in production or trade in biological and chemical weapons. None of the other banks had any policies related to lending to companies in the arms sector.

GOVERNANCE

In the recent past, financial institutions and investment firms have joined the discourse on corporate governance globally. Blackrock, which is one of the biggest investment companies globally stated[65] "good governance translates to lower corporate risk, we believe, and in turn, a lower cost of doing business. Environment risk management practices and disclosures can potentially lower a firm's cost of equity, as can strong employee relations and product safety."

A committee setup by RBI to review governance of boards of banks in India in its report stated "It is unclear that the boards of most of these banks have the required sense of purpose, in terms of their focus on business strategy and risk management, in being able to provide oversight to steer the banks through their present difficult position.[66]"

In alignment with the 2011 NVGs, NVGRF lays down guidelines and processes for financial institutions in India to adopt and stresses on the importance of ethics, governance, transparency and stakeholder engagement.

This section analyses the policies of the eight Indian banks based on the FFGI methodology focusing on the three areas of 'transparency and accountability', 'corruption' and 'tax'.

TRANSPARENCY AND ACCOUNTABILITY

Transparency is the first and a crucial step for accountability. In 2005, India enacted the Right to Information Act[67] (RTI Act) with the premise that an "informed citizen is better equipped to keep necessary vigil on the instruments of governance and make the government more accountable to the governed." In the context of corporate transparency and accountability the same premise applies to companies as well as financial institutions. Customers who deposit their money in a bank can act to strengthen the bank's governance and accountability by insisting on transparency in its policies. Communities whose lives and livelihoods are impacted by economic activities will be able to defend their rights and entitlements if they are fully informed about both the environment and social risks as well as opportunities in a fair and transparent manner.

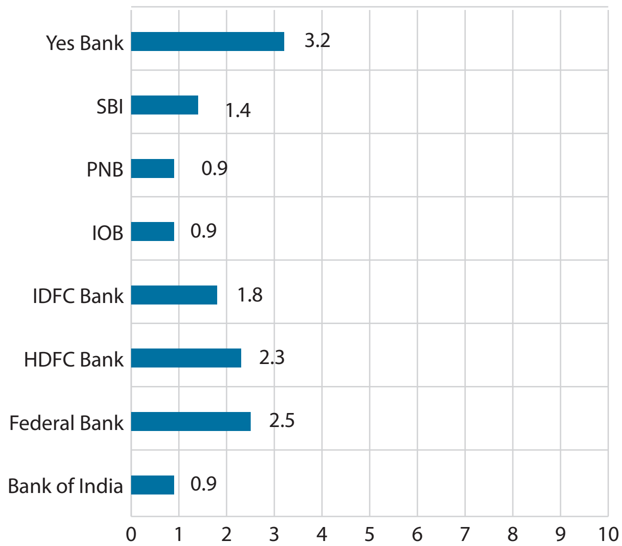
In India, necessary actions by the Ministry of Corporate Affairs, SEBI and RBI have played a significant role in strengthening corporate non-financial disclosures on ESG issues. Voluntary initiatives such as the Global Reporting Initiative have also supported corporate reporting on sustainability. Stakeholder engagement and grievance mechanisms are crucial elements that help translate transparency into accountability, relating to Pillar 3 of the UNGPs which focuses on 'Access to Remedy'.

BANKS' COMMITMENTS IN THIS AREA

INTERNAL OPERATIONS

Private sector banks performed better than public sector banks in this theme. Federal Bank appeared to have the most progressive policy profile, followed by HDFC Bank and YES Bank. All assessed banks complied with the disclosures norms as per SEBI's BRR obligations and some published sustainability reporting based on the GRI Framework. Disclosures of sector exposure are also common and is in compliance with Basel III norms. All eight assessed banks reported their credit exposure to sectors and industries as per Basel III requirements. Only three banks reported a detailed industry type distribution of their lending portfolios and none of the banks disclosed the names of investee companies (Figure 9).

FIGURE 9: SCORES OF SAMPLE BANKS IN TRANSPARENCY AND ACCOUNTABILITY – FAIR FINANCE GUIDE (/10)



With the exception of Federal Bank none of the other assessed banks had any policy mention of grievance mechanisms for non-customer and non-employee stakeholders. The scope of Federal Bank's whistle blower policy covers NGOs and the public at large thereby creating a mechanism for all stakeholders to report their grievances.

CORRUPTION

Corruption has a severe negative impact on society. India's rank in the Transparency International Corruption Perception Index has improved over the last few years and in 2018 it stands at 78 out of 180 countries ranked on the index. However, in recent years the Indian banking sector has been badly affected by frauds, wilful defaults, corruption and money laundering among other issues. Recent cases of corruption and money laundering that severely impacted several Indian banks has led to stronger demand[68] for anti-corruption measures among G20 nations.

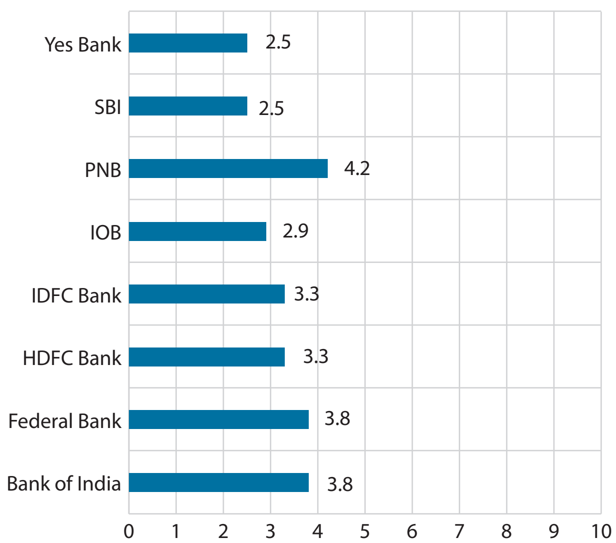
BANKS' COMMITMENTS IN THIS AREA

INTERNAL OPERATIONS

All banks encouraged a transparent system of working and dealing with stakeholders. Banks had policy disclosures on ethics and codes of conduct that facilitate employees to report fraudulent practices. Almost all the banks did not have clear policy disclosures on bribery or any other indicators of corruption. Only Indian Overseas Bank provided a clear policy statement on bribery (Figure 10).

Some banks did not have policies to combat terror financing activities including procedures for monitoring transactions. Only two banks mentioned lobbying activities or having any linkages with any lobbying bodies.

FIGURE 10: SCORES OF SAMPLE BANKS IN CORRUPTION – FAIR FINANCE GUIDE (/10)



TAX

Tax revenues are crucial for any government for spending on the social sector. India spends only 1.2 per cent of its GDP on healthcare as compared to the world average of 6 per cent. India's spending on education is 3.8 per cent of its GDP which is also less than the world average of about 4.7 per cent.[69]RBI has raised concerns[70] about such low spending on the social sector and attributes it to lack of fiscal space for spending. Globally, there is an increasing demand for action to restrict easy tax avoidance by corporations and the decline in corporate taxes.[71] Corporate tax avoidance leads to significant revenue losses as high as 1.3 per cent of GDP for non-OECD countries.[72] To put this in perspective, a study[73] on corporate tax shows that just four big pharmaceutical companies may have underpaid Rs 530 crore in Indian taxes. The investor community strongly supports the call for greater transparency in taxes that companies pay.[74]

Financial institutions can influence corporate policy and actions on tax transparency by choosing to invest in or lending to corporations that pay their taxes in a fair and transparent manner. Indian banks appear to have a lot of ground to cover in the area of tax transparency, with none of the assessed banks publicly disclosing any policies on tax transparency either for their internal operations or for their investee companies.

WAY FORWARD

The theme of financial inclusion had the highest score among the eight assessed banks. The fact that all the eight banks scored high on this theme is demonstrative of sustained efforts by the government, RBI and banks in this direction. It also demonstrates that political will coupled with strict regulations and monitoring can yield results over the long term.

Indian banks are, rightly, positioned to ensure access to affordable financial services and products to all, especially marginalised and vulnerable groups, by being service providers of various financial inclusion initiatives of the government. They can specifically support implementation of SDGs 1 and 10 addressing issues of poverty and inequality.

The corruption theme was the second highest scoring theme. This is an area that has for long impacted the banking sector. Policy actions taken to address issues of corruption show some visible results as far as policy commitments by banks are concerned.

Indian banks also have an opportunity to promote transparency by publishing sufficient details about their investments, their policies and their influencing strategies. This can help foster higher levels of trust and certainty amongst investors and the wider public thus promoting wider economic stability. They can also help reduce the likelihood of corruption in businesses both by ensuring that their own practices are clean and by insisting on this in the companies that they finance. At the same time, banks have a crucial role to play in reducing the huge losses to public finances that result from tax avoidance and tax evasions by reporting themselves, as well as seeking to ensure that the companies they finance are also more transparent about their tax practices.

Under the environment category, almost all the banks scored zero in the themes of nature and climate, despite considerable national and international movement in this area. While there appears to be a lot of interest in the area of environment among financial institutions in general, the banking sector is yet to align its business strategies with the opportunities that are available.

Banks can positively impact the environment by diverting investments away from water stressed areas, protecting natural ecosystems and habitats, protecting plant and animal species especially endangered ones and by protecting genetic material. They can reduce risks of climate change by screening out companies that are committed to reducing their greenhouse gas emissions and seeking out opportunities that promote a low carbon economy.

Some themes in the social category also scored low, especially human rights, labour rights and arms. With India committed to strengthening its commitment towards social issues and human rights through NGRBC and NAP the banking sector has much ground to cover. These policy changes provide an opportunity for the banking sector to prepare and respond with appropriate strategies and commitments.

Banks can decide not to finance companies that do not respect labour rights such as freedom of association, collective bargaining, non-discrimination, no child labour, no forced labour and worker health and safety. Instead, they can take decisions to support companies that support living wages, integrate labour rights in their supply chains and respect human rights. They can also make efforts to ensure due diligence in project financing, for example, supporting free, prior and informed consent of local communities. They can participate in operational level grievance mechanisms to enable access to remedy for affected communities. Banks can play a crucial role in protecting human rights and also peace building by avoiding investing in companies engaged in the manufacture of weapons that pose a risk to civilians.

As large employers Indian banks also have an opportunity to reduce the gender pay gap and promote equitable access to opportunities in the workplace. Banks can also create a positive gender impact by supporting companies that include gender and women's rights in their procurement and supply chains, and by pushing others for the development of these policies.

Despite the challenges of operating in contexts in which environmental and social violations are commonplace, banks can also develop their core services and distribution channels to reduce the risks of financing irresponsible actions. In doing so, they can help promote equitable distribution of value amongst end use customers *and* amongst those whom they impact.

This assessment could serve as a baseline to enable the Indian banking sector to prepare itself for facing and addressing challenges of sustainability. It provides Indian banks a pathway toward leadership in sustainable, responsible and fair finance.

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