The 3Cs for Responsible Banking in Asia and the Pacific:

Corporate Governance, Corporate Social Responsibility and Corporate Sustainability

UNITED NATIONS ESCAP
EBAC
Business Advisory Council

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FOREWORD

As Chairperson of the ESCAP Business Advisory Council (EBAC), I am delighted to introduce this handbook on *The 3Cs for Responsible Banking in Asia and the Pacific: Corporate Governance, Corporate Social Responsibility and Corporate Sustainability*. I believe this publication constitutes a significant achievement for EBAC in its mission of promoting regional cooperation, and assisting countries in building shared economic growth and social equity.

EBAC was created in 2004 in Shanghai, under the auspices of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). Its establishment took place at the first ever Asia-Pacific Business Forum (APBF), the flagship regional business forum organized by ESCAP, which provides a valuable platform to discuss the role of business in achieving inclusive, resilient and sustainable development. Since the Council's early establishment, its members have brought insightful contributions to enhance and strengthen APBF's reach in engaging on development issues in the region.

EBAC aims at providing business perspectives on development issues in the Asia-Pacific region to governments represented in the legislative bodies of ESCAP, and in particular the Committee on Trade and Investment, as well as the Commission itself, and provide advice to the ESCAP secretariat on its various programmes and activities. EBAC has grown to close to 50 members and continues to expand, so as to be truly representative of the business sector in the region, consisting of large to small businesses, and covering an array of economic sectors and industries.

Members of EBAC are business leaders, CEOs, representatives and experts from, or operating in, member and associate member countries of ESCAP. EBAC members conform to and promote ethical and responsible business practices, and fully subscribe to United Nations principles and norms. They strive towards full implementation of the principles of the Global Compact, which is a strategic UN policy initiative for socially committed businesses that seeks to ensure that markets, commerce, technology and finance advance in ways that benefit economies and societies everywhere.

In 2012, EBAC established the Sustainable Business Network (SBN) to promote the active engagement of the business sector in addressing the issues of environmental sustainability and inclusiveness in the Asia-Pacific region. This network was established in reference to the outcome document of the Rio+20 Conference on Sustainable Development, which emphasizes the importance of the business community's role in sustainable development globally. The SBN currently constitutes six task forces, each dealing with cross-cutting development issues, namely: (i) Green Business; (ii) Micro, Small and Medium-Sized Enterprises (MSMEs) & Entrepreneurship in Business and Development; (iii) Inclusive and Sustainable Trade and Investment; (iv) Banking and Finance; (v) Regional Integration and Connectivity; and (vi) Trade and Transport Facilitation.

This handbook is a product of the significant efforts and knowledge of the Banking and Finance task force. The core mission of the Banking and Finance task force is to promote and mobilize financial resources for inclusive and sustainable development, as well as encouraging banks and financial institutions to adopt responsible banking practices. The task force also helps promotes crucial access to finance for MSMEs, start-ups, green and social enterprises.

Congruent with the Banking and Finance task force's mission, this handbook aims at identifying and spreading best practices in responsible and sustainable banking and finance, specifically in the fields of corporate governance, corporate social responsibility and corporate sustainability. Raising awareness of these issues and undertaking policy advocacy are also two crucial points this handbook seeks to emphasize to stakeholders, as well as driving capacity development through training and administrative programmes, in order to mainstream these concepts into daily business practices.

To highlight and celebrate SBN's achievements, this handbook is being launched at the 11^{th} Asia-Pacific Business Forum in Colombo, Sri Lanka, in November 2014. APBF 2014 revolves around the theme of 'Enhancing regional business sustainability and investment.' Gathering more than five hundred representatives of business, governments, academia and civil society organizations, APBF represents the most appropriate platform to present and reflect on the contents of this handbook, as well as the overall work of the SBN task forces in mobilizing businesses and promoting inclusive and sustainable development in the Asia-Pacific region.

Datuk Seri Mohamed Iqbal Rawther
Chairman, ESCAP Business Advisory Council

MESSAGE

In recent years, rapidly evolving global political, economic and social conditions have sparked a revolutionary change in the financial sector, and the principle of responsible banking has emerged, setting new standards for banks to create environmentally and socially conscious business practices.

Against this background, an increasing number of financial institutions in the Asia-Pacific region have started to mainstream responsible banking into every aspect of their daily operations and concretely align their corporate activities with a visionary development strategy. By strengthening their corporate governance, by improving their use of funds and risk management and by creating a safe and stable operational environment, banks have striven to achieve results in this field, with the ultimate aim of improving the quality of their assets, capital efficiency and sustainable profitability.

In this way, banks in Asia and the Pacific are now supporting new forms of development in the industrial, information-technology and agricultural sectors, while also securing the necessary funding for the real economy. Yet, they remain focused on building their own strengths, enriching the customer experience and enhancing their value-adding capabilities. These elements constitute the cornerstones of responsible banking.

With a 30-year track record of solid development, the Industrial and Commercial Bank of China Limited (ICBC) has become one of the world's leading banks, and one of the most prominent financial groups rooted in the Asia-Pacific region. With a diversified business structure, focusing on genuine innovation and competitiveness, ICBC has managed to build a premier client portfolio, spanning more than 300 overseas branches across 40 countries and territories, including Australia, Hong Kong, China, Indonesia, Malaysia, New Zealand, Singapore, Thailand and Viet Nam. ICBC upholds the management tenet of "focusing on the customer and creating value through services," and is constantly seeking to improve its financial services with the aim of enhancing its brand reputation, laying the foundation for an integrated, internationalized and IT-driven commercial banking system.

ICBC was the first domestic commercial bank in China to join the United Nations Global Compact, a strategic policy initiative for socially committed businesses to ensure that markets, commerce, technology and finance advance in ways that benefit economies and societies everywhere. In this way, ICBC has aligned its economic goals with its social responsibilities, and thereby setting a benchmark in the sector for supporting socio-economic growth, environmental protection and community services. ICBC was also honoured to be the recipient of the Best Social Responsibility Financial Institution Award by the China Banking Association and the Most Responsible Enterprise Award by the *China Newsweek*.

Looking ahead to the new challenges that global economic trends will bring, it is essential that Asia-Pacific banks and financial institutions constantly improve their service quality and drive strategic reform of the sector, while always taking into consideration the promotion and full endorsement of responsible banking principles. By improving our corporate culture and by integrating responsible banking within our core activities, the banking community can build a more inclusive, stable and safer business environment, making people their priority.

The financial sector will also need to focus in part on philanthropy and social development, through the support of cultural and educational programmes, as well as by providing financial education to the public in order to raise their propensity for risk aversion. Increasing the number of charitable activities will help to improve social well-being, and the active support of green and low-carbon development will also help promote a more resource-efficient and environmentally friendly society.

Together, we can deliver on our promise of responsible banking that can propel truly sustainable financial development.

Chen Aiping
Chairman and Chief Executive, Industrial and Commercial Bank of China (Asia) Limited

ACKNOWLEDGEMENTS

Vast and virtually untapped opportunities exist in the banking market in Asia and the Pacific, even after years of development and financial innovation. These opportunities come with risks and volatility on the one hand, but also value creation, prosperity and an enhancement of living standards on the other. More than ever, micro, small and medium-sized enterprises (MSMEs) form the major driving force of economic dynamism, innovation and job creation in the region, and thus serve to underpin the vibrant economies in the Asia-Pacific region.

Succeeding in this thriving but challenging environment requires bankers to fundamentally appreciate the importance of responsible banking, especially after experiencing the Asian Financial Crisis in the late 1990s and the Global Financial Crisis in 2008. Looking ahead, benchmarking best practices in banking services necessarily requires a deep appreciation of varying levels of economic development, cultural and geopolitical considerations and different historical backgrounds. Financial institutions also have to evolve with a new mindset, to go beyond the basic provision of banking services and to embrace their role as socially responsible corporate citizens, and practice the principles of responsible investment.

Promoting this value and setting relevant best practices are quite a tall order for this task force. With a tremendous team and valuable inputs from various parties, I proposed the publication of a handbook called *The 3Cs for Responsible Banking in Asia and the Pacific: Corporate Governance, Corporate Social Responsibility and Corporate Sustainability*. The task force concurred, and ESCAP agreed to assist in developing this book project.

This book serves three purposes, namely: i) to identify best practices in responsible and sustainable banking and finances; ii) to raise awareness and undertake policy advocacy in the area of responsible banking and finance; and iii) to undertake capacity development through training and other pertinent programmes.

Thanks must go to the tireless efforts and dedication of the ESCAP secretariat and its team of superb graduate students — Wisanee Koopthanaroj, Yiqun Liu, Inyoung Park, Jeroen Schillings and Stefania Valera (in alphabetical order) — who jointly helped put together core portions of the book. The drafting team was led by Diana Dai and Gordon Israel, who also coordinated the publication process, under the supervision of Masato Abe, Economic Affairs Officer, Business and Development Section, Trade and Investment Division. Marc Proksch, Chief, Business and Development Section, Trade and Investment Division provided overall guidance to this project. Marc Proksch, Marit Nilses and Blanca Isabel Buitrago-Franco provided a number of useful comments and inputs. Administrative support was provided by Pranee Suriyan. Dr. Nick Freeman and Masato Abe edited the manuscripts with substantive inputs. Heartfelt appreciation also goes to the staunch support of ESCAP, including Dr. Shamshad Akhtar, Executive Secretary and the Under-Secretary-General of the United Nations, and Dr. Ravi Ratnayake, Director, Trade and Investment Division.

A contributor board was formed to review the working draft prepared by the secretariat. Thanks must go to fellow members, Peter Leung, Chief Financial Officer (CFO) of the Industrial and Commercial Bank of China (Asia) Limited (ICBC (Asia)), who was recently awarded "CFO of the Year, Hong Kong," and to Raghu Narain, Managing Director and Head of Sector Advisory, The Royal Bank of Scotland, a highly-respected international banker in Asia and the Pacific, for their invaluable contribution to the contents of the handbook.

My thanks also to Mr. Chen Aiping, Chairman and Chief Executive, ICBC (Asia), for his kind and thoughtful message above, and the bank's sponsorship of this book project. We also received helpful inputs and feedbacks from other task force members. Last but not least, my wife Elsie and my son Anthony are acknowledged for their support of the project.

George Yuen
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Peter Leung is a Deputy Chief Executive and the Chief Financial Officer of the Industrial and Commercial Bank of China (Asia) Limited. He holds a Bachelor's degree in Accounting and Financial Analysis from the Newcastle University, United Kingdom and a Bachelor's degree in Law from the University of London. He is an associate member of The Institute of Chartered Accountants in England and Wales, and a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He was awarded "CFO of the Year, Hong Kong" by *The Asset* magazine in March 2014. He has over 15 years of experience in the banking industry.

Raghu Narain, *Managing Director, The Royal Bank of Scotland (RBS), Asia*

Raghu Narain is a Managing Director and the Head of Sector Advisory for RBS in Asia. Raghu completed his Masters degree from Harvard University and holds MPA, MBA and BA degrees from the United States. Raghu brings over 17 years of experience in banking, corporate and development finance and economic policy advisory. In his career, Raghu's has undertaken over 100 transactions by financing and advising US$ 60+ billion in deals for global companies. Raghu has also worked in the field of development finance at the Harvard Institute for International Development (HIID), where he undertook project appraisal and MSME financing activities. In this role, Raghu has advised key development agencies, governments and private institutions in over 15 countries. Raghu has been published in leading industry publications and is a frequent speaker in industry and development conferences.

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LIST OF ABBREVIATIONS AND ACRONYMS

3Cs	Corporate Governance, Corporate Social Responsibility and Corporate Sustainability
ADB	Asian Development Bank
ADFIAP	Association of Development Financing Institutions in Asia and the Pacific
CDM	Clean Development Mechanism
CG	Corporate governance
CSR	Corporate social responsibility
DFI	Development finance institution
EBAC	Economic and Social Commission for Asia and the Pacific (ESCAP) Business Advisory Council
EPs	Equator Principles
ESCAP	Economic and Social Commission for Asia and the Pacific (United Nations)
ESG	Environmental, social and governance
G4	Fourth generation of Guidelines
GABV	Global Alliance for Banking on Values
GC	Global Compact (United Nations)
GRI	Global Reporting Initiative
GSIFI	Global Systemically Important Financial Institutions
ICBC	Industrial and Commercial Bank of China Limited
IFC	International Finance Corporation
ISO	International Organization for Standardization
ISO SR	ISO 26000:2010 – Social Responsibility
M&E	Monitoring and evaluation
MFI	Microfinance institution
MNE	Multinational enterprise
MSME	Micro, small and medium-sized enterprise
NGO	Non-profit organization
OECD	Organisation for Economic Co-operation and Development
PS	Performance standards
RBS	Royal Bank of Scotland, The
SBN	Sustainable Business Network
SIDBI	The Small Industries Development Bank of India
SME	Small and medium-sized enterprise
TBL	Triple bottom line
UNCDF	United Nations Capital Development Fund
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNIDO	United Nations Industrial Development Organization

Executive summary

'Omne trium perfectum': all good things come in threes.

This handbook serves three purposes, namely: i) to identify best practices in responsible and sustainable banking and finances; ii) to raise awareness and undertake policy advocacy in the area of responsible banking and finance; and iii) to serve as a tool for undertaking capacity development through training and other pertinent programmes. The approach taken to producing this handbook has been to highlight three aspects, namely: i) corporate governance; ii) corporate social responsibility; and iii) corporate sustainability, as they pertain to banks and financial institutions. What we have termed the '3Cs.'

The 3Cs are not mutually exclusive. In fact, they have several areas of commonality and overlap. A bank that pursues robust corporate governance standards and practices may also engage in corporate sustainability issues. Similarly, the pursuit of corporate social responsibility (CSR) cannot be convincingly pursued if a bank's own internal corporate governance practices are not in good order and if the long-term sustainability of the business does not remain upper-most in the minds of both senior management and its Board of Directors. Thus, the 3Cs serve as a kind of triptych that support each other, and yet they also have value and meaning when looked at separately.

The enactment of good corporate governance standards and practices has come to prominence in recent decades, for a number of reasons, and no less in the banking and finance sector. A spate of scandals and management errors have punctuated the last few decades of banking, resulting in diminishing levels of public trust; trust that is needed for banks to function as financial intermediators. Without the right internal governance structure, a bank's risk profile will be considerably higher. And if the banking sector as a whole does not adopt robust corporate governance procedures (based on the principles of corporate sustainability), then the risk of a systemic crisis of some kind also rises.

It is for this reason that several national, regional and international bodies (e.g. European Union, OECD and United Nations) have sought to promote and support improvements in corporate governance around the world, including in the Asia-Pacific region. And while these efforts have undoubtedly been of immense value, much also depends on the willingness of individual banks and companies to genuinely embrace both the content and the sentiment of good corporate governance, and ensure that it is mainstreamed into its DNA. It should never become a 'box ticking' exercise in order to appear compliant with regulations, as its application must be more proactive than that, and the appropriate changes made in accordance with developments in the market, such as new financial products and services.

The issue of CSR has also enjoyed a higher profile in recent years. As the name implies, CSR is about ensuring that companies act responsibly in all its dealings socially, environmentally and ethically. CSR is typically not regulated, but rather banks and companies pursue it in a voluntary manner. While the tradition and history of business philanthropy in Asia and the Pacific goes back many centuries, CSR aims to go beyond ad hoc charitable activities, such as donations. Instead, it seeks to leverage the bank or company's internal capacities and core competencies to enact initiatives that are intended to have a positive impact on the community and environment in which it operates. Importantly, while one might think that the costs entailed in pursuing CSR would dilute profitability, there is empirical evidence to suggest that CSR initiatives can actually increase business income – 'doing well by doing good,' as it were. CSR is also important in ensuring that the actions of the bank or company do not, directly or indirectly, cause harm to employees, the community or the environment. The use of child, prison or trafficked labour by suppliers or clients is not acceptable, for example. Nor are production activities that harm the environment or adversely impact biodiversity or financial practices relating to money laundering or tax evasion.

This handbook emphasizes two potential elements of CSR activity that are particularly pertinent to banking and finance: i) access to finance for micro, small and medium-sized enterprises (MSMEs) and informal businesses; and ii) green business finance. The goal here is to find new and innovative ways that will allow for greater debt and equity financing for these enterprises in areas where conventional commercial banking activities are very much needed but are typically lacking. In this context, bankers and financiers can apply their expertise to find ways of addressing these market failures, often in conjunction with governments and other development partners. The Clean Development Mechanism (CDM) is just one example of innovative green financing put to good work, particularly in the Asia-Pacific region.[1] But this is just one example. Some social enterprises are able to build viable business models in areas like microfinance for rural farmers, women entrepreneurs and others who are normally excluded from the traditional banking sector.

Indeed, business activities oriented towards the 'base of the pyramid' (i.e. people with daily incomes of US$ 4 or less) have proven not only to be of value to poor households in many countries, but also to be profitable exercises in their own right; tapping a previously ignored market. And where there is profitability, there is a strong chance of long-term sustainability. It is this realization that has helped drive various inclusive business models, including some in the financial sector.

This takes us to the third of the '3Cs' – sustainable business – which aims to balance businesses' primary and immediate goal of generating income for its owners with a desire to also play a meaningful role in the long-term sustainable and equitable development of its host locale, whether that be one or more towns or cities, one or more countries, or even in a global context, such as reducing greenhouse gas emissions. The perspective is holistic in nature, shifting away from strictly accounting for a bank or company's finances (income statement, balance sheet and cash flows), to also include social and environmental reporting – often referred to as the 'triple bottom line.'

Sustainability also refers to the business itself. Without attention to social and environmental issues, the economic sustainability of the enterprise cannot be guaranteed. Corporate sustainability is not about what to do with the profits (e.g. to help local communities) but how the profit is generated. It is a core aspect of business management, i.e. corporate governance. Here again, the business logic for adopting a sustainable business model approach is a viable one. Shareholders, customers and employees alike are increasingly cognizant of the need for businesses to report on their wider impact and contribution to the communities in which they operate. And in doing so, such banks and companies are able to better engage with both shareholders and stakeholders, differentiate themselves in a market where financial products and services are becoming increasingly commoditized, and thereby enjoy improved business performance.

The final point to stress is that all three of the '3Cs' discussed in this handbook do not necessarily entail additional compliance or operational costs to banks and financial companies that expend energy in applying them. Indeed, they can (and should) help improve long-term business performance, as well as help reduce business risk.

Introduction

The recent financial crisis and resulting economic downturn have again demonstrated the integral role played by the financial sector in the world economy. Banks act as financial intermediaries in society – effectively moving excess funds to those who are in need of funds – by pricing and valuing financial assets, monitoring borrowers, managing financial risks and organizing the payment system.[2] It is therefore important that the banking sector is managed well and acts responsibly, as risky investments and poor management affect not only banks and their shareholders, but society as a whole. To achieve this, a variety of tools are available to banks and financial institutions. In this handbook the focus is on what we call the 3Cs: corporate governance, corporate social responsibility and corporate sustainability, as the means by which to achieve responsible banking.

These three different concepts are an integral part of responsible banking, and it is necessary for practitioners to understand and mainstream these concepts into their business practices. This view has come about as banks are seen to be responsible not only to their shareholders, but also to numerous other stakeholders. The stakeholders in banks and financial institutions include customers, but also society as whole, as the financial ramifications and impacts of their work extend beyond those directly involved, such as to include the environment, biodiversity and climate change issues. In providing funding to a wide array of business projects in the real economy, the banking and finance sector is inevitably, integrally and intimately involved in what the business community does, and the impacts that arise from business activity. Banks and other financial institutions cannot focus only on the governance, sustainability and social responsibility of their own operations, but of their clients too.

In Asia, the 1997-98 financial crisis prompted many Asian governments to further tighten existing laws and corporate governance requirements of listed companies and financial institutions. While there has been plenty of progress on this front, especially in Indonesia, Malaysia, the Republic of Korea and Thailand,[3] one can legitimately argue that responsible banking practices are still lacking in the region as a whole.

> *"The financial sector holds a key function in society, being as it is at the core of all savings, investment and lending activities, whether for individuals, companies, governments or other entities. As a result, financial institutions need to consider and define their objectives in the broader context of society, and as a member of the community they service."*
>
> Banco Galicia, *Sustainability Report 2010*

> *"We want to build a really good bank. That means thinking about our financial stability, our customers, the way we use the resources around us, and the practices that we have. It's about looking inward less and outward more, and being a positive part of society."*
>
> Stephen Hester, *RBS Group Chief Executive*

It is in this context that the handbook aims to enhance understanding, and spread the practice, of responsible banking in the Asia-Pacific region. To do so, this handbook focuses on what we have dubbed the '3Cs' of corporate governance, corporate social responsibility and corporate sustainability. These 3Cs, and the associated practices outlined in this handbook, provide banks with a starting point for the integration of responsible banking practices into their core businesses. Such an integration process should benefit not only banks and their shareholders, but also other stakeholders in the wider region as a whole. For example, MSMEs, entrepreneurs and green businesses may be able to gain improved access to funding, and thereby play a greater and valuable part in the development of the region. But it is not just about directing more funds, typically loans, to businesses that typically struggle to access finance. There is also a need to devise and enact new kinds of financial products and services that meet the differing needs of customers, and where appropriate, ensure that the activities funded are in keeping with good social and environmental standards and impacts.

This handbook begins by focusing on corporate governance and its importance and application for banks, before turning our attention to corporate social responsibility and corporate sustainability. These chapters provide the foundation for the final chapter, on best practices, which highlights the different ways in which responsible banking can be applied, using examples from the Asia-Pacific region.

Defining the terms

Corporate governance

Corporate governance (CG) is defined as the system and tools for governing — business principles, mission, vision, mandate and values — that a company uses to successfully achieve its goals. For banks, the responsibility for corporate governance typically (but not exclusively) lies with the Board of Directors, which ultimately decides the kind of direction and risks the bank will adopt. With specific regard to responsible banking, corporate governance must take into account the needs of and impacts on various stakeholders, and the society at large, as unbridled maximization of shareholder value can damage the environment, society … and ultimately the bank itself.

Corporate social responsibility

Corporate social responsibility (CSR), also called corporate conscience, corporate citizenship, sustainable responsible business or others, is a concept that has become a standard part of most business models in the last decade. It is commonly defined as being the integration of issues of concern held by the wider society in companies' business models or operations, and their interactions with stakeholders, on a voluntary basis (i.e. going beyond only complying with what is legislated or regulated for). CSR provides more benefits than just improving the general image of a business, as being socially and environmentally friendly. Other benefits can include cost reduction, greater employee engagement, brand differentiation, improved business sustainability, etc. Banks increasingly employ CSR to better engage with their customers, as well as to fund SMEs and green businesses.

Corporate sustainability

Corporate sustainability is the extent to which a firm meets the needs of the present stakeholders without compromising its ability to meet the needs of the future stakeholders. It focuses more on long-term and sustainable growth, rather than on short-term profits, thereby presenting a firm's delivery of value in financial, social, environmental and ethical terms. Environmental, social and governance (ESG) are widely considered to be the three key aspects to enhance corporate sustainability.

Corporate governance

Background

Corporate governance essentially comprises the system by which the activities of companies are directed and overseen. It is an essential component for banks, as it also provides various checks and balances and holds the bank accountable for its investments and sustainability. Against the backdrop of an increasingly complex globalized economy that, along with major innovations in financial products and technology, has underlined the increased risks faced by the banking sector, effective corporate governance is essential. It is also essential to individual institutions, the wider financial system and the economy as a whole. Systemic risks exist in any banking sector, so that a particularly bad decision in one financial institution can rapidly expand to become a sector-wide problem, which in turn can cause the whole financial intermediation system on which economies depend to falter. Depositors may see that their funds are at risk to be lost. Lenders may be confronted with credit rationing. It is little wonder, then, that financial sectors are some of the most closely regulated business sectors in the corporate sector, as so much is at stake.

History

It is widely agreed that the 'Cadbury Report,' published in the United Kingdom in 1992,[4] essentially provided the basis for corporate governance as we know it today.[5] The report was released following the collapse of some large companies, and after the Committee on the Financial Aspects of Corporate Governance began its work, news of further financial mismanagement came to light (involving the appropriation of hundreds of millions of pounds from a media company's pension fund).[6] These cases of gross mismanagement led to an "increasing lack of investor confidence in the honesty and accountability of listed companies."[7] In article 1.1, the report highlights the importance of companies behaving responsibly: "The country's economy depends on the drive and efficiency of its companies ... They must be free to drive their companies forward, but exercise that freedom within a framework of effective accountability. This is the essence of any system of good corporate governance."[8]

Corporate governance is just as important for the business in question as it is for society as a whole, as "listed companies will strengthen both their control over their businesses and their public accountability. In so doing, they will be striking the right balance between meeting the standards of corporate governance now expected of them and retaining the essential spirit of enterprise."[9] In short, good corporate governance practices also make for good business. The emphasis placed on listed firms (i.e. firms whose shares are publicly traded on a secondary market) in the Cadbury Report stemmed from a number of factors: i) the high-profile CG scandals of a few listed firms around that time; ii) the fact that CG malpractices are likely to be greater in impact if enacted in larger firms; and iii) the so-called 'agency problem,' where a company may be run by a relatively small number of senior executives, but owned by potentially millions of shareholders, each of which may have different incentives and priorities.[10] It is in this context that the Board of Directors plays such a central role in CG issues, as it is intended to serve as the representative of shareholders and oversee the activities of senior management. But this is not to suggest that CG is only important for larger, publicly-traded companies; good CG practices help reduce risks and other undesirable impacts that a relatively small firm may face, even with relatively few shareholders. Cases of some state-owned enterprises, with the Government as the single shareholder, involving major cases of fraud or other malpractices by senior management that abused weak internal systems and controls, illustrates how CG is important for most firms.

With the Cadbury Report as a basis, further CG principles were subsequently developed, including the OECD Principles of Corporate Governance,[11] the Ruggie Principles (also known as the United Nations Guiding Principles of Business and Human Rights),[12] and national variations in the United States, the European Union and other countries around the world, as government regulators sought to protect their country's economy, society and business community. For instance, the OCED's Principles suggest good practices on board member nomination and election.[13]

Importance of corporate governance for banks

The Cadbury Report and several high-profile business debacles, such as those at Enron, Tyco and WorldCom to name just a few, highlighted the importance of good corporate governance for businesses. But for banks and financial institutions, it is even more crucial. With a range of stakeholders involved in banks, including depositors, borrowers, shareholders etc., conflicts of interest can emerge in various areas. One such example is the issue of how much risk to adopt, depending on varying appetites for (risk-adjusted) returns.[14] This will determine a whole host of managerial issues, including where to conduct business, with whom to conduct business, the kinds of products and services to offer, the degree to which the bank puts its own capital at risk for proprietary activities, and so on. It is in this context that the pursuit of good CG standards and practices can allow for a robust approach to all aspects of the business, and an avoidance of unpleasant surprises, while taking into account the expectations of the majority of shareholders.

In Asia, the 1997-98 financial crisis was due in large part to poor corporate governance practices in the relevant countries' banking institutions and industrial groups, as well as to lax regulation in the financial sector. The nature of the relationships between governments, banks and big businesses helped lead to inadequate regulations, including poor corporate governance rules and regulations.[15] Basic rules and managerial precepts were consistently broken, including those related to party lending, resulting in a non-diversified portfolio, poor capital provisioning, inadequate risk assessments, mismatching the terms of loans against the sources of funding, etc. If a robust set of CG standards and practices had been pursued and enforced from the outset, then much of the damage seen in Asia during that period may not have occurred. And as we witnessed in this, and other subsequent financial crises, the global nature of systemic risk means that a "fallout" in a single country's financial sector affects the financial sectors of other countries at the regional or even global level. Individuals and firms with absolutely no connection whatsoever with the specific developments that triggered a banking collapse on the other side of the globe will not necessarily escape the adverse impact of the wider dimensions of such developments.

Government regulators have also realized more acutely that the costs of having to cope with a systemic banking crisis, whether through deposit insurance and/or bailouts, are far greater than the administrative costs of enforcing good CG practices in the banking sector. Prevention is better than the cure. Indeed, a recent trend has seen some regulators, such as those in the United States, place greater onus on banks and financial institutions to 'self-police' their activities, and to be held accountable for any non-compliance that subsequently comes to light. Banks and financiers have to 'internalize' their adherence to the regulatory framework within their own operational systems, and that largely entails the pursuit of good corporate governance. This comes after an extended period of bank failures, collapses, forced mergers and other developments that have served to illustrate how challenging the issue is.

The roll call extends from the once venerated Barings merchant bank in the mid-1990s, through large parts of the Indonesian and Thai banking sector in the late 1990s to a complete refiguring of the United States banking and financial system over the last decade, the collapse of whole economies (such as Iceland) as a direct consequence of banking failures. As a result, in the United Kingdom at present a large part of the 'high street' banking sector is in the hands of the Government, following the perceived need for bailouts of banks that were deemed 'too big to fail.' The debacles are not just contained to banks, but extend to various other areas of the financial community, including investment and merchant banking, insurance, cooperative movements, brokerage firms and others. The case of Bernie Madoff in 2008 is perhaps one of the most egregious examples of poor CG practices of recent years, where a single individual seemingly was able to operate a US$ 65 billion 'Ponzi scheme' within a large Wall Street investment firm.[16] This was enacted over numerous years, and only came to light when the United States financial collapse rendered the fraud no longer feasible. But Madoff was not unique, as the rogues gallery extends to: rogue traders like (but certainly not limited to) Nick Leeson, Toshihide Iguchi, Yasuo Hamanaka, Jérôme Kerviel and Kweku Adoboli.

> *"After the Asian financial crisis in the latter half of the '90s, our region identified the establishment and enhancement of corporate governance as a cornerstone policy for achieving economic stability."*

Atsushi Saito, *President & CEO, Tokyo Stock Exchange Group, Inc. (TSE)*

Benchmarking

Much progress has been made in Asia and the Pacific, particularly since the 1997 Asian Financial Crisis, to improve corporate governance practices in the region's banking and finance sector. Numerous countries have adopted codes of corporate governance, many based on the OECD Principles of Corporate Governance (see box 1).[17] While broad in nature, these principles have been used by a number of Asia-Pacific economies to help direct and develop their own regulations, corporate governance codes, listing rules, scorecards, and so on.[18] From this it is clear that the majority of Asia-Pacific jurisdictions are committed to improving the standard of corporate governance, including in their financial sectors.

Other corporate governance-related principles and codes have also been developed specifically for the banking and finance sector. Perhaps the best known are the Basel accords, the latest iteration of which is Basel III.[22] These accords do not deal exclusively with corporate governance, but do play a very important role in establishing a common, global regulatory standard to which most banking sectors would wish to comply. The Basel Committee on Banking Supervision, in their publication 'Principles for Enhancing Corporate Governance,' provides sound corporate governance principles that seek to enhance Board of Director practices, senior management practices, risk management and internal controls, disclosure and transparency and the role of supervisors and regulators.[23] The publication helps countries to enhance their own corporate governance codes, as well as assist individual banks understand the importance of the different areas of corporate governance.

Other examples include the Equator Principles,[24] which is a risk management framework that similarly seeks to improve and consolidate banking standards that apply to environmental and social impacts of projects financed by banks. The Equator Principles include a reporting mechanism that allows for banks to be monitored and ensures that they are adhering to the principles.

Box 1 The OECD Principles of Corporate Governance[19]

Issued in 1999, the OECD Principles of Corporate Governance provided a benchmark for policy makers, investors, corporations and other stakeholders worldwide.

The Principles are organized into six broad categories:

- ensuring the basis for an effective corporate governance framework;
- the rights of shareholders and key ownership functions;
- the equitable treatment of shareholders;
- the role of stakeholders;
- disclosure and transparency; and
- the responsibilities of the board of directors.

One example of such a code of corporate governance can be found in Hong Kong, China, where the Hong Kong Monetary Authority developed a supervisory policy manual[20] that includes a section on corporate governance. Such a code provides a clear set of guidelines that businesses, and in this case banks, must adhere to, thus creating a standard of corporate governance that should ensure that businesses are directed and controlled properly. Similar policy documents have been developed by the Monetary Authority of Singapore (MAS), to cite just one example.[21]

While the regulatory environment for corporate governance in Asia and the Pacific has progressively developed and matured, the burden of sound corporate governance of banks rests increasingly with the banks' own internal mechanisms, particularly with their respective Boards of Directors.[25] The Board of Directors should guide the bank's long-term business strategy, supervise managerial performance and seek to attain a suitable return for shareholders, while also avoiding conflicts of interest and balancing demands from different stakeholders.[26] As the OECD Corporate Governance Principles note, board members "should act on a fully informed basis, in good faith, with due diligence and care and in the best interest of the company and the shareholders." [27]

With regard to the structure of the board, banks typically choose from one of two approaches; a unitary Board of Directors, or a dual Supervisory Board. A unitary board consists of senior executives, along with chosen non-executive and independent directors that have no direct affiliation with the bank. The dual board system features a Supervisory Board and a Management Board (consisting of senior executives). There has been much discussion on which type of board is optimal, but the global trend favours a unitary board of directors, as it provides greater flexibility, better information flow and lower costs.[28] The table 1 below provides a summary of the respective advantages and disadvantages of the two approaches.

while different from purely commercial banks, also must deal with similar issues of corporate governance. To improve corporate governance standards and practices in DFIs, the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) runs workshops and training sessions, promotes Codes of Corporate Governance and has developed an assessment and monitoring instrument: the ADFIAP Corporate Governance Rating System.[30] These activities are congruent with the assertion that good corporate governance is not only the "right thing to do but … it is essential to business success."[31]

Adopting good corporate governance standards and practices is critical for all types of financial institutions in the region, as it is the best guard against poor management, various kinds of impropriety by staff and perhaps most importantly of all, reducing the degree

Table 1 Relative advantages and disadvantages of unitary and dual boards

	Board of directors (unitary board)	Supervisory board (dual board)
Advantages	Capability to represent shareholders interests Flexible and relatively inexpensive form Direct contact between executives and non-executives that enables sound monitoring and counselling Efficient information flow and non-executives' access to corporate data	Capability to represent shareholders interests All members are non-executives Balancing the power of CEO and board Chairman Higher objectivity and independence, particularly in the process of management evaluation, compensation policy No personal connections enable sound monitoring and counselling
Disadvantages	Powerful position of CEO who holds Chairman function Dependence on CEO policy, lack of objectivity Risk of building a coalition between CEO and outside directors (evaluation of board work, resisting to takeovers)	Higher costs of board functioning Poorer information flow and non-executives' access to corporate data Lack of direct contact between executives and non-executives Risk of dominating the board by majority shareholder

Source: Aras, G. and Crowther, D., 2010. *A Handbook of Corporate Governance and Social Responsibility*.

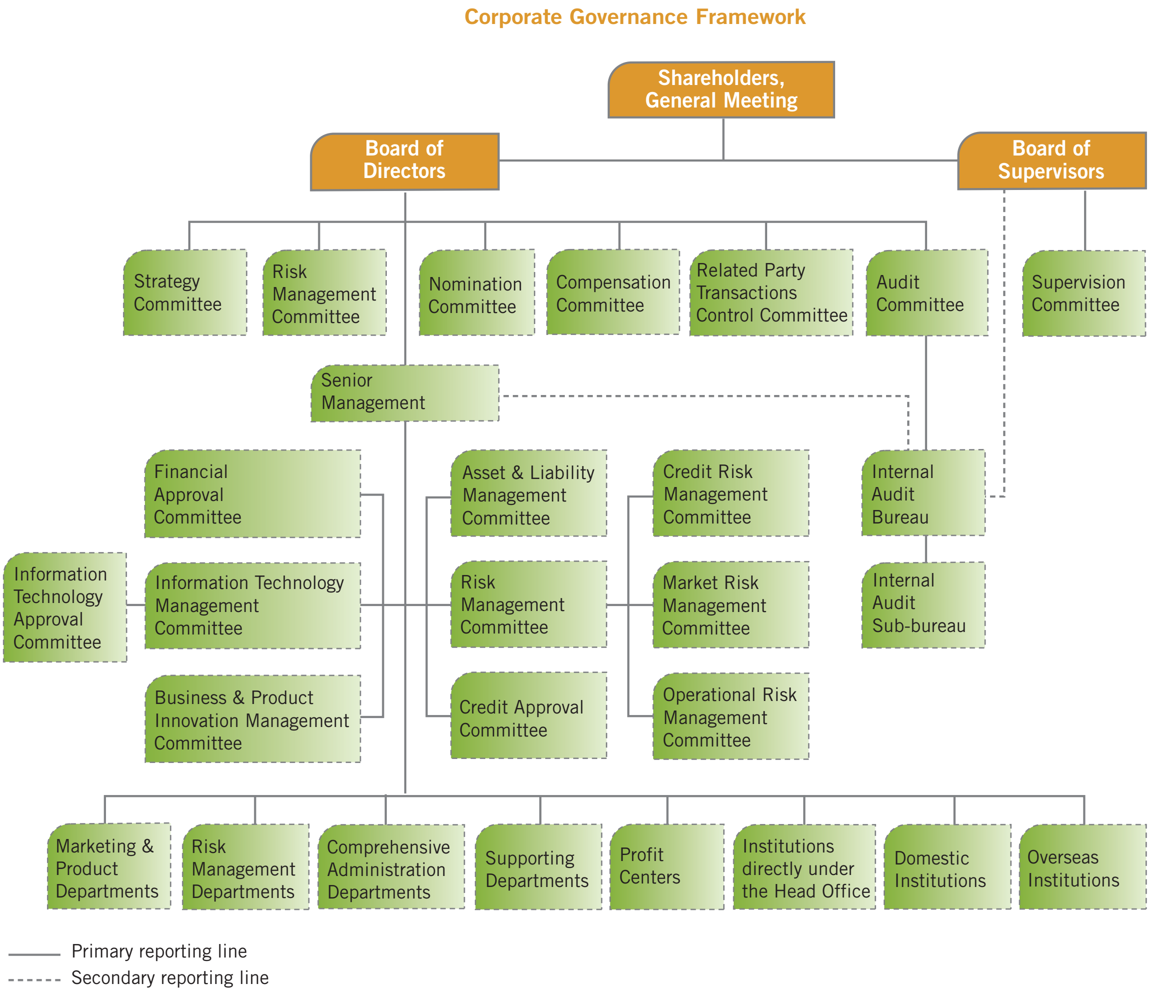
In Asia and the Pacific, where banks are often part of a larger conglomerate of companies, the Board needs to be aware of its specific responsibilities to depositors, in addition to their fiduciary duties to all shareholders. To do so, independent directors should ideally be appointed, and firewalls put in place, thereby ensuring an adequate degree of impartiality from the parent company, and that any untoward transactions within the larger group do not damage the bank's own safety or soundness.[29]

Development finance institutions (DFIs), which are specialized financial institutions established by governments with specific development mandates,

of risk. All banks should seek to reduce their risk exposure, both internally and externally. And most of the major banking scandals that have occurred in recent years have been, to a greater or lesser extent, a result of corporate governance failure. That is why it is important that banks and finance companies should seek to embrace and then mainstream good corporate governance practices into their entire operations, and not just apply mandatory corporate governance standards in a piece-meal or half-hearted manner. Corporate governance practices should become part of a bank or finance company's DNA. If so, the trust levels of customers, clients and peers should be elevated, which in turn can be good news for cost of funding, as it is recognized that risk levels have been lessened. As the popular saying goes: "Do good, and good will come to you".

Figure 1 provides ICBC's example of the corporate governance framework for a bank, which adopts the dual board system.

Figure 1 The corporate governance framework



Source: ICBC, 2013. *Corporate Social Responsibility Report 2013*.

Corporate social responsibility

> *Corporate social responsibility "addresses the integration of issues of concern to society in companies' business operations and their interaction with stakeholders, on a voluntary basis."*
>
> *UNEP*

We turn now to the second of our 3Cs: corporate social responsibility (CSR). CSR is increasingly becoming a mainstream practice in the private sector, as enterprises seek to burnish their image – with employees, shareholders and customers alike – and play a more positive role in society. CSR comes in many guises, from the business ethos of 'doing well by doing good' to the 'triple bottom line' concept.[32]

But however it is termed, the emphasis goes beyond ad hoc philanthropic acts by businesses, towards a more considered, coherent (and effective) approach to being a good corporate citizen. While most CSR issues are often related to some laws (e.g. labour safety, human rights, environmental protection or anti-corruption), it is not mandated by regulation, but rather is a wholly voluntary exercise by the respective firm, typically driven by a range of motives, including reduced risk in business operations, increased employee attraction and retention, as well as ethical beliefs. The concept of CSR should be interpreted as going 'beyond the law,' by doing better than what is required. In this section, CSR will be briefly defined, before delving into the importance of corporate social responsibility for the financial sector and its funding practices.

Defining corporate social responsibility

CSR has been an oft-discussed concept, and there is quite a considerable body of literature on the topic. And yet there still does not seem to be a common definition and consensus on what CSR exactly entails. At one end of the spectrum, Milton Friedman argued that "the [only] social responsibility of the firm is to increase its profits,"[33] thereby effectively dismissing the notion or the need for businesses to pursue socially responsible deeds. Rather, by making profits, the market and the government regulator (buoyed by greater corporate income tax revenues) would be better able to address the needs of the wider community and provide the necessary social goods. The business of business should be to conduct business, as it were, and not to try and pursue goals that are outside of firms' core competencies, and that come with transaction costs that lessen profits for shareholders.

In contrast, Archie B. Carroll focused more on the perceptions of other stakeholders by defining CSR as "encompass[ing] the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time."[34] Another important approach to CSR was developed by R. Edward Freeman. His stakeholder theory proposes the notion that corporations have social accountabilities, and therefore they need to engage with external stakeholders, such as civil society and governments.[35] These more inclusive definitions of CSR have perhaps become more widely embraced by the global business community as to what the 'business' of corporate social responsibility should really be about. The implicit argument made here is that a business cannot be profitable for an extended period of time, if it operates in splendid isolation; rather, it needs to support and nourish the social, environmental and other contextual 'spaces' that it inhabits.

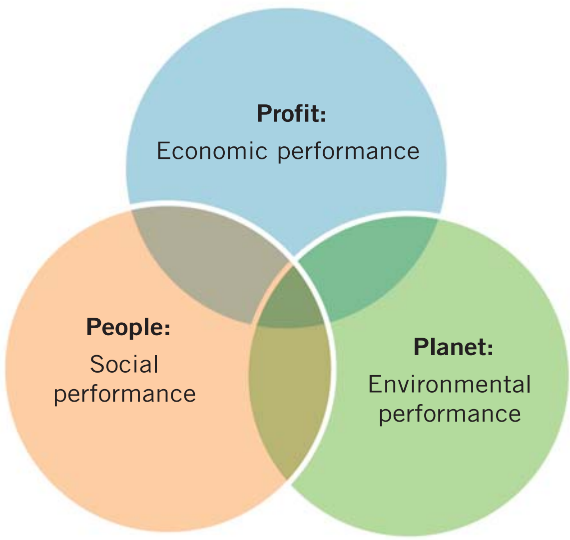
Even so, different perspectives on CSR are still apparent, such as those between parts of the Asia-Pacific region and mainland Europe. In Europe, where the notion of CSR is perhaps better well-established, CSR has largely become well-embedded into businesses as a means by which to positively interact with the wider society, and seen as part of the firm's long-term sustainability.[36] But in the Asia-Pacific region, the onus often remains more on philanthropic acts and other forms of good deeds performed for worthy causes (and 'good karma'), and seen less as being an integral component of the business model itself, although this view is changing gradually.

One reason for this evolution in perceptions, particularly among larger firms in Asia and the Pacific, is the rise of institutional investors around the world as a major source of funding for listed companies. Some of these investors manage very considerable portfolios of money, and are able to leverage that into obliging companies in which they invest to have a CSR strategy in place. Thus, the globalization of portfolio investment flows is helping drive a trend that entails companies contributing positively to their own host country societies (or multiple societies in the case of multinational enterprises or MNEs). Where this is the case, institutional investors either disagree with Milton Friedman's notion that profits – and therefore, dividend payments – are paramount, and/or that CSR, rather than being a cost burden, can actually help in ensuring the sustainability of future income.

For the purposes of this handbook, we opt to define CSR along the lines of the quote, given above, from the United Nations Environment Programme (UNEP).[37] CSR is defined as the integration of issues of concern held by the wider society in companies' business models or operations, and their interactions with stakeholders, on a voluntary basis. This is also more in keeping with similar definitions adopted by other pertinent agencies, such as United Nations Industrial Development Organization (UNIDO)[38] and the United Nations Global Compact,[39] to name but two. The appendix provides an overview of the CSR conceptual model, which describes the main drivers, factors, issues, strategies and stakeholders of CSR.[40]

In conformity with this definition is the 3Ps or Triple Bottom Line (TBL) approach.[41] TBL focuses on the need to balance three goals, namely: i) the traditional business 'bottom line' of generating **profits** for the company and its shareholders; ii) the social 'bottom line' of ensuring that the wider community of **people** are not adversely impacted by the company's activities in some way, and ideally benefit; and iii) the environmental 'bottom line' of looking after the **planet** by ensuring that the company's activities do not harm the environment, whether that be in terms of greenhouse gas emissions, biodiversity issues, etc. (see figure 2).

Figure 2 The 3Ps, or Triple Bottom Line approach



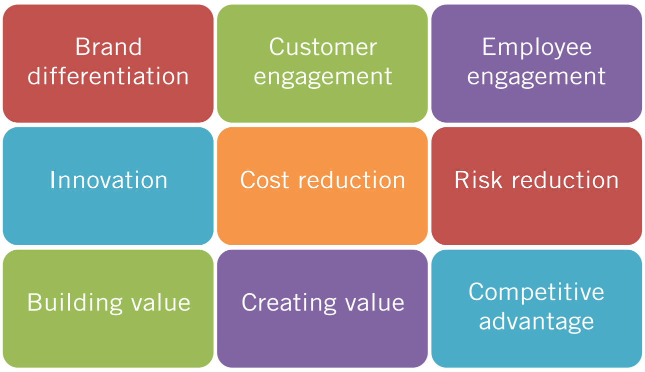
Source: SBN Task Force of Banking and Finance.

Benefits of pursuing CSR

Starbucks, the well-known US-based drinks and food retailer, outlined in a Corporate Social Responsibility Annual Report,[42] that the motives for CSR need not be purely altruistic:

> *"Consumers are demanding more than 'product' from their favo[u]rite brands. Employees are choosing to work for companies with strong values. Shareholders are more inclined to invest in businesses with outstanding corporate reputations. Quite simply, being socially responsible is not only the right thing to do; it can distinguish a company from its industry peers."*

Figure 3 The multiple benefits of CSR



Source: SBN Task Force of Banking and Finance.

So what are the benefits of pursuing a CSR approach? Figure 3 below provides a snapshot of those benefits, which we can briefly profile each in turn, from the perspective of banking and finance.

Brand differentiation and customer engagement: Some banks have opted to pursue what is sometimes termed 'ethical banking,' in response to clients that wish to have their money used according to certain criteria. A CSR approach allows banks a means to differentiate themselves from competitors through various schemes, projects or measures. For example, they may opt not to provide debt or equity finance to companies involved in armaments, alcohol and tobacco, gaming, power or mining projects that will adversely impact the environment or entail the involuntary relocation of local people.[43] In addition, banks and other financial institutions are better able to connect with customers by highlighting the positive impact that they have, as well as potentially engaging the customer through their involvement in certain CSR-related projects. In short, CSR can be an asset in a financial industry that is increasingly standardized in terms of products and services and appeals to potential customers while establishing a rapport that helps a bank or financial institution to distinguish itself from the many other service providers.

Employee engagement: It can be argued that employees increasingly want to work for a company that is active in pursuing sustainable activities. This, together with initiatives that allow employees to become actively involved in CSR projects, can help engender a greater sense of belonging and can add meaning and a greater sense of purpose to their work.[44] A recent survey at British Telecom indicated that more than one third of respondents felt that working for a caring and responsible employer was more important than their salary, and nearly half would leave an employer that lacked good corporate social responsibility policies.[45] Thus, CSR can become an important means of employee attraction and retention.

Innovation: CSR can allow banks to catalyse, champion and even directly support innovative new ideas and schemes that can benefit both the bank's performance and be of benefit to society. This approach has been coined 'strategic CSR,' as it seeks to improve the long term competitiveness of a company.[46] One example of this is Credit Agricole, France's largest retail banking group, which began offering specialized financial products related to environmental protection, thereby being both innovative and differentiating itself from competitors.[47] The schemes included financing to fund energy-saving home improvements, audits certifying farms as being organic and other 'green' and 'low carbon' growth initiatives. Other examples include seeking to increase the incomes of poor households, who are normally excluded from the financial sector, with microfinance loans that enable them to start or expand small businesses.

Cost reduction: While the traditional view might be that a CSR strategy pursued by a company or financial institution would entail costs, there is the potential for CSR initiatives to actually reduce operating costs. Through the increased application of advanced technology, for instance, banks no longer need to open (and staff) as many branches, nor store as much cash, as clients are able to use their mobile telephones to make transactions and use online banking instead.[48] This leads to significant cost reductions for banks, once the sunk costs of the technology have been depreciated, but can also benefit customers and environment. Telephone banking, for example, has been hugely successful in numerous less developed and developing countries, allowing people to access banking services in even remote locations, and to reduce green gas emissions while also reducing transaction costs at both bank and customer sides as well as the security risks entailed in carrying around cash.

Risk reduction: An argument can also be made that mainstreaming CSR into a bank's or financial institution's business plan can indirectly assist in lowering various risks, such as credit default risk by customers. Adopting a more socially aware approach to the development of financial products and services can ensure that these products and services are better tailored to meet the needs and constraints faced by customers. Loading up SMEs with conventional loans (i.e. debt), for example, can lead to high non-performing loan losses that then need to be provisioned for. But if non-debt instruments, or products, that are better aligned with the business cycle of the client are pursued, then risks will be reduced.

Building and creating value: Clearly, developing a brand and good reputation is highly beneficial for any business. Banks and financial institutions can build value, as customers and clients are drawn to their reputation and good image. Done correctly, CSR creates new value by delivering quantifiable social and environmental gains, as well as "yield[ing] longer-term benefits as engaged consumers step up their purchases, a broader investor base develops, or new talent flocks to a company's recruiters."[49] One such example is The Cooperative Bank in the United Kingdom, which is the only 'high street' bank that has an ethical policy which covers human rights, international development, ecological impact, animal welfare and social enterprise. The Cooperative Bank was also the first to pioneer the publication of an annual, independently verified sustainability report each year.[50]

Competitive advantage: Finally, adopting an innovative CSR strategy allows a company or bank to gain a competitive advantage over others, especially when the activities entailed are tailored to meet the needs of particular markets and/or customer concerns.[51] Examples include the car industry where Toyota developed the hybrid Prius in response to public concerns about carbon emissions. As the providers of finance in an economy, banks and financial institutions can actively seek to support such initiatives (i.e. of others), and undertake initiatives of their own. Shifting to renewable fuels as a means to power bank buildings is just one example. And where such activities are recognized by an increasing number of ethical and other consumer research bodies, they can become a useful marketing tool.

One additional and valid driver of CSR can be, for some banks and financial companies at least, is that of faith. In the case of Islamic banking practices, for example, there are a number of strictly defined activities that are not 'Sharia compliant' in some way. High rates of interest – often referred to as usury in the West – is prohibited in Islamic banking, as is the financing of companies involved in the production of alcohol or gambling. This also extends to equity financing; quite a number of investment funds have been established over recent decades, and both Dow Jones and FTSE have their own Islamic market indices to serve as benchmarks for these funds.

CSR measures

Various august bodies and organizations have come up with a range of principles and guidelines to help improve and promote CSR in businesses and banks. Such principles and guidelines typically provide both information on how to go about approaching, designing and applying CSR, as well as the monitoring, evaluation and reporting of CSR initiatives. Below is a brief overview of some of these principles and guidelines, intended to serve as an initial point of reference and entry for those banks and financial institutions considering whether to do more in the field of CSR.

Perhaps the best known CSR initiative is the UN Global Compact, which is a strategic policy initiative that features ten principles for businesses (box 2).[52] These ten principles serve as a basis for a "practical framework for the development, implementation and disclosure of sustainability policies and practices, offering participants a wide spectrum of work streams, management tools and resources — all designed to help advance sustainable business models and markets."[53]

Box 2 UN Global Compact's Ten Principles[54]

Human Rights

- *Principle 1:* Businesses should support and respect the protection of internationally proclaimed human rights; and
- *Principle 2:* make sure that they are not complicit in human rights abuses.

Labour

- *Principle 3:* Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- *Principle 4:* the elimination of all forms of forced and compulsory labour;
- *Principle 5:* the effective abolition of child labour; and
- *Principle 6:* the elimination of discrimination in respect of employment and occupation.

Environment

- *Principle 7:* Businesses should support a precautionary approach to environmental challenges;
- *Principle 8:* undertake initiatives to promote greater environmental responsibility; and
- *Principle 9:* encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

- *Principle 10:* Businesses should work against corruption in all its forms, including extortion and bribery.

Further, the Global Compact Management Model helps companies ensure that their CSR strategy is aligned with those of the Global Compact and its ten principles.[55] The model includes six steps, namely: commit, assess, define, implement, measure and communicate. An important component of this approach is that businesses must regularly report on their adherence to the ten principles in order that they may display the Global Compact kite mark. To date, 115 banks and financial institutions are signatories of the Global Compact in the region. A large number of countries also have their own Global Compact networks.

Other CSR initiatives pertinent to banking and finance include the Equator Principles[56] and the UN Guiding Principles of Business and Human Rights (also sometimes referred to as the 'Ruggie Principles'). The Equator Principles (EPs) is essentially a risk management framework that banks and other financial institutions can voluntarily adopt, to better identify, assess and manage environmental and social risk in projects in which they are involved. Applied globally, it is primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making. The EPs cover all industry sectors and four financial products, namely: i) project finance advisory services; ii) project finance itself; iii) project-related lending; and iv) bridging loans. A hypothetical example would be a project where one or more banks are providing financial assistance, at which it was alleged that child, trafficked or prison labour – for example – was being used by the project developer, or one of its suppliers. If such allegations were proven to be valid, then the relevant banks would withhold any further participation in the project. Roughly 80 financial institutions, spanning over 30 countries have adopted the Equator Principles, and cover more than half of all international project finance debt activity in developing countries. The third iteration of the Equator Principles was issued in June 2013.[57]

The Ruggie Principles stem from 2011, and serve as a global standard in the prevention of risk that business activity may inadvertently have an adverse impact on human rights.[58] The Principles request that a company or bank respects human rights at the international standards and prevents adverse human rights impacts throughout its value chains. In order to meet their responsibility on human rights, firms are required to place formal policies and processes, including due diligence process to address human rights issues.

Box 3 ISO 26000:2010 – Social Responsibility (ISO SR)

In 2010, the International Organization for Standardization (ISO) launched a new international standard revolving around CSR, naming it ISO 26000, widely known as ISO SR. ISO SR provides guidance to businesses and organizations on how they can operate in a socially responsible way and, rather than being intended for certification purposes, provides clarity and a common understanding on what social responsibility is and how companies can put these principles in practice in their daily operations.[59]

By implementing ISO SR, firms optimize their internal processes and ensure integration between their management system and their efforts towards responsibility and sustainability through formal governance structure. Integrating CSR principles throughout the business helps firms to behave ethically and foster respect for stakeholder interests, the rule of law and human rights.

In response to this CSR standard, the banking sector can become more accountable, resulting in the establishment of a wide range of response mechanisms and reporting instruments, like social investment instruments, social audits, multi-stakeholder consultation and other accountability mechanisms and processes.[60]

OECD Guidelines for Multinational Enterprises

Within the area of CSR, OECD has been active in promoting a responsible business conduct and in pushing governments to construct an implementation framework for multinational enterprises to promote progress towards sustainable development. One of the leading tools to promote responsible business conduct is the OECD Guidelines for Multinational Enterprises.[61] The Guidelines are government-backed recommendations addressed to multinationals enterprises operating in or from adhering countries, although they are meant to apply worldwide.[62] The guidelines lay down non-binding principles and standards for responsible business conduct and are intended to be applicable to any multinational enterprise of any sector and size, therefore including the entire range of financial institutions and actors[63] (commercial banks, retail banks, investment banks, rating agencies, financial service providers, institutional investors, etc.). Being multinational enterprises a crucial part of the international economy, the guidelines' aim is to promote their positive contributions to achieve economic, environmental and social progress worldwide.

With regard to the financial sector, challenges have been highlighted given its complexity, and there are still uncertainties on how OECD Guidelines can be fully endorsed within this sector.[64] Financial institutions, like any other large multinationals, may have hundreds to thousands of clients, and that it may not always be practical to check on them regarding the correct application of the guidelines. This brings up the problem of the impact of caused by a business relationship directly linked to the bank operations, products or services. In order to ensure a correct application and guidance for the financial sector, the OECD Guidelines expect financial institutions to put in place due diligence systems, in response to particular incidents when the risk of adverse impact is high, and/or when a risk is brought to the attention of the enterprise by an external stakeholder.[65]

CSR and banking

As society grows more conscious of CSR and sustainability issues, banks and financial institutions will increasingly need to incorporate CSR into their business practices, as well as promoting it to clients. Banks and society are interdependent, and what the banking community does can greatly affect the society in which it is embedded. Further, for banks to perform the principal economic role of financial intermediator, they must have the broad trust of wider society.

Yet, in light of recent financial crises and scandals, public opinion of banks and bankers has probably never been so low as at present. The high bonus payments made to senior executives and investment bankers in particular, even in effectively insolvent banks that had to be rescued, have left many with the view – right or wrong – that bankers are mostly greedy and self-serving individuals. Recent cases of mismanagement, irresponsible risk taking and fraudulent activities have all served to diminish society's belief in banks. It is in this current context that the adoption of a CSR strategy (as part of better corporate governance practices) could do much to improve societies' perceptions of the financial industry as a whole, and regain the levels of trust necessary for banks and other financial institutions to perform their essential role in the economy.

Indeed, banks have begun to pay more attention to their social responsibilities and in reporting about their CSR activities, as well as voluntarily adhering to international codes of conduct, and offer financial products that take account of sustainability issues.[66] Such progress is to be applauded, but there is still significant room for improvement, particularly in the Asia-Pacific region. While some banks and financial institutions in some countries have integrated CSR into their business practices,[67] in other countries there appears to be a general lack of awareness of initiatives such as the Equator Principles. Sadly, some banks seem unwilling to commit to CSR unless it is encouraged by the provision of financial incentives or enforced by mandatory regulations.[68]

Box 4 The OECD Guidelines for Multinational Enterprises in short

- First adopted in 1976 as part of the OECD Declaration on International Investment and Multinational Enterprises.
- Reviewed five times to adapt to the changing landscape of the global economy.
- Constitute voluntary principles and standards for responsible business conduct from governments to multinational companies.
- Cover various issues such as human rights, employment and industrial relations, environment, information disclosure, combating bribery, consumer interests, science and technology, competition and taxation.

Source: OECD Guidelines doe Multinational Enterprises. Website: http://mneguidelines.oecd.org/about/.

Box 5 Asia-Pacific banks involvement in international CSR-related initiatives

UN Global Compact: 15 banks from the region, out of 115 bank members globally.

UNEP Finance Initiative: 35 Asia-Pacific banks out of 144 signatories (including from investment and insurance).

Equator Principles: 10 banks from the region out of 79 financial institutions that have signed up.

But CSR is not only applicable to banks and other lending institutions, but to the whole financial sector, including equity investors and even financial regulators. Asset managers will often seek, with varying degrees of vigour, to ensure that no companies in which they hold shares are involved in activities that are contrary to one or more set of CSR guidelines, such as the Global Compact, and may undertake relatively intensive due diligence in this regard. Should it be found that a company in a fund's portfolio had indeed used child or slave labour, for example, then the fund manager would put pressure on the investee firm to change its ways, or seek to divest its shareholding. In the case of regulators, it is incumbent on them to ensure that the financial organisations under their jurisdiction meet adequate standards of CSR, even if they don't vehemently mandate for high standards of CSR. A hypothetical example would be a casino company seeking to conduct an initial public offering (IPO) and listing on a particular stock exchange. If the exchange commission, or whichever authority oversees the exchange, finds that the casino is – or is at risk of – being used for the laundering of illicit funds, then it can prohibit the IPO to proceed.

Indeed, it is important that the financial sector, where feasible and appropriate, seeks to coordinate its CSR efforts with government agencies, non-governmental organizations and relevant stakeholders in civil society. This helps greatly in allocating resources most effectively, avoiding duplication and harnessing synergies, as the core competencies of the relevant actors are put to best effect. However, this kind of coordination has sometimes been absent in some emerging developing countries (box 6).[69] The World Bank has identified the government as being the main enabler of CSR in developing countries, through mandating, facilitating, partnering and endorsing initiatives, in what is essentially a catalytic role.[70] This involvement can extend to promoting guidelines for specific industries. In China, for example, where much of the banking industry is state-owned, the financial community has been the subject of several sustainability guidelines, and it is anticipated that the banking sector will "push the CSR agenda down the line to the manufacturing and service sector."[71] Government involvement in less and least developed countries, where the capacities of the financial sector are often constrained, is critical in putting the CSR (and corporate governance) 'agenda' in place. However, it is also important for the financial community to recognize the advantages of pursuing CSR strategies, and embracing and mainstreaming it into its business models for best effect. CSR should never be a cynical 'box ticking' exercise that is reluctantly undertaken for regulatory compliance reasons.

Box 6 Reserve Bank of India Circular to Commercial Banks on Corporate Social Responsibility, Sustainable Development and Non-Financial Reporting

To promote adequate awareness and ethical principles of CSR within the banking system, suitable and timely direction from the respective Central Banks of the countries in Asia and the Pacific to the banking system is of critical importance. In this context, the Reserve Bank of India has taken proactive measures with regard to the principles of CSR, sustainable development and non-financial reporting and issued guidelines to the banks and financial institutions. Particular attention has been directed towards the IFC Principles on Project Finance, or the Equator Principles, as well as carbon trading. The circular further emphasized the need of banks to internalize these ethical principles.

Source: RBI, *circular RBI/2007-08/216 DBOD. No. Dir. BC. 58/13.27.00/2007-08*, 20 December 2007. Retrieved from http://rbidocs.rbi.org.in/rdocs/notification/PDFs/82186.pdf.

Box 7 The Kyoto Protocol and UNEP-FI

The Kyoto Protocol to the United Nations Framework Convention on Climate Change (February 2005), an amendment to the international treaty on climate change, and ratified by 169 signatory nations, arguably planted one of the first seeds of social responsibility in the global financial system. Subsequent to the adoption of the Kyoto Protocol, the United Nations Environment Programme-Financial Initiative (UNEP-FI) has been working closely with the global financial services sector, since 1990, on the valid premise that the financial sector has a critical role – and socioeconomic responsibility – in protecting the environment and contributing to society, while maintaining the long-term health and profitability of their businesses. Over 200 institutions, including banks, insurers and other financial institutions, work with this initiative to study the impacts of environmental and social issues on financial performance.

Sources: United Nations Framework Convention on Climate Change; UNEP Financial Initiative—Changing Finance, Financing Change.

Box 8 UNCDF

The United Nations Capital Development Fund (UNCDF) is one example of a multilateral organization that works with CSR-mined enterprises, including national, regional and international financial institutions, as well as a range of stakeholders – donor and recipient governments, international organizations and civil society organizations – to address SMEs and microfinance (or 'inclusive finance') issues. UNCDF has provided SME- and microfinance services and related technical assistance to a number of less developed countries in Asia and the Pacific, including: Bangladesh, Bhutan, Cambodia, Fiji, Lao PDR, Myanmar, Nepal, Papua New Guinea, Samoa, Thailand, Timor-Leste and Vanuatu. UNCDF has supported a wide range of financial institutions (e.g. banks, cooperatives, money transfer companies and mobile networks operators), developing together a number of financial products and services (e.g. savings, credit, insurance, payment services, remittances). Banks and financial institutions in the region can gain relevant knowledge and assistance, working with UNCDF in areas of SME- and microfinance schemes.

Source: United Nations Capital Development Fund website: http://www.uncdf.org/.

Two areas of potential CSR focus for banks and financial institutions

In applying CSR to their business models, banks and financial institutions have a potentially long list of schemes, practices and arrangements to choose from and create. A bank or financial institution will choose the arrangement that fits its needs best based on the capacities, regulatory environment (and other 'externalities') and desired outcomes. For example, the goals and capacity of a relatively small private or state-owned bank in Lao PDR are very different from those of an international investment bank, such as Credit Suisse. This section explores just two of the different areas of focus and activities particularly relevant to banks, namely SME financing and green businesses. But this is by no means an exhaustive list of what banks and financial institutions can potentially pursue within the context of CSR.

SME access to financing

"No bank that is ambitious can ignore the SME market. Given a reasonably stable political situation, we are confident we can move into an emerging market and profitably bank SMEs."

Mandeep Vohra, *Head of Small Business, SME Banking, Standard Chartered Bank (UK)*

"SME banking is not about providing a loan. It is about the complete relationship value that you can offer the SME. This spans the opportunity on the liability side and the opportunity on the transaction side."

V. Chandok, *Senior General Manager, ICICI Bank (India)*

"We try to keep things relatively simple, because SMEs in their essence are really conservative, family-run businesses whom you have to get close to in order to do business. You have to have an in-depth, relationship based model."

Steve Miller, *Head of Group Business Banking at Alliance Bank (Malaysia)*

Access to finance for SMEs has received greater attention from the financial system in Asia and the Pacific in recent years. International organizations have conducted extensive research in the field, particularly on SMEs development in South-East Asia.[72] In general, the SME sector can be broadly divided into a formal and informal sub-sector, with the latter – including micro-enterprises and cottage industries – often constituting the larger component in less and least developed countries. While in the formal sub-sector, the CSR agenda and the monitoring of borrowers' activities by banks have largely become mainstreamed in the financing of SMEs, it is the informal sector where banks face much greater challenges. Within this sub-sector, over 90% of SMEs are typically proprietary/partnership firms or informal cooperatives, and do not belong to the formal corporate sector.[73] Additionally, many of these small businesses are run by women entrepreneurs who face additional challenges related to gender discrimination, especially in rural areas.[74] If banks and financial institutions wish, as part of their CSR strategy, to help informal SMEs (and even many formal SMEs) to gain access to finance, a departure from the "business as usual" approach is necessary.

For example, informal and many formal SMEs lack adequate physical assets to serve as collateral or lack the ownership documentation needed to pledge such assets as security. It is in this context that 'plain vanilla' banking is unlikely to be of much use, particularly in less and least developed countries, i.e. something more innovative needs to be pursued with due care to ensure that already poor individuals with low household incomes are not inadvertently pushed into a debt trap. But by harnessing the core competencies of bankers, innovative ways can be found to improve the means by which SMEs, both formal and informal, can gain access to funding that will allow them to burgeon. Such innovate ways are often pursued in partnership with government agencies, non-government agencies and development partners of various kinds.

It is widely understood that SMEs have difficulty in accessing funding from commercial banks and other finance providers for several reasons, including a lack of sufficient collateral, information asymmetries, the perceived higher risk of lending to SMEs, higher transaction costs for banks (i.e. in terms of the costs of processing and administering a loan, relative to the amount actually lent out) and various other institutional, legal and regulatory factors. This lack of formal financing means that SMEs often are obliged to turn to informal lenders (including so-called 'loan sharks' that charge usury rates of interest), or family and friends.[75] Such a situation then inhibits not only the growth of SMEs (both individually and collectively), but also job creation, formalization, innovation and competition, all of which are needed for inclusive and sustainable economic growth in Asia and the Pacific. The banking community cannot effectively perform its economic role as financial intermediator when it cannot reach this important sector of the business community: this constitutes a form of market failure which needs to be addressed.

It is in this context that CSR strategies can play a role in mitigating this market failure. For example, banks and other financial service providers can look to offer particular loan or leasing schemes that are tailored to the needs of SMEs, while financing to SMEs needs to make business sense and not to be a voluntary measure to satisfy CSR requirements. The trick is how to make it commercially viable and attractive for banks. In this sense, leasing in particular is an attractive proposition, as it largely removes the collateral constraint problem,

Box 9 SIDBI on MSME sustainable finance

As the apex development finance institution (DFI) for the MSME sector in India, the Small Industries Development Bank of India (SIDBI) has taken due care to meet the financial needs of the MSMEs sector. The 2012-13 SIDBI Annual Report puts strong attention on sustainable finance and states that "sustainable development of MSMEs is critical to the economic development of India." Accordingly, the bank has brought forward several initiatives to support and foster sustainable production methods in the MSME sector, by creating specialized loan products and promotional activities. In particular, the bank has created special lending schemes involving several multilateral and bilateral international agencies. The Annual Report further underlines that "the main objective of these focused lending schemes is to reduce energy consumption, enhance energy efficiency, reduce CO emissions and improve the profitability of the Indian MSMEs in their long run."

Source: SIDBI, *Annual Report 2012-13*, p. vii.

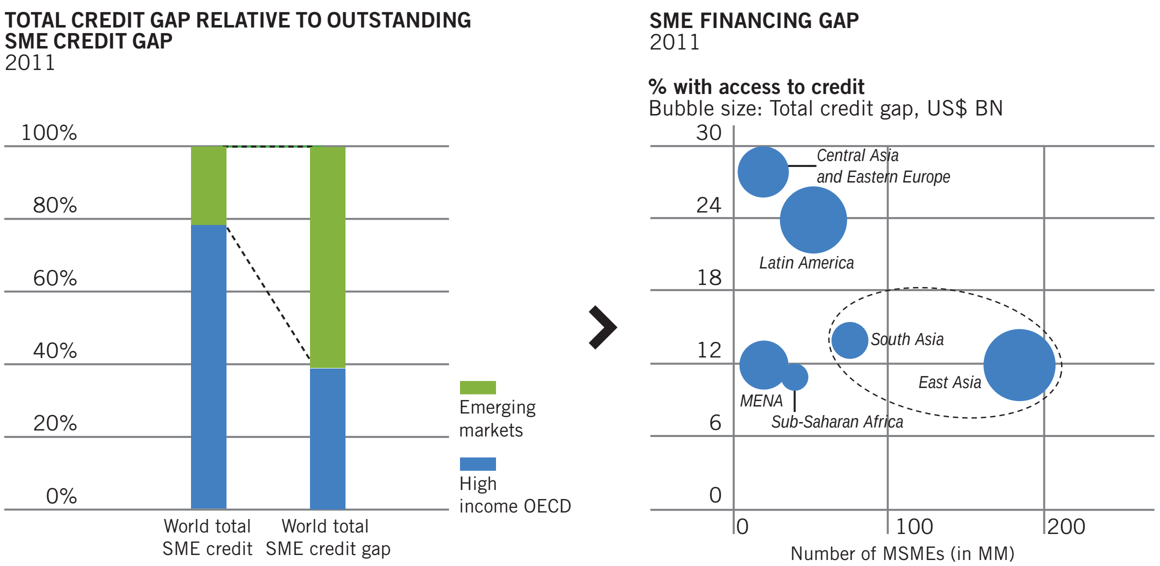
and regulatory agencies can support its development through accelerated depreciation schemes for leased assets and the establishment of asset registries that can give lessors greater comfort that lessees will honour their contractual commitments. Another SME-friendly financial service is factoring (also sometimes referred to as accounts receivables), which allows some SMEs to 'leverage' the lower credit risk of their larger clients. While the effort and cost in developing such financial services may not be attractive to banks that do not currently offer them, those costs could be justified (and absorbed) as part of the bank's wider CSR strategy.

SME financing also provides a vehicle for banks and financial institutions to promote the concept of CSR to their SME clients, and why it makes good business sense for an SME to embrace CSR principles. This knowledge can then be disseminated up and down the supply chain, thus enabling the spread of responsible business practices among the wider business community. Banks and financial institutions are in a unique position, given their status in the wider economy as the transmitters of funds, to play an important advocacy and promotion role in the adoption and mainstreaming of CSR across the corporate sector, from small to large businesses.

Currently there is a significant gap in SME financing, as can be seen in figure 4 below.[76] This gap needs to be corrected, especially as SMEs play such an important role in virtually all of the economies of the Asia-Pacific region. They are an important source of employment and income, particularly in less developed regions, despite the difficulty in accessing financing. Furthermore, SMEs often play an important role as supporting industries in international production networks and global value chains. One could indeed argue that, while there are clear social and economic merits stemming from improved access to finance for SMEs, it is also a largely untapped market that – with the right financial products and services on offer – could generate additional revenues for those banks and financial institutions willing to develop innovative new business lines. Here again, CSR can be perceived not only as 'being a good thing,' but that it also makes for 'good business.'

This growing perception is perhaps why more and more banks in the region have started embracing the idea of SME financing, especially as corporate and retail banking have become increasingly competitive and offer shrinking margins. In an IFC web-based survey, 12 surveyed banks reported an average of 28% higher operating incomes and 35% higher profits for SME-related lending, compared with their total bank lending as a whole.[77] This realization has some parallels with a similar realization by some manufacturing and retail companies that there are potentially significant profits to be made – and social good to be done too – in seeking to serve those at the 'base of the pyramid' (i.e. those with incomes of US$ 3-4 per day or less). Despite the low incomes of many at the base of the economic pyramid, they are large in number and are under-served by conventional products and services. But with some innovative thinking and adaptation, this can change for the better for all. Indeed, the Asian Development Bank (ADB) has noted that "Asia's private sector is increasingly realizing that the base of the income pyramid ... represents an interesting business opportunity as a substantial new market for goods and services, which in turn can improve the livelihoods of the poor and vulnerable. This segment of the population

Figure 4 Global SME financing gap



Source: Sheng, A., Ng, C.S. and Edelmann, C., 2013. *Asia Finance 2020: Framing a New Asian Financial Architecture*.

also doubles as a significant pool of entrepreneurship, assets, talent and productivity that can be leveraged for the supply of critical inputs, innovative distribution systems, and skilled labo[u]r."[78]

Three examples of inspiration, from Japan, China and India may further illustrate the potential for CSR in helping SMEs gain access to finance as shown in boxes 10 to 12 below:

While SME financing in Asia and the Pacific seems to be moving in the right direction with increased public and private initiatives, table 2 below highlights that there are still several issues for banks and SMEs to resolve. However, by developing innovative schemes and using the skills of local branches, it is feasible for banks to viably cater to the funding needs of SMEs.

Box 10 Funding disaster risk reduction for SMEs

In Japan, a 2005 study highlighted that a large earthquake was very likely to take place in the next 30-50 years in Shiga prefecture. Realizing that its clients were not prepared for such a disaster, Shiga Bank began to raise awareness and offered specialized loans and financial services to ensure clients and SMEs were prepared for an earthquake. By doing this, the Bank not only looked after their clients but also made sure that their investment was protected against a very real risk.

Source: UNISDR, 2013. *Private Sector Applied: Good Practices in Disaster Risk Reduction from Japan*. Retrieved from http://www.unisdr.org/files/33594_privatesectorstrengthsapplied2013di.pdf on 20 October 2014.

Box 11 Beyond lending

In India, ICICI Bank has recognized that SMEs need more than just loans. With 95% of the Bank's SME customers being non-borrowers, ICICI's strategy has included serving their customers through the provision of other products and services, such as checking accounts, transaction services, cash management, trade services, etc. ICICI evaluates its customers through a 360-degree credit risk evaluation, covering financial and non-financial parameters, and thereby compensates for SMEs' lack of financial information. This strategy has helped the Bank reach 946,000 SME clients and facilitated more than US$ 3 billion in SME financing by the end of 2010.

Source: IFC, 2010. *Scaling-Up SME Access to Financial Services in the Developing World*, p. 52.

Box 12 ICT based SME financing

In China, ICBC is continuing to increase its involvement with SMEs and provide more services and loans. Often this requires building and connecting businesses through information and communication technology, as was the case when the Shanghai branch of ICBC successfully developed the first electronic supply chain financing system connecting Baosteel Group and ICBC, the first of its kind in China. With this system, ICBC can deliver convenient online financing services to nearly 30,000 SME suppliers of Baosteel Group throughout the country, thereby providing a broader financing channel for smaller enterprises.

Source: ICBC, 2012. *Corporate Social Responsibility Report 2012.*

Table 2 Issues and suggestions for strengthening bank-SME relationships

Issue	Bank	SME
Insufficiency of credit	• Fear of non-payment should be addressed via proper assessment of risk and moral support from relevant government agencies. • Update credit databases to include SMEs. • Joints appraisal with commercial banks/ DFIs and BDS providers.	• Careful planning for credit needs based on a specific, workable business plan. • Supporting documents for verification should be kept ready. • Be open to banks in discussing all financial problems. • Prepare thoroughly for presentation, interview, etc.
Delays in credit sanctions	• All data requirement for credit appraisal should be communicated to SMEs in one installmen. • The appraisal process should be explained in the initial interview. • The appraisal should continue even if a credit officer goes on leave but one person should ultimately be accountable for each SME application. • A single-window approach should be followed for appraisal • The appraisal process should be focused on continuous improvement, including the models used for risk measurement.	• Produce all data requirements and documents in one installment. • Keep financial records current and accurate. • Extend cooperation to the bank in complying with the head office guidelines.
Collateral requirement is too high	• Get a second opinion on need for collateral, perhaps from a BDS provider. Consider future cash flow as the primary security for SMEs.	• Work with the bank and BDS providers to reduce risks. • Offer some collateral if feasible.
Information requirement is too high or not available	• Checklist of information on requirements to be prepared for SMEs with due care. • Use of computers for data storage and analysis. • Standardize the data requirements for loan applications across different institutions.	• Keep financial and operating records current and accurate. • Use computers where feasible. • Appreciate date needs of the bank.
Compliance with loan agreements, including audits	• Arrange audits to minimize inconvenience to borrowers • Explain timing and procedures for loan compliance.	• Cooperate with the bank since post-sanction formalities are also for their benefit. • Regular submissions of statements and returns.

Source: ESCAP, 2012. *Policy Guidebook for SME Development in Asia and the Pacific.*

Green business financing

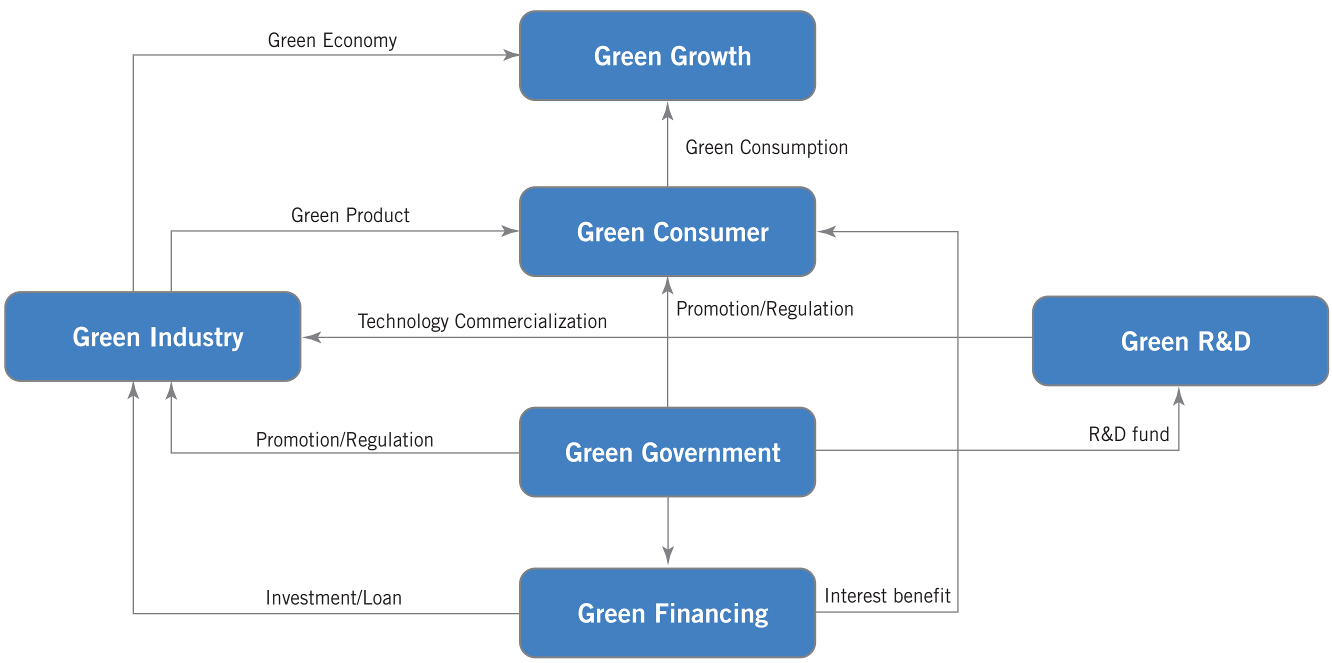
As part of their CSR strategies, banks are expected to be committed to have positive impact on the society and environment. In addition to sponsoring or working together with NGOs or local governments with regard to environmental efforts, banks also have a unique ability to stimulate low carbon growth ventures through the use of green business financing.

The spread of green businesses are one of the responses from the business sector, recognizing that economic outcomes alone hide some of the risks and costs of current global consumption and production practices. Green business, or sustainable business, is defined as "an enterprise which has minimal negative impact on the global or local environment, community, society or economy"[79] (therefore endorsing the already mentioned TBL approach). It is a business model which aims at achieving long-term sustainable growth objectives by promoting ecologically efficient production activities and marketing sustainable products and services. Investing in green businesses engaged in innovative and groundbreaking activities, in areas such as sustainable energy, medical and environmental technology and corporate social responsibility, allows investors to directly contribute to sustainable solutions for the future.

While green businesses have great potential in creating long-term investment returns and sustainable growth opportunities, launching them may entail the need for long-term capital and relatively large amounts of initial investment, resulting in short-term financial losses and cash flow disruption. Yet, many green businesses are start-up ventures, lacking historical performance records and the kinds of historical financial data that banks can use to extrapolate likely future cash flows and revenues. Thus, securing funds is one of the main hurdles when it comes to transforming the idea of green businesses into actual business practice. Ultimately, if the provision of green financing products and services are weak, green industry will not be pursued well, and green products will not reach the market for consumers. Funding is a key part of the 'green economy equation,' which consists of a number of key success factors for successful green business, such as regulations and promotion, investment, R&D, technology, production and consumption, as figure 5 below illustrates.

Green business financing requires mobilizing financial resources from a wide range of sources, public and private, bilateral and multilateral, including alternative sources. An example of one pioneering green financing method is the Clean Development Mechanism (CDM). Tracking it back to 1997, CDM is one of the flexibility mechanisms established under the Kyoto Protocol adopted by the UNFCCC,[80] which indicates quantified greenhouse gas emission targets for all the industrialized countries. CDM's main aim is to contribute to sustainable development by starting off developing countries in a low-carbon development path, and to enable developed countries in achieving the Kyoto Protocol's emission reduction targets in a cost-

Figure 5 Relationship between green growth and green financing



Source: Oh, D., 2011. *Green Financing in Korea*, International Finance Corporation.

effective manner.[81] In essence, under the CDM, both enterprises and banks are encouraged to develop and fund projects in developing countries that reduce greenhouse gases emission and that are driven by sustainability principles. Upon verification by an independent entity under the aegis of the UNFCCC, these emission reduction activities can generate "carbon credit" – certified emission reductions that are equivalent to one ton of carbon dioxide – which are traded on the carbon market and sold to developed countries that use them to meet their reduction commitment under the Kyoto Protocol.[82] CDM constitutes the largest source of climate change mitigation finance to developing countries. [83]

Fast-growing green businesses may attract private equity investors and venture capitalists, while government agencies and NGOs may also provide grants to support some projects. Nevertheless, bank loans remain the most dominant source of funding for most green businesses. Boxes 13 and 14 explore the cases of two banks of the Asia-Pacific region, ICBC China and Hang Seng Bank, which set up credit schemes for enterprises that have environmental sustainability at their operational core.

Again, as with applying good corporate governance practices, the impact of pursuing CSR practices need not entail an additional operational or compliance cost to the bank or finance company concerned. There are ample examples of cases where commercially oriented businesses have found that doing good can result in doing well. The CDM mechanism, for example, can bring potentially considerable financial support to projects that have a positive impact in addressing the issue of greenhouse gas emissions and climate change.

Box 13 ICBC supporting green growth in China

ICBC in China has developed the guidance of resource-effective and environmentally friendly green credit, giving priority to green credit projects. By the end of 2012, environmentally friendly loans accounted for more than 99.9% of total loans outstanding, of which loans granted to specifically green economic fields — such as ecological preservation, clean energy, energy saving and emission reduction and the comprehensive utilization of natural resources — totaled at RMB 593.4 billion.

Source: ICBC, 2011. *ICBC Pursues with Vigor to be World-Class Green Financial Institution*.

Box 14 Hang Seng's green financing scheme

As an active supporter of environmental protection, Hang Seng Bank is launching a green business financing scheme that will allow Hong Kong, China-owned factories to acquire new equipment that can enhance their energy efficiency and reduce pollution. Equipment financing and top-up financing provide funds for fixed-asset investment, working capital and trade financing needs. The scheme also includes donations to a green fund and a premium discount on general insurance products.

Source: Hang Seng Bank website.

Corporate sustainability

"The direct environmental impacts of banks are relatively small. Lending is the key lever. This is the lever for positive outcomes that banks can pull, and should pull."

Geoff Lye, *corporate sustainability expert*

Defining corporate sustainability

Let us finally turn to the last of our 3Cs – that of corporate sustainability. In this book, corporate sustainability is defined as "meeting the needs of a firm's direct and indirect stakeholders without compromising its ability to meet the needs of future stakeholders."[84] It focuses more on long-term and sustainable growth, rather than on short-term profits, thereby presenting "a company's delivery of long-term value in financial, social, environmental and ethical terms."[85]

Many large companies are gradually shifting their focus away from generating short-term profits and towards obtaining long-term value and sustainable growth. Environmental, social and governance (ESG) are widely considered to be the three key aspects of conducting sustainable business and measuring corporate sustainability. In banking and finance too, the ESG acronym has come to the fore in recent years. Indeed, the UNEP Finance Initiative Asset Management Working Group found that:

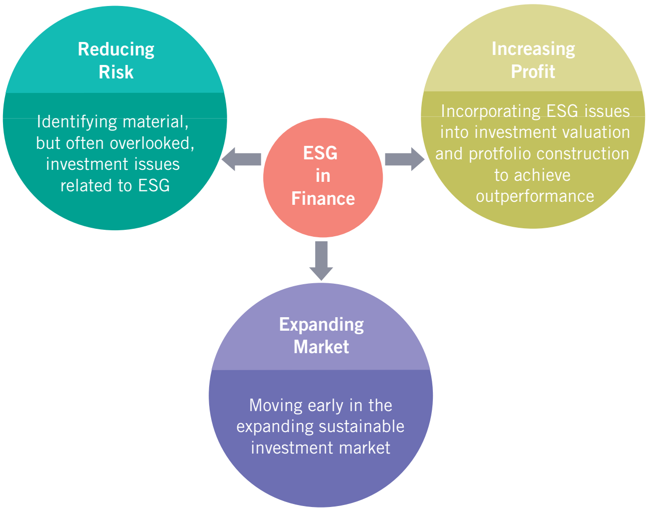
1. ESG issues are material – there is robust evidence that ESG issues affect shareholder value in both the short and long term;
2. The impact of ESG issues on share price can be valued and quantified; and
3. Key material ESG issues are becoming apparent, and their importance can vary between sectors.[86]

Considering the importance and influence of ESG issues, it is wise for financial institutions to take them into consideration when making all major policy and strategic decisions. Embracing and mainstreaming ESG issues allow banks and other financial institutions to not only better manage long-term risk, but also potentially increase profits and tap into growing sustainable markets (see figure 6).[87]

Sustainable banking

Sustainable banking can be perceived as a way of decision-making by banks and financial institutions which leads to the provision of products and services only to those customers who take into consideration the environmental and social impacts of their activities.[88] Unlike other types of corporations, banks face numerous uncertainties and risks, and it is critical for banks to strike the right balance between meeting short-term obligations and generating long-term sustainable value. As the majority of companies rely on banks to obtain funding sources and financial support, the lending decisions made by banks have a major impact on the performance of individual firms and the corporate community as a whole. To achieve sustainable

Figure 6 Benefits of ESG in Finance



Source: Aras, G. and Crowther, D., 2010. *A Handbook of Corporate Governance and Social Responsibility*.

development and growth, banks need to think in terms of both internal and external issues. Internally, the sustainable operation of a bank or finance company is based on having the right kind of corporate governance structures in place, as well as measures to performance and risks. Externally, a strong commitment to regulatory compliance and information disclosure helps guard against misconduct and promotes sustainable business.

As the figure 7[89] below seeks to depict, there are arguably six elements to this approach, which all entail taking ownership of the firm or bank's responsibilities and commitments in relationship to the wider community in various ways. Behind it lies a conviction that a business should not only be compliant with all laws and regulations that pertain to its day-to-day business, but undertake a more long-term commitment to the well-being of the wider context in which it operates. That context spans not only immediate shareholders, customers and suppliers, but also the wider environment of stakeholders with which the business has some kind of indirect or 'arm's length' relationship.

Contrary to popular belief, attaining long-term sustainable growth does not necessarily come at the cost of short-term losses. In the banking and finance sector, sustainability leads to higher profits and better asset quality. The Global Alliance for Banking on Values (GABV) analysed the financial conditions of sustainable banks versus Global Systemically Important Financial Institutions (GSIFIs). The research findings suggest that, compared to GSIFIs, sustainable banks have on average: i) a significantly higher proportion of assets invested in lending; ii) fund a much larger portion of their total balance sheet with customer deposits; iii) have much higher levels of equity to total asset ratios; iv) have higher and more stable returns on assets and returns on equity; and v) have significantly higher growth in both loans and deposits.[90]

In this regard, GABV developed a set of six principles to define, identify and monitor sustainable banks (box 15). The inter-connected principles, covering both cultural and operational aspects of sustainable finance, are practitioner-based and pro-active.[91] Sustainable banks are expected to follow the principles in their business operations and management procedures.

Figure 7 Commitment to sustainable banking

Sustainability	Set sustainability objectives, implement sustainable strategies and promote sustainable investments
Do No Harm	Prevent detrimental impacts of investments and avoid involvement in unsustainable transactions
Responsibility	Bear full responsibility for the environmental and social impacts of the transactions
Accountability	Be accountable to stakeholders through ensuring their rights are protected
Transparency	Be responsive to stakeholder needs for specialized information and conduct robust disclosure
Markets and Governance	Support public policy, regulation and market mechanism that facilitate sustainability

Source: van Gelder, J.W., 2006. *The do's and don'ts of Sustainable Banking – A BankTrack manual*. BankTrack.

Box 15 Global Alliance for Banking on Values: Six Principles

Principle 1: Triple bottom line approach at the heart of the business model

Principle 2: Grounded in communities, serving the real economy and enabling new business models to meet the needs of both

Principle 3: Long-term relationships with clients and a direct understanding of their economic activities and the risks involved

Principle 4: Long-term, self-sustaining and resilient to outside disruptions

Principle 5: Transparent and inclusive governance

Principle 6: All of these principles embedded in the culture of the bank.

Source: Global Alliance for Banking on Values, http://www.gabv.org/about-us/our-principles.

Shareholder value vs. stakeholder value

Shareholders refer to those individuals and institutions that hold stocks in a company (or bank), and are effectively the owners. Stakeholders, on the other hand, refer to all the parties that have a direct or indirect interest in the activities of the company or bank in some way, whether as depositors, borrowers, suppliers, etc. In pursuit of corporate sustainability, instead of focusing solely on generating profits for its shareholders, companies and banks try to take the interests of all stakeholders into consideration in their decision-making processes.[92] For some companies, it can seem difficult to reconcile the two competing objectives of achieving sustainable growth and maximizing shareholder value. But balancing the interests of shareholders and stakeholders is one of the key tenets of attaining sustainable growth. Companies (and banks) that seek to generate and maximize profits for their shareholders, while destroying stakeholder value, may face a number of consequences, including regulatory enforcement of some kind and a drop in goodwill. (And those shareholders that place a high value on stakeholder issues may opt to sell their shares.) Conversely, when value is transferred from shareholders to stakeholders in an unbalanced way, Board members and senior executives may face accusations of having failed in their fiduciary duties to work in the interests of shareholders, and to the detriment of profitability and shareholder value. In this sense, maximizing shareholder value is part of economic sustainability and would therefore remain part of the overall sustainability paradigm. Therefore, sustainable value occurs only when companies and banks are able to attain positive value for both shareholders and stakeholders; not always an easy task.

Both the creation of shareholder and stakeholder value involves all dimensions of a business. Stakeholder values comprise economic, social and environmental dimensions. Stakeholders of a bank or financial institution typically include regulators, investors, customers, employees, communities and other related parties. As different groups are seeking to optimize different values, it is important for banks to be able to try and balance and navigate through what can sometimes seem like competing stakeholder demands. These can be summarized as follows:

1. **Regulators:** Banks are subject to close scrutiny from government agencies and other regulatory institutions. It is necessary to follow certain mandatory requirements, restrictions and guidelines that are imposed, particularly those with regard to strengthening risk management. The fear of a bank failure leading to a wider, systemic banking crisis is upper-most in the minds of most financial regulators.

2. **Investors and shareholders:** Investors, equity holders and debt holders, share an interest in the effective implementation of corporate governance practices and management procedures of banks. Effective communication and information disclosure are necessary for investors to confidently allocate resources to assets that offer attractive (risk adjusted) return opportunities.

3. **Customers:** As sources of revenue, customers are at the heart of all businesses, including banks. While focusing on the needs of customers (e.g. providing competitive products, better service, tailored banking, etc.), banks need to gain sufficient trust and understanding from customers to build long-term sustainable relationships.

4. **Employees:** Like in all sectors, skilled and experienced employees are key players in generating profit and creating value. In investment banking in particular, there is a strong emphasis on the value of human capital. Therefore, employee satisfaction and morale

directly affect the productivity and performance of banks. It is also important to build employee awareness of and drive participation in core sustainability themes.

5. **Communities:** Engaging with, and seeking to improve engagement with wider communities in which the banks operate, is an integral part of corporate sustainability. Banks may focus on projects where they can make an impact on the sustainable development of communities, such as providing financial and accountancy training for SMEs (who may be tomorrow's MNEs) and offering appropriate funding options.

6. **Others:** Other stakeholders in a bank or financial institution may include credit rating agencies, auditors, suppliers, the media (both social and more conventional), peer banks and associations, etc. While they all have different interests and priorities, it is important to balance different stakeholder values and reconcile any potential divergences.

Sustainability reporting

Just as companies and banks present their economic performances in annual and semi-annual financial reports, they can regularly disclose information on their sustainable development through either devoted sustainability reports or sustainability chapters within their annual reports (and on website pages). Sustainability reporting refers to "the account an organization gives of its performance on a number of sustainability dimensions such as economic, environmental, social and corporate governance performances."[93] In the past few years, the banking and financial sector has seen rapid growth in the take up of sustainability reporting. Among finance, insurance and securities companies in the world's top 250 companies, the proportion enacting sustainability reporting increased from 49% in 2008 to 70% in 2013.[94]

As with CSR initiatives, banks and other financial institutions can benefit from sustainability management and reporting while interacting with various stakeholders: suppliers, employees, clients and customers, shareholders, civil society and the wider community and environment. The benefits principally come from revenue growth, improved risk management, better access to capital, as well as cost savings and greater efficiency.[95] Table 3 provides a breakdown of the benefits of sustainability reporting.

Global Reporting Initiative (GRI) is an international non-profit organization (NGO) whose mission is to promote the use of sustainability reporting as a way for companies or organizations to become more sustainable and contribute to sustainable development. GRI has pioneered and developed a comprehensive sustainability reporting framework on the economic, environmental and social impacts caused by business' daily operations.[96] To help companies and banks to prepare robust and purposeful sustainability reports, GRI launched the fourth generation of Guidelines (G4) in 2013. G4 allows organizations to choose between two 'in accordance' options: i) core; or ii) comprehensive. The choice will depend on what best meets the relevant organization's reporting needs, and those of their

Table 3 Benefits of sustainability reporting

Stakeholders → / Benefits ↓	A. Suppliers	B. Internal		C. Clients & Shareholders	D. Society/ Environment
I. Revenue growth	Opportunities for new business developments	Improve competitiveness and business		New products and services	Boost local economic growth
II. Risk managements	Reduce risk of supply chain reputational damage	Governance – improve compliance and transparency		Manage environmental risk	Manage reputational risks
III. Access to capital				Improve access to finance	Meet stock exchange listing requirements
IV. Cost savings & efficiency	Build better relationships	Reduce waste	Motivate work-force	Build better relationships	

Source: UNEP, 2006. *Sustainability Management and Reporting: Benefits for Financial Institutions in Developing and Emerging Economies*, UNEP Finance Initiative, p. 4.

stakeholders. Both kinds of disclosure – the General Standard Disclosures and the Specific Standard Disclosures – guide companies to deliver information effectively and appropriately.[97] The General Standard Disclosures set the overall context for the report, providing a description of the organization and its reporting process. They apply to all organizations, regardless of their materiality assessment. The disclosures range from the organization's strategic perspective on addressing sustainability issues, and how it involves stakeholders in this process, to how it approaches key issues such as governance and ethics and integrity. The Specific Standard Disclosures consist of two elements: i) management approach, and ii) indicators (boxes 16 and 17 provide examples of banks' sustainability reporting).

Given that ESG aspect (i.e. environment, social and governance) is one of keys to measure corporate sustainability, the IFC has put in place the Sustainability Framework including: 1) policies on environmental and social sustainability; 2) performance standards; and 3) access to information (figure 8). Bringing the three pillars together, the framework can facilitate corporations' efforts to sustainable development and enhance their risk management capability.[99]

In order to offer a loan to business and private projects, IFC requires clients to implement sustainability policies in their daily operations in accordance with the Sustainability Framework. In this regard, the performance standards of the Framework have been used as a benchmarking system for all clients whom implement and operate in the project which has been financed by IFC.[100] The performance standards (PS) are as follows:

- PS 1: Assessment and management of environmental and social risks and impacts
- PS 2: Labour and working conditions
- PS 3: Resource efficiency and pollution prevention
- PS 4: Community health, safety and security

Box 16 HSBC Bank sustainability reporting

HSBC Bank provides a good example of sustainability reporting. The Bank provides every year a sustainability report. The report outlines the way in which sustainability has been integrated into the bank's business model, not only considering commercial opportunities but also providing an insight on how mitigating risks. It revolves around six areas – strategy, customers, sustainability risk, operations, people and community investment – of which the bank gives an account of the progress made and opportunities for future improvement. For the 2013 Sustainability Report, the bank consulted the GRI's parameters and the greenhouse gas protocol for carbon emissions reporting.

Source: HSBC, 2013. *Sustainability Report 201*, HSBC Holdings plc.

Box 17 Bank of China sustainability reporting

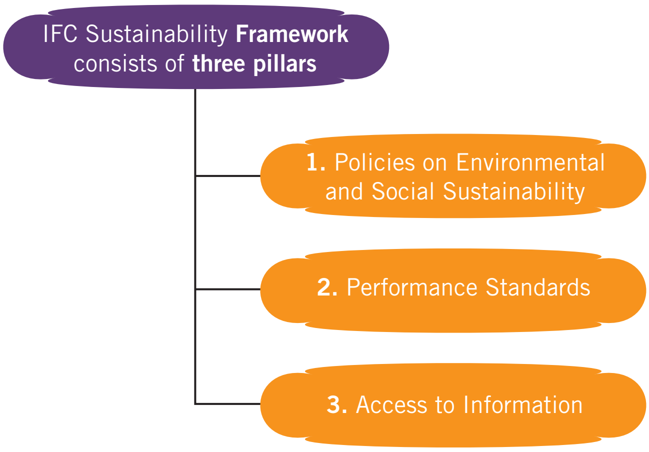
As part of the annual report, the Bank of China issues a yearly sustainability report which provides stakeholders with a summary of the bank's sustainable development and CSR activities. The 2013 report follows not only the GRI's guidelines, but also has made reference to the environmental, social and governance reporting guidelines developed by the Hong Kong Exchanges and Clearing Limited. The areas tackled in the report include corporate governance, stakeholders' engagement, commitment to community and to the environment, as well as code of supply chain conduct.

Source: Bank of China, 2013. *Corporate Social Responsibility Report 2013*.

IFC's sustainability framework

A relevant framework creating a direct bridge between the financial sector to sustainability is the International Finance Corporation (IFC) Sustainability Framework. The IFC, part of the World Bank Group, is an international financial institution providing loans and offering advisory and investment services with the ultimate aim of encouraging private sector-led growth in developing countries. The IFC Sustainability Framework was first adopted in 2006 – and updated in 2012 – and constitutes the basis of the Equator Principles.[98]

Figure 8 Key elements of the IFC Sustainability Framework



Source: Adapted from IFC Sustainability Framework.

- PS 5: Land acquisition and involuntary resettlement
- PS 6: Biodiversity conservation and sustainable management of living natural resources
- PS 7: Indigenous peoples
- PS 8: Cultural heritage

With regard to access to information, IFC commits to accountability and transparency by providing relevant information about its advisory activities to all the stakeholders involved. Clients are also encouraged to establish monitoring and evaluation (M&E) mechanisms and publish periodic reports on environmental and social performance.[101] Transparency, as well as M&E, has been viewed as a fundamental concept to build trust between IFC and its clients for better development results.[102]

Best practices

> *"CSR is not something separate that we do in addition to our everyday business; it's everything we do and the reason we exist."*
>
> *Triodos Bank of the Netherlands*

There are countless examples of banks being involved in responsible banking of one kind or another. Here we outline just three examples: i) socially responsible investment; ii) impact investment; iii) stakeholder involvement; and iv) microfinance.

Socially responsible investment

This type of investment integrates the concept of ESG into investment-decision making. This typically entails focusing on industries or sectors that create a positive impact on society and the environment and thereby contribute positively to sustainable development. In India, YES Bank has an 'Inclusive and Social Banking' unit that focuses on working with the unbanked and under-banked population, in both urban and rural India. Through the use of the Bank's branch network, technology and relationship capital, YES Bank has created an eco-system that alleviates poverty and improves livelihoods by providing fairly priced, transparent and suitable financial products and services, to financially excluded and low income communities in addition to appropriate financial education.[103]

Impact investment

Impact investing involves "actively placing capital in businesses and funds that generate social and/or environmental goods and at least return nominal principal to the investor."[104] Impact investing is becoming a rapidly growing market. J.P. Morgan and Monitor Institute have each independently estimated that the size of the impact investment global market will grow to least US$ 500 billion in the next decade.[105] One can consider impact investing as being an extension of socially responsible investment, focusing more on the intentional creation of positive impact through investment in private or social enterprises[106] that have a specific purpose to help society in some way.

One example of this can be found in China, where the Zhejiang Branch of ICBC granted RMB 23 million in project loans to a company in Jilin that was developing and constructing a device that recovered 100 kt/a of carbon dioxide from tail gas, reducing air pollution and protecting the environment.[107] In Europe, LGT Asset Management Company operates a devoted 'venture philanthropy' fund with the aim of supporting "organizations with positive social or environmental impact through financing, know-how and access to networks. ... we inspire and advise people who want to become active in philanthropy."[108] The fund's portfolio includes projects in China, India, the Philippines, Thailand and Viet Nam. And in Singapore, 'Impact Investment Exchange Asia' serves as a trading platform for social enterprises to raise capital to fund their business projects.

Another variant of this is the inclusive business concept, of which ADB has been a strong proponent. The ADB defines inclusive business thus: "private sector investments specifically targeting [the] low income market with the double purpose of making a reasonable profit ... and creating tangible development impact through the provision of sustainable decent jobs and better income opportunities, as well as services that matter for the poor and low income people's lives. Inclusive business differs from social enterprises and corporate social responsibility activities in its higher realized profit-making motive. It also differs in terms of broader social impact in scale and depth of systemic contribution to poverty reduction." [108] This can be seen as the same strategy as the 'base of the pyramid.'

Stakeholder involvement

Partnering with civil society

It is important for all commercial banks and finance companies to become an active part of the community and society which they serve. This not only strengthens ties with existing and potential future clients, but also contributes to employee engagement and can have marketing benefits too. An example of this is provided by Singapore through the launching of a strategic partnership between DBS Bank and the Council for the Third Age (an independent organization that promotes active ageing in Singapore), called the POSB Active Neighbours Programme.[110] The partnership allowed seniors to be recruited to assist other seniors with their banking transactions at POSB (DBS's other bank brand) branches. DBS Bank also provided special services, including devoted counters for the first three hours every Tuesday, as well as seniors being served drinks and snacks while waiting their turn to perform their banking transactions. Such acts of community outreach provide benefits for both parties, thereby helping to ensure that the partnership will be sustainable over time.

Employee engagement

The engagement of employees in the CSR interventions of the bank or financial institution can be a very important element of any CSR strategy, and can bring additional 'spin offs.' In Hong Kong, China, for example, employees of Deutsche Bank work with a local NGO on an eco-paddy programme. This project promotes traditional rice farming that helps conserve agricultural wetlands, which in turn serve as a natural habitat for several endangered species.[111] Employees and their families get the opportunity to learn about eco-paddy farming, conservation and biodiversity in their own locale.

Government engagement

There are a global call for enhancing the linkages between the private sector and governments and a common agreement that CSR actions should extend beyond the government and therefore relationships between state actors and corporations should be strengthened. Public-private partnership is a key element in fostering best practices in the banking sector. There is evidence that state actors' involvement in implementing collaborative CSR approaches increase social and economic benefits for the communities at large.[112] In addition, those partnerships can improve the efficiency of market-based activities in the business sector, including banking.

Microfinance

Microfinance, which was popularized by Dr. Muhammad Yunus, the 2006 Nobel Laureate and founder of the Grameen Bank in Bangladesh, comprises a wide range of financial services geared towards the poor and low-income group as well as micro, small and start-up enterprises. Microloans, savings and micro-insurance are examples of such financial services, which are aimed at providing access to formal finance and financial inclusion for the poor, micro and small businesses or informal entities. The microfinance sector in Asia and the Pacific has showed impressive growth rates during the past years.[113]

Many types of organizations provide microfinance. Among microfinance institution (MFIs), not-for-profit organizations, self-help groups, state-owned banks and commercial financial institutions can be found. While these organizations differ considerably in their operating models, they often share one important common characteristic: high repayment rates. An apt example is the group model applied by the Grameen Bank. In this model, the borrowers are divided into five member groups and each group jointly assumes debts. Consequently, peer pressure and collective responsibility can help to control the default risk.[114] Many MFIs have successfully proved that the poor are "bankable" and that the base of the pyramid, e.g. the poor and micro enterprises, is a financially viable market.

One notable feature of microfinance in the region is that MFIs specifically set women as a target client group. This has strongly facilitated women entrepreneurship within the region. Microloans enable women to start their own modest firms, such as roadside fruit stands, in order to support their families. Microloans target women not only with the objective of empowering them but also for a practical reason – women are considered to be a better credit risk than men.[115]

The nominal interest rates charged by most MFIs in the Asia-Pacific region range from 30 per cent to 70 per cent per year, which are very high compared with the rates of commercial banks and subsidized lending organizations.[116] The high nominal interest rate is mainly due to the high cost of funding, inflation and high cost of administration and operation associated with MFIs.[117] However, the rate of interest on microloans, while high by developed country standards, is generally much lower than what an entrepreneur could obtain from a loan shark, the typical source of credit in developing countries, and microfinance remains attractive to the poor and SMEs. More recently, the debate about whether it is ethically justifiable to profit from the poor,[118] and the serious problem of market saturation and over-indebtedness have led to more stringent scrutiny of microfinance.[119] Nonetheless, microfinance remains a powerful tool for financial inclusion, particularly for the poor and SMEs.

Conclusion

Crucially, banks cannot rest on their laurels nor be content with previous achievements. Rather, they must continue to adhere and strengthen their responsible business practices. An example of this continual upgrading is provided by Deutsche Bank. Figure 9 shows that the Bank has gradually erected a structure of corporate governance, CSR and corporate sustainability policies and practices based on a number of international standards and norms, all of which help guide their activities.

But this kind of framework will inevitably be a continual 'work in progress,' as relevant laws and regulations – both international, such as the Basel Concordat, and national – change with the times. Future changes in banking products and services will also demand that internal guidelines are reviewed, and amended where necessary. Where failures in 3C practices come to light, these too will necessitate changes in overall corporate governance structure.

The cost and time entailed in developing this kind of internal framework of 3C systems is not small. But they are far less than containing a full-scale crisis, or even a bank collapse, that stems from a lack of such a framework. It is also important that the guidelines under such frameworks are not only properly designed, but also duly integrated into corporate governance. Implementing guidelines should not become a box-ticking exercise. Rather, directors, all senior executives and relevant employees need to understand the content, embrace the spirit and take ownership of what is contained in such guidelines. To have any worth, standards need to be implemented and practiced.

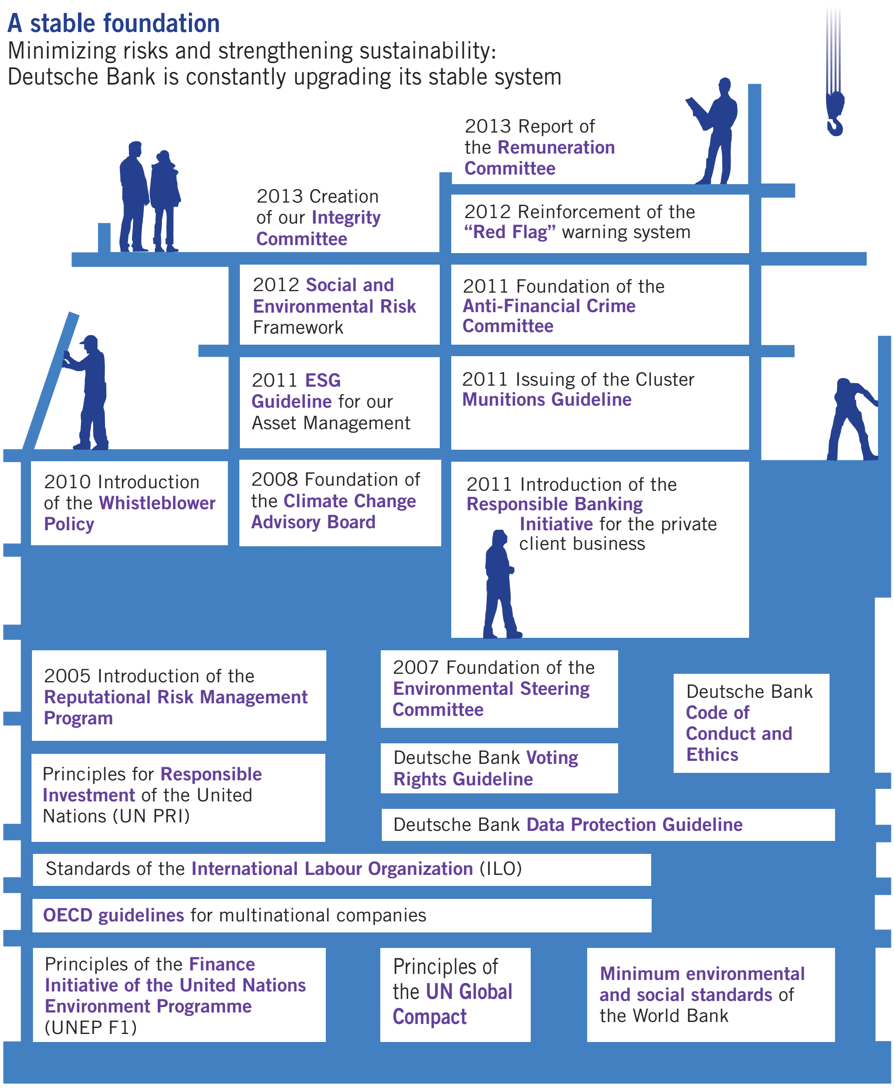
One might argue that it is the job of regulators to ensure that banks 'do the right thing,' and there certainly remains a clear need for legal and regulatory enforcement by relevant government agencies. But increasing onus is being placed by financial regulators on banks and financial institutions to also monitor and control themselves, and for good reason. Given the technological and other advances made in modern banking and finance, the speed at which problems arise can be very rapid, often too rapid for external regulators to solve in time. It is therefore better to aim for (timely and internal) prevention, rather than a (belated and externally imposed) cure. The US$ 10 billion fine that the United States Treasury recently imposed on BNP Paribas, a French bank, for having broken United States economic sanction rules demonstrates the potential costs of management getting it wrong.[120]

But just as importantly, there is strong evidence to suggest that by employing the 3Cs, banks and other financial institutions not only gain deserved merit, but also generate profits in various new and sustainable ways. Thus, the 3Cs make good business sense, as well as being ethically appropriate. The banking sector plays a crucial role in virtually all economies, including many less developed and developing countries. They act as financial intermediators, transporting excess funds from one part of the economy to other parts of the economy where there are funding gaps. The fact that the banking and finance sector is often one of the most regulated business sectors is a testament to its importance, and reveals the levels of trust that need to be in place for banks to perform their function effectively and efficiently. That will doubtless not change. But as the complexity of financial products and services increases, and the volume and speed of transactions also continue to rise, the scale and volatility of the risks inevitably mount. In that context, it is incumbent on banks and financial institutions themselves to ensure as best they can that errors or deliberate misdeeds are avoided wherever possible. It is in this context that the 3Cs are most useful.

For banks and other financial institutions seeking to pursue such a strategy, this book hopefully serves as a first entry point, and provides some useful guidance and advice on how to approach the 3Cs. To briefly recap, this handbook would propose that banks and financial institutions mainstream the concepts of 3Cs within their overall business strategy and long term action plans. This can be done by making and publicly declaring a firm commitment to the pursuit of sustainability, social responsibility, and good corporate governance. They should also make public, in their annual reports and websites, tangible progress made in pursuing these goals, such as becoming a signatory to the UN Global Compact (becoming a signatory of UN Global Compact does not indicate tangible results, but an indication of intent, though).

Finally, this handbook suggests that, firstly, banks should seek to consider the development of new and innovative products and financial services that will help bring greater access to finance for the poor and SMEs, including informal MSMEs and cooperatives. And secondly, that a similar consideration is also given to the further development of innovative green financing products both in terms of debt and equity products. In doing so, the banking community in the Asia-Pacific region will be playing an important role in catalyzing, promoting and supporting the pursuit of sustainable and inclusive development.

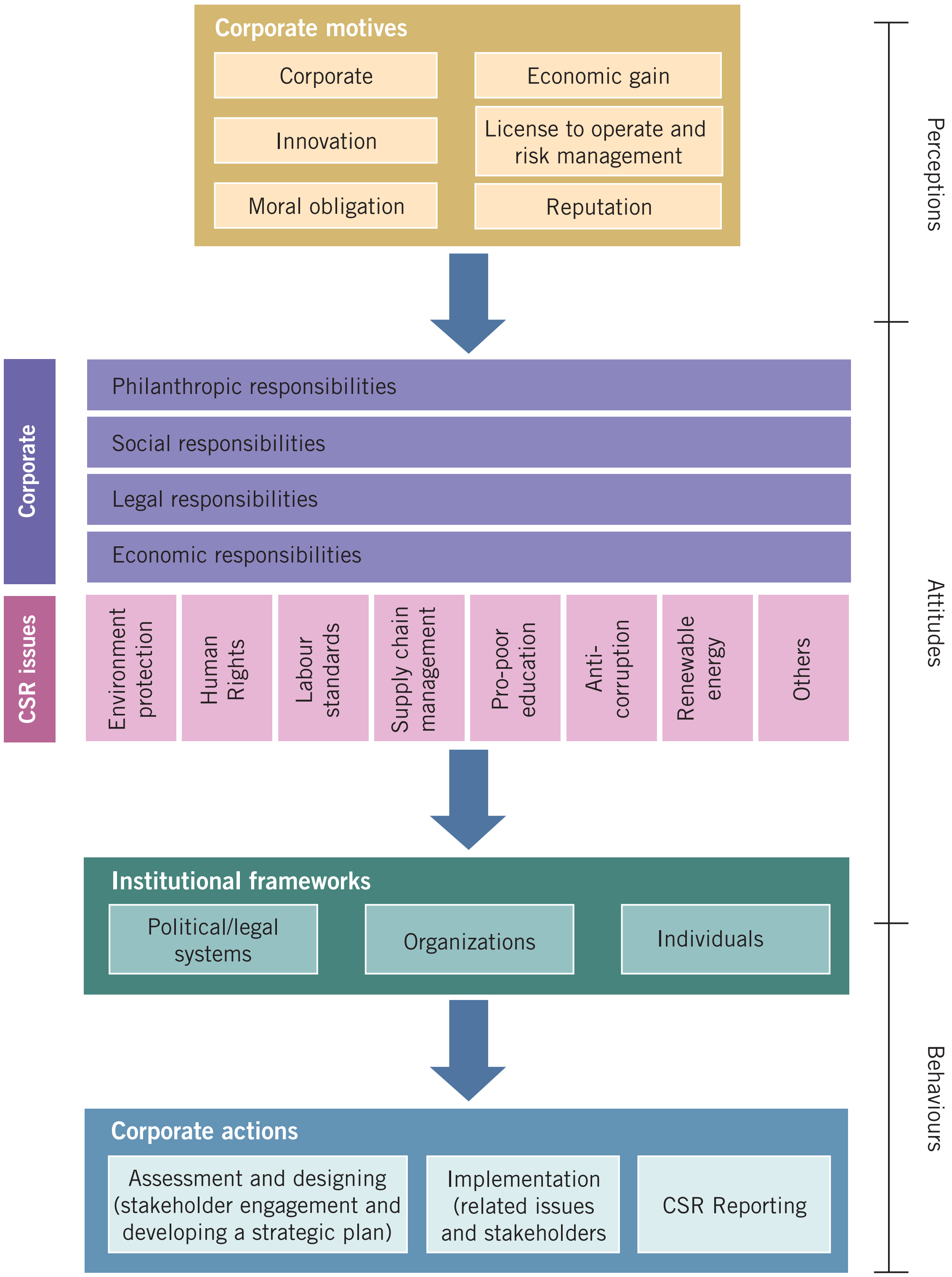
Figure 9 Deutsche Bank upgrading



Source: Deutsche Bank, 2014. *Corporate governance: Taking on responsibility in the banking business*, https://www.db.com/cr/en/responsible-business/responsible-business.htm.

Appendix

Overview of corporate social responsibility



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