I. RESEARCH METHODOLOGY AND SURVEY RESULTS

The Research Context

This report focuses on sustainable banking as one of the fastest changing segments of sustainable finance. The research done to support this report had several objectives. First, it had to capture the overall picture of the emerging market banking sector with regard to its view on social and environmental issues and integration of sustainability practices in business decisionmaking. Second, it had to document the concrete experience of emerging market banks in successfully implementing social and environmental management system, and explore their business rationale for pursuing opportunities related to sustainability. Third, it had to determine the role of IFC capacity building programs in improving understanding and promoting implementation of sustainable finance principles in emerging markets. Fourth, it had to build and expand the findings of the previous research on this subject, summarized in IFC’s 2003 publication, Beyond Risk. In the view of these objectives, the research methodology included two components:

Stage 1. Administration of a survey, based on an online questionnaire to all financial institutions that had participated in IFC Competitive Business Advantage (CBA) workshops from July 2002 to September 2005. These institutions had already been introduced to the concept of sustainable finance through the workshops.

Stage 2. Collection and analysis of best practice examples of emerging market banking institutions that had participated in the workshops.

The Questionnaire-based Survey

Scope of the Questionnaire

The issues covered in the questionnaire included:

- The respondent’s professional level and functional role
- Profile of the financial institutions, including industries financed, domestic or foreign status, main lines of business, average number of employees, value of assets, transaction size
- Main sources of social and environmental risks for the financial institutions and its clients
- Views of financial institutions on the ways to capitalize on sustainability opportunities
- Key reasons to consider social and environmental sustainability issues
- Implementation of social and environmental sustainability standards, tools, and management systems
- Barriers to implementation
- Key business impacts of considering social and environmental sustainability issues
- Demand for IFC assistance on sustainability issues, such as further information, technical assistance and advisory services, financial support, product offerings in sustainability areas, and providing means to enhance sustainability learning.

Respondent Profiling and Generation of a Distribution List

To meet the goals of this report and expand the findings of the Beyond Risk research, the 2005 survey included financial institutions that participated in IFC’s Competitive Business Advantage workshops from October 2002 to September 2005. To ensure the accuracy of the survey data, representatives of IFC who attended these workshops were excluded from the survey.

Survey Administration

The survey was administered through a professional online engine that allowed for easy distribution, high interactivity of the questionnaire depending on individual responses, and effective tracking of responses. An invitation to complete a survey was sent out through the online engine. The invitation then directed survey respondents to a Web site where they could view and complete the questionnaire. The engine also provided tools for initial analysis of survey results.
To ensure a higher response rate, the questionnaire was translated and distributed in Russian and Spanish to respondents from Russian- and Spanish-speaking countries. Telephone calls were made to the entire survey distribution list to ensure that prospective respondents had received the questionnaire and to address any question or technical issues they might have.

**Sample Size and Response Rate**

The initial survey distribution list consisted of 498 potential respondents. Despite the obvious advantages of an online survey, a common technical obstacle is inaccessibility of certain e-mail addresses because of server failures or the fact that these addresses no longer exist. In this case, 121 responses were received and 84 e-mail addresses on the original list were unreachable. Therefore, the overall response rate was 24 percent, if technical failures are not taken into account. However, the response rate increases to 29 percent if the calculation is based on the number of actual survey recipients (total number of survey invitations sent less the number of “bounce-back” e-mail addresses).

**Best Practice Examples**

Best practice examples were collected from 17 financial institutions, whose representatives have participated in Competitive Business Advantage workshops. For the selection process, the following criteria were applied:

- **Focus on the banking sector**: Since this study has a specific focus on the banking sector, institutions had to be engaged in a variety of activating related to commercial banking, such as lending, leasing, and/or commercial microfinance.
- **Focus on regional diversity**: To demonstrate the business case in all emerging markets, the choice of best practice examples was also diversified by region.
- **Focus on expertise in sustainability management**: The examples had to be from financial institutions that had made concrete steps toward implementing a SEMS.
- **Focus on the business case for innovation**: Financial institutions had to align sustainable innovation with their business goals and strategy.
- **Focus on diversity of sustainability areas**: Examples had to cover innovations in a wide variety of sustainability-related areas discussed in this report, such as energy efficiency, renewable energy, biodiversity conservation, and social finance.

Representatives of these financial institutions were contacted and personal interviews were conducted by phone. The interviews focused on:

- Business goals of financial institutions
- Recent market challenges they faced
- Social and environmental management practices used to identify and mitigate risks and/pursue opportunities
- Elements of the SEMS developed by financial institutions and their integration into corporate management systems, such as risk management, human resource management, monitoring and evaluation, and reporting
- Concrete examples of sustainability-related investment projects; the focus included both projects that invest directly in sustainability areas (such as energy efficiency, renewable energy, and biodiversity conservation) and “business as usual” projects that included sustainability-related components that led to overall improvement in projects (such as risk reduction, cost reduction, revenue increase)
- Overall financial and nonfinancial results achieved by a financial institution as a result of considering social and environmental issues

Additional information for the best practice examples was also collected through:

- Documentation and additional information supplied by financial institutions
- Official information available through the financial institution’s Web site and financial and nonfinancial reports (such as sustainability reports)
- Internal IFC documents and project files
- Personal interviews with IFC investment staff
II. SURVEY RESULTS

The 2005 IFC survey collected and analyzed data from over a hundred emerging markets financial institutions in 43 countries. While the analysis in this publication focused on survey results reported by commercial banks, the quantitative data that follows represents aggregated results for all financial institutions that participated in the survey, unless otherwise stated.

Respondent Profile

All Respondents

Fifty-five percent of financial institutions surveyed were domestic in their respective countries, 27 percent were foreign, 4 percent were international financial organizations like IFC, and 14 percent represented other forms of ownership (such as regional banks and domestic banks with foreign capital).

Sixty percent of the institutions were IFC clients; 25 percent were not. The remaining 15 percent had other forms of affiliation with IFC, such as partnerships.
**Commercial Bank Respondents**

Sixty-seven percent of commercial banks surveyed were domestic in their respective countries, 21 percent were foreign, 12 percent were international banks and 14 percent represented other forms of ownership (such as regional banks and domestic banks with foreign capital).

Seventy-seven percent of commercial banks were IFC clients; 14 percent were not. The remaining 9 percent had other forms of affiliation with IFC, such as partnerships.
Reasons Why Banks Consider Social and Environmental Issues

Virtually all the survey respondents (97 percent) reported that they consider social and environmental issues either by managing risks (40 percent), developing business opportunities, or both. Some 57 percent said that their banks consider social and environmental opportunities.

Figure 8

Key Reasons Why Banks Consider Environmental and Social Issues

- Increased credibility and gain in reputation: 66 percent
- Demand by investors: 57 percent
- Increased value to stakeholders: 51 percent
- Lower risk and better returns: 40 percent
- Bank/clients facing liability claims: 15 percent
- Demand by clients: 13 percent
- Other: 13 percent
- Nonperforming loan experience: 10 percent

Figure 9

How Financial Institutions Perceive Social and Environmental Risks

The following figures demonstrate how financial institutions that responded to IFC 2005 survey perceive social and environmental risks for their clients and for themselves.

Figure 9
Key Social and Environmental Risks Identified by Financial Institutions

- Reputational risk / Negative publicity with customers, shareholders and the general public: 76%
- Credit risk (defaults, payments rescheduling): 59%
- Nonperforming loans/investments/leases: 45%
- Security (devalued collateral): 39%
- Loss of financing from international financial institutions: 38%
- Liability for clean up of contaminated property/collateral: 32%
- Reduced access to capital from private financial institutions/international bond market: 32%
- Potential civil or criminal liability for negligence: 31%
- Loss of depositors or retail clients: 11%
- Other: 3%

Main Areas of Social and Environmental Business Opportunities

The following figure shows areas where financial institutions that responded to IFC 2005 survey see opportunities to benefit from considering social and environmental issues.

Main Areas of Social and Environmental Business Opportunities

- Developing business in sustainable areas: 66%
- Getting access to new markets: 59%
- Providing loans for environmental projects: 59%
- Improving access to financing from international financial institutions: 55%
- Providing advisory services/loans for eco-efficiency and cleaner production: 55%
- Attracting improved terms of insurance: 44%
- Other: 11%

Figure 10

Figure 11
Implementation of Social and Environmental Sustainability Management Practices

Eighty-two percent of financial institutions that answered the survey reported that they used one or several social and environmental procedures before participating in the IFC Competitive Business Advantage (CBA) workshops. The types of procedures and tools used are presented in the following figures. Sixty-eight percent reported that their institutions have developed a formal SEMS following their participation in a CBA workshop. Twelve percent reported that their financial institutions have also developed financial products in sustainable areas.

![Use of Social and Environmental Standards Prior to IFC Workshops](image1)

![Use of Social and Environmental Tools Prior to IFC Workshops](image2)

![Elements of Environmental and Social Sustainability Management System Developed](image3)

Figure 12

Figure 13

Figure 14
Perceptions of Barriers to Implementing Social and Environmental Sustainability Management Practices and System

Financial institutions that considered social and environmental issues in their management practices reported a number of barriers to implementation. The survey results varied depending on whether financial institutions had implemented (or were in the process of implementing) a SEMS or had not yet implemented a formal social and environmental sustainability the system.

<table>
<thead>
<tr>
<th>Financial Products in Sustainable Areas Developed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Renewable energy finance</td>
</tr>
<tr>
<td>Environmental venture capital</td>
</tr>
<tr>
<td>Environmental credit cards</td>
</tr>
<tr>
<td>Cleaner production technology</td>
</tr>
<tr>
<td>Carbon emission trading schemes</td>
</tr>
<tr>
<td>Sustainable leasing</td>
</tr>
<tr>
<td>Environmental loan for SMEs</td>
</tr>
<tr>
<td>Sustainable equity fund</td>
</tr>
<tr>
<td>Environmental liability insurance</td>
</tr>
<tr>
<td>Green mortgages</td>
</tr>
<tr>
<td>Green investment funds</td>
</tr>
</tbody>
</table>

![Figure 15](image.png)

Financial Products in Sustainable Areas Developed

Table 1

<table>
<thead>
<tr>
<th>Perceptions of Barriers to Implementation, Financial Institutions that Had Not Implemented a Social and Environmental Management System</th>
<th>Perceptions of Barriers to Implementation, Financial Institutions that Had Implemented a Social and Environmental Management System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of best practice cases about social and environmental management for financial institutions in the emerging markets</td>
<td>49</td>
</tr>
<tr>
<td>No qualified environmental consultants to advise clients</td>
<td>35</td>
</tr>
<tr>
<td>Cost of developing and implementing internal guidelines and procedures is too high</td>
<td>32</td>
</tr>
<tr>
<td>Lack of know-how/in-house capacity</td>
<td>30</td>
</tr>
<tr>
<td>Senior management does not see the need for social and environmental risk management</td>
<td>24</td>
</tr>
<tr>
<td>Other</td>
<td>24</td>
</tr>
<tr>
<td>Potential inconsistencies between government regulations and IFC/organization social and/or environmental requirements</td>
<td>19</td>
</tr>
<tr>
<td>No qualified environmental consultants to advise your institution</td>
<td>19</td>
</tr>
<tr>
<td>It is not standard financial practice</td>
<td>19</td>
</tr>
<tr>
<td>The belief that there is no business gain</td>
<td>8</td>
</tr>
<tr>
<td>Customers do not demand it</td>
<td>8</td>
</tr>
<tr>
<td>Concerns on how shareholders will view this change</td>
<td>8</td>
</tr>
</tbody>
</table>
Most of the financial institutions that responded to the survey—81 percent—reported that positive changes had resulted from their steps to integrate social and environmental sustainability issues in their business, either by implementing a formal SEMS or using other procedures. About a quarter of these respondents (26 percent) perceived these changes as significant. Not a single respondent reported a negative change from considering social and environmental issues.

These figures varied for financial institutions that considered social and environmental risks only as opposed to considering both risks and sustainability-related opportunities. While 79 percent of respondents whose financial institutions considered risks only reported a positive change in their business, this figure was higher (84 percent) for those who considered both risks and opportunities. Notably, only 21 percent of respondents whose institutions considered risks only perceived this change to be significant compared to 33 percent for those who considered both.

**Benefits of Considering Social and Environmental Issues**

![Figure 16](image)

**IFC Assistance Requested**

**All Respondents**

Most financial institutions (85 percent) that responded to the survey indicated that they would like to receive further assistance from IFC on social and environmental sustainability issues. The type of assistance requested was distributed as follows:

- Providing technical assistance and advisory services (82 percent)
- Providing information (79 percent)
- Providing means to enhance sustainability learning (66 percent)
- Providing sustainability-related business opportunities and new products (57 percent)
- Providing financial resources (54 percent).

The figures below break down the preferences within these categories.
**Technical Assistance and Advisory Services**

- Training staff in environmental risk management and sustainability opportunities: 61%
- Advanced workshops for implementing performance-focused social and environmental management system: 76%
- Advice on how to identify the risks and determine what insurance is required: 57%
- Advisory services for sustainability business development: 51%
- Technical assistance for IFC's sustainability products: 49%
- Training local consultants to assist clients: 44%
- In-house support on social and environmental management system implementation: 39%
- Advice/assistance on how to incorporate insurance requirements into the financing agreements: 32%
- Other: 1%

**Informational Support**

- Industry risk briefings: provide updated information on international risk/opportunities by sector: 76%
- Market briefings: signaling environmental value-added to regional analysts, raters, media, central banks: 62%
- Country-specific sustainability topics: 61%
- Sector strategies (e.g. sustainability in auto industry): 47%
- Private Equity/Venture Capital and Sustainability: 43%
- Socially Responsible Investing (SRI): 43%
- Share insurance market intelligence in each country (local players, availability of coverage pricing etc.): 33%
- Other: 6%

**Means to Enhance Sustainability Learning**

- Dedicated web-page for sustainability in the financial sector: 77%
- Practical tools (e.g. Software for environmental assessments interactive CD-Rom): 76%
- Newsletter for wide distribution to workshop participants: 55%
- Directory of sustainability companies in emerging markets: 54%
- Directory of sustainability suppliers in emerging markets: 51%
- On-line direct learning: 34%
- Create a networking platform between IFC workshop participants: 47%
- Other: 38%
Commercial Bank Respondents

Among commercial banks that responded to the survey, 86 percent indicated that they would like to receive further assistance from IFC on social and environmental sustainability issues. The type of assistance requested was distributed as follows:

- Providing means to enhance sustainability learning (73 percent)
- Providing information (70 percent)
- Providing technical assistance and advisory services (68 percent)
- Providing sustainability-related business opportunities and new products (51 percent)
- Providing financial resources (49 percent)

The figures below break down the preferences within these categories.
Informational Support: Commercial Bank Response

- Industry risk briefings: provide updated information on international risk/opportunities by sector (88%)
- Market briefings: signaling environmental value-added to regional analysts, raters, media, central banks (58%)
- Country-specific sustainability topics (55%)
- Sector strategies (e.g., sustainability in auto industry) (55%)
- Private Equity/Venture Capital and Sustainability (33%)
- Socially Responsible Investing (SRI) (33%)
- Share insurance market intelligence in each country (local players, availability of coverage pricing etc.) (30%)
- Other (6%)

Means to Enhance Sustainability Learning: Commercial Bank Response

- Practical tools (ex. Software for environmental assessments, interactive CD-ROM) (Most useful: 82%, Less useful: 15%)
- Dedicated web-page for sustainability in the financial sector (Most useful: 77%, Less useful: 24%)
- Newsletter for wide distribution to workshop participants (Most useful: 59%, Less useful: 38%)
- Directory of sustainability companies in emerging markets (Most useful: 47%, Less useful: 47%)
- On-line direct learning (Most useful: 47%, Less useful: 47%)
- Create a networking platform between IFC workshop participants (Most useful: 53%, Less useful: 44%)
- Directory of sustainability suppliers in emerging markets (Most useful: 53%, Less useful: 41%)

Sustainability-related business opportunities and new products: Commercial Bank Response

- Agri-business (81%)
- Energy Efficiency Finance (58%)
- Renewable Energy (52%)
- Eco-tourism (49%)
- Clean Technologies (42%)
- Carbon Finance (39%)
- Bio-diversity conservation (19%)
- Other (3%)

Financial Assistance: Commercial Bank Response

- Debt (59%)
- Partial Risk Guarantees (52%)
- Non-reimbursable (37%)
- Equity (26%)
- Reimbursable Grants (22%)
- Other (4%)
III. IFC COMPETITIVE BUSINESS ADVANTAGE WORKSHOP IN SUSTAINABLE FINANCE

The Sustainable Finance Workshop: A Learning Experience with a Difference

Three characteristics set the IFC Sustainable Finance Workshop apart from traditional seminars on environmental or social issues.

Clearly defined deliverables: In the workshop you will acquire know-how and the skills to deal with sustainability issues. However, the course is not intended to be a mere class exercise. You are expected to be productive and to work on an outline social and environmental management system (SEMS). This will be tailored to your institution and ready for implementation at the end of the workshop.

The financial professional’s business perspective: The concepts and language used in the workshop are those familiar in the financial sector. Taking a business perspective means analyzing social and environmental issues in terms of financial risks, investment opportunities and reputation. Sustainability jargon is kept to a minimum.

High interactivity: Expect a high level of interaction. The workshop is designed to create synergies between participants’ expertise, thought-provoking inputs by trainers, and support by seasoned coaches.

Target Audience

The workshop is tailored to management staff in financial institutions who are in charge of sustainability issues, environmental management, or credit risk management. A modular structure makes the course suitable for both beginners and advanced professionals familiar with social and environmental issues.

Practical Approach, Business Perspective

Capacity-building is the first objective of the workshop. You will acquire the skills for analyzing, discussing, and managing sustainability issues within your institution and with relevant stakeholders.

The focus, however, is on the second objective: to set up an outline of SEMS that deals with the issues relevant to your institution and in your business environment. Guidance is provided in the form of a workbook designed to accompany your work on the SEMS and to serve as a blueprint before, during, and after the training event.

Implementing SEMS benefits financial institutions in two ways:

- Firstly, by capitalizing on the business case linked to sustainability issues.
- Secondly, by ensuring compliance with IFC guidelines/policies.

It is this practical focus that distinguishes the Sustainable Finance Workshops from similar courses that traditionally focus on awareness-raising. You will start to deal with sustainability issues and to set up your SEMS while still in the workshop, while experienced coaches are on hand to provide you with any support you may require.

If your institution already has social and environmental management system running, the workshop is a good opportunity to review it.
Content: Five Steps toward a Social and Environmental Management System

In the workshop you will take six steps towards your SEMS. Each step is initiated by a presentation providing you with a thorough understanding of the issues at hand and a range of conceptual tools you may find useful in your work.

Step 1: Analyze and Prioritize
Step 2: Sustainability Policy
Step 3: Procedures
Step 4: Resources and Planning
Step 5: Monitoring and Feedback

Break-out sessions will be available for those interested in particular business areas such as insurance, or for participants with expertise in managing sustainability issues.

Training and Coaching By Experienced Professionals

The trainers delivering the sustainable finance workshops and the coaches supporting you in your work on the SEMS have a sound background in both finance and sustainability issues.

- This encompasses, first of all, a thorough understanding of a bank’s mechanics and business activities.
- Secondly, trainers are both familiar with environmental, social, and development problems and have the expertise to discuss these from a business perspective.
- Thirdly, you will be able to draw from the coaches’ experience in setting up and maintaining management systems dealing with risk, sustainability, environmental issues and quality.
IV. COMPETITIVE ENVIRONMENTAL/BUSINESS ADVANTAGE WORKSHOPS, JULY 2002–MID-2006

2002

- Miami (September)
- London (October)
- Moscow (October)

2003

- Istanbul (February)
- Johannesburg (June)
- Lagos (June)
- Budapest (November)
- Miami (December)
- Washington, DC (December)

2004

- Dakar (March)
- Washington, DC (April)
- Sao Paulo (May)
- Beijing (June)
- Sao Paulo (July)
- Dhaka (October)
- Bucharest (October)
- Moscow (November)
- Miami (December)

2005

- Johannesburg (February)
- Sarajevo (March)
- Belgrade (March)
- Skopje (April)
- Tirana (April)
- Miami (May)
- Singapore (July)
- Ulaanbaatar (October)
- Bucharest (October)
- Tunisia (November)
- Sao Paulo (November)
- Ho Chi Minh (November)
- Hanoi (December)

2006

- Singapore (March)
- Cairo (May)
- Apia (May)
- Casablanca (June)
- Hong Kong (June)
- Shanghai (October)

Note: For the list of workshops from November 1997 to October 2002, see Beyond Risk (IFC, 2003).