National Voluntary Guidelines for
Responsible Financing

Indian Banks' Association

Table of Contents

Message from Indian Banks' Association

Economic growth that compromises on environment and social well-being becomes lopsided and unstable. A sustainable, stable and inclusive economy thus depends very much on how robust and responsible is the mobilisation and allocation of capital - the key function of the financial sector.

Financial institutions, therefore, can no longer ignore the imperatives of sustainable development as reflected in issues like climate change, water conservation, poverty reduction, energy efficiency, social inclusion, and innovation as they become increasingly central to managing competition, business continuity, customer demand and regulatory requirements.

Proactive steps by financial institutions can lead the way, inform and help operationalise India's sustainable and inclusive development objectives besides enhancing the performance of financial institutions themselves.

To this end, the National Voluntary Guidelines for Responsible Financing developed by the Indian Banks' Association through a process of consultations with financial institutions provide a systematic standardised framework of action catering to banking sector's risks, opportunities and responsibilities around environment, social and economic factors in an integrated manner.

In line with this ambition, Indian Banks' Association appeals to financial institutions to consider adopting these Guidelines at the earliest.

V G Kannan
CEO, Indian Banks' Association
Mumbai

INDIAN BANKS' ASSOCIATION

Executive Summary

What is Responsible Finance: Responsible Finance is all about good governance, strong emphasis on capital preservation and its quality, effective risk management, and proactive social and environmental intervention through investment and lending. All the four components are intrinsic to a financial institution's (FIs) business. Responsible Finance requires integrating Environmental, Social and Governance (ESG) risk management into an FI's business strategy, decision-making processes and operations. By doing so, an FI attains a stable balance between earnings and risks on the one hand, and on the other, the use of ESG parameters opens up new growth and investment opportunities. In the ultimate analysis this is key to financial institutions serving the real economy – one that is people focussed, has a capacity to absorb external shocks and is sustainable. Responsible Finance provides a framework that taps the huge twin potential of the financial sector for its growth and development impact.

International and national developments: Responsible business, and within it responsible financing, has assumed growing importance globally, particularly after the financial crisis of 2008. Basel III norms due to be implemented by 2019 in India encourage a new risk management culture with greater thrust on transparency and accountability besides maintaining high capital standards. Voluntary frameworks by countries, multilateral institutions and financial community are on the rise. In India, the RBI circular of 2007 brought home the need for Non-Financial Reporting and urged FIs to integrate sustainable development in their practices. The 2011 guidelines on sustainability released by the Ministry of Corporate Affairs, known as the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business (NVGs) expanded the gamut of risks and opportunities for business action spread across nine ESG principles. Subsequently in 2012, SEBI's requirement of mandatory reporting on the NVGs for the top 100 listed businesses through Business Responsibility reports (BRRs) gave disclosures or non-financial reporting a regulatory push. SEBI ESG reporting now covers 500 listed businesses of which nearly 70 are financial institutions.

Guidelines for Responsible Financing: These are a financial sector specific guidelines that combine and adapt international and national good practice precedents. These are envisaged to cater to the sector's risks, opportunities and responsibilities. Pragmatic, suitable and consistent with the aspirational vision of the financial sector in India, government's development priorities and the well-being of the people, the National Voluntary Guidelines for Responsible Financing contain eight principles and five pillars of implementation. The guidelines are a voluntary instrument and go beyond compliance thus raising the bar of conduct. The Guidelines urge FIs to systematically adopt measures on all eight ESG principles. These measures thus do not induce any legal liabilities for the adopting organisation. The benefits accruing from the adoption of the guidelines include proactively building positive reputation through transparent communication with stakeholders. These principles are envisioned to drive the organisations to longevity and sustainable value creation. Each principle of the Guidelines serves to enhance the business case for the FI on one or more of the following parameters, namely, revenue growth and market access, brand value and reputation, cost savings, human capital, risk management and access to capital. Not to forget is the demand for increased capital by Indian FIs. They will essentially need to mobilise international institutional investors for whom FIs performance on ESG is becoming important. A commonly agreed National Guidelines for the financial sector will help fulfil that requirement in a standardised manner. The Guidelines also contain a detailed principle wise implementation guidance, which is summarised in a step-wise process here to translate the eight principles into concrete and measurable actions.

Action steps for adoption of Guidelines by the FI:

1. Financial Institutions should adopt these principles and implement them in various lines of business as per their strategic priorities with the objective of strengthening the risk management and growth strategy of the institution. While the principles of the Guidelines are indivisible and non-hierarchical, an FI is encouraged to develop a plan that phases its progress under each principle against appropriate time lines and indicators.

2. The Boards of an FI should integrate ESG oversight function in an appropriate sub-committee of the Board (e.g. Risk Committee) or create a new committee as deemed fit for mainstreaming these principles in FI's operations and its subsequent monitoring and review.

3. The committee with ESG responsibility should place the guidelines for adoption before the Board outlining the business case and advantages accruing to the institution in terms of:

    a) Effective board oversight on ESG footprint of FIs internal operations and ESG risks associated with asset portfolio and help in creation and preservation of long term capital

b) Focused environmental and social risk management to mitigate transaction related credit and reputational risks

c) Useful tool and input data for credit rating exercise of portfolio

d) Identifying new business opportunities aligned to E&S risk mitigation and adaptation (clean tech financing, energy efficiency, agri-financing-logistics etc)

e) Identifying demand among existing customers for products and services with social and environmental components

f) Positive investor outlook and access to international finance/low cost finance

g) Transparency and disclosure measures which will facilitate better public relations/customer relationship and good reputation.

4. In general, an ESG Portfolio Risk Framework could follow the mentioned steps:

   a) Check new investment opportunity for activity on Exclusion List. If the opportunity confirms negative, then

   b) Initiate screening review of the industry sector, client and technical aspects of project on ESG parameters (Those applying and reporting on NVGs through BRR should be given preference)

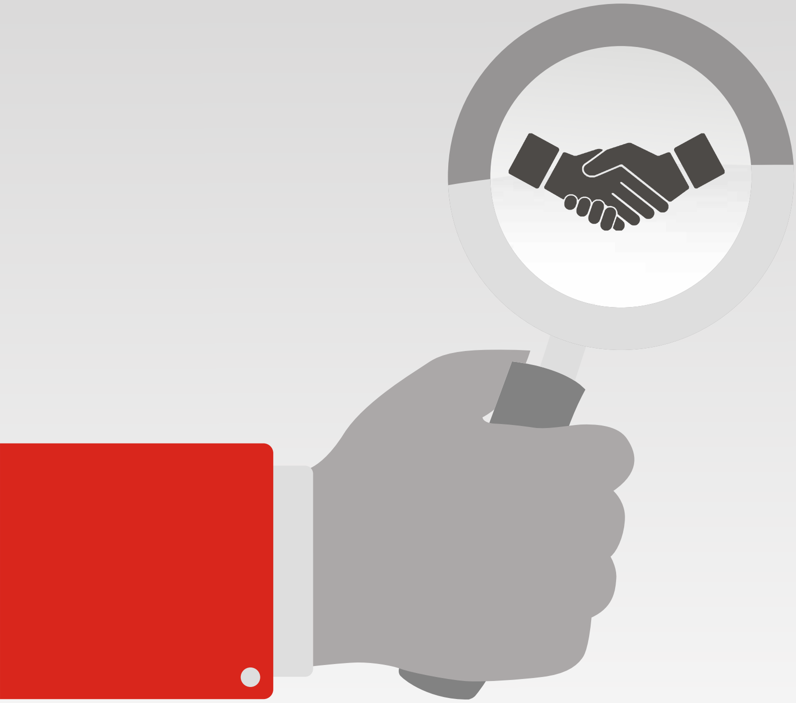
   c) Conduct due diligence based on ESG policy of the institution adhering to the eight principles of these Guidelines

   d) Initiate gap assessment and deploy environmental and social action plan

   e) Enter investment agreement

   f) Monitor and review on an ongoing basis

   g) Feed findings in the reporting process and disclose on an annual basis (at the least)



Introduction

The health of an economy is intricately linked to the health of its financial sector. The objective of a sustainable economy is to deliver prosperity and well-being to its people. The potential value that the financial sector can create in achieving this objective lies largely untapped and constrained by what seems to be an all-pervading malaise of short-termism. Financial institutions are essential for creating solutions to some of the most pressing problems facing us today; and addressing those challenges is also central to the growth and stability of the financial sector. India deals with these challenges at a scale that re-thinking and addressing financial sector's role and competiveness is all too imperative. Financial inclusion, mobilizing new capital, increasing access to finance for the MSMEs, impact-oriented start-ups and large responsible businesses through innovative products and services have the power to catalyse long-term profitability of the sector as well as enable a larger section of people and businesses to leverage the capacities of financial institutions to deliver them benefits. It is in this context that the importance of Responsible Finance emerges stronger than ever before.

Notably, between 2007 and now, industry action and policy/regulatory initiatives have increasingly addressed concerns around accountability of businesses, including that of financial institutions, around their impact on environment and society. In 2007, the Reserve Bank of India released a circular on the responsibility of financial institutions towards sustainable development, CSR and non-financial reporting; in 2011, the Ministry of Corporate Affairs released Guidelines on business responsibilities which put environment, society, ethical governance and stakeholder responsiveness at the heart of doing business. The National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business (NVGs) as they are commonly called and the Business Responsibility Reporting (BRR) released by SEBI in 2012 provide a well-recognised and consensus backed national framework. The **National Voluntary Guidelines for Responsible Financing** (NVGRF) take not only national but also global trends, developments and realities and suitably adapt them to raise the bar for financial institutions operating in India to deliver them competitive advantage as well as higher value to all stakeholders where long-term health and prosperity of society and the planet is central.

Structure: The Guidelines are not prescriptive in nature and lay out **eight principles** which cover different aspects of environmental, social and governance (ESG) responsibilities that should inform business action. Each Principle is elaborated through a brief 'Description and Applicability' (D&A)

and 'Areas of Disclosure'. The detailed chapter on Implementation Guidance enables financial institutions to systematically integrate these principles in their business decision making, structures and processes.

Applicability: The Guidelines are amenable to adoption by financial institutions across all segments of the financial sector irrespective of their size and location. The eight principles contained in these guidelines are non-divisible and interlinked; and in order to function responsibly, a financial institution should adopt each of the eight principles instead of picking and choosing one over the other. The Guidelines also emphasise that financial institutions should encourage members in their value chain, partners, vendors, collaborators also adhere to the Principles in these Guidelines.

Approach: The National Voluntary Guidelines on Responsible Financing encourage financial institutions to take a sector-wide look and make the effort to collaborate and partner on knowledge sharing, taking stock of the progress achieved in imbibing and implementing ESG in the way of doing their core business and utilising this paradigm for their growth and impact. The Guidelines emphasise furtherance of public good and encourage financial institutions to engage, as much as possible collaboratively, in policy advocacy that is aligned with the spirit of these Guidelines. Additionally, the Guidelines envisage that while capacity building needs within financial institutions may vary, it will be essential to scale up awareness efforts, and training programmes for personnel across the sector to prepare them and mainstream the ESG way of doing business through greater cooperation and collaboration among financial institutions.

Process

The Guidelines formulation process finds its genesis in the **Working Group** formed under the convener-ship of the **Indian Banks' Association** (IBA). This was a culmination of long engagement and dialogue with financial institutions supported by the joint initiative undertaken by GIZ and SIDBI under the bilateral cooperation project on Responsible Enterprise Finance. The Working Group brought together a cross-section of public and private sector banks, think tanks and implementing agencies. A core group within the Working Group called the **Guidelines Drafting Group** was tasked with the formulation of the Guidelines for Responsible Financing, Implementation and Disclosure Framework, and develop a roll-out strategy. These Guidelines have been approved and passed by the IBA Management Committee for adoption by banks.

Chapter 1: Principles, Description and Areas of Disclosure

Principle 1

Ethical conduct and E&S Governance

Financial institutions should develop sound governance systems to oversee environmental and social performance of their business activities and disclose accordingly.

Description and Applicability:

i. The principle recognises that the behaviour and actions of leadership structures of financial institutions is key to establishing a culture of integrity and ethics throughout the enterprise.

ii. The principle emphasises that financial institutions should develop sound governance structures and processes, with clear roles and responsibilities, to oversee and operationalise environmental and social performance of their business activities and that of its clients.

iii. Policies and processes of financial institutions and their performance in relation to operationalising the principles contained in these guidelines should be disclosed to relevant stakeholders.

iv. Financial institutions should not engage in corrupt, abusive or anti-competitive practices or be complicit with actions of any third party violating the principles contained in these guidelines.

Areas of Disclosure:

i. Promotion of ethical governance within the organisation and across its value chain.

ii. Establishment of governance structures and processes to oversee ESG integration in the organisation's growth strategy and operations.

iii. Redress of stakeholder complaints.

iv. Roadmap for action, and disclosure and reporting on action taken.

Principle 2

Integration of E&S risk management in business activities

Financial Institutions should integrate the analysis of environmental, social and governance factors in their investment, lending and risk-management processes across business lines to minimise adverse impact on their own operations and on society.

Description and Applicability:

i. The principle recognises that social and environment factors have a direct bearing on the growth of a financial institution and its impact on society and the planet.

ii. The principle emphasises that financial institutions should set up robust systems and processes that enable a thorough risk assessment based on environmental, social and governance parameters going beyond compliance requirements, and adhere to good practices. .

iii. The principle acknowledges that financial institutions will mainstream ESG risk assessment based on the type of product and services for eg. project finance and equity transactions, MSME lending, transactions in sensitive sectors like mining, power, oil and gas etc.

Areas of Disclosure

i. Board oversight of ESG Risk Assessment framework for operational and portfolio performance

ii. Responsiveness to ESG impact of sectors where on-going or potential lending and investment of financial institution is channelled

Principle 3

Minimizing environmental footprint in internal operations

Financial institutions should minimise the negative impacts of their business operations on the environment in which they operate and, where possible, promote positive impacts.

Description and Applicability:

i. The principle recognises that adverse environmental impact of financial institutions includes that emanating from its internal operating practices.

ii. The principle encourages financial institutions to minimize the use of natural resources in its business operations, set targets to improve efficiency in their use and deploy appropriate measures to reduce and manage waste.

iii. Financial institutions should report their environmental performance to stakeholders in a fair and transparent manner.

Areas of Disclosure

i. Systems to monitor and reduce resource use and waste in internal operations

ii. Quantifiable targets of improvement through technological and non-technological measures

Principle 4

Environmentally friendly products, services and investment

Financial institutions should invest in environmentally friendly products and businesses that enhance positive environmental impact.

Description and applicability:

i. The principle recognises that financial institutions can play a vital role in minimising environmental damage and contributing to green growth by increasingly investing in cleaner and environmentally responsible businesses and products.

ii. The principle urges financial institutions to recognise that environmental issues are interconnected at local, regional and global levels, which makes it imperative for them to address issues such as climate change, global warming, biodiversity conservation through their lines of credit and investment also. Financial institutions should develop specific products and credit lines to support such projects.

iii. Financial institutions should explore collaborating with government, development finance institutions and other agencies, investors, and leverage existing schemes and lines of credit, use diverse instruments to mobilise capital directed towards clean technologies, climate mitigation and adaption, renewable energy, water, sustainable transport and such like.

Areas of Disclosure

i. Strategy, initiatives and products that address global environmental issues such as climate change, global warming, etc

ii. Lines of credit and investment in clean technology, energy efficiency, renewable energy climate mitigation and adaptation projects

iii. Examples of collaboration for the above.

Principle 5

Enabling inclusive human and social development

Financial institutions should support inclusive and equitable human and social development.

Description and Applicability:

i. Financial institutions should be particularly responsive to the needs of borrowers when operating in underdeveloped regions of the country.

ii. The principle emphasizes that financial institutions should innovate affordable and quality products and services that increase access of the vulnerable, disadvantaged and excluded sections of society into the financial system in an easy, responsive and responsible manner.

iii. The principle also encourages financial institutions to support projects, including social businesses that are engaged in providing solutions to long standing development problems in areas such as, but not confined to, health, water, sanitation, education, women empowerment, financial inclusion, skills and entrepreneurship through their products and services. .

iv. The principle also encourages financial institutions to align their CSR activities with local and national goals.

Areas of Disclosure

i. Products and services which have integrated social impact parameters into their design, and which target the underserved sections of society

ii. Steps taken to ensure that financing schemes and development initiatives are sustainable and successfully adopted by the targeted stakeholders.

Principle 6

Stakeholder engagement

Financial institutions should develop an understanding of their stakeholders' needs, interests and expectations to inform and guide their strategy and decision-making.

Description and applicability:

i. The principle recognises that proactive engagement with stakeholders helps to minimize risks, identify ideas for new products and services, and understand and respond to the material issues that matter to them.

ii. The principle recognises that projects funded by financial institutions may also adversely impact the disadvantaged, vulnerable and marginalised sections of society. Financial institution should thus seek appropriate disclosures from their clients on such aspects, including details of redress of complaints from the project affected people.

iii. Financial institutions should build appropriate mechanisms to resolve grievances of their stakeholders in a timely, just and equitable manner.

iv. Financial institutions should transparently communicate the corrective actions taken by them to resolve stakeholder concerns.

Areas of Disclosure

i. Systematic identification and engagement with internal and external stakeholders in relation to business operations with a focus on the disadvantaged.

ii. Integrated of stakeholder identification and engagement into FI's deal appraisal as well as monitoring through the life of the investment.

Principle 7
Commitment to human rights

Financial institutions should respect and promote human rights.

Description and Applicability:

i. The principle recognises that a financial institution's commitment to upholding human rights should cover its own operations (including labour and working conditions), as well as its investments to assess the treatment and management of human rights by its clients.

ii. The principle emphasises that the approach to human rights should be consistent with promoting the requirements and improving the enforcement of the national regulatory requirements on human rights; and such international norms and declarations that India is signatory to.

iii. The principle also asks financial institutions to recognise that its responsibilities include all its stakeholders mapped in line with Principle 6 – own employees, contracted employees (e.g. banking correspondents), value chain members, individual customers etc., with a special emphasis on those who are disadvantaged.

iv. Financial institutions should develop appropriate grievance redress systems to address human rights violations of employees, other actors in its value chain.

v. Financial institutions should not be complicit in any way with perpetration of human rights violations by a third party related to its business activities.

Areas of Disclosure:

i. Clear policy and practice of human rights within the organisation and across its value chain, including portfolio clients, with a special focus on the rights of the disadvantaged.

ii. Appropriate grievance redress systems and resolution of cases if any.

Principle 8
Disclosure

Financial institutions should regularly review and report on their progress in meeting the Principles contained in these Guidelines

Description and applicability:

i. The principle emphasises that disclosure and reporting are not only necessary as a measure of transparency and accountability but also serve as a tool to improve the performance the organisation.

ii. The principle follows 'Apply or Explain'. The intent is that financial institutions review how they perform on each principle, and state reasons and plans on how they want to improve their performance going forward. The principle acknowledges that financial institutions may be at different stages of understanding and practice of Principles contained in these Guidelines.

iii. The Principle emphasises on quality of disclosure which means that the information provided by the financial institution is complete, consistent and comprehensive.

iv. The principle synthesises the knowledge and experience in sustainability reporting internationally (under different frameworks like GRI) and nationally (reporting under SEBI mandate through Business Responsibility Reporting (BRRs). It also builds upon the RBI circular of 2007 emphasising the need for non-financial reporting.

Areas of disclosure

i. Systematic process for disclosure and reporting with a focus on stakeholder engagement.

ii. Specific milestones for key performance indicators with timelines under Principles in these Guidelines.

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[1]Refer Annexure 1(A) for indicative list of environmental compliances. However, there could be additional acts applicable.

Chapter 2:
Implementation Guidance

Five Pillars of a Responsible Finance Strategy:

Successful implementation of the Principles contained in these Guidelines requires that all of them need to be integrated and embedded in the core business processes of the financial institution. A holistic Responsible Financing Strategy is ideally built on the following five pillars:

Leadership

The Chairman/CEO/Owner-Manager should play a proactive role in convincing the board/Top Management and staff within the FI that adopting these principles is crucial for success. The board and senior management need to ensure that the principles are fully understood across the organization and comprehensively executed.

Materiality

The FI should prioritise environmental and social issues based on their materiality to the business. The FI must identify topics that have a direct or indirect impact on the organization's ability to create, preserve or erode economic, environmental and social value for itself, its stakeholders and society at large.

Integration

These principles must be embedded in the Business policies and strategies emanating from the core business purpose of the FI. For this to happen, these must align with each FI's internal values and/or must provide clear business benefits.

Engagement

Building strong relationships and engaging with stakeholders on a consistent, continuous basis is crucial.

Disclosure and Reporting

Implementation process includes disclosure by FIs of their impact on society and environment to their stakeholders.

Elucidation of Five pillars:

1. Leadership

Putting sustainability at the heart of governance and the Board's strategic agenda

- Adopt a step by step approach for the following:
  - Establish a sustainability committee
  - Measure the performance of efforts through KPIs, issue a sustainability report and subsequently an integrated report, and appoint a Chief Sustainability Officer
  - Bring sustainability issues onto the agenda of Board meetings
  - Holistically integrate sustainability in the corporate strategy and monitor the progress against both financial and ESG targets.[i]

2. Materiality

Embedding in business decision-making those environmental, social and governance concerns relevant to the business

- The strategy at the Board and executive management levels to identify, assess, manage and monitor ESG issues in business operations
- Systematic identification of environmental and social issues that have direct or indirect impacts on the FI.

3. Integration

Implementing a set of objective procedures to follow while appraising environmental, social & governance aspects of investments and business opportunities

- Establish processes to identify and assess ESG issues inherent in the portfolio and be aware of potential ESG-related consequences of the FI's business
- Integrate ESG issues into risk management and decision - making processes, including research, models, tools and metrics

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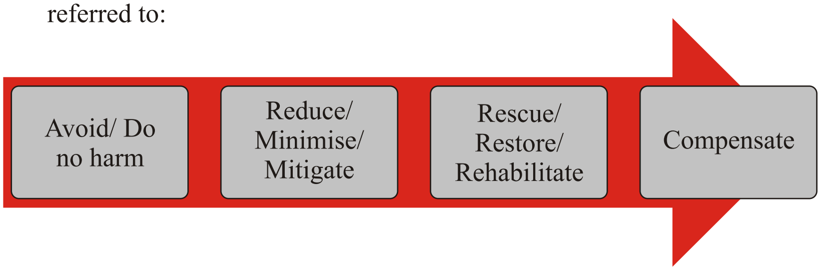
[i] *Integrated Governance: A New Model of Governance for Sustainability, UNEP FI*

- Address ESG aspects in investment/business policy statements
- Advocate ESG training for investment professionals

Going beyond compliance, and managing environmental and social risk as per the mitigation hierarchy

- Improve familiarity and awareness about the E&S mitigation hierarchy and offsets
- Subsequently understand and implement tools, resources and training to manage biodiversity risks and opportunities
- The Mitigation Hierarchy in the IFC performance standards may be referred to:



4. Engagement

Demonstrating effective stakeholder engagement as an on-going process to understand the issues that are important to them as well as the emerging trends across the business markets

- Support prudential policy, regulatory and legal frameworks that enable risk reduction, innovation and better management of ESG issues
- Open dialogue with governments and regulators to develop integrated risk management approaches and risk transfer solutions
- Open dialogue with intergovernmental and non-governmental organisations to support sustainable development
- Open dialogue with business and industry associations to better understand and manage ESG issues across industries and geographies

[ii] *IFC Performance Standards, International Finance Corporation*

Working together with clients to raise awareness on environmental, social and governance issues, manage risks, seek opportunities and develop solutions

- Dialogue with clients on the benefits of managing ESG issues and the bank's expectations and requirements on ESG issues
- Consideration of ESG compliance in cost/financial considerations and financial product offerings

5. Disclosure

Seeking appropriate disclosure on ESG issues by the entities in which there is an investment AND regularly reporting on business activities and progress in implementing the Principles

- Ask for standardised reporting on ESG aspects
- Ask for information on adoption of and adherence to various standards
- Seek answers to specific questions relevant to the investment
- Assess, measure and monitor the FI's progress in managing ESG issues and proactively and regularly disclose this information publicly via relevant disclosure or reporting frameworks
- Dialogue with clients, regulators, rating agencies and other stakeholders to gain mutual understanding on the value of disclosure through the Principles
- Disclose how ESG issues are integrated within investment practices and seek to determine the impact of the Principles

Principle-wise Implementation Guidance					
Principle	**Leadership**	**Materiality**	**Integration**	**Engagement**	**Disclosure**
PRINCIPLE 1: Ethical Conduct and E&S governance	The Board should actively integrate ESG factors into its business decisions. The FI should institute appropriate governance mechanisms to ensure ESG strategy is mainstreamed in core operations and business decisions. This responsibility could reside into existing risk committee structure and function.	The bank should periodically assess its ESG footprint and identify key ESG risks and opportunities.	The FI should put in place internal and/or external audits/checks to assess progress and monitor the effectiveness of ESG governance structures and accountability practices and procedures.	The FI should institute a systematic process of engaging with its internal and external stakeholders to understand the nature, scope and impact of ESG risks and opportunities and create the required buy-in.	i. Does the policy relating to ethics, bribery and corruption cover only the financial institution? Yes/ No. Does it extend to the Group/Joint Ventures/ Suppliers/Contractors/NGOs /Others? ii. Indicate the frequency with which the Board assesses the ESG based performance of the FI. If already not in place, is there a plan to such a system and when? iii. What percentage of stakeholder complaints received in the past financial year was satisfactorily resolved by the management? How frequently does FI publish a BRR or a Sustainability Report?

Principle-wise Implementation Guidance

Principle	Leadership	Materiality	Integration	Engagement	Disclosure
PRINCIPLE 2: Integration of ESG Risk management in business activities	Institutional setup: The Board should identify ESG risk management as a part of credit risk appraisal. Develop ESG risk identification and management procedures by constituting an internal team with clear roles and responsibilities for implementation. The above could also be puts in place with the help of an external ESG advisory / consultancy firm	ESG risk categorization Identify and categorise ESG risks that have direct and indirect impact on the business of FI. Assess the diverse products and services offered by the FI accordingly. Draft sector-specific guidelines (energy, transportation, real estate, agri-financing etc) based on their impact.	ESG risk management systems and procedures: Establish ESG risk assessment and due – diligence processes across verticals. Establish the delegation of responsibilities that include evaluation and communication of ESG risks associated with a proposal, and the monitoring requirements. Training on ESG risk management should be continually imparted to staff.	Communication with internal and external stakeholders: Initiate and establish communication and dialogues with relevant internal and external stakeholders to develop further understanding of ESG risks and the process of assessing and mitigating and evaluating benefits thereof.	i. Do you have an ESG risk assessment framework approved by the Board? ii. Does your ESG risk assessment framework follow a pre-loan and ongoing monitoring and evaluation based on ESG parameters? iii. What percentage of portfolio has been negatively/positively impacted by implementing ESG based appraisal? iv. How has the FI's portfolio risk reduced as a result of ESG based lending? Specify in terms of non-performing loans, legal liability, new market opportunities, customer loyalty etc.

Principle-wise Implementation Guidance					
Principle	**Leadership**	**Materiality**	**Integration**	**Engagement**	**Disclosure**
PRINCIPLE 3: Minimizing Environmental Footprint in internal operations	The board establishes responsibility for managing optimal resource use and reduction of waste	Assess the consumption of resources (electricity, water, paper etc) in a systematic way and measure their efficient and optimal use and reduction of waste	Set baseline status and annual targets for resource consumption, reduction and waste management according to available standards, for example, on water, waste, including e-waste, GHG emissions, etc.	Engage with internal stakeholders cutting across regular employees and those on contract to make them aware and engage with t organisation's policy and targets.	i. What systems and processes are in place for GHG reduction and avoidance; for reduction, reuse and recycling of products (paper, water e-waste, etc)? Are there any renewable energy sourcing for branches and operations etc.?
PRINCIPLE 4: Environmentally friendly products, services and investments	Consider sustainability linked investment as a business opportunity (define products and services) Board approves such new products, credit lines and investment that improve environmental impact through the client of the financial institution.	Will be defined by the sector the FI is investing in in terms of value it generates for the FI's business and for society.	Proactively invest in businesses focused on low carbon technologies/renewable energy (RE)/energy efficiency (EE)/sustainable agriculture/urbanization/infrastructure/water conservation Fund mitigation and adaptation projects	Participate in Government sponsored PPPs in the clean energy, clean tech and sustainable transport projects. Explore tie ups with ECB, DFIs and external lines of credit, funds that are into environmentally linked financing for example Green Climate Fund	List products or services whose design has incorporated environmental concerns, risks and/or opportunities. i. Has the financial institution invested in clean technology, EE, RE, climate mitigation and adaptation projects etc. If yes, what is the

Principle-wise Implementation Guidance					
Principle	**Leadership**	**Materiality**	**Integration**	**Engagement**	**Disclosure**
					percentage share of the portfolio in the reporting year, and in the previous three years? ii. Give details of sources of green funds (dedicated credit lines, grants, green bonds) and instruments for green investments (equity, loans, blended finance).
PRINCIPLE 5: Enabling inclusive human and social development	The Board should approve appropriate strategies to design and create funds/products/services and synergies with NGOs/MFIs/ Government agencies etc to execute socially responsible interventions.	The FI should systematically identify its role in social and development issues and prioritise its interventions based on impact.	The FI proactively support investments across sustainability spectrum. Offer customized products and services to help improve 1) access to basic services (Health, sanitation, education, water etc) 2) to boost economic	FI should systematically engage and communicate with internal and external stakeholders to design and deploy needed products and services and other interventions? (A good example of engagement that resulted in successful product	i) Specify top three products and services (by value) that integrate social impact parameters into their design ii) Specify the increase in volume and value of these products and services in the current year compared to

Principle-wise Implementation Guidance					
Principle	**Leadership**	**Materiality**	**Integration**	**Engagement**	**Disclosure**
PRINCIPLE 5: Enabling inclusive human and social development			empowerment of women. 3) Align CSR with local and national goals such as Sustained employment, skills, vocational training for vulnerable and disadvantaged groups etc.	structuring is be the Joint Group Liability approach adopted for MFI loans)	the last year, and give details of future targets. iii) Specify details of CSR project(s) and their impact and successful adoption by the target community.
PRINCIPLE 6: Stakeholder Engagement	Integration of ESG issues into Stakeholder engagement with respect to business operations would require direction from the FI Board/Management. This includes both internal and external stakeholders.	Assessment of sustainability issues vis a vis their impact on stakeholders where FI is lending/investing.	The FI should design and deploy suitable systems and procedures of stakeholder engagement to implement all principles contained in these guideline.	The objective is to not only take cognizance of the stakeholder issues but also to ensure that the project/client address such concerns/ grievances and implement corrective actions to the satisfaction of the affected stakeholders.	1) What process do you have to systematically identify and engage internal and external stakeholders, especially the disadvantaged groups? 2) How many stakeholder complaints have been duly resolved? Give key (top three) improvements in the operational and portfolio performance of the FI attributable to stakeholder engagement?

Principle-wise Implementation Guidance					
Principle	**Leadership**	**Materiality**	**Integration**	**Engagement**	**Disclosure**
PRINCIPLE 7: Commitment to Human Rights	The Board should acknowledge that human rights violations by the FI or any party engaged with the FI exposes the FI to risks. The Board should ensure implementation of human rights due diligence procedures to screen, assess, and integrate human and labour rights considerations into business decision making processes.	Determine human rights impact of FI's business on internal and external stakeholders, and assess human rights risks on its business.	A thorough internal and external Human Rights risk review should be conducted. Special attention should be paid to vulnerable groups and while operating in politically sensitive, conflict zones.	FI's should engage and address i.Employees (including contract workers) on issues of fair working conditions, equal opportunities , protection against discrimination Suppliers: External business partners for their human rights and labour rights, employment conditions FI should encourage its stakeholders to bring to the FI's attention instances where FI's products and services have potential or real human rights impacts, using	i. Does the FI have a written human rights policy? Does it cover only the company or extend to the Group/ Joint Ventures/ Suppliers/ Contractors/ Others? Is it integrated into core business processes? ii. Do you have an employee association that is recognized by management? What percentage of your permanent employees is members of this recognized employee association? iii. In case of contractual employees, briefly describe the process followed by the FI on issues like wage, working

Principle-wise Implementation Guidance					
Principle	**Leadership**	**Materiality**	**Integration**	**Engagement**	**Disclosure**
PRINCIPLE 7: Commitment to Human Rights				existing channels, online contact forms, or email or informing the grievance desk	conditions etc? iv. Do grievance redress mechanisms cover regular and contractual employees, and other external stakeholders? List the number of incidents/ grievances that have been satisfactorily resolved in the past three years. v. Is security of work-ers/personnel assured in sensitive areas of business operations? What measures on awareness creation have you undertaken to inform employees, suppliers and clients on human rights?

Principle-wise Implementation Guidance					
Principle	**Leadership**	**Materiality**	**Integration**	**Engagement**	**Disclosure**
PRINCIPLE 8: Disclosure	Purpose of reporting and disclosure is to enable the Board of the organisation to review strategy, assess the impact of ESG on its current and future business, introduce course corrections if necessary, and redesign business goals where essential.	Ensures identification and disclosure of material ESG risks faced by the FI aligned to the principles contained in these Guidelines and assists in setting targets for future for mitigating the same, tapping potential opportunities, and adopting best practices	The reporting and disclosure should not be limited to internal performances and CSR but also on business activities, products and services. For eg- Reporting on E&S risk assessment in lending operation, numbers and type of projects funded should also be a part of the reporting and disclosure documents. The disclosure could be a stand-alone report and integrated with BRR or part of the Annual Report. Use information/ feedback from stakeholders to improve business processes and disclosures	Engagement with stakeholders which includes employees, borrowers, investors, consumers and peers. Make use of reporting to raise awareness among a broader group of stakeholders A proactive engagement with associations like IBA, investor associations, and other agencies (national and interna-tional), NISM, CAFRAL, GRI and other fora like UNEPFI, EP, UNPRI, etc.	i. Disclose how ESG issues are integrated within operations and investment practices ii. Disclose active ownership activities (voting, engagement, and/or policy dialogue) iii. Report on progress and achievements relating to the ESG Principles contained in these Guidelines as elaborated above iv. Apply or Explain: Explain with broad plan of action what FI will do to improve ESG performance in areas identified as important by the FI where there is no on-going action

Annexures

A: Resources

B: Glossary

C: Note on the Process

D: Working Group & Guidelines Drafting Committee Members

Annexure A: Resources

"A global sustainability framework and initiative of the United Nations Environment Programme Finance Initiative" UNEP FI Principles for Sustainable Insurance: http://www.unepfi.org/psi/the-principles/

"Business Responsibility Report" format, SEBI: http://www.sebi.gov.in/cms/sebi_data/attachdocs/1344915990072.pdf

"Equator-Principles" Equator Principles III: http://www.equator-principles.com/index.php/ep3/ep3

"GRI Financial Sector Supplement (FSSS)," Global Reporting Initiative (GRI): https://www.globalreporting.org/resourcelibrary/FSSS-Complete.pdf

"GRI G3.1 Sustainability Reporting Guidelines," Global Reporting Initiative (GRI): https://www.globalreporting.org/resourcelibrary/G3.1-Sustainability-Reporting-Guidelines.pdf

"GRI G4 Sustainability Reporting Guidelines," Global Reporting Initiative (GRI): https://www.globalreporting.org/resourcelibrary/GRIG4-Part1-Reporting-Principles-and-Standard-Disclosures.pdf

"IFC Performance Standards," International Finance Corporation (IFC): http://www.ifc.org/wps/wcm/connect/115482804a0255db96fbffd1a5d13d27/PS_English_2012_Full-Document.pdf?MOD=AJPERES

"Integrated Governance: A New Model of Governance for Sustainability," UNEP FI: http://www.unepfi.org/fileadmin/documents/UNEPFI_IntegratedGovernance.pdf

"National Voluntary Guidelines" Ministry of Corporate Affairs: http://www.iica.in/images/MCA_NVG_BOOKLET.pdf

"Principles for Investors in Inclusive Finance" UN PRI: http://www.unpri.org/areas-of-work/implementation-support/piif/

"Principles for Responsible Investment," UN PRI: http://www.unpri.org/about-pri/the-six-principles/

Annexure B: Glossary

Abbreviations:

Abbreviation	Full form
BR	Business Responsibility
BRR	Business Responsibility Report
E&S	Environmental and Social
ESCO	Energy Service Company
ESG	Environmental, Social, Governance
FI	Financial Institution
GHG	Greenhouse Gases
GRI	Global Reporting Initiative
IFC	International Finance Corporation
NVGs	National Voluntary Guidelines
PIIF	Principles for Investors in Inclusive Finance
PRI	Principles of Responsible Investment
SEBI	Securities and Exchange Board of India
UNEP FI	United Nations Environment Programme – Finance Initiative

Definitions

- **Guidelines:** External broad enabling principles that guide organisations (e.g. IFC guidelines, Equator principles, NVGs)
- **Policy:** Internally developed principles of action followed by an organisation
- **Implementation Framework:** Detailed and broad process on how an organisation can adopt and integrate the policy into their business model
- **Tools:** Hands-on detailed management systems for integration of policies within an organisation

Annexure C: Note on the Process

Background Note on the Process Adopted in Drafting the National Voluntary Guidelines for Responsible Financing

The Indian Banks' Association had been engaged on the issue of responsible business and finance since 2012 which led to the formation of a **Working Group on Responsible Finance** in 2014 under the aegis of the bilateral cooperation project between SIDBI and GIZ on Responsible Enterprise Finance. The Working Group acted as the platform that brought banks, NBFCs, other agencies active in the field, corporates together to deliberate on a common understanding of what is meant by sustainable/responsible financing. The Working Group was chaired by the then IBA CEO Mr Mohan Tanksale.

The Working Group designated a core group from its membership - a smaller **Guidelines Drafting Group** - that formulated the Guidelines, developed Guidance for implementation, sought feedback from the Working Group and a larger group of banks (IBA members).

The mandate of the GDG, as decided by the Working Group was:

- Consensus building on the process of development
- Spearheading the process
- Identification of research inputs
- Stakeholder engagement
- Development of principles, implementation guidance and disclosure questions
- Presentation to IBA for feedback from the sector

The process was highly iterative and several online and in-person meetings led to the final draft, which was debated within the Working Group and the IBA Management Committee before being approved by IBA and communicated to its members through a circular for adoption. A group of Nodal Officers was also formed by the IBA to sensitise them and equip them with knowledge and tools for mainstreaming the Guidelines within their organisations. This exercise is led by IBA with the support of GIZ.

Key inputs and considerations:

- **Mapping and research:**
  - o An analysis and mapping of the existing frameworks such as the NVGs, Equator Principles, IFC performance standards, UNEP FI was done.
  - o Issues material to different segments of the financial sector were researched by members of the GDG.
  - o Already existing disclosure patterns (BRRs, GRI reports) were studied
- **Implementation guidance:**
  - o The implementation guidance addresses how to integrate the guidelines into the FI's core operations, pivoting on the five pillars of a responsible financing strategy: Leadership, Materiality, Integration, Engagement and Reporting.
  - o The guidance includes policy design/ roadmap and principle-wise implementation requirements
- **Disclosure questions:**
  - o The disclosure questions enable the sector to report on its operational and portfolio practices pertaining to ESG, with useful information.
  - o As the disclosure should focus on critical aspects and not be seen as burdensome, it current requirements under existing regulations and laws that FIs make on ESG were thoroughly scanned and analysed.
- **Adoption of the guidelines and disclosure format:**
  - o Risk management provides for a strong business case for responsible performance. International experience has been drawn on, which points towards the fact that it is the sector's fiduciary duty to conduct their business responsibly as the functioning of economies depend on them.

Feedback on the Guidelines was sought through email and findings were discussed in the Working Group. The categories for which feedback was sought pertained to the following:

Section	• Introduction • Principles, Description and Applicability, Areas of disclosure • Implementation Guidance • Annexures
Type of Comment	• Editorial • Technical • Substantive • Presentation

Description of Comment

Justification fr change

Additional remarks/ suggestions on adoption

Majority of comments received agreed with the rationale, objective and content of the Guidelines and a large number of them focussed on the implementation of the Guidelines citing that FIs are in different stages of maturity to deal with ESG and hence a phased implementation process was recommended. It was acknowledged that the Guidelines could not only help manage risks better but also mobilise more capital and newer customers. However, wider incentives are required to mainstream responsible financing. Banks also suggested more intensified engagement with regulator to remove the perceived first mover advantage, wider consultations with other PSBs, Private and MNC Banks, Financial Institutions and Insurance companies to get better buy-in and implementation, capacity building at branch levels etc , strengthening finance ecosystem for utility RE with focus on long term debt, interest rate subsidies, loan guarantees and risk insurance, supporting asset financing models which help consumers to pay for services instead of bearing upfront costs, piloting green bonds/green bank via state governments/municipalities; ensuring transparent and timely updates about plant performance to build trust amongst financiers.

The Working Group debated different segments of the financial sector and their different material issues and different ways of risk management. Even within each sector, the working group acknowledged that there may be varied needs. For example, 95% (indicative) of the workforce in an insurance company are involved in selling insurance policies to consumers and the other 5% are the managers of the corpus of money. Responsible financing pertains to two different angles within the same segment, hence.

While in the first case, ESG issues such as consumer data protection, responsible advertising, and transparency on policy terms and conditions are more material, on the other, the managers of the corpus would have to look into ESG indicators of project finance of their investees. The two sides of the value chain thus need to be looked into to cover the entire gamut of risks.

Which of the risks are more material and to what level of granularity they can be incorporated were thought through based on well-defined criteria including impact on business and consumers, probability of occurrence, stakeholder interests etc.

To ensure the sustainability of the sector as a whole in medium to long term and enable consistent improvement in performance, a balance between common minimum factors and highest achievable standards was struck.

The Guidelines also contain a set of annexures. These give resources, glossary of terms and a note on the process adopted for the development of the Guidelines.

Below are the members of the Guiding Drafting Committee and the Working Group on Responsible Finance of the IBA.

Guidelines Drafting Committee (Drawn from the Working Group)

Organisation	Name	Designation
cKinetics	Mr Pawan Mehra	CEO and founder
GIZ	Ms Neha Kumar	Senior Advisor, GIZ, (Former Member of the NVGs and BRR Drafting Committee)
IDFC	Mr Alok Dayal	Senior Director - Credit and Environment Risk
IDFC	Mr Rajnish Kadambar	Director– Environment Risk
IL & FS	Mr Alok Bhargava	CEO – Strategic Support Group
	Mr Santosh Shidhaye	Senior Vice President – Corporate Sustainability Group
SIDBI	Mr Anand Shrivastava	Deputy General Manager
SIDBI	Mr Pradyumna	Assistant General Manager
Tata Group	Mr. Shankar Venkateswaran	Group Head- Sustainability, Member of the NVGs Drafting Committee
Yes Bank	Ms Namita Vikas	Group President – Responsible Banking
Yes Bank	Ms Neha Kapur	Senior Vice President- Responsible Banking
SBI	Mr V Murali	DMD Credit Risk
		Research and coordination support
GIZ-SIDBI	Ms Trina Datta	Consultant

D: Working Group & Guidelines Drafting Committee Members

Name	Designation	Organisation
Mr Sangeet Shukla	Senior Advisor (Co-chair)	Indian Banks' Association
Mr B V Upadhye	General Manager	Bank of India
Mr. Ravi Sangvai	Program Director	CAFRAL
Mr. Pawan Mehra	Managing Director	cKinetics
Mr. R K Bansal	Executive Director	IDBI Bank Ltd.
Mr Alok Dayal	Senior Director - Credit and Environment Risk	IDFC Ltd.
Mr. Rajnish Kadambar	Director - Credit and Environment Risk	IDFC Ltd.
Mr Alok Bhargava	CEO- Strategic Support Group	IL&FS Ltd.
Mr. Sanjeev Ghai	CGM	Indian Infrastructure Finance Company Limited
Mr. Anupam Verma	Head	International Financial Institutions Group, ICICI Bank
Mr. Nikhil Parekh	Chief Manager	International Financial Institutions Group, ICICI Bank
Mr. Farid Akhtar	GM	Punjab National Bank
Dr. (Ms) Anupam Prakash	Director	Reserve Bank of India
Mr. SumantraSen	Founder & CEO	Responsible Invest. Research Association (RIRA)
Mr. Ravi Krishnamurthy	Executive Director	SBI Life Insurance Co. Ltd.
Mr. Natarajan Raman	Executive Director	SIDBI
Mr. K G Alai	Head HR	SIDBI
Mr. Anand Srivastava	DGM	SIDBI
Mr. L S Narayanswami	Director - Strategic Initiatives	Standard Chartered Bank

Name	Designation	Organisation
Mr. Supriyo Kumar Chaudhuri	CGM (CPPD)	State Bank of India
Mr. V Murali	DMD	State Bank of India
Mr. Shankar Venkateswaran	Chief - Tata Consultancy Group	Tata Sons Ltd.
Mr. DipankarSanyal	CEO	TERI-BCSD
Ms NamitaVikas	Group President – Responsible Banking	Yes Bank Pvt. Ltd.
Ms Neha Kumar	Senior Advisor	GIZ, India

NOTES

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Indian Banks' Association