The integration of sustainability in the lending process in European banks

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Abbreviations

CDP – Carbon Disclosure Project

CERCLA – Comprehensive Environmental Response, Compensation and Liability Act

CEO – chief executive officer

CO_2 - carbon dioxide

CSR – corporate social responsibility

EC – European Commission

EIF – European Investment Fund

EP – Equator Principles

ESG – environment, social, governance (issues)

EU – European Union

FTSE – Financial Times Stock Exchange

GRI – Global Reporting Initiative

IFC – International Finance Corporation

NGO – non-governmental organisation

OECD – Organisation for Economic Co-operation and Development

SEE – social, environmental, ethical (risks)

SMEs – small and medium-sized enterprises

SRI – socially responsible investment

UNEP FI – United Nations Environment Programme Finance Initiative

UN PRI – United Nations Principles for Responsible Investment

VfU – Verein für Umweltmanagement in Banken, Sparkassen und Versicherungen

(German association for environmental management in banks, savings banks and insurance)

WWF – World Wide Fund for Nature

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1. Introduction

1.1 Corporate sustainability

In the last few decades, there has been increasing focus on business' responsibility for its impacts on society and its ability to contribute towards sustainable development. The banking sector has been perceived by many as having been comparatively slow in this respect (urgewald 2009: 4; Viganò & Nicolai 2009: 95; Barannik 2001: 247; Jeucken & Bouma 2001: 24). Whereas regulatory and other external pressures forced goods-producing sectors to focus on sustainability early on (particularly from the 1960s and onwards), the banking sector started seriously considering sustainability only in the mid-1990s (Jeucken 2001: 228). In this same period, there was increasing attention on banks' role and expectation that banks take account of their indirect impacts that arise through lending (Thompson & Cowton 2004: 198). One possible explanation for the sector's slowness might be that banks are often considered to be reactive by nature, meaning that they develop products intended to finance that which society attaches value to (Jeucken 2001: 226). There is little doubt regarding the significant importance of the banking sector's possible contribution towards achieving sustainable development (Viganò & Nicolai 2009: 96; Jeucken 2001: 2; Delphi International & Ecologic 1997: 8). It has an intermediary role at the macro level in "transforming money by space, term, scale and risk"(Jeucken 2001: 52) and is, thus, able quantitatively and qualitatively to steer the economy in certain directions (Barannik 2001: 248). The sector is also thought to have a "pragmatic self-interest in sustaining the environmental foundation of economic activity" (Barannik 2001: 248). It can, however, not be ignored that often the preference for short-term profit clashes with this interest (Jeucken & Bouma 2001: 28), which in such cases thus might draw the short straw.

There has been, and still is, prevalent disagreement regarding what exactly sustainability and sustainable development consist in. The rather abstract and hard-to-operationalise "Brundtland definition" can be considered to be the lowest common denominator: "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (WCED 1987: part 1, ch.2, paragraph 1). There has been a growing realisation that in order to approach and achieve sustainable development, both social, environmental and economic considerations must be taken into account (Jeucken 2001: 43). Although trade-offs between these considerations might arise, the three dimensions of sustainability must not necessarily be seen as substitutes (cf. concept of "strong sustainability" (Tietenberg 2006:

100)). Although highly relevant and worthy of further scrutiny, a comprehensive analysis of the concept of sustainability is beyond the scope of this study. Rather, an exploration of the relevance of the concept in the specific context of the banking sector will be carried out here.
Corporate social responsibility (CSR), corporate responsibility, corporate sustainability and on goes the list. There are many terms for the strategies and measures companies undertake in order to control the impacts that they have on society and the natural environment, and vice versa. There is no academic consensus on the definitions of these terms (Crane et al. 2008: 5ff; Kurucz et al. 2008: 86). In this study, a broad understanding of the concepts informed by stakeholder theory is considered imperative when dealing with the issue at hand – the indirect impacts of banks arising through their business clients. Stakeholders can be understood as "groups and individuals who benefit from or are harmed by corporate actions" (Melé 2008: 62). Stakeholder theorists Evan and Freeman underline the latent normative character of the theory (Melé 2008: 64).

1.2 The banking sector and sustainability

Like any other company in any other sector, a bank has direct sustainability impacts in its immediate realm of activity. The social impacts relate in particular to the bank's employees: the sufficiency of remuneration, the safety of the work environment (of particular importance to banks' front office employees), employee rights, employee satisfaction and the safeguarding of equal opportunity (IÖW & future 2009: 18ff; GRI 2008: 36ff). The direct environmental impacts in service sectors like that of banks' are not as immense as that of the goods-producing sectors. Nonetheless, in some areas, particularly paper use and energy use (through office buildings and business travel), banks can be said to have substantial impact (IÖW & future 2009: 56).

Compared to the sector's indirect sustainability impacts, the direct environmental and social impacts are, although not negligible, of considerably less significance (Jeucken 2001: 63). Indirect sustainability impacts in the banking sector arise, first, through the functions that banks have and the manner in which they conduct business and, second, through the types of services they offer and the type of clients they accept and pursue. The first impacts primarily relate to issues that are linked to the economic dimension of sustainability. Risk management, and particularly the management of liquidity risk, constitutes a major function of banks' core business (Hartmann-Wendels et al. 2007: 411ff) and is an area that a great many of them, due to increasing degrees of complexity, lack of transparency and gaps in sector regulation, have had a decreasing level of control over in the last few years (IÖW & future 2009: 54f). This has become evident in the financial crisis that was triggered in 2007/2008 and still has enduring impacts.

Further, the threat of clients using banks as a vehicle for corruption or money laundering has received increasing attention through the sector initiative "Wolfsberg Principles" and the inter-governmental body "Financial Action Task Force" and is seen as an important concern to be prevented and managed by using proper corporate governance mechanisms.[1] A final issue in this category of indirect impacts concerns the access to financial services. In developing countries, microfinance has stood for the increased access to financial services of poorer population groups for several decades (Armendariz de Aghion & Morduch 2005: 1ff). The problem does, however, not only arise in poorer countries. In European countries, a lack of access does not only affect small and medium-sized enterprises (SMEs), but also a non-negligible part of the population (European Commission 2008: 22ff; Peachey & Roe 2006: 13ff).

The second type of indirect impacts arises primarily via the banks' business and corporate clients – the companies that are financed by the banks. These indirect impacts can be said to be immense in the sum and to a considerable extent to be potentially influenced by the banks. There has been some scepticism in the banking sector as to whether this influence should be used – whether assuming such responsibility would not be interfering with other companies' strategies and activities (Barannik 2001: 250; Bouma et al. 2001: 20; Coulson 2001: 300) – and not least, as to whether the banks as market players have such power at all, if companies can choose to change banks. Nevertheless, considering that access to finance is difficult for many companies, the potential power that banks have in setting business agenda is rather evident.

1.3 Focus on products and services in the banking sector

The business areas in which banks can consider indirect sustainability impacts in their products and services are plentiful. Here is a brief overview of some of the central areas relevant to this study.

1.3.1 Project finance and export finance

The initial involvement in indirect product-related sustainability issues arose due to the risks they represented for the banking sector. In the field of project finance, there has been increasing attention on the nature of banks' contribution to sustainable development through its lending

[1] Cf. http://www.wolfsberg-principles.com/; http://www.fatf-gafi.org (accessed last 18 March 2010).

activities in the last decades (Jeucken 2001: 140).[2] Especially the World Bank was targeted by civil society relatively early (late 1980s) due to its involvement in controversial large-scale projects in developing countries with severe social and environmental impacts (urgewald 2009: 7f). Presumably it was the main recipient of pressure due to its size, significance and relevance. In the aftermath of these events, it structurally changed its involvement in such project finance by developing and implementing its ten "safeguard policies" on sustainability issues, focusing on environmental concerns (environmental assessment, natural habitats, forests, pest management) as well as social ones (indigenous peoples, international waterways, safety of dams, physical cultural resources, involuntary resettlement, disputed areas).[3] These policies have been adopted or used as a benchmark by commercial banks in later years as well (urgewald 2009: 7; Jeucken 2001: 140f). Similarly, a World Bank subsidiary, the International Finance Corporation (IFC), has developed its own "performance standards",[4] which became the foundation for the development of the sector initiative "Equator Principles" (EP) in 2003.[5] The latter has since then grown to become an authoritative standard in the sector.

Although the depth of assessment varies, the procedures of these institutions and initiative follow a similar pattern: project screening for sustainability relevance with rating based on the severity of impacts; full impact assessment for projects with considerable, potential impacts; information dissemination to / consultation of interested and affected parties; project appraisal; project implementation with agreed-upon conditions and mitigation measures ("action plan"); and independent review, monitoring and reporting. Additionally, a grievance mechanism is set up for the affected parties. The German non-governmental organisation (NGO) urgwald criticises what it sees as IFC's recent dilution of its requirements and, in consequence, those of EP (urgewald 2009: 7). The banks that are signatories of the Equator Principles are, in turn, criticised for failing to comprehensively adhere to the framework or for failing to transparently report on their application of the principles (BankTrack 2007d: 1ff).

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[2] Project finance is "a method of funding in which the lender looks primarily to the revenues generated by a single project, both as the source of repayment and as security for the exposure. Project financing plays an important role in financing development throughout the world. This type of financing is usually for large, complex and expensive installations that might include, for example, power plants, chemical processing plants, mines, transportation infrastructure, environment, and telecommunications infrastructure." http://www.equator-principles.com/documents/AbouttheEquatorPrinciples.pdf (accessed last 19 March 2010).
[3] Cf. http://go.worldbank.org/WTA1ODE7T0 (accessed last 17 March 2010).
[4] Cf. http://www.ifc.org/ifcext/sustainability.nsf/AttachmentsByTitle/pol_SocEnvSustainability2006/$FILE/SustainabilityPolicy.pdf (accessed last 17 March 2010).
[5] Cf. http://www.equator-principles.com/documents/AbouttheEquatorPrinciples.pdf (accessed last 19 March 2010).

Although initially addressed to government export credit agencies, the OECD common approaches for export finance are a much quoted standard among commercial banks as well.[6] Another much quoted sector initiative is the UNEP Finance Initiative (FI) which launched the UNEP Statement by Banks on the Environment and Sustainable Development in 1992 (revised in 1997) – a set of guidelines for the integration of sustainability concerns in core business.[7] These are, however, rather general and do not provide specific or operational procedures for the participating financial institutions. Further integration in lending is the topic of chapter 2.

1.3.2 Socially responsible investment

As in other sectors, issues related to sustainability present both risks and opportunities for the banking sector (Jeucken 2001: 2). While the early consideration of sustainability in the sector focused primarily on risk, some financial services increasingly take advantage of the opportunities offered by considering and integrating the sustainability concerns of clients. Socially responsible investment (SRI, also called "ethical investment") is an example of this. Investors who wish to invest according to SRI principles focus not only on the financial return, but also on a reduction of SEE-risks (social, environmental and ethical risks) or a thorough consideration of ESG-issues (environmental, social and governance issues).[8] Although the phenomenon goes back considerably longer than that (e.g. as churches excluded certain business activity from their investment portfolio), SRI became a commercial niche approach in the 1970s in the US (Schaltegger & Figge 2001: 206). In the last decade, SRI has grown considerably both in the US and Europe.[9]

SRI consists of three principal investment strategies (Kurtz 2008: 250ff; Jeucken 2001: 85). First, negative or exclusionary criteria are applied, which are issue or sector based criteria that ban certain types of business activity (e.g. common are issues such as pornography, tobacco, alcohol, fur, contraceptives, nuclear power and arms). Second, positive criteria are used in order to assess to what extent companies integrate sustainability considerations in their policies and practices. Third, some SRI funds apply the best-in-class approach, which includes only the most sustainable companies of their respective sectors. Furthermore, engagement on sustainability issues has become

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[6] Cf. http://www.oecd.org/document/56/0,2340,en_2649_201185_21688824_1_1_1_1,00.html (accessed 27 March 2010).
[7] Cf. http://www.unepfi.org/statements/fi/index.html (accessed last 17 March 2010).
[8] Cf. http://www.eurosif.org/sri (accessed last 18 March 2010).
[9] For data on the upward SRI trend in Europe in the last decade, see Eurosif (2008: 10ff) and http://www.oekom-research.com/index.php?content=marktdaten (accessed last 17 March 2010).

an increasingly important tool to influence the companies in the portfolio, also for mainstream investors (Eurosif 2006: 5). It is still common that SRI approaches are used only on a limited basis for specifically denominated funds. However, in 2005 the UNEP Finance Initiative in cooperation with the UN Global Compact[10] founded the investor initiative UN Principles for Responsible Investment (UN PRI), which encourages investment institutions to mainstream environmental, social and corporate governance issues in their asset management.[11] The investor initiative Carbon Disclosure Project (CDP) is concrete example of how this is done in practice: today, a large number of mainstream, institutional investors worldwide summon their investee companies to report on their greenhouse gas emissions according to the CDP framework.[12]

1.3.3 Funding of sustainable sectors

Another perceived opportunity in the provision of bank services is the funding of so-called "sustainable sectors". Examples include the funding of environmental technology, sustainable energy provision and sustainable building practices. Such projects often require large sums of money (Jeucken 2001: 98ff). More innovative companies, furthermore, often have high-risk profiles, which may cause many banks to shy away (Jeucken 2001: 106f). The increasing focus on renewable energy funding is understandable when seen in the context of climate attention. The issue of climate change is perceived as being "en vogue" in the banking sector (urgewald 2009: 30). This is mirrored by the fact that most banks address the topic in one way or another (in their sustainability reports) and by a wave of recent publications focusing on climate measures in the sector (Ceres & RiskMetrics Group 2009; Ceres 2008; BankTrack 2007a; urgewald 2007; Dutch Sustainability Research 2006). In a recent survey by the German association for environmental management in banks, savings banks and insurance (VfU), the issue climate protection came out as *the* issue of importance for the financial sector currently (VfU 2009: 7). Similar findings by other surveys corroborate this impression (Viganò & Nicolai 2009: 102). So-called niche banks (amongst others GLS Bank and Umweltbank in Germany, Triodos Bank in the Netherlands, Cultura Bank in Norway, Alternative Bank in Switzerland, Banca Popolare Etica in Italy) are especially linked to the funding of sustainable sector, as many of them fund only a limited range of sectors or business activities, which have particularly beneficial social or environmental impacts (such as renewable energies, sustainable building, kindergartens or schools, organic farming, cultural projects and health services).

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[10] The UN Global Compact provides general sustainability guidelines, which apply to all sectors. Cf. http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html (accessed last 17 March 2010).
[11] Cf. http://www.unpri.org/about/ (accessed last 17 March 2010).
[12] Cf. https://www.cdproject.net/en-US/WhatWeDo/Pages/overview.aspx (accessed last 26 March 2010).

1.3.4 Other services and products

Sustainability is considered to some extent in other areas of banking as well: Some banks provide credit cards in cooperation with NGOs, which benefit from customers' usage of these cards (e.g. WWF (World Wide Fund for Nature) and Föreningssparbanken in Sweden; Greenpeace and the Co-operative Bank in the UK). Sustainable leasing is another service supplied by a few banks, such as the Norwegian bank DnB NOR that offers CO_2 quotas to clients who lease cars, in order for them to achieve a carbon neutral car fleet.[13] Some banks offer advisory services for business clients, which aim at supporting these clients in identifying and implementing possible strategies that make the company more sustainable. Banks are increasingly also getting involved in helping finance Clean Development Mechanism projects, which aim at reducing greenhouse gas emissions in developing countries while supporting companies and industrialised countries achieve their emission reduction targets. The above list of sustainable services provided by banks is non-comprehensive, and ever-expanding.

1.4 Research topic and study outline

This study investigates how and why rather progressive European banks mainstream the integration of sustainability in their general lending process. The focus of the research will lie on the strategies, policies, processes and sources of motivation that underlie this approach to banking. What the study does *not* focus on is exploring the details of the relevant sustainability issues in question, like exactly what impacts banks' business clients have on e.g. the climate or soil degradation. Such investigation is certainly both interesting and relevant to this study, but beyond its scope. In addition, as the banks considered have clients in most, if not all, types of sectors, an analysis of their impacts would have to comprise all possible sustainability impacts that business can have.

In the next chapter, a literature review will be carried out, looking at how banks can and do integrate sustainability in their lending process with a focus, first, on risk management and, second, on going beyond risk management. The section on risk management, which explores the different types of risks involved and why banks should avoid them, is rather extensive, as banks currently seem to focus more on "downside" risks than on "upside" opportunities (Thompson & Cowton 2004: 200). Chapter three provides an overview of the possible sources of motivation – including overarching reasons as well as the actors behind – for the banks that decide on this approach. It also explores strategies that companies can take and phases they (can) go through when confronted with sustainability risks and

[13] DnB NOR, Annual Report 2008, p. 75.

opportunities. The research fields that informs the literature review in this chapter are primarily CSR research generally and stakeholder theory specifically. In chapter four, the empirical research is introduced. It describes the selection of suitable banks, explains the research relevance, presents the interview partners, explores the research methodology and, finally, exposes the limitations of the research. The central piece of the study is chapter five. Here, the banks, their strategies, policies, processes and motivation are explored in as great detail as the research method and scope allows. In chapter six, a further analysis is made of the research data by drawing on the literature review, leading to a presentation of the central findings and further research opportunities. The study is concluded in chapter seven.

2. Mainstreaming sustainability in business lending

Whereas most of the products presented in chapter 1 are possible supplements to banks' more traditional products (with the exception of project finance) – a strategy that leaves the choice to the client (Jeucken 2001: 83), a so-called mainstreaming of sustainability in lending would involve a conscious decision by the bank to exclude or disadvantage certain types of less sustainable business activities, while favouring more sustainable business activities through increased access and possibly with preferential conditions.

2.1 Sustainability assessment as risk management

As early as in the 1990s, "most banks" were considered to have some basic form of environmental assessment in their lending processes (Delphi International & Ecologic 1997: 10).[14] When mainstream, commercial banks started considering environmental risks, they were doing so due to losses that had arisen due to the previous neglect of such concerns (Weber 2005b: 73; Thompson & Cowton 2004: 204). When integrating sustainability considerations in their risk management, it can thus be said that banks are not unduly interfering with their business clients' activities, as their clients' direct sustainability risks are also the banks' indirect risks (Jeucken 2001: 64). The below categorisation of banks' types of sustainability related risks in lending follows that of a range of studies (Jeucken 2001: 119ff; Thompson 1998: 129f; Rauberger et al. 1997: 40f).

[14] This is, however, not a quite such a straightforward statement. As recently as in 2009, an EIRIS survey on sustainability risk management, the financial sector surprisingly came out last as the least offensive sector. About 24% of the banks in the FTSE All World Developed Index were said to disclose no evidence of such risk management, which was twice as much as in any other sector (EIRIS 2009: 1ff). It remains uncertain, whether this failure to disclose was due to an actual lack of risk management or only bank secrecy.

2.1.1 Indirect sustainability risks

Banks' indirect sustainability risks in lending are the direct risks of their clients. If business clients are not able to repay their loans or the value of their collateral is lost, it may well become a problem for the bank (Weber et al. 2008: 150; Fenchel et al. 2003: 3; Barannik 2001: 252f; Hinterberger et al. 1998: 6f, Rauberger et al. 1997: 40). On the environmental side, many companies at some point in time have to carry substantial clean-up costs, pay for environmental damage liability or invest in new technology to suffice changing, tightening legal requirements (Barannik 2001: 252; Jeucken 2001: 120ff; Rauberger et al. 1997: 40). Soil pollution may be a particularly important issue for banks, as land used as collateral may lose substantial parts or all of its value if contaminated. Other types of collateral that may lose their value include outdated machinery and items in stock. A continuously changing legal framework necessitates a monitoring of related sectoral developments. A sector with low sustainability risks may become a sector with relatively high risks due to changing legislation.

In addition to risks "inherent" to certain sectors, the size of the company may also be an indicator for risks. SMEs often do not have a systemised management of their sustainability impacts, which leads to a rather *ad hoc* approach to dealing with related risks. This is complicated by the fact that SMEs often do not report as extensively on their sustainability impacts, as larger companies do. The reason for these shortcomings is that SMEs have neither the capacity nor financial ability to keep themselves informed of such issues as sustainability management systems, how to reduce sustainability risks, how to reduce costs and increase efficiency (Jeucken 2001: 109f). Furthermore, not only legal requirements may provide the business clients with problems: also a changing market environment may directly force companies to improve in order to not lose supplier contracts or see customers leave to other companies that have more sustainable products or production processes (Jeucken 2001: 120ff).

Banks have begun integrating sustainability by focusing on environmental concerns first and social issues second (Viganò & Nicolai 2009: 95). A bank representative from HSBC recently revealed the uncertainty banks seem to experience when it comes to social issues: "... to start with, you don't know what the social risks are. You don't know what kinds of questions to ask... there are differences between social and environmental issues [....]" (Lawrence 2008: 254). A Barclays representative was quoted in the same study: "(T)here is a distinction between environmental and social risks [...] It is scientifically proven that pollution abatement equipment will reduce emissions...however when dealing with social issues there is less certainty that mitigating actions will work. If you hire a team of consultants – to look at compensation, grievance procedures, making sure the local community has access to the benefits – you can never say that there will not be an issue. You are dealing with human beings...” (Lawrence 2008: 255). Although most of the pertinent literature focuses on environmental risks, it is clear that there are social risks that might impact a company’s ability to repay its loans as well. Treatment of employees is one example and cases of corruption another. Strikes may be very costly for a company depending on how long they carry on, as they can lead to long, detrimental periods of interrupted provision of goods and services.[15] Liability costs constitute another example. EU Directive 2006/54/EC, on equal opportunity in the workplace, ensures that employees who experience discrimination can take their case to court. Legal costs in corruption cases might also be substantial. It is therefore crucial that banks decide on what level of sustainability risk they accept from their business clients and then estimate a (potential) client’s financial capacity to deal with the consequences (such as fines, liability costs or temporary closing orders) that may arise from their risks. In turn, the client’s resulting likelihood of default or reduced repayment capacity is calculated.

2.1.2 Direct sustainability risks

In some cases, banks can be held directly liable for their clients’ environmental damage. In 1980, the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) was passed in the US. The law was primarily aimed at raising funds for soil remediation. Case law (“The US vs. Fleet Factors Corporation” in 1991) established banks’ possible liability in decontamination costs due to the banks’ “capacity to influence” their borrowers’ decision to pollute, even if banks might not make use of this power (Weber et al. 2008: 150; Jeucken 2001: 136; Goibert & Poitevin 1998: 22). Subsequent legislation, however, modified such lender liability by requiring an actual decision influencing power. In Europe, the US experience was evaluated and banks strongly opposed government proposals for lender liability (Jeucken 2001: 137). The difficulty of holding banks directly responsible for their clients’ environmental damage results from the lack of commensurability between the loan size and the liability costs and, not least, the lack of correlation between the damage and the financing. Consequently, EU Directive 2004/35/CE on environmental liability does not mention or imply lender liability.

However, even if direct lender liability can now be considered a rather remote possibility in Europe, other legislation may have similar effects. For instance in the Netherlands, banks that have land as collateral may be invoked in the state’s right of recourse, when the state decides to carry out soil remediation itself. The reason underlying this option is that the banks otherwise would experience

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[15] Example arising in personal communication with Foster Deibert, Global Head of Sustainability Management at WestLB in Germany, 15 December 2008.

"unjustified enrichment" at the cost of the state, due to the higher economic value of the clean soil and, consequently, their collateral (Jeucken 2001: 127ff).

2.1.3 Reputation risks

Even when no direct financial threat arises from the borrower's negative sustainability impacts, there may be losses that arise through an impaired image due to negative publicity. Although such losses are hard to quantify, they may ultimately have financial consequences due the departure of retail clients and a difficulty in attracting new clients (cf. chapter 3).[16] The reason for the significance many banks place on reputation risks is that negative consequences do not only affect the product (e.g. a loan) that caused the damage, but the entire lending portfolio and all other products of the bank. Despite the difficulty of assessing such risks, the evaluation is of utmost importance to the bank and in case of doubt, avoidance of involvement might be advisable (Jeucken 2001: 139ff).

Reputation risks have been observed to arise especially in relation to large infrastructural projects (due to scale and extent of impacts), investment in new and controversial technologies (e.g. genetically modified organisms) and when providing finance in developing countries (due to gaps in legislation or failing enforcement). The combination of such factors (large projects in developing countries) that is presented by project finance provides a particularly risky dynamic in this respect (as explored in section 1.3.1). The increased NGO observation of and involvement in such projects contribute to an increase in reputation risks for banks. The interplay between such NGO activities and the media attention they attract has been observed to result in considerable damage for banks (Jeucken 2001: 139ff).

When assessing the potential reputation risk, it is important to understand that the scale of the participation of the bank is rather irrelevant: being associated with the project or company will suffice. The scale of the project or company's negative impact itself, however, may increase the chance of negative attention from NGOs and the media. Another important factor is accumulation: a one-off bad project might have some impact, but might also be forgotten. If the bank is continuously involved in projects or companies that have a negative image, this may be detrimental for the reputation of the bank. Finally, the reactions and strategies of NGOs are largely unpredictable (Jeucken 2001: 142f).

[16] Retail clients comprehend individuals, families and small businesses.

2.1.4 Instruments and processes

For the possible risks addressed above, the bank will need to assess their likelihood of occurring, the extent of the possible damage, the cost and the impact (Jeucken 2001: 118). For many banks, the reason for not doing this is that they perceive a lack of instruments for such integration (Weber et al. 2008: 155). Also the lack of information about sustainability risks is another reason, which, however, is evidence of the need for thorough consideration of such risks rather than a reason not to assess them (Figge 2001: 276). As it is unlikely that business clients will voluntarily and unasked offer information on possible risks that apply to their company (if they even have estimates themselves), it is crucial that the bank obtain such information for itself. Particularly new potential borrowers should be assessed carefully. Existing clients should be periodically evaluated (Jeucken 2001: 129). It is sensible for banks to assess both at sector and individual client level, as the individual borrower's risk exposure depends on both its sector(s) and its effectiveness in managing its risks (Thompson 1998: 138). As many sustainability related risks apply to companies in the same sectors, this is a natural starting point for banks (Jeucken 2001: 120; Rauberger et al. 1997: 43).

The approaches banks develop are said to vary in terms of thoroughness: the assessment of sustainability in the loan process ranges from "a single question [...] to sophisticated evaluation tools developed by a small number of banks" (Fenchel et al. 2003: 16). One course of action is the introduction of environmental and social impact assessments, such as those carried out in project finance and integrated in the IFC lending procedure (Jeucken 2001: 140). This is perhaps the most comprehensive and thus informative approach, which requires a large effort. A more reduced approach includes standardised lists of questions. For instance, for SMEs rough checklists are considered a suitable option (Jeucken 2001: 145), although it might be more sensible to focus on the size of the loan rather than the size of the borrower. For very small loan sizes, the costs of the sustainability assessment might be considered unjustifiable (Rauberger et al. 1997: 43).

Sources of information might include sustainability reports (and other information) of the companies, the existence of certified management systems, permits, use of labels, newspapers, information from governments or sector organisations. In addition, the banks can draw on their past experience with the company itself and the sector(s) in which it is active. They might decide that site inspections are necessary for a comprehensive understanding of the company (Hinterberger et al. 1998: 9). The whole assessment can be carried out by the banks themselves, or they can outsource certain parts of it by relying on information from specialised agencies. There is some anecdotal evidence from banks that suggests that they are wary of imposing audits upon their business clients, as the companies then might threaten to leave them for other banks (Lawrence 2008: 257). Direct engagement with the company – getting to know the company's situation, its challenges and opportunities, through dialogue and then attempting to find solutions in cooperation with the company – may additionally provide a bank with a competitive advantage (Jeucken 2001: 145). In order to support credit managers in carrying out the assessment, the procedure should be preceded by clear instructions and training programmes (Rauberger et al. 1997: 43).

From the external stakeholders' perspective, banks that want to become sustainable lenders need to take on a comprehensive list of measures: redefine their mission; redefine their strategy; develop sector, country and issue policies; build capacity, train, motivate and reward employees; foster innovation, e.g. by funding sustainable sectors; commit to "do no harm" by applying minimum standards, negative criteria and "no-go" country lists, redefining risk to incorporating the long term and impacts on society and developing a management system for social and environmental risks; and, crucially, focus on implementation (urgewald 2009: 53ff; BankTrack 2006: 6ff).

For an internationally active bank, it is considered highly challenging to be up-to-date on the sustainability relevant legislation and situation in all countries of activity, which indicates a reliance on more standardised procedures (Jeucken 2001: 145; Hinterberger et al. 1998: 11). Standardisation also helps the potential clients as they are able to gain more transparent information on what is required of them (Jeucken 2001: 147). It has been argued that even if banks wish to portray their instruments and processes as aiming at a calculation of quantifiable risks using statistical probabilities, a substantial part of the evaluation of sustainability risks is currently also based on "rule of thumb, gut feeling, instinct and intuitive judgement" (Lawrence 2008: 242ff). This is no doubt partly due to the difficulty of assessing complex social and environmental issues for which there is a high level of uncertainty involved (Lawrence 2008: 244; Figge 2001: 275) and then integrating them in the already existing banking structures with their financial and quantitative focus.

2.1.5 Consequences of the sustainability risk assessment

How to implement is perhaps the ultimate question. Sustainability criteria can be used to estimate the financial performance of the debtor and thus inform the credit rating process (Weber et al. 2010: 39). Indeed, wrong predictions about loan defaults could be reduced by 22.7%, when using sustainability criteria in addition to traditional criteria (Weber et al. 2010: 47). In order to have any benefit of the extra insight that a sustainability assessment results in, the assessment should encompass all stages of the loan process (where applicable): before granting the loan (rating, costing and pricing), during the loan term (monitoring), assessing a defaulting borrower and at foreclosure and liquidation (Fenchel et al. 2003: 16; Jeucken 2001: 119).[17] A partial consideration of sustainability risks in the credit process (e.g. only when identifying risks at the rating stage), which seems to be common (Weber 2005a: 7), and not across all stages, may have the consequence that the client does not pay the adequate risk premium and the bank ultimately carries the cost, if the client defaults (Fenchel et al. 2003: 16). For banks it is therefore of importance to estimate the costs accordingly, make the price of the loan (i.e. interest rate) dependent on the sustainability risks, use conditionality clauses in the loan agreements, where necessary, and monitor the risks, as these may change over time, and the implementation of measures agreed upon (Weber et al. 2008: 151f; Jeucken 2001: 119). Increased interest rates may also offer an alternative to collateral that has lost its value (Jeucken 2001: 134). If banks focus on increasing the quality of their credit portfolio by considering all stages of the lending process, they themselves might be able to gain access to funds more cheaply (Jeucken 2001: 67). From an academic point of view, there are thus sound arguments for adapting the interest rates business clients pay on loans according to their sustainability risk level. Yet, except for maybe a few sectors like agriculture (Billiot & Daughtrey 2001: 293f), banks still seem wary of fully integrating sustainability considerations in the lending process by letting them have an impact on pricing.

If the bank identifies a high level of sustainability risks in the business activities of a loan applicant, there are also other possible consequences beyond price adaptation. The bank may reject the application altogether. One example for this is the introduction of exclusionary criteria for business sectors or no-go areas for activities or countries with high perceived risks. Such business activities may be legal *per se*, like tobacco production or pornography, but may still not be financed by certain banks. Such an approach corresponds to negative criteria in socially responsible investment (cf. chapter 1). Individual clients whose activities are not on such lists might still be rejected, if they are perceived to be highly risky for other reasons, like insufficient sustainability management. The result is that companies that may be financially viable are denied access to loans and other types of financing (Jeucken 2001: 70). Severing ties with a current client due to changing circumstances might, however, be a bad choice for the bank, as it might backfire when trying to attract new clients (Jeucken 2001: 131).

[17] For further information on the credit risk management process, cf. Fenchel et al. (2003: 6).

2.2 Going beyond risk management

"Some things lie *beyond* risks" (Lawrence 2008: 264 – italics in original). Furthermore, not all risks can be mitigated. This means that stakeholders expect certain steps beyond risk management in banks. Pure risk management is a standard approach, regardless of what is considered and integrated. Therefore, if banks only focus on risk management, "it could be argued that banks are not so much interested in the impact of bank lending upon the environment as in the impact of the environment (as filtered by regulators, etc) upon bank lending" (Thompson & Cowton 2004: 215). The bold statement of a background paper for the international conference "Greening the Financial Sector - A Conference for Banks and Insurance Companies" in 1998 now seem to have been somewhat premature: "The perspective of financial institutions concerning environmental issues moved from a reactive risk avoiding attitude to a proactive looking for opportunities" (Hinterberger et al. 1998: 4). Most literature still focuses on avoidance of negative sustainability impacts. This might to some extent simply be a result of there being more downside risks for banks in terms of environmental issues than upside opportunities (Thompson & Cowton 2004: 200).

The focus of sustainable banks will, by definition, go beyond such an approach (as explored further in chapter 3). First, the banks' clients' opportunities are also the banks' opportunities (Jeucken 2001: 64). Banks can support their borrowers in going beyond minimum legal requirements and customer expectations (Jeucken 2001: 69). The provision of sustainability information and related consulting services might open a further field of activity for banks, while helping the companies improve their sustainability profile (Delphi International & Ecologic 1997: 8). Second, banks are in a position to foster sustainable business behaviour both through increased access and better conditions, while restricting access to finance for unsustainable activity. This is already happening on a small scale in the sector: the basis on which more sustainability oriented niche banks offer loans with preferential interest rates for sustainable companies is a "non-risk-related premium differentiation" with the aim of promoting certain types of business activities that are perceived as sustainable (Jeucken 2001: 76). Such preferential treatment has yet to be observed outside such niche banks and financial institutions under public law that are influenced by a political agenda. From the point of view of sustainable business practices, such differentiation could, however, make sense, as currently financial collateral may offset perceived risk to the bank (while not the risk to the environment and people affected) and in some cases the risk represented to the bank is very limited compared to the risk posed to society (Jeucken 2001: 70). Such a strategy is, however, not without danger for the banks, as more sustainable companies and business activities requiring financing often have lower rates of return and thus, from the perspective of the banks, higher financial risks. Certainly, scepticism is rife. The question has been asked, whether there are enough lending opportunities available in order for mainstream banks to take a leading role in making the sector more sustainable by substantially increasing the sustainability requirements for their business clients (Thompson & Cowton 2004: 200).

3. Motivation for sustainability integration in lending

3.1 Company strategies and phases

Companies can be said to follow five different types of rather self-explanatory strategies in relation to sustainability issues: resistance and opposition, passiveness, retreat (e.g. through relocation abroad), adaptation (e.g. legal compliance and slow modernisation) or anticipation (Jänicke et al. 2003: 396ff). This categorisation can be complemented by a description of possible phases in the development towards becoming a sustainable business (cf. Jeucken 2001: 41ff):

- The first phase: the *defensive phase* would correspond to the resistance and opposition strategy mentioned above.
- The second phase: in the *preventive phase*, the company attempts to limit its negative sustainability impacts. This phase to some degree overlaps with the adaptation strategy.
- The third phase: here, companies assume an *offensive* approach, in which stakeholders' existing and potential wishes are considered and new market segments and products are seen as opportunities (Jeucken 2001: 72).
- The fourth phase: the final stage is reached when the company strives to achieve a harmonisation of the three dimensions of sustainability (social, environmental and economic) and thus can be called a *sustainable business*.

Both the offensive and the sustainable business phases may be said to correspond to the anticipation strategy. However, whereas the offensive companies are guided primarily by the economic situation and are looking for win-win situations (i.e. following a business case rationale, see below), the sustainable businesses are motivated by the accordingly coined sustainable business approach. Sustainable businesses may also be, and probably are, driven by a business case rationale, but decidedly go "beyond what merely *appears* to be possible within the current economic framework" (Jeucken 2001: 44 – italics in original). In this phase, banks establish preconditions that are "consciously chosen" in order to ensure that all their business activities are sustainable (Jeucken

2001: 73). This means that certain business activities will no longer be carried out (e.g. certain sectors or types of businesses are excluded from financial access). Furthermore, recognition of the long-term perspective is inherent to companies that reach this phase (Jeucken 2001: 44). The focus is not so much on how high profit is, rather on how profit is made and the time frame imposed (Jeucken 2001: 70). Sustainable banks will be prepared to accept lower levels of profit or higher levels of risk in order to foster sustainable business practices. A distinct difference will remain between offensive banks and sustainable banks as long as not all external effects are internalised in society. As such, a purely commercial perspective will not be sufficient to embark on such a strategy (Jeucken 2001: 73f). Assumedly, not all sustainable banks go through every phase described here, although this might certainly be the case for some.

3.2 Overarching reasons

Although, in CSR literature (considered further below) and professional consultancy surveys, the reasons for integrating sustainability in the corporate strategy consist in an endless list of specific items such as technology and innovation, political influence and legal requirements, investors, competition, differentiation from competition, costs and efficiency, philanthropy, globalisation, employee motivation, customer expectations, NGO pressure, personal conviction, sense of responsibility, reputation, access to new markets, product development etc. (e.g. Deloitte 2009: 8; McKinsey 2009: 3; VfU 2009: 4), such reasons can be divided into two all-encompassing categories: the business case rationale and the sustainable business approach. Again, it may be in place to point out that a primarily economic focus does not have to preclude a rather offensive sustainability approach, as issues related to sustainability may have a strong impact on business continuity (Jeucken 2001: 1).

3.2.1 The business case rationale

A business case for a strategy means that a positive result of an economic kind is expected *ex ante* or acknowledged *ex post*. There is inconclusive evidence as to the existence of a strong business case for corporate sustainability. In recent years many studies with different kinds of methodologies have attempted to establish the nature of the relationship between sustainability performance and financial performance in business, and all kinds of results have come out of the attempts: more sustainable companies financially perform better than, the same as and worse than less sustainable companies (Kurucz et al. 2008: 84ff). Nonetheless, it can be said with more certainty that there are some circumstances under which a sustainable approach is more conducive to the company's bottom line (Smith 2008: 283), and that more sustainable businesses have a more long-term perspective. The challenge is to establish under what circumstances there is a link between sustainability performance and financial performance (Weber et al. 2010: 41). There is some evidence that this realisation is spreading in the business world: in a 2005 KPMG survey, "economic considerations" were indicated as a motivation for corporate responsibility by 74% of the asked companies (Smith 2008: 282). The business case rationale encompasses a range of positive and negative economic reasons for companies to engage in sustainable business practices.

A classification of four overarching categories is offered by Kurucz et al. (2008: 87ff):

- First, the prospect of *cost and risk reduction* indicates clear economic benefit for a company. Companies that focus primarily on this benefit are likely to view stakeholders as part of that which needs to be managed and stakeholder dialogue as an input that will help the company avoid decision making that will cause stakeholder resistance and damage to the company. This strategy can reduce costs and risks by preventing e.g. customer boycotts and liability risks arising though a business client's non-compliance in legal matters (Orlitzky 2008: 121; Thompson & Cowton 2004: 204; Hugenschmidt et al. 2001: 44; Jeucken 2001: 42). For banks, there is evidence that use of sustainability criteria in credit management helps reduce the lender's risk (Weber et al. 2010: 47; Weber 2005b: 80). Companies engaging in such a strategy can be said to mitigate threats by introducing a threshold level of sustainability measures and can thus be said to be in the preventive phase, as described above.
- Second, companies can seize an opportunity to achieve a *competitive advantage* through differentiation and by leveraging stakeholders in their favour (Weber 2005b: 84; Jänicke et al. 2003: 315ff; Jeucken und Bouma 2001:32; Schaltegger & Figge 2001: 210; Porter & van der Linde 1995: 120). Such an approach can be expected by companies in the offensive phase.
- Third, potential gains and losses in *reputation and legitimacy* are seen as further motivation to engage with stakeholders and develop a sustainability strategy based on the assumption that companies are also political and societal actors (McKinsey 2009: 3; Vilanova et al. 2009: 62f; Orlitzky 2008: 117f; Jeucken 2001: 39). The avoidance of reputation risk is observed by the German NGO urgewald to be primary motivation for many banks.[18] Assumedly, this category applies to many banks: a focus group study in the European financial sector found that most of the companies (banks and other types of financial institutions) had adopted CSR strategies as a reaction to reputation damage or a related conflict (Vilanova 2009: 63).

[18] Personal e-mail communication with Barbara Happe of urgewald in April 2009.

- Fourth and finally, Kurucz et al. term *synergistic value creation* a strategy for companies that focus on win-win-win situations by integrating companies' and stakeholders' efforts.

These last two categories can be said to be indicative of sustainable businesses. For banks, however, risk and cost reduction are directly linked to reputation management (as seen in chapter 2). Therefore, banks that focus primarily on reputation may still have a way to go before they can be called sustainable businesses. Whereas earlier (and in some cases, still), banks may have focused on legal compliance by borrowers; now, reputation considerations linked with increased societal awareness of sustainability issues accelerates an extended sustainability focus (Jeucken 2001: 68).

3.2.2 Sustainable business approach

A company that has a *sustainable business approach* sees itself as an actor in society, which not only has a responsibility to fulfil its own most immediate objective – profit and long-term survival – but is also accountable for the impact it has on the natural environment and community surrounding it (as described above). Especially stakeholder theory postulates that some companies realise their obligation towards societal concerns such as the environment, future generations, unemployed, immigrants etc. (Jeucken 2001: 40). Such argumentation is often confronted with scepticism, but it is possible to identify motivating actors who stand behind this kind of reasoning: employees who want to be able to identify morally with and take pride in the company for which they work and top managers or CEOs (chief executive officers) who wish to have coherent personal and business ethics and see themselves in a position to put such a strategy into effect. Even if external actors generally are motivated to put pressure on a company for ethical reasons, the reasons of internal actors may thus originate from both categories.

3.3 Principal motivating actors

The range of actors who have an impact on a bank's decision to integrate sustainability in core business activities can be identified based on stakeholder theory (cf. chapter 1). There are two main types of stakeholders: internal and external. Internal stakeholders consist above all of top management and other employees. The external stakeholders include political institutions, civil society (above all, NGOs), the media and consumers. Investors could be said to belong to either category, depending on their proximity to the company and its top management. The extent of the impact that different external stakeholders have on the company's decision is likely to depend on their ability to damage or benefit the company (Jänicke et al. 2003: 321). The impact of internal stakeholders' efforts is also likely to depend on their proximity to the company's decision making organs. External pressure is seen as an important – by some even as a primary – motivator for corporate integration of sustainability concerns (Jänicke et al. 2003: 319).

3.3.1 Management and employees

"It is truly enough said that a corporation has no conscience; but a corporation of conscientious men is a corporation with a conscience" (Henry David Thoreau 1849: I/IV). The internal stakeholders who have an impact on the integration of sustainability are top managers and other employees. In empirical research, leading bank personnel have been observed to portray personal concern with the integration of sustainability (Weber 2005b: 82). Particularly in balancing trade-offs, top management has an opportunity to set "the moral tone" of the company's conduct in formal and informal manners: employees learn not only from what their superiors say, but also from what they do (Swanson 2008: 232ff). This may be rather important in the highly institutionalised organisations that internationally operating mainstream banks are, as the employees of such organisations tend to, surprisingly, follow more informal and culturally defined rules (Viganò et al. 2009: 49). The institutional and procedural changes implied by an integration of sustainability in core business thus require a management communication strategy to create awareness among and gain the commitment of the employees (Roome 2005: 317). Further, as the integration of sustainability concerns in the general lending process can be considered an innovation in the banking sector, pertinent innovation literature can be drawn on in this context: the role of leaders is here seen as a success factor as managers can be "sponsors" who ensure the continued commitment at strategic level and encourage implementation at business unit level (McDermott & O'Connor 2002: 432). Whereas negative motivation often comes from external forces, positive (and normative) motivation may come from clear leadership. Top management might seek external actors' advice proactively before any problems have even arisen (Swanson 2008: 241ff). Other research is more sceptical and considers senior management commitment as neither a necessary nor a sufficient condition for the implementation of a sustainability strategy (Mackey et al. 2008: 533ff). Even in those cases where senior managers' will and commitment can be considered crucial for the actual decision to include sustainability in the company's strategy (and to what extent and purpose) (Jeucken 2001: 78); the employees also have an impact on how and how fast the integration is implemented in processes and, crucially, depending on the extent of their acceptance of the strategy, how successful this integration is (Jänicke et al. 2003: 382; Jeucken 2001: 67).

3.3.2 Investors

In pertinent literature, it is suggested that when SRI investors' demand is high, this may have a significant impact on businesses' decision to become more sustainable companies (Mackey et al. 2008: 541). Especially institutional investors, such as e.g. pension funds, can be considered a potential source of pressure due to the size of their investments (Eurosif 2006: 9ff). Also banking sector representatives point to (all kinds of) investors, when asked to identify the greatest stakeholder influence on their sustainability management (VfU 2009: 9).

3.3.3 Civil society, consumers and the media

Society's changing preferences and acceptance of business activity lead to a related change in the perception of business' responsibility and accountability (Jeucken 2001: 65f). Although this category may seem somewhat all-encompassing, and when studied in more detail these actors should be clearly distinguished, it can make sense to bundle these actors. To a large extent, civil society actors like non-governmental organisations (the focus lies primarily on these here) rely on media attention and consumer outrage for their campaigns to have the intended impact. These actors' influence is thus clearly intertwined.

NGOs seek to help cover what they perceive as a "regulatory vacuum" at national and international levels resulting from the globalisation of business, by "forging alliances with consumers, institutional investors and companies themselves" (Newell, quoted in Moon & Vogel 2008: 310). NGOs' dialogue with banks can be seen as a renegotiation of market boundaries (Lawrence 2008: 242). The approaches with which NGOs attempt to influence banks are manifold (Viagnò et al. 2009: 51). Not only have they in recent times identified banks as an accountable entity indirectly responsible for their business clients' sustainability impacts and therefore targeted them with confrontational campaigns (see chapter 5 for direct examples). Some of them have also been willing to cooperate with banks in order to find solutions to problems linked with financing business clients and help develop innovative alternatives for more sustainable banks (Jeucken 2001: 65). Greenpeace has been identified as one NGO that adopts varying strategies depending on the situation and banks see them as both posing a threat and offering opportunities (Schaltegger & Figge 2001: 209). WWF seems to be perceived as more generally "bank friendly" (Lawrence 2008: 248). NGOs' possible impact in matters regarding lending has been identified as large, particularly in project finance (Hugenschmidt et al. 2001:44; Jeucken 2001: 139ff). The World Bank's adoption of environmental policies and management for their lending processes was seen as a response to strong pressure from civil society, as seen in chapter 1 (Barannik & Goodland 2001: 344). Barbara Happe from urgewald maintains that many banks adopted sustainability standards for lending after having gone through painful experiences with NGO campaigns.[19] No doubt, there are varying opinions on this subject: one empirical study that looked at banks' reasons for using environmental criteria in lending found that stakeholder expectations were of "much less importance" than the other reasons listed (Thompson & Cowton 2004: 203).

In this section, the term "consumers" indicate banks' retail clients. Not only institutional investors, also retail bank clients increasingly choose to invest their money in more sustainable business, which creates a positive impetus for banks to provide more SRI services (cf. chapter 1). Whereas when investing directly in companies or through funds, investors have long had the opportunity to decide what kind of companies benefit from their money, retail clients who placed their money in deposit or savings accounts in commercial banks up until very recently did not ask what their money was used for. Although, the majority of them still do not, individual clients are increasingly investing in companies directly, rather than via a bank (Jeucken 2001: 60f), becoming more aware of their own options with regard to what companies to support financially.

On the other hand, banks are currently more able to cater to clients' wishes due to developments in information technology and lower information costs, leading to a change from a market driven by supply to one driven by demand. This is illustrated by banks' increasing offer of other financial institutions' products. It is conceivable that banks' increased technical possibilities coupled with declining consumer loyalty create an impetus for banks to profile themselves as sustainable banks in order to differentiate themselves from other banks and thereby attract or retain more clients (Jeucken 2001:61). Such differentiation is said to be particularly critical in sectors, like the banking sector, where consumers do not see much difference in various brands (Smith 2008: 288). Indeed, one of the conditions that influence consumer responsiveness and willingness to promote or boycott companies according to their sustainability impacts is the consumer's perceived sacrifice (Smith 2008: 299). As changing banks generally does not have an impact on the quality and price of the product this may indicate a certain potential threat for banks.

Consumer "backlashes" of the scale observed in the much cited "Brent Spar" case, in which consumers massively boycotted Shell, have yet to hit a bank (Jeucken 2001: 65). Still, there have been quite a few instances, where NGO protests and campaigns have directly involved consumers or

[19] Ibid.

had an indirect impact on them by impairing the banks' reputation. One example is Barclays Bank's withdrawal from South Africa during apartheid (Smith 2008: 284). Such incidents support general consumer research that finds consumers more sensitive to negative company information than to positive (Smith 2008: 293). Recently, there has been a rising supply of online portals, which provide consumers with information about banks in order to encourage more conscious decision-making when choosing banking services. *Eerlijke Bankwijzer* ("The Fair Bank Guide") in the Netherlands, available at www.eerlijkebankwijzer.nl, was one of the "earlier" ones, having been around since January 2009.[20] The Europe-wide www.banksecrets.eu was launched in June 2009.[21] These websites further illustrate the link between NGOs and consumers. They are run by NGOs that target interested retail bank clients with negative and positive information about their banks. Both encourage unsatisfied consumers to engage with their banks (by sending a card or similar) and www.banksecrets.eu also includes an indication of how many visitors are "seriously considering" closing their accounts with the listed banks. The last (known) addition to this list is www.financeresponsable.org run by Friends of the Earth France, which was launched 16 March 2010.[22] These new websites are evidence of the increasing attention focused on banks in the aftermath of the 2007/2008 financial crisis. Their effectiveness in changing consumer preference and bank behaviour remains to be seen.

3.3.4 Politics

Direct political actors include the state at local, regional and national levels as well as supranational institutions. Especially relevant at European level are the institutions of the European Union. Leading researchers on competitiveness in business see regulation as a source of pressure for companies to overcome their organisational inertia and to invest in innovation leading to more corporate sustainability (Porter & van der Linde 1995: 128). Political actors' possible means of influencing business, however, have in the last decades moved beyond mere regulation and the "stick strategy". They may use information dissemination, capacity building, awareness raising, subsidy provision, other financial stimuli and partnerships as a carrot strategy (Viganò et al. 2009: 51; Moon & Vogel 2008: 309ff; Jänicke et al. 2003: 100ff; Jeucken 2001: 51). Additionally, in Europe the state often still has an ownership stake in "national" companies and try to influence them to develop in a more

[20] Eerlijke Bankwijzer is a cooperation between Oxfam Novib, Milieudefensie (Friends of the Earth Netherlands), Amnesty International, FNV Mondiaal and Dierenbescherming.
[21] Banksecret is a project by the following European NGOs and networks: Netwerk Vlaanderen, Setem, Les Amis de la Terre, urgewald, Platform, Campagna per la riforma della Banca Mondiale (CRBM) and BankTrack.
[22] Although focused primarily on the US, the volunteer-based "Move your money project" (http://moveyourmoney.info/) is another recent addition to these websites, which focuses on motivating people to changing from the big banks to smaller, local banks (came online in December 2009).

sustainable direction (Matten & Moon 2005: 347). When it comes to banks, political actors directly play a role in how they operate by establishing the preconditions for the sector's activities (Jeucken 2001: 65). It is, however, uncertain to what extent these actors perceive the sector's potential role in moving the whole economy towards more sustainability and accordingly try to influence it.

It is argued that companies are embedded in their national context and that stakeholder expectations are rooted in a country's social and political history (Roome 2005: 323f). Differences in sustainability foci in specific countries or regions may reflect differences in legal frameworks across Europe, with companies in different countries focusing their sustainability efforts in those areas that they do not consider to be covered by politics (Matten & Moon 2005: 335). It must be noted, however, that the focus of studies arguing along these lines lies primarily on issues that are regulated in different ways across Europe (like direct environmental impacts through production or labour relations), whereas this study focuses on an area (the indirect impacts of bank's business clients) that is generally not covered by the legal framework in European countries. Differences between banks in different countries might therefore not necessarily be large. Furthermore, a homogenisation of the previously nationally defined institutional environments can be said to take place across Europe, leading to more standardised practices in business (Matten & Moon 2005: 350). A process of internationalisation in business and a generic approach to CSR among leading companies are currently also being observed (Roome 2005: 330).

Companies are now seen to worry about state and supranational political institutions going back to stricter regulatory measures and attempt to prevent it by anticipating it with their own CSR strategies (Matten & Moon 2005: 345). A 2009 survey of the European banking sector found that new regulation was not desired; rather the banks surveyed wished to see policy makers in an encouraging role where they focus on voluntary standards and thereby confirm their trust in companies (Viganò & Nicolai 2009: 106). There is, however, also an opposing perception that this urge to prevent regulation was characteristic of the early 1980s, whereas in later years internal motivation (long term-survival and competitive advantage, i.e. a business-case rationale) has become stronger (Jeucken 2001: 39).

Examples of direct political incentives provided at the national level include the Green Funds Scheme launched in 1995 in the Netherlands. The idea behind the scheme was to direct the flow of private funds into more sustainable business activities and projects. Both individuals and companies can borrow money at discounted interest rates for environmentally friendly projects ranging from renewable energies, through sustainable building to organic farming and forestry.[23] The companies must obtain a "green certificate", which, first, necessitates a financial assessment through a bank and, second, a project evaluation by the responsible government agency. The criteria include a high level of environmental sustainability in combination with relatively low economic sustainability (implying reduced access to normal financial services). The investors accept lower gross returns as they are not required to pay tax on the interest and dividends and thus still have an overall gain. An individual bank's green fund must invest a minimum of 70% of the money in the fund in companies with such certificates (Jeucken 2001: 92ff). The Dutch banks that are currently involved in the scheme include ABN AMRO, Fortis Bank, ING Bank and Rabobank, in addition to the niche banks Triodos Bank and ASN BANK and the specialised Nationaal Groenfonds.[24] In terms of scale, the scheme has been quite successful. The multiplier for the Dutch government is considered to be 1:45, meaning that for the € 10 million the state loses in tax income, € 450 million is invested in the Green Funds. The programme, thus, provides the government with a more effective instrument than any direct subsidies to the sustainable companies would constitute. In terms of transparency, however, the scheme is criticised for offering little information on the companies' environmental practices and performance (Jeucken 2001: 92ff). In addition, its contribution to the banks' learning process in terms of mainstreaming sustainability in their lending is not necessarily very high, as it is the government agency that carries out the sustainability assessment. The banks focus primarily on the financial aspects in this scheme.

At the European level, a scheme coined "The Growth and Environment Scheme" was introduced by the European Parliament in 1995 (Leistner 2001: 372ff). Its aim was to facilitate investments in environmental technology by European SMEs. The indirect subsidies provided for the SMEs included lower interest rates, increased access to finance and a lack of fees (Jeucken 2001: 105; Leistner 2001: 372). The scheme was sponsored by the European Commission (EC) and managed by the European Investment Fund (EIF). The latter helped reduce the risks of the banks participating in the scheme by providing them with a guarantee for up to 50% of the individual loans granted.[25] The participating banks included a mix of commercial banks (e.g. Bank Austria, Barclays Bank, ING Bank), banks under public law (KfW) and cooperative banks (Raiffeisen Zentralbank, Rabobank). The intention behind the

[23] For a complete listing of project categories, see http://www.senternovem.nl/greenfundsscheme/project_categories/index.asp (Accessed last 13 February 2010).

[24] http://www.senternovem.nl/greenfundsscheme/finance/banks_with_their_own_green_funds.asp (Accessed last 18 February 2010).

[25] The residual loss guarantee ensured that in case of loan default the bank regained 50% of its loss (after recoveries from collateral) from the EIF (Leistner 2001:375).

fund – to raise awareness in banks and help them look beyond risk – is clearly stated by EIF representative Marc Leistner:

> "Although many banks already analyse environmental risks associated with the extension of credit to certain sectors or activities, it would seem that this is often for "negative" reasons, i.e. to avoid risk. The Growth and Environment Scheme encourages a positive view: namely, to spot opportunities in the area of the environment—opportunities both for the bank and its clients, that are also in the interest of sustainability" (Leistner 2001: 377).

Despite a positive evaluation of the scheme, it was decided in 2003 to phase it out due to some overlap with an EC entrepreneurship programme (European Commission 2003: 63).

Although their relevance for Europe may not be as evident as the above incentive schemes, there have been examples of more conventional regulatory instruments being applied to the banking sector (as explored in chapter 2). CERCLA was the reason behind American banks' early adoption of methods for evaluating environmental risks. As many as 88% of all commercial banks were found to have adapted their credit policy in the early 1990s in order to anticipate possible lender liability and 46% had suspended loans to sectors considered to be highly environmentally sensitive (Jeucken 2001: 136).

4. Description of study

4.1 Research focus

4.1.1 Research question, resulting criteria and selection of banks

The research question is twofold. First, how and to what extent do European banks integrate the evaluation of their business clients' sustainability impacts in the general lending process? Second, what is the motivation underlying this integration? The focus of this study is on large mainstream banks in Europe that go beyond the boundaries defined by the widespread standard Equator Principles (project finance in non-OECD countries) and rather evaluate the social and environmental impacts of all their business clients before granting them loans. They do this regardless of the size of the business customer (for small, medium-sized and corporate enterprises), the sector of the company and the size of the loan. These criteria rule out the niche banks mentioned in chapters 1 and 2, as these normally focus on a few sectors or at the very least exclude entire industries from access to their services. Although interesting in their own right, these banks will not be included in the empirical part of this study, as they are not directly comparable to mainstream banks and because the integration of sustainability in more conventional bank lending can be considered to have wider ramifications for the economy and society as a whole. In addition, banks under public law (e.g. the KfW in Germany) with a mandate to fulfil certain political goals are not considered, as they are not comparable to banks governed essentially by market conditions. A further type of banks that is excluded is apex institutions (like regional banks) that generally only service large corporations directly, in addition to providing coordination services to the banks in their group. Finally, banks that purport to integrate only environmental (and not social and corporate governance) concerns in their core business area of lending are not included. In the academic and political discourse, especially since the UN World Commission on Environment and Development published their report "Our common future" in 1987 and the UN Earth Summit in Rio de Janeiro took place in 1992, sustainable development is seen to necessarily implicate both social and environmental aspects – the integration of one without consideration for the other can lead to negative overall consequences (Jeucken 2001: 43).

The choice of banks to include in the empirical research was based on the following selection process. Potentially relevant banks were identified by researching signatories of sector initiatives like the UNEP Statement by Financial Institutions on the Environment and Sustainable Development and and UN PRI and standard Equator Principles. This identification method has been used in previous pertinent research (Weber et al. 2008). Furthermore, banks that have been emphasised for their sustainable business practices by SRI indices, such as the Dow Jones Sustainability Indexes and Ethibel Sustainability Index, were also screened for relevance. The banks identified were then analysed based on the information provided by the banks' own websites, annual reports and sustainability reports. The principle selection criterion in this evaluation process was that the banks would explicitly state that they integrate a consideration of sustainability issues in all lending. In addition, they would have to make some indication of the processes and tools used for this sustainability integration. Although a large amount of the banks screened would profess such integration for environmental issues (especially such related to environmental risks), there were few banks that clearly indicated an integration of both social and environmental issues in their general lending process. According to Preben Sørensen from Deloitte who was interviewed later in the process (see below), banks that have such systems in place are very likely to make a priority of communicating such progressiveness. Conversely, if they do not write about it, they most likely are not doing it either. Only eight European banks were found to match the selection criteria and asked to participate in the study.[26] Four of these agreed to being interviewed.

4.1.1 Elaboration on the banks in the study

Banks are not simply banks. They can be defined depending on a range of functions, activities and legal status. The focus on lending to businesses here, however, in itself confines the possible types of financial institutions included in the research. According to Jeucken (2001: 53f), financial institutions can be categorised as depository institutions and non-depository institutions. The former lend out significant amounts of the funds (above all, savings) that their clients entrust them with. Two types of banks in this category, namely commercial banks and cooperative banks, are included in the research part of this study and, based on their types of clients and areas of activity, coined "mainstream banks".[27] Commercial banks lend money to consumers (retail clients) and business clients, while distributing profits to their shareholders. Cooperative banks similarly extend loans, but often retain any profits made.[28] They are primarily defined by being member (client) owned and controlled institutions.[29] In addition, most of the banks in the study can also be called universal banks – a category that spans both bank types. Such banks are comprehensive finance institutions, which typically offer retail banking (private and commercial), investment banking (raise capital, trade securities and manage corporate mergers and acquisitions) and asset management (management of contractual savings, such as those arising from insurance and pension products), and in some cases insurance products (Hartmann-Wendels et al. 2007: 15ff; Jeucken 2001: 53f).

The banks interviewed (ABN AMRO Bank, DnB NOR, HypoVereinsbank and the Rabobank Group) are different among themselves; not only in terms of legal form, but also size (although they are all relatively large in their national contexts) and level of continuity. The reason for choosing such different banks is merely a practical one. There is currently a narrow band of banks that fulfil the criteria listed above. The comparability across banks is, however, not of great importance. The banks

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[26] It is of course not impossible that certain banks that would correspond to the criteria have been left out, because they were not part of any of the initatives, standards or indexes mentioned. However, assumably the number of such cases is low.

[27] As was established in one of the interviews, the German SRI rating agency oekom research does not make a distinction between commerical banks and cooperative banks in their ratings.

[28] This distinction does, however, not hold for all countries. Cooperative banks in Germany are allowed to distribute profits to their members. See: http://www.bvr.de/public.nsf/detail.html?ReadForm&main=3&sub=90&ParentUNID=B0781A6D2C2EAA42C1256F7A002E9CF5 (accessed last 17 February 2010).

[29] See http://www.icba.coop/co-operative-bank/what-is-a-co-operative-bank.html (accessed last 17 February 2010).

are among the few front-runners in the field, relatively speaking, and provide an opportunity to observe a range of banks' strategies and implementation in the field of sustainability and lending.

The banks included in the study are expected to pursue the anticipation strategy described in chapter 3. They are among the first movers in the market to integrate sustainability considerations in their general lending process, and not just in limited areas (such as project finance), where this is slowly establishing itself as the standard. However, it is not obvious whether they are companies in the offensive phase or whether they have already arrived at a stage where they can be called sustainable businesses. Theoretically, they could be either. The above classification of strategies and phases help avoid a direct evaluation of the quality of strategy. Avoiding such terms as "best practice" or "pioneers" may be necessary, as a study of strategies, policies, processes and motivations may be indicative, but not conclusive of the quality of such business strategies and activities. It will, however, be attempted to distinguish whether the banks interviewed can be assumed to be offensive or rather sustainable businesses.

4.2 Research relevance

4.2.1 Exploration of banks' strategies, policies and processes

There is a call for more research on exactly how companies integrate sustainability concerns in their core business and strategies (Crane et al. 2008: 574). Specifically, as mainstream banks' integration of sustainability in their general lending process is a rather new phenomenon and one that has not spread very far yet, it has also not been studied in great depth. The primary data gathered through the interviews is therefore meant to constitute a direct value added by the research and is therefore the longest and most comprehensive part of this study. The relevance of this kind of research was confirmed by two of the independent interview partners (see introduction to these below). Dietrich Wild at oekom research confirmed the gap in research and need for further knowledge. According to Jora Wolterink at BankTrack, one of the NGO network's priorities is to summon the banks that have signed the Equator Principles to extend their sustainability assessments to other areas of lending and finance as well. It is an area in which things are just starting to move – at least if one wishes to look beyond the extension of risk management to sustainability issues. Although the strongest focus in the beginning was (and arguably still is) environmentally induced risk, the banking sector as a whole increasingly also focuses on opportunities conducive to sustainable development (Jeucken 2001: x). It is therefore interesting to see what is happening in those banks that have taken the initial steps in order to evaluate what works, where the challenges lie and what the opportunities in future will be.

This focus of the study might interest the first target groups of the research, namely bank representatives and researchers.

4.2.2 Motivation

The reason for exploring the banks' motivation for integrating sustainability in their core business field of lending can be found in the "early" literature:

> "There is a hope that there will be a demand, but not enough attention has been focused on how to create the demand. The "special interests" know, or think they know, the behaviours they want from financial recalcitrants. They have a vision. But they spend less time, if any at all, on *the processes by which change will occur* – the processes by which those in the business, banking and finance community will begin to demand and produce for themselves information on issues." (Viederman 2001: 432 – author's italics)

The second target audience of this research – political institutions, NGOs and other parts of civil society – might therefore be interested in the question of banks' motivation, as the answers may help establish how the sector's sustainability integration can be further strengthened.

4.3 Methodology

4.3.1 Desktop research, interviews and triangulation of data

The empirical research in this study has been preceded by a desktop inquiry into the current status of the integration of sustainability in the general lending process in European commercial banks (chapters 1 and 2) and motivation for such integration (chapter 3) including a literature review of current academic research and further research into pertinent consultant surveys and NGO studies. As the focus of the study is rather on the empirical part, the desktop research is not as comprehensive as it otherwise might have been. The method of conducting in-depth interviews in an exploratory fashion by adopting a semi-structured approach was chosen in order to provide rich and novel material on the strategies, policies, processes, monitoring, challenges and motivation of the banks (cf. Myers 2009: 9; Bryman 1988: 13). The semi-structured interviews allow flexibility to enter into more specific questions about areas and issues that are emphasised by the interview partners. The general set of interview questions (see appendices), which was partially adapted to the specific situations of the individual banks, was developed on the basis of the literature review and stakeholder expectations as identified in various guidelines (e.g. reporting requirements established by initiatives like the Global Reporting Initiative (GRI 2008: 1ff) and institutions such as the German Institut für ökologische Wirtschaftsforschung (IÖW & future 2009: 1ff) and sector standards and initiatives (as explored in chapter 1). Due to the scope and time limit imposed by the character of the study (master's thesis), full-blown case studies, while desirable for such research, are unfortunately not possible to carry out (cf. Hartley 2004). A certain degree of data triangulation is accomplished by drawing not only on information from the banks (publications and interviews), but rather also on interviews with independent experts in the field and using information found in studies and reports by critical NGOs in the field (cf. Myers 2009: 9; King 2004).

The interviews were personal interviews carried out at the interviewee's workplace. The only exception is the e-mail interview carried out with Olaf Weber who currently resides and works in Canada. The interviews with the bank representatives lasted on average two hours, whereas the other interviews lasted on average one hour. The interviewees were given two weeks to comment on (the correctness of) interview material used in the study.

4.3.2 Interview partners

The bank representatives interviewed are all active at strategic level in the sustainability departments of their respective banks:

- Yelly Weidenaar is director of sustainability at ABN AMRO Bank in Amsterdam, the Netherlands;
- Hilde Røed is project manager ("fagansvarlig") for corporate social responsibility at the department external relations at DnB NOR in Oslo, Norway;
- Andreas Bauer is department director and responsible for the issues sustainable lending and reputation risk management at HypoVereinsbank's CSR department in Munich, Germany;
- Hans Biemans is a representative of the Rabobank Group's central CSR department at Rabobank Nederland in Utrecht, the Netherlands and
- Jan van Mullem is a representative of the CSR department at Rabobank International in Utrecht, the Netherlands.

The interview partners chosen to complement the interviews with bank representatives are independent banking and sustainability experts from different fields: management consultancy, research, an NGO network and investment rating.

- Johan Frijns is coordinator at the NGO network BankTrack in Nijmegen, the Netherlands.
- Preben Sørensen is partner at the consulting firm Deloitte Denmark in Copenhagen. He has previously been the Global Director for Environment and Sustainability at Deloitte Touche.
- Olaf Weber has contributed to the academic literature on sustainability risk management in bank lending since the mid-1990s and is currently associate professor at the Faculty of Environment at the University of Waterloo in Ontario, Canada.
- Dietrich Wild is research director and responsible for the banking sector at the SRI rating agency oekom research in Munich, Germany.
- Jora Wolterink is communication officer at BankTrack in Nijmegen, the Netherlands.

4.3.3 Analysis of the interview material

An analysis method that will be generally applied is content analysis and cluster allocation of information according to meaning: systematic allocation and quantification of interview content to pre-determined detailed categories may help establish patterned regularities and structures (Myers 2009: 172). Further, the interview material will be analysed with an attuned attention to language use (Myers 2009: 121), e.g. to what extent do the bank representatives speak of reputation *risk* leading to integration as opposed to *opportunities* arising from the integration? Also, the elaboration on "critical incidents" (incidents that are important to the issues discussed) will be made where this seems appropriate (Myers 2009: 169). This might prove particularly helpful when analysing the motivation of the banks.

4.3.4 Limitations of the research methodology

A valid question here is to what extent the comparison of four banks can provide any general description of the integration of sustainability in lending taking place in the banking sector today. Considering, however, that only a handful of banks currently fulfil the criteria established above, this study can be seen as an exploration of current practice in a limited field.

Language barriers can lead to minor misapprehensions on the part of the interviewer and uncertainty as to whether the questions are being understood by the interviewees (Lawrence 1988: 102). For this reason, the interviews are carried out in the language of the interviewees where possible (specifically, in Norway and Germany), otherwise they are conducted in English (in Denmark and the Netherlands).

There are a number of possible biases and problems related to the interview method. First of all, it can be expected that the bank representatives wish to present their respective banks in the best possible light. This can especially be expected in a study that does not grant anonymity to the interviewees, for the sake of increased transparency. It is hoped that the interviews carried out with independent experts and that the triangulation of data will alleviate this potential problem. On the other hand, the so-called "Hawthorne effect" may also arise: the researcher may influence the interviewee or the interaction with interviewee (Myers 2009: 127). The interviewee may wish to provide socially acceptable answers (especially considering the topic of discussion), which may result in less sincere answers (Smith 2008: 286; Jeucken 2001: 68). Considering that the bank representatives are all active at the strategic level, an "elite bias" might also arise, which leads to a lack of understanding for the broader situation, e.g. implementation at operational level (cf. Myers 2009: 127). A possible solution to this problem is the use of multiple interview partners at different levels of the organisation. Unfortunately, this would be impossible for a study of such a limited scope.

5. Mainstreaming sustainability in business lending - practice

5.1 Introduction to the banks in the study

5.1.1 ABN AMRO Bank

5.1.1.1 Profile

The ABN AMRO Group was a large commercial Dutch banking group, up until recently. The bank got its name when the two large banks – Algemene Bank Nederland (ABN Bank) and Amsterdam-Rotterdam Bank (Amro Bank) – merged in 1991, in order to strengthen activities beyond the national borders.[30] The bank has experienced a rather turbulent period in the last few years. In 2007, RFS Holdings (an investment vehicle owned by The Royal Bank of Scotland Group, the Dutch bank Fortis, and the Spanish bank Santander) acquired the ABN AMRO Group and became sole owners after the group was delisted from stock exchanges in September 2008. In this period, business activities were separated and transferred to the new owners. However, the dramatic changes did not stop there.

[30] http://www.abnamro.com/about/history/timeline/abnamro-1.cfm (accessed last 20 January 2010).

The financial crisis took its toll on the new owners. In October 2008, the Dutch state nationalised Fortis' businesses and now intends to create a new Dutch bank consisting of ABN AMRO Bank and the banking activities of Fortis Nederland, once the division of the ABN AMRO Group has been concluded. The Dutch state's ownership of the Group currently amounts to 34%.[31]

It is difficult to pin down the characteristics that describe the size, activities and profile of the bank in such a period of major upheaval. The size of ABN AMRO Bank today is hardly comparable to that of the group in 2006, when its total assets were €987 billion.[32] However, some key data can be noted. At the end of 2008, ABN AMRO Bank maintained 57.000 employees, after 43.000 had been reassigned to work in one of the owner entities.[33] The bank maintains its legal form N.V. – *Naamloze vennootschap* (joint stock company) – also after it has been delisted. Home markets of the group have been the Netherlands, Brazil and the United States, although the bank has branches in 51 countries.[34] The segments in the Netherlands that are currently owned by the Dutch State include both large commercial clients and SMEs in addition to private banking. Entities around the globe with corporate and institutional clients are being transferred mainly to the Royal Bank of Scotland.[35]

5.1.1.2 Corporate sustainability

Even if the importance of sustainability is asserted by the new owners, the future of corporate sustainability at the bank seems uncertain, as is also acknowledged: "The acquisition of ABN AMRO by the consortium will naturally raise questions about what happens to the ABN AMRO sustainability initiatives."[36] It is a period of deliberation for the future strategy on sustainability in the bank.

In addition to integrating sustainability in their core business fields (microfinance, emissions trading, financing the renewable energy sector, SRI funds) – the bank claims that "in all our business activities – lending and non-lending – we increasingly consider ESE [environmental, social and ethical] risks".[37] Such risks are detected by an "early warning system". The "ESE risk filter", which was updated in 2007, guides staff through questions that are particularly relevant to the client's sector. Employees are trained by a "sustainable risk advisory team", which has also developed a framework of policies, approaches and supply of information required. Financed projects and clients are screened regardless of the size of the financing. A general sustainability risk assessment is conducted of new potential clients. Policies are in place for 24 sectors and "sensitive issues" (amongst others defence,

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[31] http://www.abnamro.com/about/history/timeline/abnamro-6.cfm (accessed last 20 January 2010).
[32] ABN AMRO Holding N.V., Annual Report 2006, p.13.
[33] ABN AMRO Holding N.V., Annual Report 2008, p.97.
[34] Ibid, p. 28.
[35] http://www.abnamro.com/cs/bc.cfm; http://www.abnamro.com/cs/ci.cfm (accessed 20 January 2010)
[36] http://www.abnamro.com/about/sd/sd.cfm (accessed last 20 January 2010).
[37] ABN AMRO, Sustainability Review 2007, p.14.

oil and gas, mining and metals, forestry and tree plantations, dams, gambling, tobacco and animal testing).[38] In the area of project finance, the ABN AMRO Group was one of the initiators of the Equator Principles in 2002 and has reported on the application of the principles.[39] It is one of the banks with a green fund in the Dutch Green Funds Scheme (see chapter 3).

5.1.1.3 Stakeholder evaluation

ABN AMRO Group is considered to be among the best in a 2006 comparison of 14 large commercial banks by Sarasin, a Swiss asset management bank that specialises in SRI. In addition to pointing out its sector policies for forestry and dams, Sarasin particularly commends the Group for its ability to learn and draw the consequences from critical incidents in the past (Kämpf 2006: 18f). In a 2008 study of 15 European banks efforts to tackle climate change by Ceres, ABN AMRO Group comes in second, marginally behind HSBC Holdings (Ceres 2008: 1ff). On the forestry issue, WWF in Germany distinguishes the group for its policy, orientation towards external standards, environmental impact assessment and transparency in the sustainability area. In its study, WWF rates it the best of eight European banks (oekom research 2003: 3ff).

The ABN AMRO Group has recently also been the target of some critique. In 2005, the bank was distinguished by Dutch foundation SOMO as the leader of a syndicate of banks financing the controversial Baku Tbilisi Ceyhan pipeline (Stichele 2005: 107). In 2007, the Group was criticised by BankTrack for the human rights implications of its participation in a syndicate of banks, which financed the Lafayette mining project in the Philippines. The project was strongly opposed by the local community due to being perceived as a threat to their livelihoods and led to protection measures through private security forces (BankTrack 2007b: 1f). As recently as in 2009, Netwerk Vlaanderen published details about ABN AMRO Bank's financing of controversial companies such as EADS, Total Capital and Vedanta Resources and projects such as HidroAysén hydropower project in Chile and the oil and gas project Sakhalin II in Russia (van Gelder et al. 2009: 8ff). Even if ABN AMRO was one of the earliest to develop an oil and gas policy, it was criticised in 2006 by German NGO urgewald for keeping its contents a secret and for the fact that it did not prevent the bank from financing oil and gas projects that are highly problematic from the NGO's point of view (urgewald 2006: 23). Also SRI rating agency oekom research stresses the fact that the Group has not been transparent about its sector policies (oekom research 2007: 2). The NGO network BankTrack's

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[38] Ibid, p. 14; ABN AMRO Private Banking, 2008 Sustainability Report, p.7.

[39] http://www.equator-principles.com/documents/AbouttheEquatorPrinciples.pdf (accessed last 19 March 2010).

benchmarking of banks' policies in their 2007 "Mind the gap" publication assessed ABN AMRO's sector and issue policies to be generally "vaguely worded or 'aspirational', with no clear commitments" and criticised it for its involvement in six "dodgy deals" in project finance (BankTrack 2007c: 139f).

5.1.2 DnB NOR

5.1.2.1 Profile

DnB NOR is the largest commercial bank in Norway with 2.3 million retail bank clients (approximately every other inhabitant) and 200 000 company clients.[40] The bank's current constellation came about in 2003 when DnB Holding ASA and Gjensidige NOR ASA merged. At the end of 2008 the group had 14 057 employees.[41] The group has an international network of 14 branches and representative offices, predominantly in the Nordic and Western European countries, but also in Eastern Europe, the United States, Brazil, Chile and some Asian countries.[42] The bank has a broad spectrum of activity: retail banking, corporate banking, investment banking and asset management. Its total assets were approximately €228 billion in 2009.[43] DnB NOR is listed on the stock exchange. The largest shareholder by far is the Norwegian state as represented by the Ministry of Trade and Industry with 34%.[44]

5.1.2.2 Corporate sustainability

At DnB NOR, ethical criteria were integrated in its asset management as early as in the late 1980s.[45] There are ethical guidelines for all asset management, which are based on the UN Global Compact, UN PRI, UNEP FI, OECD guidelines for multinational companies and the Ottawa Convention on anti-personnel mines.[46] In addition investment is excluded from tobacco, pornography, weapons of mass

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[40] DnB NOR, Annual Report 2008, p.4.
[41] DnB NOR, Annual Report 2008, p.188.
[42] Ibid, p.4.
[43] https://www.euroland.com/factsheet/N-DNB/factsheethtml.asp?lang=English (accessed 5 March 2010).
[44] https://www.dnbnor.com/investor_relations/share-related_data/shareholders/deskshareholders.html (accessed 20 January 2010).
[45] https://www.dnbnor.com/corporate_responsibility/customers_and_suppliers/socially_responsible_investment/social_responsible_investments.html (accessed 21 January 2010).
[46] The OECD guidelines are general principles on responsible business conduct, cf. http://www.oecd.org/department/0,3355,en_2649_34889_1_1_1_1_1,00.html (accessed 27 Mach 2010).

destruction and cluster weapons.[47] The bank also applies an engagement strategy with the companies in its portfolio, if there is suspicion that they are in breach of the guidelines. In 2008, there were dialogues with 28 of the companies. The goal is "to influence companies in the desired direction".[48] The number of companies excluded from the investment universe and the reasons behind are listed on the group's homepage.[49] Beyond this mainstreaming of social and environmental criteria in asset management, some designated SRI funds have additional, stricter criteria. Further, the bank channels money to microfinance institutions both via investment funds and donations.

DnB NOR integrates sustainability considerations in all lending: "All loans from DnB NOR follow guidelines stating that risk related to environmental, ethical and social factors must be assessed on a par with other risk factors."[50] The credit guidelines were issued in 2005 and are publicly accessible. These guidelines are based on the rather general UN Global Compact, UNEP FI principles, OECD guidelines for multinational companies as well as Transparency International recommendations.[51] The goal, as stated in the guidelines, is to avoid offering "products and services or perform acts representing a risk of involvement in unethical conduct, infringement of human or labour rights, corruption or harm to the environment" and to ensure the sustainability assessment becomes a "natural part of the credit process".[52] The guidelines provide a diligence matrix, which is intended to help the account officers assess the risk level of the transaction by looking at policies, the company's activities/sector(s) and countries of activities. In addition, a rough checklist of questions is provided as guidance for specific areas (environment, corruption, labour and human rights, corporate governance), intended especially for dialogue with the companies. DnB NOR adopted the Equator Principles in 2008 and apply these in the area of project finance.

Beyond risk assessments, the bank also considers some opportunities arising from sustainability considerations and offers concessional interest rates to consumers who buy energy-efficient cars with their car loans.[53] The bank is strongly involved in the financing of the traditional energy sector in

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[47] DnB NOR, Annual Report 2008, p.74; https://www.dnbnor.com/press_room/press_releases_and_articles/archive_2009/no_more_tobacco.html?menu=-179263249 (accessed 21 January 2010).

[48] DnB NOR, Annual Report 2008, p.74.

[49] https://www.dnbnor.com/corporate_responsibility/socially_responsible_investments/exclusions/deskexclusions.html?menu=-179265874 (accessed last 19 March 2010).

[50] DnB NOR, Annual Report 2008, p.92f.

[51] Transparency International provides thorough information on corruption world-wide and tools for avoiding related risks. Cf. www.transparency.org (accessed 27 March 2010).

[52] DnB NOR (2005), Group guidelines for Corporate social responsibility - credit activities. https://www.dnbnor.com/portalfront/nor_com/nedlast/no/2008/9/080916_group_guidelines_csr_credit_guidelines.pdf (accessed last 19 March 2010).

[53] DnB NOR, Annual Report 2008, p.75.

Norway (oil, gas as well as hydro power), but asserts that it is aiming to expand its renewable energy portfolio.[54]

5.1.2.3 Stakeholder evaluation

No direct criticism or praise by NGOs or other stakeholders has been mustered for DnB NOR. The lack of criticism does not have to signify that the bank's sustainability impacts are only positive. Nor does the lack of praise have to indicate a lack of sustainability integration in core business. Two plausible explanations may be offered for the silence in the public sphere. First, it is possible that there are not many NGOs in Norway that target banks specifically, compared to the Netherlands (e.g. BankTrack and Profundo) and Germany (urgewald, WWF, Greenpeace amongst others). Second, it is possible that the bank's relatively small size compared to the other banks in the study prevents it from attracting much attention, also due to the fact that its size makes it an unlikely choice to spearhead any large, international bank consortium.

5.1.3 HypoVereinsbank

5.1.3.1 Profile

HypoVereinsbank is a German commercial bank based in Munich, which was created in the fusion between the Bayerische Vereinsbank Aktiengesellschaft and Bayerische Hypotheken- und Wechsel-Bank Aktiengesellschaft in 1998. Its legal form is *Aktiengesellschaft* (joint stock company). Since 2005, the bank is part of and now entirely owned by the Italian UniCredit Group.[55] HypoVereinsbank's client base includes retail, business, corporate and public clients and the all-round range of services spans loans (mortgage loans, consumer loans, business loans, financing of foreign trade), savings and current accounts for retail clients, investment products in all asset classes, consultancy, brokerage and investment banking. It employs over 20 000 people, has 4 million clients and 631 branches. After the outbreak of the ongoing financial crisis and a resulting reorientation of its business model, the bank now focuses on its core markets Germany, Italy and Austria, while "selectively" providing services in other markets.[56] HypoVereinbank's total assets were €395.9 billion as of 30 September 2009.[57]

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[54] DnB NOR, CSR Report 2007, p.15.
[55] http://investors.hypovereinsbank.de/cms/german/investorrelations/hvbshare/shareholderstructure.html (accessed last 19 March 2010).
[56] HypoVereinsbank, Annual Report 2008, p.33f.
[57] HypoVereinsbank, Interim Report, 30 September 2009, p.3.

5.1.3.2 Corporate sustainability

HypoVereinsbank's integration of sustainability in core business extends to the following areas: asset management (SRI funds and one index), lending in general, lending to sustainable sectors such as renewable energy, sustainable building and CO_2 emissions trading.[58] Environmental risk assessments were an integral part of the bank's credit status checks as early as in the beginning of the 1990s.[59] Today, HypoVereinsbank asserts that it observes the precautionary principle, when providing finance.[60] Also, a set of minimum standards provided by local, national and international laws in addition to the social and environmental standards of the World Bank Group are upheld.[61] As a part of the UniCredit Group, the bank also adheres to the group-wide policy: "UniCredit Group has clearly stipulated in its General Group Credit Policy that every loan must be examined for its ecological and social impacts."[62] The bank was among the original adopters of the Equator Principles in 2003.[63] According to the bank's 2009 extended GRI index, sector policies for lending have been / are being developed for gambling, dams, oil and gas and forestry and the sustainability assessment of the loans can impact the conditions a business client are given.[64] The sector specific principles are developed in dialogue with NGOs such as urgewald and WWF.[65] In addition to the standards mentioned, the bank does not finance companies or groups that have been found guilty of serious breaches in legal compliance, export to countries that are under embargo or are considered hostile to the German constitution or follow radical political or religious objectives.[66] HypoVereinbank's continued focus on risk management in the sustainability assessment is emphasised in its various publications (e.g. the 2008 extended GRI index and CSR short report 2007/08).

5.1.3.3 Stakeholder evaluation

In 2009, HypoVereinsbank was rated the best of 65 large commercial banks worldwide in SRI rating agency oekom research's sector rating (oekom research 2009: 1). In WWF Germany's relatively early study on European banks' strategy on the forestry issue, HypoVereinsbank is commended along with ABN AMRO Group for its orientation towards the World Bank standards in the area, its

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58 http://profile.hypovereinsbank.de/cms/profile/sustainability/products/index.html (accessed 5 March 2010).
59 http://profile.hypovereinsbank.de/cms/profile/sustainability/products/lending.html (accessed 5 March 2010).
60 HypoVereinsbank (2008) Bilanz nach GRI (extended GRI index), p.14.
61 HypoVereinsbank, CSR short report 2007/08, p.16.
62 UniCredit Group, 2008 Sustainability Report, p.72.
63 http://www.equator-principles.com/documents/AbouttheEquatorPrinciples.pdf (accessed 19 March 2010).
64 HypoVereinsbank (2008) Bilanz nach GRI (extended GRI index), p.18; p.25.
65 HypoVereinsbank, CSR short report 2007/8, p.16.
66 HypoVereinsbank (2008) Bilanz nach GRI (extended GRI index), p.45.

environmental impact assessments and its relative transparency (oekom research 2003: 3ff). In 2004, EURONATUR (Stiftung Europäisches Naturerbe) credited HypoVereinsbank with a high level of transparency regarding its sustainability impacts (EURONATUR 2004: 13). On the other hand, the bank has also recently been singled out on the NGO-run website *banksecrets* for financing controversial companies, including Freeport McMoRan, EADS and Total Capital.[67]

5.1.4 Rabobank Group

5.1.4.1 Profile

The cooperative Rabobank Group is also based in the Netherlands. It consists of 153 independent local Rabobanks, Rabobank Nederland, Rabobank International and a range of other banks, and operates on cooperative principles. It has about 61 000 employees (full time equivalents) in 45 countries. In the Netherlands, the Group provides all-round finance, whereas internationally the focus is on business clients in the agriculture sector through Rabobank International. The group has 9.5 million clients; about 7.5 million of them are served by the local banks. Rabobank Nederland is the "supralocal cooperative organisation that advises and supports the banks in their local services".[68] The Group's total assets were €608 billion in 2009.[69]

5.1.4.2 Corporate sustainability

Rabobank Group has a long-standing tradition in conducting its business in a socially responsible manner. It was one of the partner banks in the EC/EIF Growth and Environment Scheme (Leistner 2001: 373) and also has its own green fund in the Dutch Green Funds Scheme (see chapter 3). The Rabobank Group's sustainability focus in its business activities lies on asset management, lending, leasing (sustainable mobility), real estate (promotion of sustainable construction methods), fair trade finance and microfinance.[70]

In lending, the Group has developed several policies on sensitive issues, especially in the agricultural sector, in which it is strongly involved. These include palm oil, cotton, sugar cane, forestry, fisheries, biofuel, cocoa, coffee, mining, oil and gas. The policy for palm oil was developed also through talks with stakeholder groups such as Friends of the Earth, World Wide Fund for Nature and Oxfam

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[67] http://www.banksecrets.eu/pdf/7_Unicrediten.pdf (accessed last 6 March 2010).
[68] Rabobank Group, Annual Sustainability Report 2008, p.6.
[69] http://www.rabobank.com/content/images/UK_01_Key_figures_2009_tcm43-104695.xls (accessed 5 March 2010).
[70] Rabobank Group, Annual Sustainability Report 2008, p.21ff.

Novib.[71] This and some statements on critical issues (on human rights, animal welfare, the arms industry and genetic modification) are publicly accessible online. In 2008, client compliance with the arms industry policy was assessed by a group-wide committee and ties were severed with one client. The Group also met with Oxfam Novib to discuss this policy.[72] Although the therein mentioned credit manual is not accessible online, the statement on animal welfare from 2009 more than hints at the inclusion of CSR issues and the sustainability assessment in all lending:

> "Corporate Social Responsibility (CSR) has, since February 2007, accordingly been included as a structural part of the Credit Risk Management (CRM) Credit Manual. The core section in the CSR paragraph in the Credit Manual contains guidelines for assessing client and credit applications according to ten CSR issues (see list below). *Assessing a client or credit application, regardless of the sector in which the client is active, on the basis of these ten CSR issues consequently constitutes a fixed component of the standard assessment process and the ultimate credit assessment*."[73]

The issues mentioned below include the aspects corruption, human and labour rights, environmental concerns, animal rights and products with safety risks. Additionally, Rabobank International specifically applies a CSR Risk Identification Manual in its foreign offices and assesses all lending application with a CSR test. The Group is a signatory of the Equator Principles. However, as the projects financed are normally in industrialised countries and predominantly in the renewable energy sector, none has been classified as an A (indicating potential significant adverse impacts) in the three years preceding 2008 (publication date).[74] Rabobank Group has had an ethics committee since 1998, which has been directly involved in resolving more than 150 business cases.[75] The Rabobank Group is the owner of Sustainable Asset Management (SAM) and Sarasin, two strong players in European SRI, which are likely to have an impact on the Group's sustainability strategy.[76]

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[71] Oxfam Novib is the Dutch member of Oxfam International. Cf. http://www.oxfamnovib.nl/id.html?lang=en&id=7912 (accessed 27 March 2010).
[72] Ibid, p.20.
[73] Rabobank Group (2009), Animal welfare statement, p.2. Author's italics.
[74] Rabobank Group, Annual Sustainability Report 2008, p.21f.
[75] Ibid, p.14.
[76] http://www.rabobank.com/content/csr/products_and_services/sustainable_asset_management/ (accessed 27 March 2010).

5.1.4.3 Stakeholder evaluation

In its study focusing on what it sees as preliminary attempts at sustainability in the banking sector, urgewald lauds Rabobank for its generally comprehensive policies (urgewald 2009: 10ff) and for its use of a "no-go" country list (urgewald 2009: 43). Netwerk Vlaanderen designates Rabobank as one of the "runners up" for its policy efforts for better practice in the areas labour rights, arms trade and Burma (ethical niche banks such as Triodos and ASN Bank are considered to be the pioneers) (Weyn 2008: 10ff). In an analysis of major banks' efforts with regard to biodiversity, World Conservation Union dubs Rabobank "the leader on biodiversity", due to the group's obligatory assessment of relevant impacts in lending and their issue related sector policies for construction, fishery, palm oil, chemicals, timber sector, soy and biomass (Mulder 2007: xi; 26). Climate change is an issue that has been assessed as particularly relevant for the Rabobank Group by stakeholders: according to Dutch Sustainability Research, in 2005 the group was indirectly responsible for about 10% of the Netherland's CO_2 emissions as they financed about 83% of the agricultural sector in the country (Dutch Sustainability Research 2006: 24). Rabo Equity Advisors, a subsidiary, has recently been distinguished for their "best practice" in climate risk assessment in India (Ceres & RiskMetrics Group 2009: 37). In BankTrack's 2007 rather critical benchmarking of banks' sector and issue policies, the Rabobank sector and issue policies cover the scale from "vaguely worded or 'aspirational', with no clear commitments" to "fairly well-defined and consistent, but falls behind best standards available on one or two elements". Although none of the policies are given the best rating – "consistent with best standards available" – the Group is still among the best banks globally, when it comes to the overall rating (BankTrack 2007c: 183). It is said to be involved in one "dodgy deal" for its funding of the Singaporean company Wilmar International (BankTrack 2007c: 135).

5.2 Policies, processes, consequences

In this section, the interviewed banks' policies and processes are closely scrutinised. All sections include a paragraph on the overall observed situation. In addition, as it is the interest of this study to contribute to more transparency in the area, the specific situation of each bank is also explored (where information was granted). The sections on the individual banks do not purport to be a comprehensive overview of the banks' entire activities, as they are based on the information granted in interviews. The recent structural changes in ABN AMRO bank N.V. have yet to be fully completed. This means that there are some uncertainties still regarding the future sustainability integration of the bank in their lending process. In the following, it will therefore be noted whether the descriptions apply to the past, current or future situation. Some of the information obtained in the interview with the Rabobank Group pertains to the whole group, while other details to specific parts of the group. Therefore, its scope of policies, processes and other information will be specified in the sections below. All the information in sections 5.2 – 5.4 is obtained in the interviews, if not otherwise indicated.

5.2.1 The organisation of sustainability integration and the allocation of responsibility

The sustainability assessments are initially conducted at credit manager[77] level. However, the assessment itself is in some banks transferred to higher levels in cases of high complexity, relevance or perceived risks. The CSR or sustainability departments generally carry a support function in the assessment of complex sustainability issues. There is normally a division between local and central control, depending on the size of the loan. Monitoring and control is partially integrated in the standard credit units (e.g. risk department and credit committees) and partially separated from these (e.g. reputation risk council, sustainability departments).

The group's sustainability department at ABN AMRO Bank was responsible for the strategy of the group and developed it in cooperation with the individual business units (BU), which would then carry out the implementation of it. After the fragmentation of the ownership over the last few years, the strategy has only been fully implemented in the Netherlands, as the other parts of the bank have been transferred to the other owners (Royal Bank of Scotland and Santander). A new strategy, building upon the current one, will be developed in cooperation with Fortis, with whom ABN AMRO Bank will be joining forces. The "philosophy" of the bank will stay the same: to integrate sustainability "as much as possible" in core business. Some changes, including an increased focus on stakeholders, will, however, take place. In addition to the central department, there is another sustainability department for the segment private banking, which consists of one employee. In the lending process, the *sustainable risk advisory desk* is embedded in the risk department and its primary task has been to ensure that the bank's financing activities are compliant with the policies. The sustainability risk advisory desk thus has the role of controlling and monitoring the assessment, which is carried out by the *account manager*. For the large part, the assessment is also checked at the local level. Credit applications below € 10 million will generally be handled in the client's region itself. In cases of higher complexity, assessment is transferred directly to the sustainable risk advisory

[77] The credit manager carries out the loan application assessment, including the financial aspects, and has direct contact with the business client applying for the loan. Other terms used in the individual banks include "relationship manager", "account manager" and "account officer".

desk. Also when the credit sum exceeds € 10 million, the credit application is assessed for sustainability relevance centrally.

DnB NOR's *external relations* unit is part of the corporate communications department, which is a central office with strategic function. It is responsible for developing guidelines and policies related to sustainability concerns as well as CSR risk assessment tools. It develops plans of action and strategic goals, and has a support function for other departments. In supporting the credit department, it is involved primarily when dealing with complex cases involving corporate clients and project finance. The operational responsibility for the assessment lies with the credit managers, while the credit committees carry the control function.

At central level, HypoVereinsbank has seven employees in its CSR department, which is responsible for sustainability integration at strategic level. The credit managers are responsible for carrying out the sustainability assessment, but are instructed to consult the CSR department in cases of uncertainty. It is emphasised that every employee in his or her business area is held responsible for the impact of their activities on the bank's reputation. In cases of high reputation risks, the market department, the CSR department and the reputational risk council also become directly involved. The *reputational risk council* was established about a year ago and its members include two executive managers who are responsible for reputational risk management in all areas. The bank's organisation of its sustainability integration is in many instances informed by and intertwined with the structures and strategies of its parent company UniCredit in Italy. All credit applications above € 50 million are finally decided upon by the central credit committee in Italy. Additionally, the sustainability strategy is developed in cooperation with UniCredit, which has the ultimate power of decision.

The structures for integrating sustainability in lending in the Rabobank Group are rather comprehensive. Each bank in the group has a sustainability department, which varies in size. The central CSR department located at Rabobank Nederland for the group has 49 employees. The central CSR department of Rabobank International has four employees and their task is to implement policies at the foreign offices, but also, more practically, to help the *relationship managers* use the tools in the sustainability assessment of clients. The CSR departments are also involved in client engagement: when there is a need to discuss issues with clients, the departments support their relationship managers in this. The sustainability assessment of clients, and the responsibility for this, is carried fully by the relationship managers, as an integrated part of the general lending application assessment. The CSR departments of the group only have a monitoring and support role in this context. Control is carried out by the credit committees.

5.2.2 Scope of the integration

One of the main selection criteria for the banks in the sample was that sustainability is integrated in the general lending process, i.e. for *all* lending. Nonetheless, the word "all" comes with caveat at the interviewed banks due to downward credit sum limits or size of clients and geographical and sector differentiations.

At ABN AMRO Bank, the assessment is carried out "for all lending", but it is evident that this does not apply to the small business clients. There is no strict limit regarding loan sums, but as a general rule, loan sums below € 5 million are not assessed in terms of sustainability. ABN AMRO Bank's current activity focus primarily lies on Europe.

DnB NOR focuses its sustainability assessment primarily on international business including corporate clients and project finance. Lending applications in OECD countries are exempted from extensive assessments, unless they are for projects in "highly exposed sectors" such as fishery, oil and gas and mining. Due to cost pressures it is considered impossible to assess "the bakery at the corner" to the same extent that oil and gas company Statoil is assessed. A screening is, nevertheless, always carried out, regardless of company size, in order to establish whether companies are at risk depending on sector and geographical area(s) of operation. This evaluation will become more standardised as a result of the current revision of parts of the credit guidelines (the CSR risk assessment tool) (see below).

HypoVereinsbank is a "mainstream, commercial bank and not a 'green bank'", according to Andreas Bauer, which, he says, clearly transpires in the bank's portfolio and history. The aim is, however, to act responsibly in all core business activities, which means fulfilling both social and environmental standards that apply to a region, in addition to national and international requirements. The internal *credit principles* state that every loan that is granted will be screened for ESG risks and establish certain "no-go" areas. SMEs with a turnover up to € 50 million are counted as retail clients. Also retail clients in the business area are considered relevant for sustainability assessments due to their ESG risks, reputation risks and potential harm to collateral. However, for business clients of this size, the sustainability integration is generally limited to awareness raising, as a detailed assessment is not considered feasible for such clients. A comprehensive sustainability assessment is, thus, principally conducted for project and export finance as well as corporate clients.

At the Rabobank Group, for all credit sums above € 1 million, a CSR explanation is required as part of the regular credit application. The reason for such a limitation is twofold. First, efficiency and cost reasons impose constraints. Second, more comprehensive overall assessments (i.e. regarding financial aspects) are legally required only for loan applications above € 1 million. About 80% of the credit portfolio is covered by the € 1 million downward limit. On a macro level, the Rabobank Group also includes sustainability considerations in the establishment of their country limits.

5.2.3 Use of policies and guidelines to guide the integration in lending

Jora Wolterink at BankTrack considers concrete policies a sign that banks take the integration of sustainability in lending seriously – that it is more than just window-dressing. The policies generally apply to specific sectors or sustainability issues, whereas guidelines normally state general rules, define issues that require particular attention, and include supporting questions or checklists to facilitate the sustainability assessments. All of the interviewed banks have one or the other, in some cases both – but the amount of sectors covered varies. The banks in part base their policies on external guidelines and statements. Policies are generally not accessible to the public (with the exception of the Rabobank Group), which makes an assessment of the comprehensiveness difficult. All the banks interviewed are subscribers to the Equator Principles, except ABN AMRO Bank as they do not carry out any project finance currently.

ABN AMRO Bank has policies for some sectors (defence and fishery are mentioned – for a more comprehensive list, see section 5.1). The sector policies stipulate specific requirements, which help the account manager assess whether the client can be financed. The sector policies at ABN AMRO Bank are internal and not accessible for the general public.

DnB NOR's credit guidelines are in the process of being updated. The goal is to increase the degree of systematisation of the sustainability assessment so that credit managers are provided with more explicit and concrete instructions and there is less uncertainty in how the guidelines should be utilised. IFC's performance standards will serve as benchmark for the development of the new guidelines. The bank has yet to develop sector specific policies, although this is planned for the future, for instance for sectors with high risks, like fishery and oil and gas. DnB NOR's current credit guidelines are openly accessible online.[78] Hilde Røed is, however, not sure whether or not the new sectoral guidelines will be internal. At the bank, there is currently a strong focus on anti-corruption measures and the UN Global Compact and Transparency International's recommendations are distinguished as external influences on the current guidelines.

HypoVereinsbank has sector policies for the sectors nuclear energy, weapons/defence and extractive industries. In addition, a sector classification based on the assessed risk level of each sector has been developed, in which risks and important questions for individual sectors are clarified. All business activities that are financed must correspond to the environmental and social standards of the World Bank. Further, requirements that emanate from UNEP FI are to be implemented and Equator Principles are to be applied in all project finance above 10 million USD (as required by the framework). Finally, the bank's values, such as respect, reciprocity, fairness and transparency, are further requirements for any financing. HypoVereinsbank's policies and sector risk classification are internal.

The Rabobank Group's companywide credit manual has a CSR paragraph, which spells out the formal procedure of the sustainability assessment of clients. The Rabobank Group has recently developed sector policies for the 12 sectors that it considers the most sensitive in terms of sustainability, which are in the process of being approved by the management. For a range of issues, statements have also been developed (see section 5.1). The Group applies the IFC exclusion list, with some additional restrictions that are particularly pertinent to the sectors in which the Group is involved (e.g. traditional goose liver production).[79] There are internally developed *CSR quick scans* available for currently 78 of the countries that the clients of the Group are involved in. These country documents specify issues and sectors that have specific sustainability challenges, partially distinguished for specific regions of the country. These documents are valid for the whole of the banking group and are updated once a year. The Rabobank Group's issue statements and sector policies (the latter are in the process of being approved at the time of writing) are documents that are (or will be made) accessible to the public. Rabobank International only carries out a limited amount of project finance (less than 50 projects per year) for which the Equator Principles are invoked, while all other

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[78] The current credit guidlines from 2005 can be accessed here: https://www.dnbnor.com/portalfront/nor_com/nedlast/no/2008/9/080916_group_guidelines_csr_credit_guidelines.pdf (accessed last 19 March 2010).
[79] The IFC exclusion list can be viewed here: http://www.ifc.org/ifcext/disclosure.nsf/Content/IFCExclusionList (accessed last 19 March 2010).

applications are for corporate deals. At the Rabobank Group, the UN Global Compact and the UN Declaration on Human Rights are explicitly mentioned external standards that are observed.

5.2.4 Type of issues and criteria evaluated

Generally speaking, there seems to be a stronger focus on environmental concerns in the banks interviewed (with perhaps the exception of DnB NOR's corruption focus and the Rabobank Group). Dietrich Wild at oekom research, nonetheless, maintains that this is an issue where geographical differences can be delineated: in Germany there has long been a strong focus on the environmental side with environmental management, eco-funds etc. In France, on the other hand, there is a stronger focus on social indicators, whereas environmental issues are granted a less prominence. He expects a convergence across different countries in the next few years due to the strong influence of standards, such as the reporting principles of the Global Reporting Initiative. The goal of the sustainability integration for most of the banks seems to be to exclude the worst rather than to foster the more sustainable business clients in the credit portfolio.

DnB NOR see their current guidelines as being strongly focused on corruption and the goal is to increasingly also cover other areas to a more satisfactory degree. Especially social issues will be given more consideration. One concrete example mentioned is the rights of immigrant workers. Climate change is another example of an issue that will be given more emphasis. HypoVereinsbank has a strong emphasis on environmental aspects (such as soil pollution). Some social and governance issues, such as corruption, money laundering and fraud, are also considered as important. In order to make the concept of sustainability operational, the Rabobank Group has defined 10 CSR issues that are to be considered in its core business. These are corruption and bribery, poor labour conditions, forced labour, child labour, discrimination, pollution, depletion of scarce natural resources, cruelty to animals, poor treatment of indigenous people and products/services that impose health or safety risk to consumers. For the smaller, local Rabobanks, the scope is adapted to SMEs' situation in the Netherlands. The assessment tool for these banks (further explored below) incorporates four questions related to broader CSR areas. Specifically, these questions deal with, first, fiscal and legal issues; second, social, labour or human right issues; third, environmental issues and animal welfare issues and, fourth, any issues related to customers and society in general.

Although there seems to be a widespread notion that regulation in European countries or OECD countries is strict enough, some banks use negative criteria beyond such legal requirements. DnB NOR has put tobacco and pornography on their list of restricted activities analogously to their negative criteria in asset management, because they do not want to be "associated with such activities ". In addition, caution is applied, when the bank considers financing gambling activities. The current development at the bank is to harmonise guidelines and criteria across all business areas, i.e. negative criteria used in asset management are to a large extent also applied in lending. Similarly, the Rabobank Group does for instance not finance coffeehouses that sell marijuana in the Netherlands or traditional goose liver production, which are otherwise legal business activity.

At ABN AMRO Bank, DnB NOR and HypoVereinsbank, the focus is more on the negative impacts of the client and, therefore, the indirect risks of the bank. The banks, nonetheless, enter into dialogue with the clients with the intention to improve and discover the opportunities of the specific company as well. The Rabobank Group goes distinctly beyond a "negative" elimination approach and also discusses sectoral best practice with their clients as part of the engagement process. Rabobank International for instance engages with farmers in Brazil in order to promote sustainable farming practices in the Amazon (see section on engagement below). At the small, local Rabobanks, there are a large proportion of loans in the building sector and here there is a focus on sustainable building practices. The local Rabobanks also look generally at "good practice" in the companies they evaluate. In terms of labour issues, the company's "structured attention" for health, safety and integrity is assessed: do they have policies for e.g. the reintegration of disabled employees, for cases of illness, for labour circumstances, for integrity etc.? Further, the company's approach towards environmental care (or lack thereof) is assessed – especially whether they have related policies. It is also assessed to what extent the customers are "pioneers" in sustainable production: it is asked whether they supply products or services that are better for animals, people or the environment. In terms of consumer protection, the level of service provision, the existence of complaint mechanisms and consumer communication is assessed. According to Hans Biemans at the Rabobank Group, such positive engagement approaches are becoming more important in the banking sector.

5.2.5 Involvement of stakeholders

The three banks that have policies develop these in consultation with stakeholders (primarily NGOs). Some NGOs are perceived by the banks to have a more confrontational approach, while others are seen as more cooperative. This leads to different types of relationships between the banks and NGOs, ranging from acute problem-solving to the development of innovative, more sustainable services and products.

At ABN AMRO Bank, there is less contact with NGOs currently than in the past, due to reduced capacity and increased focus on the integration with Fortis. There is, however, dialogue with the NGOs that are involved in Eerlijke Bankwijzer (see chapter 3). In future, cooperation with NGOs and other stakeholders will be sought for the development of new policies. Hilde Røed at DnB NOR has the impression that NGOs are rather wary of cooperating with banks, as they do not wish to be perceived as "consultants" to the banks and, thereby, condoning banks' business practices. The bank's contact with NGOs is more informal than structured, for instance through various fora like the UN network and issue-related seminars. HypoVereinsbank conducts strategic stakeholder dialogues with NGOs such as urgewald, Greenpeace and WWF every year. The selection of NGOs depends on the issues discussed. The bank also presents its policy for discussion with NGOs, as it has recently done with its weapons policy. The bank furthermore tries to "assume" the stakeholders' position and learn about their expectations by developing a *reputation risk index* based on a large, recurring stakeholder survey (the methodology has been developed by Charles Fombrun at the Reputation Institute). Such expectations are converted into plans and measures for implementation, "as far as this is feasible". The Rabobank Group engages in strategic consultation with stakeholders once every three years and develops their policies with input from NGOs.

5.2.6 Process

5.2.6.1 Desktop assessment process and tools

The assessment processes and tools of a majority of the banks are to a considerable extent dependent on the individual credit managers' knowledge and judgement. The Rabobank Group has developed tools that are highly standardised.

In ABN AMRO Bank, the account manager fills in information and answers some questions in the credit application based on a *risk filter*, which is linked to the sector policies, in order to assess whether the client will comply with the policies. Regardless of whether the (potential) client is involved in a sector for which the bank has a policy, an assessment of the client's sustainability impact must be carried out. In addition, there are sector reports accessible on the intranet, which contain information on legal requirements and risks and opportunities in the sectors. These are intended to be used by the account managers, both to fill out the relevant information in the credit application and in dialogue with the clients. Information is available not for all sectors with which the bank is involved, but rather for 20 sectors that are deemed to be the most sensitive ones. The extent to which the account manager draws on this available information is left to their discretion. As Yelly

Weidenaar emphasises, they can use the information “if they want to”. This sector information is to be seen as a guideline for the account managers, so that they can assess whether something is an issue for their specific clients. In addition, at ABN AMRO Bank, a tool is currently being developed that benchmarks the client with its sector(s) in order to establish how the clients are positioned at sector level in terms of sustainability. Exactly how this will be done has yet to be established.

The credit guidelines currently used at DnB NOR provide the credit managers with information and questions about specific areas and issues that require particular attention in the sustainability assessment. The assessment is carried out with a particular risk focus, looking at the client’s history in terms of sustainability impacts (e.g. through media attention). In addition, the network tool that is used provides a list of sources, and information from relevant sources, such as the Ministry of Foreign Affairs or IFC, is transmitted to the employees. The current procedure is rather flexible and it is up to the individual credit managers to decide what information sources to use, when assessing a client, and to what extent. The tool that is now being developed with the new guidelines at DnB NOR will be more standardised and the systematisation of information use is also something that is considered. The intention is to encourage more focused assessment without each credit manager having to know about all relevant conditions in all countries. Loan applicants will be classified according to risk level, which will then decide the depth of evaluation. Currently, credit managers at DnB NOR are not required to document any part of the sustainability assessment of loan applicants. This will, however, change with the new guidelines, although it is still uncertain whether this will simply implicate an acknowledgement of having carried out an assessment, including a listing of risks found, or whether there will be a form of sustainability classification of the business client, based on the assessment carried out.

At HypoVereinsbank, the assessment process is initiated by researching external (clients, responsible authorities, pertinent law and regulations etc.) and internal (checklists, sector risk classification, sector reports) sources of information in order to establish risks that may apply to the company in question. Sector information has been developed for 20 sectors (e.g. wood processing, metal processing, extractive industries (coal, oil), the pharmaceutical industry, vehicle construction, and chemistry – “all the big industries”) and is accessible for credit managers on the intranet. Then, a tool supplied by an external Swiss service provider called eco:fact is used. This tool supplies targeted information from all accessible market sources and filters this according to company or project. The focus is on negative public attention in the past and the more often a company is mentioned, the poorer its “reputation index” is considered to be. Based on the index provided, the bank decides whether or not the company is an acceptable client. In addition to reputation risks, two other risk groups are considered: risk of loan default and liability risk. The information gathered then flows into the final rating. The depth and breadth of the assessment depends on the size of the business client. For instance governance concerns such as corruption and suspicion of money laundering are investigated primarily ex-post for large companies (although, information about e.g. money laundering in the company's past can be collected and used in the loan application process itself). Other social issues are evaluated primarily for project finance (as part of the assessment based on the Equator Principles). There is generally more focus on environmental issues in the assessment. The exact issues to be assessed for the individual borrower are decided upon by the credit manager. According to Andreas Bauer, it requires skill and judgement to evaluate what kind of business conduct is justifiable and acceptable: "it is a tightrope walk and we learn as we go, every day." The assessment at HypoVereinsbank is, thus, not highly standardised – the evaluation is based to a large extent on the credit manager's direct appraisal of the company (see also the section on "engagement" below).

In addition to the assessment at credit manager level at HypoVereinsbank, however, there is an additional mechanism to assess reputation risks. In high profile cases where reputation risks are potentially high, the credit managers must notify the market department (business unit, credit unit and back office), which forms an opinion on the matter. If, in their view, there is a potential reputation risk, they hand the matter over to the CSR department and the reputational risk council, which then decide on a recommendation. The recommendation can be to continue the transaction as no substantial risk is perceived. A second possibility is that risk is identified, but can be defended on the basis that the project or company is worthy of support. A third possibility is that the transaction is considered to be sensible, but the element of uncertainty is so large that the decision is passed on to the decision-making authority in Italy without a clear recommendation. Finally, in some cases, the recommendation is to not go through with the transaction. The number of cases that the relatively new council evaluates is growing as the awareness of its work spreads among the credit managers. Moreover, all credit applications above € 50 million are decided upon by the central credit committee in Italy. In these cases, the reputation risk council in Germany delivers a recommendation for or against granting a loan, when there are considerable sustainability impacts involved, which is then considered by, but is not binding for, the Italian credit committee.

At HypoVereinsbank, there is a particularly strong focus on project and export finance. Andreas Bauer considers the risks involved when companies based in Europe conduct business in developing countries as potentially high and, therefore, the bank considers the entire supply chain in terms of sustainability, when granting loans: “As a banker, you should want to know where the money is going, what happens on-site, how the company is conducting business abroad and to what extent it is aware of the impact its business is having.” The burden of proof then lies with the company and if it is unable to prove that its conduct is acceptable, then the CSR department will not vote in favour of financing the company.

In the Rabobank Group there are different systems for the different parts of the groups. The tool used by Rabobank International is adapted for larger clients, whereas the tool used at the smaller, local Rabobanks in the Netherlands is adapted to more small and medium-sized enterprises.

In Rabobank International, the different documents listed in section 5.2.3 above are integrated along with a customised Google search engine and relevant, external information sources (e.g. available external ratings) in the so-called Gaia tool, which has been in use since 2006. The tool combines the information sources into one tool to help the relationship manager only focus on the parts that are relevant for a specific client. The tool follows a four-step approach. In a first step, the CSR scope of the client is established. Here, not only the activities, countries of operation and the sectors of the client itself are identified, but also any relevant activities and country presence of any companies in the group that the client is part of as well. This, depending on the size and complexity of the group, can be the most challenging part of the assessment, according to Jan van Mullem of Rabobank International. Something that further complicates matters is that not only the company group, but also the value chain – one step upstream (suppliers) and one step downstream (purchasers/further processing) – is assessed for relevance based on a materiality analysis. The relationship managers are supported by information on the client available at central level, which is incorporated into the system. In the second step, a list is compiled of all the potential CSR issues that may apply to the client based on the scope established in step one. This is partially an automatic process, depending on what client activities have already been identified and partially manual in that the relationship manager can tick further CSR issues of potential relevance for the client, based on own knowledge. In step three, the relationship manager goes into detail about their (potential) client and looks specifically at the potential issues identified in step two. Here, it is assessed to what extent the potential issues in step two really apply to the specific client. This evaluation is carried out using the customised Google search engine by looking at any relevant media attention linked to the client. The newspaper search only draws on perceived reliable sources such as Reuters, New York Times, BusinessWeek and Wall Street Journal amongst others. As a rule, a general search is carried out for the identified 10 CSR issues (using a number of predetermined search keys related to each issue) or it can be limited to certain specific issues and a specified time period. The search is carried out in English, and additionally in Dutch for Dutch clients. This step varies considerably in time and effort invested: some search scans can last for 10 minutes, others for “a few hours”. For some smaller clients (in the retail segment), this search may not yield relevant information. Therefore, in an additional section, the relationship manager must insert any other “signals” he or she is aware of. Such information is to be sought in more local sources of information. If information is indicated as important here, it will similarly be highlighted in the credit application. As part of the third step, relevant sector policies and country quick scans are drawn upon to evaluate the client. In the fourth step, the pertinent conclusions are drawn and written down in the report. Here, information from the dialogue with the (potential) client is also included (more on the engagement process below). The conclusion includes the CSR risks and opportunities that the relationship manager has established as applicable to the client. Finally, he or she has to rate the client with an “acceptable”, “acceptable under conditions” or “unacceptable” (the definitions of these labels are given). All Rabobank clients are classified in these terms. The clients who are deemed “acceptable under conditions” have to agree to carry out certain measures, as established in an action plan, in order to be financed (see section on engagement below). This information then flows into the official credit application document, which is evaluated by the credit committee.

At the local Rabobanks, the sustainability assessment of clients is somewhat less standardised, and depends more directly on the client in question. It is still rather comprehensive and also includes the principle of assessing the value chain – one step upstream (suppliers) and one step downstream (purchasers/further processing). The assessment tool makes the CSR issues tangible in a more direct way, by asking questions specifically related to practical issues of SMEs operating in the Netherlands, which the relationship managers can address in dialogue with the (potential) client. An example of this is given for the transportation sector: “What does your truck fleet consist of? How old is it? What is its euro-classification?” A detailed sector information system helps the local banks access background information relevant to their clients. In this system, distinctions within a sector are made as well – e. g. in the transportation sector between persons, road transportation of goods and shipping. At the end of the credit application, the relationship manager has to insert the “explanation” of the sustainability rating of the client. Here, it is described what sectoral issues are currently important or have been in the recent years, and whether the clients is taking preventive measures or they have action plans to resolve issues. At the end of the assessment, the clients are rated with “acceptable”, “acceptable under conditions” or “not acceptable”.

In the Rabobank Group, information needs are furthermore supplemented by external information service providers such as Dow Jones Factiva.

5.2.6.2 Dialogue and engagement

All the banks carry out dialogues in their sustainability assessment of business clients. The extent of the engagement involved in the dialogues, however, varies. Whereas DnB NOR and HypoVereinsbank focus on getting a "feeling" for the business customers' sustainability approach and impacts, the Rabobank Group focuses not only on avoiding negative impact, but rather on informing their clients of best practice in their respective sectors and helping them, where possible. All of the banks, however, see dialogue as an instrument to influence their business customers in a more sustainable direction.

For the credit managers and other employees at DnB NOR who use the credit guidelines, prime importance was attached to the operability and support in carrying out dialogue with the clients. The questions and issues explored in the credit guidelines are intended to help gain an understanding for the clients' sustainability impacts and level of awareness of such issues. Dialogue is considered very important, as the point is really getting to know the client and being able to trust them. Dialogue is also seen as a way of engaging with the company with the aim of making them aware of their own potential for improvement. Hilde Røed thinks that the client has an interest in being challenged to see where their sustainability risks lie and how they can reduce or eliminate them. For DnB NOR, the aim is furthermore to influence the clients to develop in a more sustainable direction, which is a strategy that is followed as long as a client is perceived as being interested in improving.

When a client first requests a loan at HypoVereinsbank, and also in the yearly strategy dialogues with company management and technical operations managers, the credit managers are expected to gain an "impression" of the extent of the clients' environmental awareness, the quantity and quality of preventive measures introduced (e.g. through an environmental management system, sustainability consulting or building up financial security for possible damage or liability costs) and the state of the production facilities (observed directly by the bank representative or commissioned experts). In addition to asking for information on management systems, for operating permits, emission limitations or contamination and soil remediation reports, depending on the sector – the credit managers should use the information in the available sector reports, the sector risk classification, and talk to their clients about the issues in order to "see how they react". When the reply is that environmental issues are important to the company, that their technology is the best available, that particular employees are instructed to deal with specific risks and dangers, and necessary insurance covers possible risks, then the credit manager will know to what extent the company has dealt with the important issues. The dialogues should thus be used to get a “feeling” for the company, which can not be achieved purely through information gained on the market. However, Andreas Bauer underlines that it is impossible to have absolute certainty: “you are never immune to risks” – no matter if the companies have well-functioning sustainability management systems, the worst-case scenario may still occur. Also, in cases where clients wish to deceive the bank, this will not always be easy to uncover.

Andreas Bauer at HypoVereinsbank points to recent scandals concerning corruption in Germany and considers the sheer magnitude of the problem a valid argument for why banks can not simply sever ties with the involved companies. In such cases, the companies are seen to have had lapses, which do not necessarily point to deeper underlying problems. Such concerns will then be discussed with the company management in order to ensure that the client has a strategy and mechanisms to avoid such failures in future. There may, however, be occasions in which companies’ conduct is perceived to be so contrary to the bank’s ethics and so massively criticised that ending the client relationship will be considered the right answer. In case of environmental impacts, the credit managers are expected to address such concerns in discussions with the business clients.

The Rabobank Group’s formal credit policy is an engagement policy, according to Hans Biemans.[80] This means that it is not the aim of the sector policies, issue statements and exclusion list to exclude clients from financing, although this may be the ultimate outcome, but rather to engage with them in order to influence their behaviour and make them better from a sustainability point of view. Ties are only severed with the client, when they are “not moving” – i.e. not showing any signs of wanting to improve or willingness to make concessions. Currently, the bank is establishing how to integrate action plans with time schedules for specific measures that may be formulated in dialogue with the client. Compliance with the plan will be monitored. It will most likely form part of the loan documentation, although this has yet to be decided. In the engagement process, not only compliance with policies is evaluated. Also, best practice in terms of transparency and business activities is discussed with the client.

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[80] Cf. Statement on Rabobank’s investment and financing policy (http://www.rabobank.com/content/images/statementInvestmentAndFinancing_tcm43-59781.pdf - accessed last 6 February 2010).

The engagement process in Rabobank International is partially adapted to the different national circumstances. For instance in Brazil, there is one employee occupied full time with visiting clients, maintaining contact and screening clients. In Brazil, clients must also fill out a questionnaire and sign it. In addition, the official cadastre is checked in order to establish where the client is active and to monitor compliance with forestry law. The strict requirements in this country arise due to the existence of higher risks of unsustainable farming practices in the Amazon. The approach here is also a positive one, in that it sustainable farming practices (e.g. replantation of forest wherever it is cut) are promoted at a farmers' day once every year in the Amazon, where the farmers receive a practical guideline for environmentally good practice and how to comply with the strict national legislation.

Also ABN AMRO Bank enters into dialogue with their business customers.

5.2.6.3 Staff training and awareness raising

Generally speaking, perhaps with the exception of HypoVereinsbank and Rabobank International, the level of training of credit managers related to the sustainability assessment of loan applicants seems to depend on the interest and willingness of the employees.

At the moment due to lacking capacities, ABN AMRO Bank does not carry out staff training aimed at raising awareness and increasing knowledge needed for the sustainability assessment. They existed in the past and are planned for the "near future" again as well. At DnB NOR, some seminars have focused particularly on the implementation of the Equator Principles in project finance. Some of the training has been outsourced, e.g. to the consultancy Environmental Resources Management. The target audience for the training is primarily employees from the corporate clients division, shipping, and other departments involved in lending to corporate clients. Regular internal meetings are conducted for the most affected departments (corporate clients and the international department). In addition, there are regular interbank seminars for employees at different levels (credit managers, senior managers) who deal with business customers, which involve a module that focuses on ethics or corporate sustainability and where real-life cases, guidelines or policies are presented and discussed. The training is provided on a needs and interest basis, rather than being mandatory. In HypoVereinsbank, staff training related to sustainability integration in lending takes place at both unit level and credit manager level. Even if the credit managers are no experts in the issues, focus is placed on creating awareness for the type of questions that need to be asked in dialogue with the clients. In the small, local Rabobanks, sustainability issues are integrated in the general training. Such training takes place every two years and consists of three days with free choice of workshops. There is thus no training that is compulsory and, according to Hans Biemans, there is almost “too much choice”. Training related to sustainability issues should reach all employees, but the actual training undertaken largely depends on the interests of the employee. In addition, there are e-learning opportunities and workshops including discussions on real life clients at the local offices. At Rabobank International, on the other hand, the sustainability assessment is part of the general credit application training.

5.2.6.4 Staff incentives

ABN AMRO bank’s new bonus structure will incorporate sustainability indicators for the first time – initially for the top and senior management in addition to the board of directors. Later, the other layers of the organisation will be incorporated. Yelly Weidenaar considers this an important development, as bonuses are what provide noticeable incentives to bank employees. At DnB NOR, the evaluation of employees’ implementation of sustainability is currently not fed into the incentive structures. From 2010 there will be some change here: the overall reputation score, which includes “ethical aspects”, will be a mandatory part of all managers’ scorecards (including top management). There are specific incentives on the top management level at HypoVereinsbank. The bonuses partially depend on an assessment of external stakeholders’ perception of the bank’s implementation of its sustainability strategy (mentioned above). The impact on the bonus depends on the results compared to the last assessment that was carried out. In the Rabobank Group, sustainability targets are a part the bonus system at all levels of employees. The implementation is, however, decentralised, so that it depends on the awareness and perception of the department managers.

5.2.7 Monitoring and control of the process

Credit committees are the principal instance for the control of the sustainability assessments at the interviewed banks. In addition, the quality of the assessment is partially ensured by the “four-eyes principle” within the department or monitoring through separate organs outside the assessing department. In cases of large loan sums, the assessment is often controlled at central level (see above).

At ABN AMRO Bank, the sustainable risk advisory desk must approve all sustainability assessments in credit applications. In those cases where the sustainability related information on the client is deemed unsatisfactory or incomplete, the credit application is returned to the account manager for revision.

At DnB NOR the most important control mechanism is carried by the credit committees. Their function is to evaluate not only the company that is applying for a loan, but also the quality of the sustainability assessment carried out by the credit managers. If the quality is not considered high enough, the application is returned to the responsible credit manager who will have to redo it. Their mandate is, however, not very explicit, and it is largely up to them to decide on what is considered significant CSR risks in the loan assessment. Also in this area, the process will become more streamlined as a result of the current revision of the credit guidelines.

The central decision-making and control of credit applications that involve large sums of money at HypoVereinsbank (and UniCredit respectively) can be seen as a strategy of monitoring and controlling the implementation in practice. The policies that have a bearing on the integration of sustainability are made binding for senior management (and every employee), which in turn is obliged to ensure compliance on all levels below it, down to the credit manager with client contact. If management fails to do this or the employees do not abide by the instructions, then “ignorance is no excuse”. Such failure to comply will lead to disciplinary consequences and, possibly, personnel changes. In cases where the bank is inflicted with damage due to such failings, dismissal by employer can not be ruled out. “The employees must understand that we are not talking about a trivial offence here and that there is zero tolerance of non-compliance,” Andreas Bauer comments.

The sustainability assessments at the Rabobank Group follow the “four-eyes principle” whereby a credit analyst has to give their opinion on the quality of the assessment. Furthermore, in cases where the client is involved in designated “sensitive” sectors, the assessment and its conclusions must also be controlled by the department manager. The evaluation is furthermore assessed by the credit committee at the end of the process. When relationship managers use the Gaia tool of Rabobank International, there are several instances that trigger an automatic notification to the CSR department of the bank. If the relationship manager indicates that the client is involved in activities that are on the exclusion list, not only does he or she have to explain the circumstances of this in the report, the CSR staff are also notified and thus enabled to monitor the application directly. Furthermore, if the relationship manager indicates that a credit application is for project finance, the CSR department is notified in order to assist the relationship manager in the application of the Equator Principles and the additional assessment that this implies. Also when the relationship manager indicates that a (potential) client is involved in any of the so-called sensitive sectors, the CSR department is directly informed. In terms of client observation, Rabobank International has some employees who are occupied full time with monitoring the clients' CSR performance.

5.2.8 Consequences

All the banks have certain negative criteria (determined in policies or similar), which will exclude a potential customer from financing, if they do not comply with these. The representatives at HypoVereinsbank and the Rabobank Group state that they work with conditionalities (e.g. in action plans) in loan agreements, where needed. At none of the banks, the sustainability assessment has a direct impact on the interest rates or other conditions.

At ABN AMRO Bank, there is no approach to provide incentives to more sustainable companies by giving them lower interest rates or better conditions. At DnB NOR it is similarly admitted that systematic differential pricing in order to promote sustainable business activity is limited. One exception to this includes the lower interest rates given to clients who wish to purchase environmentally friendly cars with their car loans. The bank starts at the other end by giving those companies that have higher sustainability risks a lower rating and thus, implicitly, worse conditions. Some will also be unable to gain access to finance due to highly adverse sustainability impacts. Similarly, Andreas Bauer at HypoVereinsbank mentions that although interest rates depend primarily on the financial situation of the borrowing company, loans can become "more expensive" for the client, when they receive a bad rating due to e.g. negative environmental impacts in the past. Such a sustainability rating is, however, not explicitly conducted in a standardised manner and the results of the sustainability assessment of the do not flow directly into the financial pricing. The way Andreas Bauer sees it, the company might not get a better rating, but what it does get more easily is access to finance, due to proving more stability in sustainability matters. The local Rabobanks' sustainability assessment of their clients is incorporated into a credit rating engine. This implies that it is possible to weight the assessment so that it also influences the interest rate. This is, however, not current practice. Hans Biemans considers the findings on default risks that arise due to sustainability issues as tentative and is awaiting more conclusive evidence.

5.3 Perceived challenges and opportunities

5.3.1 Challenges arising in implementation

One part of sustainability assessments that is considered particularly complicated is the evaluation of social and particularly governance issues. Andreas Bauer at HypoVereinsbank accepts that of course it is possible to assess company information (GRI report, sustainability report, capital market information in the annual report etc.) and external information by talking to experts, but that, in the end, events and conduct that underlie risks of e.g. corruption and money laundering generally are hidden and difficult to uncover before a scandal has happened: "No one will tell you that they have a slush fund." Olaf Weber adds that social issues are difficult to measure and in addition such issues (above all workers' rights) are generally regulated rather strictly in Europe, which means that companies do not have much scope to define their own approach in this context. This indicates bank reliance on clients' legal compliance in this area.

There seems to be widespread agreement that employee knowledge, awareness of and, to some extent, acceptance of sustainability issues are of utmost importance for the success of the implementation of policies and guidelines in practice. Hilde Røed at DnB NOR thinks there is room for interpretation in the bank's current credit guidelines, which leads to a different frequency of use in different "environments" of the bank. This she sees as related to employees' expressed feeling of being overwhelmed by the amount of knowledge required about issues outside their actual area of expertise. However, even in banks where the systems to a large extent are standardised, such as for instance in the case of Rabobank International's Gaia tool, the employee must be capable of identifying which of a client's activities are potentially relevant to the sustainability assessment.

The implementation also depends on the employees' level of awareness. The credit manager must not only be able to, but also be willing and ready to comprehensively assess the client. At HypoVereinsbank, Andreas Bauer considers a sense of responsibility to be of importance (it need to be "internalised") and he has observed an increase in awareness: "Employees over time develop an understanding through their occupational experience for the fact that the sustainability impacts that arise can seriously damage the bank's reputation." It is realised that it is impossible to ensure that lending decisions are 100% sound in all cases. In order to ensure that the departure from reliable decision making is as small as possible, at HypoVereinsbank focus is placed on raising the awareness of employees. For Yelly Weidenaar at ABN AMRO Bank, relationship managers' knowledge of sustainability issues and awareness are considered more valuable than the actual tools chosen and a lack thereof is, therefore, considered the toughest challenge in the implementation of policies. She admits that not all account managers will use the information provided on the different sectors to assess the clients thoroughly, which is to some extent understandable, as they are not required to. Hans Biemans at the Rabobank Group concedes that not all relationship managers make the effort expected, when they prepare their visit to the client. The official procedure would be to enter the evaluation system and identify the particularities of the client's market and the critical success factors in their sector. In practice, not all relationship managers prepare their visits to the clients very well and therefore do not know exactly what issues should be discussed with the client. This is identified as an area that needs improvement. However, it is maintained that it is a general, and not a sustainability specific problem.

A related problem is the still rather low acceptance level or perceived lack of legitimacy of sustainability issues in the business world. In the Rabobank Group, there are admissions of relationship managers who due to sustainability issues decline a credit application, but to colleagues pass off the rejection as one resulting from the applicant's financial shortcomings. According to Hans Biemans at the Rabobank Group, relationship managers who are in close contact with business clients need more "courage" – as he puts it – in addressing these issues. Especially in sensitive sectors like forestry, the relationship managers may be wary of non-financial issues or questions that they think may provoke conflict with the client. For instance, asking the client about the validity of FSC certificates or asking for the audit report regarding the percentage of FSC wood purchase might be perceived as confrontational behaviour, even if the questions are legitimate. Such fears are attempted resolved in training and awareness schemes, by focusing on how to face and deal with such dilemmas. Yelly Weidenaar at ABN AMRO Bank similarly argues that the relationship managers must become more "comfortable" with putting sustainability concerns on the agenda with the client: "Nothing is more important than the mindset of people and the culture of the bank. Nothing is more difficult to change." She, in turn, links the lack of comfortableness to the lack of knowledge.

Jora Wolterink at BankTrack believes that the sustainability department officers within the banks often see themselves "as being on an island" or as outsiders within the bank, because they are considered to be "soft" compared to the "hard" bankers. This may reflect why they present the transformation of the banking culture as one of the largest challenges in terms of sustainability integration. Andreas Bauer at HypoVereinsbank, on the other hand, points to the close cooperation at all levels at the bank and argues that the policies are not written on the quiet. Rather, in addition to being discussed with different NGOs (see above), they are developed with input and feedback from the sales and risk units. However, he grants, it is not to be expected from a large organisation that a strategy that is communicated today, will be fully implemented by tomorrow. The implementation of a sustainability strategy takes time due to the need for a change in employees' mindset.

5.3.2 Feasibility of standardisation

At DnB NOR, the challenges explored above underlie the decision to revise the assessment process and make the classification of the companies more standardised and, thereby, leave less leeway to the credit managers. The central question is *how* to standardise the process. Many banks are signatories of different initiatives, which formulate certain requirements expected of the signatories. The Equator Principles that apply to the specific area of project finance in non-OECD countries are rather concrete. Other standards that also apply to industrialised countries, such as the Carbon Principles[81], the UNEP Finance Initiative or the UN Global Compact, are neither very specific nor focused on implementation, according to both Jora Wolterink at BankTrack and the bank representatives at the Rabobank Group and DnB NOR.

This currently leaves the task of operationalisation to the banks themselves. The bank representatives at both DnB NOR and the Rabobank Group discard the idea of having a list of issues that the credit manager is expected to "tick off" as rather useless. Hilde Røed at DnB NOR maintains that it is impossible to develop a tool, which is both operable and all-encompassing. She believes there will always be some discretion involved in the assessment. Hans Biemans at the Rabobank Group, on the other hand, notes the importance of clear instructions for the credit managers. They can not be expected to evaluate whether there are "any human rights issues" for a company in the building sector operating exclusively in the Netherlands. The questions must be focused on concrete problems and challenges existing in a sector in a specific country or region. Adapted questionnaires for clients in agriculture in Brazil and the palm oil industry in some Asian countries are mentioned by Hans Biemans as illustrative examples.

Hans Biemans' statement "you must know exactly what you want to know" may seem self-evident. However, it implies that there is a need for comprehensive knowledge specific to sectors and geographical areas of activity. Globally, specific conditions and challenges in different countries and regions require adapted frameworks. For large banks, this might indicate a difficulty in developing

[81] Cf. http://www.carbonprinciples.org/ (accessed last 27 March 2010).

specific policies and tools for all countries and sectors. For Hans Biemans, it suggests that there is a need to focus: either one starts in high risk sectors, or in sectors where the bank is an important player or has a large proportion of its clients. In focusing on specific challenges, there has to be a clear view of what the bank seeks to achieve; why they ask the questions they do. Similarly, Hilde Røed at DnB NOR argues that it is a more effective allocation of resources to do a thorough analysis in those areas where it is considered necessary (e.g. where there is a gap in national or international legislation or high risk industries) and where the bank can make a difference. BankTrack's Johan Frijns similarly emphasises the need for banks to focus their resources where they have the largest impact: "It is more important to focus on project finance in non-OECD countries. There are fewer problems in Holland or Germany, even if the situation is not optimal in Europe either."

Regarding the European context, some of the bank representatives consider the European legal framework to be stringent enough. Hilde Røed at DnB NOR argues that capacity is limited and that the evaluation and documentation required by the Equator Principles are so massive that it is unfeasible to transfer it to the general lending process, including high income countries in Europe. Both Jora Wolterink at BankTrack and Dietrich Wild at oekom research, however, maintain that there are many examples of projects in Europe that should fall under the Equator Principle, due to their significant sustainability impacts. In principle, Dietrich Wild argues, the standard should also apply to OECD states. European large-scale projects for instance lack a grievance mechanism like that of Equator Principle projects, which could provide support for affected citizens. Olaf Weber points out that the current Equator Principles represent a lowest common denominator and that little should stand in the way of a more progressive approach, as long as banks feel certain that their risks do not increase due to an impossibility of maintaining the higher standard. Jora Wolterink points out that NGOs and networks such as BankTrack attempt to convince banks to extend the assessment required by the Equator Principles to other areas of activity beyond project finance. Yelly Weidenaar at ABN AMRO Bank finds that a common framework for all banks to be used in a European context would be very handy, but assumes it to be very difficult to achieve. Olaf Weber maintains that in order for a Europe-wide standard to accomplish something, it would have to be regulated at political level, which is something he does not see happening.

5.3.3 Current situation and future trend

For the Rabobank Group, Hans Biemans dismisses the idea that the financial crisis should have had any negative impact on the bank's sustainability strategy – if any impact, then positive. Andreas Bauer similarly states that the crisis has made HypoVereinsbank even more aware of the importance of conducting business in a sustainable manner. For Hilde Røed at DnB NOR, the decrease in funds that is a consequence of the crisis makes it more obvious that it is important to be selective when choosing business clients to distribute loans to. For ABN AMRO Bank, the takeover by RFS Holdings and the subsequent nationalisation of the parts acquired by Fortis during the financial crisis in 2008 has lead to restructuring and a rethinking of strategy (the agenda and the priorities are explicitly mentioned in this context). This process has in turn had consequences for the integration of sustainability. The department responsible for sustainability has been reduced in size. However, Yelly Weidenaar considers the crisis as much an ethical crisis as a financial one. For her, trust is currently the most important question in the banking sector, and initiatives like Eerlijke Bankwijzer (see chapter 3) demonstrate the importance of regaining the trust of the public. Jora Wolterink at BankTrack considers the current period a very important time for the banking sector - a window of opportunity, which should be used to evaluate what needs to be changed. According to her, banks still have a long way to go in seizing the potential in providing finance to the sustainable sectors, such as renewable energy companies. Dietrich Wild at oekom research observes that banks' CSR departments have gained in importance during the financial crisis and maintains that awareness is currently higher also at management level. Converse developments he sees as the exception confirming the rule. Olaf Weber, on the other hand, believes that few bank representatives see a connection between the financial crisis and corporate sustainability.

Yelly Weidenaar at ABN AMRO Bank hopes that the other Dutch banks increasingly will share the strategy of sustainability integration and help set the standard for the whole country in order to make it more acceptable for the public. She also indicates a domino effect at sector level: the Equator Principles have become the standard in project finance and a majority of banks apply them. Dietrich Wild at oekom research calls them a "total success story in this respect". Yelly Weidenaar goes further: it is something "you have to do" and banks, for instance in the UK, that would reject them would be considered as "outcasts". According to her, a similar trend is, thus, likely to occur in general lending as well. Dietrich Wild at oekom research is somewhat more conservative in his prognosis. In project finance the development of the Equator Principles were facilitated by the fact that the concrete projects (e.g. pipeline or goldmine) have relatively easily identifiable effects. NGOs can identify sustainability concerns and can point to the causes behind the problems. Banks can identify both reputation risk linked to publicity and financial risks linked to project developers' reduced ability to repay due to significant environmental or social damages. Establishing links between causes and effects becomes far more complex when dealing with general business loans that are deployed at the company's own discretion – both for the bank assessing its clients and the NGOs wanting to increase accountability.

Another possible turn in future is evasion. Andreas Bauer at HypoVereinsbank for instance mentions a trend among some bank clients' to move away from the project finance term and label investments export finance instead, in order to avoid the elaborate assessment required when applying the Equator Principles. A solution proposed by NGOs would be to expand the standard to export finance, but there would be considerable resistance to this, as export finance is characterised by fast decision-making, which would make a similarly elaborate assessment near impossible. This is an area where companies effectively shun banks that require too much of them and prefer local banks in the foreign market, which could potentially lead to a sort of race-to-the-bottom in terms of sustainability standards. Still, Andreas Bauer believes that the line has to be drawn somewhere, even if this means that European banks might suffer at first. An increase in the standards will only work when someone decides to get the process going. He thinks that there will be a development towards more sustainability assessment across the entire banking sector, but that there is a need for research focusing on finding better solutions both for the companies and the banks. Olaf Weber believes, somewhat more pessimistically that, when it comes down to it, when the standards that banks adhere to are seen as an obstacle to high profits, negative results in the sustainability assessment will not stand in the way of financing a project or company as long as its legal.

The mainstreaming of sustainability in lending is a long process. Johan Frijns at BankTrack has observed a positive development in the last years, especially that banks are increasingly implementing sustainability policies. He considers a positive sustainability approach in lending rare, but asserts the importance thereof:

> "What is a minor risk to a bank could be a major risk to society. The important question that banks should pose is: how much profit is necessary and for whom should it be made? Banks' first priority should be to do business, but not at all costs. They need to focus on being sustainable as institutions over the long-term."

He distinguishes a bank in his immediate vicinity – Rabobank – for going beyond pure risk management: "Their level of transparency is high, they are open for engagement with stakeholders and they have internal discussions on ethical decisions." DnB NOR's Hilde Røed argues that sustainability issues' space on the agenda has been much larger in recent years and the issues are being taken more seriously now, while five years ago they were still rather unknown and it was difficult to introduce measures internally in the bank. She is sceptical to the development of a positive or best-in-class approach in lending analogous to that of asset management. Rather, she believes, it will become more important to ensure a mainstreaming of a certain level of standards and requirements that all borrowing companies must abide by. Similarly, Olaf Weber argues that banks still think along the lines of reduction of downside risk and that few try to integrate upside opportunities in the lending process.

Dietrich Wild at oekom research mentions being somewhat surprised by the fact that business clients' sustainability impacts still seem to have such little effect on interest rates and other conditions in areas where the economic impact seems rather clear, such as mortgages. He does not expect such a price differentiation for areas where a possible economic impact is not directly quantifiable, but believes that more sustainable banks can decide to carry out such non-risk-related premium differentiation, if motivated by ethical reasons (as discussed in chapter 2). Jora Wolterink at BankTrack believes it is primarily a fear of losing customers that prevent the banks from implementing differential pricing based on a sustainability rating. Standardised discounted interest rates for the most sustainable business clients are something, which Hilde Røed at DnB NOR considers unlikely to be introduced in mainstream banking. She does, however, concede that CSR risks will play an increasing role in overall risk assessments in future, and thereby have an impact on the pricing structure and correspond with business clients' ability to attract funding. Many banks have not yet established how to make such an adaptation of interest rates operational, Hans Biemans at the Rabobank Group suggests. Olaf Weber, from his perspective, argues that bank representatives still think that sustainability risks do not have an impact on the banks' financial risks, even if studies give evidence to the opposite (Weber refers to Weber et al. (2010) – see also chapter 2). Johan Frijns simply states that "smart banks are aware of all risks and integrate them all in their assessment".

For the future, Dietrich Wild at oekom research foresees certain minimum standards across the board that will help the banks avoid highly controversial investments. He furthermore believes that change beyond such minimum standards will first come to areas where there is a clear business case rationale for it, e.g. in areas like financing of renewable energy, electric cars or sustainable building practices. As to the question of whether the banking sector will develop towards becoming a generally more sustainable one, he believes that five forces must act in the same direction: the state, investors, consumers, employees and civil society and the media.

5.4 Motivation

5.4.1 Overarching reasons

5.4.1.1 The business case rationale

According to Preben Sørensen at Deloitte, some years ago, there were some discussions about big environmental risks (related to non-compliance and soil pollution) and the consequence was that banks generally, at least bigger banks, captured that in their lending procedures. His perception is that this was inspired by a "truly monetary perspective". "Softer" issues (social issues as well as some environmental issues) have proven to be more difficult for the sector. He speculates that perhaps banks have yet to lose substantial amounts of money due to such issues and that they, therefore, have not had sufficient incentives to consider them in lending.

The business case rationale, as explored in chapter 4, involves a range of reasons. Perhaps the most important for banks in their core business activities is reputation risks. This is identified by all the interviewed banks as a matter of fact ("of course" there are reputation risks). Hans Biemans at the Rabobank Group also spell it out as a likely "start" of many banks' integration of sustainability considerations in their lending process. Hilde Røed at DnB NOR admits that the bank is "very concerned with" reputation risks. For Yelly Weidenaar at ABN AMRO Bank, it has become clear that sustainability induced risks should be fully incorporated in the risk model, even more than it is today. Andreas Bauer at HypoVereinsbank repeatedly places a strong emphasis on business clients' reputation risks and their impact on the bank's reputation. As such the sustainability assessment can be seen as a risk tool: "without it, you will be criticised publicly, in the newspaper, on television. In order to avoid being mentioned for controversial transactions, it is necessary to do what you can to carry out your business in a 'clean' manner." Moreover, further down the line, reputation risks often precede other risks and have a possible knock-on effect on operational risks, strategic risks, financial and investment risks, liquidity and capital and real estate risks. At an "everyday" level further risks, which to some extent can be influenced by individual credit managers, can be identified: business risk, credit risk and market risk. Andreas Bauer gives the example of a client's risk, which becomes a risk for the bank, when the company can no longer produce and sell its products or services and, thus, does not generate enough money to repay the loan. Banks' concern with reputation risks is also seen as an opportunity by civil society: Jora Wolterink at BankTrack argues that reputation risks are of great importance to banks and that NGOs and media attention can play a decisive role in this context.

Dietrich Wild at oekom research believes geographical differences to be connected to the presence and activities of NGOs in the individual country, the extent to which the banks are experiencing difficulties related to sustainability issues in their lending and the extent to which banks are regionally or internationally active. Hilde Røed at DnB NOR elaborates on the last part of this argument. She says that companies with strong Norwegian traditions are likely to take a strong social-democratic legal framework for granted, which means that the banks' internalised values and practices are not always explicitly stated in guidelines and policies to the extent that they may be in many other countries. As the bank increasingly engages in international activities, the need for such clear guidelines based on more international standards arises, due to the increasing interdependence in the banking sector, which seems to put pressures on banks to normalise or adapt. In addition, an increase in international contracts increases the significance of sustainability issues and has led to more requests for support internally from credit managers. Similarly, Yelly Weidenaar at ABN AMRO Bank considers the fact that the Netherlands is a very open society with companies that rely on business relations with foreign companies as an indication for why Dutch banks may be more progressive.

5.4.1.2 Sustainable business approach

Jora Wolterink at BankTrack believes that even if reputation risks may be the most important reason for banks to move in a more sustainable direction, there are also banks that change due to more intrinsic reasons. When Hans Biemans at the Rabobank Group speaks of the relationship managers' communication with their credit clients, he emphasises the belief that the clients do not only consider their sustainability impact due to market chances, innovation and image reasons – rather that they want to run a good company, be a good manager, that they are doing it for *intrinsic* reasons. Biemans argues that the main reason for Rabobank to consider sustainability in all lending is that it "fits with our profile". Business reasons and reputation risks are listed second. Yelly Weidenaar at ABN AMRO Bank mentions banks' need to integrate sustainability in core business in order to be "socially acceptable" in the Netherlands. In addition, for her it is clear that banks have a large potential to contribute to sustainable development: "You really have a kind of power with your money – not to change the world, but maybe to make the [borrowing] companies a little bit better." Andreas Bauer speaks of HypoVereinbank's *integrity charter*, which establishes the values that the bank representatives should internalise (if they can not, they are not right as employees at the bank) and is the "real basis" for the sustainability integration.

Preben Sørensen at Deloitte argues that banks' reasons for adopting a more positive approach are, first of all, that they believe that it raises the quality of their loan portfolio and, second, that they may also be able to provide better value for money for their clients, when providing more strategic advice in addition to lending money and thus being a valuable partner (i.e. that it is linked to the business case rationale, even if it goes beyond it). He considers the risk of losing clients due to setting a high standard a valid argument only from a "business-as-usual" perspective. If banks, however, see it as a way of differentiating themselves in the marketplace, they may also be able to attract companies that have the same conviction. In this way, sustainable businesses may build clusters and the progressive banks would become a preferred partner, rather than being perceived as a policing force to be shunned.

Corresponding to Preben Sørensen's argument, there are instances where the division between the two overarching reasons becomes somewhat blurry. Hans Biemans at the Rabobank Group for instance gives an example of the EU regulation that requires all houses to be zero energy buildings by 2019 – an amendment to the 2002 Energy Performance of Buildings Directive.[82] Considering that the building companies in the Netherlands to date do not have sufficient experience with building such houses, it is feared that they will have to deal with high "failing costs" that may arise through customer claims, if they do not prepare in time and accrue the necessary expertise. If banks limited their consideration of such future risks (in the extreme case bankruptcy and loan default) induced by regulation to incorporating it into the risk profile of the building sector, this would be a clear business case type of reaction, where the banks would be covering their own backs. However, the local Rabobanks already consult the building companies on sustainable building practices in order to help them prepare and become sufficiently competitive. Biemans reasoning is that "we feel that we have this *obligation* to engage with clients on the critical issues in their sector and that this may influence their [...] financial results" (my emphasis).

5.4.2 Principal motivating actors

Andreas Bauer at HypoVereinsbank sees actors such as NGOs, churches (as investors), politics and consumer protection groups as a "corrective" in that they help make the bank aware of issues where there is still room for improvement. Change, he considers, is thus not an evidence of weakness, of having been wrong in the past, rather it is an indication that "nothing is set in stone" and when the world changes, the bank changes with it. Preben Sørensen from Deloitte also emphasises the more

[82] http://www.europarl.europa.eu/sides/getDoc.do?language=EN&type=IM-PRESS&reference=20090422IPR54163 (accessed 8 February 2010).

likely influence of external actors – “the increasing scrutiny from stakeholders” – above that of management’s internal power to set the agenda. The management is generally composed of such differing attitudes and interests that the more progressive and offensive ones, he argues, are less likely able to push their preferred strategy through. Olaf Weber goes even further by staying that sustainability integration only happens as a result of external pressure (from regulators or other stakeholders) or an event that has strong negative financial consequences for the bank.

5.4.2.1 Non-governmental organisations

NGOs are here disentangled from the catch-all category ”civil society, consumers and the media” introduced in chapter 3, as they are identified by all the interviewed bank representatives as well as the independent experts at BankTrack and oekom research as a prominent influential force in the banks’ integration of sustainability in the lending process.

When ABN AMRO Bank was criticised heavily by Friends of the Earth for their involvement in financing a gold mine in West Papua New Guinea in 1998, it was a “wake-up call” for the bank, according to Yelly Weidenaar. This incident is also documented in pertinent literature (Jeucken 2001: 140). When the bank said it would pull out, the NGO asked it to stay in the project and engage with the project developers in order to change the direction of the project and improve its impacts. Yelly Weidenaar considers the “campaign model” of NGOs to have been successful, but thinks that when banks have realised the need to assess the impact on sustainability issues in financing projects and companies, then the NGO approach should change (“it depends on what stage” the bank is in). At that point, she claims, cooperation between the NGOs and the banks – they ”should go hand in hand” – will be more conducive to finding solutions.

Similarly, Andreas Bauer points to a specific petition that was carried out against an investment in 2006, which he considers to be the “initial spark” for sustainability integration in lending at HypoVereinsbank. Consequently, dialogue was initiated with NGOs in 2007. However, not only in the beginning did NGO attention matter, it is constantly perceived as a threat to be mentioned as the financing institution for a project with considerably negative sustainability impacts. In this context, it is irrelevant whether the project or the company is immaculate from a legal perspective, when it does not correspond to society’s norms and values. According to Andreas Bauer, NGOs like Greenpeace, WWF and urgewald no longer approach banks with ideological dispute. They rather conduct dialogues in a highly professional manner employing experts like chemists and biologists with specialist knowledge who direct qualified critique at the banks. For banks it is therefore becoming increasingly difficult to find good arguments for why a specific client has been granted a loan. Also the more confrontational campaigns carried out by NGOs are considered very effective in generating media attention. Many of the cases are of such a drastic nature that the bank then is left with no alternative but to accept responsibility and to commit to more careful assessment in future. Andreas Bauer concedes that professionally organised NGOs have solid power, no less.

In pertinent literature, it is argued that the banking sector has been slow in integrating sustainability in its business practices and activities (see chapter 1). BankTrack representative Jora Wolterink argues that this is correct: the banking sector has been and still is slow in integrating sustainability in core business. Andreas Bauer thinks that the reason for banks' slow realisation that they have an impact regarding sustainability is linked to the fact that they had not been "driven" by external actors to the extent many other sectors had. Preben Sørensen at Deloitte and Dietrich Wild at oekom research support this view. Dietrich Wild argues that this was related to the lack of transparency in the sector. This may conversely be an indirect indication of the importance of external actors, such as NGOs, today. For Hilde Røed at DnB NOR and Olaf Weber, the sector's slowness can be explained by the indirectness of the banks' impact and the fact that the direct, primary responsibility lies with the clients. Yelly Weidenaar at ABN AMRO Bank maintains that banks are still having difficulty understanding that they have a role in society and that they are generally very conservative. In addition, the direct impacts in terms of sustainability are small for banks and the business case rationale is therefore less evident.

5.4.2.2 Politics

Søren Prebensen at Deloitte believes regulatory pressure will be the strongest driver in future. Here, he does not speak of the direct pressure on the bank itself, but on the business clients that will need to prove that they are dealing with their social and environmental impacts. This indirect effect of regulation on banks is also mentioned explicitly by Dietrich Wild at oekom research and Andreas Bauer at HypoVereinsbank. DnB NOR's Hilde Røed believes that the development of the international legal framework will be of such a character that companies will increasingly be held responsible for their activities. The example further above on zero energy housing provided by Hans Biemans at the Rabobank Group illustrates this point. It is not so much direct legislation that the banks fear or prepare for. Rather they must take into consideration what impact political legislation has on the clients they finance – not only so they can advice their clients, but also consider what impact these companies' future risks and opportunities will have on their ability to repay their loans (in addition, DnB NOR welcomes more stringent regulation of clients in order to not be competitively disadvantaged by their own sustainability integration). CO_2 emissions by clients constitute another example, mentioned by Andreas Bauer at HypoVereinsbank, Yelly Weidenaar at ABN AMRO Bank as well as Preben Sørensen at Deloitte and Dietrich Wild at oekom research. Climate change is, generally, an issue that has caused both the general public and bank employees to become more aware of the importance of sustainability in general, according to Hilde Røed at DnB NOR.

The banks' involvement in government programmes intended to offer positive incentives to their clients (ABN AMRO Bank and the Rabobank Group both are part of the Green Funds Scheme in the Netherlands and HypoVereinsbank promotes subsidised products from the German bank under public law KfW) is generally mentioned as something separate from the banks' integration of sustainability in lending and not as something that has an influence on it. Dietrich Wild, nonetheless, believes that national and international political agents are becoming increasingly aware of their ability to have a direct influence on the banks, as can be observed in the current political discussions on bonus payments and incentive structures, as well as tax (e.g. Tobin tax) on capital movements. He is, however, cautious about predicting the extent of this influence, as the banking sector can be said to have a strong and influential lobby.

Both ABN AMRO Bank and DnB NOR are to a substantial degree in state ownership, but neither considers the government as having constituted a large influence on their integration of sustainability. There is no direct pressure. At DnB NOR, Hilde Røed argues, there is no attempt by the state to force the bank in a specific direction. Nonetheless, in the last few years there have been yearly dialogues with the Ministry of Trade and Industry in which state-owned companies in Norway have been summoned to communicate their strategy with regard to corporate sustainability, forcing them to, at the very least, consider the issues.

5.4.2.3 Investors

Hilde Røed at DnB NOR points to institutional investors such as Folketrygdfondet (which manages the Government Pension Fund Norway and the Government Bond Fund) as more pressing in their exercise of influence than the state. The clear distinction to the above category of politics, here, is difficult to draw. For Dietrich Wild at oekom research, it is clear that investors generally have the ability to put the issue on the agenda, when engaging with their investees and argues that investors' awareness of banks' sustainability impacts has sharpened as a result of the financial crisis. As a "driver" for continued integration, Hans Biemans at the Rabobank Group also identifies pension funds that try to influence the bank through their engagement activities. These may ask questions now and again about the bank's behaviour or certain transactions that have attracted media attention. Investors can, thus, be active in a similar manner to that of NGOs seeking dialogue.

5.4.2.4 Management and employees

Yelly Weidenaar at ABN AMRO Bank and Johan Frijns at BankTrack both consider the top management's commitment crucial. According to Olaf Weber, a "strong character" in the bank often serves as an advocate for progressive sustainability integration. Yelly Weidenaar believes that this trend will be strengthened in near future as all management trainees go through a "sustainable leadership programme" in which their awareness and knowledge is sharpened. Hilde Røed at DnB NOR points out that both management and the board of directors must approve proposals for guidelines and policies – even if they originate as initiatives from "below" – which means that they have to be rooted in these bodies.

For DnB NOR, she finds, it has also been very conducive that the employees who deal with credit risk have been interested in sustainability issues. In ABN AMRO Bank, some employees are trying to accelerate the integration of sustainability and an informal network of primarily young employees has started up – "the green heart". For Dietrich Wild at oekom research, employees at all levels will in future have a strong influence on the continued development in the sector and help determine the extent to which banks conduct business in a sustainable manner. The employee with client contact can, for instance, decide to take the extra time to explain the characteristics of socially responsible investment, instead of trying to sell a traditional investment product as fast as possible. Both Dietrich Wild and Yelly Weidenaar believe that employee satisfaction is partially determined by both the employees' ability to identify with the bank for which they work and by society's general attitude towards the banking sector.

5.4.2.5 Consumers

Few of the banks mention consumers as a direct influence in their sustainability strategies. Hilde Røed at DnB NOR considers the sector's slowness in integrating sustainability also to be related to general public's limited understanding of banks' actual and potential role. Andreas Bauer at HypoVereinsbank links their possible influence to boycotts organised by NGOs. Jora Wolterink at BankTrack believes that initiatives such as Eerlijke Bankwijzer in the Netherlands do have an impact on retail bank clients. After one year of operation, about 110 000 have seen the website and an estimated 9 000 have changed their banks afterwards, she says. Even if she thinks that typical consumers are still not well enough informed and aware of the issues, she argues that banks do see the signal, if their clients start running away. Similarly, Dietrich Wild mentions the increased awareness of many retail clients who decided to change their bank and have opted for the more sustainable niche banks during the financial crisis.

Banks do, however, also need to take into consideration actors who have an impact on the business clients and, thus, an indirect impact on the bank, according to Andreas Bauer at HypoVereinsbank. If a business client that has negative environmental impacts is criticised heavily for this and is then boycotted by consumers, this may have a substantial impact on sales. When such a situation arises, the client may experience financial difficulty leading to a decreased ability to repay their loan.

6. Principal findings and implications

6.1 Processes and challenges

6.1.1 Scope: a failure to include SMEs and trust in legal compliance

As stated in chapter 5, one of the main criteria that were used to choose the banks for the empirical part of this study was proved, in retrospect, to not apply to any of the banks, namely “integration in all lending”. At all banks there is a, formal or informal, downward credit limit to the sustainability assessment of business clients. At some banks, SMEs are generally not assessed thoroughly. At one bank, the exception even extends to all companies in OECD countries, as there is a reliance on legal compliance (“high risk” sectors are, however, assessed). As a reason, it was mentioned that it is a near impossibility for large banks to assess every single business client comprehensively in terms of their sustainability impacts. The high relative size of the transaction costs implied by a comprehensive sustainability assessment of companies applying for the smallest of loan sums justifies an exemption of these applications from the process.

The fact that at many banks smaller business clients are completely left out of the systematic sustainability assessment, however, might be problematic. First, SMEs constitute as much as 99% of all companies in Europe and even if their individual sustainability impact may be rather small or even negligible, their joint impact may be considerable (Leistner 2001: 372).[83] It is even said that environmental risk can be quite substantial in small SMEs with middle-sized loans (Rauberger et al. 1997: 43). When push comes to shove, SMEs may not have the capital base to deal with liability claims, which in turn increases their default risks (Weber et al. 2010: 41). Second, SMEs expertise on sustainability issues is generally limited, they lack a systemised management of their sustainability impacts and their solutions to arising problems are often unsystematic and *ad hoc* (Jeucken 2001: 122). Third, banks may have more leverage and influence in their interaction with SMEs than with larger companies, also because of SMEs' larger dependence on individual banks that provide the bulk of these companies' external finance (Delphi International & Ecologic 1997: I). One of the interviewed banks would, on the one hand, on several occasions emphasise the importance of small failures leading to big financial, material, personnel or environmental damage, which could happen in a small company just as easily as a big one; while on the other hand, excluding SMEs from considerable assessment. It is difficult to say what the solution could be. In the theoretical section of this study, rough checklists were suggested as a way to keep the level of effort down. However, the Rabobank Group, which also assesses SMEs, does this with a more comprehensive tool and engagement, showing that this is feasible. Further research could investigate how SMEs can be assessed and the relationship between the specificity of an assessment and its effectiveness.

For at least two, perhaps three, of the interviewed banks, there is a strong focus on legal compliance of business clients in Europe. While for non-OECD countries it is repeatedly mentioned that the existence of a stringent legal framework does not equal control and compliance (e.g. Brazil), for European countries this seems to be both assumed and expected. This may, however, be an overly optimistic approach. Even where companies have the best of intentions, an overview of intricate, ever-changing legal requirements may be overwhelming and infringements may occur despite the best of intensions. A Dutch study conducted in 1998 established that around 25% of the 280 companies surveyed had in the last 5 years been held liable for environmental damage (Jeucken 2001: 125). This lack of legal compliance points to the need for further integration of sustainability assessments of business clients in lending at the European level.

6.1.2 Differing levels of standardisation

All the banks in this study give the impression of assessing their (potential) client both at sector and individual levels. In the desktop assessment, specific sector challenges are used as a way of

[83] Cf. http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/index_en.htm (accessed 20 March 2010).

narrowing the focus, while the individual level is included in the investigation into the companies' earlier "sustainability history". Similarly, in dialogue with and site visits to the company, the credit managers are supported by their knowledge of sector issues, when they look for indications of how these issues are dealt with at the individual company level. Beyond this, the current level of standardisation of the processes at the different banks varies strongly. Two of the banks' usage of words like "get a feeling", "impression" and "trust", and their approach of interpreting client "reactions" to questions, provided evidence to Lawrence's (2008: 242ff) finding that banks' sustainability assessments to some degree rely on gut feeling and rule of thumb and suggests that the bank representatives have a notion that achieving absolute certainty in these matters is impossible (cf. chapter 2).

ABN AMRO Bank and HypoVereinsbank give the impression of having a relatively flexible framework, which means that the implementation largely depends on the individual credit manager. The level of standardisation at DnB NOR is similar to these two, although the bank is currently refining its tools with the aim of standardising and formalising its process. Generally speaking, a low level of standardisation potentially presents a problem. When considering the difficulties existing at the implementation level, which arise due to an unsatisfactory level of knowledge, awareness and/or commitment (more on this below), the first and obvious conclusion would be that a standardisation through policies and tools is necessary. The picture is, however, made somewhat more complex by the object of evaluation. Banks' business clients operate in a multitude of both geographical areas and business sectors with different social and environmental challenges. Globalised business activity may have led to a standardisation of business practices to a large extent; social and environmental challenges and opportunities, nonetheless, remain rather situation-specific. Policies and tools, thus, seemingly need to be adapted to the sectors and countries/regions that a bank and its clients operate in. The Rabobank Group has developed a thick web of comprehensive tools for all its areas of credit operation – adapted to the clients' type, size and their geographical area of operation. Although theory maintains that standardisation reduces the importance of being updated on legal situations in all countries of activity, the Rabobank Group's practice suggests that both (standardised tools that are adapted to sectoral and geographical conditions) are necessary, to some extent, or at least helpful. No doubt that a comprehensive integration of sustainability in all areas of lending is a question of increased cost (Weber et al. 2010: 47). Still, experience proves this possible. Nevertheless, the interviews demonstrate that there is an apparent feasibility conflict between the need for standardisation, the need for frameworks adapted to sector and geographical contexts and the financial constraints imposed by the costs implied. This is an area where further research can perhaps contribute to find some answers and solutions.

6.1.3 Importance of employee awareness, knowledge and commitment

Confirming pertinent theory (cf. chapter 3), the interviewees underlined the importance of the awareness and motivation of employees for the implementation of the sustainability strategy in lending. Similarly, the knowledge level of the credit managers can be said to generally be of high importance. Especially, as it is possible that the pervasive lack of standardisation, and, in turn, the expanded room for credit manager interpretation of sectors and guidelines, lead to an unsatisfactory implementation with regard to the thoroughness of the client assessments. Nevertheless, even in the Rabobank Group, where the level of standardisation is high, such problems exist to some extent as well. The anecdotal evidence from one of the Rabobank representatives, relating to employees that reject clients due to unsustainable business practice, but state financial insufficiencies as the official reason to colleagues, is informative in this respect. Presumably such evasion occurs due to the perception that the consideration of sustainability issues in the credit decision, resulting in serious consequences for the (potential) clients, is less legitimate than the consideration of the client's financial situation. The banking sector can be considered to be rather conservative and reactive (as seen in chapter 1) and the development towards becoming a sustainable bank may take considerable time, even when the will is there. The development involves a shifting of minds and banking culture – a fact that is identified both in literature and by the interviewed banking representatives themselves.[84] Banks are likely to be an integral part of the process in defining what business conduct and activities are to be considered sustainable and what, on the other hand, is unsustainable. This might, furthermore, involve a shift in the perception of what banks' core competencies consist in: not only intermediation, but also advisory services that may have an impact on business customers' financial decisions (Jeucken 2001: 226f).

One possible way of strengthening employee awareness and knowledge of sustainability issues, and their commitment to the implementation of sustainability assessments, might be to make training and awareness raising programmes compulsory for credit managers. If knowledge and awareness depend on each other, as suggested by the evidence in chapter 5, it seems somewhat counterintuitive to offer voluntary training and simply hope that employees will choose to undertake

[84] The interviewed bank representatives' (all working in the sustainability departments) clear knowledge and awareness of this potential flaw in integration seems to indicate that the possible "elite bias" in the research method was probably, at least partially, avoided.

it. A further measure could be to make documentation requirements related to the sustainability assessment more stringent. If this is done, it would be easier to hold the credit managers accountable for their assessment and conclusions, which could provide some extra (negative) incentives to follow the established guidelines and policies. Last, but not least, as employees' differing degree of commitment to implement seems to be one of the major challenges that the banks identify in the interviews, it might be necessary to take a more integrated approach: *change management,* a process often used to help employees adjust to operational changes, could be one way of supporting employees in the initial process, when introducing sustainability integration in the general lending process. While strategic change can be fast, the operational implementation of such changes are likely to be slower and rather unpredictable. Structured guidance and support from management can therefore be crucial to gain employee commitment (cf. chapter 3).

6.1.4 Importance of dialogue and engagement

One opinion that seems to be widespread in these mainstream banks, which emphasises their distinction from niche banks, is the importance of engaging in dialogue in order to help the clients change, rather than immediately excluding them, when they do not comply with policies etc. The banks, thus, provide incentives to their clients to become more sustainable. If corporate sustainability in all business is to be achieved, it is of crucial importance that those sectors that are indeed considered to have large negative impacts on sustainability are also included. The strategy of leaving clients behind only when they are completely unwilling to mitigate their own impacts by changing or adapting, thus, makes sense. A strategy in which the banks try to influence their customers through engagement and dialogue is likely to be much more effective (Jeucken 2001: 227ff). This approach is also encouraged by civil society. For instance Jora Wolterink at BankTrack expresses approval of banks' approach to using their financial clout to influence their business clients in a more sustainable direction.

The question is how far this approach goes. Is it part of the risk minimisation and the introduction of minimum standards, or are the clients influenced to go beyond this? A majority of the interviewed banks seem content when their clients merely meet the legal requirements and do not require or expect them to be better than that. Furthermore, most of the bank representatives interviewed explicitly state or implicitly indicate that their approach is rather negative (risk minimisation) than positive (fostering of opportunities and good practice). Companies that have more sustainable business practices and activities gain more easily access to finance, but are not necessarily supported beyond this. The focus is more on eliminating the "worst" companies and engaging with the "second worst” in order to improve their impact, rather than on fostering the best ones. Only the Rabobank Group clearly demonstrated how they apply a positive approach in this context.

6.1.5 Lack of integration across the entire process

The banks in this study do not integrate sustainability across the entire lending process like Weber et al. (2010) recommend they do. This becomes clear when asking the bank representatives what consequences the assessment has. A failure to adapt interest rates to sustainability risks provides the most obvious evidence of this. A lack of formalised monitoring of the consequences business clients’ sustainability impacts have for their ability to repay and on their general financial well-being is another example. Adapting credit pricing to sustainability risks is sensible both for the banks and society. Such financial consequences for the clients imply an impact not only at the microeconomic level in the relationship between the bank and its client (allocation of costs), but also at a macroeconomic and societal level: a further (even if not complete) internalisation of sustainability impacts (Jeucken 2001: 222). The banks’ failure to integrate sustainability across the entire process might therefore indicate a difficulty in achieving the full benefits that can potentially be obtained through a comprehensive integration of sustainability in the lending process. Similarly, that which Marcel Jeucken termed “non-risk related premium differentiation” (see chapter 2) does as a consequence also not take place. Such a strategy might be adopted by sustainable banks, as it helps steer economic activity at the macroeconomic level towards more sustainability (Jeucken 2001: 222f).

6.1.6 Differing levels of assessment of social and environmental issues

If looking beyond the requirements specified in the Equator Principles, social and governance issues are assessed only to a limited extent, perhaps with the exception of the Rabobank Group. DnB NOR purports an intention to expand this area of assessment in its new guidelines. One explanation for the gap in this area is perhaps, as seen in chapter 2, that there is uncertainty linked to the outcome of measures related to social issues, as the variable “humans” is rather unpredictable. Another reason seems to lie in the perceived difficulty in gaining information on such issues at company level. For instance at HypoVereinsbank, the importance of issues like corruption and fraud was underlined, but it was apparent that such issues are only assessed to a limited extent, due to the lack of available information on the related risks *ex ante*. Preben Sørensen at Deloitte helps to explain this: even if many banks assess the integrity of their customers and the extent to which they can trust the management, banks have not experienced high losses due to social factors and, therefore, have had less direct reason to internalise such issues as risk models focus on integrating historical data. This further suggests that there is a lack of background information on which to assess social risks (and opportunities). However, looking ahead, this could change in future, he believes. The methods and type of data to be used in an assessment of social issues constitute an area requiring more research.

6.1.7 Transparency

Dietrich Wild at oekom research finds the banking sector generally lacking in transparency when it comes to disclosing what kind of sustainability assessment is carried out in the lending process and to what extent such assessment processes are systematic. This study has tried to contribute somewhat to more transparency in this respect. Generally speaking, the interviewees were largely open and willing to talk about challenges, negative implications and “discrediting” things. Still, there were differences in the willingness or even ability to go into detail. This can also be recognised in the breadth and depth of information provided and is to some extent reflected in the amount of information available on the respective internet presence of the individual banks. Whether this is due to there being a relationship between the level of transparency and the level of substance in the sustainability integration, as was suggested by Preben Sørensen at Deloitte, or rather the wish not to disclose information on any competitive advantage that the bank may perceive in its strategy, is not possible to say based on the interview material. Interestingly, certain things that seemed essential to the sustainability integration, the bank representatives simply did not know. At one bank, the exact kinds of issues that are considered in the assessment were not clear to the interviewee. Similarly, at two banks, it was not known whether there are any sustainability related conditionality clauses in the contracts. At another bank, the representative did not know to what extent social and governance issues were discussed with particularly affected business clients and what kind of consequences such dialogue ultimately would have.

6.1.8 Globalisation

The globalisation of business has been perceived as threat and a source of a potential global race-to-the-bottom in social and environmental standards (Jänicke et al. 2003: 137). This picture is, once again, modified here. Not only does the increased process of internationalisation of banking seemingly lead to a convergence in sustainability approach. The globalisation of information and communication channels (predominantly the internet) has also made assessments possible that only 20 years ago would have been a near impossibility, due to the amounts of efforts that would have had to go into it. Just like NGOs use such information technology to track company activities and increase transparency (Jeucken 2001: 139), rating agencies like oekom research are able to use sources from across the world for their sustainability ratings of companies and banks are enabled to pay more attention to their clients' sustainability impacts without incurring exorbitant costs. A bank can, like the Rabobank Group does, with relatively low levels of effort find sustainability-related information on a client (in this case by using a customised Google search engine amongst others). Alternatively, the bank can outsource its information collection, like the HypoVereinsbank does with its use of the eco:fact tool or the Rabobank Group does with their supplementation of information through Dow Jones Factiva information tools. These trends reveal the potential for increasing expectations of corporate accountability in business' world-wide activities.

6.2 Motivation

Theory presented in chapter 2 suggests that one project "gone bad" is enough to create serious reputation damage for a bank. Two of the banks in the research confirm this idea as they explicitly elaborate on one case each, which they see the beginning of their sustainability integration in lending. Based on the amount of time the interviewees use on the topic and the number of interviewees who mention it, reputation can be distinguished as the number one reason for sustainability integration in the general lending process and NGOs the most significant influencing actor. The banks in the study are, however, different between each other. Two of the banks also emphasise the competitive pressure of other market actors moving in a certain direction. DnB NOR states the increasing internationalisation and interdependence on other banks, as a major reason behind the sustainability approach of the bank. Similarly, Yelly Weidenaar at ABN AMRO Bank mentions the openness of the Dutch society and strong business connections to foreign companies as a reason for Dutch banks' progressiveness in this area.

Yelly Weidenaar argues the case for more cooperation between NGOs and banks and says that NGOs should leave their "campaign model", when banks have shown their willingness to improve. The NGOs' approach should perhaps depend on the extent of progressiveness in the banks they are dealing with. However, one question clearly arises in this context: would the banks feel the need to cooperate or engage to the extent they do today, if the potential pressure was gone? A threat of the potential return of the "campaign model" would perhaps have to remain in order for NGOs to want such cooperation and to avoid being perceived as a tool of the banks. As is emphasised in pertinent literature (cf. ch. 2), one of the factors that contribute to NGOs' influence is their unpredictability: how they will react can not be anticipated by a bank with great certainty. A mix of approaches, as we also see today, might therefore be sensible. Interestingly, NGOs are perceived as more professional now than earlier. Does this mean that banks are more ready to listen to them, as they consider them to be more on a par and perhaps take them more seriously? Further research in this area could establish which NGO approach (or mix) is most effective in relation to the banking sector.

Although the EU Growth and Environment Scheme was also introduced with the explicit aim of raising awareness in banks with regard to considering business clients' opportunities arising from sustainability issues, the banks in the study do not consider politics, or such schemes, a direct source of influence. It would, however, be helpful to further study the impact that the scheme had on the participating banks; especially considering that the one bank in this study that was part of the scheme, namely the Rabobank Group, is rather progressive, when it comes to integrating not only risks, but also the business clients' opportunities in its lending process.

Consumers are not perceived by the banks as a large source of pressure. Considering the massive attention on banks in recent years after the financial crisis hit in 2007 and the recent wave of online websites targeting and informing consumers about banks' (primarily lack of) sustainability integration, future research could assess, first, what impact this will have on consumers and their relationship to their banks and, second, whether and to what extent banks start to consider retail clients a source of pressure.

6.3 Sustainable banks or offensive banks?

According to Jeucken, sustainable banks forgo certain types of transactions. This does, however, not indicate that the converse (that banks that forgo transactions for sustainability reasons are sustainable) is necessarily also true, as a purely commercial perspective will not be enough for a bank to embark on a development towards sustainable banking (Jeucken 2001: 73f). All of the banks interviewed state that they relinquish some business activity, if it is not in compliance with existing policies or guidelines, but often this is done due to the reputation risk certain transactions represent to the bank, rather than the bank wanting to contribute to more sustainable business practice. In fact, most of the banks focus primarily on risks in their assessment.

Only in the case of the Rabobank Group does the impression arise that both the consulting of business clients on sustainable business practice as well as the assessment of their use of good practice are integrated in the general lending process. In section 6.1 above, it becomes clear that the Rabobank Group is generally the exception that stands out: its processes comprise most of its loans including SMEs, are highly standardised and specialised at the same time, consider social as well as environmental issues thoroughly, give evidence of a positive and opportunity-spotting approach and the group operates in a highly transparent manner. Although the Rabobank Group still has some challenges to deal with (such as employee awareness and further integration across the entire lending cycle), they are probably the banking group that comes closest to the term “sustainable bank” (as defined in chapter 3) in this study. The other banks can be seen as progressive “offensive banks”. Although it was declined by the Rabobank Group representatives that their legal form (cooperative bank) had a major impact on their sustainability strategy, it would certainly be interesting to do further research on the differences between commercial banks and cooperative banks regarding the depths of their sustainability integration in lending.

According to Marcel Jeucken, only a handful of banks could be said to be operating in a semi-sustainable manner in 2001 (Jeucken 2001: 222). In this respect, the situation is probably similar today, even if there have been large-scale and positive developments in the last decade. There are limited incentives for comprehensive sustainability integration and the decision to become a sustainable bank. As one bank representative aptly pointed out, the bank is invoked only when something goes wrong and is “invisible” if it does everything right. When it comes to sustainable banks’ more positive approach, Preben Sørensen at Deloitte is rather conservative in his prognosis: sustainability assessment in lending probably always starts as being an add-on and then as it matures becomes integrated to some extent. However, when speaking of sustainability in the area of lending, it is basically about risk management – being good at spotting the potential losers and not about spotting the winners. Olaf Weber supports this view.

6.4 Future trend

Even if there is some cautious optimism, there is no direct consensus on the likely future development in this area, among the interviewed bank representatives and the independent experts (as discussed in section 5.3). One bank representative considered that the bank’s current process would “at least catch the tip of the iceberg”. It is unclear whether this metaphor was applied deliberately. One the one hand, it implies that only that which is clearly visible will be dealt with, while the majority of issues and potential problems, which lies hidden underwater, is less likely to be tackled. On the other hand, if the tip of the iceberg is effectively removed, the bit lying underwater close to the surface will in turn appear and exact attention. As a result, over time the entire iceberg could be removed – whether or not this was the original intention of the bank. To rephrase in more direct terms: if banks focus their attention on sustainability, this will attract more attention and expectations from civil society, the media, consumers and other stakeholders, possibly causing a virtuous circle of increased attention, action and – if effective – results.

7. Conclusion

This study has looked at how, to what extent and why a selection of progressive European banks integrate sustainability in their general lending process. The banking sector, observed to have been slow in realising its potential role in promoting sustainable development, has come some way in the last decade. It can be said to still have a long way to go. Although this study is based on a very limited number of banks and can not be said to present the general situation in the sector, it has still provided some insight into current practice and some of the challenges that rather offensive banks still grapple with: finding the appropriate level of standardisation and specialisation, the complexity of assessing clients' social impacts, uncertainty whether a comprehensive approach is rather a competitive advantage or disadvantage for the bank and the question to what extent it is sensible for banks to move beyond a predominantly risk-oriented approach by embracing the potential opportunities offered by fostering business clients' sustainability. It becomes clear that there are several gaps in banks' know-how in this area and that further research might help find solutions.

The development towards sustainable banking is one filled by incremental learning and gradual improvement. It is not the type of business change that can happen overnight, once the banks have decided to embark on a more sustainable strategy. It is difficult to say what the future holds for the further integration of sustainability in lending. There is a mix of pessimism and mild optimism among the independent experts and bank representatives interviewed. Some of the more progressive practices in the interviewed banks do provide evidence of initial sector sustainability. The extent to which different, above all external, stakeholders realise and take advantage of their potential leverage in influencing banks is likely to correspond to the future level of sustainability in the banking sector.

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Appendix 1: Interview questions – banks

GENERAL / INTRODUCTION
Could you please briefly outline your experience working with sustainability in financial services (and other sectors)?
Could you please briefly outline your experience at [the current institution]?
Could you please tell me about the level of significance that the bank places on sustainability?
--> follow-up: how important is it for the integration in the bank's core business activities?
[If relevant] What kind of impact does it have on the company to be owned by another company, which has its own sustainability strategy?
--> follow-up: Is it beneficial or rather challenging? Are there any synergies?
[If relevant] To what extent do you think the take-over/merger/[similar changes in ownership/ structure] may have an impact on the bank's sustainability?
--> follow-up: if yes, do you think it's rather positive or negative?
INTEGRATION IN LENDING AT [BANK NAME]
--> Strategy
You state in [document name] that the integration of sustainability takes place in all lending: are there any exceptions (in terms of types of clients, types of financed projects or sizes in loans)?
--> if yes, why? If no, any challenges?
How are relevant responsibilities and accountability allocated?
--> follow-up: at strategic and operative levels?
How are external relevant developments and market needs tracked in order to assess changing risk exposure and monitor the appropriateness of procedures? How is product development related to sustainability conducted?
--> Policies
Are there policies that instruct your integration of sustainability in lending?
--> follow-up: are these publically available?
Do you base your sustainable lending criteria on any (external) standards? [e.g. World Bank's safeguard policies, Equator Principles, IFC performance standards, etc.]
To what extent do you think a standard, guidelines or principles would be helpful for general lending to businesses operating in Europe, similar to such available for project finance?
--> Products, criteria and indicators for integration
Do you have an overview of the issues and criteria that are considered?
--> follow-up: What kind of negative criteria do you use for lending, if any?

--> follow-up: Do you apply positive criteria, i.e. loans for sustainable companies and projects?
--> follow-up: [if needed, examples:]
a) environmental performance (materials, energy, water, biodiversity, emissions, waste, products and services, compliance and expenditures)
b) Environmental management system (/sustainability management system)
c) social performance (employment, industrial relations, health and safety, training and education, diversity and opportunity, human rights, society, product responsibility)
d) Corporate governance performance (stakeholder profile and engagement, governance structure, management systems and overarching policies)
e) sector-specific criteria
--> Processes
Do you have a sustainability advisory board or a similar steering group?
What procedures / instruments do you use? [e.g. screening, environmental and social assessment, Environmental Impact Assessment]
What kinds of information do you assess? How much information?
What sources of information do you use when assessing the lender?
--> follow-up: How is the quality and reliability of information ensured?
--> follow-up: How is communication / engagement with the lender organised?
Do you conduct stakeholder dialogues with regard to lending?
--> follow-up: If yes, with whom (examples)?
--> follow-up: If yes, (how) does it have an impact on the integration of such issues in your lending practices?
What kind of process(es) for improving staff competency needed to fulfil responsibilities (training) does [bank name] have?
--> Consequences of the integration
How does the gathered information flow into the rating process?
To what extent / how does the sustainability assessment flow into the overall decision-making process?
Is there any differential pricing or adaptation of other conditions due to the lender's sustainability impact?
Are conditionality clauses included in lending contracts?
Do some lenders have to implement mitigating measures or corrective actions (through e.g. an action plan)?
--> Monitoring of integration and impact
How is the implementation of the earlier mentioned policies/requirements ensured in practice?
--> follow up: how are staff's incentives aligned with the policies?
--> follow up: how is the clients' implementation of and compliance with environmental and social requirements monitored? (independent review?)
How or to what extent are environmental and social impacts of loans monitored and controlled?
Do you carry out any measurement of the connection between credit pricing and sustainability/economic performance of the debtor?
--> Evaluation of the integration
Do the tools function properly?

Are there any implementation difficulties/challenges?
[If relevant] Why are the interest rates and other conditions not linked to sustainability performance of the borrower?
MOTIVATION FOR INTEGRATION
Do you think the forces leading to integration of sustainability in lending come primarily from the outside or inside the bank? Why?
What do you think is the role of:
· a) personal conviction at management level and awareness in employees?
· b) the "business case" rationale (i.e. strengthening the competitive position)?
· c) stakeholder pressures (from outside)? What stakeholders?
· d) political pressures / incentives?
· e) the business situation in a specific country / region (i.e. geographical differences)?
Do you think other banks may have other reasons?
BANKING SECTOR AND SUSTAINABILITY – LENDING
A range of banks, in Europe and elsewhere, integrate sustainability in some lending, e.g. in project and export finance. Fewer banks state that they integrate or work towards an integration of sustainability in the general lending process, like you say you do. Why do you think this is the case?
--> follow up: Is there a lack of interest or motivation?
--> follow up: In the pertinent literature, many banks express concern that they do not want to be perceived as interfering with their clients' activities or setting barriers. To what extent do you think there is a fear of losing clients to competitors, if too strict requirements are set?
--> follow-up: Another argument is that there is a lack of know-how and lack of quantitative data that can be integrated in the economic analysis. Do you think this is correct? If so: research has a public good character. Does that constitute a barrier to investment in research in individual banks?
BANKING SECTOR AND SUSTAINABILITY – GENERAL
Several authors on the topic say that the banking sector has been / is slower than other sectors in integrating sustainability in their core business activities. Does this correspond with your experience?
--> follow up: if yes, why do you think this is the case?
CONCLUDING ISSUES
Has the current financial crisis had an impact on [the bank]'s integration of sustainability? Positive or rather negative?
What do you think is the potential for an integration of sustainability in the core business of banks in future: will it continue to be a niche or spread until becoming the standard?

Appendix 2: Interview questions – independent experts

INTRODUCTION / GENERAL
Could you please briefly outline your experience working with sustainability and financial services?
Could you please tell me a bit about your experience at [the current institution]?
BANKING SECTOR AND SUSTAINABILITY - GENERAL
Several authors on the topic say that the banking sector has been / is slower than other sectors in integrating sustainability into their core business activities. Does this correspond with your experience?
--> follow up: if yes, why do you think this is the case?
Often, particularly in many European countries, ecological aspects are given more prominence in corporate sustainability strategies and practice than social issues - also in the banking sector. Why do you think this is the case?
Do you think there are differences across countries in Europe in this field?
BANKING SECTOR AND SUSTAINABILITY - LENDING
A range of banks, in Europe and elsewhere, integrate sustainability in some lending, e.g. in project and export finance. Fewer banks state that they integrate or work towards an integration of sustainability in the general lending process. Why do you think this is the case?
--> follow up: Is there a lack of interest or motivation?
--> follow up: In the pertinent literature, many banks expressing concern that they do not want to be perceived as interfering with their clients' activities or setting barriers. To what extent do you think there is a fear of losing clients to competitors, if too strict requirements are set?
--> Another argument is that there is a lack of know-how and lack of quantitative data that can be integrated in the economic analysis. Do you think this is correct? If so: research has a public good character. Does that constitute a barrier to investment in research in individual banks?
The Equator Principles, that are considered an authoritative industry standard, "only" expect compliance with national law in high-income OECD countries. Does this, in your opinion, correspond to a widespread notion that these countries have strict enough regulation, i.e. that a more proactive approach is not required?
To what extent are initiatives such as EP, World Bank's Safeguard Policies, IFC's Performance Standards and the OECD Common Approaches relevant to business lending in Europe?
--> follow up: is there a lack of frameworks adapted to the European or Western context? Or is this unfeasible due to regulatory differences and extent of progressiveness?

Do you have any examples of best practice in the banking sector with regard to integration of sustainability and lending?
Several academics say that a differential pricing according to different sustainability risk levels would be appropriate analogous to more traditionally assessed economic risks. Still, such price discrimination seems to be rather the exception than the rule - at least according to what is publically communicated by the banks. Why is this?
BANKING SECTOR - MOTIVATION
Do you think the forces leading to integration of sustainability in lending come primarily from the outside or inside the bank? Why?
What do you think is the role of:
· a) personal conviction at management level and awareness in employees?
· b) the "business case" rationale (i.e. strengthening the competitive position)?
· c) stakeholder pressures (from outside)? What stakeholders?
· d) political pressures / incentives?
· e) the business situation in a specific country / region (i.e. geographical differences)?
CONCLUDING ISSUES
What do you think will be the impact of the current financial crisis on banks' integration of sustainability generally? Rather positive or negative?
What do you think is the potential for an integration of sustainability in the core business of banks in future: will it continue to be a niche or spread until becoming the standard?