

AFD GROUP AND CSR IN THE BANKING SECTOR

Partnerships to strengthen
Corporate Social and
environmental Responsibility



WHAT IS CSR?

The European Commission defines corporate social responsibility (CSR) as «a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis». Companies can apply CSR in a wide range of areas: employment policy, customer relations, procurement and quality policy, risk management, environmental management, etc.

CSR IN BANKS

Banks are generally large companies that have powerful impacts on the economic fabric. Their profession leads them to play a key role in managing the social and environmental impacts of the activities of the companies that benefit from their financing. For the past fifteen years, this unique responsibility has been gradually integrated into the banks' practices, particularly at the request of civil society and donors.

This commitment takes different forms:

- improving in-house working conditions,
- reducing the ecological footprint of the company,
- sponsorships, philanthropy and/or company benefit schemes,
- partnerships with NGOs, clients, microfinance institutions...
- a range of responsible products and services: green loans, Socially responsible investments (SRI), solidarity savings...,
- environmental and social risk management for investments.



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MILESTONES IN SUSTAINABLE DEVELOPMENT IN THE BANKING SECTOR

1992: Launch of UNEP-FI, following the UN Earth Summit in Rio: a public-private partnership between the United Nations Environment Programme (UNEP) and the private financial sector that aims to promote links between the environment, sustainability and financial performance and the adoption of improved environmental and social practices by financial institutions.

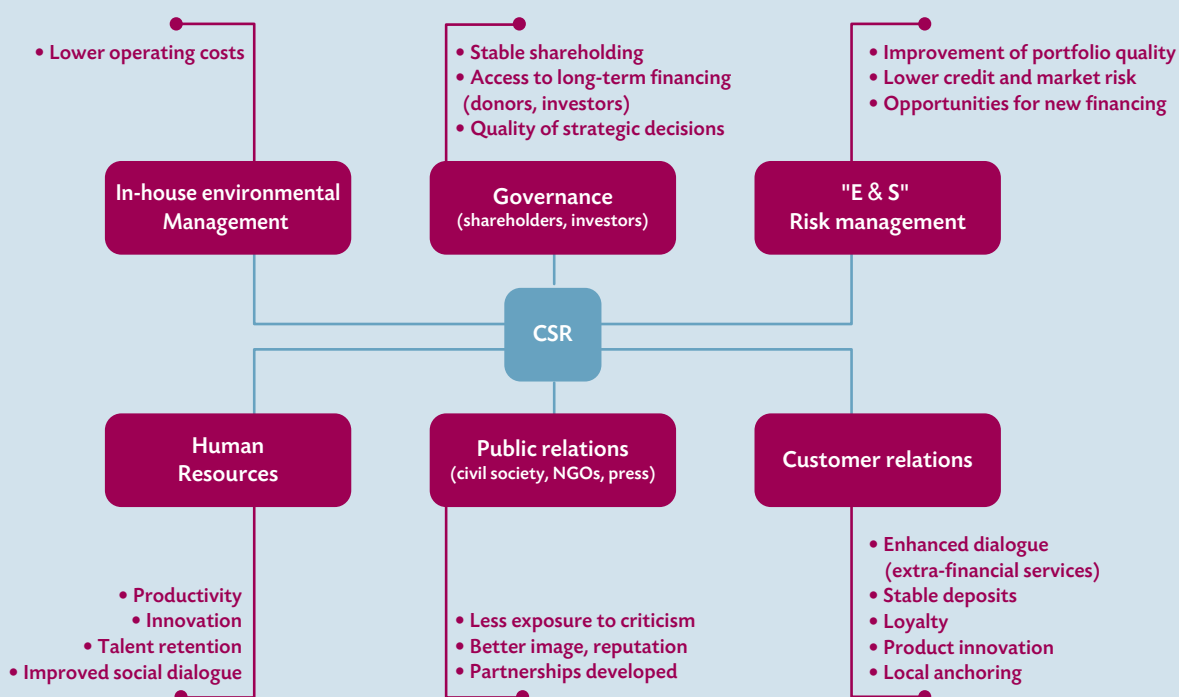
1998: "Performance standards" published by the International Finance Corporation (IFC) – World Bank Group.

2003: Equator Principles published: a series of common policies and indicators that commit signatory financial institutions to ensuring that the projects they finance are implemented in a socially responsible and environmental respectful manner.

2006: "Principles for socially responsible investment" (SRI) published by UN (UN-PRI).

2007: Rome Consensus adopted by European donors.

THE BENEFITS OF A CSR POLICY IN A BANK





AFD GROUP COMMITTED TO CSR

AFD Group has integrated CSR into both its in-house operations and the projects it finances. It has consequently signed **emblematic** national and international **commitments** such as:

- the UN Global Compact in 2004,
- the sustainable development Charter for french public companies in 2008.

As early as 2004, AFD Group adopted both an in-house and a professional ethical charter setting out its commitment to CSR. Its 2007-2011 Strategic Orientation Plan subsequently made CSR a cornerstone of its policy.

The strategy adopted scales up CSR in three areas:

- in-house CSR: reducing AFD Group's ecological footprint,
- transparency in external relations,
- operational CSR: defining an environmental and social risk management process for all operations financed.

An environmental and social support unit helps improve the environmental and social quality of financed operations by:

- defining the environmental and social due diligence to be conducted in projects,
- advising project teams and all partners in its implementation (training, creating tools, etc.),
- contributing to intellectual production on the topic,
- participating in international working groups,
- and building partnerships with other donors.

BANKS: A VEHICLE FOR DEVELOPING CSR IN COMPANIES

The financing AFD Group provides to banks ultimately benefits SMEs which often find it difficult to access credit, when they generally account for a major share of employment and the economy in the countries where the Group operates. CSR has positive impacts on human resources, the environment, cost management and innovation. It can thus provide a response to the challenges these companies face, making them more competitive at both the local level and in export.

The aim in promoting CSR to banks is to help them strengthen their own CSR policy, and also to raise awareness amongst the banks' clients of the need to adopt best practices.

AFD Group wishes to encourage and support banks that commit to these responsible practices by providing them a range of technical and financial solutions tailored to their needs.

SOLUTIONS TAILORED TO BANKS' UNIQUE SITUATIONS

Support for environmental and social risk management

AFD Group's partner banks have adopted or committed to a CSR policy and the technical and human resources required to implement it. Their level of involvement is defined on a case-by-case basis depending on:

- the environmental and social risks inherent to their portfolio,
- the country where the operation takes place (regulations, socio-political context...).

When required, AFD Group helps banks upgrade their standards via financial and technical assistance. This helps them define the activities that need to be implemented, as well as the terms of the mission, generally entrusted to a specialized consultant, which consists in:

- assessing the environmental and social risks of the portfolio while considering the existing risk management process of the bank,
- identifying objectives for improvement and the activities to be conducted,
- presenting the timetable for the activities and estimating their costs,
- supporting the implementation of these activities.



SUPPORT OF A CSR POLICY: MISSION OF A CONSULTANT IN GHANA

Cal Bank is a Ghanaian commercial bank that was set up in 1994. It developed an environmental and social

risk management process for its commitments in order to maintain its competitive edge and continue to benefit from the support of international donors. In 2007, a new line of credit was allocated by Proparco (AFD's private sector financing arm) and DEG (Proparco's German counterpart) in return for a commitment by the bank to implement a monitoring and assessment system for its environmental and social risks with support from a consultant. The mission aimed:

- to assess the environmental and social footprint of Cal Bank's clients and the associated risks,
- to define a detailed environmental and social policy,
- to design tools and procedures to be developed in-house in order to integrate the criteria mentioned in the analysis of projects financed (project ranking, exclusion list...),
- to train two bank officers in charge of these issues.

The Group can, if required, finance this assistance via a GCBF (Governance Capacity Building Fund) grant or a subsidized line of credit.

THE GCBF

The Governance Capacity Building Fund aims to finance technical assistance for CSR and anti-money-laundering projects, with a contribution from the beneficiary bank. Grants may amount to up to 50 000 euros.

Support for pilot banks in terms of CSR

CSR can become a real strategic priority for some banks. AFD Group promotes this orientation by providing them technical and financial support in order to help them define and implement an even more ambitious CSR policy. Specific lines of credit may be allocated for the implementation of "CSR Programs" within banks that aim:

- to develop an appropriate in-house CSR policy,
- to integrate environmental and social due diligence within the risk assessment process,
- to set up a range of non-financial services for client companies: diagnostics, training in CSR and support for quality standards upgrades (compliance with laws and improvement in working conditions, environmental protection, hygiene and safety).



ENVIRONMENTAL LINES OF CREDIT: WORKING IN MAURITIAN BANKS

AFD has allocated environmental lines of credit to five Mauritian banks. The offer included a provision to improve their environmental and social risk management systems. With the help of a consultant, an awareness-training seminar was organised for the five banks. A revision of the procedures and practices of three of them was decided. The consultant was in charge of preparing the action plan to reinforce their social and environmental risk management system and thus to bring all the banks up to the same level in terms of CSR.



IMPLEMENTING CSR PROGRAMS IN TURKEY

THE AFD/HALKBANK PARTNERSHIP

Halkbank was set up by the State in 1938 and enjoys a well distributed nationwide network, including in priority development zones for the country. AFD signed a partnership with Halkbank in 2008 which aimed to establish the bank as a CSR intermediary for local SMEs. An initial subsidized line of credit made it possible to raise the awareness of around thirty SMEs and staff members to CSR. A second line of credit allocated in December 2007 has allowed the bank to finance an ambitious three-year CSR program. This program includes several components:

- allocating loans to 160 SMEs in priority development zones,
- developing an in-house CSR process and, in particular, implementing environmental and social due diligence within the risk assessment process for financed projects,
- leading CSR awareness campaigns and training, conducting free audits of SMEs, helping them obtain ISO 14001 certifications (environment) and OHSAS 18001 certifications (occupational health and safety, risk assessment),
- developing a program to train bank staff.

THE AFD/TEB PARTNERSHIP

Türk Ekonomi Bankasi (TEB) is a private Turkish commercial bank. It was set up in 1927 and develops an extensive range of non-financial services for SMEs (thematic training workshops, seminars, online services...). In a context of convergence to European environmental and social standards, AFD and the bank have decided to include a CSR awareness-raising and training program into their services.

In 2007, AFD allocated a subsidized line of credit to TEB in exchange for the bank's commitment to implement a sizeable 4-year CSR technical assistance program.

Thanks to this project, between 2007 and 2009 TEB:

- distributed loans to 114 Turkish SMEs,
- set up SME audits and training given by consultants,
- organized conferences, information days and awareness-raising programs for SMEs,
- raised the awareness of its employees to CSR practices via workshops and online training (e-learning).

MR. MÜFIT MAMATI, SME DIRECTOR

"My company manufactures aluminium packaging. We have 80 employees. Our first concern is for their health, we give them free check-ups. Why does this matter? First, for their own health, then, for hygiene, because I manufacture food products. I manage to kill two birds with one stone: the health of my employees and healthier products. We began with the social component, but environmental issues very quickly came up because to me they are both linked. Since all companies do not play the game in terms of CSR, if ours invests in it more, we automatically face unfair competition. But the people who work here are happier and more productive. We have increased our profits and client numbers thanks to CSR and it is easier for us to obtain bank loans. I think that developing Turkish industries thanks to CSR will speed up Turkey's integration into the European Union. But each Turkish citizen must first do this for himself."

MR. BÜLENT ELITOK, QUALITY MANAGER, B PLAS - BURSA PLASTIK

"With the training and risk analyses conducted during the OHSAS Occupational Health and Safety Management System studies, implemented under the Halkbank "KOBİ Dönüşüm" Project, we have protected our employees from hazards and accidents in the workplace and now guarantee a safer and more comfortable work environment. At the end of our training, we will secure certification of our company and thus prove to all our stakeholders that we operate in conformity with national and international standards. In short, we aim to increase the efficiency and quality of production, reduce time-loss, raise employee and customer satisfaction and thus effectively sharpen our competitive edge."



AFD stands for the Agence Française de Développement. AFD is a public development-finance institution that has worked to fight poverty and support economic growth in developing countries and the French Overseas Communities for more than 60 years. AFD executes the French government's development aid policies.

With offices in more than 50 countries, AFD finances and supports projects that improve people's living conditions, promote economic growth and protect the planet. AFD-funded projects provide schooling for children, support farmers and small businesses, supply drinking water, preserve tropical forests and fight climate change, among other things.

AFD committed nearly €4.5 billion to financing aid activities in developing countries and the French Overseas Communities in 2008. The funds should help 7 million children go to school, give 4.4 million people access to drinking water and create or save jobs for 370,000 workers engaged in private enterprise; funding for energy efficiency projects will save 3.3 million tons of carbon dioxide emissions per year.

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PROPARCO, AFD's private sector financing arm, promotes private investment in emerging and developing countries in order to boost growth, promote sustainable development and reach the Millennium Development Goals. Its financing is tailored to the specific needs of investors in the productive sector, financial systems, infrastructure and private equity investment.



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FRENCH GEF (FRENCH GLOBAL ENVIRONMENT FACILITY)

The French GEF is a bilateral public facility set up by the French Government in 1994 following the Rio Summit. It aims to promote global environmental protection via sustainable development projects in developing or transition countries. The French GEF supports physical projects in recipient countries. Its operations are learning-based and support experimental, innovative or exemplary approaches.



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