

## **Social and environmental management systems in banking sector**

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### **Abstract**

Environmental finance represents an emerging trend in developed economies, with a goal to become a part of a mainstream offer in products and services which are offered by financial institutions. The basic principle is to implement environmentally beneficial activities into financial institutions business practices. In the focus of this paper are banks, as significant financial institutions, and their capacity to implement sustainable practices in their business strategies. Descriptive analysis will show the capabilities and potential of banks to implement new and innovative management systems for improving environmental and social surroundings, as well as finding and eliminating major environmental and social risks. The aim of this paper is to point to social and environmental management system (SEMS) which are identified as leading and highly innovative worldwide. An overview of two specific SEMS is presented in this paper – Three Pillar Model of Procredit Bank and Nedbanks SEMS.

**Key words:** *sustainable development, banking, management systems.*

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### **Introduction**

Socially responsible business arises in response to the growing influence of contemporary society in the processes of political, economic and other decision-making, accompanied by increased awareness about environmental issues. Majority of the international institutions and forums are extensively debating and taking actions to promote and implement green growth concept which has started to take shape in recent years (Rakić & Mitić, 2012, p. 54).

For many years banking sector has been isolated from the influence of social changes and was not obliged to deal with issues of morality and ethics. As the social impact on all spheres of the economy is growing, the pressure on the banking sector grows as well. As a consequence, banking sector has been compelled to pay more attention to the impact that its business has on society and the environment. Due to the nature of banking activities they are not usually considered as a direct environmental pollutants; but indirectly banks can be held responsible if the money is lent to clients whose activities have a negative impact on the environment. According to Bahl (2012) green banking means promoting environmental-friendly practices and reducing carbon footprint<sup>1</sup> from banking activities (p. 27). Furthermore, Rakić & Mitić (2012) define green banking as the next step in evolution of standard banking activities, where a new, eco-friendly component is added to all products where it is possible (p. 55).

The aim of this paper is to give examples on how banking institutions can adopt and implement a system for managing social and environmental issues in order to achieve a higher level of sustainable development. The first part of the paper explains social and environmental management systems. The second and third part provide overviews of specific social and environmental management systems models implemented by Procredit Bank and Nedbank, respectively.

### **1. Social and environmental management system**

Social and Environmental Management System (SEMS) is the overarching environmental, social, health and safety management system which may be applicable at a corporate or Project level (The Equator Principles, 2013, p. 16). The most important function of SEMS is that it has to be an integral part of the organization and decision making process including credit assessments and portfolio analysis. Financial institutions are increasingly broadening their systems to include a more wide-ranged socioeconomic and environmental considerations. Accordingly, they are taking a more comprehensive approach to sustainability, and, in the process, generating greater long-term value for themselves, their clients, and society. To be truly effective, a SEMS must become a part of a bank's overall management system. It extends to organizational structure, planning activities,

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<sup>1</sup> Carbon footprint is the total volume of greenhouse gas emissions caused directly and indirectly by an organization, event, product or person.

responsibilities, practices, procedures, processes, and resources for developing, implementing, achieving, reviewing, and maintaining that system. Such a system offers a more strategic approach, with defined objectives, formal policies, action plans, allocated resources, and trained and expert staff. (IFC, 2007, p. 24). Establishment of a system for social and environmental management also bears financial costs. Large number of banks believe that the risks associated with the relatively experimental aspects of sustainable banking are high. However, results of studies conducted by the IFC in 2005, clearly shows that the gain from the introduction of a system for managing social and environmental impacts is much greater than the costs (IFC, 2007, p. 7).

There are some institutions that focus their environmental management activities on specific areas where they think it will have the best positive impact on environment. One of the examples is Credit Suisse which focuses activities on energy management which has the greatest impact on the environment. In 1997 they have become the world's first bank to obtain ISO 14001 certification for its environmental management system, which has been developing since then<sup>2</sup> (Credi Suisse Group, 2014, p. 1).

Creation and operationalization of an effective system for social and environmental management includes several additional processes that have to take place in parallel. These include the adoption of a strategy to create long-term value through sustainable banking, which has to be designed in line with the business objectives and organizational structure of the bank. Procedures of environmental and social management system can be directly integrated into the system of risk assessment, or may be allocated under a separate set of procedures.

## **2. Three pillar model of the procredit bank**

ProCredit Bank Germany as a part of ProCredit bank group recognizes that sustainable development is a collective responsibility of governments, businesses, and individuals. Therefore, ProCredit Bank considers the protection of the

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<sup>2</sup> In 2012, the certification company SGS performed review of Credit Suisse global environmental management system and carried out audits at various Credit Suisse offices around the world. It confirmed that they have continuously developed environmental management system and have made targeted and efficient use of resources

environment and the mitigation of climate risks as one of its core responsibilities (Environmental Management Policy, 2013, p. 2). A revised environmental and social management system was adopted in 2013. The Bank's Environmental Management System (EMS), defined in the Environmental Management Policy represents one of the most developed systems so far. It consists of the most necessary elements whose goal is to ensure long term care for social and environmental issues regarding financial institutions. EMS was designed so it includes three pillars (Figure 1), which are separately designed to address environmental issues. Importance of this system is that it recognizes environmental impact of banks and especially the environmental impact of banks clients.

In order to implement the Three pillar system ProCredit Bank had to create improved organizational structure and delegate responsibilities. Key responsibilities are identifying, managing, monitoring and reporting of its environmental impact. Establishment of The Green Finance department at a group level was the first step towards full implementation of the Environmental Management Policy. The task of Green Finance department is to monitor activities and establishment of EMS. The organizational structure that enables the Environmental Management Policy to be effective consists of: Environmental Committee, Environmental Coordinator and Environmental Officers.

The Environmental Committee designs and approves strategies to address environmental issues and ensures that appropriate resources and staff are allocated to the areas related to the three pillars. Moreover, the committee plans, organizes and monitors the implementation of these strategies, and supervises the proper implementation and functioning of the Environmental Management Policy at the bank level. The Environmental coordinator organizes the Environmental Committee meetings, supervises compliance with agreed measures and ensures internal and external communication of these measures. Appropriate responsibilities for each pillar of the Bank's Environmental Management System are given to the Environmental Officers<sup>3</sup>. (Environmental Management Policy, 2013, p. 6)

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<sup>3</sup> The Environmental Officer is responsible for Pillar I, the Environmental Risk Officer is responsible for Pillar II and the Environmental Product Officer is responsible for Pillar III.

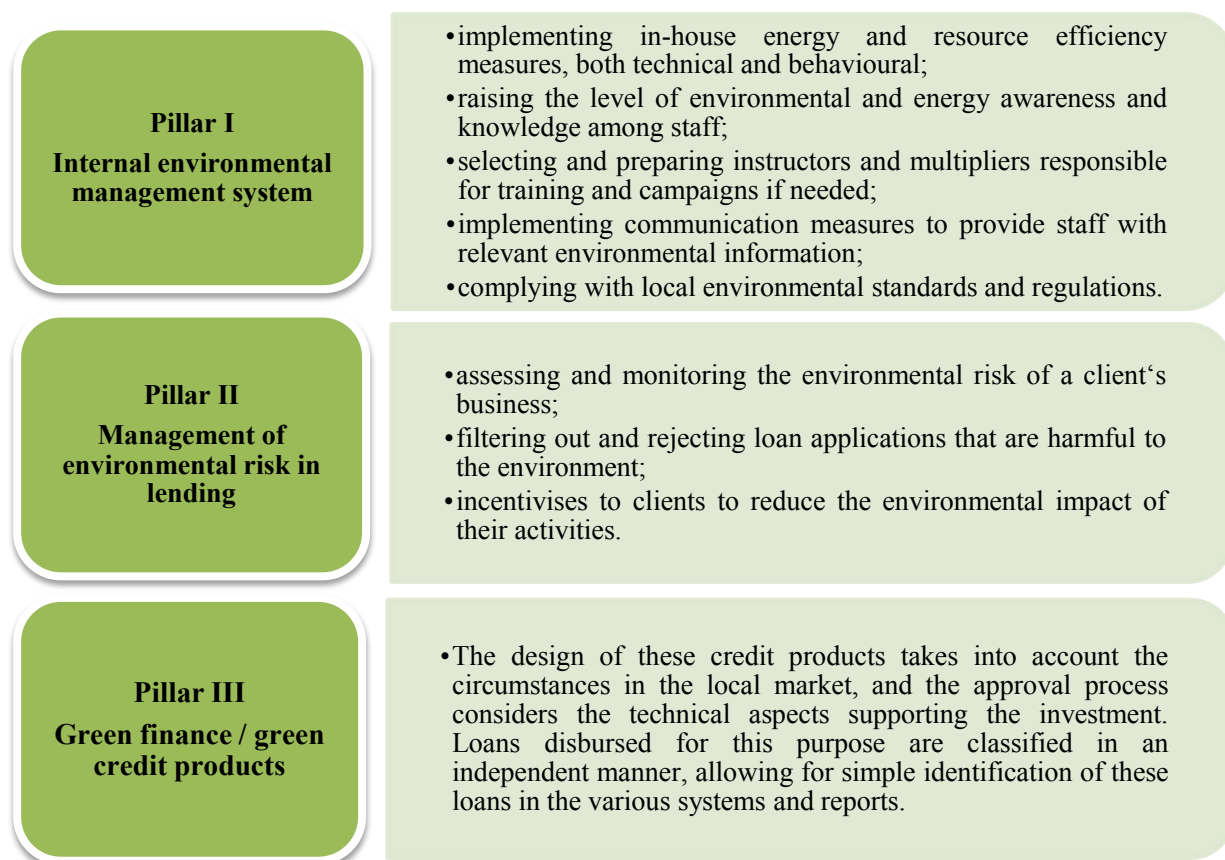


Figure 1. Three Pillar Model

Source: Environmental Management Policy, ProCredit Bank, 2013, retrieved from:

[https://www.procreditbank.de/images/documents/PCB03%20-%20Environmental%20Management%20Policy%202013-07\\_englisch.pdf](https://www.procreditbank.de/images/documents/PCB03%20-%20Environmental%20Management%20Policy%202013-07_englisch.pdf)

### **3. Nedbank group - social and environmental management system**

The best way to describe Nedbank's approach to sustainability is to show the statement of Executive Officer, Mike Brown: "For Nedbank Group, sustainability is not simply something we do; it is a state we aspire to achieve. Not just because sustainability is the only morally acceptable path for any organization today, but also because being a sustainable bank simply makes perfect business sense." (Nedbank Group, 2012, p. 58). In 2004, Nedbank developed a comprehensive revised environmental policy on management of social and environmental risks in lending and financing. The policy reaffirms Nedbank's recognition of the precautionary approach to environmental management, which strives to anticipate and prevent potential environmental degradation, while continuing to be sensitive

to the environment in the Group’s business activities. The Environmental Management Programme is structured so as to provide corporate support and divisional implementation to promote a sustainable environment. The responsibility for sustainability management and reporting was assigned to the Enterprise Governance Division, A Group Transformation and Sustainability Board Committee were also constituted, and, at management level, a Group Corporate Citizenship Committee was established (IFC, 2007, p. 29).

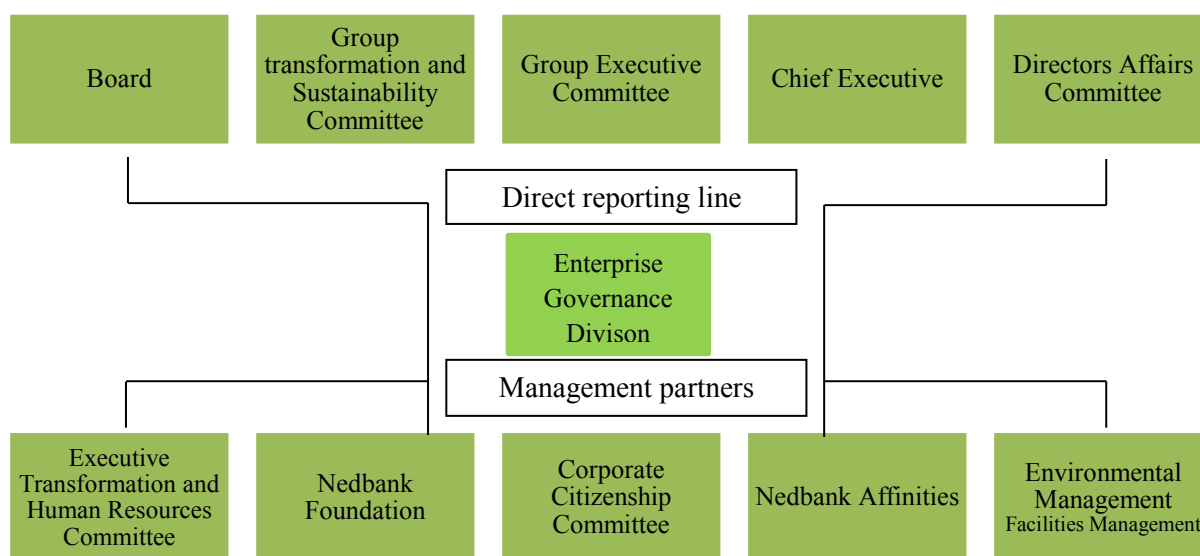


Figure 2: Nedbanks’ Sustainability Structure

Source: Nedbank Group Limited, About Nedbank Group, 2006. Retrieved from: [http://www.nedbankgroup.co.za/financials/2006Sustainability/content/01\\_about\\_report\\_details.html](http://www.nedbankgroup.co.za/financials/2006Sustainability/content/01_about_report_details.html) (accessed on: 06.05.2014.)

Nedbank’s Social and Environmental Management System is integrated in the Group Credit Policy. It is based on ISO 14001 and aligned with International Finance Corporation best-practice and Equator Principles guidelines. It has policies, procedures, resources and workflow required to identify and assess the environmental and social impacts of bank’s lending activities. Nedbank’s Social and Environmental Management System includes sector guidelines on mining, property, water infrastructure, waste management, oil and gas, agriculture and biodiversity. Special screening tool was developed which is implemented across the group in respect to significant investments.

Any impact triggered in the social and environmental screening, triggers an internal social and environmental impact assessment. This include the assessment of: Social and environmental policy requirements; Relevant sector guidelines; Compliance control plans; Relevant national, provincial and local legislation; The review of information in the public domain; The review of project and credit documents; Discussions with relevant officials; and Site visits (Nedbank Group, 2013).

### **Conclusion**

The idea of green banking and green finance is based on a fact that “green” needs to be incorporated in financial sector business strategies so that all of the given loans and other financial services and products are in line with “green” concept. That means that it is not enough just for the bank to save on paper or to introduce online banking. Banks need to implement “green” concept into their loan policies and in other products and services they offer, which is the only way to implement “green” banking into mainstream banking so that it becomes environmentally and socially sustainable. (Rakić, Mitić & Raspopović, 2012, p. 174-175).

Banks and other financial institutions could significantly contribute to the implementation of the principle of sustainable development if they implement components of sustainability in their decision making process. Financial sector has great responsibility to promote new business concepts in order to fully demonstrate that they are committed to the principles of social and environmental responsibility. Through the overview of different Social and Environmental Management Systems it can be concluded that they are valuable tools which should be used to plan, organize, manage and control the process of including banking sector in sustainability goals of the new age. Further analysis and development of SEMS, which is needed, will in future facilitate primary activities of banks and help drive profits while taking into account environmental and social aspects.

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