

**Jozefina Beke - Trivunac**

**Miljana Barjaktarović**

**Larisa Jovanović**

ALFA BK University, Belgrade, Serbia

## **BANKS' POLICIES RELATED TO FINANCING ENTITIES' INVESTMENTS IN GREEN ECONOMY**

### **Abstract**

An entity's obligation to invest in environmental protection and preservation is often imposed by external regulation. However, the most impactful funding for investment in environmental protection and preservation is acquired through the financial markets, primarily through banks and green ecological funds. This is why banks' impact on the environment should be measured by their approach to the assessment of the environmental risks associated with their financial products and services and fund-granting policies. This paper reviews the types and purposes of financing activities related to environmental protection undertaken by entrepreneurial and other entities, as well as the conditions under which these financial assets are granted. The especial attention is devoted to three topics: banks' adherence to sustainability, the purpose of green loans, and sources of green financing.

**Key words:** principles of responsible investments, banking commitments, green finance.

## **Introduction**

A bank's annual report often discloses its policies and activities which relate to environmental protection, often including these as part of its corporate social responsibility (CSR) policies. In most cases, these disclosures include a description of the bank's paper recycling policies, emissions abatement policies, and other practices. Although valuable, the results of such policies have a relatively low impact on the environment compared to those of other industries.

An entity's obligation to invest in environmental protection and preservation is often imposed by external regulations. However, the most impactful funding for investment in environmental protection and preservation is acquired through the financial markets, primarily through banks and green ecological funds. This is why banks' impact on the environment should be measured by their approach to managing the environmental risks associated with their financial products and services and fund-granting policies. This paper reviews the types and purposes of financing activities related to environmental protection undertaken by entrepreneurial and other entities, as well as the conditions under which these financial assets are granted.

## **Methodology and data collection**

For the purposes of this paper, the data has been gathered from publicly disclosed information on banks' websites concerning policies related to the protection and preservation of the environment, using computer search tools and databases. Most of the data comes from annual and financial reports for the year 2016. Other information was collected from organizations' websites for the first quarter of 2017. The collected data was classified and analyzed according to the research goals, and then conclusions were formed.

The initial plan for this research was to review the information related to Serbian banks, but it was recognized that there are just a few types of bank loans which refer to environmental issues. Moreover, information on these loans usually refers to the parent banks, all of which are based in the European Union. The next step was to investigate the policies and instruments of the parent banks, mainly by analyzing annual integrated reports. It was finally recognized that there were two large banks that had provided extensive and detailed disclosures of their activities related to the financing of environmental issues. These two banks were Intesa Sanpaolo Group and Societe Generale. This paper aims to review the

two banks' adherence to sustainability issues, as well as the financial and credit policies incorporated into their processes of providing grants related to environmental financing. This paper will use a descriptive method for presentation of these policies.

## **Findings**

Initial research into the content of banks' reports on environmental issues revealed a few items, including the banks' adherence to sustainability standards, their financial and credit policies especially the purposes and criteria for providing grants and the types of financial instruments offered.

### ***Financial institution adherence to sustainability issues***

Adherence to sustainability issues describes the tone at the top of the organization as the basis of all other activities relating to environmental protection and preservation. Reference principles in use are those stated in the United Nations Global Compact, a "voluntary corporate sustainability initiative, based on CEO commitments to implement universal sustainability principles ..." (United Nations Global Compact, n.d.). The reference framework for estimation and mitigation of the environmental risks of projects for which financial institutions provide financing is the Equator Principles, "a risk management framework adopted by financial institutions, for determining, assessing, and managing environmental and social risk in projects" (Equator Principles, nd). Both the Intesa Sanpaolo and Societe Generale banking groups have developed extensive policies and programs to shape their activities related to environmental issues in conformance with these principles.

Intesa Sanpaolo's basic assumptions about its social and environmental responsibilities are stated in its *Code of Ethics*. The banking group states that it is aware of having a significant direct and indirect impact on the environmental context in which it carries out its operations. The direct impact is connected to its business activities. The indirect impact is connected to the business activities and behavior of its partners and customers, over which it has no control (*Intesa Sanpaolo*, 2009, p. 16). As stated on the bank's website, Intesa Sanpaolo "adheres to important international initiatives, such as the United Nations Global Compact and Equator Principles, to pursue respect for environmental issues" (Intesa Sanpaolo, April 19, 2018).

Intesa Sanpaolo has developed a number of internal acts and formal procedures regarding sustainability financing, such as “Rules for the environmental and energy policy,” in which it states its responsibility to work in favor of sustainable development. This document also outlines the principle that “when a business produces economic value but destroys social and environmental value, it is not sustainable” (Intesa Sanoaolo, 2014, p. 5). Examples of rulebooks and procedures include the *Social and Environmental Risk Management Procedure and Rulebook* and the *Implementation of the Equator Principles in Project Financing Procedure* (Banca Intesa Beograd, n.d., p. 42).

Intesa Sanpaolo banking affiliates consistently apply the group’s environmental policies. For example, Banca Intesa Beograd states in its *Sustainability Report for 2016* that environmental risk management represents an integral part of the bank’s credit policy and so is implemented into its regular credit processes (Banca Intesa Beograd, n.d.). Bank affiliates also recognize that a negative environmental incident, caused by the actions of the customer being financed, might expose the bank to operational, reputational, and managerial risks.

Societe Generale tends to pursue a proactive role in financing the real economy and is therefore very aware of environmental issues. To gain the leading role, it entered into a voluntary commitment in this area, followed by the establishment of the *Environmental and Social General Guidelines* in 2016 (Societe Generale, 2016a). To account for environmental risks when assessing credit risks, it adopted the Equator Principles in 2007. (Societe Generale, 2016). Societe Generale also accepted the concept of ‘positive impact finance,’ which is part of the United Nations Environment Program, with an aim to promote the financing of investments or programs that have demonstrated a positive impact on the environment (UNEP, nd). One example of the application of this concept is the financing of the largest geothermal production plant in the world. Located in Indonesia, it combines clean and renewable energy production with construction and operation efforts undertaken during the design phases (Societe Generale, 2016, p. 24).

### ***Loans and bonds for the green economy***

For financing of the green economy, banks provide a wide range of products and services. The most widely used financial instruments are bank loans. To finance environmental sustainability projects, banks also issue green bonds and create green savings accounts.

Intesa Sanpaolo's Green Bond Framework, as of 12 June 2017 (Intesa Sanpaolo, 2017, p. 3), disclosed that the Intesa Sanpaolo Banking Group has developed a wide and diversified offering of financial products dedicated to all types of customers. In 2016, 3.1% of Intesa Sanpaolo's total loans to businesses were associated with environmental purposes. Most of these loans were granted for renewable energy, energy efficiency, and environmental services, and almost one half of them were dedicated to project financing. In 2017, the group allocated 2.0% of all its loans to financing the green economy, and of these 64.2% went to project financing. The Group intends to continue financing green economy projects in 2018 (Intesa Sanpaolo, April 19, 2018). The Group has granted green loans both to retail and business customers on the short, medium, and long term.

Following Intesa Sanpaolo Group policies, local affiliates (*The Group International Subsidiary Banks*) have also offered financing for the green economy. Affiliate examples for 2017 are presented on the Sanpaolo Group website, as follows: **Intesa Sanpaolo Bank Albania** financed renewable energy, with a particular focus on small hydro power plants. **Privredna Banka Zagreb (Croatia)** offered financing to private entities wishing to start up energy efficiency initiatives in existing buildings or purchase or build energy-efficient residential buildings. **VÚB Banka (Slovakia)** was active in co-financing the development of renewable energy in cooperation with the European Investment Bank and the European Bank for Reconstruction and Development (EBRD), as well as financing loans related to energy efficiency in the renovation and restructuring of residential buildings. **Banca Intesa Beograd (Serbia)** provided loans to households and small and medium enterprises for the improvement of energy efficiency in cooperation with the Green for Growth Fund supported by the Province of Vojvodina in 2016. The bank also granted loans to SMEs for energy efficiency with the support of the European Bank for Reconstruction and Development. **Intesa Sanpaolo Bank (Slovenia)** grants loans to individuals in cooperation with the Slovenian Environmental Public Fund – Eco Fund, with the aim of facilitating investments in environmentally friendly constructions and equipment. Eco Fund promotes investments that comply with the National Environmental Action Plan and the Environmental Policy of the European Union. **CIB Bank (Hungary)** finances the renewable energy sector (Intesa Sanpaolo, April 19, 2018).

Societe Generale states it is “conscious of the fact that the projects it finances can have negative impacts on the environment, and it defined rules to limit these impacts” (Societe Generale, 2018a, p. 24). The bank adopted the Equator Principles in 2007 to manage “environmental issues associated to its activities to better control their impact and promote good

environmental practices” (Societe Generale, 2018, p. 2). To support the 2015 Paris Agreement on climate change, the bank “took the commitment to keeping its activities in line with the goal of limiting global warming to 2 C.” The bank “defined a comprehensive climate strategy to support its clients by offering adapted products and services” and financing the energy transition. The bank also set the objective of mobilizing funds for renewable energy financing and decided to issue green bonds. On the other hand, the bank stopped financing the development of some non-renewable energy projects (Societe Generale, 2018a, p. 24).

Banks also develop various banking products for green financing. For example, Intesa Sanpaolo issued green bonds connected with environmental sustainability projects (Intesa Sanpaolo, 2018, p. 23). Green bonds are traditional bonds – in terms of their structure and contractual terms – but they must be used for financing green projects. On the other hand, Societe Generale developed “sustainable development savings accounts” in France, investing the amounts paid into these savings accounts in sustainable development project (Societe Generale, 2016, p. 45).

## **Conclusion**

The summary of the review of information available on the websites of two selected banks which refer to green financing includes three topics: banks’ adherence to sustainability, the purpose of green loans, and sources of green financing.

To provide financing for sustainable economic growth, banks voluntarily accept obligations in the areas of the green economy and environmental sustainability. Recognized referent frameworks are the United Nations Environmental Program (UNEP), the United Nations Global Reporting Initiative, and the Equator Principles. Banks include relevant principles from these frameworks in their internal documents, such as codes of ethics and risk management guidelines, to assess the sustainability and environmental risks of projects proposed for financing, as well as the potential of project entities for sustainable environmental management. Banks contribute to sustainable economic development by investing funds in areas that are already recognized as those that benefit society and the natural environment. The largest number of green projects are associated with renewable energy, energy efficiency, and a cleaner environment. The share of green financing in total grants is very low, amounting to a small percentage of total loans.

To finance green economy loans, banks sometimes issue green bonds and create green saving accounts. Banks provide financing to their

customers through short-, medium-, and long-term loans and cooperate with development banks and state funds dedicated to the green economy.

## References

1. Banca Intesa Beograd. (n.d.). *Godišnji izveštaj 2016 (Annual Report 2016)*. Retrieved April 7, 2017 from: [https://www.bancaintesa.rs/upload/BI\\_Godisnji\\_izvestaj\\_2017.pdf](https://www.bancaintesa.rs/upload/BI_Godisnji_izvestaj_2017.pdf).
2. Equator principles. (n.d.). The Equator Principles. Retrieved April 8, 2017 from: <https://equator-principles.com/>.
3. Intesa Sanpaolo (2009). Code of Ethics. Retrieved from: [https://group.intesasanpaolo.com/portalsir0/isInvestor/en\\_sostenibilita/CodiceEtico\\_en.pdf](https://group.intesasanpaolo.com/portalsir0/isInvestor/en_sostenibilita/CodiceEtico_en.pdf).
4. Intesa Sanpaolo. (2014). Rules for the environmental policy. Retrieved April 6, 2017 from: [https://www.group.intesasanpaolo.com/scriptIsir0/si09/contentData/view/en\\_Politica\\_Ambientale.pdf?id=CNT-04-000000058942&ct=application/pdf](https://www.group.intesasanpaolo.com/scriptIsir0/si09/contentData/view/en_Politica_Ambientale.pdf?id=CNT-04-000000058942&ct=application/pdf).
5. Intesa Sanpaolo. (2017). Intesa Sanpaolo Green Bond Framework as of 12 June 2017. Retrieved April 6 from: <https://www.group.intesasanpaolo.com/scriptIsir0/si09/contentData/view/Intesa%20Sanpaolo%20Green%20Bond%20Framework.pdf?id=CN-T-05-00000005197E0&ct=application/pdf>.
6. Intesa Sanpaolo. (2018). In: *Sustainability/Environment/Green products and services*. Retrieved April 19, 2018 from: [https://www.group.intesasanpaolo.com/scriptIsir0/si09/eng\\_index.jsp#/sostenibilita/eng\\_wp\\_sostenibilita.jsp](https://www.group.intesasanpaolo.com/scriptIsir0/si09/eng_index.jsp#/sostenibilita/eng_wp_sostenibilita.jsp).
7. Intesa Sanpaolo. (March 2018). Consolidated Non-Financial Statement for 2017. Retrieved September 8, 2018 from: [https://www.group.intesasanpaolo.com/scriptIsir0/si09/contentData/view/DNF\\_ENG.pdf?id=CNT-05-00000004FDD1F&ct=application/pdf](https://www.group.intesasanpaolo.com/scriptIsir0/si09/contentData/view/DNF_ENG.pdf?id=CNT-05-00000004FDD1F&ct=application/pdf).
8. Societe Generale (2016). Corporate and social responsibility report 2014-2015. Retrieved: March 12, 2017 from: [https://www.societegenerale.com/sites/default/files/documents/Document%20RSE/2015\\_Group\\_CSR\\_Report.pdf](https://www.societegenerale.com/sites/default/files/documents/Document%20RSE/2015_Group_CSR_Report.pdf).
9. Societe Generale. (2016a). Environmental and social general guidelines for business engagement. Retrieved April 5, 2017 from: <https://www.societegenerale.com/en/measuring-our-performance/csr/responsible-finance>.

10. Societe Generale. (2018). Corporate and social responsibility 2017 Equator principles report. Ref. (B) 718732 – Studio Société Générale - 06/2018.
11. Societe Generale. (2018a). Integrated Report 2017-2018. Retrieved September 9, 2018 from: <https://www.societegenerale.com/sites/default/files/documents/Rapport-integre/integrated-report-societe-generale-2017-2018.pdf>.
12. Unated Nations Global Compact. (n.d.). About the UN Global Compact. Retrieved September 9, 2018 from: <https://www.unglobalcompact.org/library>.
13. UNEP Finance Initiative. (n.d.). The principles for positive impact finance. Retrieved September 9, 2018 from: <http://www.unepfi.org/positive-impact/principles-for-positive-impact-finance/>.
14. UNEP: United Nations Environment Programme. (n.d.). Retrieved September 9, 2018 from: <https://www.un.org/youthenvoy/2013/08/unep-united-nations-environment-programme/>.



**Jozefina Beke - Trivunac  
Miljana Barjaktarović  
Larisa Jovanović**

## **BANKARSKE POLITIKE KOJE SE ODOSE NA FINANSIRANJE ULAGANJA ENTITETA U ZELENU EKONOMIJU**

### **Apstrakt**

Obaveze entiteta da ulaže u zaštitu i očuvanje životne sredine često je pod uticajem eksterne regulative. Međutim, najznačajniji deo sredstava za te namene pribavlja se na finansijskim tržištima, pre svega preko banaka i zelenih ekoloških fondova. To je razlog zašto uticaj banaka na zaštitu i očuvanje životne sredine treba meriti preko njihovog pristupa oceni ekoloških rizika povezanih sa njihovim finansijskim proizvodima i uslugama i politikama odobravanja kredita. U ovom radu razmatraju se vrste i ciljevim finansijskih aktivnostima koje su povezane za zaštitom i očuvanjem životne sredine preduzetnih i drugih entiteta, kao i uslovima pod kojima odobravaju ova sredstva. Posebna pažnja usmerena je na tri pitanja: posvećenosti banaka održivom razvoju, ciljevima zelenih kredita i izvorima za njihovo finansiranje.

**Ključne reči:** principi odgovornog investiranja, preuzimanje obaveza od strane banaka, zeleno finansiranje.