

Finance and sustainable development





FINANCE AND SUSTAINABLE DEVELOPMENT

Issues and responsibilities

Why this guide?

Only a few years ago, one would frequently hear that sustainable development was not a concern for the financial world, the pretext being that a bank, insurance company or asset Management Company was non-polluting. Today, this claim is no longer heard.

Making the most of the work done by the Club Finance, this guide is intended to set out the issues and responsibilities incumbent on the financial sector as regards sustainable development, as well as the principal responses the sector has generated.

Growing involvement

A whole series of factors are reason enough for the financial organisations to assume their responsibilities from the economic, social and environmental standpoints.

- External factors such as the increasingly stiff requirements of the national and international regulators (for example Bâle II¹), the demands of fund managers, the many questions raised by non-financial investment companies, the expectations of public opinion, lobbying from non-governmental organisations (NGOs), the activities of the media, and so on.
- Internal factors, in particular management's desire to optimise the way in which they deal with increasingly varied risks, to attract young and talented recruits who are ever more aware of the ethics of the companies in which they want to work, and to strengthen the cohesion of their departments as well as their feeling of contributing to shared values.

All the financial players therefore seek fully to take on their responsibilities as regards all their stakeholders whose interests they do their best to reconcile.

As far as the financial institutions are concerned, the issues in sustainable development are of two types. First, they have sustainable development problems they share with other companies; then they have particular responsibilities owing to the specific nature of their business. The responsibility of the financial players is of course to ensure that the financial circuits operate properly. However they also have a responsibility because of their influence on the way the economy works. Of all the economic sectors, the financial industry is that which has the biggest structural impact on the organisation and operation of the productive system as a whole.

An essential condition for economic and social development is that the financial sector should be robust and in good health, and for this reason it has always been heavily regulated by the public authorities and by the profession itself. Quite apart from the systems intended to ensure that it complies with these rules, the social responsibility of the financial sector causes it to anticipate risks, generate confidence and, put briefly, to align the continued improvement of its practices with the demands of society. A growing number of stakeholders will judge the financial sector not only on the efficiency of its methods but also on the social and environmental utility of its end results. In this context, it represents a formidable potential mechanism for change.

¹ The Bâle II agreement, which will come into force as from 2008, will affect the way in which banks are organised as regards monitoring commitments, and arrangements for audit and internal control. See also: www.bis.org/pub/bcbcs.htm.

SUMMARY

Growing involvement
Shared responsibilities
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Shared responsibilities

The players in the financial sector share the obligations of any major company in terms of corporate governance, relations with shareholders, staff, suppliers and ... the environment on their own account (even though in this particular case, the problems are quite different from those in industry both in nature and in extent).

In all these fields, each company adheres to policies that do not differ fundamentally in principle from those followed by other business sectors.

On the other hand, differences can be discerned according to the internal culture of each organisation, its level of commitment and the duration of its involvement, the extent of the steps taken and how they operate in practice.

Specific responsibilities

1. ESTABLISHING IRREPROACHABLE BUSINESS ETHICS

Confidence lies at the heart of the financial professions: it guarantees continuity and hence global economic equilibrium. A stronger climate of trust is the proper response to potential threats to image and reputation, those intangible assets of every player. The elements of this trust are twofold:

- **Having confidence in oneself** calls for a clear and transparent vision of the practices applied within the business. On the basis of national and international regulations that have no equivalent in other sectors of business and industry, every financial establishment must put forth its best effort continually to strengthen its vigilance around three main supports: ethics, the management of risk (in terms of credit, markets and operating practices) and internal systems of control.
- **Giving confidence to the various stakeholders** requires the rules that are introduced, the existing procedures, the organisation and the ways of doing business to be the outward and visible proof of irreproachable business ethics. This is an increasingly tricky exercise because of the variety of the risks the financial professions faces. Quite apart from the risks that are easily identifiable (legal, regulatory, commercial and similar risks) the most serious and insidious of the ethical risks is the possibility of doubt about their reputation.

Not so very long ago, the image of these professions was mainly bound up with the security they inspired in their clients.

Today, the risks to the image have become much more varied with the development of attacks on society and the new threats arising from money laundering and terrorism. Today the financial sector faces risks that are increasingly diffuse, for example when they become involved in projects that have significant environmental and social effects or when they work in countries that have a bad reputation for their lax regulations (tax havens, for example), their infringements of human rights, and so on. The financial sector upholds specific values that make it legitimate for it to focus on all these questions. Through the efforts it has made in training and organisation, as well as its investment in methods and systems, it is obviously involved along with society as a whole in these different struggles.

2. INTEGRATING THE SUSTAINABLE DEVELOPMENT CRITERIA INTO THE PROFESSIONS

It is through their professions and in the framework of their customer relations that the multiplying effect of the steps taken by the financial organisations in terms of sustainable development is most significant. "The financial industry, by refusing or accepting a loan, by covering or not covering a particular risk, by investing in one area rather than in another, is the one that exerts the most powerful slipstream effect on the overall economic environment.²" Bankers and insurers are in a position to influence the choices made in other economic sectors and to encourage the emergence of good practices while limiting their risk:

- The banks and insurance companies have traditionally developed a **culture of satisfying clients and engendering loyalty**. The challenge placed before those at the sharp end is to go beyond short-term objectives in order to engender a long-term relationship. To do this, it is a matter of listening more, offering products and services that meet the relevant need, providing information that is clear and transparent, making the company's working practices more transparent and simpler, and so on.
- The banks are increasingly incorporating social and environmental criteria in their **policy for financing projects** undertaken by major companies but also in the **granting of loans** to small and medium-sized enterprises and even to individuals. While being more selective in their risk-taking, the banks are progressively exploiting the commercial opportunities inherent in sustainable development, whether this involves for example the funding of projects to protect the environment (renewable energy, ecological buildings, waste processing, and so on) or following the increasing power of the market for permits to emit greenhouse gases (still known as the carbon market). In this way, they encourage responsible economic development.

- The insurance companies are developing **the responsible underwriting of risks**. Already facing the risk of losses related to asbestos, they are also in the forefront as regards the induced effects of global warming. They are therefore placing increasing importance on the environmental component when they evaluate projects to be insured. In order to orientate their clients' practices, they are investing increasingly in prevention and advice. They also employ the leverage they have in terms of the size of premiums and exemptions which they can vary according to the extent of the evident ecological risk;

- Both banks and insurance companies are involved in promoting ranges of **socially responsible investment products** (ethical funds, sustainable development funds, joint stock options, and so on), that contribute to greater allowance for sustainable development issues being made by the companies in which they invest on behalf of their clients or on their own account.

While all aspects of satisfying the client and securing his loyalty is already a well-known feature of companies' policy and the working practices of their staff, awareness of the other three fields of action mentioned above is more recent. As the issues become better defined, the awareness of the different players is likely to be confirmed and their approach more systematic.

² Christian de Perthuis, « La génération future a-t-elle de l'avenir ? », Belin, 2003

3. HELPING TO STRENGTHEN THE SOCIAL BOND

Companies in the financial sector have a part to play in strengthening the social bond:

- They are **players in local life**
Thus in France **they contribute to land-use planning** as a business (in a number of regions, the banks and insurance companies are some of the leading private employers) and as a financial partner of local authorities.
- They are **also involved in the economic and social development of other countries** where they have a presence, for example through their local recruiting, through the training programmes they arrange to benefit local staff whose employability they thus facilitate; they also benefit local clients (firms and individuals) through their centrally acquired know-how.

In France, just as abroad, they **give support to the social life** of the locality by supplying dedicated products and services, and also through structured sponsorship activities.

- The financial sector also has a **special responsibility in the distribution process**. Thus one of its tasks is to support all its clients and to take their specific features into account without discrimination. In this connection, mention may be made of the role incumbent upon banks in France as a result of the law concerned with the supply of services related to basic banking and excess indebtedness.
The responsibility of the financial sector in the distribution process may be illustrated by two other examples: the support it gives to the microfinancial institutions, thereby facilitating access to credit; secondly its involvement in concrete projects aimed at finding jobs for young people and the least well off.

Guide layout

The guide is concerned exclusively with the **specific responsibilities** of the financial sector. It is in three main parts each consisting of a series of topical papers:

- **Establishing irreproachable business ethics**
 1. Ethics
 2. Management of risks and internal control
- **Incorporating sustainable development criteria in the professions**
 3. Major companies
 4. Small and medium-sized enterprises
 5. Local authorities
 6. Private clients
 7. Socially responsible investment
- **Contributing to the strengthening of the social bond**
 8. Combating exclusion and solidarity
 9. Microfinance

Note

The individual papers were produced using various sources of information:

- Contributions made during meetings of the ORSE Club Finance
- Annual reports and websites of various financial players (in France and abroad)
- A number of specialist works:
 - Elisabeth Laville, "L'Entreprise verte" [The green business] Village Mondial, 2002
 - Maria Nowak, "On ne prête (PAS) qu'aux riches – La revolution du microcrédit" [Lending is (NOT) only for the rich – the microcredit revolution], JC Lattès, 2005
 - Christian de Perthuis "La generation future a-t-elle de l'avenir?" [Is there any future for the next generation?"] Belin, 2003
 - Crédit Agricole "Horizons bancaires. Direction des etudes économiques du Crédit Agricole", [Banking outlook. Economic Research Division of Crédit Agricole], n° 319, December 2003
 - Les cahiers de l'ORSE "Développement durable et gouvernement d'entreprise: un dialogue prometteur" [Sustainable development and corporate governance: a promising dialogue], Thierry Wiedemann-Goiran, Frédéric Perier, François Lépineux, Editions d'Organisation, 2003

Each paper is illustrated by a selection of good practices applied by financial players in France and elsewhere. They are listed on the website: www.orse.org.

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Ethics

What is it about?

If the financial players are to be trusted by their different stakeholders and also preserve their image and reputation, they need ethical rules for running their affairs, they must acquire the means to monitor how these are applied in the field, and deal severely with any shortcomings detected.

This is the meaning of an ethical approach.

An old tradition

The well-being of the financial sector is based upon respect for strict principles of integrity and transparency. Quite apart from the obligations of the legislative and regulatory provisions and requirements of the control authorities, those involved in the financial world have traditionally laid down operating rules for applying these principles. What was for a long time merely ordinary business ethics has gradually been given structure, particularly under pressure from the regulators such as, in France, the Banking Commission and the Insurance Monitoring Commission.

A dedicated apparatus

As a general rule, this ethical structure takes the form of a dedicated division at the highest level of a company. This unit will normally have a decentralised network of several dozen correspondents around the world and its tasks are:

- To determine the internal policies, principles, rules and procedures that contribute to the integrity of the financial markets,
- To ensure that these are observed, in cooperation with the auditing and inspection bodies, as well as with the risk analysis, legal and manpower divisions,
- Regularly to report on their application to the management,
- To raise the awareness of operating staff and to provide them with training and advice.

Indeed ethics is not only the expertise of a small number of people, but a culture applying to all, led by the sales staff from the top down

The process of raising awareness involves putting ethical principles in formal terms, whether these are general or specific to certain professions or activities or even to certain individual situations ("trained staff") in the form of instructions, ethical codes, codes of conduct, ethical charters, and so on



ESTABLISHING IRREPROACHABLE BUSINESS ETHICS

Ethics

Different areas of application

As a rule, ethical systems are applied in three different fields.

1. THE PREVENTION AND DETECTION OF CONFLICTS OF INTEREST AND INSIDER TRADING

The financial organisations use procedures known as “Chinese walls” for preventing the disclosure or improper use of any confidential or privileged information liable to expose them to commercial risks with regard to their clients (conflicts of interest) or to regulatory or criminal risks (insider trading).

To back up their monitoring arrangements, establishments have deployed databases – frequently worldwide – enabling the ethics teams to uncover any conflict of interest that may

arise from the acceptance or execution of instructions that may appear contradictory. When such a situation occurs, the decision is taken either to refuse the transaction, or to have the instructions carried out by separate teams that are entirely transparent with regard to the principals.

2. COMBATING MONEY LAUNDERING AND TERRORISM

Against a background of increased media interest, more questioning investors, and pressure from the national and international authorities that are intensifying the relevant regulations and checks, the fight against money laundering and terrorism is an increasingly important issue to the management of banks and insurance companies: it certainly involves legal risks, but also raises the question of image. Every organisation has reinforced its systems in these two fields:

- **Extending the “know the client” concept**

This concept has long been one of the basic rules of ethics. Every establishment, knowing that its reputation is one of its vital assets, will avoid entering into relationships with persons or corporations whose activities would appear to be outside the law or contrary to the principles that guide any responsible business.

No establishment will deal with clients or traders in transactions in respect of which it cannot evaluate the economic reality, or where a lack of transparency suggests that they are contrary to normal accounting and ethical principles.

This process of understanding the client begins at the outset for which the checking procedures have been strengthened, in particular with the introduction of transverse supervisory structures and/or ad hoc committees.

As to the consequences, establishments find themselves defining categories of “sensitive clients”, in other words, clients at increased risk of money laundering and people who are politically exposed. They also dispose of a list of sensitive countries.

These various arrangements are gradually being supported by the introduction of a variety of IT systems and applications:

- databases: lists of people suspected of terrorism or to whom financial embargos have been applied; lists of people “to be avoided”, etc.
- filtering systems on international transfers
- anti-laundering surveillance systems based upon unusual transactions and abnormal operation of accounts
- profiling tools.

These different approaches are intended to permit the detection of unusual transactions amongst the usual pattern of a client's or trader's activities. Any departure from normal behaviour is potentially suspect, and triggers additional reviews.

This “know the client” approach is the main feature of the Wolfsberg Principles developed by twelve major international banks, the principles of the Groupe d'Action Financière (GAFI) [Financial Action Group] and the recommendations of the information report dated 30 March 2000 submitted by the “joint parliamentary information group on the obstacles to the detection and control of improper financial dealings and money laundering in Europe.”

- **Enhancement of human resources with the introduction of special units**

Owing to the fact that funds of criminal origin are highly mobile, these units need to be highly reactive so that if a particular transaction raises suspicion it can quickly be traced back far enough for the decision can be taken, if appropriate, to report it to the competent authorities (Tracfin)*.

- concerning any funds and transactions that might be the product of drug trafficking (1990),
- concerning organised crime (1993), corruption or fraud affecting the interests of the European Communities (since the law of February 2004) or which might contribute to funding terrorism (since the Perben 2 law of March 2004).

Since the law on the New Economic Regulations (2001), the financial organisations automatically notify Tracfin*:

- of any transaction where the identity of the originator or beneficiary remains doubtful despite the checks financial organisations are required to carry out
- of any transaction involving a trust fund where the identities of the members or beneficiaries are unknown.

* Source : www.fbf.fr

- **Development of specialist training and actions to raise awareness**

The campaign against the funding of terrorism and money laundering is not a matter for the specialist units alone. It is everybody's business. Dealers and traders at all levels must be aware of the institution's vulnerability to this type of risk and acquire new capabilities in order to detect unusual practices. This involves training operators in the techniques used by the "launderers" and/or terrorists, by fully understanding the legislative and regulatory provisions in force and the resulting obligations, by being aware of the internal procedures and instruments, and by regular reviews of the importance of this campaign.

Accordingly each establishment has introduced awareness and training programmes for all staff (notably those in the operating networks, but also those working on the trading floors). Some have devised e-learning approaches as well as worksheets suitable for each profession that are available on the computerised workstations. The Fédération Bancaire Française (FBF) [French Banking Federation] for its part, offers its members a self-training facility available on CD or via intranet.

3. THE ETHICAL RULES RELATED TO INSURANCE PRODUCTS

Quite apart from the systems specific to each insurance company outlined above, the Fédération Française des Sociétés d'Assurance (FFSA) [French Insurers' Federation] has taken two major steps affecting the entire sector.

- **Establishment of an ethics commission**

- This body was set up in 2001. It is made up of six insurance professionals and chaired by an independent person. Its functions are:
 - to propose mandatory ethics rules for all members of the FFSA
 - to provide arbitration in the event of ethical disputes, the results of which are binding on the relevant members
 - to suggest – at the annual general meeting of the FFSA – penalties possibly extending to exclusion, for members who do not abide by the rules and practices of professional ethics.

- **Introduction of labels**

This type of initiative applies basically to a new or poorly guaranteed risk of which it is desirable to make the potential victim aware. Each company is authorised to use the product logo so long as it abides by the specification drawn up by the profession (for example: the "General accident guarantees" label).

References and internet links

Groupe d'Action Financière (GAFI) [Financial Action Group]

The Groupe d'Action Financière operating on money laundering is an intergovernmental body which has the task of devising and promoting strategies – nationally and internationally – for the campaign against money laundering and the funding of terrorism.

The GAFI has drawn up forty recommendations that frame the efforts to control money laundering, and which have been designed for universal application. They set out a series of countermeasures covering the criminal justice system and the application of legislation, the financial system and its regulation as well as international co-operation. The latest revisions and updates of this document date from 2003 and are accompanied by a number of explanatory notes intended to clarify the application of some of the recommendations and to provide additional information.

www.fatf-gafi.org/dataoecd/7/55/34850891.PDF

Tracfin

Set up in 1990, TRACFIN (Traitement du Renseignement et Action contre les Circuits Financiers clandestins) [Processing intelligence and action against clandestine financial circuits] is a unit forming part of the Directorate-General for customs and indirect taxes.

The job of Tracfin is:

- to coordinate intelligence on clandestine financial circuits, by collecting, processing and circulating information
- to receive and develop reports on suspicious activities. These reports, provided by players in the financial sector, are the keystone of the French anti-laundering system.

www.finances.gouv.fr/pole_ecofin/politique_financiere/tracfin/fiche_presentation.htm

The Wolfsberg principles

While a bank will do a great deal to satisfy its clients, it will not accept just anybody as a customer. In order to discourage money laundering practices and those aimed at funding terrorism, the banks have introduced policies, codes of conduct and verification units, with the aim of getting to know their clients and their intentions.

Twelve banks* subscribe to the Wolfsberg Principles, a set of guidelines for the commercial banks against money laundering around the world. The publications of the Wolfsberg Group also deal with the funding of terrorism, "correspondent banking" as well as control, filtering and search systems.

www.wolfsberg-principles.com/standards.html

* ABN AMRO Bank N.V., Santander Central Hispano S.A., Bank of Tokyo – Mitsubishi Ltd., Barclays, Citigroup, Crédit Suisse Group, Deutsche Bank A.G., Goldman Sachs, HSBC, J.P. Morgan Chase, Société Générale, UBS A.G.

Banking Commission

The Banking Commission, intended to replace the Bank Control Commission, was established by law n° 84-46 of 24 January 1984 concerning the activities and control of credit establishments. This law has been amended on a number of occasions, notably by the law of 2 July 1996 on the modernisation of financial activities, which extended the responsibilities of the Banking Commission to encompass investment companies, and finally by the law of 1999 on savings and financial security, which enhanced its powers. Its essential role is still to "ensure that the regulations governing the banking profession are applied".

www.banque-france.fr/fr/supervi/supervi.htm

Control Commission for insurance companies, mutuals and provident institutions

Established by law n° 2003-706 of 1 August 2003 concerning financial security, the Control Commission on insurance companies, mutuals and provident institutions (CCAMIP) is an independent public body established on a corporate basis. Its primary task is to monitor the insurance and reinsurance companies under the insurance code, mutuals governed by the mutuality code, the provident institutions and the supplementary retirement institutions coming under the social security code. In this respect it is responsible for ensuring that the bodies under its control abide by the legislative and regulatory provisions that apply to them as well as the contractual undertakings which bind them to their clients or members. The Commission has to make sure that these bodies are in a position at all times to meet their contractual undertakings with regard to their clients or members.

www.ccamip.fr/info/00

Associated papers

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Ethics

Good practices

In 2001, The **French Federation of Insurance Companies** (FFSA) adopted a series of recommendations to supplement existing legislation aimed at controlling money laundering: these recommendations are mandatory upon all members of the FFSA. Specific courses were added to the minimum compulsory training programmes so as to strengthen the training given to employees of insurance companies and insurance agents. In 2003 and 2004 the FFSA's Committee on controlling money laundering established a staff training system, in conjunction with the French Banking Federation (FBF) and with the assistance of TRACFIN [French Financial Intelligence Unit].

The new ethical commitment regarding legal protection, which was adopted by the General Assembly of the FFSA on 21 June 2005, is aimed at making insured parties better informed by adopting a common vocabulary for all contracts and by specifying the ways in which the guarantee may be invoked. This commitment covers different types of guarantee: that for criminal defence and compensation following an accident (known as DPRSA), compartmented legal protection, and general legal protection. In 2004 the legal protection insurance sector had a turnover of 579 million euros.

The banking sector has had a system of training concerned with controlling money laundering since 2003: this was launched by the French Banking Federation (FBF), the Banking Commission and TRACFIN. The training programme has five main objectives:

- To develop the anti-laundering culture,
- To raise the awareness of all banking employees, to inculcate a permanent anti-laundering attitude,
- To show staff how to identify suspect cases,
- To highlight the warning signs of possible money laundering,
- To ensure that the appropriate procedures and relevant obligations are well known.

The **ABN AMRO** Group relies upon robust, well known business values: professionalism, team spirit, integrity and respect, which govern all the bank's decision-making processes.

The compliance and ethics departments ensure that that information on regulatory standards and good practices extends to all levels of the organisation. Every employee signs an code of ethics upon entering the bank: there are also special charters applying to certain sectors such as the dealing rooms or business banking.

In order to make all its staff aware of the moves against money laundering and the funding of terrorism, ABN AMRO decided to develop a series of activities – computer-assisted training, training in small groups on particular topics, and pre-recorded training courses – whereby all can acquire the elements of good practice. ABN AMRO was also one of the first establishments to sign the Wolfsberg Principles.

At **AGF**, all staff receive a copy of a general code of ethics, and it is attached to the employment contract of every new recruit. It sets out rules of behaviour aimed at ensuring that legislation is obeyed and general ethical practices followed. It is based directly on the Allianz ethics code and sets out the Group's traditional values as well as the basic principles relating to work and human rights.

Also, to ensure that no-one makes use of the AGF Group for laundering dirty money, without its knowledge, training is offered to all staff on the intranet. www.agf.fr/developpementdurable.

Axa has brought in a new performance measurement to back up its ethical practices, known as the "AML scoring tool". Nine key performance indicators were tried out in 2004. These cover the subject of synergy within the Group, obedience of the law, payments, agents' understanding, the client's comprehension, policy and national risk concerning laundering, and so on.

As far as combating money laundering, corruption and the funding of terrorism are concerned, **BNP Paribas** decided in 2004 that the group should have a standard system based upon the Searchspace software package. This is now being deployed throughout the group.

For controlling money laundering, the Groupe **Caisse Nationale des Caisses d'Epargne** (CNCE) [National Savings Bank Group] has a system which automatically detects unusual money flows.

In 2004 the **Crédit Agricole** initiated a stiffer compliance programme known as FIDES, which has a threefold basis:

- an organisation formed around a Compliance Management Committee,
- a set of procedures concerning, in particular, the operational principles and actions that must be followed for client activities (understanding the client; creation of new products), investment or disinvestment operations using the Group's own funds, and the organisation of circuits for tracking malfunctions,
- and an awareness/training scheme covering about 50,000 people.

In 2004 **Dexia** adopted a new standard computer program (ERASE) for analysing transactions so as to combat money laundering and the funding of terrorism, as well as a particular code of conduct governing the international activities of a private bank.

Dexia also applies a group integrity policy based on five principles, a "compliance" charter which defines the principles and objectives of the function, as well as its organisation and an code of ethics which sets out the rules of conduct that apply to all the Group's staff.

<http://www.dexia.com/docs/2005/20050511 AG/VoletC FR/20050511 VoletC FR.pdf>

At **HSBC**, a founding member of the Wolfsberg Group, all new staff coming into contact with clients take a training course on abiding by the relevant legislation and regulations, as well as on awareness of the threat of money laundering and the funding of terrorism. Staff in high risk fields also take annual refresher courses in the detection of laundering techniques.

In 2004, HSBC adopted the tenth principle of the United Nations Global Compact on the fight against corruption and supports the initiatives of Transparency International, of the Organisation for Economic Cooperation and Development (OECD) and the International Chamber of Commerce (ICC) in this respect.

Société Générale has set up its own systems for combating money laundering and terrorism – "SAM" and "Labo" for filtering international payments; "Crible" for monitoring cheques and certain international transfers; "Embargos" for filtering client files; "Profil" for detecting suspect operations involving client's accounts.

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Management of risk and internal control

What is it about?

Risk management and the processes of internal control are two essential components of the supervision system introduced by the financial sector for ensuring its continuity, a basic condition for global economic and social development.

Risk management

Risk is inherent in financial activities, and must be taken into account from the time the decision is taken to initiate a transaction through to its final completion.

For this reason, the management of risk is primarily the responsibility of the professions and the regions.

After all, the latter are given the particular task of:

- analysing the risks they initiate
- verifying that these are compatible with the risk management policy laid down by the company and with their own position regarding risk taking
- ensuring that these risks are handled in a dynamic manner.

Responsibility for controlling the management of risk, for its evaluation and more generally its supervision, is incumbent upon an independent unit attached to the general management. This unit has extensive responsibilities and its task is to cover all the risks generated by the organisation's activities.

It is involved at all levels of the process of taking and monitoring risk. Its continuing tasks are in particular to draw up recommendations regarding risk policies, to review the portfolio of risk with a forward-looking vision, to work out the methods, procedures and instruments for identifying and monitoring risk, to guarantee quality and efficiency, and to provide exhaustive and reliable reports on risk for the general management. The outcome of this work is first to help reduce the volatility of results and, secondly, to optimise stockholders' capital.



ESTABLISHING IRREPROACHABLE BUSINESS ETHICS

Management of risks and internal control

Banks and insurance companies have to manage an increasing variety of risks:

1. FROM FINANCIAL AND INSURANCE RISKS ...

- **Credit risks**

These risks stem from the potential losses that may result if a counterpart defaults.

This type of risk is managed according to strict rules set out as part of the strategy and major risk policies of each institution. The main principles declared include the company's requirements regarding ethics (see paper on "ethics").

- **Market and interest rate risks**

This concerns the risks of changes in interest rate, the risk of falls in the share market, exchange risks, and so on.

- **Liquidity risk**

This is the risk that an establishment may be unable to meet its commitments.

- **Insurance risks**

These are the types of risk specific to the insurance sector. They are for example the risk of issuing a policy (risk of death, risk of disasters) and the risk of making provision for non-life incidents.

2. ... TO OPERATIONAL RISKS

In addition to financial and insurance risks, operational risks are taking on increasing importance in the insurance world, as they are in banking. In the latter sphere, following the decisions by the Bâle committee, these risks are embodied in the new solvency ratios of the European banks, in addition to the credit and market risks.

These risks are of various types:

- Distribution and marketing risks
- Risks of fraud and money laundering
- Social risks
- Security risks and those concerning damage to persons and goods (fire, sabotage, terrorism, etc.)
- IT risks
- Risks affecting organisation and processes
- Legal, regulatory and fiscal risks
- Image risks.

The organisations have adopted an approach that seeks to enhance their control over this category of risks. It involves a number of aspects: identifying the risks and setting up databases of internal and external operational losses, introducing procedures for the specific monitoring and checking of the different types of operational risks identified, and adopting measures aimed at reducing losses.

These tasks of identification, monitoring and prevention are closely coordinated with the professions, regions and the different transverse functions involved (information systems, human resources, legal and fiscal functions, ethical approaches, and so on).

Internal control

Having regard to the scope and diversity of the risks involved in their activities, the French banks have long been concerned about the reliability of their internal control. This approach is set out in rule n° 2991-021 of the banking and financial regulation committee (concerning the internal control of credit establishments and investment businesses and which amends rule 97-02)

The principal challenge in internal control is to strengthen the security of banking activities, which complements the quantitative checks that are part of normal care and attention.

Internal control comes under the responsibility of the general management and the board of directors of each banking establishment, and involves four different types of objective:

- The quality and reliability of accounting and financial information,
- The compliance of transactions, organisation and internal procedures with the applicable legislative and regulatory provisions, with the professional and ethical standards and practices, and with the guidelines of the managing body.
- The quality of the reporting, information and communications systems,
- Abiding by the decisions taken by the general management.

Generally speaking, internal control is at three levels:

1. CONTINUOUS MONITORING OF THEIR ACTIVITIES BY THE OPERATIONAL STAFF

This is the cornerstone of internal control, defined as all the arrangements made on a continuous basis to guarantee – at operational level – the regularity, security and validity of the transactions carried out. Continuous monitoring is in two parts:

- Routine security, which encompasses all staff, and which is based upon every staff member's abiding by the relevant rules and procedures for every transaction they deal with.
- Formal supervision, which is the obligation upon senior staff to ensure, on a regular basis and according to specified procedures, that employees abide by the rules and procedures governing transactions as well as the efficiency of security on a daily basis.

2. INTERNAL AUDIT

This is a permanent arrangement which assesses the efficiency of the internal control system in the organisation it covers. The internal audit is subject to three main principles: independence, impartiality and universality. It thus covers all the activities of the bank, through decentralised teams whose task is to identify the areas of risk in the organisations they work with. In practice they lead to checks on security, compliance and efficiency, and assess the quality of the continuing surveillance of the departments being audited. These arrangements are supplemented by specific audits in those fields that are particularly technical: legal, counterpart risks, computer security, and so on. The work is done under the responsibility of the competent functional divisions (division of risks, financial and accounting divisions, ethical division, legal divisions, etc.).

3. THE GENERAL INSPECTORATE

This body conducts verification tasks embracing every aspect of the activities and operation of the bank. It reports its observations and recommendations to the general management.

The general inspectorate is also charged with monitoring the coherence and efficiency of the internal control system.

Since the enactment of the financial security law on 1 August 2003, every establishment is required to draw up an annual report on the operation of the internal control system for the annual general meeting of shareholders. The content of this report is submitted beforehand for inspection by the auditors.

Following new requirements on the part of the regulator, the internal control of banks is to be further strengthened in order to:

- Improve the control and monitoring of external activities by introducing special clauses into the contracts concluded between the banks and certain of their service providers,
- Intensify control of the compliance of transactions carried out by banking companies in order to make the present system more visible, notably at international level.

References and internet links

The Bâle Committee

This international association, founded at the end of 1974, is made up of representatives of the central banks and supervisory organisations in the financial sector of the following countries: Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Switzerland, the United States and the United Kingdom. The Bâle committee issues directives on the supervision of the financial sector against an international background. In 1988, it published a set of directives which, amongst other things, required the banking institutions to manage the risks arising from the financial undertakings they entered into. These directives constitute the "Bâle agreement". Under this agreement, the banking institutions must have sufficient of their own funds to cover the financial undertakings entered into, having regard to the evaluation of security and guarantees. A new text known as "Bâle II" was adopted in 2004, obliging the financial establishments to raise the standards of their internal processes and information systems in order to cope with the new requirements concerned with measuring and managing risk. The new system will come into effect as from 2008. www.bis.org/bcbs

Consultative Committee on financial legislation and regulation (CCLRF)

The Consultative Committee on financial legislation and regulation (CCLRF) replaces the Committee on banking and financial regulation (CRBF) and the Regulation Committee of the national insurance council (CNA). The CCLRF is charged with giving its views on all draft standard texts for general use in the banking, financial and insurance field (legislation, planning, decrees, orders, as well as European rules and directives), at the request of the minister for economics, except for text related to the financial markets authority (AMF) or coming within its competence. The conditions governing the appointment of the members of the CCLRF and its chairperson, as well as its rules of organisation and operation, are determined by decree n° 2004-850 of 23 August 2004.

www.banque-france.fr/fr/supervi/regle_bafi/comite/comite.htm

Law on financial security

The law on financial security n° 2003-706 of 1 August 2003 reorganised regulatory powers in the banking and financial fields. Regulatory powers were previously delegated to the Committee on banking and financial regulation (CRBF), the rules of which were endorsed by the minister before they came into force; these powers are now exerted directly by the minister for economics (articles L 611-1 et seq of the Monetary and financial code), assisted by the Consultative Committee on financial legislation and regulation (CCLRF).

Article 117 of the law on financial security of 1 August 2003 was intended to improve the transparency in companies and stipulates in particular that "the chair of the board of directors shall report [...] on the conditions governing the preparation and organisation of the board's work as well as the internal control procedures set up by the company" and that "[...] the report shall also indicate any limits that the board of directors places on the powers of the managing director." Moreover the chair of the supervision committee also has greater involvement in the question of transparency and will "submit a report to the annual general meeting attached to the report mentioned in the previous paragraph and in article L 233-26, on the conditions governing the preparation and organisation of the work of the board together with the internal control procedures set up by the company."

International solvency ratio

The international ratio of solvency or adequacy of own funds requires, for those establishments that carry out a significant volume of international transactions, that a certain level of own funds be maintained continuously to enable the establishment to meet the credit and market risks and, by virtue of the "Bâle II" reform, the operational risks too. The ratio to be observed is set out by the regulatory authorities in the local regulations. In Europe it is the European community that assumes the task of applying the recommendations of the Bâle committee through the Capital Adequacy Directive (CAD).

Associated papers

This paper is illustrated by a selection of good practices applied by financial players in France and elsewhere. They are listed on the website: www.orse.org

The papers on "Finance and Sustainable Development" are based upon the work done by the ORSE Club Finance.

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Risk management and internal control

Good practices

AGF has had a Risk Management Department since 2001: its objective is to make the Group more familiar with the management of operational and financial risks. In 2004, it brought in new computer systems for measuring and evaluating risks: RMS for the risks of natural disasters; Igloo for optimising reinsurance programmes; Risk Navigation for operational risks.
www.agf.fr/developpementdurable

ABN AMRO has a number of different sectors concerned with risk management:

- The internal audit department is responsible, under the authority of the audit committees, for ensuring that all operational processes are properly controlled;
- the accounts control process makes provision for a review by the managers of the accounts product sectors, who are supervised by specialist accounts committees;
- credit and market risks are analysed in ad hoc structures that are independent of the operational management and are the subject of reporting at the appropriate level;
- finally, all strategic decisions and new products are subjected to detailed analysis and validation by the New Products Committees (ORAP).

Within **AXA's** Financial Division, the Group's risk structure is essentially in two parts:

- "Group Risk Management" (GRM), headed by the Group's Chief Risk Officer, has responsibility for defining AXA risk standards. It also coordinates the processes of risk detection and management for the Group as a whole. Finally, GRM coordinates the local risk management teams;
- AXA Cessions [transfers] advises and assists the Group's "damages" companies in their reinsurance strategy and centralises purchases concerned with the Group's reinsurance cover.

The Internal Control and Risk Committee of **BNP Paribas** has the task of preparing the work of the Board of Directors, in particular:

- reviewing the reports on internal control and those on risk measurement and monitoring,
- reviewing the activity reports of the General Inspectorate and their main conclusions,
- considering the main lines of the Group's risk policy,
- keeping in close touch with the bank's different managers responsible for risk management and internal control,
- passing on its assessment of the methods and procedures used to the Board of Directors.

Against a background of stiffer regulatory requirements, BNP Paribas has taken the initiative to create a new function: compliance. This intervenes at Group level to strengthen the organisation concerned with managing risk and internal control.

The Groupe **Caisse Nationale des Caisses d'Epargne** (CNCE) [National Savings Bank Group] set up a Risks Division in 2002. Established at general management level, it is based upon a network of specialist committees in the different companies of the Group.

Preventive procedures have been introduced for all investments issued by organisations with a rating below A. The same applies to syndicated credits or the issue of UCITS.

In 2003, an expert risk analysis system was deployed and the allocation of scores for the activities of the retail bank continued.

CNP has opted for an internationally recognised standard – the Committee of Sponsoring Organizations of the Treadway Commission (COSO) – for its internal control. After commencing a risk approach by sector at the end of 2002, CNP Assurances also launched a project in the autumn of 2003 (to be completed by the end of 2005) to bring in an approach to risks by process. CNP Assurances constructed its business model around 15 mega-processes, themselves consisting of 51 major processes.

In order to ensure the coherence and effectiveness of its internal control systems, Crédit Agricole has appointed an internal control manager, who reports to the Managing Director of Crédit Agricole S.A. This manager is also responsible for the General Inspectorate. He has a central unit at his disposal for this management function. He also relies on the bank's central departments, divisions and sections that are involved in the implementation of the internal control systems. All these are in turn based upon specialist committees (Risk Committee, Committee for Standards and Methodology, and so on).

This central organisation is supported locally by decentralised arrangements within each operational unit of the Group.

Dexia's inclusion of sustainable development in risk management took on a new concrete dimension in 2004, with the systematic listing of information relative to losses and operational incidents required by the Bâle II agreements. Seven types of event have to be considered, two of which are related directly to the issue of sustainable development:

- Situations where social regulations are being disregarded
- Situations in which the bank has not complied with its own professional obligations with regard to a client or a professional counterpart.

http://www.dexia.com/docs/2005/20050511_AG/VoletC_FR/20050511-VoletC_FR.pdf

At **HSBC** the risk management policy is focused on the training of and allocation of responsibilities to its staff, and upon a prudent and constructive control culture. The procedures take into account the advice of the Association of British Insurers (ABI) as regards social, ethical and environmental risks. The Group's Board of Management determines the overall risk management policy. In addition the Risk Management Meeting ensures that risk management in the HSBC Group is effective, on the basis of the reports that it receives and monitors. Staff are encouraged to report instances of non-compliance (failure to meet a legal or regulatory requirement, fraud or professional error of the accounting type) anonymously by telephone, in writing or email with no fear of reprisals.

At **Société Générale**, a number of bodies are involved in monitoring and controlling risk management activities:

- When the Risks Committee meets, the bank's Executive Committee reviews changes in the Group's portfolio and decides on any changes necessary to the relevant strategies;
- in parallel with the Risks Committee, the Major Risks Committee concentrates on reviewing substantial exposures;
- the New Products Committees are responsible for ensuring, prior to the launch of any new activity, that the infrastructure necessary for proper management are in place and that the resulting risks are satisfactorily reviewed, measured and controlled.
- finally, the different units of the General and Audit Inspectorate give their considered views on risk as they conduct their various tasks within the Group.

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Large companies

What is it about?

Large companies have long led the way terms of sustainable development. Initially their approach concerned the environment and then moved on to the wider concept of Corporate Social Responsibility (CSR) which unites the environment with the social and economic aspects.

The financial sector has gradually taken this new dimension on board, first from the standpoint of risk and more recently in its range of products and services.

From the environment to the concept of sustainable development and social responsibility

Historically, large companies have tackled sustainable development via the environment. The pioneers in this connection were the industries involved in extracting and processing raw materials. These activities, because of their very nature, are in fact liable to have a direct impact on ecological equilibria. The environmental issue went on to affect manufacturing industry whose production and distribution methods are also liable to influence the renewal cycles of natural resources.

With the emergence of the CSR concept, the range of companies involved has widened still further, as well as their concerns, which now embrace not only the environment, but also the economic and social aspects.

Because of its potential impact on the future of the planet and its population, the behaviour of large companies is being closely examined by society as a whole. In addition, as listed companies, they are regularly audited by the specialist listing companies on behalf of the body of investors and those with the best performance appear in the specialised stock exchange indices (FTSE4Good, Dow Jones SI, and so on).

The financial sector: growing attention

The attitude of the financial sector towards large companies has evolved in parallel with the changes affecting its clients. To begin with, financial organisations focused on their clients' environmental constraints insofar as these might aggravate their counterpart risks or their liability to incidents. These constraints are daily becoming increasingly important under the combined effect of factors such as:

- **The growing requirements of national and international regulators:** i.e., the implementation in the banks as from 2008 of the requirements set out under Bâle II and their consequences as regards risk management;
- **The steady expansion of the concept of objective responsibility:** the example of the United States, where banks holding mortgages were condemned to pay the costs of decontaminating polluted land to which their guarantees applied, raises the fear that jurisprudence may one day embrace the principle of the lender's responsibility for funding a polluting activity;
- **The increasing importance of the effects of climate change** (i.e., in particular, the increasing number of natural disasters which, after asbestos, substantially affect the activities of insurers and re-insurers.
- etc.

From the environment to the concept of sustainable development and social responsibility

The financial sector: growing attention

Approach to risk and CSR criteria

New commercial opportunities

References and internet links

June 2005



INCORPORATING THE CRITERIA OF SUSTAINABLE DEVELOPMENT IN THE PROFESSIONS

Large companies

Today, however, the environmental field is no longer the only one where the liability of the financial sector may be enjoined. It is increasingly challenged for its support for projects regarded as predatory, from the social standpoint. At the same time, the types of risks affecting financial activities have diversified; from being direct they have also become indirect. Thus the image and reputation of a bank or insurance company are increasingly likely to be drawn in because of the activities of their clients in the environmental and social fields.

It is for this reason that the financial organisations are paying increasing attention to these intangible factors, besides the traditional criteria utilised for evaluating the financial reliability of companies.

Various initiatives taken by international organisations, NGOs, and even the financial sector itself, have legitimised and facilitated this growing awareness (see references and internet links).

Approach to risk and CSR criteria ¹

In fact banks, like insurance companies, have adapted their approach to risk by gradually incorporating CSR criteria into their analyses.

This practice is now systematic in all major projects. The financial organisations take care to ensure that national legislation relative to the environment, law and human rights in the various countries where they are represented is in fact obeyed. Banks also ensure that criteria developed in these different fields are in

fact applied: these criteria came from national organisations, such as the export credit agencies (Coface), and international agencies such as the World Bank, the International Financial Society and the European Bank for Reconstruction and Development.

In 2003 some twenty banks, including Crédit Lyonnais and Dexia in France, adopted a charter entitled “**Equator principles**” based upon guidelines from the World Bank through which they formally commit themselves to grant loans only to projects (over 50 million dollars) the promoters of which are able to provide proof of their ability to manage the projects in a socially responsible manner and in accordance with sound practices of environmental management.

In this context, the financial organisations have had to adapt their guidelines, their analytical tools and their organisation, by building up the necessary internal skills (by training and raising the awareness of the staff concerned; recruiting environmental specialists, and so on) and even by bringing in outside experts to conduct environmental and social audits.

In this way, new synergies have gradually been created between large companies, their bankers and their insurance companies. It is in the interests of all these three players to share – sufficiently in advance of the projects to be funded – their expertise on topics such as evaluating the extent to which environmental risks are controlled, evaluating costs in the event of incidents, and so on. This is a pledge of greater efficiency.

This scenario should also encourage banks and insurers to consider, in a proactive manner, their relations with NGOs which are increasingly attentive to the performance of the financial sector in terms of CSR. Regular exchanges, or even the establishment of true partnerships, will be such as to facilitate improved mutual understanding and the development of good practices.

The greater attention being paid to ecological and social concerns should logically lead to greater selectivity of projects, and even in certain (extreme?) cases to a reduction in funding or to refusals of cover on the part of the insurers.

Such an attitude, should it expand, is liable to expose the financial sector to opposition from society as a whole which, although it expects greater vigilance, also expects the sector to actively support development.

Accordingly the commitment to sustainable development should also be seen as a source of new commercial opportunities.

¹ Corporate Social Responsibility

New commercial opportunities

The financing of clean technologies looks like one of the most promising. We therefore see the banks improving the terms they offer to firms investing in “green” projects. Two particular methods are used for this purpose: structured finance and the Sofergies.

1. THE MARKET FOR GREENHOUSE GAS EMISSION PERMITS

Banks will further widen their involvement with the emergence of the market for greenhouse gas emission permits in application of the **Kyoto protocol**. The first structured market was set up in 1994 in the United States (Chicago), joined shortly after by London and Copenhagen. Since 2005 it has been extended to the entire European Union.

Emission rights will in this way gradually become a **new type of asset on the financial markets**. This category of assets is expected to circulate between players having quantified commitments to reduce atmospheric emissions of greenhouse gases. In this case, the financial players will act as market intermediaries.

They must also introduce an infrastructure to permit the circulation of the information, and ensure its transparency, in the form of a register of emission rights (in France, this role was taken by to the Caisse des Dépôts [Deposit Office]).

The expanding market for greenhouse gas emission permits also offers **opportunities to investors**. In fact according to a recent census conducted by the “climate” division of the Caisse des Dépôts, at the end of 2004 there were some twenty funds investing in carbon assets of a significant size. These funds have a twofold purpose: first to facilitate the structuring of projects that are eligible for emission permits, to mutualise them (when they are of small size) and to make them secure; secondly, to help initiate the market by supplying the necessary funds.

2. INSURANCE AND CLIMATE CHANGE

Climate change also has **strategic importance for the insurance and re-insurance sector**: increasing number of damage claims; appearance of new liability claims; growing uncertainty about the amount of maximum possible claims. The gradual adaptation of premiums and excesses in the face of these risks is an initial necessary response, but is certainly not adequate. There is potential for significant opportunities in terms of the climate products type for sectors such as agriculture, tourism and construction.

Moreover, increasingly high damages related to meteorological events are such as to enhance recourse to instruments such as “disaster” obligations.

Companies have begun, using their own expertise, to develop an advisory strategy as regards controlling greenhouse gas emissions and are also working on the development of new types of guarantee.

3. THE FUNDING OF EQUITABLE TRADE

Experimental fields other than the emissions market are available to the financial sector. One example is that of funding equitable trade. Hitherto the system consisted essentially in having the consumer fund a supply chain that ensured a steady and realistic price to the small producer. Although equitable trade is continuing to expand and is achieving significant market share, it will have to find other methods of funding, for example by utilising the methods of cover available on the derivatives market.

While the market for greenhouse gas emission permits and that for equitable trade are likely to remain **niche markets**² for a few more years, the field of clean technologies already holds out **interesting possibilities** such as to cause the financial sector to adopt a proactive attitude.

² According to E Laville in his book “L’Entreprise Verte [The green company]” (Village Mondial), “the market for environmental technologies is estimated to be worth 200 billion dollars and this might triple in the coming years”.

References and internet links

Sustainable development indices

There are a number of indices that indicate the social and environmental performance of listed companies. Their makeup may be based on excluding certain business sectors regarded as non-ethical or on particularly high relative or absolute performance by certain companies in the social and environmental fields. For links to the websites of the different sustainable development indices, see the paper "Finance and sustainable development: socially responsible investment."

The UNEP financial initiative (UNEP FI)

UNEP FI stems from a partnership between the financial sector and the United Nations Environment Programme (UNEP) which drew up a statement dedicated to the members from banking, insurance and asset management. So far over 200 establishments have signed this declaration and entered into a commitment in favour of sustainable development and the environment through their financial services and in the operation of their systems, as well as by educating opinion through their public relations and particularly with large companies.
www.unepfi.org/signatories/statements/index.html

World Bank

The World Bank was set up on 1 July 1944 at the conference of the governments of 44 countries at Bretton Woods in the United States: its role is to combat poverty and improve living standards in developing countries. It comprises five organisations: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for the Settlement of Differences in Investment (ICSID). The World Bank's "Pollution Prevention and Abatement Handbook" served as a model for the preparation of the Equator principles.

www.banquemondiale.org

European Bank for Reconstruction and Development (EBRD)

The European Bank for Reconstruction and Development (EBRD) was established in 1991. Its role is to encourage the transition to a market economy in the countries of central and Eastern Europe and in those in the Community of Independent States (CIE) which undertake to respect and apply the principles of democracy, pluralism and market economy, and also to promote private initiative and the corporate spirit. In its role as a reform catalyst, the EBRD encourages joint financing and direct foreign investment from the public and private sectors, helps to mobilise local capital, and provides technical cooperation in relevant fields. In all its activities, the EBRD seeks to promote sound and sustainable development from the standpoint of the environment. www.ebrd.com/fr/index/htm

The Equator Principles

A number of financial institutions have adopted the Equator principles, being aware that their role as providers of finance for projects enables them to promote respect for the environment as well as socially responsible development. These principles, which are based on the norms and standards of the World Bank and the International Finance Corporation, are aimed at developing projects (exceeding 50 million dollars) in a socially responsible manner and ensuring quality environmental management.

www.equator-principles.com/principles.shtml

Carbon Disclosure Project

Asset managers in favour of reducing greenhouse gases initiated this project in order to encourage the world's biggest 500 companies to notify their greenhouse gas emissions. Since an initial invitation to publish on 4 December 2000, most of these now notify their emissions, some on the Carbon Disclosure Project website. A third appeal to the chairpersons of companies in the FT500 was sent out on 1 February 2005 from 143 institutional investors.

www.cdproject.net/index.asp

Collevocchio Declaration

About 100 non-governmental organisations drew up the Collevocchio Declaration aimed at the financial institutions: it summarises the principles (precautions, transparency, etc.) that investors should respect when funding projects.

www.banktrack.org/index.php?id=2

International Financial Corporation (IFC)

The IFC was set up in 1956 and is the biggest multilateral provider of funds by issuing loans for and acquiring holdings in private sector projects in developing countries. It seeks to promote sustainable development in the private sector, mainly by:

- funding the execution of private sector projects in developing countries,
- assisting private companies in developing countries to mobilise funds on the international capital markets,
- providing advice and technical assistance to companies and governments.

The IFC has drawn up policies and guidelines that were used as a model for the Equator Principles; some of them are now being revised.

www.ifc.org/enviro/EnvSoc/pollution/guidelines.htm

Associated papers

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Large companies

Good practices

How banks take CSR criteria into account

Banks conduct environmental credit risk assessments (ECRA). The ways in which these are done vary from one establishment to another, notably as regards the maturity of the processes brought in, and the geographical coverage of the policy (certain banks apply it only in their country of origin, while others have training schemes and highly developed analytical and sales teams around the world).

There are a number of reasons why certain banks became aware of environmental issues before others: their indirect involvement in pollution "events", which had costs in financial or image terms; the fact that the parent bank was located in a country that was strongly legislated or environmentally sensitive, and so on.

ABN AMRO has specific Environmental and Social Risks Management Units. ESRMU in Amsterdam and ESRMU Asia Pacific in Singapore are responsible for developing the relevant overall policy of ABN AMRO and ensuring that it is properly applied. The subsidiaries too have teams dedicated to the social and environmental analysis of clients and projects (typical examples: ABN AMRO Real in Brazil, LaSalle Bank and Standard Federal Bank in the United States).

ABN AMRO is planning to work more closely with its clients and the NGOs in the mining and petrochemicals sectors, in order to develop new sectoral policies and new approaches on highly specific topics such as human rights or hydroelectric dams. As regards internal developments, the bank will strengthen its IT structures and support measures. A unit has been set up at Group level to improve training - both in quality and quantity - with the aim of raising the awareness of employees and improving their practical skills.

Barclays Bank began relatively early to assess the environmental risk of certain operations and write up the evaluation of performance indicators in its Social and Environmental Report¹. For example:

Extract from the Environment : Facts and figures (on performance)

	2001	2000	1999
UK land valuation cases reviewed (by ERMU)	6,180	6,138	5,830
% subjected to further enquiry	32 %	25 %	26 %
Additional case referrals (global, non-UK)	430	457	550

¹ Barclays Social and Environmental Report 2001

In 2002 **ING Bank** described the analysis of the environmental risk as a long-established practice that was an integral and underlying component of credit risk analysis. An inventory is drawn up by an internal environmental engineer or an external expert, depending on the nature of the risk. ING has developed a check list that was made available to account managers to enable them to analyse the environmental risk in credit applications.

² ING in Society 2000; Risk Management

² ING in Society 2000; Risk Management

How the insurers take CSR criteria into account

The insurance companies also incorporate criteria of social responsibility in their risk evaluations.

AXA plays an important role in the risk management of its corporate clients. Before any decision is taken about insuring a company, the AXA representatives go for on-site visits, making it possible to carry out a precise investigation of the risks, the preventive actions necessary and the protective measures that would reduce the impact of an incident. If the company managers are reticent about implementing these measures, AXA may well refuse to insure this company.

However, if the company demonstrates a responsible attitude towards managing and preventing its risks, AXA will grant cover. Premiums and “excess” levels vary according to the level of prevention and protection introduced.

AXA Corporate Solutions has, since 2003, offered an insurance contract to industrial firms, guaranteeing to take on board any excess costs of depollution following an incident. Its specialist subsidiary, Ecorisk, conducts technical and environmental audits which provide a basis for determining whether the guarantee should be granted, as well as its level (which may be up to 100% of the estimated costs).

As a means of support for large companies facing the need to depollute sites, AXA Corporate Solutions can offer a special approach known as “XS Depoll”. This insurance contract guarantees repayment of excess costs related to certain random features such as the complexity of the terrain or shortcomings in the performance of depollution techniques.

At **AGF Courtage Global**, the Engineering Protection Division has a 40-strong team (most of them engineers). Its tasks are to support the subscription and compensation activities by conducting on-site audits, providing engineering assistance, and training in risk management. It forms part of the international Allianz Risk Consultants network, which permits sharing of experience and offers AGF clients the possibility of having audits on their foreign sites done by local engineers who are fully aware of the facilities and situations relevant to their countries.

www.agf.fr/developpementdurable

Socially responsible funding of projects

For a number of years now the banks have been applying operational procedures whereby the sustainable development aspects of funding studies can be taken into account.

Since the funding of projects is a particular issue for NGOs and is related to similar concerns of their major clients, banks regularly stiffen their internal ethical rules. For example 27 establishments³, as well as the Danish Export Credit Agency EKF⁴ and the European Investment Bank (IEB)⁵ have adopted common rules, known as the Equator Principles. The signatory organisations undertake, on a free and voluntary basis, to fund only those projects (where investment exceeds 50 million dollars) that satisfy a series of social and environmental requirements, based upon the policies and rules of the International Finance Corporation (IFC)⁶

The approach developed by **Calyon** for implementing the Equator Principles is based upon:

- A simple coordinating structure for preparing procedures and training structures, and for disseminating the culture of the Equator Principles
- A network of local correspondents (New York, London, Madrid, Milan, Hong Kong and Sydney) who provide support, particularly to assist the different teams with the most sensitive schemes
- Training/raising awareness of the teams with the assistance of the IFC
- Incorporation of the Equator Principles in the existing credit procedures. This process takes for example the form of a ranking table completed by the project leaders and attached to the requests for assistance; its conclusions are brought to the attention of the decision-making committees.

³ ABN AMRO Bank, N.V. ; Banco Bradesco ; Banco Itaú ; Banco Itaú BBA ; Bank of America ; Barclays plc ; BBVA ; Calyon ; CIBC ; Citigroup Inc. ; Credit Suisse Group ; Dexia Group ; Dresdner Bank ; EKF ; HSBC Group ; HVB Group ; ING Group ; KBC ; MCC ; Mizuho Corporate Bank ; Rabobank Group ; Royal Bank of Canada ; Standard Chartered Bank ; Scotiabank ; The Royal Bank of Scotland ; Unibanco ; WestLB AG ; Westpac Banking Corporation

⁴ Eksport Kredit Fonden

⁵ Banque européenne d'investissement

⁶ Société Financière Internationale

Reducing greenhouse gases emissions

The **World Bank** launched the first investment fund in carbon assets, the Carbon Fund, as early as 1999. Since then some 20 other funds have been created, worth over 1.5 billion euros at the end of 2004, such as the Community Development Carbon Fund (with investors including the German bank **KfW** and **Swiss Re**), Baltic Sea Region TGF Testing, and the new European Carbon Fund managed by **Ixis Environment** with infrastructure supported for example by the **Caisse de Dépôts**, Fortis and Dexia. These funds are entitled to acquire “Kyoto credits” corresponding to the emissions of greenhouse gases that are avoided by the implementation of a project.

A special unit of Axa’s reinsurance subsidiary, **Axa Re**, offers products for managing specific climate risks. This meets the needs of sectors such as energy, agriculture, agro-food, leisure and construction. It enables companies to make due provision essentially against non-physical damage (for example: loss of income by an energy supplier during a mild winter, and so on).

In April 2001 **Swiss Re** set up a unit entitled “GreenHouse Gas Risk Solutions” (GHGRS) which has a twofold task: evaluating risks and opening up commercial outlets to the Group stemming from the regulations related to reducing emissions of greenhouse gases. In this way a number of insurance outlets were identified and developed (for example: by working out a pooling approach for clients. This is a guarantee based upon the tangible success of an offset project and a clearing approach that facilitates negotiated transactions).

Dexia is involved in the fight against climate change through various projects. In addition to its intervention in the funding of renewable sources of energy, Dexia has invested 10 million euros in the European Carbon Fund. In France, Dexia has concluded an agreement with Veolia Environnement, its subsidiary Dalkia and the Caisse des Dépôts aimed at helping local French communities benefit from the creation of the system for exchanging emission quotas dated 1st January 2005. In Austria, Kommunalkredit Austria is responsible for the new climate protection programme set up by the Austrian government through the Austrian Joint Implementation and Clean Development Mechanism. In Slovakia, Dexia Banka Slovensko won the contract from the government of the Slovak Republic to administer the Slovak national register of emission quotas as from 1st January 2005. Dexia Crédit Local is continuing to develop the Dexia FondElec Energy Efficiency & Emissions Reduction Fund, set up with the European Bank for Reconstruction and Development (EBRD) and intended to fund, over a ten-year period, the reduction in energy consumption and emissions on greenhouse gases in central and eastern Europe. http://www.dexia.com/docs/2005/20050511_AG/VoletC_FR/20050511_VoletC_FR.pdf

Support for environmental protection projects

UniCredito Italiano offers the so-called “Green Bonds”, a particular environmental product, to its major business clients. This product is intended to encourage SMEs – who are frequently suppliers of the former – to introduce certified Environmental Management Systems – EMS). The major Italian businesses encourage them to take out green credits from UniCredito Italiano, at preferential rates for investment in environmental management systems. Those who buy Green Bonds accept a slightly reduced return on their investment, on condition that the funds invested are used only for developing EMS. In return for this shortfall, large businesses benefit from the fact that their suppliers align their practices with their own environmental approaches.

The **ABN AMRO** offers two types of product:

- The ABN AMRO Green Fund: quoted on the Amsterdam Stock Exchange, this invests at least 70% of its funds in “green” projects that protect the environment, such as wind and solar energy.
- The ABN AMRO Green Bank: issues fixed-term bank bonds with a fixed rate of interest in the Netherlands for ecological projects

The **Banque Populaire Group**, through its subsidiary Natexis Banques Populaires, is now emerging as a significant player in funding the environment and renewable forms of energy, particularly wind. Its contractual undertakings in the renewable energy sector (water, biomass and wind) are now worth nearly 260 million euros.

For the wind sector alone, the bank has funded in France, through its subsidiary Energieco, itself a subsidiary of **Natexis Lease**, 18 projects with a total capacity of 130 MW, equivalent to a market share of about 30%, making Energieco one of the French leaders in the negotiation and funding of this type of project in France. Thus it recently funded the Haute Lys wind park in the Pas de Calais, started up in October 2004, which is so far the biggest wind project in France.

In other countries Natexis Banques Populaires has been involved, through its project funding department, in financing ten wind parks with a total capacity exceeding 1000 MW, in Europe (mainly in Spain), the United States and Morocco, thus confirming the strategic nature of this sector.

The papers on “Finance and sustainable development” are based upon the work done by the ORSE Finance Club.

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Small and medium-sized enterprises

What is it about?

Although they are in certain respects less directly exposed than large companies, SMEs cannot afford to disregard sustainable development. After all they are at the forefront in all subjects relating to the environment, that are affected by increasingly stringent regulation. Moreover the various social aspects, and their integration into their surroundings, are issues which, if not properly anticipated and dealt with, constitute a threat to the continuity of small firms.

From the standpoint of the financial organisations, this situation appears to involve greater risks to be taken into account. However there is also the potential for new business opportunities.

The challenges of sustainable development for SMEs ...

The large listed companies are not the only ones concerned by sustainable development: small and medium-sized enterprises are involved as well. It is true that SMEs are not directly confronted by the expectations of the financial markets, or questions from the non-financial listing companies who stand between, or the requirements of NRE law. Indeed they are relatively sheltered from the major changes in public opinion.

Despite this, they cannot claim to be completely unaffected by the growing demands of society. Thus they have to deal with consumers increasingly aware of the economic, social and environmental consequences of their purchases. They also have to cope with the expectations of their staff, people living nearby, their suppliers, and so on, not forgetting those of contractors and the public authorities who, with the changing face of public contracts, will be able to incorporate social and environmental criteria in their call for tender. The lawgivers themselves are not lagging behind, particularly as regards the environmental regulations that are increasingly strict and complicated.

Ethics, loyalty, transparency, social management, and environmental responsibility are all now inescapable factors in the economic context, and their importance is repeatedly confirmed. These are all challenges for the small and medium-sized enterprise, which, although caring deeply about staying in business, are not always adequately prepared for these developments that they sometime see as a source of additional constraints and new costs. For example a survey carried out in March 2002 by IFOP/ADEME showed that ecological activities were still facing powerful obstacles, owing to the investment involved according to 52% of the firms questioned, and because of the complexity of the regulations according to 41% of them. The same survey showed that the companies with less environmental concerns were those in the category of small firms with a turnover below 3 million euros. However these are the most numerous. And the smallest are not the least polluting.

In this situation, and bearing in mind also the new requirements facing the banks as a result of Bâle II, the financial sector is adapting. In practice, banks and insurance companies are paying increasing attention to the environmental – and also social – performance of small and medium-sized businesses. They believe in fact that these two considerations should be included in the traditional accounting approaches used to form a view of the robustness of a business

SUMMARY

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Small and medium-sized enterprises

... and for their banks and insurers

It is a fact that a neglected environmental hazard, the difficulties arising from poor local integration or a hostile employer-employee climate, all represent threats to their continued existence. From the standpoint of the financial organisation, this situation presents an enhanced risk.

For a bank: the “conventional” financial risks that may extend to its being held liable in the event of failure of a polluting creditor (application of the “deep pocket” principle), to legal risks (especially as owner, through leases, of polluting installations), to

risks to its image or reputation, and so on.

For an insurance company: aggravated claim situations, increases in benefits paid out, and so on.

In practice, this growing interest of the financial sector in the environmental and social performance of small and medium-sized enterprises takes two complementary forms:

1. DEVELOPMENT OF SYSTEMS FOR EVALUATING SOCIAL AND ENVIRONMENTAL RISK

These systems are usually in the form of questionnaires to be completed, either directly by the client, or by the banker or insurer responsible for completing their client's file. In addition, site visits may be made by specialists.

In order to make staff who deal with clients more aware of these new issues and thus facilitate their investigations, establishments have drawn up practical instructions that stress the regulations and the risks specific to certain business sectors considered as sensitive from the environmental standpoint. Of course this process also involves specialised training.

These assessments are intended to enable the

financial organisations to get a comprehensive view of their clients' risks. The environmental and social risk becomes a significant component which the banker will utilise when deciding for example whether a loan should be granted at all, its interest rate, and the level of guarantee to be offered: this will be incorporated by the insurer in the calculation of premiums and the extent of excesses.

Businesses, particularly the smallest, that do not yet pay sufficient regard to the environmental or social aspects of their activities, will find it increasingly difficult to negotiate a bank loan or an insurance contract. For this reason the financial sector, through a proactive approach to risk, is also developing an advice and support function.

2. PROVISION OF SPECIAL SERVICES TO SUPPORT BUSINESSES IN THEIR SUSTAINABLE DEVELOPMENT POLICY

This is still an emerging market but one which is expected to grow over time as a result of growing awareness on the part of the economic players and the stricter requirements of the regulations that often generate new investment.

The financial sector is responding to these demands by offering its clients conventional mechanisms of finance or insurance. However, in view of the specific nature of certain needs and the very identity of the risks associated with them, certain establish-

ments have had to draw up customised arrangements. For example, banks are offering special loans, sometimes at low rates, to make it easier for their business clients to accomplish projects that are beneficial to the environment.

The insurers are not being tardy and are offering contracts that specifically cover environmental damage.

Earlier in the process, being aware that no fully responsible insurer would limit itself simply to meeting claims, they are developing an approach focused on the evaluation and analysis of the risks of business clients and their prevention (campaigns to verify risks in the field; provision of instruments for analysing risk; drawing up databases on climate risks, and so on).

Investment capital is another way of encouraging the development of “green” projects. In view of the level of risk in this promising but still young market, one way of encouraging its development is the formation of joint investment funds to which private capital is attracted, reassured by the presence of public bodies that amortise the risk in the same way as the Fidème fund in France.

In Germany a different formula for public/private partnership has been developed: it is based upon refinancing and a system of guarantees the public federal bank KfW gives to the commercial banks who can thus offer very long term credits to small and medium-sized enterprises (as well as to individuals) for the development of ecological infrastructures.

Some self-assessment tools

There are quite a few self-assessment tools for SMEs in Europe, using a great variety of approaches, for example educational, support, standards or evaluation*: :

The Alliances association guide

www.alliances-asso.org/htm/guides_RSE.htm

The global performance approach of the Centre des Jeunes Dirigeants (CJD) [Young Directors' Centre]

www.cjd.net/

The social review by the Young Directors' Centre and the members of Economie Sociale [Social Economy] (CJDES)

www.cjdes.org/

The AFNOR guide SD 21000

www.afnor.fr/sd.asp?lang=French

The European Commission's toolbox

www.europa.eu.int/comm/enterprise/csr/campaign/documentation/index_fr.htm#toolkit

The Global Reporting Initiative's practical guide for sustainable development reporting by SMEs

www.globalreporting.org/workgroup/sme/intro.asp

The system developed by UNEP, CSR Europe and the GRI

www.smart-business.bz/

The method devised by the Fédération des Associations Régionales du Mouvement Français pour la Qualité [Regional Associations' Federation of the French Quality Movement] in cooperation with ACFCI and MINEFI

www.mfa.asso.fr

The on-line assessment system of the Groupe d'Experts et Outils pour le Développement Durable (GEODD) [Group of Experts and Instruments for Sustainable Development]

www.geodd.net/index.html

* For more information see: www.novethic.fr/novethic/site/article/index.jsp?id=87418

References and internet links

ADEME

The Agence de l'Environnement et de la Maitrise de l'Energie [Environment and Energy Management Agency] is a public body of an industrial character under the joint authority of the ministers for the environment, energy and research. Its task is to encourage, stimulate, coordinate, facilitate or carry out operations aimed at protecting the environment and managing energy.

ADEME offers assistance to businesses to help them take account of questions related to the environment and energy in their daily management practices.

www.ademe.fr/entreprises/Aides/default.htm

Agenda 21

This is an initiative by the canton of Geneva which, as part of the introduction of its Agenda 21, has created a site which includes a very comprehensive guide for SMEs.

www.geneve.ch/agenda21/pme/welcome.asp

CCI

The network of the Chambers of Commerce and Industry is being used to support firms in their move towards sustainable development. It puts special emphasis on educational and support activities as close as possible to the concerns of the businesses and regions concerned. In this way, CCIs have helped draw up the AFNOR guide SD 21000 and are participating in its being tested in businesses. "Sustainable development" assessments have already been carried out as part of individual or collective support. Finally, as the representative of businesses, the CCIs are also involved in the introduction of local Agenda 21 schemes.

www.acfci.cci.fr/environnement/

MEDEF

The Medef sustainable development committee has drawn up a "sustainable development and SMEs" guide to make SMEs more aware of the concept.

www.medef.fr/staging/site/page.php?pag_id=6466

ORSE

The Observatoire sur la Responsabilité Sociétale des Entreprises [Study Centre for Corporate Social Responsibility] has placed on its internet site a study entitled "Support for SMEs by the very large companies" and a report, "Sustainable development – the issues for SMEs".

www.orse.org/fr/home/docs_reference.html

OSEO

OSEO unites the skills and experience of ANVAR (the French agency for innovation) the SME Development Bank and the SME agency; its task is to support the growth of SMEs at every stage of their development, the objective being to ensure greater continuity in the pattern of funding.

www.oseo.fr

Associated papers

This paper is illustrated by a selection of good practices applied by financial players in France and elsewhere. They are listed on the website: www.orse.org

The papers on "Finance and Sustainable Development" are based upon the work done by the ORSE Club Finance.

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Small and medium-sized enterprises

Good practices

Applying social and environmental criteria to the assessment of small- and medium-sized enterprises

In order to better evaluate the claims potential of SMEs, AGF Courtage utilises a serious incident database, IRD Entreprises et Professionnels. From this facility, it is possible to extract statistics on expenses, frequencies, causes, locations, business sectors affected, and so on. It can also be used to make detailed investigations of the most salient aspects of this liability to claims.

Again to reduce companies' risks, AGF provides its clients with educational documents such as "spot" booklets (which review significant incidents and indicate the lessons to be learned).

www.agf.fr/developpementdurable

Since February 2003, the 30 regional offices of the **Caisse d'Epargne Group** have been testing a method for analysing the sustainable development risks in corporate credits. The method includes a finance section (looking at the exhaustive and transparent nature of information, etc), a social section (social policy, client-supplier relations, relations with sensitive third countries, local development, and so on) and an environment section (environmental policy, how activities affect the ecosystem, and so on). 3

Crédit Agricole provides its regional offices with a system that enables them to evaluate the environmental risk generated by the companies they finance. This electronic system uses a short seven-point questionnaire that serves to determine whether the company is potentially an environmental risk. If it is, a more comprehensive questionnaire is completed by the client. These questionnaires are signed by the clients, meaning that the bank cannot be held responsible if the information provided is falsified, or if a pollution problem appears when the site being funded is in operation. The answers to the questionnaires are allocated points whereby a veritable environmental score can be awarded. On the basis of this rating, the regional offices can vary the credit facilities offered to the clients. This system is being tested in two regional offices (Côtes d'Armor and Centre Est).

Société Générale publishes environmental bulletins on its intranet, intended for staff working in the risk sector and, more widely, for the staff of its branch network in order to raise their awareness. These bulletins explain the major issues and environmental risks of a particular sector of activity. Société Générale also carries out site visits at the request of branches. These are done by its consulting engineers and, on the basis of a simplified questionnaire, serve to draw up a review of the extent to which the company visited complies with the relevant environmental and social regulations.

Specific offers³

ABN AMRO has joined a partnership which was set up at the initiative of the Dutch government to certify “green” or socially responsible projects that can then benefit from loans from the banks at preferential rates. These Green Project Arrangements essentially affect projects for intelligent agriculture, renewable energy sources and the protection of nature. The preferential interest rates are made possible by the tax benefits granted by the government.

Various European banks offer the possibility of “environmental protection funding”, based upon a convention agreed between the European Investment Fund and a number of European banks¹. To facilitate the funding of “green investment schemes” the European Fund guarantees 50% of the bank’s funding that is granted within this Growth and environment project.

Since 1st August 2004, **AXA France** has offered SMEs a “business environment” facility which is in three parts:

- **Liability insurance:** guarantees the monetary consequences of the insured companies’ third party liability owing to damage suffered by third parties arising from damage to the environment.
 - **Damage insurance:** covers the depollution costs of the insured companies’ property and the expenditure committed to operations intended to neutralise, isolate or eliminate an actual and imminent threat of pollution to third parties.
 - **Insurance for loss of business:** covers the loss of business following pollution generated by the establishment.
- In order to make business managers aware of the environmental risk, AXA provides them with an analytical software package.

The **Banque Populaire Group** has developed PREVair, a concept that combines a loan intended specifically for ecological investment projects by SMEs and SMIs with an ecological evaluation of the investment and of the company’s general approach, known as “eco-diagnostics”. PREVair can provide loans at a preferential rate for any material investment that improves the impact of the company’s activities on its environment. The decision as to the granting of the loan is taken by an independent committee of experts, on the basis of technical data from an ecological balance sheet related to the project.

The Banque Populaire has created an express loan facility known as Prêt Express Socama Européen (PESE), for those working in the motor trade; it is guaranteed by the European Investment Fund (EIF) in PESE PREVair, for the ecological investments of garages.

The Caisse d’épargne Group provides its clients with Cordé, a self-diagnosis tool.

Quite apart from their efforts to raise the awareness of SMEs through conferences and meetings, the Caisses d’épargne is making this self-diagnostic tool available, which has been produced in partnership with Vigéo. This initiative was taken by the Caisse régionale des Alpes to make SMEs more aware of the sustainable development approach; they will provide loans at special rates for those using the self-diagnostic tool.

The system involves close inspection of 28 criteria in the following six areas: quality of human resources; preserving the environment; the societal commitment of the company; relations with customers; relations with suppliers; relations with sub-contractors. Cordé will ultimately be available in all the Caisses d’épargne.

The **Caisse Solidaire du Nord** – Pas de Calais exists to help those creating and developing businesses, who are forced to give up their plans owing to lack of bank credits. It makes loans available to new businesses that are creating jobs: industrial companies or trade or service firms, with from one to 20 employees; development activities in a rural environment; associations of social utility.

The Caisse Solidaire works with the Crédit Coopératif, which has set up the Livret Caisse Solidaire [special account], whose deposited funds are used by the former to grant loans to small- and medium-sized enterprises that establish useful activities and local jobs. This product obtained the Finansol “solidarity savings” quality label.

The **CCF**, a member of the HSBC Group, signed an agreement on 22nd December 2004 with the European Investment Bank (EIB) to the effect that the latter would provide CCF with a credit line worth 100 million euros specifically for companies of medium size (between 250 and 3,000 employees). With a maximum duration of 12 years, this “grouped loan” is intended for individual investments, up to a maximum value of 50 million euros, located in areas of regional development and/or coming under the Initiative Innovation 2010² or the sectors of energy and environmental protection.

¹The French banks involved in the “growth and environment project” are: Banque Populaire du Haut Rhin, Caisse Nationale de Crédit Agricole, Crédit Lyonnais, Groupe Banques Populaires. For a complete list, see: www.eif.eu.int/venture/printlist.asp?category=4&design=pinter§or=-1&product=-1&country=-1

² This initiative mainly concerns research, development and innovative technologies, see: www.bei.org/site/index.asp?designation=i2i

The **Crédit Agricole** has developed an “environment loan” aimed at providing companies, communities, farmers and tradesmen with customised funding for their environmental projects (meeting standards: energy savings, waste disposal, and so on). The loan is made available in two phases: first, preliminary funding of the grants the client may claim; secondly the loan phase proper (maximum of 15 years).

Groupama has intensified its advice and prevention activities. This “proactive” approach was illustrated in 2002 through the establishment or development throughout the country of the centres for Group Engineering, Environment and Management of Health Risks. These centres make their expertise available to all facilities and provide support as they introduce preventive approaches for their clients.

The regional offices and the subsidiaries in the business market are conducting campaigns to examine risks, with the assistance of specialists.

Each inspection leads to the production of a prevention report for the head of the business which sets out the actions to be taken to reduce exposure to risks (fire, explosion, flood, pollution, etc).

In 2004 the following were produced:

- A standard guide to preventing fire risk in the agro-food industries
- Deployment of a scheme for reducing automobile risks in business fleets
- Formulation of a risk analysis system
- A documentary database on weather risks.

Investment and guarantee funds

The Fidème fund, designed by **CDC IXIS** and **Banca OPI** (the IMI San Paolo Group) and managed by **Iena Environnement**, acts as a virtual capital investor by investing in funds issued by companies developing projects for energy management and the utilisation of renewable forms of energy and wastes. One third of its capital comes from the French Agency for Environment and Energy Management (ADEME) and two thirds from banking partners (Caisses d'Epargne, Banques Populaires, and so on).

Emertec Energie Environnement-3E is a start-up fund created by CDC-PME in association with the CEA, the French Petroleum Institute and Natexis. This fund acquires a direct holding in innovative businesses that have a high technological content (for example: fuel cells) in the area of applied research.

Demeter is a development capital fund created by CDC-Entreprises. It focuses primarily on the eco-industries, the eco-energies and lifestyle safety.

Fogime (Energy management investment guarantee fund) is a guarantee fund intended to encourage small-and medium-sized enterprises to invest in energy management. It provides an additional guarantee (capped at 70% of the outstanding loan) to the bank credits requested by a company for funding its project. Fogime was set up on the initiative of the BDPME and Adème, together with EDF and Charbonnages de France.

Socially responsible investment capital

AGF Private Equity sends out a questionnaire for its “fund of funds” activities - during the selection phase (known as “due diligence”) - for all investment opportunities. As regards the risk capital activities, AGF Private Equity systematically questions the managers of companies in its portfolio about their environmental, social and ethical practices.
www.agf.fr/developpementdurable

Axa Private Equity, specialises in investing in unquoted companies: it seeks to generalise the SRI (socially responsible investment) standards and, for this purpose, combines financial and non-financial analysis.

Natexis Private Equity is a subsidiary of Natexis Banques Populaires, and has contributed some 3 million euros to the FCPR 3E funds – Emertec Energie Environnement. This is a start-up fund, intended to finance innovative companies in the energy and environment sectors that have a high technological content.

SGAM Private Equity takes sustainable development criteria into account, both in the field of biotechnologies as well as in that of technologies aimed at preserving the environment. This policy is supported by an ethics committee and scientific committees made up of people well known in their field. External audits are also carried out as required.

The papers on “Finance and sustainable development” are based upon the work done by the ORSE Finance Club.³

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Local authorities

What is it about?

Sustainable development claims to provide the answer to a number of questions, which initially are seen as global, although their solutions are very closely related to local situations.

Accordingly therefore, the local authorities appear as significant players. Everyone knows that they deal with areas that are important from the environmental standpoint. Waste disposal, water quality, transport, housing, urban development, and so on, are some of the topics where they play an essential role. In France they are also involved, through the Plan d'Aménagement et de Développement Durable (PADD) [Land Use Planning and Sustainable Development Scheme] and the Plan Local d'Urbanisme (PLU) [Local Urban Planning Scheme], in various urban development issues such as natural hazards, the risk of flooding, and so on.

The environment is becoming an increasingly dominant parameter in local decision-making. It generates questions about the sound basis of certain standards that local authorities have to apply, and is equally a source of pressure because managing the environment involves growing costs.

Since the state is contributing less and less to local authority funding, notably as a result of decentralisation, the financial sector sees its support role expanding.

Leading players

Sustainable development is a “fact” for local authorities as a result of the application of a large number of legal and regulatory provisions, in particular: the law of 25 June 1999 which provides guidance for land use planning and sustainable development, the law of 12 June 1999 on the strengthening and simplification of cooperation between communities, the SRU law of 13 December 2000 and that of 27 February 2002 concerning local democracy.

Moreover the regional authorities are involved in the mechanism concerning carbon emission quotas. In fact 215 urban heating installations are covered by the Plan National d'Allocation des Quotas (PNAQ) [National Quota Allocation Scheme]. Where these facilities are operated by contractors, the effect on the community is indirect insofar as the quotas may, ultimately, have an effect on the service providers' prices, and encourage them to reduce emissions arising from the operation of district heating systems. If the quotas “belong” specifically to local authorities (for example through the Sociétés d'Economie Mixtes – [Semi-public companies]), the impact is more direct: the communities will have to organise themselves in order to manage them and if possible optimise their operation.

In this way the local authorities are obviously involved in the sustainable development of the regions, even though there is clearly a considerable divergence in their commitment, according to their size, geographical location, and local issues.

Local players can be seen to have adopted a number of different approaches:

- A short-term risk management approach, where actions are based essentially on precautionary investment and the introduction of standards, against the background of increased criminal liability applying to elected representatives.
- A cost-reduction approach, based upon growing awareness that the local authority's financial management has improved, as a result of various funding programmes and projects.
- A more global sustainable development approach, enabling pioneering local authorities to construct a strategy of differentiation. They can introduce sustainable development progressively with reference to a specific topic (tourism, climate change, etc.).



INCORPORATING THE CRITERIA OF SUSTAINABLE DEVELOPMENT IN THE PROFESSIONS

Local authorities

Various systems and standard approaches are available to French local authorities to give them strategic guidance and assist them in implementing their sustainable development policy. They can also seek a non-financial listing, which may provide the opportunity to demonstrate their societal commitments with regard to investors, their local partners and, more generally, public opinion.

About one hundred authorities have introduced a local “agenda 21”, with the aim of attaining highly practical objectives in terms of social cohesion, environmental preservation and local economic development. This number should reach 500 within four years, according to the objective set out in the national sustainable development strategy launched in 2003.

Support from the financial sector

For the local authorities, support from the financial sector for either an isolated project or a more general approach is a key factor for success, particularly since the state is contributing less and less direct funding.

This support takes three major forms: funding local projects, assisting daily management, and offering special insurance products:

1. FUNDING LOCAL PROJECTS

The banks make their experience available to support local authorities develop their infrastructure and systems. Alongside “conventional” financial instruments, establishments have developed original approaches to deal with the issues that local players have to meet in France and abroad as regards protecting the environment, saving energy, urban renewal, social development, combating exclusion, and so on.

These approaches range from supplying decision-making tools to subsidized CO2 loans against climate change, and include:

- **Guaranteed debenture issues**, an arrangement that provides competitive funding in local currency and facilitates attracting local investors.
- **Funding projects as public/private partnerships**, enabling the public institutions to delegate the design, construction, management and maintenance of systems to private contractors in fields that require substantial funding, such as clean transport, water treatment, health or education.
- **Use of the Sofergies formula** (loan companies specialising in funding investment projects that result in energy or equipment savings related to environmental protection).
- **Special financial solutions** aimed at promoting high quality approaches to the environment by local authorities.

- **The creation and development of semi-public companies** or local investment companies to encourage the implementation of structural projects for regions and help the development of their means of action.

- **Investment funds intended** for example, to finance reductions in energy consumption or activities aimed at developing the artistic heritage, and so on.

Some of these approaches have been developed jointly with specialist bodies such as the EBRD (European Bank for Reconstruction and Development), the EIB (European Investment Bank), the Fédération Nationale des Travaux Publics [National Public Works Federation], the Agence Nationale pour l'Amélioration de l'Habitat [National Housing Development Agency], and so on.

To assess their interventions, certain banks use non-financial rating schemes that are beginning to appear in the world of local authorities. They can also develop their own evaluation system.

2. ASSISTANCE WITH DAILY MANAGEMENT

Banks can provide all local players with **a broad range of products and services intended to make their management more efficient:**

- Managing bank debits/credits, account management
- Cash flow management
- Assets/liabilities management
- Supply of instruments

Banks also support local authorities in their social and solidarity policies by supplying a range of services aimed at improving the well-being of public servants and citizens in the local community.

Finally, it offers solutions for facilitating the daily lives of the public.

3. OFFERING SPECIAL INSURANCE PRODUCTS

Insurance companies, for their part, focus their efforts on **prevention**: the supply of information about the changes in regulations affecting, for example, the responsibilities of mayors as regards the safety of goods and people; execution of personal diagnoses and risk analysis; advisory services, and so on.

They also offer **a wide range of solutions aimed at insuring communities against the risks** to which they are exposed:

- Risks inherent in the liability (civil and criminal) of elected officials
- Risks incurred by the local authorities themselves: the question of liability related to environmental damage; exposing those living nearby to danger.
- Inherent risk to community officials: the question of their civil liability for personal errors or their criminal liability in the exercise of their functions.

References and internet links

THE AGENCE DE L'ENVIRONNEMENT ET DE LA MAÎTRISE DE L'ENERGIE (ADEME) [THE ENVIRONMENT AND ENERGY MANAGEMENT AGENCY]

ADEME is a public industrial body under the joint authority of the ministers for the environment, energy and research. Its task is to encourage, sustain, coordinate, facilitate or conduct operations aimed at protecting the environment and managing energy www.ademe.fr

THE AGENCE RÉGIONALE DE L'ENVIRONNEMENT ET DES NOUVELLES ENERGIES (ARENE) [REGIONAL AGENCY FOR THE ENVIRONMENT AND NEW FORMS OF ENERGY]

ARENE for the Ile-de-France département (county) is a body linked to the regional council, with the role of assisting in the introduction of sustainable development policies in Ile-de-France. Its task is to raise awareness of environmental matters, to assess the importance of new practices and assist in trying them out. www.areneidf.org/index.htm

THE ASSOCIATION ECO MAIRES [ECO-MAYORS' ASSOCIATION]

The Eco-Mayors encompass and act for and with nearly 700 communes or Etablissements Publics de Coopération Intercommunale (EPCI) [Public Bodies for Intercommunal Cooperation] wherein the elected officials have opted to incorporate the environmental and sustainable development approach as priorities in their policy. www.ecomaires.com

THE ASSOCIATION RESPECT [RESPECT ASSOCIATION]

This association makes available to local authorities the method known as "r.e.s.p.e.c.t. (Référentiel de Suivi et d'Evaluation des Politiques Environnementales des Collectivités Territoriales) [Monitoring and Assessment Framework for the Environmental Policies of Regional Authorities] with a view to drawing up, implementing, monitoring and assessing their regional policies in the field of the environment. www.respect.asso.fr

THE EUROPEAN INVESTMENT BANK (EIB)

The EIB is an independent financial institution set up to fund investment projects that assist the attainment of the European Union's objectives: contributing to integration, balanced development and economic and social cohesion of member countries. It borrows funds from the capital markets which it then directs to the funding of investments in line with the European Union's objectives. www.bei.org

THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)

The EBRD is the leading investor in central and eastern Europe and in the CIS. Large projects are funded directly by the bank while more modest transactions usually involve financial intermediaries. By helping local commercial banks and institutions specialising in microbusinesses and by supporting the investment and loan funds, the EBRD contributes to the funding of many hundreds of thousands of small projects www.ebrd.com/francais

THE 21 COMMITTEE

The 21 Committee – an association under the French law of 1901 – was set up in 1994 at the initiative of Michel Barnier, then minister for the environment, to help bring to fruition the French undertakings at the Rio Earth Summit. Since then it has considerably widened its network and today has more than 300 members, distributed into four colleges (companies; communities; associations, personalities and members by right; public bodies and the media). www.comite21.org

THE EUROPEAN INVESTMENT FUND (EIF)

The EIF is the European institution that provides SMEs with the investment capital instruments and guarantees to permit their establishment, growth and development. This is done from the EIF's own funds or with funds obtained from warrants on the EIB or the European Union. www.eif.org

OREE

For the last 10 years, Orée has united businesses and communities with a view to developing joint thinking about the way in which the environment is taken into account by these players and, in particular, environmental management and its application at regional level. www.oree.org

Associated papers

This paper is illustrated by a selection of good practices applied by financial players in France and elsewhere. They are listed on the website: www.orse.org

The papers on "Finance and Sustainable Development" are based upon the work done by the ORSE Club Finance.

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Local authorities Good practices

Through its network of regional banks and specialist subsidiaries, the Banque Populaire Group gives its support to local development:

- for routine management (short-term credits, bridging loans pending the payment of grants or repayment from the VAT compensation fund (FCTVA) and so on),
 - for medium- and long-term development (fixed-rate or flexible loans, multi-index facilities, leasing of property/fixtures and fittings, Sofergie, and so on),
 - for funding infrastructure projects (car parks, incinerators, waste treatment plants, sewage plants, and so on).
- A current initiative in Alsace is to offer the ecological loan, PREVair, over 15 years to local authorities that invest in renewable sources of energy and environmentally friendly buildings.

These investments are put before the PREVair Committee made up of environmental experts independent of the bank.

The Group is also developing a meaningful social engineering policy which involves providing a range of services and vouchers to civil servants and the public in local authorities (restaurant cheques as a contribution to employees' meal costs, social vouchers to encourage family jobs at home, inter-services vouchers to facilitate social activities, and so on).

The **Caisse des Dépôts** is involved, through its decentralised funding department, in two sectors that are useful to local authorities: first of all, property, housing and urban renewal; secondly, infrastructure and digital services. It is also active in forming partnerships with local authorities and supplying local services.

• **Property, housing and urban renewal**

As part of its long-term activities in support of local authorities aimed at paving the way for the implementation of projects to restructure their areas (conversion of industrial sites, leisure and tourist activities, and so on) and to assist the development of their means of action, the Caisse des Dépôts regularly invests in the creation and development of semi-public companies or local investment companies.

It is also active in the field of urban renewal, through contracts with the government in support of priority areas of the town's policy, or through partnerships with the Agence Nationale pour l'Amélioration de l'Habitat (ANAH) (National Agency for the Improvement of Housing). The Caisse des Dépôts has also helped in forming public-private partnerships for the development of private property investment, intending to bring forward activities in the areas of services, production, trade and distribution.

• **Infrastructure and municipal services**

The Caisse des Dépôts is involved as an investor in equity capital or quasi equity capital in the schemes for digital development in particular areas. It is also taking part in developing internet services for local authorities (for example: the Achatpublic.com marketplace, the service for decentralising public markets, involvement in preparing the national, strategic plan for electronic administration, and so on).

• **Partnerships and local services**

Along with "Mairie-Conseils" (Town Hall Advisory Services) the Caisse des Dépôts can provide communes with a help and advisory service. The Caisse also runs the "Entreprise, territoire et développement" ["business, land, and development] association which is responsible for encouraging good practices in land projects and a professional attitude from those involved.

The Caisse des Dépôts is testing, in partnership with **Dexia** and the Véolia Group, a system enabling local authorities to play an active role in reducing emissions of greenhouse gases. This system can provide assistance with the funding of investments aimed at reducing greenhouse gas emissions from urban heating systems, applied by local authorities, through the financial value of the quotas released by the investments for which the Caisse des Dépôts acts as guarantor.

In concrete terms, the scheme applied is the following:

Dalkia (Véolia group) offers the local authority an appropriate technical solution according to its installations, calculates the reductions in emissions produced, and pays the local authority the value of the quotas saved.

- The Caisse des Dépôts purchases the emission quotas saved through the project.
- Dexia funds the investment in the form of a loan on which the charges are reduced by the value of the saved quotas.

The **Caisse d'Epargne** (Savings Bank) Group has developed a new range of funding arrangements:

- Structured Bonifex loans appropriate to all funding strategies for new investments and for debt management.
- Developed by Ingepar, a subsidiary specialising in structured maritime and aircraft funding schemes, an arrangement to meet the transport requirements of the regions.
- The CNCE [central body of French national savings bank] has a partnership with the European Investment Bank (EIB): this arrangement made available, at the end of 2003, a long-term total of 400 million euros for funding aimed at education, health, social action, transport, urban development, waste treatment, and water management.

As regards the environment, the CNCE has had a partnership since 2002 with the Fédération Nationale des Travaux Publics [National Public Works Federation]. The aim here is to help local authorities pay more attention to preserving the environment in their investments. For example, in the Priorité Environnement [Priority to the Environment] loans, the CNCE made available to local authorities a total of 300 million euros. The CNCE is also involved in funding social housing.

This range of funding schemes is extended by various banking services, for example:

- G2D, a real-time system for managing local authority debt,
- *ServicePublicPlus* (SP+), a secure payment server allowing residents to make on-line payments for municipal services, such as nursery schools or school canteens,
- *Ligue de Trésorerie Interactive* (LTI) [Interactive Budget League], which is intended rapidly to mobilise short-term finance and to manage its use.
- *Crystalis*, an automated budget management service.

Dexia is running a number of information and awareness campaigns concerning sustainable development (guides, magazines, seminars, research projects, and so on). The annual operation of the Rubans du développement durable [pathways of sustainable development] seeks to draw attention to the actions taken by local authorities that best contribute to the sustainable development of the regions.

Dexia also provides long-term support to local authorities through a number of products and services that help facilitate access to essential goods and the funding of local infrastructure.

At the same time, the bank offers different services (notes on the economic situation, service agreements, investigations and simulations, etc.) to assist local authorities analyse their financial situation and their margins for manoeuvre in a more appropriate way.

As far as funding is concerned, Dexia can intervene in two different ways: first by directly funding local authorities, or by funding private operators under structured financial schemes or in public-private partnerships (in France, under the Order of 17 June 2004), particularly for specifically environmental projects (renewable energy sources, water, waste, own-track transport systems, and so on).

As regards renewable energy sources, Dexia has been involved since 2002 in the funding of more than 30 wind projects in nine countries (Spain, Italy, France, Belgium, United Kingdom, United States, Morocco, Australia, and Portugal), taking the lead role in half of them. By 31 December 2004 Dexia's contribution in this sector exceeded 350 million euros, corresponding to a total investment of more than 3 billion euros (of which approximately three-quarters have been funded by the banks). As for climate change, the Group has developed a number of approaches in France, Slovakia, Austria and in the countries of Central and Eastern Europe.

Finally, products and services more particularly related to the quality of the environment (partnership with Qualitel and CSTB), the long-term rental of own vehicles (with Dexia Long-Term Rental) and the restoration of public dumps (financial guarantees). The Group has also developed further schemes for raising credits (with Financial Security Assurance Holdings (FSA)) and through share arrangements (with the establishment of a "public sector shares department").

Already a partner since 2003 in the HEQ [High Environmental Quality] Association, with which the bank published a guide on "Environmental Quality" at the end of 2004, Dexia Crédit Local recently signed two partnership agreements to promote the HEQ approach with local authorities:

- With the CERQUAL association on the certification of new housing, in order to offer special funding arrangements to social housing bodies committed to environmental quality certification, for the building of blocks of flats and housing estates.
- With the Centre Scientifique et Technique du Bâtiment (CSTB) [Scientific and Technical Centre for Housing] in order to offer appropriate funding schemes for operations carrying the new "NF bâtiments tertiaires – démarche HEQ ®" [French Standards for Service Buildings HEQ® Approach] certification. This agreement applies in France to buildings in the public services sector such as town halls, schools, and administration buildings, built in France by local authorities and other public bodies.

Finally, we may report a number of different social engineering products and services that support the activities of local public bodies that are in the general interest: an innovation rental-accession product in social housing, limited-period savings accounts and retirement contracts (with Dexia Epargne Pension), and the optimisation of human resource management (with Dexia Sofaxis).

http://www.dexia.com/docs/2005/20050511_AG/VoletC_FR/20050511_VoletC_FR.pdf

The Crédit Agricole supports investments by local authorities by proposing them:

- Special made-to-measure funding arrangements and derivative products concerning the environment, public transport, social housing, car parks, debt management, and so on.
- A structured range of loan arrangements: Sagélan, Modélan and Librélan.

It can also supply a range of services intended to make public management more efficient and to enhance the quality of the services provided to the public: cashless exchanges, use of the internet in schools, and public purchasing cards.

It is also involved in informing the electorate through the lettre aux Maires et Elus Locaux [Letter to Mayors and Local Councillors] and the Brèves du Crédit Agricole [the Crédit Agricole briefs].

Groupama focuses its local authority policy on its support for preventive risk management. For this purpose, it has a dedicated “prevention” section. Its support takes various forms:

- **Conduct of diagnostic investigations on “damage” risks**

These investigations are intended to identify risks, rank priorities and offer suitable practical solutions.

- Supply of useful information

Since 2002, Groupama has been circulating the “Guide Info-Maires” [town hall information guides] to help elected representatives cope with the increasing risks and the growing complexity of city management. It consists of topical papers covering sensitive areas, for example playgrounds, traffic in towns, and the offence of preferential treatment. Each booklet is illustrated by concrete examples, a review of regulations, and the liability of councillors and their commune.

- Provision of advice and assistance in the form of technical support

The areas covered are, for example, assistance with the introduction of risk prevention schemes, fire, anticipating and managing crises, automobile risks, electronic security of goods, and so on.

The “prevention” section also provides training in risk management in local authorities for those involved in prevention within the company.

The other aspect of Groupama’s policy with regard to local authorities concerns the supply of a range of insurance approaches aimed at protecting the elected representatives and officers of local authorities (civil servants and managers) as they go about their work, as well as the regional authorities themselves as regards all their risks (including environmental damage).

The Belgian government has created a body known as **FEDESCO** which invests - as an outside investor - in the energy improvement of public buildings (to begin with).

In practice, FEDESCO finances modifications made to the client’s building aimed at energy savings, using both public resources and private capital. The cost of the investment is repaid to FEDESCO from the reduction in the energy bill.

Similar arrangements exist in the United Kingdom, Switzerland and Germany.

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PRIVATE CLIENTS

What is it about?

Private individuals, backed up by consumers' associations, have very specific expectations from towards the financial organisations: they want to be listened to, they want to be given good advice, provided with transparent information, dealt with in an equitable fashion, and so on.

In response, the financial organisations have introduced quality approaches aimed at improving customer relations and working procedures, making them more simple and secure, and thereby strengthening consumer confidence. However the financial sector also has a role of information and support through its networks and its supply of products and services directed towards sustainable development.

Precise expectations

Individuals are concerned by sustainable development in two ways:

- as citizens, their daily lives involve them in the major issues of society regarding the future of the planet (energy consumption; modes of transport used; involvement in waste recycling, and so on)
- as consumers, they have specific requirements as regards the activities and performance of the companies they are clients of.

There are already a number of examples showing that a significant majority of people have incorporated ethical criteria into their purchasing activities and the brands they consume, with the result that any shortcomings are liable to lead to a kind of boycott.

Towards the financial sector in particular, individuals have increasingly precise expectations:

- first of all, they want those in the financial world to listen to them so that by better understanding their needs they will be able to provide advice and solutions appropriate to their situation
- next, they also expect transparency. First of all they want to be informed in a clear and straightforward manner about the advantages – as well as the risks – of the products and services available, and about their cost. This demand for transparency also applies to the activities and achievements of the companies they approach to manage their affairs
- they also want to be dealt with in an equitable manner as part of a relationship based upon mutual trust
- finally, they continually need to be reassured about the efficiency of the services provided.

Preserving an image

If the financial professionals are to respond in the best possible way to these expectations, they need:

- to improve their image, which has been more or less badly treated by the repeated campaigns driven by the consumers' associations (for example, the criticism of the banking establishments at the end of 2004 by UFC Que Choisir led to a reaction by the public authorities and the adoption of a plan of action committing the entire profession
- to protect themselves against legal proceedings for reason of poor advice, which have tended to increase in number, notably as regards equity investment
- and finally, to retain the loyalty of their clients.



INCORPORATING THE CRITERIA OF SUSTAINABLE DEVELOP- MENT IN THE PROFESSIONS

Private clients

A policy of service quality

The financial establishments have certainly well understood the situation and since several years ago they all introduced quality approaches aimed at turning their clients into veritable partners in the “sustainable development” commitment.

These approaches vary according to each company’s culture and dedication but they do nevertheless show a certain number of common characteristics in terms of orientation, which we can summarise under two headings:

1. IMPROVING CUSTOMER RELATIONS

There is really no question about it: a service company must be truly commercial and customer-orientated rather than technically minded and focused on its products.

The players in the financial sector construct this customer orientation as follows:

- **by adapting their structure and methods so as to meet the expectations of customers.**

In this way the requirements of security, discretion and speedy transactions have, over time, modified the actual design of the points of sale. Efforts have also been made to make relations more personal, particularly by introducing special advisors so that the client has a single, contact at senior level. At the same time, multimedia customer relations centres have appeared as well as After-Sales Services or special “hot lines”. With longer opening hours, these units are open all day, thus meeting customers’ desire for support and assistance.

- **by enhancing their “listening” apparatus.**

It is vital to determine how satisfied the customers are. To this end the banks and insurers have increased the number of their monitoring systems (sending paper questionnaires to people’s homes; telephone or even internet surveys; individual face-to-face enquiries, and so on). These methods provide guidance and represent essential progress towards a good quality policy.

- **by making it easier for customers to complain**

Dealing with complaints is a major commercial action. It forms part of the process of securing customer loyalty. It is therefore essential to have a system for receiving and dealing with complaints. This can be more or less ambitious according to need: from a simple question concerning satisfaction at the point of sale, up to a structured consumer department. If the complainant is dissatisfied with the response from his bank or insurance company, he may have recourse, free of charge, to a mediation service which, since the MURCEF (Mesures Urgentes de Réformes à Caractère Economique et Financier) [Urgent Economic and Financial Reform Measures] of December 2001 now covers the entire financial sector.

- **by optimising their ethical arrangements as regards not only the design of products and services but also their marketing.**

Increasing attention is paid to providing customers with satisfactory information about the hazards of offered products or services, as well as on their prices. This increased attention affects not only advertising, both exterior and at the point of sale, but also contractual documents. Regulations require the advisor, before selling financial instruments, to assess the competence and qualifications of his customer, to avoid being held liable for faulty advice and his image question.

2. MANAGING THE QUALITY OF SERVICES

Managing quality is a continuous process. It involves the deployment of quality assurance techniques, that intend to build confidence in the fact that the quality requirements will be fulfilled. The standard example is ISO 9001 certification (certification of quality management systems). Quality assurance may also take the form of quality undertakings, which may involve internal service level agreements between departments or customer services and suppliers. In this way they agree on the levels of service to be attained and together measure the performance that results.

The consummation of such quality management is the ability to enter into an undertaking with clients through a quality charter, where the commitments it contains may possibly be the subject of external certification (certification of service).

In the financial sector, adapting a company's performance, organisation, operating practices, etc., to the requirements of individuals is clearly the essential condition for attracting and retaining – in the long term – the confidence of this type of client.

The ISO 9001 standard

The ISO 9001 standard is a methodological tool intended to make continuous improvement a reality. This approach unites the process method and "listening to the customer", thus stressing the importance of the search for the spirit of the profession and of the role of each individual in producing value.

A drive and incentive role

However, its contribution to sustainable development does not stop there. The financial players have a drive and incentive role to play by offering private clients, through their networks, products, services and finance that reflect an approach of responsibility to society.

This contribution can be illustrated by three examples:

- the activities of the insurers in preventing risk in fields as varied as health, motor vehicles, etc....
- the provision by bankers and insurers of responsible investment vehicles: SRI funds naturally (see special paper), but also other formulae such as savings accounts the balances of which are used for investment in projects contributing to sustainable development
- and their contribution in the form of credits and/or insurance contracts dedicated to the achievement of energy savings and to sustainable construction and hence, ultimately, to the fight against the greenhouse effect.

These initiatives are still limited in extent; they reflect a consumer demand that is still relatively modest, perhaps owing to the lack of adequate information and awareness. There is no doubt at all that a concerted approach between the various players (banks, insurers, public authorities, regional communities, representatives of the construction sector, consumers, and so on) must be strengthened, in order to bring together the conditions necessary for moving the present experimental phase into an industrial phase.

The public authorities nowadays rely heavily on the financial sector to support government action in favour of the environment. Put more precisely, the 2004 Climate Plan states that "the ministry of economics, finance and industry, the secretariat of state for

housing, and the ministry for ecology and sustainable development will work together with the banks and the principal players concerned (business and consumers) with a view to proposing that the flow of funding into property should be diverted towards energy and climate issues. Consideration will be given to measures for utilising savings with a view to funding projects of energy economics."

ADEME and ARENE for Ile-de-France have taken the initiative of starting to consider these topics with a few of the relevant players. This has produced an initial list of economic and financial instruments liable to be applied in the short or medium-term:

- property loans at preferential/reduced rates
- modified loans (for example "with delayed repayment" to make allowance for the longer duration of prior studies)
- collection of special savings (separate from regulated savings)
- partial allocation of regulated property savings (building society savings plans, etc.) to sustainable construction
- partial allocation of regulated property savings (building society savings plans, etc.) to sustainable construction
- offer of insurance covering the performance guarantee (energy, internal air quality)
- etc.

References and internet links

AFAQ/AFNOR

LFAQ/AFNOR skills cover four complementary areas:

- standardisation
- the publication and circulation of information products
- training
- certification

The SD 21000 guide sets out recommendations for the inclusion of sustainable development issues in the strategy and management of businesses (of any size), government departments, various organisations and so on.

www.afnor.fr/sd.asp?lang=English

ASF

The Association Française des Sociétés Financières [French Association of Financial Companies] was established in the regulatory framework set out in the banking law of 24 January 1984. On behalf of its members – financial companies, specialist banks and investment companies – it promotes specialisation in the area of banking credit. It supports the continuous diversification and move towards greater complexity in banking techniques and the areas affected that drive an economic sector where innovations cannot be protected by patent. Today the ASF concentrates mainly on its role as an intermediary. In 1997, following agreement with the consumers' organisations, the credit professionals and the government, it developed the first quality standard system in the financial services sector, known as the "Quality-credit" label www.asf-france.com/default.asp

BVP

The Bureau de Vérification de la Publicité [Advertising Verification Bureau] has issued recommendations for drawing up rules governing self-regulation in advertising, with reference to sustainable development and corporate social responsibility.

www.bvp.org/html/portail_public/textes_reference/recommandations/viewreco.php?id=30

FBF

The Fédération Bancaire Française [French Banking Federation] is the professional body that represents all the banks with premises in France. Its members total nearly 500 banking organisations of all kinds (commercial, cooperative or mutual), French or foreign. The FBF has four major functions, reflected in its fourfold organisation:

- information service for members
- research and other activities in banking and finance
- communications and external relations
- European and international affairs

www.fbf.fr - www.lesclesdelabanques.com

FFSA

The Fédération Française des Sociétés d'Assurance [French Federation of Insurance Companies] is a professional body established in 1937: it comprises 301 businesses, representing limited companies, mutual insurers and branches of foreign companies involved in insurance and underwriting. The FFSA covers five major areas:

- representing the interest of the profession
- acting as a focal point for its different partners
- setting up joint studies of technical, financial and legal problems
- informing the public
- promoting safety activities (through the road safety association, the National Centre for Safety and Protection (CNPP) and the insurers' safety and health association (APS))

www.ffsa.fr

ISO

The International Standardisation Organisation is a non-governmental body and consists of a network of national standardisation institutions from 150 countries, on the basis of one member per country. The best known ISO standards are the ISO 9000 series which pertain to quality in relations between companies, and ISO 14000 which deals with environmental management. There are other standards, such as that for the management of safety at work (OHSAS 18001) and eco-design (ISO/TR 14062). At present, an international standard setting out guidelines on social responsibility is now being drawn up

www.iso.ch

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Private clients

Good practices

Service quality policies

Improving bank-client relations

At the end of 2004, the French banks proposed a number of measures intended to improve their relations with clients. The actions decided upon were intended to make the bank more transparent and more simple, and to satisfy certain essential priorities:

1. To improve everything that might enable the client to judge the competitive position:

- to improve information on costs and make it more accessible, for example in branches, by means of displays and brochures detailing costs, and on their internet site;
- to make account statements clearer: a visual code will be used to indicate costs on the account statements to make them easier to read;
- to facilitate comparisons: for the most routine operations some fifteen terms have been defined for standard use by the banks and their clients;
- to help clients change bank: in this context, the banks undertake to close all current, passbook and similar accounts free of charge; they are also providing their clients with a guide to changing account that explains what needs to be done, and the precautions to be taken when changing establishment.

2. To improve information on bank products and services:

Every French national having a bank account should have the bank's agreement to open a deposit account. The banks have undertaken to implement ways and means of generalising this approach.

Mediation

Mediation has become a common method of resolving conflicts between financial sector organisations and their clients. Following in the wake of the insurers who adopted a mediation charter in 1993, and the financial companies who did the same thing in 1995, the system was extended to all banks in December 2001 in application of the law known as "MURCEF" (urgent reforming measures of an economic and financial nature).

This kind of system already exists in a number of European countries, such as Belgium (the Ombudsman function was created in 1990 by the Belgian Banking Association) and the United Kingdom (the insurance Ombudsman was established in 1981 and that for banking in 1985).

The aim of mediation is to offer a solution other than having recourse to law. Mediation is a process wherein an independent third party (the mediator) offers the two disputing parties a solution based on equity. This solution is not binding except in special cases when the opinion handed down is mandatory on the bank or the insurance company.

From the client side, mediation is one way of reinforcing consumers' rights. Through mediation they obtain a (free) service which seems to facilitate settlement of disputes between them and the company. It enables equilibrium to be restored between client and company insofar as the mediator deals with the two parties in the same way.

From the standpoint of the financial organisations, mediation is a factor in increasing economic performance. By individualising the resolution of disputes, mediation can make it possible to avoid collective disputes that are expensive in financial terms and even more so in terms of image. It is also a way of securing client loyalty.

Expressing the wish to take the sting out of disputes is a sign of respect for the client.

Measuring client satisfaction

AXA created an instrument in 1999 for gauging client satisfaction. Known as Customer Scope, it has been made available to the companies in the group. At the end of 2003, this approach was being used by nineteen of these companies in twelve countries. The strategic need to monitor the performance of the Group led to the creation of a consolidated Group Key Performance Indicator (KPI) whereby it will be possible to monitor the overall level of satisfaction of AXA clients from one year to the next.

BNP Paribas has a variety of indicators. So-called “barometers” were established to measure the perceived quality of service following the introduction of recent systems such as the Centres for Customer Relations and the Centres for Business Affairs. In the same way the annual barometer measuring the satisfaction of private clients was subdivided in order to provide relevant information at the level of each of the operational entities.

In 1987, **Crédit Agricole** introduced tools for measuring client satisfaction. Every two years it carries out surveys on behalf of the regional offices covering individuals, farmers, tradesmen and professionals, companies and local communities. Each regional office can also regularly measure the degree of satisfaction of its different types of client at branch level using standardised “qualitests”. It is also able to expand the “relations with individual clients” dimension by means of a particular survey called *Météo Régionale*.

Société Générale operates a monitoring system at two levels:

- Nationally, an annual “barometer” of competitive satisfaction for each of its three main types of client: individuals, tradesmen and professionals, and companies
- Locally, surveys conducted once a year with individual clients at each sales point.

Crédit Coopératif has just commenced a client satisfaction survey to measure the degree to which a client is made welcome and the amount of attention he/she receives in a branch, as well as his/her perception of how the solidarity values set out in the advertising matter are adhered to, once a solidarity product has been bought by a new client. The aim is that every new client be in the position to express his/her reactions in the months following the purchase.

Quality assurance

Organisations in the financial sector have laid stress on quality assurance with the aim of ensuring continuous improvements in the level and security of the services provided to clients. To this end most establishments have developed substantial programmes for ISO 9001 certifications.

In order to ensure even greater client satisfaction, **AGF** has begun having its sales points certified.

BNP Paribas has been operating an ISO policy since 1994 which resulted in about sixty certifications over ten years.

By the end of 2004, the **Crédit Agricole Group** had obtained 26 ISO 9001 certificates.

At the end of 2002 **Dexia Sofaxis** introduced an integrated management system covering Quality, Security, and Ethics (QSEE), based upon an integrated version of the ISO 9001 (quality), ISO 14001 (environment), OHSAS 18001 (security and health at work) and SA 8000 (social and ethical responsibility) standards. In October 2002, Dexia Sofaxis was awarded the European Quality Prize by the European Foundation for Quality Management (EFQM).

A typical quality charter

The quality charter is a document setting out a company’s commitment to its clients.

In September 2001 Société Générale launched such a charter for all its individual clients. This charter is based upon three undertakings that correspond to the principal expectations of clients in terms of quality of service:

- Commitment n° 1: “To offer you the relationship you are expecting”
- Commitment n° 2: “To provide you with advice in the good times as well as in the bad”
- Commitment n° 3: “To simplify banking for you”

These undertakings are based upon eleven “concrete” proofs, for example:

“Are you dissatisfied with a service or the way in which it has to be used? Within three months of its commencement, we undertake to repay you the amount of your subscription.” And again “if you change your Société Générale branch, the administrative formalities are simplified because your account number will not change...”

Dedicated offers

Development and prevention in insurance

Quite apart from the services traditionally offered against payment, the offer of free services that really do introduce added value can constitute an important factor in the process of securing client loyalty. Some of these services form part of a “societal responsibility” approach.

With the creation of Santé Conseil Service [Health Advisory Service] in 1999, AGF offers all its health policyholders a range of free services enabling them to obtain fair prices in their health expenditure thanks to the advice of specialists, or to obtain preferential charges and services as well as a free service to a member doctor-dentist. Similarly, as regards prevention in motor insurance, AGF organises post-licence operations and offers refresher courses to experienced drivers.
www.agf.fr/developpementdurable

Aviva has a “health web” website, which clients can access free of charge. They describe their symptoms and obtain an immediate on-line diagnosis. This service can also arrange access to a doctor within 24 hours.

AXA, with **AXA Prévention**, is working to enhance road safety by launching a series of activities for children (circulating awareness documents, conducting surveys, and so on) for young drivers (driving lessons, providing a *first motor insurance kit*, and so on), for all those with motor insurance (providing the “friendly logbook for driving in complete safety”, ...) and for the employees of AXA France (awareness campaigns and training courses aimed at strengthening the safety culture in the company).

Groupama has built up the provision of training in and raising awareness of road safety, aimed particularly at young people (the Centaure network which can make the driver more aware by re-enacting principal accident situations; *10 out of 10 for the young driver* intended in particular to test the knowledge of the highway code of young people between 16 and 18, *10 out of 10 for rural driving* (to teach young people how to drive agricultural machinery safely).

Groupama also offers a range of services covering prevention, improving the quality of care and reducing costs (examples: Groupama Santé Active, [Groupama Active Health], a supplementary insurance scheme for health costs; Groupama Partenaires Santé [Groupama Health Partners], aimed at improving coordination between GPs and policyholders).

Support for policyholders

For **Aviva**, support for the policyholder goes beyond reimbursing their actual costs. In Canada and in the United Kingdom, the insurer brings in a team of experts to assist the victims of serious road accidents to resume their normal activities as soon as possible.

In 2004, **Hibernian**, the Irish subsidiary of Aviva, began the re-education programme known as “back on your feet” for employees who were victims of accidents at work. The programme enables them to resume their activities as quickly as possible through more appropriate reviews and follow-up. The aim is to extend this programme to the victims of road accidents during 2005.

CNP Assurances is the main shareholder of the Age d’Or Services [Golden Age Services] network, which offers old people a varied range of services as an effective bulwark against isolation and dependency. These services, which are offered by 75 franchised companies in France and Belgium, meet routine or foreseeable needs (mobility aids, walks, home deliveries, small domestic tasks and gardening, and help in the home) or an urgent and unexpected situation (returning home after hospitalisation, installation of remote assistance systems, assistance services).

Dedicated insurance

MAAF offers the drivers of “ecological” cars (powered by electricity, hybrid systems, LNG or NVG¹) a special car insurance premium known as Pur Bonus [Pure Bonus], which attracts a discount of 100 euros on the first payment of their car insurance.

¹NVG = Natural Vehicle Gas
LNG = Liquefied Natural Gas

Norwich Union Insurance (Aviva Group) offers car insurance in a form known as Pay as you drive, whereby policyholders benefit from customised premiums. Using a black box installed in the vehicle, the insurer measures the frequency, time of day and location of use of the car and calculates the monthly insurance premium accordingly.

Dedicated loans

Through the **Banque Populaire d'Alsace**, for the benefit of its individual clients, the Banque Populaire Group has developed *PREVair Construction* loans, which facilitate investments of the property type that seek to protect the environment. The loan extends over 15 years for new construction and 7 years for renovation work and benefits from a preferential rate using the bank's own funds. This approach, using incentive loans for the environment, has been the basis of the first public-private partnerships for ecological funding with:

PREVair ADEME: the principle is the same as PREVair Construction, but some ecological criteria can be financed at a fixed rate of 2% over 15 years for new construction and over 7 years for renovation work. This experiment is a preliminary to the introduction of the first call for tender of preferential loans launched by ADEME at national level and forming part of the Climate Scheme.

PREVair CESI 0%: An agreement reached with the Regional Council of Alsace is intended to encourage the installation of 1,000 individual solar water-heating systems in Alsace every year. This arrangement with the bank will enable the beneficiary to finance the investment, receive the appropriate grant, form an ethical savings scheme, and pay reduced monthly reimbursements. Prior to this partnership, any individual seeking funding had first to request a grant and then separately seek a loan at a rate which varied from bank to bank.

The Regional Council of Alsace sought out the bank that could offer the most attractive funding for individuals through this kind of "call for bids".

Another aim of the partnership is that the bank should also be the distribution channel for the grants (450 euros/project) from the Region, and it is proposed to use a proportion of the grant to reduce the interest rate on the loan from 3.25 to 0%. In this way, the client receives his/her grant in the form of a no-interest loan (very attractive for repayment over a long period) with a balance from which the first payments can be made.

Thus, the individual in Alsace will be able to obtain a 0% interest loan for the investment in addition to the tax credit.

This system of ecological loans is now being generalised to other regional Banques Populaires.

The **Crédit Coopératif** has developed a property loan scheme known as "Quinoa Eco-habitat" intended for any individual, or property investment group of the family type, wishing to purchase a principal or secondary residence for personal or rental use. The client will have an annual opportunity for modifying the repayments.

Sustainable Development Works Loans from the **Caisse d'Epargne Group**: to assist its clients wanting to install a solar water-heating system, for example, a low temperature floor-heating system, high-performance exterior insulation, and so on, the Caisse d'Epargne in Languedoc-Roussillon offers a works loan under attractive financial conditions.

SOLFEA, a subsidiary of Gaz de France and the Lafayette-Laser Group, has established a "sustainable development" Dolce Vita loan. Supported by Gaz de France, this loan is reserved for individuals who own their dwelling, in order to pay for renewing their individual heating/hot water installation using natural gas (low temperature or condensing boiler with or without solar water-heating or combined solar systems).

In Germany, loans at preferential interest rates for funding sustainable private buildings have been available since 1996 under the auspices of the **Kreditanstalt für Wiederaufbau-KfW**, a public bank owned jointly by the Federal government and the Länder [states]. The loans are made available by the commercial banks. The reduced interest rates are made possible by public funds allocated under multi-annual programmes.

In the United States, a public body defines and certifies the energy level of dwellings, according to which "energy efficiency" loans may be granted. This system of loans offers reduced interest rates or enables the person buying the dwelling to borrow larger sums by including in his/her ability to take on debt the financial savings arising from the energy efficiency investments made.

Dedicated savings

In order to fund the PREVair loans, the **Banque Populaire d'Alsace** in 1999 established a dedicated resource, the CODEVAIR savings book. CODEVAIR means more than a simple investment: the client gives meaning to his/her savings by using them in regional projects for improving the ecological impact of companies and of individual housing. The funds building up in CODEVAIR are used only for financing PREVair loans. In 2004 CODEVAIR obtained the FINANSOL label. The CODEVAIR formula is now being deployed throughout the Banques Populaires Group.

Green Funds: in the Netherlands, the first loans at preferential interest rates dedicated to funding “sustainable development” projects were granted as part of the tax-free “green funds” system set up in 1995. The banks that have established a Green Fund periodically issue savings invitations. They are then required to redistribute at least 70% of the funds collected within three months to fund “green investments” (sustainable construction, renewable forms of energy, biological agriculture, and so on). It is up to the government to certify that the projects adopted do in fact fall within the category of eligible projects.

Raising awareness of the issues

ING is seeking to improve its employees’ knowledge of environmental issues by providing training on ground contamination, making this available to account managers in the field of mortgage products.

The papers on “Finance and sustainable development” are based upon the work done by the ORSE Finance Club.

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Socially responsible investment

What is it about?

Through socially responsible investment (SRI), the financial sector is contributing to a better understanding of the issues of sustainable development on the part of the companies in which it invests either on its own account or on behalf of its private and corporate clients.

SRI has made substantial headway since the 1980s and particularly since 1990. However it still accounts for only a relatively small part of funds under management, particularly in France (under 1%). This situation reflects the reticence still felt by a large number of investors who fear a degree of saintliness and are critical of the empirical nature of certain methods.

It does nevertheless appear as a credible alternative for long-term investment, given some clarification of wording and a greater degree of professionalism on the part of its promoters.

One may well think that SRI – having provided undeniable proof of its economic and financial effectiveness – will ultimately be part of corporate management to the extent that the very expression of “responsible investment” will disappear.

An already long history

The idea of socially responsible investment is not a recent one. Some people claim to trace its origin to the 18th century, when the founder of the Methodist Church, John Wesley, condemned the production of wealth from activities he regarded as wrong, such as gambling. However the practice of screening based on exclusion really took off in the United States at the beginning of the 20th Century under pressure from religious congregations who essentially tried to eject from their investment world what they called “sin stocks”, in other words shares in companies whose business was contrary to their values: tobacco, alcohol, weapons, gambling, and so on. These practices were revived again in the 1970s when investors boycotted companies connected to nuclear weapons, or the apartheid regime in South Africa.

With the democratisation of capital (i.e., the expansion of pension schemes through capitalisation, managed jointly with trade unions), the concept was further broadened and developed during the 1980s/1990s.

From an exclusion approach seeking to shun certain activities seen as morally wrong, the concept was extended to take into health account problems, the environment and society in general.

In parallel with a rejection approach, it evolved towards an approach of positive choice and selection, first based upon environmental and then societal criteria. Alongside this broadening and development, the initiatives became more professional. Thus powerful ethical funds managers emerged in the United States (the Calvert Group, Citizens Fund, and so on) and a first “responsible” stock exchange index was established in 1990: the Domini Social Index 400, built up from the classic Wall Street Standard and Pears 500 index.

The DJSI 400 was originated by a societal listing agency, KLD, founded by Amy Domini. These agencies are gradually appearing around the world to support investors in their socially responsible decisions: Arèse in France in 1997, about the same time as SAM (Sustainability Asset Management) in Switzerland, Eiris in the United Kingdom and Good Bankers in Japan. In the same spirit, banks and fund managers (Banque Paribas in Switzerland, Calvert Group in the United States, Storebrand in Norway, and so on) are setting up special departments for the societal listing of companies.

SRI gained further credibility in September 1999 when Dow Jones launched a stock exchange index focused on companies that were pioneers as regards sustainable development: the Dow Jones Sustainability Global Index (DJSIGI). The fact that an organisation as serious as Dow Jones should take an interest in sustainable development helped make the subject more credible in the traditional worlds of business and the media.

More recently, other financial establishments such as the FTSE, one of the world leaders in stock exchange indexes have also launched their indices indexes specialising in sustainable development, such as the FTSE, one of the world leaders in stock exchange indices, with (e.g. FTSEGood).



INCORPORATING THE CRITERIA OF SUSTAINABLE DEVELOPMENT IN THE PROFESSIONS

Socially responsible investment

On top of applying a socially responsible filter to their investments, an increasing number of fund managers are gradually becoming involved in shareholders' activism. In this approach, shareholders use their right to vote to force a dialogue with company directors and urge them to improve their governance, their management of the environmental risk or their image, through more ethical procedures. In certain cases, managers may initiate or support "responsible" resolutions raised at annual general meetings.

At the initiative of British and American investors, coalitions of shareholders are emerging, with a view to utilising their collective influence to put pressure on companies over social or environmental issues.

This is the case of the Carbon Disclosure Project, involving nearly 150 investors and worth over 20 billion dollars; it evaluates the policies of the 500 biggest world companies

with respect to climate change and the reduction of greenhouse gas emissions. The aim of this project, now on its third edition, is to show how the presence or absence of strategy in this field can affect the value of these companies.

Another example illustrates this form of collective commitment: the campaign known as "publish what you pay." This international initiative, started by about a hundred NGOs, seeks to encourage companies involved in oil, gas and mining to make public the sums they pay to the governments of the countries in which these raw materials are recovered. The objective is that capital should in fact go towards the development of the countries concerned. A number of major British and European investors are involved in the campaign.

A fragmented universe

The universe of socially responsible investment is highly fragmented, since the criteria applied are not the same for all the players or in every country. They come under three main headings¹:

¹ From the ORSE paper "Développement durable et gouvernement d'entreprise" [Sustainable development and corporate governance], Editions d'Organisation, 2003

- **Exclusion criteria**

To begin with, stocks related to industries involved in alcohol, tobacco, gaming, weapons and nuclear power are rejected, these being regarded as hazardous to the physical or moral health of the public.

- **Primarily environmental criteria**

Here it is a question of encouraging industries or companies whose production processes have no destructive or polluting impact on the natural environment, and whose products are not harmful to the environment or to human health.

- **Primarily societal criteria**

Are favoured here the stocks of companies regarded as paying close attention to issues of relations with colleagues and the neighbouring communities, gender equality and non-discrimination against minorities in the workplace, the rights of children and human rights in general,

but also the quality of their products and their attitude towards their clients.

The criteria seen as most significant by responsible investors reflect the social and cultural background of each country or geographical area. In France, the topics of unemployment and exclusion are ever present. In practice, the aim of the investment is to provide finance to underprivileged people, and to associations, to organisations helping people find employment, and so on, which otherwise would have been unable to flourish in ordinary market circumstances.

In the United States, the problem of the harmful effects of tobacco, for example, is one of the main concerns of a great majority of socially responsible investors. In Scandinavia, Germany and Switzerland, investors' choices are guided primarily by environmental criteria.

Typical approaches to managing diversified portfolios

The different ways of managing SRI funds depend upon the selected concepts, the interpretation made of the non-financial listing and the financial management style applied².

² Source: *Horizons bancaires. Direction des études économiques du Crédit Agricole*, [Banking horizons: economic research division of Crédit Agricole], n° 319, December 2003

As regards ethical funds in the strict sense of the term, the portfolio is built up in two stages: first the relevant scope is defined, according to the business sectors they are excluded, and then the portfolio is constructed on a financial basis. In these circumstances, the ethical rating is clearly more important than the financial one. At the other end of the spectrum, for funds that practice shareholders' militancy only, the social aspects may be relatively independent.

Between these two alternatives, there are various shades of preference:

- Many investors still assign an ethical dimension to non-financial ratings provided by specialist agencies. In their concept of SRI, their portfolio should not include companies that have a poor rating, no longer based on religious criteria but now according to social and environmental standards.

In this case, the social rating becomes a sort of label, but still carries the day over the financial one. The eligible range is constructed by eliminating the stocks with the lowest rating in absolute terms or relative to their category.

- Some managements use the social rating as solely one of risk. The social and financial ratings are then jointly analysed and may result in a choice of stocks that are poorly ranked in terms of social responsibility, but which retain an attractive yield.
- Finally, ratings like that of Innovest are promoted as indicators of financial performance. The social and financial approaches are then completely integrated; companies with good ratings are then expected also to supply the best financial performance.

Fund sizes still low but steadily increasing

In the absence of an SRI label, the available numerical data are non-uniform, making any comparison unreliable.

Considering France alone, the total size of SRI open funds under management was slightly over 5 billion euros at the end of December 2004 according to the Novethic indicator, compared with 4.4 billion at the end of 2003 (an increase of 13%). The number of funds went up by 14% from 108 at end of 2003 to 122 at the end of 2004, predominately in funds invested in shares (54%).

Despite a steady increase in recent years, SRI funds still account for only a small proportion of the total held by UCITS (Undertakings for collective investment in transferable securities) on the French market (under 1%). This situation reflects the reticence on the part of many investors regarding the SRI approach, for which there are at least three reasons:

- the rejection of moral considerations in the choice of investment (because people fear that financial performance may be sacrificed in the name of religious or militant considerations)
- distrust towards a certain saintliness
- and criticism of empiricism and amateurism of certain methods.

However SRI is exerting an increasing power of attraction. It does appear as a credible alternative for investors looking for a return in the long term, subject to some clarification of language and greater professionalism on the part of its promoters. Thus as the American example shows, it has adapted to pension fund investment strategies, is frequently active in defending shareholders' militancy, and closely attached to concepts such as transparency, independent inspection and, more generally, social and environmental responsibility.

As a means of exerting investor pressure, responsible investment represents:

- a real source of innovation and a test bed for experiments by management professionals
- a powerful stimulant for companies.

If SRI manages firmly to convince people of its economic and financial efficiency in the medium term (examination of the outturn of existing products shows trends close to the average or better) it should be able to attract an increasing number of institutional investors and private savers and thus continue its advance.

These two pieces of legislation, supported by the Comité Intersyndical de l'Épargne Salariale (CIES) [Inter-union Committee for Savings from Earnings] encouraged the development not only of savings from earnings, notably within SMEs, but also savings combined with the possibility offered to employees

to include portions of solidarity funds within their plan of savings from earnings (see paper on "Lutte contre l'exclusion et solidarité" [Combating exclusion and supporting solidarity]).

Since a number of criteria initiated by SRI are spreading through all asset management systems (for examples, requirements pertaining to governance and certain environmental criteria) on the initiative of financial analysts looking to broaden their horizons and identify companies that stand out in the crowd, some observers are going so far as to predict that these approaches will become commonplace in institutional management. In such a situation, SRI might gradually lose its specificity to the point that the term "responsible investment", hitherto referring to a fairly narrow niche, would disappear altogether.

The process whereby these selected approaches become more systematic does nevertheless hold out risks to which a few specialists have drawn attention³. In fact SRI developments are still highly focused on large multinational firms in the developed countries, and they tend to take less interest in companies of more modest size. Also they do not pay sufficient account to bond management, notably for financing local authorities. In this context, if SRI were to become more generalised it could lead, other things being equal, to a restriction on funding, which would ultimately be unfavourable to the sustainable development that SRI is seeking to promote.

Accordingly responsible investment must explore new territory. Christian de Perthuis in his paper "La génération future a-t-elle un avenir? [Does the next generation have a future?]" (Belin 2003) identifies three such:

- stock exchanges in the southern hemisphere whose influence in worldwide capitalisation is increasing steadily
- investment capital involving supplying capital to unlisted companies
- and the bond market, notably with recourse to securitisation.

³ see section entitled "Enjeux et perspectives de l'ISR" [Issues and prospects for SRI] on the Novethic website and "La génération future a-t-elle un avenir? [Is there a future for the next generation?]" by Christian de Perthuis, Belin, 2003 www.novethic.fr

References and internet links

Association Française de la Gestion Financière (AFG) - [French Association for Financial Management]

The AFG is a professional organisation for management on behalf of third parties: it supports the growth in SRI and has participated in the preparation of a code of transparency for SRI funds within Eurosif.

www.afg.asso.fr

Comité Intersyndical de l'Épargne Salariale (CIES) - [Inter-union Committee for Savings from Earnings]

The CIES was set up in January 2002, and combines all the French so-called representative trades unions, with the exception of FO. Each year it identifies a selection of offers of socially responsible savings from earnings.

Shareholders' involvement

As far as investors are concerned, this means demanding from companies a stronger policy of social responsibility through direct dialogue, but also through the exercise of voting rights at annual general meetings. Advisory companies exist that specialise in providing information to and representing shareholders, such as Proxinvest in France www.proxinvest.fr/

Eurosif

« The European Social Investment Forum » est un réseau paneuropéen de parties prenantes, qui oeuvrent pour l'encouragement et le développement de l'investissement soutenable et responsable, ainsi que pour une meilleure gouvernance. Les membres d'Eurosif comportent des fonds de pension, des fournisseurs de services financiers, des institutions académiques, des associations de recherche et des organisations non-gouvernementales. www.eurosif.org

Forum pour l'Investissement Responsable – French SIF - [Forum for Responsible Investment]

This organisation, which is a member of Eurosif, comprises professionals in fund management, specialists in social and environmental analysis, consultants, trade unionists, university staff, clerics and members of the public to promote the concept and practice of responsible investment with the aim of getting more people to invest with the aim of social cohesion and sustainable development www.frenchsif.org/fr/

Sustainable development indices⁴

A number of indices monitor the social and environmental performance of companies listed on the stock exchange. Their makeup may be based upon the exclusion of certain business sectors regarded as unethical or on the relative or absolute performance of certain companies in the social and environmental fields

North America:

The Domini 400 Social Index and various KLD indices: www.kld.com

The Calvert Social Index: www.calvert.com/sri_calvertindex.asp

The Jantzi Social Index : www.mjra-jsi.com/jsi/

In Europe :

The ASPI Eurozone : www.vigeo.fr/site.php?rub=4&lang=fr

The range of FTSE4Good : www.ftse4good.com

The Ethibel Sustainability Index : www.ethibel.org/subs_e/4_index/main.html

The Dow Jones Sustainable Index: www.sustainability-index.com

The NaturAktienInde : www.imug.de

A range of Italian indices: www.ecpfinance.com/eng/html/asset/bd.html

Stock exchange indices specialising in the Scandinavian countries: www.ges-invest.com/pages_shared/sixges_EI.asp

An index for small companies, Kempen SNS Smaller Europe SRI Index: www.kempen.com

Rest of the world:

The "Morningstar-SociallyResponsible Investment Index"

The "Sustainability Dividend Index" and "Westpac-Monash Eco Index"

The Johannesburg Stock Exchange SRI Index"

Novethic

A subsidiary of the Caisse des Dépôts created in 2001, Novethic is a resource centre on SRI and the social responsibility of companies. It is primarily concerned with investors, company managers, associations and NGOs as well as university staff and researchers. The centre organises meetings and publishes studies and newsletters, for example a quarterly barometer on SRI and international summaries regarding new SRI practices, changes in non-financial information and the various forms of shareholder action.

www.novethic.fr

4 For a fuller description of the indices, and of the organisations that undertake societal studies, see the "guide des organismes d'analyse sociétale" produced by ORSE, Adème and EpE, which is regularly updated and available on the ORSE website: www.orse.org

Associated papers

This paper is illustrated by a selection of good practices applied by financial players in France and elsewhere. They are listed on the website www.orse.org

The papers on "Finance and Sustainable Development" are based upon the work done by the ORSE Club Finance.

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Socially responsible investment Good practices

Some examples of SRI in France ¹

¹ For more details, see:

- *Alternatives Economiques – Pratiques – Les placements éthiques, 5ème édition [economic alternatives – practices – ethical investments, 5th issue]*
- List of SRI funds on the Novethic website: www.novethic.fr

Ethical funds

Nouvelle stratégie 50 (Meeschaert, 1983)

This fund was established in 1983 at the instigation of the religious association, Ethics and Investment, and was the first French ethical fund. It invests in shares and bonds. As regards shares, those related to tobacco, alcohol, and pornography are excluded. After making an initial financial selection, the management team chooses companies according to their ethical attitude.

Hymnos (Crédit Lyonnais, 1985)

Set up in 1985, Hymnos invests equally in international shares and bonds. An ethical committee made up of both lay and religious members meets regularly to consider the ethics of the companies in the portfolio and to confirm the investment choices. The activities of the selected companies must be in line with the Christian and humanist ethics of its subscribers, who are religious congregations.

Action Ethique (Meeschaert, 1998)

This is one of the rare French funds that combine criteria of exclusion with those of positive selection. Companies related to tobacco, alcohol and pornography are excluded from the portfolio. Companies whose social and environmental ratings in Vigeo are negative are also rejected. As far as other companies are concerned, the management team relies upon Vigeo, the ORSE and the Ethics and Investment Association.

Epargne Ethique Actions (Ecofi Investissements 1999)

This is a unit trust that invests in shares in the countries of the euro zone, using an “inclusive” selection process which excludes only companies whose main activity is related to defence industries. An ethics committee made up of experts in the field of sustainable development determines the ethics methodology: accordingly, the management team, which relies on its own assessments and those of VIGEO, places particular emphasis on leading companies in the three areas of human resources, environmental policy, and client-supplier relations.

Socially responsible funds and/or those focused on sustainable development

Insertion Emplois (CDC Ixis Asset Management, 1994)

Of this common investment fund:

- 90% is invested in leading companies that pay attention to employment development, evaluated using the “human resources” criterion, and having an active policy as regards corporate philanthropy, education, combating exclusion, and so on.
- 10% in unquoted securities of solidarity structures once these create, directly or indirectly, jobs for people in difficulties.

Choix Solidaire (Ecofi Investissements 2002)

This diversified unit trust is original in that 10% of its portfolio is in European solidarity companies, of which at least 5% are in France. These unquoted organisations are frequently of modest size and strive to reduce inequalities and help people in difficulty to become integrated in society. Also, up to 35% of the fund is invested in quoted shares and the balance in interest-earning products, systematically chosen using a socially responsible filter.

For more information: http://www.banque-solidarites.coop/valeurs/emp5_fcpchoixsol.htm

Europe Gouvernance (I.D.E.A.M., 1998)

This fund was launched in 1998 and is managed by I.D.E.A.M. It applies strict requirements in terms of company governance.

Since 2002, I.D.E.A.M. has offered the Green Planet Fund, dedicated to the environment, and since 2004, Oblideam Eurospreads, which focuses on a selection of privately issued bonds.

MACIF Croissance Durable (MACIF Gestion, 1998)

The fund is made up of securities selected using Vigeo valuations, supplemented by the work of an internal team of SRI specialists under the auspices of a management committee which includes persons from outside MACIF.

Ecureuil 1.2.3 Futur (Caisses d'Epargne, 1999)

Some 60% of this unit trust is invested in French shares and the rest in shares elsewhere in Europe. Companies that are negatively rated by Vigeo are excluded, as are the shares of companies related to tobacco, weapons and alcohol. The trust has a guidance committee made up of volunteer subscribers; it has the task of ensuring that the fund's management principles are adhered to.

Dexia Sustainable, Dexia Ethique (Dexia Asset Management, 2000)

This compartmented fund offers a broad range of investments (shares, funds, and a mixture of both) in sustainable management. With the help of a number of scrutiny agencies, Dexia Asset Management applies a proven investment process, including an initial selection of securities based upon “non-financial” criteria, followed by active financial management. In the initial phase of this process, all aspects of sustainable development are investigated (human resources, environment, company governance, and so on) and only the best are selected within each sector.

AGF Aequis (AGF AM, 2001)

This fund is focused on topics that combine family capitalism, family/representative and employee shareholding, all satisfying the principles of company governance.

Since 2002, AGF has offered the fund known as “AGF Valeurs Durables” [AGF sustainable securities].

www.agf.fr/developpementdurable - www.agf-am.com

Etoile Développement Durable (Crédit du Nord, 2001)

This fund was launched in 2001 by Crédit du Nord (Société Générale Group), and is in two sectors: one focused on the environment, the other on social issues. In general, the portfolio excludes securities that receive a negative rating from Vigeo using the relevant criteria.

AXA valeurs responsables (AXA IM, 2002)

Launched in 2002 by AXA Investment Managers, AXA Valeurs responsables relies upon an internal analysis unit which has worked out a specific management process based upon a series of 400 securities selected using financial criteria.

BNP Ethéis (BNP Paribas Asset Management, 2002)

This fund has a dedicated SRI analytical team. This relies upon a large number of information sources (non-financial rating agencies, representatives, NGOs, social partners, and so on). Companies are studied from a number of perspectives: their social policy, their respect for the environment, and the principles of company governance. This analysis is used to draw up a series of recommendations to the BNP PAM managers. The latter select the shares on the basis of the two investigations: financial and non-financial. In doing so they apply the following principles: if the two ratings are positive, the security may enter the portfolio; if both are negative, it is excluded; if the financial rating is extremely positive and the social responsibility rating only moderately negative, the security may enter the portfolio with the agreement of the SRI analyst.

BNP Paribas Asset Management is a founding member of the Enhanced Analytics Initiative (EAI) launched in 2004 by a group of

international institutional investors and asset managers. The EAI aims at promoting the extra-financial research produced by brokers and independent research companies. Twice a year, the EAI members vote for the best extra financial research providers and allows them a budget equivalent to 5% of their brokerage volume. www.enhancedanalytics.com

Natexis Développement Durable Actions (Natexis AM, 2002)

At the end of 2004, this fund was rewarded with 5 PLANETS®, the maximum rating, attributed to Novethic in cooperation with Vigéo and Morningstar. Natexis Asset Management has also offered the Natexis Sustainable Development Security fund since 2002 and Natexis Sustainable Monetary Development since 2003.

HSBC Valeurs Responsables (Juin 2001)

This fund of European shares is managed using a “best in class” approach. The sectoral issues are identified by two SRI-dedicated non-financial analysts, who meet with the companies on a “one-to-one” basis. The leaders within each sector are identified and all the securities rated by our analysts who rely, in their own work, on external databases such as Vigéo, and others. In a second phase, the manager selects the securities using financial criteria that involve looking for the shares that offer high profitability and an attractive price. The combination of these two quite separate stages give the fund a marked SRI dimension, as well as prospects for financial performance based upon quality securities. For more information, consult the SRI site of HSBC Investments (France): <http://www.hsbcinvestments.fr>

Atout Valeurs Durables (IDEAM 2003)

This mutual fund incorporates all three aspects of sustainable development, although the environment predominates. The management strategy lies in selecting companies according to a “best in class” approach, meaning one that anticipates legislation and draws up the best possible environmental investment schemes.

In establishing the Comité Intersyndical de l'Épargne Salariale (CIES) [Inter-union employee savings committee] on 29 January 2002, four trade union organisations, (the CFDT, the CGT, the CFTC and the CGC) contributed to socially responsible aspects being taken into account in the development of employees' savings products. In February 2002, an initial “call for offers” proposal launched by the CIES resulted in only three suitable products from out of 33 replies. Following a further call, there were seven such of them by the end of 2002. At the end of 2003, thirteen ranges of product were identified, and one has since been withdrawn:

- Arcancia Label of the **Société Générale Asset Management**
- Axa Génération of **Axa Investment Managers**
- Épargne responsable of **Groupama**
- Expansor of **Inter Expansion** (Groupe Ionis)
- Fongepargne Plus de **Fongepar** (Groupe Caisse des dépôts)
- Fructi-ISR de **Natexis Interépargne** (Groupe Natexis Banques Populaires)
- Horizon solidarité of Prado Épargne (Groupe Prémalliance)
- Macif Épargne de la **Macif**
- Pacteo Label of **Crédit Lyonnais Asset Management**
- Phileis de **BNP Paribas Epargne Entreprise** (Groupe BNP Paribas)
- Social Active of **CIC Epargne Salariale** (Groupe Crédit Mutuel-CIC)
- UNI-SR / UNI-Solidaire of **Crédit Agricole**

The Fédération Bancaire Française [French Banking Federation] recently drew up a practical guide to ethical savings and solidarity savings. This guide is available on the website: www.lesclesdelabanque.com

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Combating exclusion and supporting solidarity

What is it about?

The exclusion of individuals from banks and finance is one of the components of the fight against social exclusion.

Exclusion from banks and finance is not merely a result of social exclusion, but is also one of its causes. It not only contributes to this process but is one of its results.

The financial sector is taking steps to limit this phenomenon which involves about 1% of the French population.

The financial sector is also contributing to supporting solidarity by developing special services designed for the purpose and by investing in philanthropic projects.

A bank account for all

The financial sector is contributing to the fight against exclusion by allowing everybody to have a bank account and operating it in the best possible conditions.

Thus for people who can not manage to open a bank account, France since 1998 has had a service known as the right to an account, something unique in Europe. Anyone whose application to open an account has been refused may get in touch with the Banque de France which, on its own authority, will appoint an establishment where a deposit account can be opened. This procedure gives access to the basic banking service.

This covers a range of services the cost of which is borne by the bank;

- the opening, maintenance and closure of the account
- an address change up to once a year
- an account statement at least once a month
- cashing of payment transfers received and of cheques deposited in the account
- payment of standing orders/direct debits or inter-bank payment orders
- the facility to check the account balance remotely
- a normal debit card or, otherwise, a card permitting weekly withdrawals of cash at the bank's cash dispensers
- etc.

On the other hand the basic banking service does not provide for the issue of a cheque book, nor any overdraft facility, such decisions being a matter for the bank.

At the end of 2004, the banks undertook to publicise this arrangement to the people concerned via the social services and associations, and to facilitate its implementation.

At the same time they undertook to

- guarantee free access to cash in the person's branch
- to improve access to methods of payment for those clients with no cheque book by making available to them, on an experimental basis, a number of alternative means of payment for a moderate monthly flat rate charge. At the same time, all the relevant organisations in the public sector (canteens, crèches, and so on) will make arrangements to accept these alternative methods of payment as soon as possible
- to improve the situation that clients find themselves in if there are difficulties over a payment, by notifying them beforehand of the possible consequences of such incidents and by modifying the relevant charges into flat rate amounts.

It may also be mentioned that a small number of establishments have taken initiatives to help clients gain adequate knowledge about account management charges and the use of banking and financial products and services.

SUMMARY

A bank account for all

Discouraging and dealing
with overindebtedness

Contributing to solidarity

References and internet
links

June 2005



HELPING TO STRENGTHEN THE SOCIAL BOND

Combating exclusion and supporting
solidarity

Other countries have systems fairly similar to those existing in France.

For example Belgium has new legislation concerning basic banking services which came into force in September 2003. This legislation specifies that every credit establishment must offer a basic banking service to any consumer wanting it. In exchange for a maximum annual charge of 12 €, the banks have to provide any citizen with a demand deposit account, allow a minimum number of transactions at the counter or using the electronic terminals and issue the person with a bank card the use of which may be restricted to prevent the user from going into debt. The new law established a compensation fund for the basic banking service managed by the National Bank of Belgium.

In the United States, a federal law (the Community Reinvestment Act – CRA) requires the conventional banks to invest in the districts from which they collect savings. This forms part of the political and legal framework of the fight against discrimination which has led to legislation in fields as varied as education and employment. In the financial sector, the aim is to ensure “fair lending”, in other words access to credit free of any discrimination on grounds of colour, national origin, religion, sex, family situation or age.

Under the CRA, the federal inspection agencies evaluate the performance of the financial institutions on the basis of the services they provide to the entire community, including the most underprivileged people and areas. This performance data is taken into account in the rating of banks and in assessing their requests to open branches, to merge with another bank, and so on.

The banks are not obliged to give loans that they regard as risky, but they must provide accurate statistics on their portfolio and provide economic justification for decisions not to lend.

Therefore this is essentially a form of pressure based upon the transparency of the credit policy, evaluated using four criteria: loans granted to disadvantaged members of the public, investments made in difficult areas, services provided in these areas, and support for organisations contributing to the economic development of areas in difficulty.

In fact the banks make loans either directly or through “Community Development Corporations” or “Community Development Finance Institutions” which act as credit retailers and provide support for residents.

Discouraging and dealing with overindebtedness

Another exclusion factor is overindebtedness. France has a system for discouraging and dealing with it, and the financial sector is fully involved.

The system is based upon ad hoc committees known as “overindebtedness committees” that operate under the auspices of the Banque de France. They act as the entry point of all case files where overindebtedness is a factor; their job is to find solutions – amicable or legal – to the problems encountered by individuals who have got themselves into undue debt (with banks or others).

This system was recently updated so as to:

- improve standards governing advertising about consumer credit
- improve the conditions governing renewal of renewable credit contracts as well as information provided during the execution of these contracts.

The urban renewal legislation of 1 August 2003 brought in a new measure for dealing with the most difficult overindebtedness situations: the personal reinstatement procedure, whereby if a judge orders the legal liquidation of the debtor's assets and the product of the sale does not meet the creditors' requirements, he may end the proceedings on the grounds of insufficient assets, resulting in the cancellation of all the debtor's non-professional debts.

Contributing to solidarity

The financial sector is also involved in supporting solidarity through a range of special services and a commitment to society.

PARTICULAR OFFERS

1. FINANCIAL PRODUCTS AND SERVICES WITH ADDED SOCIAL VALUE

Life insurance, industrial development savings accounts (CODEVIs), cheque accounts, savings accounts, debit cards, in fact practically all financial products are now available under the sign of solidarity. These products, frequently designed in conjunction with NGOs and humanitarian associations, are intended to encourage social and vocational integration, assisting the integration of disabled people, assisting those suffering from serious illness and those who have problems in obtaining insurance.

The pioneers in this movement were organisations usually started under local or regional public initiatives and with different legal status: financial cooperatives, limited credit companies, or establishments in the form of associations. They have gradually been joined by more “conventional” financial players who themselves have a few “solidarity” products and services.

France does not yet have any real national bank devoted to a solidarity approach, unlike for example Italy with its Banca Etica, the Netherlands with the Triodos Bank (also present in Belgium, the United Kingdom and Spain) or Quebec with its Caisse d’Economie des Travailleurs.

2. SHARED INVESTMENTS

This is a particular form of SRI. They are OPCVMs (Undertakings for collective investment in transferable securities – UCITS) from which some of the income (and possibly management charges) are returned in the form of gifts to NGOs or humanitarian and charitable associations, working in a variety of fields: combating hunger, helping to rehouse people in difficulty, helping people find employment, disability problems, assistance to companies employing persons in difficulty, applied medical research, and so on.

3. SAVING FROM EARNINGS IN FAVOUR OF SOLIDARITY

It is now possible to save in Fonds Communs de Placement d’Entreprise Solidaire (FCPES) [Joint Investment Funds in Companies Supporting Solidarity]. Some 5 to 10% of the monies in these funds are invested in a solidarity company, i.e., companies whose employees include more than one third of people in difficulty, or in social economy structures (associations, cooperatives or mutual ventures) the directors of which earn less than four times the minimum wage. The schemes for saving from solidarity earnings came into being in favour of the legislation on savings from earnings of February 2001, which required FCPES to be offered as part of the Plan Partenarial d’Epargne Salariale Volontaire (PPESV) [Partnership Scheme for Voluntary Savings from Earnings]. The Fillon law on pensions of 2003 replaced the PPESV by the Plans d’Epargne Retraite Collectifs (PERCO) [Collective Pension Savings Schemes] within which it is always possible to invest in a FCPES.

COMMITMENT TO SOCIETY

For those involved in the financial sector, another way of demonstrating their solidarity is to invest in social sponsorship schemes:

- by providing their support, possibly in the form of partnerships, to NGOs or supportive associations

- by facilitating the involvement of their present or former staff.

References and internet links

The right to an account

The principle of entitlement to an account was laid down in a law of 24 January 1984. The system was improved as a result of article 137 of the law of 29 July 1998 on the fight against exclusion and the decree of 17 January 2001 which introduced the concept of free basic banking services.

Finansol (Finance and solidarity)

This association groups the financial institutions that support solidarity (Nef, France Active, Les Cigales, etc.), financial establishments committed to a solidarity approach (Caisses d'Epargne, Caisse des Dépôts, Crédit Coopératif, Crédit Mutuel, etc.) and organisations such as the Fondation Macif, CCFG, and so on. Its function is to represent these different bodies with regard to the public authorities and to publicise solidarity-based savings. An independent committee set up by Finansol issues a label for suitably deserving solidarity-saving products.

www.finansol.org

Fonds Communs de Placement d'Entreprise Solidaire (FCPES) - [Solidarity Company Joint Investment Funds]

The solidarity earnings funds, created at the beginning of 2001 by the Fabius law on savings from earnings and confirmed in August 2003 by the Fillon law on pensions, invests in solidarity companies whose objective is to help the re-employment of long-term unemployed for example. These investments may be made directly or through investment companies such as the Société d'Investissement France Active (SIFA).

Overindebtedness

The difficulties that some individuals have in coping have received special attention from the government since 1978 and with the Scrivener law which sets the maximum indebtedness level of an individual at 35% of his/her income. However it was not until the Neiertz law in December 1989 that overindebtedness was properly defined and a system introduced to deal with it, along with the Fichier des Incidents de remboursement des Crédits aux Particuliers (FICP) [Database on Repayment Difficulties concerning Loans to Individuals]. The system for dealing with overindebtedness was extended by a law of 8 February 1995 and then by those of 29 July 1998 on combating exclusion and that of 1 August 2003 concerning urban renewal.

Associated papers

This paper is illustrated by a selection of good practices applied by financial players in France and elsewhere. They are listed on the website: www.orse.org

The papers on "Finance and Sustainable Development" are based upon the work done by the ORSE Club Finance.

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Combating exclusion and supporting solidarity Good practices

Shared funds

Faim et Développement (Crédit Coopératif, 1983)

This fund was set up in 1983 by the Catholic Committee against Hunger and for Development (CCFD), and is the first mutual distribution fund. Some of the revenue is paid over to the CCFD, but also to Frères des Hommes, Comité Français pour la Solidarité Internationale, and so on.

Epargne Solidarité Habitat (Crédit Agricole Asset Management, 1991)

This mutual investment fund was created by the founder of the association “Habitat et Humanisme” [Housing and Humanism]. Some of the revenue is paid over to this association, the aim of which is to assist the provision of housing for people in difficulty.

Actions Sud (Caisse des Dépôts, Crédit Lyonnais, 1994)

Mutual investment fund, created in 1994 on the initiative of the non-governmental organisation “Action Contre la Faim” (ACF) [Action against Hunger], the Caisse des Dépôts and the Crédit Lyonnais. Part of the revenue is paid over to ACF.

CM France Emploi (Crédit Mutuel, 1994)

Mutual investment fund, the subscribers to which donate half their revenue to support companies that employ people in difficulty.

Conciliation (Société Générale, 1996)

This service suggests that subscribers to certain unit trusts pay some or all of their revenue to one or more associations working in the field of solidarity (Secours Populaire, Secours Catholique, Habitat et Humanisme, ...), handicapped people (UNAPEI, ...), education, and so on.

Libertés et Solidarité (Caisse des Dépôts, La Poste, MACIF, 2001)

Ethical distribution unit trust set up in 2001 at the initiative of the International Human Rights Federation (IHRF), the Caisse des Dépôts, the French Post Office and the MACIF. Half the revenue is distributed to the IHRF.

Faim et Développement (Crédit Coopératif, 1983)

First mutual distribution investment fund paying part of its revenue to solidarity organisations such as the Catholic Committee against Hunger and for Development (CCFD), which uses these resources to benefit the organisation “International Solidarity for Development and Investment (ISDI). The ISDI was set up in 1983 by the CCFD in order to extend its activities in the economic field.

Financial products and services with social added value

The life assurance contract known as “**Habitat et Humanisme**” [Housing and Humanism] is managed by **AVIP**, and enables subscribers to benefit from the advantages of life assurance. Of the amounts saved, 10% is invested in Foncière Habitat et Humanisme; part of the entry charges and management expenses are paid to the association.

The *Codevair Passbook* account of the **Banque Populaire d'Alsace** is used to fund new solidarity activities.

The retail bank of the Spanish **BBVA** group has developed, in partnership with non-governmental organisations, not just solidarity investment funds (such as *BBVA Biogen* and *BBVA Solidaridad*), but also, since 2004, distribution credit cards: *Visa Red Cross Cards*, and *Visa International Solidarity*, with 0.70 % of the payments made being given to charitable organisations. BBVA has also developed a card in partnership with Iberia, Repsol, Grupo Eroski and Telefonica which builds up points to be given to humanitarian aid projects in Latin America.

BNP Paribas offers a service known as *Dons aux Associations et Fondations* [Donations to Associations and Foundations] whereby clients wishing to do so can make regular donations, by bank transfer, to one or more associations and foundations that are partners of BNP Paribas and, in particular, to give every month the centimes shown in the current account balance, together with a small additional amount. To launch this operation, BNP Paribas paid a contribution to each of the associations and foundations that are partners in the project¹, initiated by Action contre la Faim [Action on Hunger]. BNP Paribas, through its Foundation, has long been involved in a citizenship and humanitarian approach. By supporting a number of associations and NGOs, BNP Paribas takes part notably in solidarity activities in the fields of medical research and the fight against exclusion.

¹ Action contre la Faim ; L'Association pour le Droit à l'Initiative Economique ; La Croix-Rouge Française ; La Fondation de France ; Handicap International ; L'Institut Pasteur ; La Ligue nationale contre le cancer ; Sidaction

The *Caisse des Dépôts* signed, on 26 November 2004, a three-year framing agreement with the Ministry for Employment, Work and Social Cohesion, and the Ministry for Economics, Finance and Industry, concerning support for the Plan for Social Cohesion. In this context, and to enable people in difficulties to continue having access to banking services, the government entrusts the Caisse des Dépôts with the task of managing the Fonds de Cohésion Sociale [social cohesion fund] provided with 73 million euros in budget credits over five years.

This fund should guarantee two types of social loans, up to 50% of the amounts allocated: first of all, microcredits enabling unemployed people, or those receiving income support to set up a business; secondly, personal loans for funding the purchase of ordinary consumer goods. Three mutual banking organisations (Caisses d'Epargne, Banques Populaires and Crédit Mutuel) have signed agreements to be able to distribute guaranteed social loans.

The Caisse des Dépôts has set up, together with the government, the European social fund and local authorities, a decentralised support network to assist the job-creation associations.

The Caisse des Dépôts also gives its support to Sogema with the aim of giving guarantees to the associations.

Under the Law of June 1999, the **Caisses d'Epargne** are required every year to allocate part of their profits to funding local and social economic projects (PELS).

This funding may take the form of loans, capital injections or grants. They give priority to economic insertion through employment, to the strengthening of social cohesion (support for the independence of old, sick or handicapped people, and so on), to backing up cultural and sporting insertion, and so on.

The **Caisse solidaire du Nord Pas de Calais** is a Limited Cooperative Credit Company, associated with the **Crédit Coopératif**. It collects regional savings through a term account and a solidarity passbook savings account in order to encourage the emergence of local job-creating projects in the commercial and non-commercial sectors as well as businesses related to solidarity economics.

The **Crédit Coopératif** (Banques Populaires Group) offers a range of solidarity products:

- The *Carte Agir* offers all the functions of a Visa card. At the time of its issue, the **Crédit Coopératif** pays 3 euros to a humanitarian association and 0.06 euros each time a withdrawal is made from a cash machine.
- Reserved for children aged under 12, the *Scoopy Passbook* operates like a conventional passbook, but the **Crédit Coopératif** undertakes to pay 3 euros a year per passbook to associations for child sponsorship activities.
- The *Livret Jeune Solidarité Emploi 12/25 Ans* [job solidarity account for young people aged between 12 and 25] uses donations to provide resources to the ADIE association, to help jobseekers.
- The *Codesol* (Distribution Type Solidarity Account for Industrial Development), was launched in 1996 to fund investments for social purposes: centres providing assistance through work, insertion companies, and social tourism organisations. Part of the interest (50%, 70% or 100%) on the passbook is shared with humanitarian associations.
- The *Solidarity Investment Fund* for Industry, Biocoop, pays 50% or 75% of annual interest to take part in the activities of the Biocoop association in support of equitable trade.
- *Solidarity Life Assurance* is based upon the conventional Actiplus product of Mutavie, with the special feature that part (5% < 10% or more) of repayments may be willed to humanitarian associations.
- The *Agir Passbook Account* is a savings account where half the interest benefits an association selected by the client.

In partnership with the NEF:

- The *Compte Epargne Nature* [Nature Savings Account] of the Nouvelle Economie Fraternelle (NEF), a cooperative unit trust company, established in 1988.

This account is intended to collect moneys for funding loans for environmental purposes. The saver may also decide to donate some or all of the interest received to partners of the NEF (WWF, Nature et Progrès, and so on).

- The *NEF Passbook Account* works along the same lines as the *Livret Agir* mentioned above.

In order to assist those taking over or creating micro-businesses, a number of **Regional Offices of the Crédit Agricole** have set up special arrangements, such as no-guarantee zero-interest loans or personal grants to project originators who could not be funded according to the conventional banking rules: the Tremplins of the *Crédit Agricole de Savoie*; the *Crédit Agricole Création* loans of the *Crédit Agricole du Centre Est*; the local development fund Ideca 29 of the *Crédit Agricole du Finistère*.

Incidentally there are other arrangements intended to provide lasting support for people, including during the bad times (*Banque de l'Imprévu* from the *Crédit Agricole du Centre Est*; *Coup de Pouce mutualiste* of *Crédit Agricole de Provence Côte d'Azur*). There are also structures such as the Points Passerelle for helping marginalised clients.

Under the *Avantages* programme of the **Crédit Lyonnais**, the points built up during banking operations can be converted into gifts and donations for the benefit of the Centre Français de Protection de l'Enfance [French Centre for Child Protection].

In Belgium, **Dexia** makes available a number of financial products adapted specifically for people in difficulties to the Centres Publics d'Action Sociale (CPAS) [Public Centres for Social Action], enabling them to have access to basic banking services. In particular the bank offers the budget management system based upon current accounts or individual savings accounts managed by designated agents. These persons are provided with a bank card so that they may have independent access to their money.

http://www.dexia.com/docs/2005/20050511_AG/VoletC_FR/20050511_VoletC_FR.pdf

The range of products known as *Fructi ISR Rendement Solidaire* offered by **Natexis Interepargne** under the "savings from salary" schemes, invests 5% of its capital in securities issued by solidarity economy structures (ADIE, France Active, Habitat et Humanisme and so on).

The **French Post Office**, in partnership with the World Bank, offers Toniciel Banque Mondiale, a solidarity term account over 5 years. The World Bank uses the funds collected to pay for projects in developing countries.

The **Crédit Mutuel for Northern Europe** has set up a **Caisse Solidaire** [Solidarity Branch] with the aim of assisting people with few resources or those experiencing temporary difficulties arising from some incident in life by providing access to consumer credits of 500 to 1500 euros each as well as property credits (up to 40 to 45,000 euros). To protect these solidarity loans, a dedicated guarantee fund has been set up, as well as partnership agreements with local authorities, associations and regional businesses involved in solidarity activities (the low-rental housing office, and so on).

Risk capital and solidarity investment

In 2004, **AXA** contributed to increasing the capital of the SIFA (Société d'Investissement France Active) to the tune of 150,000 euros. SIFA was set up in 1991, and is a solidarity investment company aimed at strengthening the capital of job-creating businesses, particularly for people in precarious situations.

The **Clubs d'Investisseurs pour une Gestion Alternative et Locale de l'Epargne Solidaire** (Cigales) [investors' clubs for alternative and local management of solidarity savings] constitute a mutual fund of undivided risk capital. They were set up in 1983 with the aim of contributing to the capital of companies that "pay due respect to man's place in the environment." The Cigales are eligible to take part in the "savings from earnings" system. Today there are about 100 Cigales.

The **Clubs d'Epargne pour les Femmes qui Entreprennent** (CLEFEs) [savings clubs for business women] were established in 1991 to help women take their place in the economy by creating businesses. The financial support provided by the CLEFEs is supplemented by support as required, possibly in the form of training.

The **Foncière d'Habitat et Humanisme** ["housing and humanism property company"] is a limited-partnership share company set up in 1994. It purchases dwellings in town centres and makes them available to people in difficulties. It is provided with capital by **Habitat et Humanisme Développement**, ["Housing and Humanism" development], another limited partnership company.

Garrigue is a cooperative risk-capital company set up in 1985 which contributes to the capital of companies with high social added value. Investment is for a 5-year period. Selections are made in agreement with the management committee, whose members include representatives of systems in the alternative economy (Cigales, Nef, and so forth).

The papers on "Finance and sustainable development" are based upon the work done by the ORSE Finance Club.

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Micro finance

What is it about?

Microfinance is a particularly effective tool for reducing poverty, a priority objective of the international community since the launch in 2000, by the UN, of the Millennium Development Goals (MDG). In fact the United Nations declared 2005 as the international year of microcredit.

This formula was initially handled exclusively by specialist bodies (associations, cooperative, NGOs, and so on); it is aimed at people on low incomes wishing to develop an economic activity enabling them to earn their living, but who until recently were ignored by the "conventional" financial sector.

These specialised institutions gradually extended their field of operation to post-communist Europe and even to developed countries like France, at the same time broadening their range of services.

As a result of this development, an increasing number of commercial banks and insurance companies are taking an interest in this market.

SUMMARY

A recent beginning
Continuing development
From microcredit to micro-finance
Growing involvement of the financial sector
References and internet links

June 2005

A recent beginning

Maria Nowak, in "You (DON'T) lend only to rich people" (published by JC Lattès, January 2005) traces the origin of microcredit to the end of the 19th century when the first credit cooperative was started in the Rhineland by F.W. Raiffeisen. In fact however the approach really started in the middle of the 1970s.

After a few fairly disastrous experiences with transactions run from "above" (usually as part of enormous programmes of agricultural modernisation, particularly in Africa, involving the systematic handout of loans, with no account taken of the real needs of the peasants), microcredit emerged, on the contrary, from initiatives in the field under the impetus of local players, often volunteers.

The foundations of microcredit were laid in 1976 by a professor of econometrics, Muhammad Yunus. Taking an interest in the villages surrounding his university, he discovered that the people living there were exploited by moneylenders. He was unable to convince the commercial banks to get involved, so decided in 1983, after a few successful pilot operations (the beneficiaries of which were essentially women), to set up his own structure – the Grameen Bank (or "poor people's bank"). This was immediately successful. It has never looked back since, despite a crisis in 1998 resulting from the floods that ravaged Bangladesh at that time. Today the Grameen Bank, while continuing to provide microcredits to over 3 million clients, has introduced new products such as the Retirement Fund, a form of insurance that in particular covers the risk of the death of the borrower.

Continuing development

Based upon the success of the Grameen Bank (the bank boasts a repayment rate of nearly 99%), other microcredit institutions have emerged in Bangladesh itself as well as in Africa, then more recently in central and eastern Europe and even in developed countries like France, notably with the establishment of the Association pour le Droit à l'Initiative Economique (ADIE) [Association for the Right to Economic Initiatives] in 1989.

Today it is estimated that more than 10,000 such specialist bodies or associations exist around the world. The microcredit institutions now have about 10 million active clients involving funds that by the end of 2000 already reached the equivalent of about 3 billion euros.



HELPING TO STRENGTHEN THE SOCIAL BOND

Micro finance

In the past, the system was financed mainly by sponsors through gifts and grants. This funding formula has dwindled following the rise in the number of transactions in the sector and the growth in its development prospects. Indeed according to certain estimates, the total demand for microcredit probably amounts to 100 billion euros.

Those involved in microcredit are therefore seeking to diversify their sources of finance. While rationalising their activities and making their operations more professional, they are increasingly turning to the market for the capital that is essential for the growth of their business.

From microcredit to microfinance

For a long time the “conventional” financial sector took no interest in microcredit, which it considered not only too costly in terms of management (despite the growing mechanisation of transactions) but also too risky.

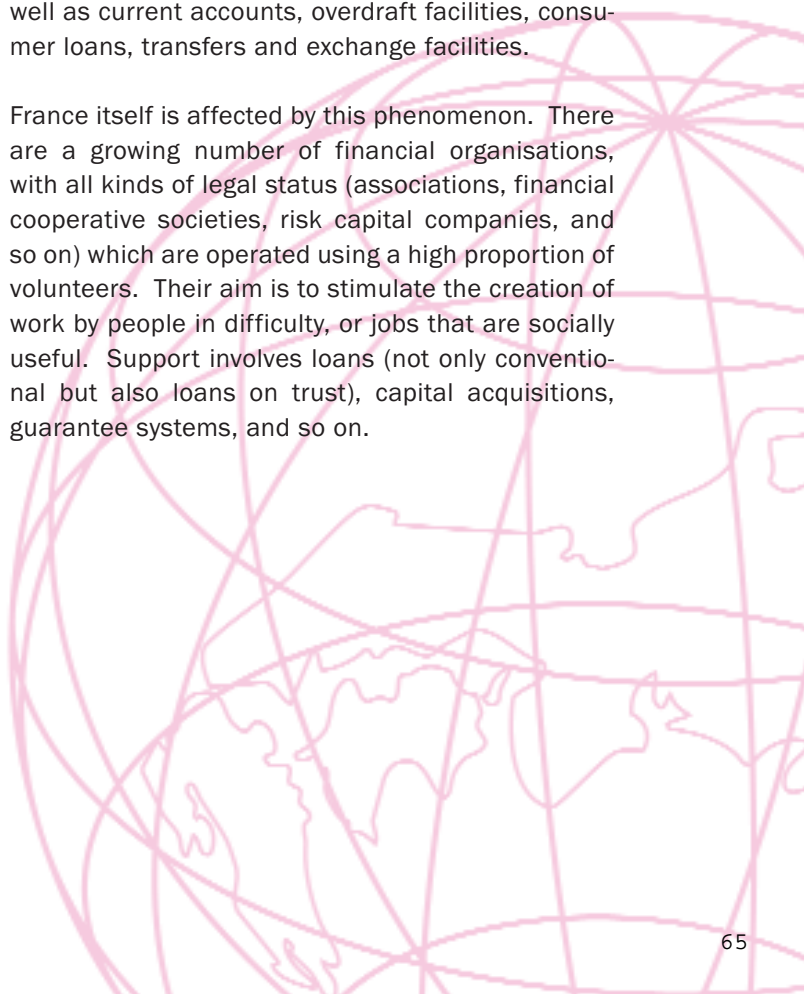
This situation led to the emergence of new financial institutions in the developing countries where the informal economy is the biggest source of jobs (80-90%) and hence of income. Accordingly, based upon their experience in assessing and monitoring microbusinesses created by their borrowers, the microcredit organisations have restructured themselves in order to broaden their range of banking services (see the example of the Grameen bank above).

In addition to savings accounts and the possibility of making bank transfers, these new entities are offering a broad range of products from debit cards to insurance and property loans. For this purpose they are abandoning the status of association in order to become banks in the full meaning of the term, like the Equity Bank in Kenya or the Banco Solidario in Ecuador, which has over 100,000 clients and records a return on capital of nearly 20%.

Other parts of the world are seeing the same type of experiment. One of many examples is the network of microfinance banks brought together since 2003 under the name of the ProCredit Bank.

This network of 10 banks covers the Balkans and extends to Romania, Moldavia, Ukraine and Georgia. The ProCredit Bank offers all banking services: loans to microbusinesses and to SMEs, as well as current accounts, overdraft facilities, consumer loans, transfers and exchange facilities.

France itself is affected by this phenomenon. There are a growing number of financial organisations, with all kinds of legal status (associations, financial cooperative societies, risk capital companies, and so on) which are operated using a high proportion of volunteers. Their aim is to stimulate the creation of work by people in difficulty, or jobs that are socially useful. Support involves loans (not only conventional but also loans on trust), capital acquisitions, guarantee systems, and so on.



Growing involvement of the financial sector

These developments are drawing the attention of the commercial banks to the importance of the microfinance sector and they are now looking to see what they can do. Their contribution may take different forms with more or less involvement:

- **Sponsorship programmes**

The bank makes gifts to support the creation or development of microfinance institutions.

- **Technical partnerships**

The bank takes over various functions on behalf of the microfinance institution: shared or joint premises; training; supply of systems; provision of personnel, supervision, and so on.

- **Financial partnerships**

The bank manages (and makes secure) the savings of the microfinance institutions. It may also acquire a holding in their capital or cause them to benefit from lines of credit or even act as lender to clients sent by the specialised institution. The latter, acting as a kind of social intermediary, takes the preliminary responsibility of drawing up and selecting the credit files and the subsequent responsibility of supporting the borrower, even going as far as mounting recovery operations in the event of unpaid contributions. It is a fact that in this situation, the banker may be hindered by guarantee problems, unless the microfinance institutions themselves cover the risk in whole or in part or the bank is able to rely on guarantee funds, for example like the one recently set up by the French parliament and which will be managed by the Caisse des Dépôts (there are also guarantee funds set up on the initiative of international institutions). Finally, another possible form of intervention is for the bank to set up a dedicated investment fund to attract savings from investors interested in putting money in this sector.

- **Direct intervention**

This is not really a partnership because in this situation the bank acts alone, possibly through a specialised subsidiary. At present this formula is the least developed of all. Indeed at first sight it is the most risky and the least profitable, because for France specifically, the attrition rate makes it impossible to cover costs.

Moreover it has to be acknowledged that the banks do not have the knowledge and experience of the specialist institutions, know-how which, in the field of microcredit, is at least as important as technical expertise.

Just like the commercial banks as regards microcredit, the major insurers are also taking an increasing interest in microinsurance. This is taking the form of agreements between the microfinance institution, which plays the part of a retailer, and the insurance company, which allows greater mutualisation of the risk and a more precise estimate of the necessary premiums.

Micro finance

Good practices

The involvement of specialist financial organisations

The Association pour le Droit à l'Initiative Economique (ADIE) [Association for the right to economic initiatives] finances and supports initiatives taken by unemployed persons with a view to creating their own jobs. Since its inauguration in 1990, the ADIE has granted, together with about fifty banking partners*, over 33,000 loans for an average amount of 2,800 euros. These loans have led to the creation of over 34,000 jobs.

*The banking partners with which ADIE has an agreement for the solidarity loans are: Crédit Mutuel, Banques Populaires, Caisses de Crédit Municipal, Caisses d'Epargne, Crédit Coopératif, and Crédit Immobilier de France. The banking partners that support the activities of ADIE are: BNP Paribas, BDPME, BEI, CIC, Société Bordelaise, Crédit Agricole, and others.

The **Bourse aux Financements Solidaires** (BFS) [solidarity funding exchange] is a unique organisation that uses the internet to bring together project promoters, supporters and solidarity funding organisations. It has 120 members, including local funding organisations, support bodies, those involved in developing the solidarity economy and entrepreneurs including the regional structures of the NEF, Cigales and France Active. The BFS is financed by the eleven founding members including the Cigales, Finansol, Garrigues, the NEF, the Fondation Crédit Coopératif, France Active and so on. The ADIE recently joined BFS, as did the Fondation de France.

The **Caisse Sociale de Développement Local** [social fund for local development] is an organisation with association status, which has been established in Bordeaux since 1998. It is funded by grants from the city and the urban community of Bordeaux, the **Caisse des Dépôts**, the **Caisse d'Epargne Aquitaine-Nord** and European funds; it grants loans to people in difficulty, who usually cannot obtain bank credit and who are creating their own jobs.

The **Société d'Investissement et de Développement International** (SIDI) [company for investment and international development] was set up in 1983 as an initiative of the French Committee Against Hunger and for Development (CCFD). The moneys collected by the SIDI are used to provide financial and technical support for the local solidarity funding arrangements in 45 countries of the South.

The **ProCredit** group is made up of 19 banks which are active in economies in transition and emerging countries (Albania, Angola, Bosnia and Herzegovina, Bulgaria, El Salvador, Ecuador, Georgia, Ghana, Haiti, Macedonia, Moldavia, Mozambique, Nicaragua, Democratic Republic of Congo, Romania, Russia, Ukraine, Serbia and Montenegro). Microcredit is its principal activity. The **Commerzbank** has acquired a holding in several banks in the group. For more information: www.procredit-holding.com

Partnerships

The involvement of **ABN AMRO** in microcredit forms an integral and growing part of the bank's sustainable development strategy. In Brazil AA Real Microcredito is a joint venture with the non-governmental organisation ACCION.

In India, ABN AMRO is involved through nine microfinance institutions in offering loans to women in rural areas. The bank recently made its expertise available to the French non-governmental organisation, ACTED [Agency for Technical Cooperation and Development], for launching an international microfinance system: Oxus Development Network. At present OXUS Tajikistan is offering microcredit to over 15,000 people every year.

In 2003, ABN AMRO joined with the Store Bank Corporation (an international financial company) and other organisations in creating Store Cap International. This organisation is based in London and cooperates with banks in Asia, Africa and Central and Eastern Europe for funding small and micro-businesses.

ABN AMRO has acquired a holding in the capital of Shorecap.

The involvement of BNP Paribas in the Association for the Right to Economic Initiative (ADIE) comes under four headings:

- Establishment of a line of credit of 2 million euros for funding at least 1,000 projects,
- A 30% involvement in covering risk,
- Contributing to financing management costs equivalent to 10% of the amounts made available to the association,
- Opening an account and access to relevant banking services to business creators who do not yet benefit from them, once their particulars have been accepted by the ADIE. Each local representative of ADIE is in touch with a BNP Paribas branch for instituting the system.

BNP Paribas Banque Privée [BNP Paribas private bank] has formed a partnership with PlaNet Finance and ResponsAbility to create the Responsibility Fund in which BNP Paribas Banque Privée has invested 3 million euros. This investment fund will be offered to the bank's international clients and will benefit from the advice of PlaNet Finance.

The **Crédit Coopératif** is making a line of credit of 3.8 million euros available to ADIE with complete delegation of decisions about the loans granted. The Banque Populaire Group is the leading contributor to ADIE with a total line of credit of 6.2 million euros made available by nine Banque Populaire regional offices and the Crédit Coopératif.

The **Crédit Coopératif** and Secours Catholique on 30th May 2005 signed a national agreement to give access to credit to people in difficulties to help them find work. This agreement will make it possible for example for people in difficulty, supported by Secours Catholique, to have access to bank loans of between 500 and 2000 euros for funding personal projects (buying a vehicle, improving the home, jobs and mobility, equipment, driving licence, agency charges and deposit to enter a new dwelling, and so on). The experiment will be conducted initially in Bordeaux and its urban community.

The **Société Générale**, already involved in microfinance through its subsidiaries in Africa and around the Mediterranean, has taken a holding worth 3 million euros in MicroCred (a Planet Bank project). This investment company is based in Paris and has a capital of 31.5 million euros. It will set up or invest in 15 microfinance institutions over the next five years. The objective of MicroCred is to reach 300,000 micro-entrepreneurs in the poorest regions of the world.

ICICI Bank, India's largest private capital bank, is developing microfinance services for the poor. In particular the bank is seeking to develop distribution products and systems appropriate to their needs and provides direct finance to community and self-help groups. It offers four types of microfinance service:

- Basic banking services
- Life assurance, funds covering handicaps, health and goods
- Finance: credits, shareholdings and leasing
- Derivative products

Specific offers

In Lebanon, **Jammal Trust Bank** and Crédit Libanais are offering front- or back – office services to the microfinance institutions which pay a commission to their banking partner for each transaction.

A large number of other banks are active in refinancing microfinance institutions:

- In West Africa: Ecobank, Bank of Africa, and others
- In Morocco: the Commercial Bank of Morocco, Wafabank

European pension funds are starting to invest in microfinance funds. Thus ABP, the pension fund of Dutch government employees, declared in April 2005 that it had invested 5 billion euros in a microfinance fund.

In partnership with the microfinance institution, Basix, **Aviva Life** is offering life assurance to people on low incomes in India and particularly to women in rural areas.

AWF Development Debt is an ISR bond [issuer-specific risk] fund of **AXA IM**, which supports microfinance by investing directly in the institutions involved

Since September 2003, **BBVA Bancomer** in Mexico is making the “Bancomer Business Card” available to very small businesses. The card was developed in partnership with the Department of Economics which has set up a guarantee fund; the card is intended to finance small groups of individual entrepreneurs or micro-businesses. In Venezuela, the **BBVA Group** is applying preferential conditions to micro-businesses and is making a training programme available to them in partnership with the Universidad Metropolitana. In Paraguay, special conditions are applied to agricultural cooperatives, and BBVA Colombia in 2004 financed the investments of over 2000 micro-businesses using a national guarantee fund.

Nord-Sud Développement is a unit trust created by CDC Ixis (Caisse des Dépôts Group) in 1985 and consists mainly of bonds issued by international institutions that specialise in funding development. Some 5% of the shares are invested in microcredit institutions in Africa, Asia and South America.

The **Crédit Coopératif** lends directly to micro-entrepreneurs through systems in which it is a partner. The Crédit Coopératif has invested along with the World Bank in the Global Microfinance Facility, a refinancing fund aimed at microfinance institutions in southern and eastern countries.

The *Dexia Micro-Credit Fund* is a unit trust intended for refinancing microfinance institutions that specialise in providing financial services to small and microbusinesses in emerging markets. **Dexia Asset Management** uses the expertise of the Swiss company, BlueOrchard Finance S.A., which takes responsibility for selecting the microfinance institutions. A credit committee decides whether to invest on the basis of the BlueOrchard rating.

In 1995, **Financial Bank Bénin** created “social credits” for groups of clients lacking access to bank credit. In November 1998, Financial Bank created Finadev as the bank’s microfinance agency. Since its start-up as a private company in 2000 and its institutionalisation in July 2001, Finadev SA has continued to develop a range of products whereby 40,000 small borrowers have obtained loans in Bénin, two thirds of them in the Cotonou urban area.

The papers on “Finance and sustainable development” are based upon the work done by the ORSE Finance Club.

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References and internet links

Association pour le Droit à l'Initiative Economique (ADIE) - [Association for the Right to Economic Initiatives]

Association set up in 1989 by Maria Novak to help people excluded from the world of work to set up their own job, by adapting the microcredit principle to France. www.adie.org

The Cerise network

The Comité d'Echanges de Réflexion et d'Information sur les Systèmes d'Epargne-crédit (CERISE) [The Committee for Discussion, Consideration and Information on Savings & Loan Systems] is an arena for exchanges on experiences and expertise in microfinance. It was set up in 1998 by four French organisations working in support of the microfinance institutions: the CIDR (Centre International de Développement et de Recherche, Autrêches) [International Development and Research Centre] CIRAD (Centre de Coopération Internationale en Recherche Agronomique pour le Développement, Montpellier) [Centre for International Cooperation in Agricultural Research for Development] GRET (Groupe de Recherche et d'Echanges Technologiques, Paris) [Group for Technological Research and Exchange] and IRAM (Institut de Recherches et d'Applications des Méthodes de développement, Paris) [Institute for Research and Applications of Development Methods]

www.cerise-microfinance.org/presentation/index.htm

France Active

Association set up in 1998: groups a number of regional funds that guarantee bank loans granted to companies with joint liability. www.franceactive.org

France Initiative Réseau (FIR)

Association set up in 1985 and organised on a network basis: its function is to support the creation of small businesses via loans on trust www.fir.asso.fr

Grameen Bank

Set up in 1976 by Muhammad Yunus, the Grameen Bank is the poor people's bank in Bangladesh. It is now established in various countries of Asia, Africa and Central America. www.grameen-info.org

The microfinance gateway

Very comprehensive website giving information on microfinance, set up in June 2000 and managed by the Consultative Group to Assist the Poor (CGAP) based in Washington DC. www.lamicrofinance.org/

Microinsurance Center

This centre seeks to get the microfinance institutions and the insurance companies to work in a partnership to devise professional insurance products for people on low incomes. www.microinsurancecenter.org/index.cfm

Oikocredit

Set up in 1975 in the form of a cooperative society, Oikocredit makes loans at special rates to groups of underprivileged people in Latin America, French-speaking Africa, Asia and Central Europe. Its funds come from churches and individuals. www.oikocredit.org

Planet Finance

Planet Finance is an international solidarity organisation whose role is to bring together and support the microfinance institutions. It works directly with these and the other organisations that carry out banking operations with underprivileged people and assists the banks to develop their activities in this new field.

www.planetfinance.org

Associated papers

This paper is illustrated by a selection of good practices applied by financial players in France and elsewhere. They are listed on the website: www.orse.org

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