

Socially Responsible Investment and Sustainable Banking

Principles for reorienting a regional/local bank's business towards sustainability

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Abstract

This thesis is constructed on an examination of the global principles and operational methods of Socially Responsible Investment (SRI) and their linkage to Corporate Social Responsibility (CSR). These phenomena have implications for the sustainable banking business, which aims to deliver banking products and services aligned with a triple-bottom-line corporate approach contributing to sustainable development in the financial sector. In detail, this research looks at how a regular banking business can be transformed into a sustainable bank, focussing on products, lending and investment standards, business drivers and barriers, as well as public value creation. The research builds on the theoretical context of CSR and financial performance (FP), as well as SRI techniques (exclusion and engagement) and, to a minor extent, the public value literature. The research was conducted through extensive literature research and in-depth case studies on both sustainability-focussed banks (SFBs) and international financial institutions (FIs), including a number of interviews with senior personnel. This study relies on a positive relation between CSR and FP, and finds that extending banking business into the sustainability niche does result in positive financial returns and even better performance than regular banks. This is linked to reputation and credibility, especially in the face of economic crises. Also, a large number of similar international methods and principles, such as transparency, pro-active risk management, active engagement and collaboration, and building of integrity filter down to the level of local sustainable banking and are vital ingredients for a stable operation within this market niche. Furthermore, the realities of bank-client interaction are not as clearly established as the theory and principles - trade-offs and imperfect solutions are the norm. This, however, enables SFBs to positively influence development on the local or even international level as financial facilitators and project stimulators, as opposed to merely excluding businesses based on their ethically insufficient performance. Through free advisory service, engagement of clients, as well as niche products, SFBs and screening companies can add public value that eventually might yield positive tangible and immaterial dividend for them.

Keywords: Socially Responsible Investment, Sustainable Banking, Business Strategy, Corporate Social Responsibility, Sustainable Development, Financial Institutions

Executive Summary

Within the last years, the globalized world has seen a multitude of major economic emergencies such as the Dotcom bubble (2000) and the Global Financial Crisis (GFC) (2008). It appears to many an observer that a systematic re-evaluation of the economic system and its motivations is overdue. At the same time, the global social and environmental problems are increasing with human-caused climate change representing the most pressing environmental matter. The multidimensional problems must be approached with an equally diversified approach and financing is one of the lines of attack. The International Energy Agency (IEA) estimates a required investment of between US\$ 48 and 53 trillion until the year 2035 in order to reach the stipulated 2°C cap in the global warming trend. Presently, institutional investors, such as pension funds, insurance companies, and mutual funds, hold a combined value of over US \$ 70 trillion in the OECD countries alone. The key role of the finance industry is explicitly mentioned by the IEA as it enables the redistribution of private and institutional investments. Economic growth and financial sector development are integrally connected and the greening of this industry emerged as a trend in the last decades.

There are two expressions of sustainable finance, which are both addressed in this study: Firstly, Socially Responsible Investment (SRI) in businesses that integrate environmental, social and corporate governance factors (ESG) with classic risk and return indicators results in support for triple-bottom-line companies. Secondly, sustainable banking encompasses the wider social and governance corollaries of banking activities; the bank as a local mediator and catalyst for development has effects on its community through lending and investment practices which are expressed in sustainable banking products. This thesis is written in collaboration with Sparbanken Syd, which aims to reorient its business towards a sustainability-focussed bank (SFB). The questions, accordingly, are centred on how to enable a transition to a SFB and which internal and external factors play a role in limiting or furthering this transition.

Corporate Social Responsibility (CSR) provides the theoretical background for this layout to bridge the connection from international SRI to the local business scenario. Building on theories and empirical studies that support the positive correlation between corporate social performance and financial performance, this thesis contains research on international SRI principles and investment methods. Subsequently, a number of case studies on small- and medium-sized SFBs are investigated to delineate to which extent and in which way the international principles and methods of SRI are filtering down to daily banking realities. In detail, the variables looked at are *innovative products*, describing the level of innovation, *lending standards* including loans and project finance standards, *investment screening* building on SRI techniques, as well as *factors valuable to or impeding success*. These encompass dynamics, such as external pressure from governmental regulation or societal trends, as well as internal strengths and weaknesses in regards to the workforce, managerial leadership or structural particularities of the banks. Lastly, the *aspects & impacts* variable collects the mechanisms of creation of added value and the transfer of added value as a public good. This level of abstract examination provides another vantage point of reasoning for or against integrating CSR efforts.

In regards to the international SRI scene, this study finds a large number of principles such as transparency, credibility, comparable reporting and pro-active risk management to be prevalent in the stipulations by large financial institutions. These stipulations are expressed through various frameworks and organisations for sustainable finance, such as the United Nations-supported Principles for Responsible Investment Initiative (UNPRI), the Equator Principles (EPs), the International Finance Corporation (IFC) sustainability performance standards, or the United Nations Environmental Program Finance Initiative (UNEP-FI).

Furthermore, the business world supplies concrete examples of how to screen investment for improper conduct as well as the integration of ESG factors, contributing to the creation of competitive advantages and good market performance. Screening processes are intricate systems of evaluation and engagement and if correctly applied can provide a green portfolio (e.g. green funds, microcredits, project financing) with the needed credibility. Collaboration within the SRI scene as well as the creation of business tools supporting for example SFBs are two major drivers for the successful real-world adaption of sustainable financing processes. Two major drivers for this business concept originate from the customer side: customers appear to be a longing for security and dependability, coupled with a (more or less profound) wish to contribute to the greater good. Both are provided by SRI screened products as well as sustainable banking activities.

The findings regarding sustainable banking activities are complex: In addition to the decisive international factors filtering down to the local decision-making and business planning level, banking-specific realities, such as regulatory pressures, local market and customer interest, internal capacity and willingness to change, and market fluctuations play decisive roles in the process. Overall, there is a growing market for sustainable banking that appears to be infused by international SRI principles of stability, integrity, and long-term reliance on a bank.

SFBs in their functions as financial consultant (lending and credit planning), project-explorer (exclusion and engagement), and institution of public interest (norm-setting through products) have the potential to produce public value unrelated to direct financial payoffs but justified by the added immaterial value gained by the bank.

The increasing legalisation of ESG standards and adoption within decision-making frameworks, particularly within large scale FIs filter down to the interconnected smaller banks and other financial intermediaries. They in turn influence their local communities with their products and services. This finds concrete expression in the development of business tools (GABV), interest associations (UNPRI clearinghouse, FEBEA, EUROSIF), the overall speedy growth and large potential for SFBs, and in the market itself (sustainable indexes, growth rates of ESG-screened investments).

The majority of sustainable banking products are comparable in return and mechanism to regular loans and credits, differing mostly in the ethical framing structures (exclusion lists, positive choosing of best-in-class). They are, however, secured through reciprocal savings rather than speculative transactions by the bank to add to overall sustainable, stable development.

A low interest rate can level the playing field for low-cost differentiation and rob such products of their market advantage and appeal to customer. Equally, legislative pressures force small banks to redirect scarce resources in order to be able to comply. Therefore, the choices of where to start with a business transition, whom to involve, and what not to attempt need to be based on a sound and thoroughly delineated business strategy.

Public good provision in the context of sustainable banking has three aspects: it is a side-effect of the bank's norms and expertise flowing into the business transactions. Secondly, public goods are also a target for any sustainably-oriented entity, as they are the expression of the triple-bottom-line in the form of social and environmental pay-offs. Thirdly, they become an extra motivator - beyond the competitive advantage - for the development and offer of sustainable products.

Credibility forms an essential part of integrity, which is sought after by customers in SFBs. If ESG values are not an integral part of the bank's business DNA, a main pillar of decision-making, and championed by top management, integrity is compromised. The competitive advantage is at risk due to reputational backlash caused by external attentiveness and the effect on sustainable development is diminished. It might even be reversed if trust in one bank is lost, the general believe in SFBs might falter.

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Abbreviations

The abbreviations and acronyms listed here display all used in the text. This comprehensive list goes intentionally beyond the frequently used abbreviations to help the reader survey this complex field.

ACWI – All Country World Index

AUM – Assets under Management

B2B – Business-to-Business

BM&FBOVESPA – Brazilian Mercantile, Futures and Stock Exchange

CFP – Corporate Financial Performance

COP – Communication on Progress

CSP – Corporate Social Performance

CSR – Corporate Social Responsibility

CP – Cleaner Production

DJSI – Dow Jones Sustainability Index

ECB – European Central Bank

EHS – World Bank Group Environmental, Health and Safety Guidelines

EMAS – Eco-Management and Audit Scheme

EMS – Environmental Management System

EPs – Equator Principles

EPFIs – Equator Principles Financial Institutions

ESG – Environmental, Social and Corporate Governance

ESMS – Environmental and Social Management System

ESP – Environmental and Social Performance

EUROSIF – European Sustainable Investment Forum

FEBEA – Fédération Européenne des Banques Ethiques et Alternatives

FI – Financial Institution

FP – Financial Performance

FPIC – Free, Prior and Informed Consent

FTSE – Financial Times Stock Exchange

GABV – Global Alliance for Banking on Values

GES – Global Engagement Services

GFC – Global Financial Crisis

GIIP – Good International Industry Practice

GLS – Gemeinschaftsbank für Leihen und Schenken

GRI – Global Reporting Initiative

GSIFI – Global Systemically Important Financial Institution

GTFP – Global Trade Finance Program

IEA – International Energy Agency

IFC – International Finance Corporation

IIIEE – International Institute for Industrial Environmental Economics

ILO – International Labour Organization
INAISE – International Association of Investors in the Social Economy
IPCC – International Panel on Climate Change
IPM – Integrated Pest Management
IUCN – International Union for the Conservation of Nature
IVM – Integrated Vector Management
KPI – Key Performance Indicator
LRTAP – Long-Range Transboundary Air Pollution
MSME – Micro, Small and Medium Enterprises
NGO – Non-Governmental Organization
ROA – Return on Assets
ROE – Return on Equity
ROI – Return on Investment
ROR – Rate of Return
SEPA – Single Euro Payments Area
SFRE – Sustainability, Finance, Real Economies
SFB – Sustainability-Focussed Bank
SME – Small and Medium Sized Enterprises
SRI – Socially Responsible Investment
UNEP – United Nations Environmental Program
UNEP-FI – United Nations Environmental Program Finance Initiative
UNGC – United Nations Global Compact
UNPRI – United Nations-supported Principles for Responsible Investment Initiative
USEPA – US Environmental Protection Agency
USSIF – US Sustainable Investment Forum
WHO – World Health Organization

1 Introduction

“Financial markets are like the mirror of mankind, revealing every hour of every working day the way we value ourselves and the resources of the world around us.

It is not the fault of the mirror if it reflects our blemishes as clearly as our beauty.”

- Niall Ferguson¹

In the final weeks of writing this thesis, on August 24th, 2015, a massive downturn on major economic indices (e.g. Shanghai Composite lost 8.5 %, EURO STOXX 5.6 %, and Standard & Poor’s 500-stock index 3.9 %), which has been likened to the infamous Black Monday of 1987, set the financial world in turmoil (Popper & Gough, 2015). This followed an ongoing levelling or decline in the growth of emerging economies, and a devaluation of Chinese currency on August 11th, signifying the level of interconnection the emerging economies have with the rest of the globe (FTonline, 2015). Apart from losing global stock values of US\$ 5 trillion within four days, the international financial system has experienced a record drop in commodity prices (particularly oil on a six year low), and the markets are “swooning” in adjustments to the end of a rapid growth era on the shoulder of emerging economies. (The Economist, 2015) Public administrations have remained ineffectual in their reaction to this downturn and global coordinated fiscal moves to relax the markets are not about to be engaged (Bogler, 2015).

Within the last 33 years only, the globalized world has seen a multitude of major economic emergencies, such as the Latin American Sovereign debt crisis (1982), the US savings and loan crisis (1982), the “Black Monday” stock market crash (1987), the Junk Bond crash (1989), the Tequila crisis (1994), the Asia crisis (1997), and more recently, the Dotcom bubble (2000) and the Global Financial Crisis (GFC) (2008). It appears to many an observer that a systematic re-evaluation of the economic system and its motivations is overdue. The industry must find a connection to reality rather than relying on theoretical models alone. (Davies & Wild, 2013)

At the same time as the global economic system keeps hitting an invisible wall, the global social and environmental problems are increasing. Human-caused change of the global climate is the most pressing matter on the environmental front; as temperatures and sea levels rise and weather crises mount, desertification and floods are two sides of the same coin, adding to the detrimental effects on the global human and natural system. Although the predictions point to a continuation of many problems, adaption and mitigation processes are undertaken and promise relieve. (IPCC, 2014)

Meanwhile, growing social tensions are expressed in uneven wealth distribution: in 2014, 1 % of people in the world owned 48 % of the global capital while the majority, 80 % of humankind, has to distribute merely 5.5 % between them (Oxfam, 2015). Inequality caused by wealth distribution is seen as the most pressing matter in sustainable development, both as a cause and a consequence. Addressing all stakeholders of a business, emphasising economic models that are human-centred and focus on holistic prosperity, and investments in system-resilience are key processes by which sustainable development can be brought about. (IRF, 2015)

Despite a less than ideal track record, at least in the perception of many people, the financial system has a central role to play. The multidimensional problems must be approached with an equally diversified approach and financing is one of the lines of attack. The International Energy Agency (IEA) estimates a required investment of between US\$ 48 and 53 trillion until

¹ From “The Ascent of Money - a Financial History of the World”, 2009, Penguin Books, London, page 362.

the year 2035 in order to reach the 2°C cap² in the global warming trend as stipulated by the climate change target. The key role of financing is explicitly mentioned by the IEA, with loans, bonds and equity contributing with around 40 % to the overall efforts (see attachment 1). (IEA, 2014) The question is, how obtain the funds needed for the required investment? Presently, in the OECD countries alone institutional investors, such as pension funds, insurance companies, and mutual funds, hold a combined value of over US \$ 70 trillion. (OECD, 2013)

The matter appears less than an existential one but rather one of allocation and distribution. Mathews (2013) points out the mismatch between the global challenge (and entrepreneurial opportunities) in meeting sustainability targets - climate change in particular - and the insufficient public funding meeting it. This brings about a chance for private financing models. He calls the greening of capitalism “the biggest change to the world of business since the second industrial revolution”.

The financial industry plays a major role in the everyday business of public, commercial, and private finances. Economic growth and financial sector development are integrally connected; increasing capital accumulation rate and making capital usage more efficient contributes to positive growth by stimulating the economy. (King & Levine, 1993)

Although the importance of banks is greater in the earlier stages of economic development and relinquishes weight to the security market³ in later stages, their contribution particularly in the form of lending and money transfers are crucial. Higher evolved economies growth rates then depend to a higher degree on tradable markets. In the course of this development both the basic banking services and the security market are interconnected. (Demirguc-Kunt, Feyen, & Levine, 2012) When the latter gains significance, the importance of how to invest in securities becomes a matter not only in the conventional meaning of profit and loss but can also entail other evaluations such as social, ethical and environmental aspects. Socially responsible investment (SRI) such as the Equator Principles (EPs), which guide social and environmental assessments of major loans and development work, is providing much of the rationales, principles, and ideals that reverberate down to the (relative) micro-level of banking. Banks such as Triodos or GLS Bank have taken up these dynamics by adapting their business models and value-orientation in what is called sustainable banking. Sustainable practices, per definition, are aiming towards long-term stability, and although the return on investment might not be as steep as from high-risk projects, they can form a key factor in re-orienting a bank's business. (Bouma, Jeucken, & Klinkers, 2001; Renneboog, Ter Horst, & Zhang, 2008) This relates to moral imperatives defined by intergenerational equity, establishing (financial system) stability for the future by adapting economic instruments. Although present generations are beneficiaries of the earth as a system, future generations are entitled, too, with an equal standing in their rights to it. (Brown-Weiss, 1992)

Sparbanken Syd in Ystad is a local example for a bank that is interested in undertaking such a transformation of their business model, both in practice and in the normative mind-set behind the practice. As a traditional local bank the cooperative⁴ feels the need to overcome the dangers posed by the instability of the market, mergers, and split-ups by focusing on its core values in connection with a modern take on sustainable development. This thesis will feed into

² The international minimum target is, though technically feasible, not within reach at current efforts. (CAT, 2015)

³ Securities are understood here as any form of tradable financial asset, in line with the definition provided by the US Security Exchange Act of 1934 (15 U.S.C. § 78a). In this work the terms securities, stocks, and shares are used interchangeably.

⁴ *Cooperative banks* operate much like regular banks with the exceptions that they are co-owned by their members who have voting rights on the general assembly to influence the bank's operations and procedures. This membership is granted in exchange for savings. Sometimes, there is a dividend payed to the members from the year's surplus but in the sustainable banking sector it can be used to invest in social or environmental charitable projects or investment opportunities and

the strategic planning of the future orientation of the bank, in form of a condensed and tailor-made summary of the findings applied to this bank's context. This much more specific summary will be the final part of an on-going advisory and exchange process that started in autumn 2014 and culminates in feeding into the strategic reorientation of the bank. Conversely, this means that this thesis is mostly concerned with identifying larger principles and more universally applicable methods for any local or regional bank, in order to contribute to the academic literature on these topics.

In an earlier work produced by the International Institute for Industrial Environmental Economics (IIIEE) the topics have received some attention. Emtairah (1997) has produced a framework for the decision-making process in sustainable investment, aiming to provide a set of appropriate criteria.

1.1 Background

This subchapter provides the essential background information to the financial sector, the phenomena of SRI, sustainable banking, and the association with Sparbanken Syd. For more details refer to literature reviews in chapters 3 and 4.

1.1.1 SRI and Sustainable Banking

SRI – important facts

The historical development of SRI has roots in the operations of the Anglo-Saxon church investors (foundations and pension funds) that excluded the “sin stocks” - in essence all companies dealing in weapons, gambling, tobacco and alcohol. (Sparkes, 2008) These exclusion lists still remain the backbone of any SRI portfolio.

SRI (definitions, see chapter 3.1) has risen from ancient church-driven ethical business values to a more differentiated case approach over time. In the 1960s, the Vietnam War and anti-racist movements created awareness that led to the creation of the first SRI mutual fund in the US in 1971. In the 1980s, for example, the focus shifted to apartheid and resulted in mandatory divestment from South African companies for Californian pension funds. Since the 1990s, SRI has found additional motivation and expression in ethical consumerism, particularly strong in the US and Europe. In addition to a growing interest by retail investors, the institutionalization of and legal regulations for SRI are an important factor in its growth. For example, the California Public Employees' Retirement System, the largest pension fund in the world, engages actively with companies to promote sustainable values, while countries such as Belgium, Sweden or France have integrated a legal demand for SRI screening into their pension fund systems (see attachment 2 for a list of regulations). (Renneboog et al., 2008)

The modern institutionalisation of SRI was helped by the United Nations Environmental Program Financial Initiative's (UNEP-FI) “statement by financial institutions on the environment and sustainable development” in 1991/92 (see subchapter 3.4.6 for more details on UNEP-FI). However, it has been a phenomenon particularly observed in the context of banks in developed countries (Zimmermann & Mayer, 2001). This holds true even today.

Besides large institutions like the UNEP-FI, other international (private sector) initiatives, such as the European Sustainable Investment Forum (EUROSIF), have grown to promote the integration of ethical values into financing decisions using both negative and positive

bolster the bank's Green portfolio. Often the term *community bank* is used for this type of bank as the concept stems from intra-communal exchange of financial services and collaterals; hereafter both terms are employed interchangeably.

indicators for framing these decisions. Marketing, research and knowledge exchange, and business tool development are main foci of such associations. (EUROSIF, 2015)

This development is in line with a growing integration of sustainability concerns in companies, commonly referred to as Environmental and Social and Corporate Governance (ESG) factors. A 2012 study by the Governance & Accountability Institute found that 53 % of the Fortune 500 companies reported on their sustainability performance, up from only 19 % in 2011 (G&A, 2012). Private-public partnerships are sprouting as well, the US Environmental Protection Agency (USEPA) has very recently disclosed 78 Fortune 500 companies which they closely collaborate with to promote and foster green energy measures (US-EPA, 2015). In short, there is a growing market for large-scale ESG-oriented investment.

Possibly adding to the potential of SRI, there has been a sharp decline in traditional investment, as the most important investment banks have started to withdraw from that market. After the GFC, the top ten global banks have diverted assets from investment banking, due to regulations and suddenly exposed risks connected with the derivative market. (Noonan, 2015)

Essentially, any kind of investment is subject to the impulses of the financial markets, particularly the interest rates set by central banks such as the European Central Bank (ECB). At the time of writing, the Financial Times issued a report stating that within the preceding 13 months (up to July 2015) over US\$ 940 billion in foreign investments had been diverted from the 19 largest emerging economies. This is twice as much as after the GFC, and a consequence of negative economic development in these countries (e.g. China, Brazil, and Russia), dropping raw material prices⁵, and low interest rates; and the trend is expected to accelerate. In comparison, the investments into emerging markets between 2009 and 2014 amounted to roughly US\$ 2 trillion, which was the result of a historical low in US and EU interest rates⁶. They, in turn, were a reaction to counter the effects of the GFC in 2008. (Kynge & Blitz, 2015) Low interest rates on the market are problematic for sustainable allocation of resources as they cause debt accumulation and lower investments in real values such as research or development (Somerset-Webb, 2015). They also have implications for the product design and profitability of a sustainable bank, hampering the effect of low-interest offers granted to sustainable projects.

Sustainable Banking – short history and elementary information

The changing of the world of finance has found one expression in the world of sustainable banking. It is often referred to as Green Banking in the context of regular “housekeeping methods”, meaning energy efficiency and reduction of materials consumption (e.g. paper, electronic equipment) in the name of sustainability gains. This is referred to as the direct impact of banking operations. Despite these apparent direct impacts a bank can have, the indirect impacts are of truly significant importance for sustainable development: Loans are given out based on certain predefined criteria and investments are made to yield profit for the bank; through its interlinkage with the fates of private and commercial actors, the bank becomes a catalyst for development. In this role, a bank can actively guide the development of its commercial network into a sustainable direction, for example through the usage of specially-designed products such as green credits/loans and investments⁷. (Jeucken & Bouma, 2001)

⁵ This is in particular relevant for Russia, which depends on oil exports. Simultaneously, the political situation entailing international trade restrictions as part of sanctions on Russia plays its part, too.

⁶ Higher interest rates coupled to higher growth rates in emerging markets make foreign investment more attractive. Now the trend appears to be reversed, at least for the time being. This should hold potential for SFB product design.

⁷ See below for respective definitions and chapter 4 for examples.

Credits and loans display some major conceptual differences: large loans are usually purpose-bound (e.g. for a house, car) and secured by collateral (often the financed object itself). Credits are often more flexible and instant (e.g. extension on a loan as a line of credit) and feature higher interest rates as they are not secured. Consequently, they are usually much less substantial than loans. (Investopedia, 2014) In the context of this thesis, both loans and credits will be featured in unison (unless the particular case calls for differentiation based on procedures and conditions) as their impact is of prime importance.

At present, banks are facing a changing environment. In 2015, following already tightened boundaries for their business liberty in the wake of the financial crisis of 2008/09, the banking industry is facing heightened regulatory pressure. As William Dudley, president of the Federal Reserve Bank of New York states: “There is evidence of deep-seated cultural and ethical failures at many large financial institutions” (Deloitte, 2015, p. 13) The report by the financial service company Deloitte further depicts a growing need to invest in risk and capital adequacy governance, including bettered risk management systems, investment assessments, and the inclusion of ethics⁸. And although growth is still the major and universal priority, strategies to achieve it will vary much by bank size and business line. (Deloitte, 2015) In other words, the need to change is explicitly mentioned while implicitly the diversification of banking is bound to be an energetic development.

Furthermore, there are structural factors important in this context. Behind the scenes, banks may face liquidity problems, for example to secure their reserve requirements. Interbank lending, which is the lending of cash between banks, is an important linkage that keeps the banking sector functional. The interest rates charged are often an indicator and reference for open market financial mechanisms, such as setting discount rates for corporate cash flow analysis, and thus play an indirect but far from insignificant role in the financial markets. (Wikipedia, 2015) (Investopedia, 2006) This interrelation becomes an issue when certain banks exclude others from cooperation due to their lacking environmental and/or social performance. Then the market mechanisms are suddenly subject to ethical valuations

It is important to define some terms at this point. As the term *green banking* delineates primarily the management of (environmental) direct impacts it would fall short of encompassing the extent of sustainable efforts researched. This thesis will employ the term *sustainable banking*⁹ for the phenomenon in question. It encompasses also the wider social and governance corollaries of banking activities; accordingly the terms *ESG integration* or *ESG factors* are synonymous with sustainability-oriented integration or factors.

1.1.2 Placement of Thesis – the Point of Departure

As there are many schools and lines of thought within the SRI and CSR research community, this thesis has to select a clear point to depart from. Different meta-studies show various results on the financial validity of CSR and, in particular, SRI but ultimately, the majority judges the financial performance of SRI as at least as good as conventional investment fields.

However, this is not a thesis targeting the evaluation of CSR or corporate social performance (CSP) studies, normative rationales or beyond-compliance performances, as such. Instead it uses this field and its findings to elucidate sustainable banking and some options for achieving the greening of an equity portfolio or lending pattern.

While additional detail on these research fields is provided in chapter 3, this project was

⁸ This specifically includes a call to go “past remediation and ‘short-termism’ ” (emphasis in original, (Deloitte, 2015, p. 19) to the resolute pursuit of profitability. Looking to embed robust risk culture and ethics into the entire organization has to go beyond mere compliance. (Deloitte, 2015)

⁹ The term will be used interchangeably with *sustainability focused banks/banking*.

initiated by Sparbanken Syd and is pursued by this author with the assumption in mind that sustainable banking is a valid and financially attractive business concept. Consequently, more weight is placed on displaying the positive factors and theories regarding the outcome of implemented SRI schemes.

1.1.3 Sustainable Banking and Sparbanken Syd

Sparbanken Syd, its headquarters located in Ystad, is a traditional cooperative bank with roots in the region since 1827. After a couple of mergers and splits, and a dawning realization of the importance of sustainable banking and its opportunities at the very top of the management, the bank has decided to adjust its business and, to some extent, re-invent itself as the local frontrunner sustainable bank in Skåne.

This thesis is a follow-up on a report created during the course ‘Corporate Environmental Management in Practice’ at the IIIIEE in autumn 2014. In this course, a team of three including this author was tasked to develop a plan for sustainability efforts for Sparbanken Syd, Ystad. The report yielded an array of possible steps framed as a tailor-made sustainability strategy for the bank. The core of the proposed steps was the initiation of a sustainability think tank¹⁰ to identify opportunities for improvement within the bank and areas for engagement in the region. Half a year later, after having established said think tank, Sparbanken Syd approached this author to engage in the writing of a master thesis on the topic of sustainable banking. As the report, in line with the chief literature on the topic, had identified the indirect environmental impacts of a bank to be the most crucial, the decision was collaboratively reached to focus the thesis around investments and loans, as they represent the most important sources of indirect impacts.

The willingness to concentrate the business ethics around sustainable principles and to invest in new products and services is present; however, the practical solutions and their implementation have not yet been completed. At this stage, the bank is still in the strategic planning phase (personal communication with Hans Nelfelt, June 4th 2015). According to Jenny Reiman-Ehle, business developer at the bank, the incorporation of ethical principles in order to foster a triple-bottom-line business is a chance for the bank as local competitors are currently not on the same level (Personal communication, 2015-08-31). At the same time, the general market demands for a thorough integration of sustainable principles in order to secure a competitive advantage, as many other banks already have achieved (see attachment 3 for a list of examples). Mikael Ekdahl, compliance officer, sees the restructuring from square one as a chance to incorporate new values, rally the top-management behind the idea, and adjust operational procedures into the daily routines (e.g. checklists for loans and investments) (Personal communication, 2015-08-31). As prudence in handling sensitive marketing and product development data prescribes, the details of how the findings feed into the bank’s portfolio will remain subject to the internal communication between the bank’s personnel and this author. This thesis identifies general principles and trends applicable to any small or medium bank in order to increase the validity and real-life value of the findings.

1.2 Problem Definition

As the financial sector increasingly integrates sustainability considerations in its proceedings and norms, the focus is simultaneously diversified. Environmental performance recording and communication on the environmental and social effects of FIs has increased, as the UNEP-FI growth or Fortune 500 companies reporting (see chapter 3) exemplifies. However, this pertains often to direct effects and not to the indirect ones such as lending, insurance or

¹⁰ From here on, referred to as “the Green Team“.

investment decisions, which can be substantial. (Tarna, 2001) This is connected to business strategy in finding a market niche and using it to create a competitive head-start.

This thesis is, in the wider sense, a treatise on business strategy and, in particular, on the economic validity of ethically-oriented choices in the finance industry. The business case for corporate sustainability is a field riddled with complexity of innate parameters, such as “technology, regime, and visibility”. (Salzmann, Ionescu-somers, & Steger, 2005, p.33) Furthermore, the effects of sustainability efforts are often limited to reductions of risk and intangible value creation cannot be measured in short-term outcomes, if at all. Materiality therefore is elusive. Consequently, the CSR research community requires studies regarding the characteristics of and attitudes towards sustainable management, particularly focusing on key arguments driving internal corporate sustainability management (Salzmann et al., 2005).

With the Sparbanken Syd scenario in the back of the mind, this means identifying internal management procedures for a bank’s sustainability efforts and mechanisms for ESG integration. The concerns are to determine guidelines for choices on the path of restructuring, tangible products and management approaches, as well as effects on added value creation. This pertains to both CSR pay-offs and immaterial values added beyond the boundaries of the business in social and environmental areas. Sustainable banking needs to be profitable as a business and successful as a provider of added value; to which level the abovementioned measures should or can be implemented to achieve these remains uncertain.

1.3 Aim and Research Questions

This work aims to identify global principles of SRI (definition see chapter 3.1) through literature research and examination of examples from the practical business world. Informed by the background of these large-scale principles, a number of case studies will then pinpoint working methods, mechanisms, and internal policies that enable small and medium banks to conduct a financial service that is successful for both bank and client as well as linked to the sustainability paradigm. Together, this will provide relevant information for FIs such as Sparbanken Syd which aim to implement SRI and green banking aspects into their business strategy. In detail, this thesis aims to answer the following questions as well as establish links between the answers.

Research Question:

How can small and medium-sized banks integrate ESG determinants into their operations and be successful as a triple-bottom-line business?

Sub questions:

What characterizes green investments, loans, and specialized products in the context of sustainable banking?

In which ways do international principles and working standards for sustainable investment influence sustainable banking on a local level?

1.4 Scope and Limitations

To close knowledge gaps of how to transform a bank into a successful triple-bottom-line business, international principles of ethical investment and ESG-oriented financing, as well as sustainable banks are researched. This is to provide a footing of local practices and ideals in sustainable banking in the global SRI discourse and working practices of ESG integration.

Geographically, the sustainable banking case studies will be limited to the European Union for two reasons: The US and Canada, though exemplary in many respects, have a different banking system which does not play the same role as an enabler of business as in the EU

(Jeucken & Bouma, 2001). To incorporate the differences in the analysis would weaken the arguments and render the process overly complex. Furthermore, some of the information will feed into the business re-orientation of Sparbanken Syd and the European context is more in congruence with the bank's geographical market aspirations. In combination, the international and local perspectives are expected to complement each other providing an informative picture of reality. The Swedish context is not focussed on for similar reasons; the narrowing of national markers, such as legal regulations, already existing SFB schemes or market uptake would render the applicability of the findings less appropriate to banks in other EU countries. It is, however, acknowledged that the Sparbanken Syd scenario would profit from a narrower Swedish context. Therefore, this will be part of the internal discussions and advise given to cover this specific area in more detail.

There are some additional limitations regarding the case studies. At first glance, in the context of this work, it would have been meaningful to set the boundaries for defining small and medium-sized banks according to the extent of their investment and loan impact (total investment and loan assets). However, as literature and case studies have shown, definitions and assumptions regarding their sustainable lending and investment policies often differ considerably between banks. What one bank considers a sustainable loan another might exclude. Furthermore, much of the impact derives from the project itself and thus a large sum of money does not necessarily translate into a great contribution to sustainable development. Conversely, a small project could have a large cumulative impact, for example in terms of technology innovation and consequent market diffusion. Hence, the assets under management are subject to too many stimuli in order to serve as a sole qualifying indicator and will only partially be used to define small and medium-sized banks in this work.

Another frequently used defining indicator is the net profit¹¹, which is the most common way of discerning a company's profitability (Farris, Bendle, Pfeifer, & Reibstein, 2010) Again, it alone does not appear ideal in this context. Financial success is dependent on many factors, such as historical development, marketing, international engagement, project successes, investment areas, etc. In short, the money made does not necessarily correlate to the sustainability efforts or impacts. Consequently, grouping the banks purely based on financial success would not suffice, still. Nevertheless, total assets under management and profit figures will be displayed to provide some form of guidance to the relative market strength of the banks and provide some basis for perception of business health.

In order to add more comparative elements, the number of employees will also be displayed. This correlates directly to the available resources (man-hours) a bank can spend on conducting business, such as project acquisition, screening, or information campaigns.

The IFC defines small or medium-sized companies as having 10 and 300 employees (IFC, 2012a), while the official EU definition refers to a maximum of 250 employees. (EU Commission, 2015)

At any rate, the reference point for choosing the case studies is set by Sparbanken Syd with 160 employees, total managed assets of SEK 25.232 billion (EUR 2.671 billion) and a net profit of SEK 34 million (EUR 3.6 million¹²)(Sparbanken Syd, 2014).

For practical reasons, such as time limitations and data quantity, the number of case studies has been limited to four. The cases contribute with an in-depth look at particular methods, products, sustainable loans and investments, and added value to explain sustainable banking in small and medium-sized banks. This setup cannot display a representative picture of the sustainable banking industry per se, and should be seen within the context of both the method and practical usage of the data by the intended audience. However, as the global aspects of

¹¹ As it is a profit figure after taxes, it takes into account national and local differences. This should contribute to comparability between banks from different countries as one important aspect of variability in financial results is removed.

¹² All financial data will also be expressed in Euro to add to comparability.

sustainable investments are treated and the principles identified are expected to filter down to the local cases, the outcome should fundamentally remain significant on a higher level.

Some of the literature dates back to the time before the economic crisis that set off shockwaves throughout and beyond the financial sector in 2008 might be seen as a limitation. However, the incorporation of very recent literature allows for a comparison of the performance of sustainable investments *versus* 'regular' banking business in the light of those events.

The number of interviews conducted was slightly hampered by the timing of writing; availability of willing interview partners during summer holiday season was less than ideal. A number of banks¹³ were contacted in attempts to conduct more interviews but this resulted in either no, or negative response. Still, the results gained from the completed interviews, including the workshop and meetings with Sparbanken Syd, are sufficient for a meaningful discussion and conclusive answers as they provide a variety of opinions and experiences. The interviews were held with knowledgeable senior personal that could share information exceptionally valid for the researched questions, particularly on the working principles and business realities.

1.5 Audience and Purpose

As mentioned above, Sparbanken Syd aims to re-orient its business around the principles of sustainability in the finance industry. To some extent this work will contribute to this effort; a series of internal planning sessions is scheduled to take place in autumn 2015 creating a sustainability roadmap to 2020. Thus, the provided information, one might call it a blueprint or benchmark, will feed into this process and help to identify the options for improvement.

In addition, there is a broader audience. As this thesis identifies the working principles of sustainable investment and loans on a global level and, in more practical detail, the methods and policies of small and medium-sized banks, it should be a transferable blueprint for many other banks that aim to re-invent themselves and/or seek transformation to a (more) sustainable business. All interview partners wished to be supplied with the finished thesis.

Lastly, the identification of past and current trends carries academic significance as the conjunction of banking and sustainable development, here in particular sustainable investments, loans, and business approaches are in need of further research and theoretical structuring (E. S. Cooper, 2013).

1.6 Disposition

Chapter 1 contains the general background information on the financial sector, the role and history of sustainable banking, and detailed mentioning of the thesis' placement and role. Furthermore, some crucial structural elements, such as the problem definition, research questions, limitations, scope, audience and ethical considerations are listed and described.

Chapter 2 is devoted to the theoretical background and the methodological strategy. Subchapter 2.2 contains the conceptual framework, which explains the logical approach to finding answers to the research questions and 2.3 the method of data collection.

Chapter 3 concerns the phenomenon of SRI on a global level. It contains important definitions and historical/elementary information, a subchapter on the CSR business case for SRI, as well as a subchapter for listing the findings on screening methods and operational principles in SRI.

Chapter 4 leads from SRI into sustainable banking. It contains a short literature review on

¹³ Alternative Bank Switzerland ABS, GLS Bank Germany, Shared interest UK (financial service provider), Reliance Bank UK, Ecology Building Society UK, Banca Popolare Etica Italy, and Crédit Coopératif France.

historical development and important factors, followed by the findings of the sustainable banking case studies, which were informed by the methodological approach set in chapter 2. Chapter 5, the analysis, provides critical views on the most important findings, their interconnections and common principles, as well as some discussion on applicability in reality. Chapter 6 is a discussion of the findings in light of the theoretical background. Chapter 7 provides a summary of conclusions drawn from the whole of the research conducted, thus answering the research questions.

1.7 Ethical Considerations

The author has received some funding from Sparbanken Syd in order to facilitate an on-going exchange (meetings, interviews, workshops) with the eventual goal to provide an overview over current principles and practices in sustainable finance and banking. As Sparbanken Syd is not the subject of research any conflict of interests is ruled out.

All non-public data has been cleared with the interviewees for disclosure. Proprietary data has been kept as such and, if anything, has only been used by the author to understand fundamental processes. No personal or private data have been subjects of this research.

2 Methodology

This chapter presents a delineation of the theoretical background, the development of the conceptual framework and the method of data collection.

2.1 Theoretical Background

Sustainable banking and SRI are expressions of environmental and social governance aspects and their integration into the financial business. Thus, a theoretical grounding in the literature of Corporate Social Responsibility (CSR) and connected discussions of Financial Performance (FP) are chosen to provide a reasonable footing for the analysis.

As already stated in subchapter 1.1.2, this thesis builds on the assumption of a positive (or at least neutral) link between social and financial performance of a company, in line with the pertinent scientific literature.¹⁴ After outlining the theoretical background for this thesis, the contemporary, tangible business examples for effective SRI are discussed in chapter 3.4.

To begin with, the concept of CSR is operationalized by researchers in the variable Corporate Social Performance (CSP).¹⁵ Within the frameworks subsequently presented, CSP incorporates both social and environmental factors. (Salzmann et al., 2005)

The definition of CSR in the context of this work rests on the following theoretical basis: Organisations can engage in the provision of social goods outside the direct interests of their core business. Corporate entities that employ some measure of CSR would engage in “actions that appear to further some social good, beyond the interests of the firm and that which is required by law” (Abigail McWilliams, Siegel, & Wright, 2006). This, in processes and motivations, aligns with stakeholder theory, which delineates the effects of corporate activity as well as means to achieve these effects centred on the involved stakeholders (Phillips, Freeman, & Wicks, 2003). Ultimately, CSR is work that extends beyond the boundaries of regular business activity, thus not contributing directly to win or loss (also see chapter 3.3 on CSR financial performance), and can be understood as adding value as a public good instead (Abigail McWilliams & Siegel, 2001).

There are a number of theories promoting the idea of negative links, such as the *trade-off hypothesis*, reflecting the neoclassical argument of monetary gains being the absolute primary target of companies and that any dabbling in social responsibility efforts would only decrease the profits and unnecessarily reduce profits (Friedman, 1962). Building on views pointing to managers following selfish ideals and enriching themselves to the detriment of share- and stakeholders (Weidenbaum & Vogt, 1987) (Posner & Schmidt, 1992), the *managerial opportunism theory* (Preston & O'Bannon, 1997) states that, when backed by solid financial returns, managers cut back on social programs and expenditures furthering short-term, private increases. Conversely, if the financial performance is weak social programs are engaged as a ‘smoke screen’ to divert from the real reasons of business deterioration. Both the trade-off and opportunism hypotheses can act in combination in what is called *negative synergy* (Preston & O'Bannon, 1997).

However, as Preston and O'Bannon (1997) have laid out in a large empirical study¹⁶ of causal sequences between financial and social performance, no negative connections between financial and social performance could be identified in contrast with the underlying

¹⁴ The major contributors are: (Sparkes & Cowton, 2004), (Preston & O'Bannon, 1997), (Revelli & Viviani, 2015), (G&A, 2012)

¹⁵ Both terms are used interchangeably.

¹⁶ They reviewed 67 US companies over 11 years, yielding 270 test statistics.

assumptions of the three theories above. Instead, all evidence points to a positive or at least neutral association between financial and social performance. For this three variants of explanation have been proposed:

The first one, the *social impact hypothesis* (Preston & O'Bannon, 1997), is based on the assumption that a sound social performance will lead to better financial performance. Not addressing stakeholders' needs is a liability and could well result in future financial loss. The actual costs of liabilities are considered higher than the immediate financial loss, as the firm will face difficulties in integrating implicit claims into the pricing (i.e. immaterial values). (Cornell & Shapiro, 1987) In other words, if stakeholder views are not integrated into the value creation and nursing, the loss of trust and credibility may lead to a loss beyond the immediate scenario; a company's reputation is worth investing in as the likely benefits of good social performance outweigh the generated market fears and the risk of reputation loss.

The *available funds hypothesis* states that the level of social performance is directly connected to the level of financial performance: if more resources are available (hence also termed *slack resources hypothesis*) the lead-lag effect is such that created resources in one period allow for investment into optional (ESG) projects at a later point (McGuire, Sundgren, & Schneeweis, 1988). This also presupposes accordingly aligned values and goals of management, which is instrumental in translating those extra funds into good corporate citizenship. Finally, there is the *positive synergy hypothesis* which surmises that financial and social considerations can act in conjunction, at least in their chronological concurrency, just as assumed by the opposing negative hypothesis, but this time with the expectation of a positive outcome (Preston & O'Bannon, 1997)

All three of the positive hypotheses can easily be argued for and the latter two have been empirically studied with evidence found to support both the *available funds hypothesis* (16 out of 30 cases) and the *positive synergetic effect* (14 out of 30).

Furthermore, these results can be set in conjunction with the *virtuous cycle*, proposed by Waddock et al. (Waddock & Graves, 1997). This model states a reciprocal reinforcing effect of resources spent on CSR and CSR returns. *Ceteris paribus*, slack resources may lead to improved CSR and vice versa. The authors correspondingly surmise a possible institutionalization of company-cultural or strategic changes that initially were simply postured to display a façade of CSR. Regardless of intent, the result may be actual value added through integration of external and internal stakeholders as well as subsequent payoffs beyond the early costs of innovation and implementation.

In a very recent, large-scale meta-study, CSR is shown to be reflected in the market mechanism of SRI; both phenomena are inherently connected. Revelli and Viviani have endeavoured to draw a line under the back and forth of 20 years of opinions in SRI research. Past research results differed widely in their expression of financial performance of SRI and were dependent primarily on the research methodology. After screening 85 different studies and 190 experiments, the authors argue that investing in SRI neither yields a real cost or benefit in financial terms. The interest, from now on, should lie with the additional, extra-financial gains (i.e. ESG advances) of SRI.

They furthermore depict the path of progress and SRI mainstreaming, arguably as an expression of the social impact and virtuous cycle hypotheses: Since no extra costs are involved, SRI can result in positive performance in both the socio-environmental (extra-financial) and financial spheres. Consequently, ESG-focused companies have more access to financial resources, which leads to reduced equity prices, higher stock values and demand for SRI. Seeing the potential, other companies will follow suit, followed by SRI-focused investors. At that juncture, portfolio managers will integrate investor expectations with financial evaluation. As a side-effect, given the proven positive impact of CSR, new companies will integrate the approach from the get-go, aiming for a competitive advantage. (Revelli & Viviani, 2015)

As stated initially, this thesis will consequently rely on the assumption of positive links

between CSR/SRI and FP and use this as a base for the analysis of the cases and comprehension of the data. Finally, to bridge the gap to the conceptual framework, the typology of SRI techniques, as presented by Sparkes (2008) is used as a key element of the data arrangement and analysis. Sparkes, who currently acts as the Chief Investment Officer at the Central Finance Board of the Methodist Church, UK, has written a number of articles and books on the topic of SRI and is frequently cited by works within this field. His focus is set on adding to the regular two-dimensional risk-and-return financial analysis; SRI adds a third facet, the value-expressive features of social responsibility, which make any analysis much more complex. He adds a call for research regarding pricing models, SRI agents (institutional or retail) or the connection to public policy development (equal or better performance compared to regular investment).¹⁷ He adds that, though SRI is merely based on ethical reasoning and values, virtually all mutual SRI funds¹⁸ include environmental criteria as well. In this context, he even refers to ethical banking, stating that acceptance of lower return of investments (ROIs) by customers is an integral part of the business model.¹⁹ (Sparkes, 2008) Of central importance for this thesis is his outline of the major techniques of investing in a socially responsible manner:

1. *Exclusion* or negative screening is the oldest and most prevalent of the techniques, virtually used in all SRI mutual funds. It relies on excluding morally problematic companies from an investment portfolio, based on either a total approach or a percentage of a company's turnover (e.g. <5 % derived from animal testing). Details vary, with the majority of agents excluding negative examples; however some funds base their decision on a best-in-class approach, conversely screening only for the most positive examples. The negative screening can be done qualitatively, meaning that the real (or at least identified) impact of the contribution to turnover is more important than the absolute number. For example, 5 % turnover derived from selling weapons might be considered more problematic and consequently unacceptable for the portfolio, than another company's 10 % turnover derived from building polluting infrastructure. Funds using the exclusion strategy can focus on particular areas and thus be tailored to the demands of different potential customers. (Sparkes, 2008)

2. Shareholder *activism* is defined as making use of voting rights given by share ownership with the aim to influence a company's management. Resolutions filed²⁰ by shareholders are employed in the sense of pressuring a company's management and in most cases the resolution does not need to be put to a vote as the possibility of public awareness is deterrent enough. Sparkes mentions the Interfaith Center on Corporate Responsibility (ICCR) as an important example of institutional shareholder activism; as a coalition of faith-based investors (Protestant, catholic, and Jewish) the alliance filed over 268 resolutions (2005/2006) regarding themes such as access to health care, environmental justice, water and food, etc. (Sparkes, 2008). Between 2012 and 2014, 175 institutional financiers and 27 investment management firms managing combined assets of US\$ 1.72 trillion, filed resolutions in the US, showing that this technique is on the rise with impacts expected to grow in the US market. (USSIF, 2014)

However, and this has implications for the conceptual framework, this technique is very seldom applied in a European context. The legal structure of the US makes the filing of such

¹⁷ To some extent, this research proposition finds its way into this thesis, as performance measurements (studies and meta studies) are integrated to make a sound business case for SRI and CSR. This is equally interesting to public and private investors seeking a positive triple-bottom-line impact of their money.

¹⁸ A mutual fund is a fund that uses investment from many different sources and, professionally operated by asset managers, invests in a variety of tradables, such as securities, bonds, stocks, etc. It gives small-scale investors the chance to participate in a professionally managed fund and gain (or lose) proportionally to their input. (Investopedia, 2015)

¹⁹ See chapter 7 for a discussion of the realities researched in this thesis contradicting this sentiment.

²⁰ Between 2003 and 2005 the combined assets under management (AUM) of institutional investors rose to US\$ 703 billion, with 57 % of all resolutions aimed at the environmental and social issues. (Sparkes, 2008)

resolutions a lot easier than in the EU.²¹ Therefore, the technique has less significance for this thesis than the other two techniques. It is still listed here for the sake of completeness but will not be employed in the framework. Nevertheless, efforts are being made by the EU legislative organs to incorporate a more binding disclosure policy and extended shareholder rights into law (EU Commission, 2007). Thus, shareholder activism might play a larger role in the EU in the future and may then warrant further examination.

3. Guarding of SRI principles through *Engagement and Dialogue* could perhaps be described as the present European market approach. Sensitive issues are not addressed by threatening and filing resolutions but by (more or less extensive and expensive) research and consequent dialogue with share-/stakeholders. High quality engagement requires thorough research and resources; on the lower impact level, issuing questionnaires is the usual method of engaging with a company's management on SRI issues. Also, collaborative pooling of resources in order to ensure greater impact and higher efficiency of the engagement is mentioned as a superior way of conducting this technique. The line between advocacy and activism is delineated where risks and opportunities are clear to the investor, and managing of those is seen as a prime responsibility; however there is no activist approach of attempting overly radical and immediate systematic changes. (Sparkes, 2008)

Pertaining to the last column of the conceptual framework (table 2.2), the literature of CSR²² and public goods²³ provides some necessary definitions and topic-alignments of the concept of CSR: CSR can add to public goods as well as reduce public bads. Regarding the latter case, company efforts are often more effective than public attempts, as NGOs, for example, might use resources primarily for lobbying but do not usually possess the technology or capacity to curtail the bads. Also, the company might be principally responsible for the bads in the first place and thus more able to control them. This holds particularly true in the absence of perfect governmental regulation as the market (i.e. the customer) becomes the controlling organ. The feedback loops can then also grant advantages to the company. With regards to public goods, the same scenario is important: CSR can sustain public goods in the absence of perfect governmental regulation and more responsible firms can gain higher profits from the reputational premium associated with good CSR performance. The importance of innovativeness for successful financial returns on CSR investments produces a direct link between a company's capacities and CSR effect; as is hinted at in the private inability to produce public goods. (Besley & Ghatak, 2007)

Only the appropriate alignment of internal capacities and external CSR efforts can lead to a believable reputation and positive feedback from the market. (Xueming & Bhattacharya, 2006) Thus, the logical link between innovative products and CSR-derived added value in the conceptual framework is established.

CSR does not automatically lead to the provision or betterment of public goods; it depends on the context in which it occurs. Possible effects comprise, for example, pre-emptive legislation (if both consumer and company are better off than by fighting for legislative action) or corporate leadership in shaping regulations (e.g. through implementing technology proactively). In due course, as Lyon and Maxwell phrase it, "from a welfare perspective, the entrepreneur's creation of a CSR firm is a gift to society—he benefits from starting the firm, investors benefit from the expanded range of investment opportunities, and the recipients of CSR benefit directly." (2008, pp. 255, 256)

²¹ The UK is the only EU country where activism has some significance, however, with larger legal hurdles. (Sparkes, 2008)

²² For more detailed presentation on the de-facto effectiveness of CSR in the context of SRI, see chapter 3.3.

²³ Public goods are understood as the transfer of positive externalities unto the public sphere (e.g. health and safety levels, income or living standard stability, safety, etc.); public bads are understood in line with negative externalities (noise, pollution, sub-standard labor conditions, displacement of people, etc.).

Even ‘altruistic CSR’, meaning non-strategically oriented, can have a positive effect on share price: shares in a SRI business, particularly when traded in a sustainability-fund bundle, can specifically attract a certain type of profit-inclined but charitable-in-intent investor²⁴, thus adding both to welfare and share price increase. (Graff Zivin & Small, 2005)

Indeed, in the face of globalization, as the traditional division of nation-state and private company governance (Friedman, 1962) crumbles and re-emerges in new ways, transnational challenges, such as human rights, labour conditions or environmental protection are met by companies. The advances made by businesses can result in a *political CSR*, in response. (Scherer & Palazzo, 2011) The participation in shaping international realities is exemplified in regulatory global institutions (for examples, see chapter 3.4), and can be understood as the other end of CSR (linked to the business side). This connection is accommodated in the taxonomy of banking cases and international standards, where the levels of engagement are delineated, in order to add a red thread from the global to the local sphere; the principles and ideals of engagement of external clients remain comparable, only the magnitude differs.

To sum up, CSR comes into its own when governmental regulation is not extended to a niche market and leaves room for creating ex ante competitive advantages; this theme echoes throughout the sustainability efforts in the financial industry (predominantly in emerging economies).

2.2 Conceptual Framework – the Method of Data Analysis

The taxonomy of cases (presented below) is built upon the two major techniques of SRI, exclusion or dialogue/engagement; they have been identified by Sparkes as the main options for adding social or environmental concerns to the regular risk and return factors of equity portfolio building and/or its activity.

Table 2-1 Sustainable banking case studies – taxonomy according to the two major techniques of SRI as identified by Sparkes (generic examples used to elucidate)

Case	Exclusion	Dialogue/Engagement
Case 1	X	x
Case 2	x	x
Case 3		X

Table 2-1 shows the way studied banks are classified according to their level of engagement employing the two SRI techniques. This classification aids with understanding the cases in conjunction with the theory and concisely illustrates the breadth of their activities. It becomes important in defining a bank’s focus when applying lending and investment standards as well as demands unto stakeholders. Since often both techniques are used, the major technique is marked with a upper-case “X” and the less essential technique with a lower-case “x”.

Moreover, as sustainable banking involves more than just certain techniques of investment patterns, other features contributing to a successful sustainable bank are shown in Table 2.2. The SRI techniques feed into the listed features; consequently, these features can partly be understood as the expression of the broad-spectrum techniques.

²⁴ This is reflected in the case studies (see chapter 3.4)

Table 2-2 Sustainable banking case studies – most relevant sustainable banking features

Type	Motivation/ raison d'être	Innovative products	Lending/project finance standards	Investment screening	Factors valuable to success	Factors impeding success	Aspects & impacts - mechanisms and effects
------	------------------------------	------------------------	--------------------------------------	-------------------------	--------------------------------------	--------------------------------	---

These features, some quite tangible and others more abstract, are derived from the literature review and case research and portray some decisive contributors to establishing a triple-bottom-line sustainable banking business. As a point of orientation, the *motivation* for the banks' business model is treated, seeing that all cases are context-dependent this is important to provide the backdrop to which any other variables are bound. *Innovative products* describe the level of innovation and out-of-the-box thinking in offering green products to the market, while *lending/project finance standards* can be understood as including loans and project finance standards which often go hand in hand in a bank's active lending policy; credits are also included here. *Investment screening* builds mostly on the SRI techniques. *Factors valuable to or impeding success*²⁵ are deliberately designed broadly to encompass dynamics, such as external pressure from governmental regulation or societal trends, as well as internal strengths and weaknesses in regards to the workforce, managerial leadership or structural particularities of the banks. Lastly, *Aspects & impacts*²⁶ refer to the mechanisms of creation, transfer, and type of added value as a public good. This feature represents the highest level of abstract examination and provides a sphere of deeper reasoning for or against integrating CSR efforts.

Overall, a variety of scenarios, connected to and partly based on the global phenomenon of SRI, are expected to emerge, which (will) have to be considered in the process of re-orienting a conventional bank towards becoming a sustainable bank.

Figure 2-1 (below) visualises this process by sketching the relationship between the independent variables and the dependent variable investigated. The independent variables²⁷ have been chosen as such in order to facilitate a structured research on the cases; they explain and contribute to, in varying degrees, the successful implementation of a triple-bottom-line banking business with operation-integrated ESG values. The dependent variable, in turn, is reliant in varying degrees (case-dependent) on the "input" from these six groups of factors. As the research questions pertain to the implementation of said business the point of departure has been chosen to be a "blank sheet", conventional business with no ESG integration (e.g. Sparbanken Syd).

On the right side, causal origins and framing concepts are approximately placed where they have the most significant relation with the independent variables²⁸.

The *changing business ethics and realities*, comprising higher customer demand for sustainable business/products and (both legal and self-) regulation, is the most fundamental, and yet least

²⁵ It needs to be stressed that these are distinct possibilities; they might contribute to success or failure but do not necessarily lead to them. Indeed, implementation might not result in any outcome at all; much depends on the case-to-case context.

²⁶ The semantics lean on the accepted nomenclature of *environmental aspects and impacts*, whereby *aspects* describe a cause (element of interaction with society/environment) and *impacts* the resultant adverse or beneficial effects to the system (Definition adapted from ISO 14001:2004). In this case, it pertains to the mechanisms for delivering public goods (e.g. redistribution of money in society) and the effects (e.g. knock-on effect for certain business types)

²⁷ The Aspect & impact feature does not represent a dependent variable as it adds a layer of analysis rather than a causal effect. It can, however, be seen as the reasoning (i.e. explanation) behind implementing one or another measure of CSR.

²⁸ Due to the complex realities of the topics treated, they often overlap and apply to many variables; the placing is based on the informed judgement of this author. It is hereby explicitly acknowledged that this scheme does not picture all possible scenarios, concepts or variables; reality is inevitably much more complex than what this narrow view of the phenomenon can reveal. The model merely serves to exemplify the research approach and logic.

measurable, factor and has implications for both the motivation of an operation and the design of products. These two variables reflect why and how a bank can react to the shifted demand of customers and regulatory pressure.

The *CSR and financial performance* also relates to the type of products a bank would offer, as well as integrity levels of lending and investment standards. To gain a competitive advantage, respectively to translate CSR efforts into positive financial performance, banks need to alter their product range, including lending schemes and project standards, and ensure a high reliability of their investment screening process. This translates into a perception of higher integrity by the clients and ultimately contributes to a successful implementation of a sustainable banking business.

The identified international *SRI principles and working methods* have a direct impact on the way these loan and investment standards are set up.

All three elements play a role in the identified factors impeding or valuable to success. Moreover, particularities of the specific cases and regional/national factors (e.g. legislation, bank history) feed into the details of these precursors.

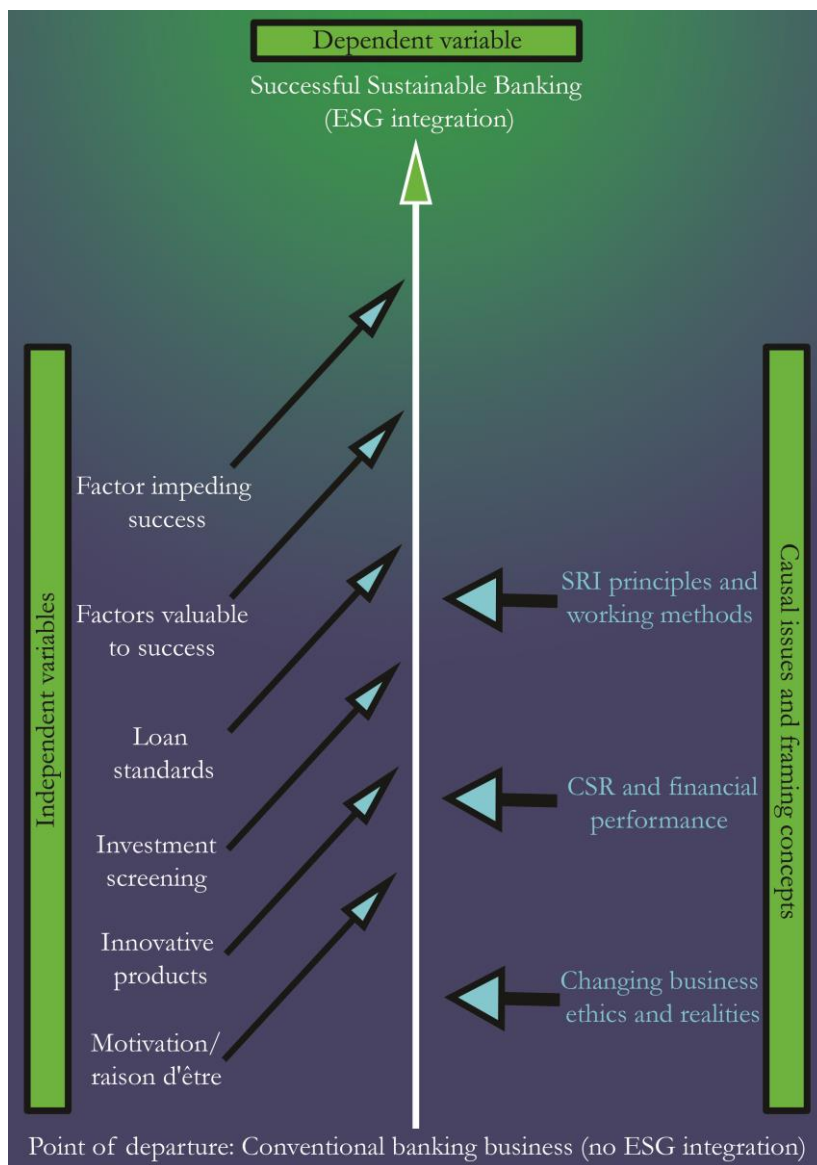


Figure 2-1 Conceptual framework and research variables

2.3 Method of Data Collection

The basis of this work is formed by an extensive literature review on the topics of sustainable/green investment and banking, conducted primarily in academic sources to base the work in scientific theory and academic case studies. Searches centred on the topics of SRI, sustainable banking, business strategy and CSR, sustainable development and the role of financial institutions. Additionally, journalistic sources were scoured to add a connection to contemporary events and relevant business data.

This research was supplemented by a number of case studies. On top of online research, encompassing both the bank's websites and journalistic articles, interviews with senior bank and finance personnel were conducted in order to establish the working principles and methods of sustainable banking cases in reality. The interviews aimed to extract knowledge unobtainable through the online research and, in line with the conceptual framework, focused particularly on managerial processes, structural set-ups, and business drivers and barriers.²⁹ The interviews were designed specifically for that purpose and employed knowledge earlier gained on the companies to foster an inquisitive and productive dialogue with the interviewed management representatives. For a list of personal communications, individuals and their professional functions, as well as dates, see attachment 17.

Owed to the study's aim and research questions, the scope of the literature research on the greater SRI principles the general sustainable banking research was relatively broad, and the resulting findings are comparatively extensive. The chapter on sustainable investment principles (chapter 3) therefore concludes with a matrix collecting the most important findings and the findings of the banking cases are condensed in similar fashion. The SRI findings-matrix, the taxonomy, and the findings-matrix for the banking cases are all based on terminology and concepts derived from the literature to provide comparability with existing research.

The independent variables, as listed in the bank cases findings-matrix (see subchapter 2.2) have been chosen based on concepts developed in the pertinent academic literature. Additionally, they frame the approach of this thesis in extracting a possible outline for the reorientation of a banking business towards a triple-bottom-line, sustainability-focussed bank. The investigated types of banks were defined by the scope, and relevance for the Sparbanken Syd scenario, as small to medium-sized³⁰ ones. Moreover, a useful assortment of cases transpired from the literature research on earlier conducted case studies. The case studies were investigated through online research as well as interviews where possible and applicable. Furthermore, a series of on-going consultations with key individuals at Sparbanken Syd and a workshop on the possible implementation of the findings in the bank's context have fed into the development of this thesis (for results, see chapters 5 and 6).

²⁹ The interview questions are available on demand.

³⁰ See definition in chapter 4.

3 Sustainable Investments – the Global Perspective and Working Principles

Chapter 3 is a broader literature review of the global perspective on SRI, including a number of concise cases exemplifying this perspective. Important definitions are followed by the findings on important economic figures and the financial importance of sustainable investment. This chapter exemplifies the conceptual basics of this thesis, ranging from the abstract to the concrete, and leading from the global to the local. Subchapter 3.3 provides information on the current state of research regarding the business case for CSR and SRI. Subchapter 3.4 is the main section in this chapter and provides the findings of the global principles and working procedures in the field of SRI culminating in the case of GABV which provides the transition to the phenomenon and cases of sustainable banking.

The field of SRI presents any invested author with a plethora of indicators, distinctions, and terms. Therefore, it is important to establish a set of clear definitions guiding the reader through the subsequent parts of the thesis.

Sustainability – generally speaking, the characteristic of a system in which the main emphasis is placed on upholding a specific state of the system over a given time period. In this context, it is used in relation to social, economic, and environmental human systems, as well as their interrelations. A focus on the financial system's (sustainability) characteristics is essential.

*Sustainable development*³¹ – economic development meeting present needs without compromising a future society's needs; this is in relation to both the needs of the world's poorest as well as the limitations given by the technical, social, and natural system.

Corporate Social Responsibility (CSR) – Corporate actions that appear to further some social good, beyond the interests of the firm and that which is required by law (Abigail McWilliams et al., 2006). CSR efforts can produce public value/goods; this is particularly significant in the absence of perfect governmental regulation³².

Socially responsible investment (SRI) – any type of (equity, fixed income or impact³³) investment concerned with an inherent focus on the wider social and/or environmental and/or ethical consequences, as well as the financial return. In short, investment in businesses that integrate environmental, social and corporate governance factors (ESG) with classic risk and return indicators; the triple-bottom-line. The underlying guiding principle is sustainable development. With the aim to be inclusive, the terms sustainable investment, socially responsible investment, ethical investment, ESG factor integration, and green investment are used interchangeably in this text.

³¹ Definition adopted from World Commission on Environment and Development. (1987)

³² Based on the observations made by Besley and Ghatak (2007): The focus here is primarily on creating good rather than curtailing bad. Although, this is often under direct control of the companies, which are responsible for creating the "bad" in the first place, thus having ex ante opportunities for betterment. For more details, see chapter 2.1.

³³ *Impact investments* functions as an umbrella term for several asset types concerned with specifically funding social investments (e.g. microfinance, philanthropic grants, health care finance, housing, etc.). They are characterized by a specific intent to create social impact and such impacts are actively measured and integrated into decision-making. It is perhaps best described as an attitudinal investment approach, certainly not as an own asset class. (EUROSIF, 2014b)

Investor – this term broadly refers to the party financing a project, either directly or indirectly (e. g. funnelled through a fund or third party company). In the case of direct financing, the investor is semantically and effectively identical to a *client*. The investor ultimately sets the standard for SRI.

*Client*³⁴ – this term broadly refers to the party implementing and operating the financed project or, depending on the project structure, receiving the financing. In any case, it is the party responsible for implementing sustainability principles in its activities.

*Project*³² – refers to a clearly described set of business activities which, if applicable throughout their entire life cycle, create a direct or indirect social and/or environmental impact through their physical elements (e.g. construction, design, operation, closure, etc.).

3.1 The Growth of Sustainable Investments

Recent figures show a clear trend towards SRI integration in portfolios. For the US market, the development is nothing short of explosive. As Figure 3.1 shows, the perpetual growth of ESG factor integration into mutual funds over the last twenty years, which included a four-fold increase between 2012 and 2014, has culminated in a value of US\$ 4.30 trillion (EUR 3.92 trillion) invested in SRI assets. Integration, as well as purchaser demand, have grown exponentially; in the beginning of 2014; the overall US SRI assets³⁵ amounted to almost 17 percent of the total US professionally managed financial assets, with a combined value of US\$ 6.57 trillion (EUR 5.98 trillion), marking a 76 % rise within the same two years (US\$ 3.74 trillion in 2012; EUR 3.40 trillion) as the funds' development. (USSIF, 2014)

	1995	1997	1999	2001	2003	2005	2007	2010	2012	2014
Number of Funds	55	144	168	181	200	201	260	493	720	925
Total Net Assets (In Billions)	\$12	\$96	\$154	\$136	\$151	\$179	\$202	\$569	\$1,013	\$4,306

Figure 3-1 US Funds incorporating ESG criteria, development 1995-2014.

Source: (USSIF, 2014)

In the EU, the numbers are even higher, and the development similar in its speed. The value of ESG criteria-integrated assets has reached EUR 5.23 trillion in 2014, with a 65 % growth in only three years (similar to the US market). In Figure 3-2, the trend is made evident; the distinction of categories is explained below.

³⁴ Definitions adopted/rephrased from the IFC Performance Standards. (IFC, 2012b)

³⁵ As opposed to mere ESG integration into fund management, the total SRI assets include shareholder activism and overlapping strategies. Thus, there is a marked difference between the growth rates.

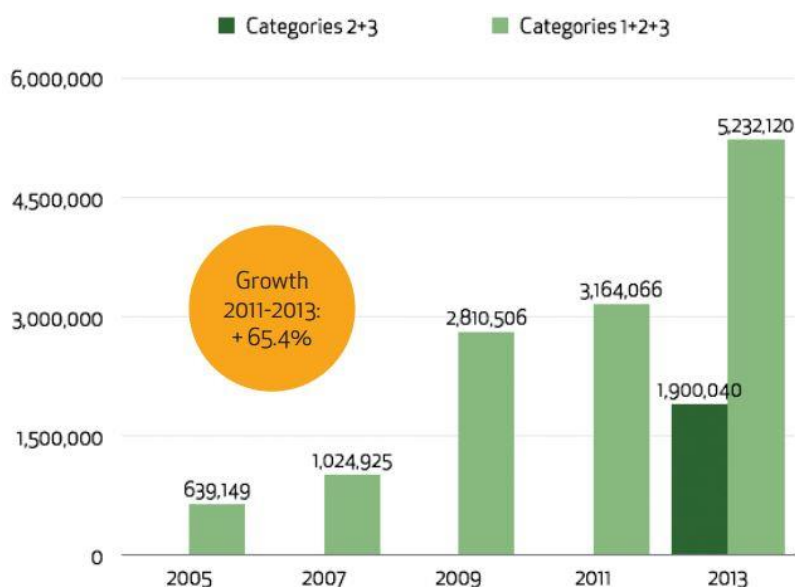


Figure 3-2 European ESG integration, development 2005-2013.

Source: (EUROSIF, 2014b)

The European Sustainable Investment Forum (EUROSIF³⁶), an EU-wide non-profit SRI membership organization, has started to distinguish three categories of ESG integration, with only systematic integration of ESG information (category 2) as well as systematic and mandatory exclusions (category 3) being accepted in line with their definition of ESG integration.³⁷ The provision of research to mainstream analysts and fund managers (category 1) is no longer enough to qualify and thus the trend of overall ESG integration growth serves primarily as a historical reference. On the other hand, the more stringent demands show the changing (and more serious) attitude towards the issue. (EUROSIF, 2014b)

All in all, the combined EU assets managed under SRI criteria³⁸ - the EU SRI universe, so to speak - have reached EUR 9.88 trillion in 2014. All SRI strategies are growing much quicker than the overall investment management industry (22 % between 2011 and 2013), for example, sustainability-themed selection grew 22.6 %, exclusions 91 %, norm-based screening 70 %, engagement 86 %, and impact investment 132 %. (EUROSIF, 2014b)

However, there remains strong heterogeneity of strategies within the market, which makes the efforts to create an EU SRI policy even more of a pressing matter. Both in regards to institutional investor focus and index inclusion and comparability (see following chapter) a push towards equalisation of SRI processes on EU level seems inevitable. Until then, the motivation for SRI needs to come from the market side. The next subchapter provides an overview over this domain.

³⁶ The EUROSIF has over 60 member organisations, which manage combined assets of over EUR 1 trillion. In-depth research and public policy advocacy are among their prime foci, such as ESG integration into financial policy and trading analysis or promoting transparency and shareholder voting rights. (EUROSIF, 2014a, 2015)

³⁷ USSIF does not distinguish between those aspects. Hence the numbers are of reduced comparability. However, the trend is clear in both cases.

³⁸ This comprises investments in: sustainability themes, best-in-class choices, norm-based screening, ESG integration (all three categories), engagement and voting, and exclusions. (EUROSIF, 2014b, page 21)

3.2 The Business Case: Sustainable Investments, CSR, and Market Performance

This subchapter carries on with the theme of social and financial performance. Building on the suppositions stated in the theoretical and conceptual framework (chapter 2), here, some contemporary everyday aspects of the SRI business case are treated.

This topic is not exclusive of the world of sustainable banking, it is certainly closely related – a parallel universe perhaps – and similar principles and mechanisms are expected to reverberate throughout both fields. After all, the reasoning for a bank, as the reader will see, follows the same lines as for any other investor looking at integrating ESG factors into an investment portfolio.

Sustainable investments play an ever-increasing role in the world of (international) finance and corporate social engagement can be seen as the wider context which sets the behavioural guidelines - *the dos and don'ts* of investing money (Hamilton, Jo, & Statman, 1993).

Environmental as well as social pressures, such as food scarcity, energy security and creation, natural resource depletion and access, water security, human rights issues, and supply chain management and labour ethics have developed into pressing (financial) matters for business and the corporate domain. Furthermore, issues like corruption, risk management and avoidance, and stakeholder integration have been lifted to the top of many shareholder and interest group agendas, not least amplified by the 2008 financial crisis and high-profile public scandals, such as the 2010 BP Deepwater Horizon oil spill³⁹ or the 2013 Savar garment factory collapse in Bangladesh⁴⁰. Everything can have an effect on the value of a company, tangible or intangible, directly or indirectly, and as such responsible investment is more and more seen as unequivocally integral to the business case for companies.

The existence of a number of heavy-weight sustainability indices, such as Stoxx Global ESG Leaders index, The Dow Jones Sustainability Index (DJSI), the Global Compact 100 index, the S&P/TSX Renewable Energy and Clean Technology Index or the SXI Switzerland Sustainability 25 index, speaks for itself; SRI has entered the international investment scene in force.

The growing adoption of SRI principles and techniques by institutional investors (not just by charities, other values-based organizations or dedicated SRI retail funds) – called the ‘mainstreaming of SRI’ by Sparkes and Cowton is a major step in the evolution of SRI (2004). This trend suggested by the authors eleven years ago, including the growth of shareholder activism (see EU legislative proposal, chapter 2.1), has manifested itself in the course of SRI development over time. Public opinion appreciates and rewards active SRI (engagement, activism) more than simple avoidance of ethically problematic businesses and exclusion, as it signifies real change and offers the prospect of putting significant pressure on companies to adopt CSR. “Given their economic significance, this is likely to prove the most powerful way in which SRI will influence corporate executives to engage in corporate social responsibility”. (Sparkes & Cowton, 2004)

³⁹ At the time of writing BP, after a severely fought legal battle, had agreed to pay a US\$ 18.7 billion settlement adding to a prior cost of US\$ 44 billion in legal and clean-up costs with more private law suits still pending. This constitutes the largest payment ever made under the US federal Clean Water Act. (Kent & Gilbert, 2015)

⁴⁰ The collapse of the factory cost the lives of more than 1100 workers and injured thousands more. It put international brands such as Mango and Primark on the spot, when insufficient supply chain control and pressure was identified as part of the problem. (Labour Behind the Label, 2015) Western labels have been blamed to exert no or little pressure on cheap labor markets and, as in this case, accused of showing no interest in bad and dangerous construction of their factories used. (Manik & Yardley, 2013)

By labelling SRI the key factor in the diffusion of CSR efforts, a recent study conducted by Spanish researchers (Charlo, Moya, & Muñoz, 2015) sets the scene for analysing the relationship between Corporate Social Performance (CSP) and Corporate Financial Performance (CFP⁴¹). The study points out the importance of ethical indices, such as the FTSE4Good index series, the Dow Jones Sustainability Index Group or the KLD Domini 400 Social Index. Generally speaking, they play a role in the formation of a competitive advantage: as a public stage these indices allow companies to display their sustainability performance and additionally provide an array of internationally recognized standards that can be employed by companies to set up their CSR policy. Simultaneously, the companies are gaining access to the responsible investment market. In an overview and comparison of dozens of studies conducted in the field of CSR with regards to financial performance, the authors point out that, overall, the relationship is positive or, at least, that CSR does not harm business results. In the few cases where CSR had negative consequences, careless business methods such as managerial opportunism were often to blame (Preston & O'Bannon, 1997).

Building upon this background, a recent study compared Spanish companies listed in the FTSE4Good IBEX⁴² to regular companies listed in the Spanish exchange index (IBEX) using a set of significant SRI aspects, such as share price volatility, total assets and liability, and reaction to market movements. They obtain a number of results: Although there is no measurable hard evidence for the positive financial returns of CSR, no negative return can be established either. Additionally, there are a number of indirect positive consequences. This focusses on the investor side⁴³ and the return on investment (ROI) as further discussed in chapter 4. Companies with a socially responsible portfolio have higher ROIs for an equal level of systematic risk compared to 'regular' companies. They are larger in size (probably because large companies have a higher public exposure and consequent need for sustainable practices) and gain more market leverage⁴⁴ by having easier access to credit (from ethically interested investors). (Charlo et al., 2015)

All in all, this means although companies might not be more stable or financially effective when acting with a particular focus on social responsibility they still derive some secondary advantages, such as easier credit access. They are particularly interesting for the SRI-concerned investor, as reduction of possible future risk and (at least) equal returns are making a case for SRI. (Ortas, Moneva, Burritt, & Tingey-Holyoak, 2013)

Exactly the same specifics had been defined by an earlier G&A report, finding advanced performance, higher reputation and index listing, as well as increased market stability for companies with ESG integration and transparent reporting. (G&A, 2012)

A study by Lean and Nguyen (2014) of the Dow Jones SRI indices compared to conventional Dow Jones indices⁴⁵ revealed a similar result. The sample period covered the years from 2004 to 2013 and thus included the GFC; although SRI returns and volatility were affected by the GFC, its effect was much lower than for normal investment portfolios. The authors surmise

⁴¹ Interchangeably used with financial performance (FP).

⁴² The companies listed here are considered to employ responsible business practices based on internationally recognized standards. The index is part of the FTSE (Financial Times Stock Exchange) index family created in collaboration with UNICEF to specifically monitor responsible investment opportunities on the stock exchange market.

⁴³ These results are connected to the chosen variable distinguishing the inherent value of the stock rather than focusing on market sensitivity factors; thus it connects to investors' interests.

⁴⁴ SRI indices play a major role in diffusion and acceptance of ethical portfolios. Market leverage is directly connected to a high position on the index.

⁴⁵ They include the Dow Jones Sustainability Index World (DJSIWD), Dow Jones Sustainability Index Asia Pacific (DJSIAP), Dow Jones Sustainability Index Europe (DJSIEU) and Dow Jones Sustainability Index North America (DJSINA). The conventional indices are Dow Jones Global Index World (DJGIWD), Dow Jones Global Index Asia Pacific (DJGIAP), Dow Jones Global Index Europe (DJGIEU) and Dow Jones Global Index America (DJGIAM).

that a relative decoupling of SRI from the overall market during crises can indeed be seen as a positive performance characteristic for investors. This dynamic is mirrored by the relatively low volatility of sustainable banks' portfolios (see chapter 4.1).

Legitimacy of SRI is an issue that needs to be addressed shortly in this context. The integrity of a true green investment, as opposed to being a green-washing scheme, is of pivotal value, ultimately expressed in investors suing for misrepresentation and consequent reputational loss for the company involved. If investors base their decisions on a company's misrepresentations of their actual performance, no suit can be filed as long as the share price does not drop. The intangible losses at stake are damaging also on a level beyond judicial remedies. The loss of future green investments, the transferred harm to actual green companies performing in line with sustainability ideals, and indirect harm to the environment resulting from lowered financial protection are such intangible consequences. (C. B. Cooper, 2015) Thus, further integration of intangible values (and their potential loss) is a future goal for institutions and legal frameworks, relieving the SRI universe from some of the uncertainty that results from voluntary ESG integration and reporting. These intangible losses are a major set of business drivers for credible and verifiable integration of ESG criteria.

At any rate, the business case for SRI is a complex one and whatever the underlying principles, ultimately the case has to be made for each particular company individually, considering its specific circumstances as well as the industry sector (Reed & World Resources Institute., 2001). In the following chapter, the international principles and methods are established as a foothold for a sustainable bank that is both credible and comparable.

3.3 SRI and ESG principles: Examples of International Sustainable Investment

This sub-chapter is built upon research into private organisations and international institutions which elicits generally applicable principles and working procedures in the field of SRI. In the end of the chapter, the detailed findings are condensed into a table of the most important findings, which are then analysed and discussed in chapters 5 and 6 in conjunction with the findings of the banking case studies (chapter 4).

In line with Sparkes, Renneboog et al. (2008) describe the screening being done in four key evolutionary stages, with the oldest method being negative filters (exclusion), and the inclusion of superior CSR performance, nowadays increasingly common, as the next step. The third generation is the integration of economic criteria, building the triple-bottom-line concept. In the fourth and final stage, shareholder activism adds a level of engagement by shareholders regarding the assets they hold, i.e. the company's policy and actions (see attachment 4 for division of typical investment screens). ESG screening reduces the possibility of obtaining lower levels of corporate financial performance in the long-term, which financial markets, however, still tend to undervalue.

3.3.1 The GIM Case

The first example, the Generation Investment Management (GIM) case, presents a suitable bridge spanning from the SRI business theory to the world of predominant SRI principles as it involves both aspects of reality.

Established in 2004 by former US Vice President Al Gore, Peter Knight (his former chief of staff), and David Blood (former CEO of Goldman Sachs Asset Management) the equity investment company sets its sights on fully incorporating sustainability issues in their decision-making in order to deliver long-term focused superior financial returns based on values such as diversity, integrity, client commitment, sustainability, and responsibility. The majority of

assets are located in the long-term *Global Equity* fund but GIM also offers investment in a specialized *Asia Equity* fund, a *Climate Solutions* fund (incorporating companies that are part of the transition to a low carbon economy), and a small and medium business (SME) lending scheme called *Global Credit*. (GIM, 2015)

The company's business strategy and culture can be summarized in a number of crucial points: First, a clean-sheet-of-paper approach was instrumental to establish the basic guidelines, frameworks and business culture principles within the company from the get-go. In addition to the well-connected and influential leadership, GIM recruited an international team of professionals from different backgrounds, such as Colin le Duc and Mark Ferguson (analysis team at Swiss *Sustainable Asset Management*), and Peter Harris (former head of international operations at Goldman Sachs) and set out to build a new company from the ground up. As SRI was still a relatively small niche in the financial world at this point, the integration of ESG factors to such high extent was novel but essential: "the best way to take sustainable development forward was to prove the business case using the capital markets" (Mark Ferguson, 2004) (Sucher, Beyersdorfer, & Damgaard Jensen, 2009, p. 3). (Sucher et al., 2009)

Secondly, the company features a distinctive operating structure and internal firm culture. The experts are not divided into separate groups but everyone takes part in all steps of research and investigation. This holistic, interdisciplinary way of judging a company's performance is a completely novel way to analyse. Also, everyone in the company is invested in the same funds as the clients, with the same fees and policies, travel emissions are offset and Christmas gifts are linked to the company's orientation, for example, a free energy efficiency check-up on employees' houses. (Sucher et al., 2009)

Sustainability is deeply engraved into the system, a fact that shows in the structured and wide-ranging format of the research and analysis.⁴⁶ The systematically integrated research covers sustainability items with a long-term impact potential regarding, for example, climate change, human capital, corporate governance, pandemics, water issues, poverty or stakeholder integration. Investment is conducted with maximum research leverage in mind, focusing on areas that are identified with much care. Companies are assessed under a multidimensional framework covering physical (damages based on sustainability issues, e.g. climate change weather disruptions and loss of assets), regulatory (laws, carbon trading developments, etc.), and attitudinal (public perception, reputational and political) influences on the company. (Sucher et al., 2009) Thereby, the three major risk-areas are delineated and immaterial future risks integrated into the financial analysis.

Lastly, public advocacy is a crucial part of the business; the non-profit dissemination of normative values echoing throughout the sustainability theme has the goal of informing the public and pivotal stakeholders, as well as creating more demand: 10-20 % percent of GIM head financial analyst David Blood's time went into public advocacy, while 5 % of the overall profits were allocated for this advocacy purposes. (Sucher et al., 2009)

The GIM investment process is comprised of an intricate system of check-ups on different analysis levels incorporating both business and qualitative (in the ESG sense) factors. It serves as an interesting proposition of how to lay out the decision-making process leading up to an investment.

⁴⁶ The culture and mission seem highly appreciated by the staff according to anonymous employee reviews on an Internet job rating site. Only long work hours were cited as a negative point. (Glassdoor, 2015)



Figure 3-3 GIM investment process in three steps.

Source: (Sucher et al., 2009)

The process of coming to an investment is structured into three main steps.

Step 1 - The idea generation encompasses the placing of the whole investment strategy into the global sustainability and financial context. The advisory board, consistent of global leaders in capital markets, sustainability, economics or geopolitics advises the financial analysts on key themes in the global SRI context. Additionally, in-depth reports on specific business risks and opportunities for companies connected to sustainability themes (e.g. automobile industry and climate change), as well as industry roadmaps predicting the future needs for adaptation and desirable characteristics of industries are produced. These informational concoctions are driven by a materiality approach, focusing on specific core products and strategies rather than on broader system analysis or processes. As le Duc, GIM's industrial portfolio team-leader puts it: "That's integrated research (...). This sets us apart from other sustainable research firms (...). Their research ends up being a mile wide and an inch deep, while ours is an inch wide and a mile deep." (Sucher et al., 2009, p. 6) In short, the research focus lies on identifying a company's specific investment ideas as well as the roadmap for drivers of implementation and the possible risks connected with the implementation.

The company employs a maturity curve model, which identifies the greatest impact of a novel technology or service in the emerging and peak phases where it can yield a competitive advantage to the company. At this point the materiality is most established while the advantage fades later on with higher adoption rates in the industry (see attachment 5). (Sucher et al., 2009) This is an example of how CSR advantages are expressed in dynamics within financial market analysis; the link between the theoretical competitive advantages of CSR activity and palpable company value (material and immaterial) is exemplified.

Step 2 – On the road to taking a final investment decision, a more detailed examination of a company is conducted by a holistic combination of both financial and qualitative analysis. This predominantly aims to eliminate possible risks with regards to intangible factors (such as reputation and backlashes). Based on this, the company is rated on both Business Quality⁴⁷ (BQ) and Management Quality⁴⁸ (MQ), in a 1 (lowest) – 5 (highest) rating. Only companies with a minimum of three in both are admitted to the portfolio shortlist; in this fashion the better and best companies are selected, with adaptability and solution-oriented long-term focus building the underlying rationale.⁴⁹ Notably, the focus companies are assessed

⁴⁷ This includes factors such as strong market entry barriers, growth trends, pricing power or position to adapt to future sustainability challenges.

⁴⁸ This includes factors such as management culture of integrity, stakeholder integration or long-term focus.

⁴⁹ At this point, the decision on purchase is still not taken. This is dependent on the result of analysis step 3.

continuously and in advance, meaning that business quality is the pivotal element rather than the (often short-lived) price of the shares at the moment of analysis. (Sucher et al., 2009)

Step 3 – Finally, classic financial analysis closes the process, however with a twist: The actual portfolio construction is closely tied to risk management of company stock pricing trends in such a way that the decision on purchase is made on the upstart potential of a stock price. This means the stocks are bought only if a company's stock price based on the quality ratings and general market and sustainability developments exhibits the potential to show superior long-term performance (expressed by a case-specific certain margin, e.g. 20%). If a company reaches its upper price range or the future outlook on BQ or MQ diminishes the share is sold again. With this technique GIM goes against the trend, as it often buys when the stock is low. It can afford to do so, backed by the future calculations and stringent sell discipline. The company outperformed the MSCI's *All Country World Index* (ACWI)⁵⁰ by considerable margins of 5-12 % between 2005 and 2007. (Sucher et al., 2009)

The example of GIM's investment decision on ABB India in 2007 illustrates the weighing of trade-offs and discussions involved in applying SRI principles in reality. ABB India with good access to the market, understanding of and ties to the country was tied in with the parent company ABB which provided Western business and governance norms. It was also market leader in the Indian electrification, power and automation market, which in connection with the Indian government's plans of investing US\$ 250 billion into upgrading the defective grid made it a prime target for investment. It was rated MQ2 and BQ2 by GIM's analysts, with good prospects to improve. However, there was a conundrum: the positive consequences of improving the grid (alleviation of poverty through stabilizing the economic services, improving living standards through access to electrical heaters rather than polluting coal and wood ovens) would be opposed by the resulting increased demand for electricity. In India, two thirds of primary energy is supplied by coal plants adding to CO₂ and particle output, thereby contributing to climate change. The technological lock-in with a new coal-power plant would fix the carbon emissions for up to 60 years. The implications of the decision would rest on due-care⁵¹. (Sucher et al., 2009) This example is not given to provide a outcome analysis but rather show the inherent trade-offs and tactical suppositions necessary to forecast a company's (ESG) performance. What looks like a clear-cut case at first sight might turn out to be a major problem later on and entail considerable future reputational and financial risks.

GIM's clients are mostly institutional but 20 % are high net-worth private individuals. By 2008, GIM managed about US\$ 2.5 billion in assets (Sucher et al., 2009), today the portfolio value has reached almost US\$ 7.2 billion⁵² with close to three quarters of the investments in healthcare and technology. This, although still dwarfed by large hedge funds such as MSCI Inc. or Check Point Software Ltd. whose portfolios are valued at around US \$ 500 billion (InsiderMonkey, 2015), constitutes a substantial absolute amount of money. This goes to show that SRI is a valid business scheme that furthermore provides money to ESG companies; thus SRI adds to public value, positive environmental impact and financial returns.

⁵⁰ Morgan Stanley Capital International is a leading investment company; the world index covers 23 developed markets countries. 1645 constituents (listed companies) make up to 85 % of overall capitalization. (MSCI, 2015) Such, the index can be seen as one of the definitive market indices, providing a good benchmark to test against.

⁵¹ Due care is the avoidance of harm to others, a test by which negligence can be ruled out. In corporate law it is referred to as due diligence. (Uslegal.com, 2015)

⁵² This growth of around 65 % compares to an industry growth of 95 %; see Figure 3.1. Even though GIM trails the trend, the numbers are still significant in showing the growing SRI interest and performance.

3.3.2 The Screening System of GES

One interesting case exemplifying the world of SRI screening is Global Engagement Services (GES), one of Europe's largest investment screening companies, located in Copenhagen, Denmark. GES, with the help of secondary service providers (e.g. media scanning and flagging services⁵³), monitors over 18 000 companies worldwide and establishes incident portfolios for each of them. Interested investors can access this database and thereby reduce risks of possible liability, reputation loss or lowered ROI in the future. (GES, 2015)

In an interview with Hanna Roberts, currently employed as the Engagement Director and designated CEO from September 2015, the working principles of the evaluation and engagement processes were laid open:

The GES offers three basic (reactive process) product groups. The first consist of *negative screening*, which marks companies involved with any of 70 different controversial business items, such as tobacco or weapons. The second group is called *risk rating*, which relates to the listing of a company's own reporting on ESG issues through, for example, the UN Global Compact Communication on Progress (COP) or Global Reporting Initiative (GRI) reports. Thirdly, and perhaps most innovatively, *norm-based analysis and screening* provides a systematic and constant observation of companies' ESG factor misconducts. Although GES has no formal sanctioning power over a client, there is often an (attempted) transfer of norms, says Roberts, which is inherent in the engagement process of the norm-based analysis outcomes. (Personal communication, 2015-06-25)

If a company is flagged for their behaviour (or lack of engagement) in one or more of five broad norm areas (labour rights, weapons, corruption, extractives from mining, health issues) a report is issued, setting off a motion of follow-up steps. The company is informed and a deeper investigation of the facts is conducted. If the occurrence of a serious or systematic incident(s) is established, the company is subsequently evaluated in a five-step grading system (poor - good) and is then engaged and given time to solve whatever issue has been flagged. The case is closed when an adequate response is made. If no response is received, the transgressions continue or the evaluation provides a clear reason for blacklisting, such as cluster-bomb manufacturing, the company is put on the *disengage* list.

GES, which is particularly active in screening emerging markets, also runs a list of pro-active themes, for instance, geography, risk-sector, carbon & climate risks or palm oil. Future problems are listed here for the portfolio companies connected to these themes. By informing companies about these identified risks, GES takes an active part in disseminating free information on ESG issues. This also mirrors the effects of SRI investment management as seen in the GIM case. Overall, Roberts stressed the fact that communication is a key element in the engagement part, which contains the normatively instructive aspect of the screening process. Only if the companies are involved in the problem finding phase solving the identified issues becomes feasible. The large majority of clients asking for a screening of possible investment targets comes from Europe and the main reasons for engaging GES are risk-avoidance (liability and crisis management) as well as the building of reputational elements ("the good company"), respectively the avoidance of future reputational complications. The growth of SRI in the financial sector has triggered widely increased interest in ESG screening⁵⁴; today a dedicated group of analysts at GES is tasked with handling this sector alone. (Personal communication with Hanna Roberts, 2015-06-25)

This development can be seen in the establishment of SRI frameworks, rules and guidelines

⁵³ Secondary companies provide the data for GES in the form of flagged incidents, continuously monitoring over 22 000 media outlets daily with the help of algorithmic computer analysis. This specific company incident reporting serves as a vital part of GES's data profile on companies.

⁵⁴ Most of the requests are concerning hydropower project financing and the related impacts. These projects are developed with large-scale financing schemes backing them and the environmental and social impacts are often complex and severe.

on a global institutional level, too. The following examples provide an insight into general standards for SRI screening. It is furthermore paralleled in the linkages between screening companies and sustainable banks employing their service; this forms an important part of collaborative processes vital for small and medium banks (see chapter 4).

3.3.3 The UNPRI

Since 2006, the United Nations-supported Principles for Responsible Investment Initiative (UNPRI) aims to foster understanding of sustainable investment and incorporation of SRI principles into the decision-making processes and ownership practices of investors. It is a non-profit organization in collaboration with the United Nations Environmental Program (UNEP) Finance Initiative and the UN Global Compact. From an initial 70 founding signatories, brought together under the UN umbrella and the then Secretary-General Kofi Annan, the signatory bodies have increased to 1380 with a combined US\$ 59 trillion under management. As per usual in the SRI sector, the signatories act voluntarily with the whole approach best being characterized as an aspirational value-framework. The initiative provides a set of principles (see attachment 6), which can assist interested parties in structuring their own SRI actions. (UNPRI, 2015) To sum up these principles:

The first principle revolves around adopting a focus on ESG issues when it comes to investment decisions and financial analysis. It aims both at raising internal capabilities (e.g. development of metrics and measuring techniques, usage of expertise, policy statements) and external demands (e.g. asking for incorporation of ESG details in external analysis, fostering research and training of professionals).

The second principle refers to the incorporation of the internal practices and conduct of engagement, such as developing a clear policy and engagement capabilities, as well as influencing other companies through pressure or collaboration.

Thirdly, the demand for disclosure by the investment targets: the integration of ESG issues into some form of report (ideally the annual financial report) and congruence with international norms of conduct, such as the UN Global Compact.

The fourth principle approaches a more direct engagement with the larger investment industry. Directives for investment, monitoring processes, key performance indicators (KPIs) and incentivizing of ESG-compatible investment are focus areas in which investment service providers are approached to change. Also, the follow-up of underperforming partners is sought, both through reconsidering the relationship as well as guiding policy and benchmarking development.

As a fifth point, the need for and importance of networking and collaborative action is listed, particularly in conjunction with new issues arising.

Finally, disclosure of the signatories' performance on ESG incorporation is instructed in key issue areas, such as integration of investment practices, ownership activities and demands from service providers. Crucially, the "comply or explain" provision stipulates the demand for reporting of the signatories' implementation of the principles; otherwise an explanation of the lack of which is prompted. (UNPRI, 2015)

As the above-mentioned GES was one of the founding signatories⁵⁵, it is not surprising to see the engagement areas overlap to a high degree. As stated in the 2014 annual report, UNPRI focusses on areas of high international concern such as water risks, sustainable palm oil, human rights in the extractive sector, and supply chain labour standards. According to the

⁵⁵ The list comprises 68, often well known, financial sector entities, such as: ABN AMRO Asset Management, BNP Paribas Asset Management, Crédit Agricole Asset Management Group, FTSE Group, Munich Reinsurance AG, Norwegian Government Pension Fund, and the International Finance Corporation.

report, the combined market capitalization⁵⁶ of UNPRI signatories has reached 19 trillion US\$ market value, which the initiative anticipates to provide a critical mass in overall investor strength. This is coupled to principle number 5 with the networking and collaborative action finding its expression in an engagement platform. A specially designed *clearinghouse* mechanism allows signatories to connect via an online system with each other and jointly bring forth concerns to enable collaboration with certain actors or regions that would pursue the same goals. The majority of participants, more than half, originate from Europe and the largest collaborative engagement areas are ESG disclosure (34%) and corporate governance (28%). Also, important in the SRI context, 53 % of participants in the clearinghouse stem from the investor side. (UNPRI, 2014) Executive Director Gifford terms the clearinghouse the “number one strategic priority” of the UNPRI and highlights the successes in bringing private equity trader firms to the table inducing them to share the principles of the specialized evaluative framework. This is constantly developed further in collaboration with clearinghouse signatories. (Riley, 2015) The clearinghouse has been supported and its functions adopted by financial actors, such as Triodos bank (see chapter 4), Henderson International Investors or ING Investment Management. The latter’s chief investment officer, Hans Stoter, points out the importance of being able to bring issues to an international table as an extra level of exerting pressure: “We are increasingly collaborating with other institutional investors (...) internationally via the UN clearinghouse. If talks don’t produce the desired result, we’re not afraid to make our voice heard during shareholder meetings” (ING-IM, 2014).

The active stand against companies that can be taken through the clearinghouse mechanism, as opposed to the unenforceable and merely informative Global Compact, has been lauded in the past. (Parfitt, Lynch, & Schofield, 2013)

However, the UNPRI has also suffered some critique, as accession to the association requires no passing of certain performance standards and the member base has been accused of being too wide to be credible. (Wagg & Taylor, 2009)

3.3.4 The Equator Principles (EPs)

To help with possible insecurities encountered by investors in emerging markets, the IFC and the World Bank initiated the EPs as a voluntary benchmark set of standards, which provides a risk management framework guiding a financial institution in assessing and managing ESG risk areas in client-project financing. Project financing is a form of service where project liabilities and equity funding of the project are reimbursed from the cash flow created by the project.⁵⁷ Currently 70 % of international project finance debt in emerging markets is covered by 80 EP Financial Institutions (EPFIs) in over 35 countries. A Governance Association instructs the proceedings and forms the management structure in order to formalize hitherto unwritten procedures and increase transparency. (EP, 2015)

Further developed by private FIs, such as ABN AMRO, Citigroup, and WestLB, the launch in 2003 was also precipitated by the consultation of non-governmental organizations (NGOs) and project engineers/sponsors. The EPs recognize the role of investors as developers and the inherent opportunities in promoting the (minimum due diligence in) incorporation of social and environmental standards into project financing. EPFIs are to integrate careful review of proposals and refuse a client’s offer if minimum ESG standards are not met. (Peck, 2011)

The EPs are meant to steer financial products globally covering all industry sectors; in the

⁵⁶ Market capitalization is a financial key metric determining a company’s size; it is used by stock/fund investors in regards to asset allocation and risk return. As opposed to total assets managed, it is computed by its outstanding shares (shares held by shareholders) multiplied with the price of one share. (Investopedia, 2003)

⁵⁷ Defined by the International Project Finance Association (IPFA).

single financier context of up to US\$ 10 million (either project finance or advisory service) and in the corporate single project loan context of at least US\$ 100 million (US\$ 50 million per EFPI).⁵⁸ The EPs, owing to the role the World Bank Group played in the inception, mirror the IFC's standards, albeit in a very condensed manner (compare subchapter 3.3.5). Review systems, ESG assessment, stakeholder engagement, grievance mechanisms, and independent reporting and transparency are example areas of benchmark standards established here. Transparency and information sharing (limited to competitively non-sensitive data) are central pillars of the principles. Should the criteria stipulated not be met by the client, the EFPI will not start/proceed to finance a project. (EP, 2013) Overall, they have contributed to recognizing the SRI and ESG issues on a global scale. (The Equator Principles Secretariat, 2015)

The EPs have come under critique, to some extent by the same NGOs that pushed FIs for adoption the first place. Specifically, a limited scope, a certain lack of transparency and liability, as well as their lack of integrating specific technical necessities have been brought forth as claims. This however, has been rectified to some extent by the revised EP II and EP III specifications. Particularly, the advisory and preparatory phases of projects have been integrated into the newer versions. In addition, accountability and effectiveness have, in theory at least, been raised. More importantly, the EPs have had a real impact on improving the private sector marketplace, specifically the banking industry, in which risk management now often incorporates ESG factors. Overall, the EPs have established a "court of public opinion" (Hardenbrook, 2007, p. 271) and have sharpened the public's ability (often through NGOs and other interest groups) to influence private investment business. (Hardenbrook, 2007)

The motivation for adoption of such voluntary codes, particularly for North American and Western European companies, arises from the level of possible reputational gains or losses connected with the balance of green credentials/successes and public pressure. As such, the EPs are cited to have undergone a steady institutionalization process. (Wright & Rwabizambuga, 2006)

3.3.5 The IFC Standards

The International Finance Corporation (IFC) sustainability performance standards for corporate governance are possibly the most extensive list of demands and procedural guidelines on this topic and are across industry sectors revered as the standard that indeed sets the standard.

The IFC, as the de-facto private sector apparatus of the World Bank Group manages private investments in developing countries.⁵⁹ Since its inception in the 1950s, the IFC has grown to command almost US\$ 50 billion in its portfolio and reaches millions of clients through its activities. From the get-go designed to help private industry in developing countries⁶⁰ and assist in job-creation and stable economy formation the focus was concentrated even further in 2013: to end extreme poverty and enhance collective prosperity the IFC offers a large array of services, such as B-loans (loans on behalf of the borrower with the IFC's weight and name as security), partial credit guarantees (securing the minimum guarantee to facilitate transactions for borrowers) and risk management advisory services (AAA ratings, technical and legal know-

⁵⁸ In this case the loan tenor needs to cover at least two years, the sum covers at least US\$ 100 million, the loan needs to pertain to a single project under direct financier control, and the single EFPI is invested with a minimum of US\$ 50 million. All four criteria need to be met.

⁵⁹ The IFC does not support or deal with nation states directly. Its actions are reserved for the private or public-private partnership sector.

⁶⁰ In 1981, the IFC's then Investment Officer Antoine van Agtmael originally devised the term *emerging markets* to raise the global appreciation of the economic possibilities of developing countries.

how supply). To manage its sustainability efforts the IFC developed a Sustainability Framework comprised of its Sustainability Policy (statements of commitments, roles and responsibilities), the Access to Information Policy (outlining its institutional disclosure obligations and communication commitments), as well as the Performance Standards. The latter are directed towards the client and serve to identify, avoid, and mitigate risks in conjunction with social and environmental impacts of projects. In case of direct investments, they contain methodical requirements in regards to these issues, in order to influence development opportunities positively. (IFC, 2015a)

Performance Standard 1 establishes the basic principles of assessment of risks and impacts, effective community engagement, and how the clients should be guided in their handling of the environmental and social performance throughout a project’s life phase. This is based on the establishment of an Environmental and Social Management System (ESMS). The remaining seven standards built upon the established facts of this first standard and are meant to avoid, minimize, mitigate, or compensate for residual impacts. The general themes are to convey the importance of due diligence against these performance standards in order to proactively control for risks, instigate communication and grievance mechanisms and address human rights issues in the course of every single standard. (IFC, 2012b)

The standards are based on international guidelines (e.g. World Bank Group Environmental, Health and Safety Guidelines (EHS)), conventions and practice decrees (e.g. Long-Range Transboundary Air Pollution (LRTAP), the Basel Convention, the Stockholm Convention, the UN Code of Conduct for Law Enforcement Officials, the International Union for the Conservation of Nature (IUCN) Red List of Threatened Species, or labour conventions outlined by the International Labour Organization (ILO)), which lends them a high degree of integrity and international gravitas. Furthermore, reliance on Good International Industry Practice⁶¹ (GIIP) is another guiding contextual pillar. (IFC, 2012b)

The following table of the Performance Standards equates to an excerpt of what this author deems as the fundamentally important topics found within these standards. It is by no means exhaustive but serves the greater purpose of adding clarity and cataloguing the important generic principles in line with the aims of this thesis. (For the more details, see attachment 7)

Table 3-1 Relevant content of the IFC performance standards.

Standard	Relevant content
1 Assessment	Environmental and Social Management System (ESMS): documentation, capacity-building, stakeholder engagement plan, communication of project plan. Proactive risk management.
2 Labour	Equal standards for core business and supply chain employees, grievance mechanisms.
3 Environment	Resource efficiency, pollution prevention, CO ₂ emission disclosure, pest management.
4 Health, Safety	Exposure of community and ecosystems. Mitigation of exposure.
5 Resettlement	Displacement and livelihood restoration, compensation.
6 Biodiversity	Ecosystem/habitat protection, classifications, management focus on biodiversity issues.
7 Natives	Indigenous populaces’ rights, Free Prior and Informed Consent (FPIC) mechanism.
8 Heritage	Cultural heritage protection, definitions and international standards.

⁶¹ GIIP is defined as “the exercise of professional skill, diligence, prudence, and foresight that would reasonably be expected from skilled and experienced professionals engaged in the same type of undertaking under the same or similar circumstances globally or regionally. The outcome of such exercise should be that the project employs the most appropriate technologies in the project-specific circumstances.” (IFC, 2012b, p. 2)

In addition to these standards, the IFC, recognizing the importance of SMEs in global trade and related sustainability questions, has issued an interpretation note on risk analysis in relation to financial institutions and their direct and indirect investments in SMEs. SMEs are seen as very important for the diffusion of SRI and sustainability norms. SMEs often have a higher need for cash flows financed by banks and funds and face particular challenges when it comes to financing, such as access to formal institutional loans. The Global Trade Finance Program (GTFP), set up in 2007 for development work, has been targeting smaller institutions⁶² that in turn supply SMEs in lesser developed countries. Overall, 83% of the trade transactions involved SMEs and almost US\$ 11 billion import and export guarantees have been issued. In the past, banks have been reluctant to finance small and medium ventures, in part due to the unforeseeable risks. SMEs face a number of particular risks, such as regulatory risks (e.g. acquisition of licenses and adherence to health and safety standards or emission caps), loss of market share due to stringent international demand on ESG norms, or excessive liability demands due to operation issues. Therefore, due diligence against possible concerns is the norm of primary importance for any screening/evaluation work. Simultaneously, the interpretation note functions as guidance for SMEs to reduce their risk and through that raise their chances of external funding procurement. (IFC, 2012a)

As an indicative starting point a list (Figure 3-4) provides guidance for financial intermediaries. This equates to a very abbreviated and condensed version of the performance standards and makes it easier to quickly discern the possible risks coupled to investing in a particular SME.

⁶² The IFC has shifted away from direct financing of SMEs in favour of handling such transactions through financial intermediaries.

<p>1. Nature of the client's business:</p> <ul style="list-style-type: none"> • name, location (region, city/town and type of neighborhood - commercial or residential) • industry sector, product manufactured, capacity, no of employees • main markets (domestic/export (specify countries)) <p>2. Key indicators of problems</p> <p>House keeping in the work areas</p> <ul style="list-style-type: none"> • Evidence of liquid and solid wastes in the workplace • High levels of noise (intermittent or continuous) • Strong smell's/irritants • Access, fire risk <p>Handling of wastes</p> <ul style="list-style-type: none"> • Whether hazardous or not (check with client) • Disposal mechanism • Waste water and effluents • Treatment • Presence of toxic/hazardous materials • Disposal • Air emissions from stacks (chimneys) <p>Social and labor issues</p> <ul style="list-style-type: none"> • Labor and working conditions and ability to have representation • Relations with local communities, disclosure and transparency • Records of problems, complaints and protests from local communities <p>3. Environmental Regulatory Compliance and Liability</p> <p>Is the Company in possession of all required HSE permits and approvals?; Has the Company paid excess charges or fines/penalties for non-compliance with HSE regulations and standards in the last two years? ; Is the Company exposed to potentially significant HSE liabilities, such as those arising from land / groundwater contamination, related to the Company's past or ongoing operations? If yes, specify magnitude?; Has the Company had any significant accidents or incidents in the last two years (e.g., oil spills, fires) involving deaths or multiple serious injuries and/or significant environmental damage? Was the company inspected by relevant government/municipal authorities in last 2 years? If yes, provide results.</p> <p>4. Social issues and community relations</p> <p>5. In the event that the Company is not materially in compliance with HSE regulations and standards, or if there are potentially significant HSE liabilities, please describe further actions required by the authorities and/or planned by the Company to address these issues satisfactorily, and to achieve regulatory compliance.</p>

Figure 3-4 Sample Checklist for Review of ESG Issues in SMEs by FIs.

Source: (IFC, 2012a, p. 5)

Since their establishment, the IFC performance standards have become the global benchmark for integrating sustainability in project planning and operation as well as performance comparison in equity financing. (IFC, 2015b) All signatories to the EPs have to adhere to the standards and although their character is comparable to soft international law, some parts actually have begun to interweave with hard law. The United States Foreign Corrupt Practices Act, the UK Bribery Act and the Canadian Corruption of Foreign Public Officials Act work in conjunction with the World Bank's Anti-Corruption and Bribery risk management, which, in turn, can be established during the pre-project planning using the performance standards. Moreover, the Canadian government's office of the CSR Counsellor for the Extractive Sector has begun to monitor mining, oil, and gas operations according to the standards, effectively adopting them into national law. (Norton-Rose-Group & Maplecroft, 2011)

Yet, room for improvement remains, as the standards' implementation, though definitely adding value for communities and clients alike, often lacks effective informational efforts, results in insufficient grievance mechanisms, and causes friction with the (often difficult) introduction of migrant workers. (Compliance Advisory Ombudsman, 2010)

3.3.6 The UNEP Finance Initiative

Established in 1992, the United Nations Environmental Program Finance Initiative (UNEP-FI) is a platform for collaboration between the United Nations and the global financial sector.

The over 200 members - 62 % are banks⁶³ - seek to establish and promote the linkages between the financial sector and sustainability issues and solutions. Their work includes capacity building and best-practice sharing, development of research and tools, the setting of global standards, as well as private and public stakeholder engagement. The motto “changing finance, financing change” reflects the aim to integrate sustainability concerns and values into the mainstream financial system in order to foster the financing of a more sustainable economy. In detail, the UNEP-FI is engaged in a broad array of working areas, such as banking, insurance, investment, property, sustainability management and reporting (GRI⁶⁴-collaboration: the development of financial reporting standards), biodiversity and ecosystem services, finance and conflict, or water and finance. (UNEP-FI, 2015)

This institution is particularly active in the field of tool development, approaching the issues with practical intent. Specifically for its largest constituency, the banking sector⁶⁵, the UNEP-FI has issued an online guide to banking and sustainability, listing current practice examples as well as providing a template for several sections pertaining to the installation or improvement of sustainability capacities. This tool provides the means to communicate externally as well as internally the important roles and aspects of a sustainable banking business. For example, it features sections about senior and lower management (roles, guidance, divisions, etc.), teams catering to sustainability issues, legal issues, business and risk issues, etc. The guide has linkages to connected resources, in which categorization material, reference and best-practice lists, learning material, and general background readings are provided. (UNEP-FI, 2015)

Another tool, the Human Rights Guidance Tool, provides information on sector-specific human rights issues, impact assessments, and international law standards and initiatives. Most of the material is publically available, only the environmental and social risk briefings summarizing ten sectors and key considerations are exclusive to signatories.

Although the role of UNEP-FI in promoting particularly institutional investment and SRI rules is acknowledged, Sandberg (2010) finds a need for additional development of legislative framework which binds ESG considerations even more into the fiduciary duties of institutional investors. Similar critique of simply adding a sustainability gloss over regular financial activities comes from Richardson (2008) who, although not only aiming at the UNEP-FI, calls for a reworked ethical value system to which institutional investors are bound. This, to counter the fact that some values are (and currently cannot be) monetized by the market. As long as the classical market system is merely polished with the addition of some ESG markers true change from SRI is questionable.

3.3.7 The GABV

The last item in this list is the Global Alliance for Banking on Values (GABV), chosen in the context of this thesis to form the conceptual and logical transition from international SRI to sustainable banking. Intuitively, this item might well be placed in chapter 4; however, as it represents not a single bank but overarching principles and techniques of evaluation and engagement it has found a place as the final item in the international principles and methods chapter.

⁶³ The Commitment Statement has been signed by public and private financial institutions alike (20 % insurances, 16 % investment banks). They originate mostly from the Europe (UK, Germany, and the Netherlands) but are otherwise equally set up in North and Latin America, Asia Pacific, and Africa & Middle East.

⁶⁴ The Global Reporting Initiative (GRI) is not explicitly featured here, due to space limitations. However, it should be remarked upon the importance of the expression of contemporary ESG integration. As communication to stakeholders is a key element in SRI, the know-how and mainstreaming of communication techniques are increasingly important. For more details on the GRI, see www.globalreporting.org.

⁶⁵ The board of the UNEP-FI's banking commission is set up from international banking executives, usually strategy and sustainability managers; among them James Vaccaro, head of corporate strategy at Triodos Bank (see chapter 4.2.1 for Triodos engagement and details).

Established in 2009, the GABV is a sustainable banking private industry association of internationally operating FIs with currently 28 members, a combined asset strength of US\$ 100 billion (€ 87 billion), more than 20 million customers and a combined workforce of over 30 000 employees⁶⁶. At its core the association has internalized the idea of structuring the advancements in sustainable finance from a global vantage point; the principles applied and tools created aim to solve global problems through international collaboration. To this end, the Chief Executive Officer network allows for meetings and exchange of the executive leaders and members of the banks. (GABV, 2015e)

Shared values are an important factor in a heterogeneous group; a long-term, responsibility-centred focus on improving the quality of life through human, social, cultural and environmental progress, while providing high levels of transparency, is the common red thread of ideals that underlines the actions. (GABV, 2012)

Furthermore, the GABV has framed a number of guiding principles (see attachment 8) that are not only reminiscent of examples discussed above but which can also be rediscovered in the sustainable banking case studies (chapter 4.2). At the centre evolves the bank's institutional culture, developing and integrating capacities and procedures both internally (innovation incentives and evaluation for staff) and externally (stakeholder integration in the processes and structured reporting). This culture is infused by five value domains:

1. Establishment of a triple-bottom-line business is the ultimate goal; principally the relation to international guidelines (specifically, using sustainable financing to do good) and economic profitability are paramount for establishing and successfully operating a credible SFB (GABV, 2015c).
2. The serving of the bank as a facilitator of project-finance in the local/regional community is stressed. Thus, the connection to the *real economy*⁶⁷ is made. (GABV, 2015c) As Marcos Eguiguren, Executive Director of the GABV points out, “profit is a consequence of serving real needs in a real economy – not an end goal”; the challenges are to shift perceptions in the financial industry, as well as to diffuse knowledge of techniques and collaboration opportunities among the GABV members (Meglobaladvisors, 2015).
3. A value-based bank needs to establish a long-reaching, interactive, and strong relationship with clients in order to influence and risk assess projects as early as possible. Retroactive risk management is not seen as sufficient. (GABV, 2015c) (GABV, 2012)
4. Sustainable banking means to integrate a long-term perspective in operations, guarding against short-termism and connected volatility of securities (GABV, 2015c).
5. Communication and disclosure are central; a high level of inclusive transparency means incorporating the wider net of stakeholders with their opinions and needs (GABV, 2015c).

To foster successful triple-bottom-line businesses, the GABV has produced a variety of practical contributions: Exchange of information and learning outcomes takes place in regional chapters (European, Latin America, North America). Awareness is raised through social media campaigns and research on sustainable banking; business association is bolstered by offering tools, and a dedicated SRI fund has been created (described below). (GABV, 2015d)

In addition, the GABV impact metrics program, which aims to develop tools for reporting and metrics for comparison, has produced a sustainability scorecard to make reporting of the member FIs easier and more comparable. A baseline score defines the adoption by the

⁶⁶ The members comprise banks such as Triodos (NE), GLS (Ger), Alternative Bank (Switzerland), First Green Bank (USA), Bank Australia and Vancity (Canada) as well as credit unions, microfinance ventures and community banks. (GABV, 2015e) It is currently the only large-scale global sustainable banking network for retail banks.

⁶⁷ This is understood in line with the cooperative banking principles of direct mutual transactions, based on value given for corresponding real services or products. This is antithetical to the financial economy which includes speculative dealings with derived value instruments such as options or futures.

institution (go or no-go decision), then financial, quantifiable indicators are adding points, and in the end a qualitative measure of the FI's wider-ranging sustainability ambitions and operations is included (for details, see attachment 9). Eventually, this tool is intended to become an industry standard. (GABV, 2014a, 2015b)



Figure 3-5 Sustainability scorecard, three steps of evaluation and recording performance.

Source (GABV, 2014a, p. 10)

In March, 2015, the GABV launched the first intra-industry investment account, the “Sustainability, Finance, Real Economies fund” (SFRE, pronounced Sapphire). It aims to support banks that serve their communities under the sustainability dogma and contribute to a real economy growth. Currently over US\$ 40 million are invested and within the next decade it aims to provide the involved financial businesses with US\$ 1 billion in funding. As Peter Blom, Chairman GABV⁶⁸, says, “Our research identified approximately 2 000 banks with this focus having assets of US\$ 600 billion and equity of US\$ 65 billion. They represent a significant, growing, positive-money movement that requires and deserves new sources of growth capital.” (GABV, 2015a).

Although the eventual impact of GABV's efforts are yet to be seen, the affiliation provides the sustainable banking industry with a common voice and even funding opportunities, as well as its members with thorough support. Marketing material and business tools are shared; strategic development and exchange of knowledge is part of the mutual cooperation and support. Merkur's communication officer Frandsen praises it as “the most open and involved network I have come across” (Personal communication 2015-07-08). This sentiment was shared and the network's role in combining forces for lobbying activities greatly applauded by Kristoffer Lüthi (Personal communication 2015-09-06).

3.4 The Essential Findings at a Glance

The following table shows the findings of chapter 3.4 in an overview. The table serves as a collection of the, in the context of this thesis, most important SRI principles and operating procedures identified. The critical analysis and discussion of some of these items is provided in chapters 5, respectively 6. This table is to be understood as a link to the sustainable banking case studies, depicting the associations in engagement levels and impact areas, as the principles of SRI are repeated in the banking trade. The taxonomy of banking case studies follows a similar nomenclature.

On the left side the source of origin is denoted (e.g. UNPRI principles), followed by a division into significant range and impact areas: *Internal* describes all principles/standards applying to the inner workings of a source (e.g. ESMS, management, capacity and professionalism); *external* contains those applying to clients and supply chain companies (e.g. audits, target-setting, interaction with government); the impact areas, *evaluation* or *engagement*, cluster the

⁶⁸ Peter Blom is Chair of the Board of Directors of the Global Alliance for Banking on Values, and CEO of Triodos Bank (see subchapter 4.2.1).

aforementioned principles/procedures, in order to demarcate the extent of influence an investor could exact. A mere evaluation would not go as far as active engagement of a client, however must be seen as a precursor to eventual engagement, as it sets the standards and rules of this engagement.

For example, a client audit would presuppose values and audit standards predefined by the auditing party (either an investor directly or contracted external service); both would be classified as an *evaluation*. A resulting *engagement* would use the data derived from the audit to directly involve the client in remedying possible negative aspects. The distinction is important as an evaluation can be both internal or external but to engage is yet another step, which, though important for the greatest positive impact on SRI, is not always preferred or applicable by a business/institution. Speaking from a general sustainability point of view, the more boxes are ticked the more encompassing (for both client and investor) the SRI efforts are.

This does not mean, however, that the impact will necessary be greater than for those techniques with three or less range and impact areas covered. Eventually, it depends on many factors (often in combination), such as diffusion of knowledge, institutionalization components, market uptake, return on investment, or public perception (including positive reputational effects for the client and investor). Such, the distinctions offer a glimpse at possible investments into capacities required and interactions engaged in.

Table 3-2 List of most relevant principles and operating procedures in SRI, classified by range and impact.

Institution /business	Principle/procedure	Internal	External	Evaluation	Engagement
GIM	Three-step holistic decision process, anticipating a company's performance		X	X	
	Firm culture based on ESG values corresponding to investments	X			
GES	Systematic observation combined with reactive collaboration process		X	X	X
	Systematic pro-active advise against future risks		X	X	
UNPRI	Internal Capacity (metrics, capabilities, strategy) coupled to external demand of ESG principles	X			X
	Collaboration in clearinghouse to yield market influence		X		X
The Equator Principles	Transparency and information sharing (proactive ESG integration, advisory in early project phases)	X	X	X	X
IFC	ESMS (systematic, integrative)	X	X	X	X
	Interlinkage (mutual engagement, communication, reciprocal duties)		X	X	X
	International Integrity (building on international law and regulations)		X	X	
	Proactive risk management and prevention, finance security (SMEs)	X	X	X	X
UNEP-FI	Tool provision for sustainability integration into financial business	X	X	X	
	Diverse, global network exchange	X	X	X	
GABV	Wide-ranging, global networking and info exchange	X	X	X	
	Sustainability scorecard for SFBs	X		X	
	SFRE fund for funding SFBs		X	X	X

4 Sustainable Banking – Case Studies of Small and Medium Banks (Findings)

This chapter starts off with a brief collection of important aspects of sustainable banking, particularly in the European context, including some vital definitions. Subchapter 4.2 provides the findings of the sustainable banking case studies undertaken in the course of this research project. The findings are collected in the beginning of subchapter 4.2 to provide a quick overview (tables 4.1, 4.2) that helps to elucidate the entrepreneurial opportunities and pitfalls hidden in the complex realities of small and medium sustainable banks.

4.1 Literature Review – The history and Important Aspects of Sustainable Banking

Historically speaking, the first bank certified by the EU Eco-Management and Audit Scheme (EMAS) was the Austrian Kommunalkredit AG, in 1996. (Jasch, 2001) From there on the development accelerated and today there are over 2000 sustainability-oriented banks globally (GABV, 2015a).

At the global scene, the changing role of banks has become visible. The development of increasingly vocal external declarations (public pressure, customer demand, NGOs, etc.) and growing legal demands (integration of environmental/social impact assessments) has led FIs integrate (at least voluntarily) wide-ranging principles, such as the EPs or IFC standards. Thus, the rules of law and business conducts are imported alongside the financial assets into the developing world. Global banks and other FIs assume functions of public interest, regarding ESG issues, risk-distribution, and sustainability goals; their management has to be innovative and well-informed about societal knowledge and ever more fragmented legal issues. (Conley & Williams, 2011)

It becomes apparent that many decisive aspects of sustainable banking indeed originate at the international level. In the face of tackling challenges at the national, regional or local levels, a trickle-down effect is to be expected, where the reflexive attitude towards the societal and environmental challenges and demands becomes less complex but by no means less important. As banks increasingly adapt functions of public interest, through the integration and implementation of ESG criteria and procedures, the overall learning process takes place in a globalised knowledge economy. (Conley & Williams, 2011) In short, many aspects are influenced by the global discussion and norm-spheres underlying these discussions. This dynamic plays an important role in the connection of international SRI principles and sustainable banking on a small-scale, local level.

Other external influences on a bank are more tangible. They originate, for example, from investor, the government, rating agencies, clients or suppliers. Within the bank these external influences as well as the internal business aspects and transactions transcending both areas can be managed by a variety of posts, a senior management (disclosure, human resources, general services environmental management) oversees the sustainability coordination level responsible for policy-compliance, environmental and social risk-assessment, -screening, advisory, and monitoring. All actors are subject to the society they are placed in, which in turn is subject to the overall environment (For a detailed graphic, see attachment 10). (UNEP-FI, 2011)

What regards European diffusion and market opportunities, the sustainable banking scene differs much from country to country. Countries with traditionally well-developed institutional

structures and high public interest in the general sustainability discussion (e.g. Austria) are generally a more fertile ground for developing this niche compared to countries with a low public interest level in the subject (Jasch, 2001). A study into businesses attitudes toward the subject and knowledge of ESG integration in Hungary showed definitive room for improvement in both areas. (Barta & Èri, 2001)

In Spain for example, the concepts in question are not widely known; SRI is a relatively unknown entity. However ethical banking is the most known instrument, which is owed to its presence in the daily lives of people and therefore higher public exposure. This could be remedied by governmental promotion through SRI and transparency regulations, as well as a higher rate of SRI indicator adoption into FIs and their translation into client-centred products by banks. (Escrig-Olmedo, Muñoz-Torres, & Fernández-Izquierdo, 2013)

Indeed, governmental action sets the framework for diffusion by either providing resources (education, information) or applying pressure through regulation, such as the Dutch environmental policy plan of 1998, which includes financial intermediaries as also responsible for the environment (e.g. project-related clean-up costs) (Jeucken & Bouma, 2001)

In business terms, a long term focus on stable business activities and integration of social values can create competitive advantages in market niches hitherto unoccupied, and ESG assessments of particular project financing will be embedded in the company culture and filter down to daily routine decisions, such as lending practices. (Barta & Èri, 2001) In other words, the diversification of the market and the development of sustainable banks go hand in hand. Once the forerunners have established themselves, the chance to ‘shine’ is lower for other companies; “once the spotlight is off the subject” the market niche tends towards saturation (Jasch, 2001, p. 118).

However, that balance is far from reached. In fact, the sustainable banking market has large potential, as a recent study on the German market, the largest EU economy with a long history of institutional powerful and traditional banks, shows. There exists, despite a low market share of 0.2 percent of SFBs (230.000 customers, in 2011), potential to attract 16.2 million customers that are to various degrees interested/demanding of social and environmental aspects being integrated into their bank’s business. (Alanus, 2012)

The economic performance of sustainability-focussed banks (SFBs) has shown positive signs in the past and continues to make a case for FP in the face of ever-growing ESG integration. This can be seen as the de-facto expression of theoretical observations made in the CSR context (chapter 3.3).

As Figure 4.1 shows, their volatility on return on assets (ROA) and return on equity (ROE) is much less pronounced than that of Global Systemically-Important Financial Institutions⁶⁹. The refusal of participation in derivative-dealing and speculative businesses had paid off, although it should be said that conversely, investors can expect higher ROR from a GSIFI. Furthermore, the ratio of loans to total assets, respectively deposits to total assets is almost twice as high (76 %, 80%) as for GSIFIs, signifying the relation to real economy and confidence in deposit-secured lending. (GABV, 2014b)

⁶⁹ GSIFIs are large, international banks. They usually are brought into the discussion when macro-economic assessments are dependent on them, exemplified in the “too big to fail“ discussions and “bail-out” payments after the GFC.

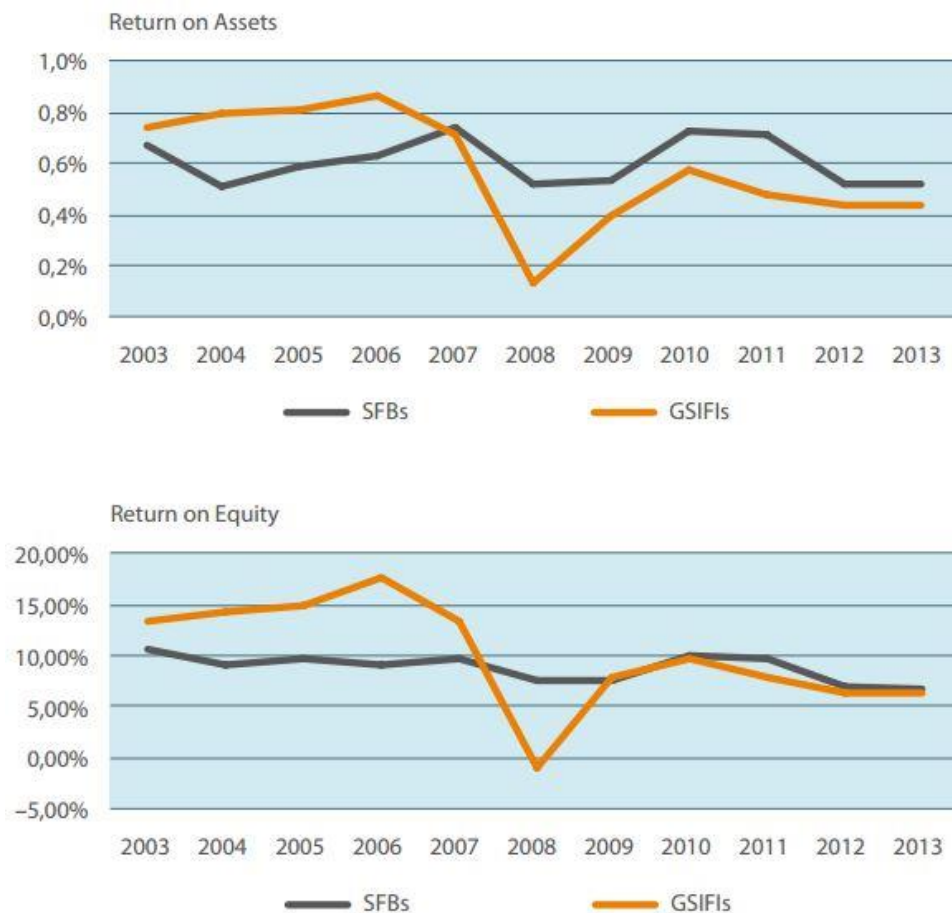


Figure 4-1 Performance comparison SFBs versus GSIFIs during the GFC.

Source (GABV, 2014b)

The growth of sustainable investment and sustainable banking business is furthermore reflected in the establishment of international sustainable banking industry organisations, such as the European Federation of Ethical and Alternative Banks (FEBEA) or the International Association of Investors in the Social Economy (INAISE); they enable exchange of information and mutual learning processes as well as investment schemes⁷⁰. The FEBEA, for example, offers a mutual fund taking regard to financial and non-financial indicators in investment. Since 2002, the French *Choix Solidaire* focusses on supporting alternative and solidarity organisations (Febea, 2012) and is currently valued at EUR 39.94 million (Morningstar, 2015). This poses as an example of the sustainable banking industry as a commissioner of SRI; the fund is used for said businesses but also for the banks behind FEBEA themselves. The collaborations between smaller banks and smaller business ventures, as research has shown in many individual examples⁷¹, have led to a number of incremental

⁷⁰ These associations are listed for the sake of comprehensiveness; for details visit <http://www.febea.org/>, and <http://www.inaise.org/>.

⁷¹ As a side-note in reference to target-clients in the business world: Owing to capital and market access constraints, a small and medium-sized bank would be best suited to finance small and medium-sized business. Access to finance, on the other hand, is rated as the second highest obstacle for micro, small and medium-sized enterprises (MSME) in developing countries. (Kushnir, Mirmulstein, & Ramalho, 2010) The importance of loans for and investments in SMEs has been pointed out in subchapter 3.3, particularly in developing countries. SMEs strive for integrating sustainability into their business, recognizing the financial payoffs and the significance of innovation management. (Diedrichs & Korockina, 2015) The banks treated in this chapter all exhibit greater interest (or in fact experience) in dealing with SMEs. This is backed up

improvements on the path to a more sustainable economy.

Furthermore, the average growth of sustainability-dedicated banks is noteworthy. The following figure shows the average balance-sheet growth of sustainability-focused banks between 2002 and 2014. This compares to regular banks' results, such as Deutsche Bank (5 %), Nordea (2 %), Credit Suisse (-4 %), Royal Bank of Scotland (-17 %), Société Générale (-3 %) or HSBC Holdings (-3 %).⁷²

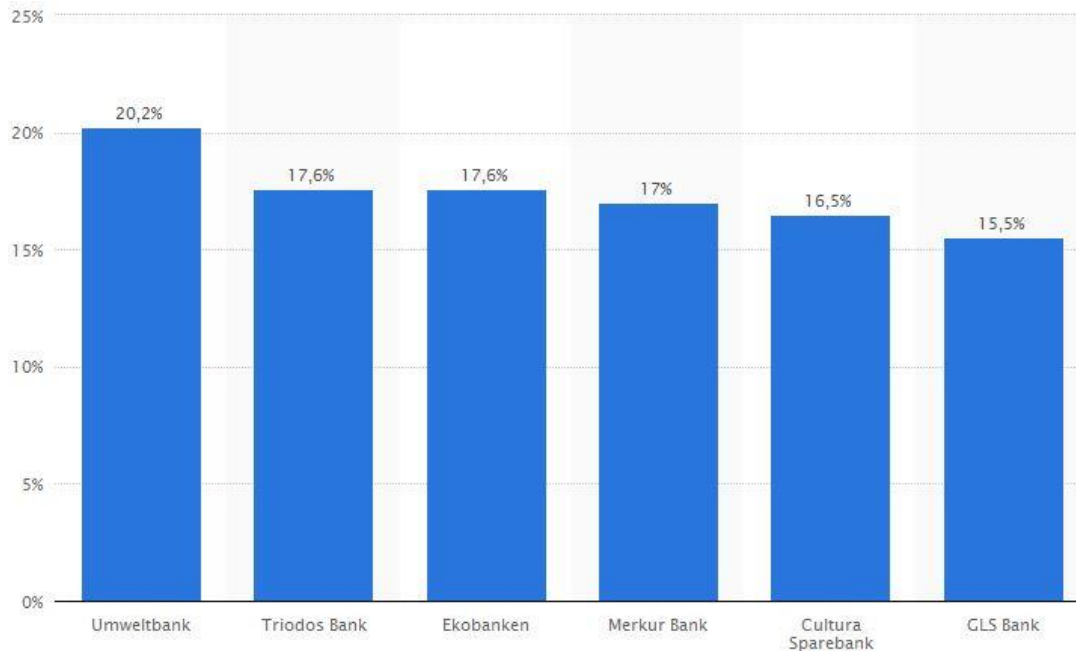


Figure 4-2 Average balance sheet growth of sustainable banks between 2002 and 2014.

Source: (Statista, 2015)

Some of the banks seen here are viewed in detail in the following subchapter, in which, based on the case studies, the important findings in regards to sustainable banking are displayed.

In terms of case selection, the choice presented itself as a major conundrum. Given the abovementioned idiosyncrasies (see chapter 1.4) of the relation between material figures reported and the de facto impact on sustainable development of the banks' operations, no clear line can be drawn. In addition, the size of the bank appears to correlate to the motivation and values displayed by its management and workforce. In other words, a very small bank can have extraordinary ideas, products and close-bound customer networks. One thing however, needs to be stated: The larger SFBs are the ones that have a wide-ranging portfolio and broad setup of initiatives (in particular GLS Bank, Triodos). They present a sort of benchmark in European sustainable banking, displaying a variety of aspects, operational methods, and the influences of the international SRI norms. To exclude them based on the fact that they have about 100-150 more employees than the official SME definitions stipulates seems a folly. Furthermore, all banks displayed are continually appearing in the same sustainable banking

by experiencing the typical activities of Sparbanken Syd as well as planning in respect to ESG-screened projects and products.

⁷² The comparison is based on data retrieved from the Financial Times market analysis tool (www.markets.ft.com). The data only covers the years between 2011 and 2015, so detailed comparability is partially limited. By and large, the trend is visible, particularly in light of reported losses. All banks featured are also used for comparison in the GABV research.

forums and literature; some are part of the same initiatives; and all do provide distinct and interesting approaches to the still limited world of sustainable banking.

Thus, the larger banks (GLS, Triodos) have been integrated in the data collection and analysis to provide a more reliable overview and more conclusively gain answers to the research questions. In the end, a bank needs to be sufficiently large to invest in ESG integration; all banks that are featured, with the exclusion of JAK Bank⁷³, are deemed to have sufficient resources to integrate a running and successful sustainability arrangement in their banking business, which should be applicable, to some degree, for Sparbanken Syd⁷⁴.

All banks in this document will be referred to as small and medium-sized banks, though this does not infer adherence to the IFC or EU definitions of SMEs as such.

4.2 The Sustainable Banking Case Studies

This subchapter presents the findings of the case-studies on small and medium SFB examples. Included are the results from online research and personal communications with bank representatives, where they have been possible. Table 4.1 provides the classification of the cases, according to the two main SRI techniques.

Table 4-1 Sustainable banking case studies – taxonomy according to the three major techniques of SRI.

Type	Exclusion	Dialogue/Engagement
Merkur/Triodos	x	x
JAK	x	
GLS	x	X
Ekobanken	x	X

The classification depicted in Table 4-1, is expressed in the detailed findings on the cases below.

In the following table the most important factors are listed; some of those enter the discussions in chapters 5 and 6.

NA (not available) is given where no particularly significant factor could be identified.⁷⁵

⁷³ For the grounds of inclusion into this study, see chapter 4.2.2.

⁷⁴ This assumption is based on their financial capacity reported; the actual evaluation of that, of course, resides with the bank.

⁷⁵ This, however, does not preclude any method/technique whatsoever implemented by the bank. It is just not judged as instrumental to sustainable banking.

Sustainable Investment and Sustainable Banking

Table 4-2 Sustainable banking case studies - summary of the most relevant sustainable banking features.

Bank	Motivation/raison d'être	Innovative products	Lending and project finance Standards	Investment Screening	Factors valuable to success	Factors impeding success	Aspects & Impacts - mechanisms & effects
Merkur Andelskasse, Denmark (incl. Triodos screening)	Ethical personal convictions Historical cooperative ideals Value-based banking	CO ₂ savings account Sustainable pension fund SRI funds (Triodos product group)	Case-to-case decision Positive, constructive attitude Fixed prices Value-based evaluation	(Outsourced to Triodos) Exclusion list, active monitoring, encouraging integration hurdles (best in class)	Collaboration with external specialists, networking, transparency in all aspects of the operation Societal interest in sustainability and SRI (GFC)	Regulation pressure on retained capital requirements Lack of resources and manpower	Advisory services outsourced but projects directly financed Triple impact for developing markets with CO ₂ savings account
JAK Bank, Sweden	Internal/"moral push": change to interest-free economy	Like-for-like lending reciprocating savings	NA	NA	Structural setup principles (equality, transparency) Non-profit in conjunction with local interest (= growth)	Lack of basic banking products, ESG absorption, and networking resources Extreme values	Low fees and equality-based business ethics lead to inclusion and support of concerned communities
GLS Bank, Germany	Anthroposophical social and cooperative ideals Money as social design medium for a better society Desired positive ESG impact on society	KDU – same input/output of charitable finances Microfinance in developing and German markets Transparency (GRI)	Detailed positive and negative checklists Disclosure of all financed entities with sum and name	Detailed positive and negative checklist Disclosure of bank's own investment backbone (interbanking)	Transparency and communication No ECB refinance (relative decoupling from base rate) Locally rooted credo understood by clients Teamwork with external experts	Low interest rate products liable to market fluxes Regulatory pressure suffocating market liberties	Project approach: microfinance of ESG start-ups with federal loan-securities Client/FI engagement contributes to ESG discussion and norm setting
Ekobanken, Sweden	Anthroposophical social ideals Local focus and association with global principles and organisations	Microfinance savings account Proportional input/output of charitable assets	Detailed project checklist Disclosure of all financed entities	Exclusion list based on international standards Interbanking screened	Societal interest in sustainability and SRI (GFC)	Low interest products susceptible to market fluctuations	Social inclusion focus on underprivileged No min loan limits = grassroots growth of start-ups

4.2.1 Merkur Andelskasse, Denmark (incl. Triodos screening)

Taxonomy: Equal importance of exclusion and engagement

The Merkur Andelskasse (cooperative bank), founded in 1982, has grown from a mere 15 members with a combined asset strength of DKK 200 thousand (EUR 26 thousand) to a bank that today commands total assets of about DKK 2.5 billion (EUR 335 million) with 40 employees and over 23.000 customers (over 5000 co-owners) (Merkur-Andelskasse, 2007) (Merkur-Andelskasse, 2014). A distinguishing factor contributing to this success is the focus on transparency; interested investors can search for projects and/or industry sectors to see where their money is invested. According to Merkur Bank, they are the only Danish financial service to do so. Additionally, the bank issues reports on the tackling of their direct impacts and advances in corporate governance regularly. (Merkur-Andelskasse, 2014) The bank has experienced steady growth over the last decades (surplus and was voted “most satisfied customers bank” by the online meta-portal mybanker.dk in 2012. It offers both private and business solutions with a very strong focus on social and environmental sustainability. (Merkur-Andelskasse, 2015)

Motivation - The basic working principles of the bank are founded on the perception of the today’s global environmental and social system being unsustainable and deteriorating. Growing population, uncontrolled use of effective technology (e.g. overfishing), and a myopic economic system are the main factors contributing to global deterioration. Thus, the need for sustainable, transparent long-term planning, synergy creation and utilization where they are already existent, as well the acknowledgement of a financial institution’s responsibility are cornerstones of the policy. (Merkur-Andelskasse, 2007)

Moreover, the fact that the CEO Lars Pehrson has been a passionate leader figure throughout the bank’s history drives the whole team. The bank perceives itself as relationship-based, individual-solution oriented business that builds on mutual trust. Although the origin of the bank is local it operates on an international level, too. A constructive attitude towards solving a client’s possible issues is considered key for effectively influencing a client’s performance for the better, both in respect to sustainability and economic issues. (Personal Communication Ann Hybertz Frandsen, 2015-07-08)

Innovative products – In addition to generally using their co-owners share-money for ESG investments, the bank developed a number of inventive products and marketing tools. Next to a monthly magazine (“Pengevirke”), showcasing trends and providing information in one area (e.g. agriculture, green tech, etc.), Merkur bank has been issuing a pioneer prize for the last five years (DKK 25 000, corresponding to EUR 3 350 this year) to companies or individuals that have performed outstanding tasks in pioneering ideas in the field of social or environmental sustainability. (Merkur-Andelskasse, 2007) In the lending department, the bank has engaged in a collaboration with Danish energy companies *NRGi* and *EnergiTjenesten*, who can provide expertise in assessing energy efficiency measures or advising on installations (e.g. solar PV), mostly for private customers. Merkur then, can offer the financing models for the interested party. (Merkur-Andelskasse, 2014)

Their pension savings account designed for companies with a minimum of five employees builds on a combination of choice investments in renewable energy, microloans, ethically screened shares, shares in Merkur, as well as state bonds. The pension fund is run in collaboration with the cooperatively owned AP Pension that also offers regular investment as a basis for pension-saving. (Merkur-Andelskasse, 2015) (Pension, 2015)

The Merkur fund is comprised of donations and targets human development, such as arts and music, social and humanitarian efforts, or ecology education. For the most part, the projects are located in developing countries. Furthermore, the bank has developed a “CO₂-savings account”, which yields societal, environmental, and financial benefits. A proportionate part of

the savings is invested in Third World development, energy efficiency and CO₂ reduction projects, such as photovoltaic lighting in schools in Burkina Faso, or biogas facilities in a Nairobi slum. In 2014, the overall saving amount was DKK 204 million (EUR 27 million), of which DKK 495 000 (EUR 66 000) was invested in projects. Overall, since the inception of the account, DKK 4.2 million (EUR 563 000) has been collected. (Merkur-Andelskasse, 2014) Notwithstanding the core business centring on sustainability-oriented models and charity ideas, the market in Denmark demands some focus on small retail and “regular” business. Unlike the UK, the Danish market has simply not enough sustainability-oriented businesses to collaborate with and the money injected into the bank is insufficient. Such, the bank is forced to resort to acquire large business companies as customers in order to get the fees up to competitive standards. (Personal Communication Ann Hybertz Frandsen, 2015-07-08)

Lending/project finance standards – The majority of lending recipients, as well as deposit holders are private individuals followed by private schools, social institutions, and NGOs (see attachment 11) (Merkur-Andelskasse, 2014). The private market, in other words, is the main pillar of the business.

The lending standards (beyond legislative demand) are set by the bank according to their ethical doctrine and international guidelines. According to Jan Klarbaek, head of the credit department, the values championed by the bank are a non-negotiable, interest rates are fixed⁷⁶ and the collateral is relatively high, granting a secure (read sustainable) loan-to-asset ratio level. As the bank is owned by its clients, the value needs to correspond to something traceable. This has a couple of significances: the customer base has positively received the fact that they do not have to haggle but instead get what they are offered. This transparency and reliability of conditions has, particularly during the GFC paid off; client numbers rose from roughly 10 000 in 2008 to a little over 25 000 in 2015 with many people expressing concern or frustration with the “regular” banks’ systems and speculative trade. At the same time, lending schemes with a particular green context, such as electric car or solar PV financing, is promoted by lower interest rates and better conditions. Importantly, the close connection and contact to the client means that every case is decided upon in isolation. First, the value-based evaluation is conducted and the financial analysis follows suit; only if both are satisfactory, the loan is granted.⁷⁷ The assessment of what is and is not in line with the bank’s values is prepared with the help of external professionals (academia, research institutes, advisory companies, etc.), which in turn leads to appreciation of the intricacies of sustainability issues at the bank. (Personal Communication, 2015-07-22)

As Hybertz Frandsen, puts it: “There is never a clear yes or no; it is a case-based decision.” (Personal Communication, 2015-07-08). For example, the decision to grant a credit to a bus company employing socially disadvantaged people in need of re-integration, such as ex-convicts, was clouded by the environmental issue of the old bus models polluting the air. In agreement an extra loan was granted to finance particle filters for the exhaust systems, which made the trade-off ethically acceptable for the bank. Overall though, the bank has to adhere to the same financial standards as a conventional bank, the business has to be financially successful. (Personal Communication Ann Hybertz Frandsen, 2015-07-08)

⁷⁶ Normally, interest rates and conditions can be negotiated, depending on the type of loan and financial weight of the borrower. Here, it is important that people can rely on getting the same conditions as everyone else; many of the clients, especially in agriculture, know each other and exchange information and therefore the bank needs to be careful not to deal out (perceived) privileges to anyone.

⁷⁷ Klarbaek mentioned the example of a organic farmer that would plan to switch to conventional farming; no loan would be granted. Equally, if the farmer would switch to organic but would not have the collaterals and assets the loan would not be granted either.

Investment screening – As Merkur relies on a collaboration with the Dutch Triodos Bank, where all investments are screened, this paragraph will incorporate the Triodos working principles.⁷⁸ Triodos relies primarily on an in-house Sustainability Research Department, as well as keeping close contact to international experts and stakeholders. The sustainability assessment by the in-house team is supplemented by an external financial analysis of the investment; one of the collaboration partners is the internationally renowned screening and ESG transparency company Sustainalytics, which provides insight and analysis on thousands of companies and all ESG-significant sectors. (Triodos, 2015b) Sustainalytics, among many other service products, offers GRI training courses, screens over 13 000 public and private companies regarding their Global Compact compliance in order to inform investors, or helps asset owners/managers to implement the UNPRI principles. (Sustainalytics, 2015) Here, the intersection of international guidelines and principles with the mundane, everyday world of investment banking is met. Globally accepted and used standards filter down via a network of actors and screens into increasing reliability of investment provided to concerned customers. Triodos then screens stock market investments relying on “strict social, environmental and governance criteria, and a rigorous research and selection process”(Triodos, 2013b).

First, there are two ways for a company to qualify for adoption in the Triodos *sustainability universe* (i.e. portfolio). If a company derives over 50 % of their revenue from sustainable products or services, in the areas of pollution prevention and clean technology, combating climate change and energy efficiency, human health care or leaders in CSR practices, it is allowed into the portfolio. Alternatively, companies that do not undercut this performance barrier (usually mid and large sized) are included if they perform as best-in-class within their sector, adhering to over 70 criteria in ESG areas. More specifically, minimizing waste and obsolete products, good employee, customer, and contractor relationships, transparency and stakeholder integration are some of the main targets for scrutiny. The companies are rated with a scoring system; the upper 50% of the best performing companies are taken aboard. Akin to the approach of GES investment screening, the companies are then subjected to a test against the Triodos minimum standards. If they are not continuously met, a dialogue is opened in order to rectify the conditions and additionally provide companies with insight into their effects on stakeholders. In order to positively influence and motivate change, Triodos acts in alliance with other large stakeholders in the wider SRI context, such as Eurosif, UNPRI, Eumedion, or Uksif.⁷⁹ (Triodos, 2013b)

The minimum standards deserve a closer look as they are, ultimately, deciding upon a company’s promotion through Triodos. The standards are specifically framed as dynamic and subject to change due to collaboration with companies, changing scientific knowledge, and shifting realities. They encompass seven broad themes, such as cultural heritage, animal welfare, ecosystems, human rights, natural resources, social structures and human health; in principle they constitute a list of exclusion grounds. Three categories of minimum requirements have to be met. (Triodos, 2015a)

Product-related standards refer to immediate exclusion if a company deals with the production of the world’s most dangerous, internationally acknowledged hazardous substances, nuclear energy, unconventional oil, unconventional gas and weapons. There is a zero tolerance policy

⁷⁸ It must be stated that the Triodos Bank falls outside of the scope; frequently the phrase “world’s leading sustainability bank” appeared during the research process. It owns offices in the UK, Germany, Spain, Belgium, with the head office situated in the Netherlands; thus the bank perceives itself as a European Bank. The employee number and financial resume is beyond of what this thesis acknowledges as a medium bank. However as the Triodos Investment Screening, a subsidiary of the bank, methods are instrumental and the collaboration with Merkur a business tactic in itself they warrant incorporation into this paragraph.

⁷⁹ Eumedion is an independent Dutch foundation working for promoting governance in finance. They contribute, for example, with several committees responding to letters and aiding with legal issues. (Eumedion, 2015) The UK Sustainable Investment and Finance Association (UKSIF), similar to Eurosif of which it was a founding member, is the membership association for sustainable and responsible financial services promoting responsible investment.

for anti-personnel landmines, cluster bombs and biological and chemical weapons, as well as exclusion grounds for indirect involvement in weapon manufacturing.⁸⁰ For other products derived from industries, such as fur, coal, gambling, genetic engineering, oil and gas, or nuclear power, the threshold for exclusion is 5% of turnover. (Triodos, 2015a)

Process-related standards refer to significant and repeated controversial activities in the areas of human and labour rights, corruption, environmental damage, or corporate governance. Projects, such as construction of large dams, oil and gas pipelines are above all excluded unless guarantees for the provision of all possible damage limitations can be given.⁸¹ (Triodos, 2015a) Thirdly, the precautionary principle finds its application in the products and services, such as follows: alcohol, pornography, factory farming, animal testing, genetic engineering, violation of labour and human rights, corruption and environmental damage. Sectors with an inherent risk are judged on the best practice available and the businesses' application of these practices; this is deemed a measure of their active involvement with the issues. (Triodos, 2015a)

Next to the private investment market, shares in sovereign bonds (i.e. state issued bonds) are only considered after a research process that only allows countries, which are in the best 50 functioning democracies of the largest 100 economies, not boycotted by the UN, and signatory to the most important UN declarations (Triodos, 2015a).

This screening process results in an array of products offered by Merkur: For example, the *sustainable pioneer fund* rewards SMEs active in the renewable energy, clean technology, or CSR areas, the *microfinance fund* investing in microloan institutes securing the triple-bottom-line impact or the internationally distributed *sustainable equity fund*, investing in companies with sustainability principles and building competencies in this field (Merkur-Andelskasse, 2015).

Factors valuable to success – Collaboration is a key mechanism for a small bank.⁸² For example, the knowledge provided by Triodos (and Sustainalytics) is seen instrumental and indispensable alike to the workings of a relatively small bank like Merkur; the added value is immense and could not be produced by the bank itself. Moreover, the participation in the GABV offers the bank a network of likeminded financial businesses adding to more than the sum of its parts. Integration of professional advisory business in assessing the (non-) sustainability impact of lending plans leads to raised awareness and knowledge in the bank as well as well-founded decisions on lending per se.

The constancy of a leadership figure and the passionate workforce is another advantage when running an alternative operation such as Merkur. Flexibility in project-scoping and financing as well as familiarity with the clients were identified as important factors contributing to the bank's success.

Underlying all this, are the large trends towards sustainability, responsible finance, as well as the adverse effects of the GFC - they reverberate throughout society and are steering the perception of SFBs into territory beneficial for business attainments. (Personal Communications Ann Hybertz Frandsen, 2015-07-08; Jan Klarbaek, 2015-07-22)

Factors impeding success – From a regulatory perspective, the problem of meeting the minimum capital requirements in full has surfaced more than ever after the GFC and the adapted financial sector regulations. As no in-house rating system for credit rating can be afforded, the provisions stipulated in the Basel II⁸³ and Basel III frameworks (i.e. internal resource based

⁸⁰ Shares in companies worth more than EUR 100 million or 1% of their equity investments.

⁸¹ This is based on the grounds that large scale projects often entail significant secondary problems, e.g. human rights violations, corruption, environmental damage.

⁸² Merkur collaborates to varying extent with more than 24 partners, among them the World Wide Fund for Nature (WWF), the Danish Nature Conservation Society (Naturfredningsforening), or Amnesty International.

⁸³ Basel II is a regulatory framework allowing banks to set credit risk assumptions based on their own internal ratings based approach (IRB), which can lead to lowered capital requirements the bank must hold in reserve to secure unexpected losses

risk-weighting) cannot be used to full extent. The bank's CEO comments on this in an opinion paper published on the GABV webpage: "The big banks can to a large extent cope with the increased demands by adjusting their rating models. The smaller banks, which cannot afford to develop internal rating models, are required to meet the new capital requirements in full with real money." (Pehrson, 2015)

Similar worries regarding the self-regulation of risk-assessment have been issued by the OECD economic department. The market needs to play a bigger role in determining the risk value of an asset. By, for example, introduction a leverage ratio based on assets that are non-risk weighted would deter banks from circumventing regulations and "could help to align banks' activities with their main economic functions and maximize capital-allocation efficiency". (Slovik, 2012, p. 10)

In regards to financial risks and self-assessment, the bank has a running capital plan until 2019 that enables moderate growth while fulfilling all requirements. Furthermore, as demand by the Danish Financial Supervisory Authority (DFSA) stipulates, the bank has assessed their risk in a risk pentagon, displaying the major financial liabilities/risks a bank entails (see attachment 12). The pentagon is meant to be a benchmark for assessing future risks and Merkur is well within the limits of this assessment.⁸⁴

Generally, the resources and manpower available are a constraining factor and despite the motivated workforce, an air of tension regarding the future of the bank is palpable.

Interestingly, the human side of sustainable banking adds another layer to the negative side. The apparent disappointment of many customers in experiencing their sustainable bank as yet another business seems to be a reoccurring theme, which needs extended communication work to remedy. As demands for credit payback are unwavering in the face of, for example bankruptcy – after all it is a business that must pay – many customers have shown disappointment in the business model confusing it at heart with philanthropy. (Personal Communication Ann Hybertz Frandsen, 2015-07-08)

Aspects & Impacts - mechanisms and effects – The outsourcing of advisory functions (energy-related issues, research institutes, etc.) adds state of the art knowledge to development practices while simultaneously being financed by the bank. This duality is mirrored in providing the CO₂ savings account, which enables economic growth for the saver but also finances implementation of environmentally beneficial technology. Moreover, this is focussed on developing nations producing a positive impact also on global equity distribution, infrastructure development advantages and health of the locals.⁸⁵

4.2.2 JAK Medlemsbank, Sweden

Taxonomy: Mostly exclusion, some engagement

The JAK bank in Sweden is a somewhat unorthodox participant in this array of case studies as its business model builds upon an interest-free, reciprocal loan and savings system. Thus, the bank is a non-profit organization and lacks some of the basic products and working structures of other banks. Therefore, it could be argued that comparability is lacking vis-à-vis other

(e.g. through defaulting credit-taker). §214 stipulates that where a bank does not provide an IRB, the credit risk weighting is 100%. (Supervision, 2006) This means effectively, that if a bank evaluates a credit risk at a lower value (e.g. 50%), the bank can give twice as many loans in relation to capital requirements. Basel III has not changed this significantly.

⁸⁴ The possible transgression however, does not entail regulatory punishment but rather heightened awareness of the bank's performance.

⁸⁵ Particularly in the context of indoor combustion processes for cooking adding to health issues, electricity provision can make a fundamental difference.

“regular” SFBs. However, the working principles and history shed some light on the deeper normative grounds upon which sustainable banking resides and provide the reader (as much as this author) with a comparatively extreme point of view, which aids in framing and understanding the subject as a whole.

JAK received the status of a state-licensed and protected by the national deposit guarantee cooperative bank in 1998. Founded in 1965 as an economic information association, JAK was able to provide loans based on savings of other clients without interest. The name derives from *Jord Arbeta Kapital* (soil, labour, capital), which aptly prompts the focal points of both the activities and the ideological paradigm. The idea was inspired by Danish cooperatives that had been around since the 1930s; interest free reciprocal aid in financing projects among farmers is far from a modern concept. The bank has now close to 40.000 members, a fact that is partly owed to the development from an economic association into a bank and that co-owners can meet their lending-partners and the bank’s employees personally. This has contributed to the prevalent atmosphere of trust and collaboration and the success. (JAK-Medlemsbank, 2015)

Motivation - The business model builds revolves around the ethical norm that any surplus created from money, i.e. interest, is essentially a creation from nothing out of nothing and undesirable, due to the negative consequences in society (e.g. financial bubbles, unequal distribution of wealth). Thus, to be entirely ethically sustainable, any activities, such as speculative investments, interest-creating lending, or contribution to an uneven distribution of wealth, are not engaged in. Administration costs and reserve assets are covered within the limit of the prime cost principle (*självkostnadsprincip*), which equates the bank to a non-profit organization. The JAK bank calls all expenditures for loans – *lånekostnader* - (i.e. credit-costs), which stand in for the running costs of the business. It is not to be confused, as is pointed out by the bank, with an interest on money, as no one gains from it. (JAK-Medlemsbank, 2012)

In an interview with Sammy Almedal, CEO of JAK Medlemsbanken, the working principles and realities of this business model were discussed.

Innovative products – The JAK bank has an underlying missionary role in influencing the Swedish market towards a transition to an interest-free economy. As this approach is comparatively radical, there are problems to be reckoned with. Almedal admits that the deliberate attention to non-interest products has negative consequences in the sense that membership size is restricted and the types of customers are less affluent. Furthermore, the loan-saving structure as a reciprocally corresponding set of financial transactions is not without caveat, as follows. (Personal communication, 2015-07-06)

Lending/project finance standards – In principle, the bank grants loans on the basis of past or future savings, both are corresponding in value. However, experience has shown that if a loan is granted before savings have been made the monthly paybacks can weigh (too) heavily on the loan taker. To counter this, the borrower can be offered a five year exemption from paybacks with his or her house as security. There are some minor exclusion policies for weapons and gambling and the like. However, there is no systematic screening of loan-takers or their projects, nor is there a coupling of green projects to better lending conditions. (Personal communication, Sammy Almedal, 2015-07-06)

However, it needs to be pointed out that JAK is subject to the same rules of business as all Swedish companies granting loans (kreditgivningssed). This stipulates, among other points, that a lender must take into account the personal financial security of the borrower when deciding upon a loan and must not act deceitful but transparent in regards to effective interest rates when advertising. (Svensk Författningssamling, 2010)

Investment screening – There is no investment screening conducted as the bank does not have a noteworthy investment portfolio. Savings and credit-cost fees constitute the income side, as of today; making profit on investments would be contrary to the basic ideals. (Personal communication, Sammy Almedal, 2015-07-06)

Factors valuable to success – Despite the hurdles that are yet to be overcome, the normative approach the bank has taken is the driving motivator and overruling guidance median. This is mirrored in how the steering committee and voting procedures are arranged. Equality in voting and utmost transparency in decision-making and business processes are key factors in validating this normative background. (Personal communication, Sammy Almedal, 2015-07-06) The non-profit intention coupled with a local focus and the democratic make-up, for example every member is empowered to vote on the steering committee, enabled the bank to steadily grow a member base. As the bank works on credit-cost (lånekostnader) alone, they were able to keep the quasi-interest to loan takers at a steady 3.00 percent. At the time of writing this compared with 5.00 – 5.50 percent effective interest offered by large Swedish banks, such as Nordea or SEB.⁸⁶

Factors impeding success – To run an online banking business as is currently conducted, the now 40.000 member strong JAK bank would be sufficiently endowed, however, to exert political influence the aim is to gain at least two to three times that number. Currently the bank does not employ an internal or external ESG factors screening system and there are no specific safeguards measures in place, which is partly owed to the fact that the bank does not undertake direct investment activities. The current maxim is to attract more customers and keep a lean administration system in place. To this end the focus lies on the basic product range, which is currently under development (e.g. e-ID, payment card, e-billing, etc.), not on direct⁸⁷ or indirect impact analysis. Overall, the business model depends on strength in numbers. If, so the bank's assumption, the whole economy (or large parts of it) would resort to forgo interest-based transactions, the price level would be lower on virtually everything; the monetary value would be a direct proxy for a real value (i.e. work, product, service) and the JAK system would function properly. Owed to the resources and time available to the small staff, no networking and exchange of ideas between JAK and other banks, Swedish, European, or otherwise, has been established. Equally, there has not been any particular support from the Swedish or local government. (Personal communication, Sammy Almedal, 2015-07-06)

Aspects & Impacts - mechanisms and effects – The low fees charged by the bank enable loan-takers to engage in financial transactions and finance projects. All this is done under the premise of equality and non-enrichment. Even if the model can be seen as extreme there is interest in it. In such, the bank contributes to offer an inclusive financing model for a share of the society otherwise alienated by the mainstream banking business.

⁸⁶ A random sample of online offerings by large banks resulted in these values. Comparison of 10 year loan of 100.000 SEK with security.

⁸⁷ The bank has undertaken some minor improvements to the direct environmental impact (e.g. transport policy, electricity efficiency). The main aim is however to contribute positively regarding the indirect impacts; to go beyond "less bad" and towards "more good". (Personal communication, Sammy Almedal, 2015-07-06)

4.2.3 GLS Bank, Germany

Taxonomy: Partly exclusion, mostly engagement

The *Gemeinschaftsbank für Leiben und Schenken* (GLS), which translates to community bank for lending and gifting, was established in 1974, and emerged from the *Gemeinnützige Kredit-Garantienossenschaft, GKG* (charitable credit- and collateral-cooperative) in 1967 which secured other banks' loans to charitable businesses.⁸⁸ The cooperative bank operates its core business through online services and eight subsidiaries in Germany and is comprised of sub-units taking care of various business arenas, such as the *GLS Treuband* – a charitable association for non-profit money distribution; the *GLS Beteiligungs AG* – a stock company concerned with SR investments, or the *GLS Bank Stiftung* – a charitable foundation promoting the use of money for socio-political engagement and philanthropic projects and lobbying for reforming the regulations of the financial sector). (GLS-Bank, 2015h) The bank (a co-founder of GABV) has grown considerably over the last 40 years; in 2014 the bank counted 188.000 customers, 37.000 co-owners and just over 500 employees. (GLS-Bank, 2014a) That year's balance-sheet growth was 12 % (net profit of EUR 245 million), the total assets numbered EUR 3.6 billion. (GLS-Bank, 2015d)

Motivation – The cooperative bank builds much of its core business on the co-owners, using their member fees to finance loans for social and environmentally beneficial projects. This connection runs so deep that the bank perceives itself as a facilitator, using the money as a social design medium (*soziales Gestaltungsmittel*). The diversity of its members is seen as a positive and helpful aspect of its structure and ethos; members can vote on the annual general meeting to influence the bank's future. Indeed, the bank's co-owners express an array of reasons to participate in the GLS Bank: the ethical reasoning is expressed in both positive ways (e.g. support of development work, human rights issues, and environmental protection projects) as well as avoidance of negative issues (weapon-industry or dread of further financial system crises, support of smaller businesses out of principle). (GLS-Bank, 2015g) They have common attitudes that are reflected in the bank's policy and overall external communication: to influence society positively, to lead by example in order to establish a less greedy financial and more humane social system. Solidarity, peaceful coexistence, individual freedom, and responsibility for the environment and future societies are principled cornerstones of the bank. The project-bound, directly applied usage of money and the transparency regarding all transactions are the methodical ideals by which the bank is operated. (GLS-Bank, 2014b) The bottom line of the business is put in simple words by Thomas Jorberg, executive board spokesman of GLS: "We do not gamble but run the traditional banking business: saving money and dealing out loans. Mere financial aggrandizement is not our goal." (Etscheit, 2009)

Innovative products – The *Kostendeckungsumlage* (KDU) (cost coverage apportionment), is a scheme in which savers can forfeit their ROA and consequently charitable projects can get loans for lower interest, financed by this voluntary non-profit deposits of other customers. The interest, in this case, is only comprised of the coverage of service-costs and some minor risk assuagement levy. This establishes a direct equivalence between input of non-profit savings and output of non-profit financing; the bank only acts the intermediary of socially and environmentally beneficial transactions. In 2014, this service was used by almost 7000 customers depositing around EUR 54 million in the low/none-interest GLS savings accounts;

⁸⁸ According to the bank's informational services it was the first socio-ecological bank in the world. It builds, in a wider sense, on the anthroposophical ideals, famously championed by Rudolf Steiner, concentrating on the human spiritual development in physical interaction with the environment; this one-ness of everything is, for example, mirrored in biodynamic agriculture or sustainable architecture and finds its expression underlying the general value-sphere of the GLS bank.

the popularity of this scheme has risen as the bank is able to provide the loans at an interest rate 2,3 % (2015) compared to 2,5 % in 2014 and 2013. (GLS-Bank, 2015f). However, the overall volume growth of the KDU has languished over the last decade; owing to the growth of traditional loans, the percentage of KDU deposits has dropped from 18,3 % (1999) to 1,2 % (2014) (GLS-Bank, 2014c, p. 80)

Savers have the opportunity to invest in microfinance. Here, the savings account benefits microcredit distribution in the developing world. The microcredits are handled externally via Oikocredit⁸⁹, which also ensures against default up to € 10 million⁹⁰. The company uses self-developed ESG scorecards based on international ESG principles, in order to ensure compliance with their ideals. Specific scorecards for social enterprises and financial intermediaries have been developed in parallel. (Oikocredit, 2015) Since establishment in 2011, the sought-after savings model had grown to a volume of € 13 million in the end of 2014 (GLS-Bank, 2015e).

External communication is prominent at the bank; GLS annually issues an extremely detailed sustainability report; its layout is GRI reporting compliant. The report, among many other items, provides an account of organization and policy (markets, structure, suppliers, etc.), internal and external aspects, stakeholder integration and management information (functions, qualifications, roles, and salaries, etc.), impacts on the environment (indirect economic impacts, energy, water, biodiversity, emissions, waste and transport, compliance, grievance mechanisms, labour, human rights and gender, corruption, supplier standards, etc.). The report concludes with a listing of the GRI Content Index Service⁹¹ and the external, independent audit report, which quality controls for GRI conformance. Furthermore, a concise depiction of the assets under positive or negative ESG screening and control in regards to the overall balance sheet result is offered; this allows for a comparative assessment of sustainability ideals integrated into the financial results (see attachment 13 for details). (GLS-Bank, 2014c)

Lending/project finance standards – In this segment, GLS also provides very detailed information on lending policies, figures, and the reasoning behind it. On the whole, the lending activities occur under the premises of abovementioned motivation and company culture, aiming to use money as a design medium for the social fabric of the society.

The bank aims to finance projects based on both positive and negative criteria. The negative criteria exclude certain business sectors, such as nuclear energy, weapon and armament, genetic modification or embryonic research, biocides and pesticides⁹², organochlorides⁹³, as well as business practices, such as human rights and labour transgressions⁹⁴, unsanctioned animal testing procedures⁹⁵, controversial environmental practices⁹⁶.

⁸⁹ Oikocredit is a private, internationally invested microfinance and development cooperative based in the Netherlands; it has been driving projects for 40 years, including capacity building and risk-management. They manage a total asset volume of € 995 million with 792 partners globally. More details at <http://www.oikocredit.coop/>.

⁹⁰ GLS itself sets the upper limit of unsecured loans to € 3 million, to limit risk to the overall business liquidity.

⁹¹ This is the first report issued under the GRI G4 guidelines. Ratings of the quality are no longer offered (GLS used to get A+ ratings, the highest attainable) but the index service provides a template from GRI aiding in reaching high levels of accordance with the demanded norms of reporting. For more details, see https://www.globalreporting.org/services/preparation/G4_Content_Index_Tool/Pages/default.aspx.

⁹² As classified by the WHO.

⁹³ This includes the production and trade of, for example, PVC or other persistent organic pollutants, as listed in UNEP 12, the OSPAR Priority list (<http://www.ospar.org>) or the Stockholm Convention. Ozone-depleting substances are included, too.

⁹⁴ Builds on the ILO labor standards and the UN human rights declaration.

⁹⁵ This relates to non-legally binding testing for commercial and pharmaceutical products as long as the animals' health is endangered.

On the positive side, the GLS aims to finance businesses, people or organizations that have embraced the inclusion of sustainable development essentials into the value creation chain. In detail, this means financing renewable energy, energy efficiency projects, or combined heat and power plants. Furthermore, in the health sector, alternative health- and healing-methods are targeted in addition to establishments that follow holistic approaches in dealing with their clients (e.g. care homes, medical practices). Equally, holistic educational models are supported (Montessori, Waldorf) alongside arts and culture projects. Organic agriculture, FSC-certified forestry, and MSC-certified fishery are a major focus; originally the bank started its business supporting the first emerging organic farms in the late 1960s. Alongside offering the financing of technical solutions in the sustainable building sector (renovations, passive houses, etc.), collaborative living, and the prevention of speculative property trading are foci. The bank furthermore requires other financial service providers it collaborates with to employ (minimum) exclusion lists and ideally positive ESG-incorporation into their business. (GLS-Bank, 2015c)

Microfinance is offered as part of the developing world investment portfolio but also in connection with German start-up businesses; the federal ministry of labour and social affairs put out a € 100 million liquidity fund to guarantee possible microcredit defaults. (GLS-Bank, 2014c)

GLS lends primarily to the energy sector (over a third of loans are directed here), followed by realty, education, social, and foodstuff (see attachment 14 for details). The total number of projects financed and businesses lent to in 2014 was 22.351 with a total volume of over € 1.9 billion, growing over 16 % from the year before. All financed projects and companies are listed on a map, accessible online. (GLS-Bank, 2014c, 2015b)

Investment screening – In addition to the already mentioned negative and positive criteria for lending - the same criteria apply to investment – the bank has defined some general rules for investments: In relation to financial dealings, recognizing the destabilizing effect on financial markets and whole economies, GLS precludes ventures in foreign currency, resource and food, shadow market businesses, and derivatives⁹⁷. Countries are rated by their political and human rights performance; for example countries that apply capital punishment, are rated as not free or haven't signed nuclear non-proliferation agreements are excluded categorically. Positively, countries are equally judged by their social and environmental performance, comprising matters, such as fighting climate change, renewable energy subventions, promoting organic farming or fighting corruption and poverty. (GLS-Bank, 2015c)

The *GLS investment universe* is expanded by the process of a three-step analysis, akin to prior treated process in the GIM or GES cases (see chapter 3.4): First, a wide-ranging collection of potential investment targets, based on external analysis sources, NGOs and in-house research is made. This research examines the type of business, products and services, and the particular business processes. This is then scrutinised by a specialized investment committee, reflecting in detail on the GLS investment rules. Finally, detailed reports about the investment targets are prepared, containing financial indicators as well as the ESG performance. This supplements the subsequent investment advocacy. (GLS-Bank, 2015a)

In terms of reporting on their investments and own liquidity, the GLS lists all interbank deposits and own investments in detail. Most of the interbank deposits are located at the

⁹⁶ Includes large scale projects with massive detrimental effects on the environment and biodiversity (e.g. mining, power plants, and dams). This includes the direct operator, suppliers to the project, and crucially, the financiers behind it.

⁹⁷ Derivatives, such as *options* or *futures*, are financial instruments that derive their value based on the underlying performance of another financial entity, such as bonds or shares. They are often highly speculative and are used by GLS only to secure asset values in the background.

cooperative central bank⁹⁸ rather than at the ECB. Subject to the same investment guidelines, the bank's own investments are held in covered bonds, which are ring-fenced for specific purposes and subject to German minimum transparency laws in regards to covered bonds. Securities, including shares, are purchased under the same guidelines as client-investments. The GLS holds strategic shares in similar financial institutions, some treated in this thesis, such as Triodos or Merkur. (GLS-Bank, 2014c) This is an expression of the interconnection and collaboration between SFBs hinted to throughout this study.

Factors valuable to success – Transparency and communication are central in the GLS' efforts in maintaining its profile. Comparatively large amounts of information online are supplemented by a regularly issued bank newspaper, transparent guidelines on norms and screening, as well as a sustainability report following internationally recognized designs. All financing targets are listed with name and volume of finance.

The bank, along with other cooperatives, secures its liquidity and some investments through the WGZ rather than the ECB, which means a relative decoupling from interest rate setting.

The focus on (relative) local markets and projects that seek the bank's green expertise results in a reciprocal binding of clients and the bank; many clients are still customers after many decades. Moreover, the bank's philosophy is rooted in far-reaching social philosophies (Steiner philosophy, Waldorf, etc.), which are, particularly in Germany, a relatively widespread and known concepts.

Cooperation with specialized external service providers, such as Oikocredit, ensures highest positive impact at lowest internal investment for capacity-building. Furthermore, as the Oikocredit example shows, the external partners are sought after their long experience and good standing in the area.

Factors impeding success – Subject to market insecurities, which though, every bank is; however this particularly holds true in light of the low interest rates given by the ECB. This gravely impedes the market differentiation effect and take-up low-interest-based products, such as the KDU.

The bank has marked growing regulation as a possible threat to their business. To keep the oscillations of the financial markets in check the regulatory pressure is on the point of reaching a level where it is perceived as suffocating commercial liberties necessary to change the banking commerce bottom-up. As the world of banking is in change, typified through higher regulation, digitalization and low interest rates, such change is warranted and should, according to GLS, be brought upon by the business models adapting to it. (GLS-Bank, 2014a)

Aspects & Impacts - mechanisms and effects – The provision of a microloan financing scheme even for the local German market of sustainability-oriented start-ups is backed by the federal liquidity fund. As such, the public-private partnership enables distribution of money on an elementary societal level, developing the growth of small business cells contributing with many incremental additions to sustainable development. For example, leveraging a € 6 000 loan might well lead to an exponential added value for society in form of an organic bakery or integrative social or educational projects.

The bank engages stakeholders positively but no less directly in their aspirations for (added value) projects and requirements for liaising FIs. This not only stimulates the wider sustainability discussion - making people think about the issues is the first step – but also, considering the assets managed and the resulting market influence, can add to strengthen the ESG norm-adaption level within the industry.

⁹⁸ The Westfälische Genossenschafts Zentralbank Bank (WGZ), has acted as a refinance body for cooperative banks since the late 1880s. Its business is limited to North-Western Germany; the GLS headquarter is located in Bochum.

4.2.4 Ekobanken, Sweden

Taxonomy: Partly exclusion, mostly engagement

Ekobanken started as a fully registered cooperative bank in 1998 emerging from the fusion of a cultural fund and a trustee savings bank. The headquarters is situated in Järna and the bank operates two subsidiaries in Gothenburg and Stockholm. There are currently 5000 customers and 1700 co-owners, a basic share in the bank allows for one vote on the annual meeting, every additional vote can be bought⁹⁹, limited to 10 % of the overall votes available. (Ekobanken, 2015f) The bank is comparatively small, with only 13 employees and total managed assets of SEK 689 205 000 (EUR 72 395 600), however they have speedily grown from 9 employees and total assets of SEK 462 313 000 (EUR 48 562 300) in 2010. (Ekobanken, 2015a)

Motivation – Ekobanken draws its values around the ideals of anthroposophical development of society, not dissimilar from GLS, in arts, healthcare, and education. Money is regarded as a social medium primarily used for enhancing collaboration within society and thereby benefitting both society and the bank’s members. Savings and credit should be connected to the values mentioned above and the bank’s operations should be guided by mutual gains, both for the bank and society. (Ekobanken, 1996)

Furthermore, the bank has published a detailed sustainability policy¹⁰⁰, regarding all aspects of the triple-bottom-line. For example, projects are treated in reference to the added value they create for society, the environment, and the company. (Ekobanken, 2015c) The (local) focus on projects, creation of employment opportunities, and ethical guidelines¹⁰¹ is complemented by a specific incorporation of international principles. The bank refers to organisations¹⁰², such as the Equator Principles, the IFC Performance Standards or the UN Global Compact as the basis for detailed positive and negative criteria in regards to the business activities. Topics such as climate change, human rights, labour issues, corruption or transparency are treated alongside an exclusion list and an investment policy (details see below). (Ekobanken, 2015d)

Furthermore, Ekobanken is the Swedish representative institution for *Social Banking*¹⁰³, an international sustainable banking movement and is a member in both FEBEA and INAISE.

Innovative products – Similar to the GLS’s KDU, Ekobanken offers a support account (stödkonto), which does not return any interest but thus its equity can be forwarded by the bank to finance charitable projects and organisations. (Ekobanken, 2015b) In collaboration with Oikocredit (for details see subchapter 4.2.3), the bank offers a special savings account, which in turn finances development projects and microfinance projects. Collaboration stretches also to micro FIs in order to facilitate the diffusion of equity efficiently; the

⁹⁹ These additional votes are sold at a fluctuating rate set by the general assembly. Thus, the participation is subject to a “market course“ and democracy through monetary influence; this is unusual compared to other cases treated here.

¹⁰⁰ The sustainability policy further contains stipulations on the management of direct impacts of the bank, such as a travel policy, green procurement guidelines, etc. Owing to the scope this is not treated here specifically but should be mentioned for completeness.

¹⁰¹ They comprise topics, such as a grievance mechanism, reporting, disclosure obligations, and the general impact on society.

¹⁰² Other references posted are, among others, the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, the OECD Guidelines for Multinational Enterprises, the Rio Declaration, the UN Guiding Principles on Business & Human Rights or the WWF Gold Standard.

¹⁰³ Social Banking, though in values comparable to the GABV, is not a heavyweight industry association but more of a value-sharing society. This is embodied in the Institute for Social Banking, a club of 13 members from 11 EU countries. It offers research and educational training in the field. More details at <http://www.social-banking.org/>.

Oikocredit-managed credits reach 28 million lenders via 500 microcredit FIs¹⁰⁴. After the base rate for interest is designated by country-specific risk analysis, capital costs and inflation rates, the loan-taker can receive a discount on interest if the project is particularly effective in its ESG impact or is taken by a particularly underprivileged client. (Ekobanken, 2015e)

Interest rate discounts are provided for sustainable housing (if certified by Svanen¹⁰⁵), solar PV, and organic dairy farmers. The latter is a move to relieve low-price market pressure exerted by large-scale producers. (Personal communication with Kristoffer Lüthi, 2015-09-03)

Lending/project finance standards – In addition to the exclusion list (see below), which can be understood as providing the normative framework for the lending context, the bank has a freestanding position on loans, as well. In general, the bank advises and encourages its customers to adhere to reciprocal input/output values, meaning the preferred lending based on (as equal in value as possible) savings. Projects that are financed must adhere to the values prescribed by the bank. The basis for Ekobanken's project finance policy is a short but encompassing exclusion list, ruling out business areas connected to, for example, weapons¹⁰⁶, GMO usage and production, non-organic agriculture, fossil fuels, mining or businesses with a history of tax-evasion. On top of this list, the bank adds a flat provision for all companies invested in; adherence to the UN Global compact, the UNPRI, the ILO labour standards, the UN declaration of human rights, and the Rio declaration including UN anti-corruption guidelines is demanded. All investments are reported publically. (Ekobanken, 2015d) All projects and businesses lent to are published with name and their purpose to show the added ESG value created by their activities (see attachment 15). Crucially, Ekobanken does not loan money from other FIs to secure the loans, lent amounts have to be reciprocated by savings in full. (Ekobanken, 2015h)

The exclusion lists are primarily to define the positive opportunities for project finance. The projects/businesses are first screened for their congruence with the bank's ideals; the financial validation is a second priority. This raises credibility and is a crucial element in providing transparent communication. Also, the bank aims to “develop and help the client along the way”; trade-offs are the norm on the road to positive and constructive contribution to sustainable (societal) development, not the exception. (Personal communication with Kristoffer Lüthi, 2015-09-03)

Investment screening – Ekobanken does not deal in securities on behalf of its clients; lending and saving mark the backbone of the business.

In regards to inter-banking, on top of liquidity reserves held at the Swedish central bank, other Swedish banks, and in state bonds, any investment is arranged under the premise of a long-term focus on sustainable development. This includes accounts in other SFBs, green bonds, and ethical funds. Exempt from investment practice are derivatives (also actively prepared by the bank) and any investments that are speculative or go beyond a low risk¹⁰⁷. (Ekobanken, 2015g)

Factors valuable to success – Similar to other cases observed the general public outlook on the financial industry and the vagaries of speculative dealings that in part led to the GFC have helped Ekobanken on their way. The Swedish press has regularly produced opinion and

¹⁰⁴ Basically, the savings account is forwarded as a lump-sum loan to Oikocredit with a margin to create revenue for the bank. (Personal communication with Kristoffer Lüthi, 2015-09-03)

¹⁰⁵ The Nordic ecolabel undertakes the certification of green buildings/passive houses. Details at: <http://www.svanen.se/en/>

¹⁰⁶ The bank declares a blanket adherence to all international weapon conventions and policies.

¹⁰⁷ Financial risk analysis is conducted via financial rating data provided by agencies, such as *Moody's* or *Standard & Poor's*. In the case of direct investment a combined analysis of financial factors, ROI, and other factors is prepared.

debate articles on the subject and the bank's special role and advantage in these times has been acclaimed. (Laurén, 2015) (Roxvall, 2010) (Nordenskiöld, 2009) (Eklund, 2012) The bank's annual report provides the figures that support this development, seeing an extraordinary rise in key indicators, such as balance sheet total or savings and lending after the GFC in 2008 (see attachment 16). Since then the growth is accelerated; 2008 saw customer numbers rise by 34 % and there is a palpable shift towards interest in financial sustainability (Personal communication with Kristoffer Lüthi, 2015-09-03).

The bank lists 26 different collaboration partners, in the fields of solidarity, business development, financial cooperation, environment or international. (Ekobanken, 2014) According to Lüthi, cooperation is vital for small bank, both in the face of growing regulation as well as in exchange of methods and ideas. Particularly the GABV acts as an important lobbyist for the needs of small sustainable banks at the EU. (Personal communication, 2015-09-03)

Transparency in regards to the bank's dealings and internal works (e.g. disclosure of income of all employees) is another pillar of success, adding to trustworthiness and drawing in customers. (Personal communication with Kristoffer Lüthi, 2015-09-03)

Factors impeding success – The primary issue faced by a small bank, such as Ekobanken, is the “tsunami of regulations” (Personal communication with Kristoffer Lüthi, 2015-09-03) that has to be dealt with. The Basel III rules and national rules for money laundering or rules updated by the Single Euro Payments Area (SEPA) are designed for much larger banks, particularly GISFIs. Not endowed with the internal capacity of financial leviathans, small banks have to divert resources to cope, lacking consequently in other areas. The low interest rates are another problem, as Ekobanken primarily relies on interest margins to create revenue. (Personal communication with Kristoffer Lüthi, 2015-09-03)

Aspects & Impacts - mechanisms and effects – Overall, social inclusion is a major driver for the bank's portfolio, expressed in contributing (lending) to social cooperatives or inclusion-oriented businesses. The bank meets the people they deal with directly, and in aiming for small scale producers that are outside of the large certification schemes, often microcredits are the only way to get started with their business. Ekobanken has no minimum limit for loans, and therefore is able to provide such grass-root development. Since this is eventually¹⁰⁸ based on a case to case decision and afterwards published, adding value to sustainability is also achieved by fostering the overall sustainability discussion. Often negative feedback from extreme points of views has to be dealt with and the learning process is a feedback loop perceived as something positive. (Personal communication with Kristoffer Lüthi, 2015-09-03)

¹⁰⁸ First the projects need to pass the positive decision criteria.

5 Analysis

In this chapter the most relevant findings are critically analysed and possible business scenarios are discussed. Therefore, to some extent, some minor speculative elements on how to technically integrate some of the identified norms and methods are added. This is put forward as another level of contemplation adding relevance to the findings. This caveat particularly applies to the added public value and transfer mechanisms.

Also contained are some reflections on the workshop and discussions with Sparbanken Syd, which, in their own way, helped ground the findings in the realities of business reorientation towards a sustainable banking service.

The analysis is laid out along the entities (international organisations, businesses, banks) examined; every paragraph begins with an entity and a list of themes (in italics) that are discussed in relation to and in combination with that entity. Contextual parallels and clarity in structure are the reasons for providing this layout.

SRI

GIM, investment leverage, portfolio diversification and research – The fact that 20 % of GIM's investors are very wealthy individuals can be seen in the light of opportunities in marketing SRI investment and creating both considerable financial leverage as well as some (direly needed) equity distribution. There is a chance in attracting such clients by tailoring the investment portfolios to their needs, which often are long-term oriented and conservative in risk tolerance. However, it is not always easy to reach out to those individuals¹⁰⁹ and at the same time small scale investors are locked out from the scheme.

Another important aspect of future-oriented sustainability investment is the long-term focus. Accepting certain trade-offs between the environment and/or society are part of the decision-process as the ABB India challenge shows. The longer perspective, which is rarely of interest in speculative investment, dictates a prudent incorporation of the overall client capacity, the ability of a company to positively shape the future (i.e. in line with sustainable development ideals). Focusing on smaller enterprises and diversifying the portfolio not only helps with distributing the risk of thematic investment¹¹⁰ but also alleviates the effects of single project trade-offs that might be inevitable¹¹¹. To base the investment decision on a company's capacity is only possible with in-depth research and prognostication of future risks and opportunities. Thus, GIM digs deep into the businesses it invests in to come to reliable conclusions and extrapolations.

GES, norm-transfer through engagement – In the example of GES, particularities of an investment screening firm become apparent. Interestingly, the company has combined a purely financial analysis aspect with a normative, educational approach regarding their target companies' policies and actions, which also influences client behaviour. Although the business model is officially run along the financial analysis theme to grant it the credibility to compete in this market, they provide a considerable amount of free consultancy at the same time. As many of the employees come from the NGO sector this is a deliberate and conscious move to proactively engage in change. However, and owed to the employee structure, it is a thin line to walk between consultancy and activism: on one hand the client's needs and on the other hand

¹⁰⁹ Often investment analysts do not inform clients on SRI strategies and opportunities sufficiently (Paetzold & Busch, 2014).

¹¹⁰ Which means risking to bind the majority of the capital to a possibly overvalued sector.

¹¹¹ It should be noted that generalisability might be limited due to their relatively low market percentage but high capacity. However, the fundamental principles and insights gained should be transferable.

a moral principle-approach to guide the analysed companies to better performance in the future.¹¹² Cultural differences play a definite limitation in this approach as ESG factors usually do not play a leading role in business design in emerging markets (e.g. India or China). Only if international customers are pursued and a clear competitive advantage is gained do the companies take these into consideration. After all, the private customer-oriented business case cannot always be made in regards to short-term pay-offs, or indeed any financial return at all; the demand in the business-to-business (B2B) context is therefore much more decisive for incorporating ESG values. However, the add value for society stands apart from this as benefit beyond business and legal demands. This exemplifies a CSR benefit as discussed in chapter 2.

What also has become apparent is the need to maintain extensive and well-structured databases feeding into the decision-making process of any company dealing with screening, such as Triodos or Oikocredit. This is expensive but crucial in maintaining an on-going review of social and environmental company performance and, if this is the chosen approach, engagement and collaboration.

UNPRI, market influence – Should engagement be the chosen path of influencing the activities of clients, the UNPRI's clearinghouse is an instrument for applying pressure. Investors can circumvent the proxy engagement of screening companies and directly collaborate with each other on issue resolution. They are the major group actively using the mechanism (53 %), which at least in part reflects the willingness of the investing side to influence clients, institutional actors (e.g. lobbying for regulations stipulating mandatory ESG reporting), and each other. This could help enlarge their market and thus their ability to diversify their portfolio but could also draw in conventional investors as the portfolios gains financial weight and extended sectoral scope. Through expanding the market and the interest in it, investors should see a positive financial feedback into their operations, notwithstanding the level of immaterial values added.

IFC, standards and caveats – The IFC standards sometimes use very broad phrasing and are open to interpretation, including phrases such as “where applicable” or “reasonable working conditions”. This, could be argued, waters down the de facto stringent character of a standard. If a company can, to the extent it can motivate this, chose what is applicable or reasonable, then a standard becomes a recommendation.

Another maceration of the authoritative character occurs in the context of human displacement. In Standard 6, § 5, a caveat excludes voluntary transaction, which could possibly be misused to circumvent any application of this Standard. If the price offered was high enough for the (economically hard-pressed) seller, he would have no de-facto choice other than acceptance. In other words, if a company would deliberately buy out the local residents it would not have to care about any backlash from improper handling of displacement standards. Officially, the seller would have accepted out of (seemingly) free will and the company could proceed with “clean” project in which no compulsory resettlement had occurred.

In other parts yet, the standards focus sternly on technical aspects: Demand on large projects for integrating off-site CO₂ emissions enables the energy-system correlation of a project and visualizes otherwise hidden polluters. This might result in changed investor demands, for example the usage of renewable energy in projects or additional offset of system emissions, and could lead to accompanying effects through the system connected to a project.

Overall, an internationally applicable standard has no choice other than to resort to some

¹¹² The delineation of activism and advocacy as defined by Sparkes (see chapter 2.1) is much more blurred in reality as individual convictions and ideals play a larger role in the style of consulting.

ambiguity in order to deliver a flexible tool for implementing ESG norms. Moreover, the mandate for orienting actions in line with GIIP (and stringent international conventions) provides a practical boundary for what can be interpreted into flexible semiology.

Standard integration and institutionalisation – The relatively recent trend to incorporate these standards into hard law and official engagement plans is an important development for complete integration into general business practice. Legislative uptake can be interpreted not only as the ultimate endorsement of SRI practices and ideals but also as a procedural trend towards tougher enforcement of rules as engagements with clients are sought by investors and financial intermediaries who have understood the importance of their active involvement. More and more managers acknowledge the risk of backlashes on the client side in case announcements about the integration of ESG norms into business practices are not followed up on.. In combination with the integration of the IFC standards into international law a practically binding nature for signatories can be distinguished.

Business tools and sustainability performance comparison – The UNEP-FI is comprised to over 60 % of banks that act in a global, diverse network to develop concrete tools, and drive proactive ESG integration. Eventually though, they still dependent on the legislative setting and the portfolio is within the limitations of institutional investment interest. The challenge is to rally the private investor market around the topic. As established in chapter 1 (Mathews, 2013) and subchapter 3.3 (Paetzold & Busch, 2014), the diffusion of sustainable investments models into the private sector is a crucial step in the overall transformation of the financial industry.

GABV, SRI manifested in banking – Working at this diffusion, the GABV has built its value- and procedure-principles on the world of international SRI concepts, such as transparency, collaboration or comparability, and linked it to locally-rooted banking operations. They pertain to any kind of scale and thus apply regardless of the context and size of the bank. To fund SFBs, GABV started the open-ended, private-money backed SFRE fund, which is the first of its kind, and provides dispersion of equity to sustainability-oriented FIs. In itself it is an investment vehicle and combines redistribution of equity with a chance to invest in ethically-sound targets. Should the fund-raising target of EUR 1 billion be reached, there is potential to push the sustainable banking industry into the main stream market; one could see it as something of a privately organised, but publically funded subsidy. This also needs to be understood from the perspective of market potential identified earlier in this thesis; a growing number of people are interested in sustainable finance and banking products and any SFB pushing into the market should tap into this supply.

Sustainable Banking

Merkur, regulatory pressure, competitive advantage, and collaboration - As the Basel banking regulations can be problematic for small banks with insufficient resources to determine their individual credit risk assessment, the capital requirements unto banks, particularly after the GFC, can be a challenging issue. Considering the customers in the sustainable banking area, often small and medium types of business and private individuals with lower capital input into the bank, smaller banks have to resort to softening their own rules and guidelines in order to attract new customers. Moreover, the system is designed to control Systemically Important Financial Institutions (SIFI), yet can contribute to exacerbate problems with systemic failures of financial security systems and adverse systemic shocks as seen during the GFC. Although SFBs have high loan-to-total-asset ratios, they are hard-pressed to cope with many regulations

because they are often small and medium-sized companies with limited resources.¹¹³ The (need for) collaboration with other SFBs (e.g. through GABV) in procedural questions, marketing efforts and lobbying activities becomes therefore even more pronounced. Moreover, in the preparation of ESG-conform products, collaboration plays yet another pivotal role, as specialists, such as Triodos' fund screening, safeguard the products against being meaningless marketing vessels. Although the operational screening processes are removed from the bank's immediate control, the gains come in the forms of freed resources and professional handling of product preparation, and thereby integrity and internal operational capacity is increased.

The matter of gaining a competitive advantage through a specialized green portfolio and green methods is apparent in the Merkur case. Although the fixed prices and high reliance on collaterals is, in principle, a deterrent for customers interested in financial flexibility and low process, an overall advantage is gained from offering non-negotiable and deeply integrated values in the first place. As Klarbaek puts it, the type of customer interested in a SFB would look for this high level of integrity and by offering it the bank stands out from its competitors (Personal Communication Jan Klarbaek, 2015-07-22). The immovability on values is an effective tool in carving out the sustainability banking market niche.

At the same time, the trade-offs encountered through case examination limit the bank in its steadfast adherence to values. Yet, this adds to integrity as it allows the bank to actively shape actions within its business network and market as well as perceptions of (financial) sustainability beyond it. This and the triple positive impact of products like the CO₂ savings account are examples of value-creation beyond the bank's direct interests.

JAK, (success and limitations of the principled) normative approach – this case proves an example of how to not only integrate ethical values but run the whole business according to (comparatively extreme) rock-hard principles. The non-profit model makes it a singular case but adds value in showing that an organization can exist, and even grow without subscribing to traditional interest-based economic principles per se. The least that can be said is that if a regular business model replaced the cooperative, reciprocal, non-profit system, the JAK model would not be translatable and would not survive. However, some of the values could be integrated into a special section of offerings by a regular bank, in which customers could (on a non-profit basis) provide each other with loans of the JAK type. Indeed, this is offered by both GLS and Ekobanken, which proves there is interest in it and that it does add to public value regardless of the level of interest. Therefore, this could be a profitable addition to a regular SFB's portfolio, in line with the immaterial values unlocked by CSR activities.

JAK's focus on private customers¹¹⁴ is a double-edged sword in the struggle for ethical finance. On one hand, the bank does not meddle in large companies and is thus detached from their potentially negative impacts on the environment or social community. This lowers their *footprint* and future risks considerably compared with large scale, complex project ventures. On the other hand, the JAK bank has no control mechanism for the granted private loans, and, also due to the (perceived) lack of need for them, existing safeguards and exclusion norms are not employed extensively and systematically. Furthermore, the bank loses most of its ability to influence the development in the region actively as it excludes large parts of the economic interactions based on its ideals. This can be contrasted to the above-mentioned Merkur case, in which internal values and interaction with the value-deviating realities are brought together in compromise – the end seems to justify the means to some extent.

¹¹³ The same pressures apply though to regular small and medium-sized banks, as has transpired in the communication with Sparbanken Syd. Yet, SFBs cater to a niche only, which makes them even more vulnerable to regulatory demands.

¹¹⁴ Most loans are granted to private customers or sole-trader companies, who exhibit, in essence, the characteristics of a private loan taker.

GLS, value-grounds, transparency, interest-rate market issues, public-private interaction for value creation and delivery – As the GLS philosophy is rooted in cooperative labour thoughts and social philosophy, the case for sustainable banking is relatively easily made – the customer is, particularly in this region, already accustomed to the basic concepts of group interdependence (e.g. labour unions and fights for labour rights) and long-term focus on social values. This linking allows the bank to build its business principles on already understood and internalized concepts; the contemporary arguments for sustainable banking fuse easily with the anthroposophical ideals and socio-cultural background. At the same time, international standards for reporting and international principles in lending and investments, in addition to cooperation with external professionals, are setting the global focus and ambitions for an internationally recognized and comparable sustainable banking business.

Transparency is a value that is expressed both in the bank's own financing (interbanking) as well as in detailed external reporting. Disclosure of all lending and investment standards, financed projects, and internal figures, such as the leading management's salaries, etc. contributes to provide a palpable manifestation of truthfulness and reliability sought after by customers. Noteworthy in connection with the exclusion of businesses is an easily overlooked side note in the negative checklist of the bank's lending and investment practice policy. In the case of large scale environmentally-damaging projects, such as dams or mines, collaboration is debarred not only with the project handlers (clients) and their suppliers but also with the financiers behind the operation. As large scale projects often rely on a number of different investors and lenders, the bank takes a stand against its own branch. This, in light of the framework, has to be understood as a significant degree in engagement. Particularly keeping in mind the interrelations between banks, the possible alienation of future business partners for the upkeep of ethical principles needs to be a well-judged move, weighed against possible competitive gains through raising and sustaining integrity.

The installation of the KDU as a means to enable basically interest-free money apportionment within the society is an interesting move; however, on the whole it is a marginal contribution to the bank's lending product portfolio. What's more, the fact that in the last years the ECB has held the interest base rate minimal, or even negative, in order to kick-start the economy has meant a drop in significance for this offer. If a charitable company can get a "regular" loan for low interest from any other bank, the competitive advantage in binding customers to the GLS via this ethical loan product might diminish.

The public-private partnership in the micro-financing scheme targets the local/regional German market for sustainable projects and businesses to a considerable extent and effect. As it is backed up by federal loan-securities from the ministry of labour and social affairs, both financial security for the bank and concrete integrity are raised enormously; the private bank's micro-finance system becomes a delivery mechanism for public development money.

Ekobanken, public value through market niche creation, values keystone of SFB - The bank is portrayed in the media often in parallel with the JAK bank, despite having a different business model. In terms of growth and managed assets both banks have had some success. However Ekobanken offers a much wider service product portfolio and a much deeper integration of ESG principles into its business routine. It could be argued that the JAK bank has attempted to breach the traditional boundaries of interest-based financing, and to the surprise of the competition, has attracted a substantial member-base. Yet, it lacks even the most basic negative and positive ESG factor integration as well as banking products that translate these values into palpable experiences for the saver and lender. Ekobanken has managed to establish this link through collaboration with Oikocredit and grass-roots sustainable project financing with no lower loan limit. Although this brings about added administration expenses, it simultaneously opens up a market segment hitherto untapped.

For this segment, yet again, the principled values are at the centre of the business; for example, first, the impact of a project or loan target is assessed and then financial factors

come into play. Transparency (reporting, online presentation, client disclosure, etc.) and credibility (unwavering value-adherence against internal and external forces, active added value distribution in society) are no optional by-products in this niche; they are actively created and expanded by the bank and are decisive criteria for a customer to choose the bank. Thus, the way a SFB expresses and adheres to its own as well internationally associated values determines the credibility and, according to CSR theory, possibly success of the whole business.

Sparbanken Syd and the grounding in reality - Overall, the banking cases analysed exemplify how the SRI-derived principles of transparency, communication, engagement, and integrity are linked with sustainable banks. The principles once incorporated into a business are stepping-stones for a triple-bottom-line business strategy. In order to facilitate business transformation, the essentials are increasingly transferred into concrete management tools (e.g. GABV scorecard) and collaborative platforms (e.g. UNPRI clearinghouse). Correspondingly, as the workshop with the Sparbanken Syd Green Team and the head of the product department has revealed, it is primarily the tools that are needed to initiate a business change in their context. To foster understanding of implementation processes in the various management circles within a bank, such as sustainability personal or, crucially, the leading management, tools are necessary guides in creating a starting point of transformation. (Personal communication, 2015-08-31)

Furthermore, the bank, limited in its structure and resources, perceives the vast choice of possible changes as a daunting task. Though the will to change is ever present, the process of integrating ESG considerations, such as screening lists or creating green investment portfolios, takes up a lot of resources and time. Furthermore, the integration of sustainability as an integral value in the mind-set of staff, used as a pillar for decision-making (alongside financial and regulatory rationales), is another hurdle on the path. The priorities at this point (have to) lie with adapting to constantly changing regulations; this is much the same reasoning as with other banks interviewed.

In addition, the exact level of participation of the top management is not yet entirely clear. As Reimann-Ehle put it, “the ownership of the matter of sustainability needs to be clear within the leadership”; although the implementation needs to happen step-by-step, the impetus needs to originate from the top. (Personal communication, 2015-08-31)

6 Discussion

This chapter provides the reader with a discussion of (some) findings under the lens of the theoretical background (see chapters 2.1, 2.2) in what accordingly could be termed their *common ground in reality*.

Griff and Lyon have spoken in favour of CSR efforts and their resultant effect in terms of public good provision (i.e. welfare) as well as financial returns. In regards to the performance of SRI products and funds: the idea is that this type of investor would find the expression of their charitable intents as well as their demand on ROIs within such funds/shares. The aggregation of these investors would be the reaction of a well-fitting product for this niche (i.e. SRI businesses). As the SRI case studies have shown a defined market exists with rather demanding investor types reacting to the ESG integrity of the offers made. This is reciprocated by a dedicated industry for screening and cataloguing companies traded on that market.

The international scene has yielded a number of principles and methods that are necessary building blocks of both SRI and ESG-integrated businesses: credibility, transparency, collaboration, and international comparability play major roles in staking the claim for a successful triple-bottom-line business. However, as the reality shows, many banks have limited abilities to incorporate those lofty ideals and extensive checklists into their daily business routines. The shortage of financial and human resources as well as imperfect information from clients limit the one-to-one realization of methods, management practices, and implementation of loan and investment screens.

The public goods literature has not played an overarching role in the design or analysis of this thesis. It would add too much complexity to the literature basis and discussion; and, in light of this complexity, is better addressed in stand-alone research in the future. However, the additional level of analysis is meant to add value for the audience (particularly banks) when deliberating on why and how to allocate resources for CSR-oriented business activities. Beyond the public good provision mechanisms and impacts treated in the findings and analysed in chapter 5, there are more aspects seen in light of the theoretical background.

SRI or investment analysis companies that actively conduct their business according to the sustainable development paradigm automatically spend some of their resources and time on advising clients and/or furthering discussion and research about the topics they are involved in. As both the GIM investment management and the GES investment screening cases show, considerable parts of the activities are spent on public advocacy. This, however, should not be confused with pure philanthropy, as it is an essential by-product of advisory and engagement functions of these companies; the networking and trust-building processes inherently contain a certain level of free advice. This, in turn, has effects on the market, as it creates more demand; it is an active shaping of the interest in and discussion of the general topic and specific products offered. Simultaneously, well-informed, professional interaction should grant a higher level of legitimacy in preparing information and in steering discussion and planning of projects. Ultimately, the same applies to SFBs in their functions as financial consultant (lending and credit planning), project-explorer (exclusion and engagement), and institution of public interest (norm-setting through products). In such fashion, a SFB has the potential to produce public value unrelated to direct financial payoffs but justified by the added immaterial value also gained by the bank. This is an embodiment of a win-win scenario and shows how a triple-bottom-line business can deliver value for all actors involved.

Despite the attainable values, accepting trade-offs dependent on the client's ESG performance and abilities are important. No absolute standard exists and case-to-case decisions are the reality. After all, it is a business and one cannot be too picky with project partners. A comparatively mediocre difference is still a difference and better than if nothing at all had been done. Moreover, there is prospect of future improvements, through an actively working business (helped by the loan) and/or stringent follow-up demands by the financier. Companies on the other hand need to nurture these values and act carefully so as not to squander positive (material or immaterial) pay-offs derived from them.

Also, as exemplified in the collaboration network spanning from Merkur to Triodos to Sustainalytics, many principles identified in chapter 3, such as transparency, collaboration, and credibility, are finding their way into everyday banking solutions and products, at least indirectly. What can be seen in almost every single of the here examined cases of banks that aim at a green portfolio, are trade-offs between long-term SRI effectiveness and the immediate principles. In most cases, screening and consequent exclusion of problematic clients is done with the use of thresholds, usually 5 to 10 % of the company's turnover. However, this means there is a de-facto acceptance of wrong-doing and from a strict moral point of view, this may not be good enough. When, conversely, a company attempts to keep the portfolio clean, in the sense of a complete avoidance of difficult areas and clients (i.e. passive SRI), there is no engagement with the client, and the share price will return to merely reflect financial indicators and performance as Sparkes and Cowton (2004) have warned against. Hence, there is no inspiration or pressure, and no transfer of CSR values, and the attaining of higher levels of sustainable development through integrative strategies is (partially) missed.

As described in the theoretical background section, it is not empirically proven that higher corporate social performance (CSP) leads to higher financial performance (FP). The *social impact hypothesis*, however, finds some correspondence in this study's subjects. Extrapolated unto the world of SRI and sustainable banking, it could be argued that in many of the studied cases CSP is in fact the core business. Then, logic would allow for a lag-lead connection that finds expression in the raised company profiles and profits based on their distinct CSP. In other words, if a "conventional" company allocates resources to discretionary CSR projects, the reciprocal effects might not be measurable. In contrast, in a company whose business model, entire reputation and connected customer base builds on the CSP (such as an ethical bank or a sustainable investment company), the link between it and financial performance goes beyond a *slack resource* or (perhaps incidental) *synergy* effect. The cases studied presuppose an element of (non-owner) stakeholder care and a focus on reputation and best-in-class exemplary CSP; one would be hard-pressed to repudiate the significance of the social impact hypothesis in this context.

The *virtuous cycle*, meanwhile, with its connotations regarding the institutionalization of ESG principles in a company, can be appreciated in relation to implementing a new business direction within a company. As this thesis originated in Sparbanken Syd's desire to reshuffle focus, there is an element of importance for their plans in the co-evolution of CSP and FP as regarded by Waddock and Graves (1997). In fact, the growing internal interest has already led to major planning and discussions, and small changes, such as the establishment of a dedicated Green Team, alignment of direct impacts with environmental goals, and, the writing of this thesis. This author can perceive a positive change in the perception and (planned) integration of ESG values at the bank within the 10 months of collaboration; however speculative concerning the eventual outcome, this dynamic certainly deserves mentioning in light of the theory.

The world of SRI as described by Sparkes is in line with the definitions and principles discussed in this thesis. One part in particular, deserves attention. While Sparkes admits that ethical banking (what is understood here as sustainable banking) entails a deliberate acceptance of lower ROI by the savers, SRI in fact demands a market-even (i.e. like-for-like or better than orthodox investment) performance of financial returns. (Sparkes, 2008) In the light of what transpired during the research, this holds only partially true. Admittedly, there are a number of schemes that ask a certain philanthropic sacrifice of financial ROI (e.g. the GLS cost coverage apportionment or the JAK non-interest approach), and historically the essence of ethical investment is based on low or no interest gains. However, there are many schemes within the setting of sustainable banking that aim to provide the client with a market-even (or better) ROI and simultaneously create value beyond the pecuniary remuneration (e.g. GIM investment funds, GLS microfinance projects or some of the Triodos-screened development funds). This difference in perception could merely be attributed to slightly different outlooks of Sparkes and this author, but almost certainly, the time that has passed since Sparkes wrote his contribution to research, including a global financial disaster, has altered the realities in favour of SRI proponents. Simply put, over time the market has grown and adapted and now performs much better with a higher variety of sophisticated products offered.

In light of this and keeping in mind the growth rates of sustainable banks as well as the results of the GABV research on the good performance of SFBs during the GFC, it could be said that good financial performance in regards to sustainable banking does not necessarily mean higher returns per se, in comparison to regular banks. Rather the stability of returns expressed in the lower volatility standing opposite the inherent unpredictability of speculative dealings drives customers to sustainable banks (and SRI funds). This theme has resurfaced throughout the research process, regardless of the context being SRI or sustainable banking.

In the world of today, two major drivers for this business concept originate from the customer side; they appear to have a longing for security and dependability, linked with a (more or less pronounced) wish to contribute to the greater good. This in turn, is provided in the elements of SRI screened products and sustainable banking activities.

It could be argued that banks might then be somewhat superfluous for the demands of ESG-interested customers; after all directly investing in an ESG-integrated fund is just as possible while cutting out the intermediary and extra fees. Yet, banks do offer much more than just investment. Their lending standards and their effect on (local) dissemination of the wider discussion, as well as their direct normative influence on projects (as opposed to, for example, financing a fund that indirectly finances companies that in turn outsource development projects, etc.) reverberates throughout their immediate community and possibly even further.

7 Conclusions

This chapter provides the conclusions drawn from the study. Coming full circle the conclusions are arranged along the research questions, starting with the last one. This should aid in understanding the findings, particularly with attention to any prospected business transition towards a sustainable bank. The closing comments on the general theoretical and business aspects of CSR are weaved into it to provide a holistic overall picture. In the end, a paragraph proposes focal points for future research, based on what has not been or could not be treated in this thesis.

In which ways do international principles and working standards for sustainable investment influence sustainable banking on a local level?

International ESG principles and investment guidelines are in a process of definitive and substantial institutionalization. Growing in number, sophistication, acceptance, and, consequently in effect, SRI at large has established itself as a serious normative and practical framework for investment strategies. Risk avoidance, both in respect to crisis resilience, directly project-related issues and costs, as well as indirect reputational effects are, quite possibly, the major reasons for companies to engage. Not discounted should be ethical reasons and beliefs that a business has responsibilities and simply must do good to be apt for and functioning in society. The triple-bottom-line is therefore seen as a reciprocally beneficial concept, what is good for the environment/society is ultimately good for the business. These benefits, if they are extracted and employed in the right tactical approach (marketing, brand building, customer acquisition), might add up and profit the business which created them. Overall, the existence, and rapid growth, of the SRI market aligns with an evolution and diversification of standards, as well as their mounting adaption by clients and investors alike. Tailor-made SRI-funds cater to a demanding investor type and can financially perform at least on the same level as comparable conventional (i.e. non-screened) funds. They offer a niche to this type of charity-oriented but nonetheless ROI-interested investor; in such they could be said to reflect the basic CSR effect of competitive advantage and raised financial return on a meta-level.

There is a growing market for sustainable banking that appears to be infused by international SRI principles of stability, integrity, and long-term reliance on a bank. Not a blindly revenue-maximising but a steady, stable triple-bottom-line business is both an answer to that demand as well as the basis for proliferation of ESG-driven ideals and enlarging of the same market.

Furthermore, an increasing legalisation of ESG standards and adoption within decision-making frameworks, particularly within large scale FIs filter down to the interconnected smaller banks and other financial intermediaries; they in turn influence their local communities with their products and services. This finds concrete expression in the development of business tools (GABV), interest associations (UNPRI clearinghouse, FEBEA, EUROSIF), the overall speedy growth and large potential for SFBs, and in the market itself (sustainable indexes, growth rates of ESG-screened investments).

Concretely, this means a local bank needs to orient its portfolio in alignment with international guidelines, methods, and principles. Business tools should be adopted (and adapted to the local context) and the joining of industry associations would grant knowledge exchange and leverage in lobbying.

What characterizes green investments, loans, and specialized products in the context of sustainable banking?

Some products offered (KDU, social inclusion, SME start-up development or green energy

loans) are dependent on a comparatively low or even non-profit interest rate. This presupposes savers willing to invest with no return, respectively national or regional financial support schemes (loan securities) in order to finance those projects through loans and credits. However, these schemes are but a small contribution to a well-developed, diversified SFB portfolio. The majority of sustainable banking products are comparable in return and mechanism to regular loans and credits, differing mostly in the ethical framing structures (exclusion lists, positive choosing of best-in-class). They are however secured through reciprocal savings rather than speculative transactions by the bank to add to overall sustainable, stable development. Investments show linkages to SRI, insofar as they are picked after stringent (and often outsourced) screening processes and possibly financial analysis (GIM, Ekobanken) that includes proactive risk-assessment and extrapolation of the investment target's future performance.

Public good provision in the context of sustainable banking has three aspects: it is a side-effect of the bank's norms and expertise flowing into the business transactions (project shaping from the start, choice of projects). Public goods are also a target for any sustainably-oriented entity, as they are the expression of the triple-bottom-line; in the form of social and environmental pay-offs. Consequently, they become an extra motivator - beyond the competitive advantage - for the development and offer of sustainable products (i.e. public good delivery mechanisms). For a local bank starting business reorientation with a *blank sheet*, such as Sparbanken Syd, this calls for identification of possible areas for public value addition in its immediate surrounding and the incorporation of stringent identification mechanisms, such as positive and negative checklists or ethical guidelines deeply into their operations.

How can small and medium-sized banks integrate environmental and social governance (ESG) determinants into their operations and be successful as a triple-bottom-line business?

Banks may need, to some extent, regular (i.e. non-sustainable) clients in order to survive the market and increasingly stringent regulations; although, this highly depends on the market and the governmental regulations governing it. What is of definitive importance is a sustainable bank's immediate focus on the local clients and the development of an understanding of their value-drivers and individual business or private financing goals.

Attempts to monetize on ethical values by offering, for example, loans at lower interest rates for projects in line with the banks ESG factors, are subject to the market forces. A low interest rate can level the playing field for low-cost differentiation and rob such products of their market advantage and appeal to customer. Equally, legislative pressure forces small banks to redirect scarce resources in order to be able to comply. Therefore, the choices of where to start with a business transition, whom to involve, and what not to attempt needs to be based on a sound and thoroughly delineated business strategy.

At any rate, networking and collaboration with expert companies (particularly in SRI screening and controlling for client performance) and other SFBs is a necessity for small and medium banks. This adds credibility, efficiency, and effectiveness to the processes and aids in overcoming regulatory and knowledge hurdles; it also delivers sustainability-themed products to the customer that can perform at last in equal measure as conventional ones.

At the same time, compromises, which see the SFB deviate from the international ideals and norms, are the reality for small and medium SFBs. They occur first in the practical adoption and implementation of principles, structural/managerial adjustment of the bank's workforce, and operational practices, as financial and human resources limit practical implementation. Secondly, to be able to remain an influence on local business realities, compromises regarding the sustainability performance, i.e. the quality of projects financed, are typical. Principally excluding everyone with an insufficient track record would leave the bank stranded with very

few partners and customers. In accepting an imperfect reality, the bank remains in the position to influence projects from the start of their development and such adds value for all stakeholders, resulting in a triple-bottom-line business outcome.

Of highest import however, is the adherence to self-imposed values. Credibility forms an essential part of integrity, which is sought after by customers in SFBs. If ESG values are not integral part of the bank's business DNA, a main pillar of decision-making, and equally supported and championed by top management, integrity is compromised. The competitive advantage is at risk due to reputational backlash caused by external attentiveness (investigative journalism, questions by customers and competition, audits) and the effect on sustainable development is diminished. It might even be reversed if trust in one bank is lost, the general believe in SFBs might falter.

This last note serves as a warning for those who attempt to half-heartedly take on board some minor ESG evaluations and then resort to call it a sustainable banking business – in all likelihood this will not suffice to establish a long-term prosperous trade.

However, this last note can also be understood in its reversed sense; if the values are integrated holistically and operations are aligned alongside them, a SFB can add value to its community, positively contribute to sustainable development, and, quite naturally for a bank, make money while doing so.

For future research, the topic of added, immaterial value differentiation and assessment should be of pronounced interest as it is the next great unknown in the CSR literature. This particularly pertains to value feeding back into the company as reputational gains in form of actual customers and higher revenue but also to added community value. Possibly this could be done through examples of sustainable banks or SRI finance practices, linking to the added public value discussion that has been part of this study. The interlinkages between SFB or SRI procedural approaches, particularly active engagement of stakeholders, and the consequent creation of value adding to sustainable development could provide the empirical focus for said assessment of immaterial values. Reoccurring pathways and patterns are to be discovered, one would assume.

More concretely, the regional and quite possibly the national differing political, social, and legal backgrounds are certainly in need of investigative endeavours. How such structures and their inherent constraining and facilitating aspects further or hinder the implementation of sustainable banking should provide valuable insights for businesses and policy-makers alike. After all, the institutionalisation processes on international levels (e.g. EU regulations) play important roles in this context, particularly with an eye on the growing legalisation of SRI guidelines and banking sector regulations. Their interaction with the local/national level context would add another layer of analysis and result.

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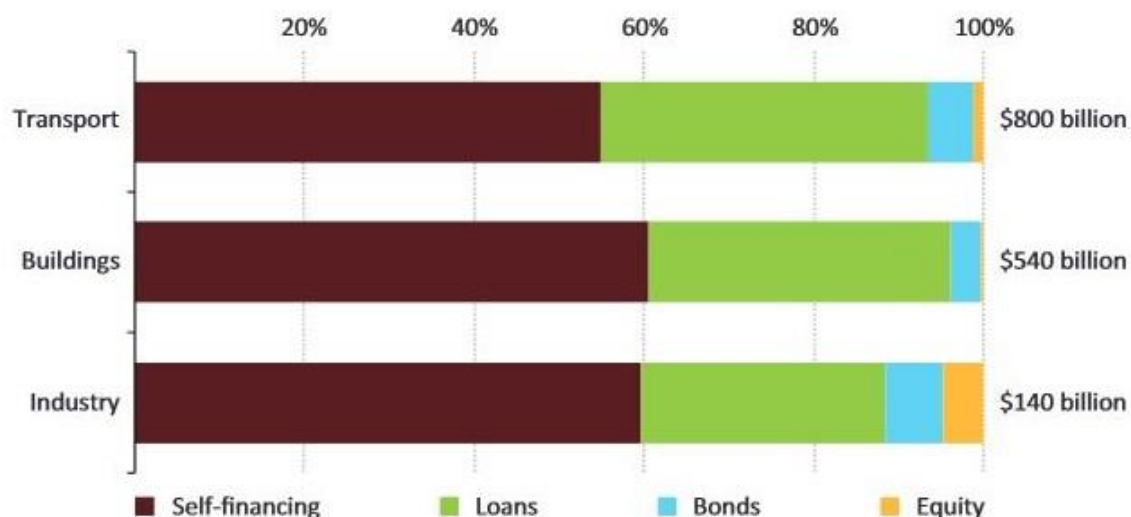
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Appendix

Attachment 1

IEA: Estimated investment by sector and investment source for the new policies scenario 2014-2020. This scenario assumes that financing needs will be met. Source: (IEA, 2014, p. 154)



Attachment 2

Examples of SRI regulations pertaining to institutional initiatives and integration of legal SRI screening or reporting in Western countries.

Source: (Renneboog et al., 2008)

SRI regulations

Country	SRI related regulations
Australia	In a 2001 bill it is stated that all investment firms' product disclosure statements should include a description of "the extent to which labor standards or environmental, social or ethical considerations are taken into account". Since 2001, all listed companies on the Australian Stock Exchange are required to make an annual social responsibility report
Belgium	In 2001, Belgium passed the 'Vandebroucke' law, which requires pension funds to report the degree to which their investments take into account social, ethical and environmental aspects
France	In May 2001, the legislation "New Economic Regulations" came into force requiring listed companies to publish social and environmental information in their annual reports Since February 2001 managers of the Employee Savings Plans are required to consider social, environmental or ethical considerations when buying and selling shares
Germany	Since 1991, the Renewable Energy Act gives a tax advantage to closed-end funds to invest in wind energy Since January 2002, certified private pension schemes and occupational pension schemes 'must inform the members in writing, whether and in what form ethical, social, or ecological aspects are taken into consideration when investing the paid-in contributions'
Italy	Since September 2004 pension funds are required to disclose non-financial factors (including social, environmental and ethical factors) influencing their investment decisions
Netherlands	In 1995, the Dutch Tax Office introduced a 'Green Savings and Investment Plan', which applies a tax deduction for green investments, such as wind and solar energy, and organic farming
Sweden	Since January 2002, Swedish national pension funds are obliged to incorporate environmental and ethical aspects in their investment policies
UK	In July 2000, the Amendment to 1995 Pensions Act came into force, requiring trustees of occupational pension funds in the UK to disclose in the Statement of Investment Principles "the extent (if at all) to which social, environmental and ethical considerations are taken into account in the selection, retention and realization of investments" The Trustee Act 2000 came into force in February 2001. Charity trustees must ensure that investments are suitable to a charity's stated aims, including applying ethical considerations to investments In 2002, The Cabinet Office in the UK published the Review of Charity Law in 2002, which proposed that all charities with an annual income of over £1 m should report on the extent to which social, environmental and ethical issues are taken into account in their investment policy. The Home Office accepted these recommendations in 2003 The Association of British Insurers (ABI) published a disclosure guideline in 2001, asking listed companies to report on material social, environmental and ethical risks relevant to their business activities
US	Section 406 of the Sarbanes-Oxley Act, which came into effect in July 2002, requires companies to disclose a written code of ethics adopted by their CEO, chief financial officer and chief accountant

Attachment 3

Examples of sustainable banking initiatives/steps undertaken in banks. Some are competitors to Sparbanken Syd. Source: Hörnlein, 2014 (unpublished)

Bank	Signatory/ Member/Certified	Initiatives, special competences and facts
SEB	GRI OECD - guidelines for multinational enterprises UNPRI, UNEP FI, UN CPEP CDP, ICC, ISO 14001	<ul style="list-style-type: none"> - Clear policy objectives (stressed distinction of direct/indirect impacts) - 76% green energy, renewable energy park projects, green car leasing financed, focus on postal and IT services - CSR project: youth narcotics prevention - environmental committee reporting to board (on issues, solutions, measurable targets setting)
Nordea	GBC CDP GRI ISO 14001 (partially)	<ul style="list-style-type: none"> - Ambitious targets: <i>Reduce energy cons. by 15 % (kWh/FTE)</i> <i>Reduce travelling by 30 % (trips/FTE) by using IT</i> <i>Reduce customer paper cons. by 50 % (grams/customer)</i> <i>Reduce internal paper cons. by 50 % (kg/FTE)</i> - Targets for energy efficiency set by ESD - LEED certified 14 offices (first building in EU) - Green IT (night-off, donation of old PCs) - Eco Footprint Program: IT tool collects our energy consumption figures, travel data, and waste data. Carbon emissions are then allocated up to unit level → individual employee follow-up possible - Paper management & printing rules (12 Mill sheets reduced)
Sparbanken Nord	ISO 14001	<ul style="list-style-type: none"> - Energy loans and environmental funds - Environmental education at schools - Green farming support - WWF collaboration (donations) - Green fund for regional sustainability developments: Fund (20 mill €) for local SMEs, to <u>reduce greenhouse gas emissions and to decrease nutrient discharges into the Baltic Sea</u> (→env. mandate of fund). Regional projects eligible for financing include the construction of windmills, investments in the energy efficiency of retail customers and wastewater treatment projects.
Handelsbanken	UNEP FI UNGC UNPRI Ethibel CDP	<ul style="list-style-type: none"> - Decentralized system: people in direct/local contact with people; growth secondary to customer satisfaction - Integrated sustainability approach for investments/projects. - Environmental, social and governance in specialized funds - Offer specific risk analysis/consulting for agricultural sector (resources, currency rate fluctuations, loan security) - Detailed sustainability report - CSR: Childhood Foundation, Sjärräddnings Sällskapet Sverige, Gender Equality price 2012 - 98% green electricity and figures on many corporate issues (sick leave, staff turnover)
Danske Bank	UNGC GRI	<ul style="list-style-type: none"> - Carbon neutrality achieved by 2013 (through offsetting!) - Wide range of sustainable actions (promote responsible supply chain

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	UNEP FI ISO 14001	sourcing through Danish ecolabel) – - Detailed CSR report & figures on consumption and assets under SRI guidelines and in special sustainability funds - “Step by step” communication program to assist senior citizens in embracing digital technology
ISO 14001 certified Sparbanken	Falkenbergs, Södra Dalarnas, Roslagens (also CO2 neutral), Westra Wermlands, Tranemo Lidköping, Västra Mälardalen	
Affinity Credit Union (Canada) - cooperative bank		- Offer specialized energy efficiency retrofit project loans: Partnership with local environmental society, non-profits can get energy efficiency audits: *Preliminary energy assessment of facility *Overview of building's energy savings potential *Written report outlining the findings. Estimates of costs and savings associated with changes are provided *Utility monitoring to confirm the effectiveness of the retrofits - CSR: Strong part in community donations and projects, social and ethical - Targeted sustainability project/company investments
Banca popolare etica (Italy) - cooperative bank		- Roots in the world of the third sector organisations, of voluntary work and of international cooperation. - Analyses all investment under the lens of social and environmental responsibility - Focus on international social issues: e.g. Fair Trade development, water projects, human trafficking and slavery/human rights issues etc. (collaborations with other large companies) - Microcredits to customers without guaranteed return or securities (e.g. Social cooperatives which need a recapitalization)
Piraeus Bank (Greece)	UNGC ISO 14001	- Annual Sustainability report - Specialized environment unit - Specializes in green energy projects (PV): supports customer in necessary decision-making throughout the implementation of the project. - Lower interest rates for green loans. - Aimed at small businesses and professional farmers - Launched a fund for circular economy projects and received international awards for their energy projects
First Green Bank (US)		- Discounted interest rates for commercial and residential projects that meet green building criteria of LEED - Non-profit “First Green Foundation” provides assistance installation of solar panel systems, local start-up farming projects, projects that manage water resources, Hunger Free Florida, Farm to School programs. Renewable Energy Program, for local solar panel or solar water heater installations - Offering charging stations at most branches for electric cars - Buildings built or converted for energy efficiency - Complimentary refreshment bar products are organic, fair trade, and

		local - Paperless statements and remote deposit capture (90% of customers receive paperless statements)
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CPD – Carbon Disclosure Project; EP – Equator Principles; ESD – EU Directive on energy end-use efficiency and energy services; Ethibel – ethical sustainability index; GBC – Green Building Council; ICC – International Chamber of Commerce (sustainable business charter signatory); LEED – Leadership in Energy and Environmental Design.

Attachment 4

Typical SRI screens, divided into positive and negative screening types.

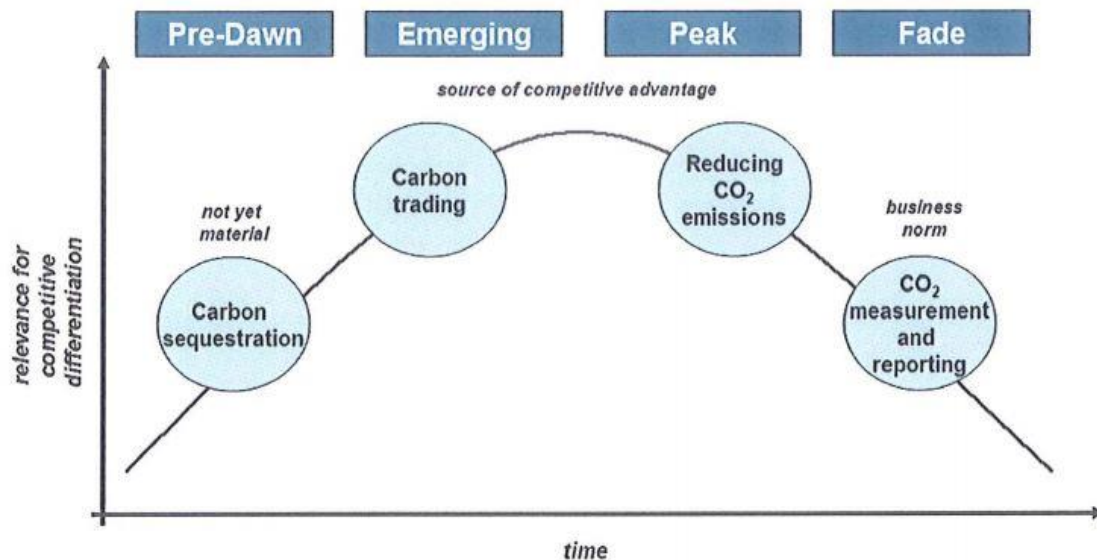
Source: (Renneboog et al., 2008), (USSIF, 2003)

SRI screens		
Screens	Definitions	Type
Tobacco	Avoid manufacturers of tobacco products	-
Alcohol	Avoid firms that produce, market, or otherwise promote the consumption of alcoholic beverages	-
Gambling	Avoid casinos and suppliers of gambling equipment	-
Defense/weapons	Avoid firms producing weapons for domestic or foreign militaries, or firearms for personal use	-
Nuclear power	Avoid manufacturers of nuclear reactors or related equipment and companies that operate nuclear power plants	-
Irresponsible foreign operations	Avoid firms with investments in government-controlled or private firms located in oppressive regimes such as Burma or China, or firms which mistreat the indigenous peoples of developing countries	-
Pornography/adult entertainment	Avoid publishers of pornographic magazines; production studios that produce offensive video and audio tapes; companies that are major sponsors of graphic sex and violence on television	-
Abortion/birth control	Avoid providers of abortion; manufacturers of abortion drugs and birth control products; insurance companies that pay for elective abortions (where not mandated by law); companies that provide financial support to Planned Parenthood	-
Labor relations and workplace conditions	Seek firms with strong union relationships, employee empowerment, and/or employee profit sharing	+
Environment	Avoid firms exploiting their workforce and sweatshops	-
	Seek firms with proactive involvement in recycling, waste reduction, and environmental cleanup	+
	Avoid firms producing toxic products, and contributing to global warming	-
Corporate governance	Seek companies demonstrating “best practices” related to board independence and elections, auditor independence, executive compensation, expensing of options, voting rights and/or other governance issues	+
	Avoid firms with antitrust violations, consumer fraud, and marketing scandals	-
Business practice	Seek companies committed to sustainability through investments in R&D, quality assurance, product safety	+
Employment diversity	Seek firms pursuing an active policy related to the employment of minorities, women, gays/lesbians, and/or disabled persons who ought to be represented amongst senior management	+
Human rights	Seek firms promoting human rights standards	+
	Avoid firms which are complicit in human rights violations	-
Animal testing	Seek firms promoting the respectful treatment of animals	+
	Avoid firms with animal testing and firms producing hunting/trapping equipment or using animals in end products	-
Renewable energy	Seek firms producing power derived from renewable energy sources	+
Biotechnology	Seek firms that support sustainable agriculture, biodiversity, local farmers, and industrial applications of biotechnology	+
	Avoid firms involved in the promotion or development of genetic engineering for agricultural applications	-
Community involvement	Seek firms with proactive investments in the local community by sponsoring charitable donations, employee volunteerism, and/or housing and educational programs	+
Shareholder activism	The SRI funds that attempt to influence company actions through direct dialogue with management and/or voting at Annual General Meetings	+
Non-married	Avoid insurance companies that give coverage to non-married couples	-
Healthcare/pharmaceuticals	Avoid healthcare industries (used by funds targeting the “Christian Scientist” religious group)	-
Interest-based financial institutions	Avoid financial institutions that derive a significant portion of their income from interest earnings (on loans or fixed income securities). (Used by funds managed according to Islamic principles)	-
Pork producers	Avoid companies that derive a significant portion of their income from the manufacturing or marketing of pork products. (Used by funds managed according to Islamic principles)	-

This table summarizes the investment screens used by SRI mutual funds. In the last column, the “-” refers to a negative screen, whereas “+” refers to a positive one. Data are compiled from Social Investment Forum (2003, p. 42) and the Natural Capital Institute (www.responsibleinvesting.org).

Attachment 5

The GIM maturity curve for identifying the greatest potential of competitive advantage (example is drawn on oil industry and climate change mitigation). Source: (Sucher et al., 2009), Exhibit 5c



Attachment 6

The UNPRI sustainable financing principles in detail as provided by UNPRI.

Source: <http://www.unpri.org/about-pri/the-six-principles/>; accessed 2015-06-28

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes. Possible actions:

- Address ESG issues in investment policy statements
- Support development of ESG-related tools, metrics, and analyses
- Assess the capabilities of internal investment managers to incorporate ESG issues
- Assess the capabilities of external investment managers to incorporate ESG issues
- Ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis
- Encourage academic and other research on this theme
- Advocate ESG training for investment professionals

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices. Possible actions:

- Develop and disclose an active ownership policy consistent with the Principles
- Exercise voting rights or monitor compliance with voting policy (if outsourced)
- Develop an engagement capability (either directly or through outsourcing)
- Participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights)
- File shareholder resolutions consistent with long-term ESG considerations
- Engage with companies on ESG issues
- Participate in collaborative engagement initiatives
- Ask investment managers to undertake and report on ESG-related engagement

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest. Possible actions:

- Ask for standardized reporting on ESG issues (using tools such as the Global Reporting Initiative)
- Ask for ESG issues to be integrated within annual financial reports
- Ask for information from companies regarding adoption of/adherence to relevant norms, standards, codes of conduct or international initiatives (such as the UN Global Compact)
- Support shareholder initiatives and resolutions promoting ESG disclosure

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry. Possible actions:

- Include Principles-related requirements in requests for proposals (RFPs)
- Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly (for example, ensure investment management processes reflect long-term time horizons when appropriate)
- Communicate ESG expectations to investment service providers
- Revisit relationships with service providers that fail to meet ESG expectations
- Support the development of tools for benchmarking ESG integration
- Support regulatory or policy developments that enable implementation of the Principles

Principle 5: We will work together to enhance our effectiveness in implementing the Principles. Possible actions:

- Support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning
- Collectively address relevant emerging issues
- Develop or support appropriate collaborative initiatives

Principle 6: We will each report on our activities and progress towards implementing the Principles. Possible actions:

- Disclose how ESG issues are integrated within investment practices
- Disclose active ownership activities (voting, engagement, and/or policy dialogue)
- Disclose what is required from service providers in relation to the Principles
- Communicate with beneficiaries about ESG issues and the Principles
- Report on progress and/or achievements relating to the Principles using a ‘Comply or Explain’ approach
- Seek to determine the impact of the Principles
- Make use of reporting to raise awareness among a broader group of stakeholders

Attachment 7

The IFC’s Performance Standards, summarised by author.

Source: (IFC, 2012b)

Performance Standard 1 – Assessment and Management of Environmental and Social Risks and Impacts.

The first standard sets the baseline for all operations and following standards. It is concerned with the identification and (proactive) avoidance/minimization of social and environmental risks and impacts resulting from project activities, such as pollution and resource-draining impacts, labour issues, transgressions into protected areas and biodiversity, or native communities. An ESMS should be established incorporating the following seven elements: a policy, the identification of risks and impacts, detailed management programs, the listing of organizational capacity, emergency preparedness, stakeholder engagement, as well as monitoring and

review processes. (IFC, 2012b)

The identification of risks entails the type, location and scale of project, linked to a detailed social and environmental impact assessment; this stretches to direct and indirect impacts, associated facilities, and cumulative impacts on areas or resources touched by the project. Groups or individuals disproportionately affected should be identified with special care.

The ESMS is based on a strict hierarchy of avoidance over minimization of impacts, followed by compensation or offsetting of residual impacts. Social and environmental action plans define desired outcomes, practices, and set indicators and targets.

The building and documentation of organizational capacity involves clearly defined roles and responsibilities as well as employing professionally skilled (outsourced) personnel for the job.

A periodically reviewed and revised emergency preparedness and response system needs to be installed. Collaboration and communication with the affected communities and governments are key requirements; should capacity on national level be lacking the standard calls for the client to play an active role in design and implementation.

Regularly reviewed activities and situations are documented and the results should be analyzed by experts. Senior management needs to be involved with the revision and implementation of changes, as well as the local relevant third parties.

The engagement of stakeholders is a central theme; the development and implementation of a stakeholder engagement plan, which should substantially involve local representatives is vital. Furthermore, the client has to guarantee disclosure of project details and (possible) impacts, activities, changes, the proposed stakeholder involvement, and grievance mechanisms. A mutual consultation process must be established in the early project phases. All these measures aim at an informed participation of the affected stakeholders and a collaborative proactive exclusion of problems and risks resulting from communication breakdown.

External communication should be open, documented, and followed up upon frequently, including issuing a regular progress report. A clear-cut grievance mechanism should aim to resolve issues in a transparent process of consultation, preventing but not impeding potential legal proceedings. (IFC, 2012b)

Performance Standard 2 – Labor and Working Conditions.

The second standard appreciates not only ethical but also the physical risks for the project. Its objectives comprise non-discrimination efforts, a sound worker-management relationship, promotion of labour laws, protection of vulnerable workers (children, migrant workers, supply chain workers), and the avoidance of forced labour.

The standard applies equally to third part workers related to the core business, such as supply chain or contracted part-time workers. Though the national law sets the minimum requirements the client is expected to go beyond, if the law is deemed insufficient in comparison with this standard. Workers organizations, if restricted by national law, should be morphed into alternative mechanisms of communication and grievance-clearance. Forced and child labour are distinctly specified¹¹⁵ and accordingly ruled out. At most, the client is deemed responsible for workers up to the first level of the supply chain, and responsible for risk evaluation, labour rights, and health and safety. If this step is not possible due to lack of influence, the client is expected to shift to another supplier and such exert influence through shifting market demand.

Performance Standard 3 – Resource Efficiency and Pollution Prevention

Finite resources, increasing pollution, and a changing climate due to emissions of greenhouse gases (GHG) set the scene, while continuous improvement methods and globally available pollution prevention/mitigation technologies are seen as one answer. Standard three aims to avoid or minimize adverse effects on humans and the environment during the whole life-cycle of a project. Resource efficiency can be optimized with cleaner production (CP) principles both in product design and production processes. Metering, benchmarking, and

¹¹⁵ The Standard allows for employment of minor age individuals, if consistent with national law and not interfering with their health, physical, spiritual, moral, or social development.

conservation of resources are cornerstones in this strategy. GHGs if not avoidable should be offset; 25.000 tons of annual CO₂-equivalent sets a demarcation line above which a project needs to quantify its indirect emissions¹¹⁶ from off-site electricity generation, too. Pollution prevention targets not only the existing conditions of land use and ambience, or the proximity to biodiversity hotspots but also potential cumulative impacts. Additionally, offsetting and possible relocation of the project are advised. Waste handling and disposal details are set and demand for appropriate¹¹⁷ handling of hazardous material or substitution. Pest control programs are prescribed to use integrated pest and vector management (IPM, IVM) to target significant pest and integrate biological and genetic pest control. Only as a last resort, is chemical pest control advised and even then, usage, storage or trading in Class Ia (extremely hazardous) or Ib (highly hazardous) (WHO classification) pesticides is categorically banned.

Performance Standard 4 – Community Health, Safety, and Security

A community's exposure to risk and health-adverse impacts, as well as effects on ecosystem services and climate change are treated here. Proactive identification and avoidance of issues is given a primary role, correlating to physical design of the project or due diligence in handling of hazardous materials. Finally, indirect adverse effects on ecosystem services (e.g. loss of natural buffer zones, such as mangrove forests) should be, if unavoidable, mitigated to the extent that the value and function of the ecosystem service is equal to before the project's impact¹¹⁸.

Performance Standard 5 – Land Acquisition and Involuntary Resettlement

The client needs to react to physical or economic¹¹⁹ displacement resulting from the project's land acquisition. The objectives are to avoid forced eviction and displacement (including relocation of project), or, as a second option, to minimize displacement and avoid the social and economic costs resulting. Thirdly, the client ensures apt compensation and restoration of livelihoods elsewhere. Close collaboration with governments is vital; however the client's direct involvement entails advantages in cost-effectiveness and efficient implementation process. In paragraph 6 a caveat excludes any transactions that are resultant from voluntary market activity, i.e. a freely, mutually agreed upon change of property ownership. If any displacement has occurred, the client is warranted to establish a Resettlement Action Plan, defining steps to compensate and resettle affected and eligible¹²⁰ community members. Upon conclusion of the Resettlement or Livelihood Restoration process¹²¹ and independent external expert carries out a completion audit.

Performance Standard 6 – Biodiversity Conservation and Sustainable Management of Living Natural Resources

Based on the Convention on Biological Diversity, the definitions of ecosystem services are presented: provisionary (e.g. food, freshwater, timber), regulating (e.g. water storage, carbon sequestration), cultural (e.g. sacred sites, aesthetic sites), and supporting services (e.g. nutrient cycling, primary production). The

¹¹⁶ The Standard refers among others to the International Panel on Climate Change (IPCC) for guidance on quantification methods.

¹¹⁷ Standard 3 refers to the Basel Convention, the Montreal Protocol, LRTAP, the Stockholm Convention on Persistent Organic Pollutants, the London Convention on the Prevention of Marine Pollution, and the World Health Organisation (WHO) pesticide classifications.

¹¹⁸ This crossreferences Performance Standard 6 §§ 24, 25, as well as stipulations on ecosystem services in Standards 4, 5, 7 and 8. This serves to underline the importance per se and interconnectedness of ecosystem issues with many other areas.

¹¹⁹ Loss of (access to) assets that normally would lead to income.

¹²⁰ Opportunistic settlers are named as an example group of unentitled members.

¹²¹ While a Resettlement Plan is due in case of physical displacement a Livelihood Restoration Plan comes into being when an economic displacement is the case. Both may occur simultaneously.

Sustainable Investment and Sustainable Banking

interconnection of ecosystem services and biodiversity is specifically taken into account demanding adaptive management throughout a project's life cycle, which would cater to the unforeseeable nature of impacts on ecosystems. Three classes of habitat are established, modified (i.e. substantially modified through human interaction), natural (i.e. no essential modification through human interaction), and critical (e.g. home to critically endangered species, areas of key evolutionary processes). Biodiversity offsets should result in at least a net balance net gain (mandatory in critical habitats, §17) compared to the state before. Through a systematic review process, priority ecosystems¹²² have to be established and sustainably management adhering to (certified) international standards. The standards stretch to a client's primary suppliers¹²³.

Performance Standard 7 – Indigenous People¹²⁴

Due to their distinct and often peripheral position in national societies indigenous people are disproportionately vulnerable. Their livelihood and settlement areas, culture, beliefs, traditions, and institutions can be negatively affected by project development. The central objectives are the ensured respect of human rights and culture, respectful promotion of development opportunities, anticipation and proactive resolving of issues. The key mechanism is Free, Prior and Informed Consent (FPIC), in which community representatives are engaged in planning, disclosure, consultation and participation from the project's early phase. This performance standard provides an extensive list of required steps to be taken: documentation of plans and assessment of impacts as well as the assessment of indigenous needs, compensation efforts, and relocation are distinct parts of this list. Again, the client is required to play an active role in planning, implementation, and monitoring if national government capacity is underdeveloped.

Performance Standard 8 – Cultural Heritage

The last of the performance standards contains guidelines for the protection of cultural heritage (i.e. sites of unique features carrying cultural or archaeological, religious or historic value), as well as intangible forms of cultural value (e.g. traditional lifestyles) and the equal sharing of benefits derived from them. The guidelines build on internationally recognized standards, such as the Convention Concerning the Protection of the World Cultural and Natural Heritage¹²⁵. Consultation and possible relocation of sites are stipulated; this holds particularly true for critical cultural heritage sites (internationally recognized and/or legally protected areas).

¹²² These would comprise areas where the operations will most likely have adverse impacts and/or services which are directly connected to the project (e.g. water supply)

¹²³ Defined as the suppliers who provide continuously the majority of resources and goods necessary to conduct the core business operations of a project.

¹²⁴ The standard defines indigenous people in a generic sense, reflected by, among other indicators, a distinct language or dialect; cultural, religious or socio-political structures and institutions distinct from mainstream society; or being traditionally attached to geographically distinct places.

¹²⁵ The 1972 UNESCO Convention established. Among others, the principles of conservation and communication with the communities. Moreover, it contains basic stipulations regarding international financial aid and the usage of the World Heritage Fund. (Centre, 2015)

Attachment 8

GABV: The guiding principles for sustainable banking, centred around the company culture. Source: (GABV, 2015c)



Attachment 9

GABV: In this example of the Triodos report from 2013, the details of the GABV sustainability scorecard become clearer. Source: (Triodos, 2013a)

The screenshot shows a web interface for a GABV sustainability scorecard. At the top, there are four tabs: "Overview", "Basic Requirements" (which is selected and has a checkmark), "Objective Factors", and "Qualitative Elements". Below the tabs, there are three expandable sections: "Regulated Financial Institution", "Mission Statement", and "Reporting Transparency". The "Reporting Transparency" section is expanded, showing detailed text about Triodos Bank's reporting practices, including its annual report, website, and mobile app, and its involvement in various industry initiatives like the GRI reporting guidelines and UNPRI.

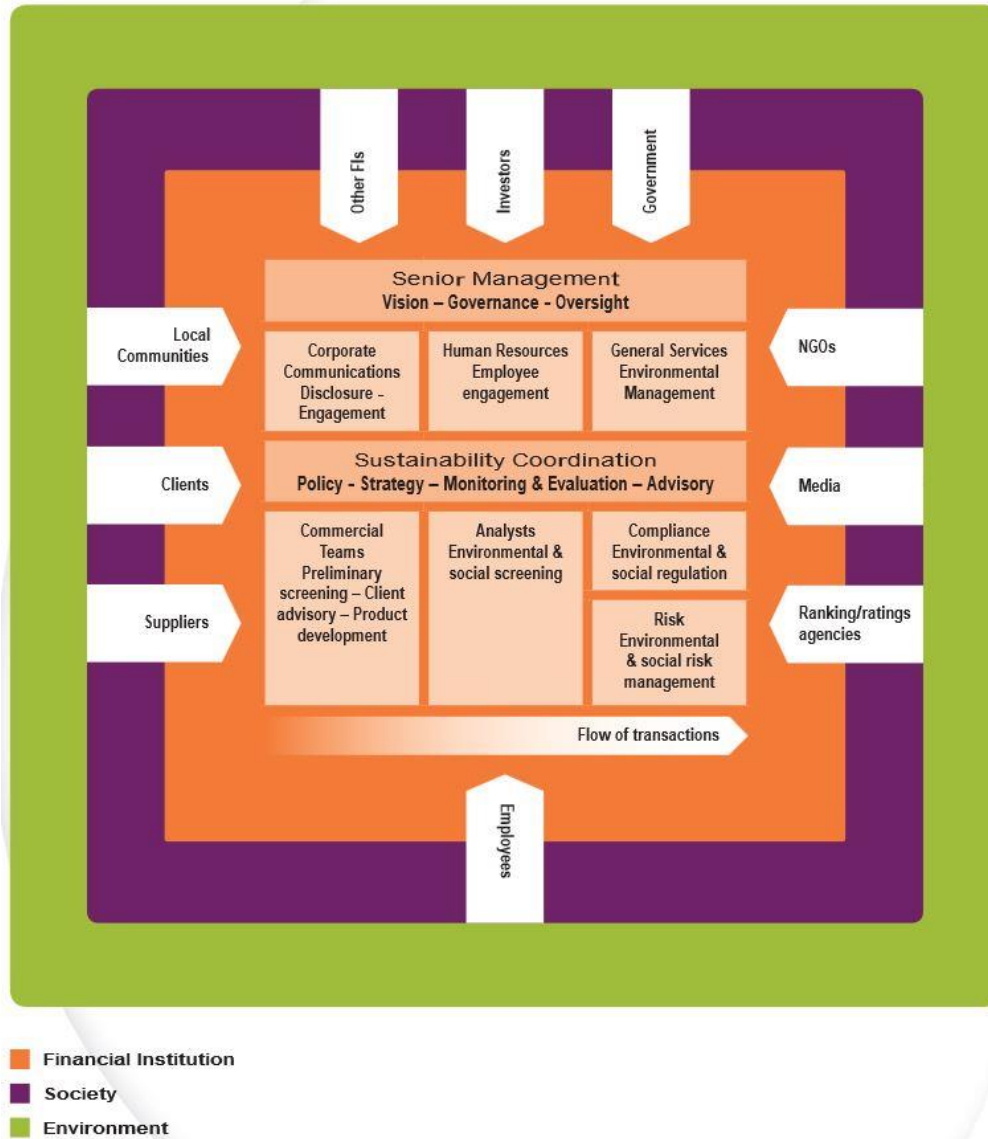
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Overview	<input checked="" type="checkbox"/> Basic Requirements	<input checked="" type="checkbox"/> Objective Factors	<input type="checkbox"/> Qualitative Elements
Bank Resiliency through Earnings – 3 year Average Return on Assets		0.45%	
Market Comparison – 3 Year Average Return on Assets		0.3%	+
Bank Resiliency through Capital – Equity to Total Assets		10.1%	
Bank Resiliency through Asset Quality – Low-quality Assets to Total Assets		2.8%	
Market Comparison – Low-quality Assets to Total Assets		-	+
Bank Resiliency through Client Based Liquidity – Client Deposits to Total Assets		87.6%	
Assets Committed to the Real Economy to Total Assets		55.0%	
Revenues from the Real Economy to Total Income		79.3%	
Clients with Direct Exposure relative to Total Clients		100.0%	+
Assets Committed to the Triple Bottom Line to Total Assets		55.0%	

Overview	<input checked="" type="checkbox"/> Basic Requirements	<input checked="" type="checkbox"/> Objective Factors	<input checked="" type="checkbox"/> Qualitative Elements
Governing board demonstrates strong commitment to Sustainable Banking with diverse expertise to ensure all aspects of Sustainable Banking are addressed			+
CEO and direct reports demonstrate a real commitment to Sustainable Banking leadership and accountability			+
Sustainable Banking performance is tracked and reported – internally and externally			+
Initiatives are in place to embed Sustainable Banking throughout the organisation			+
The organisational structure facilitates Sustainable Banking integration in daily activities			+
Sustainable Banking is embedded in incentive, compensation, and performance structure			+

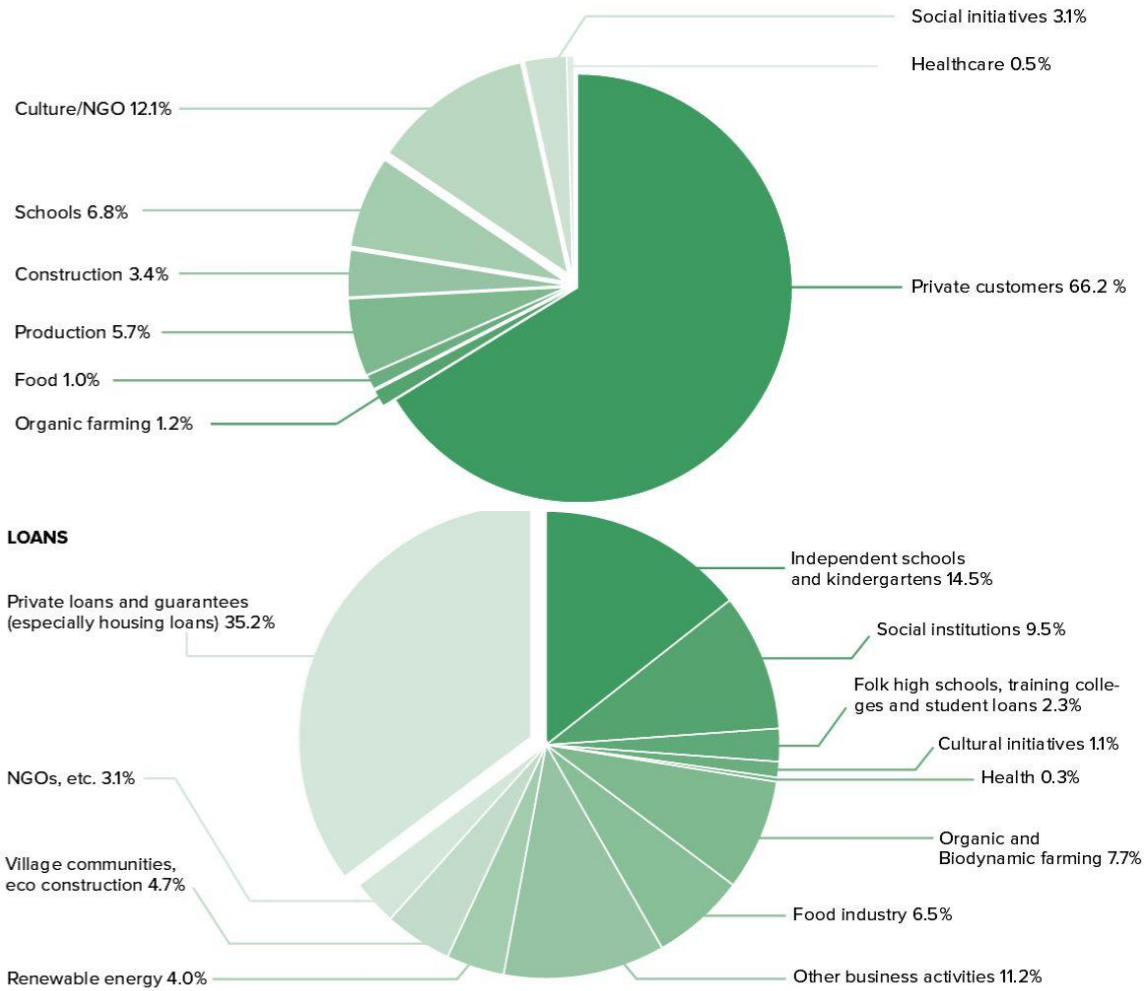
Attachment 10

Detailed map of a bank's sustainability involvement (internal capacities and external influences). Source: (UNEP-FI, 2011)



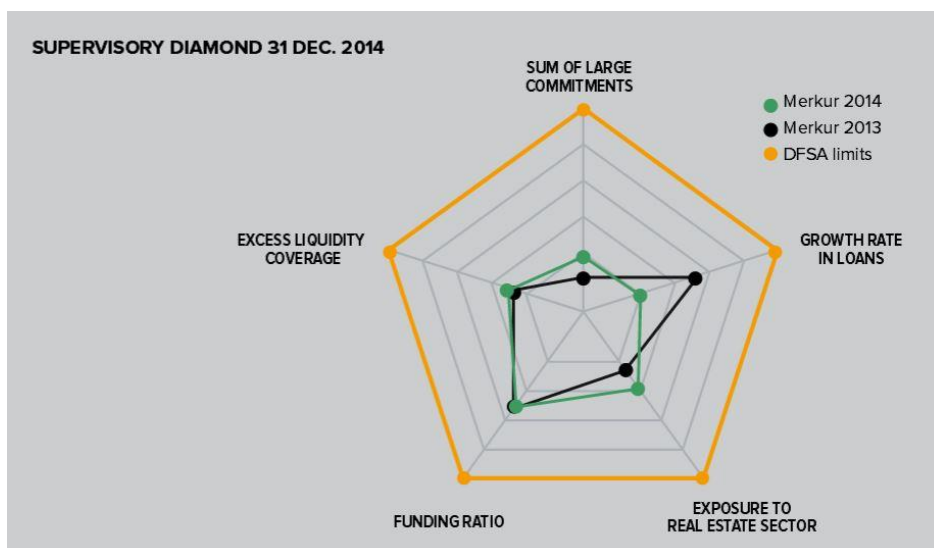
Attachment 11

Merkur Bank: The breakdown of Merkur Andelskasse savings and lending distribution.
 Source: (Merkur-Andelskasse, 2014)



Attachment 12

Merkur Andelskasse - Risk benchmark pentagon Source: (Merkur-Andelskasse, 2014)



Attachment 13

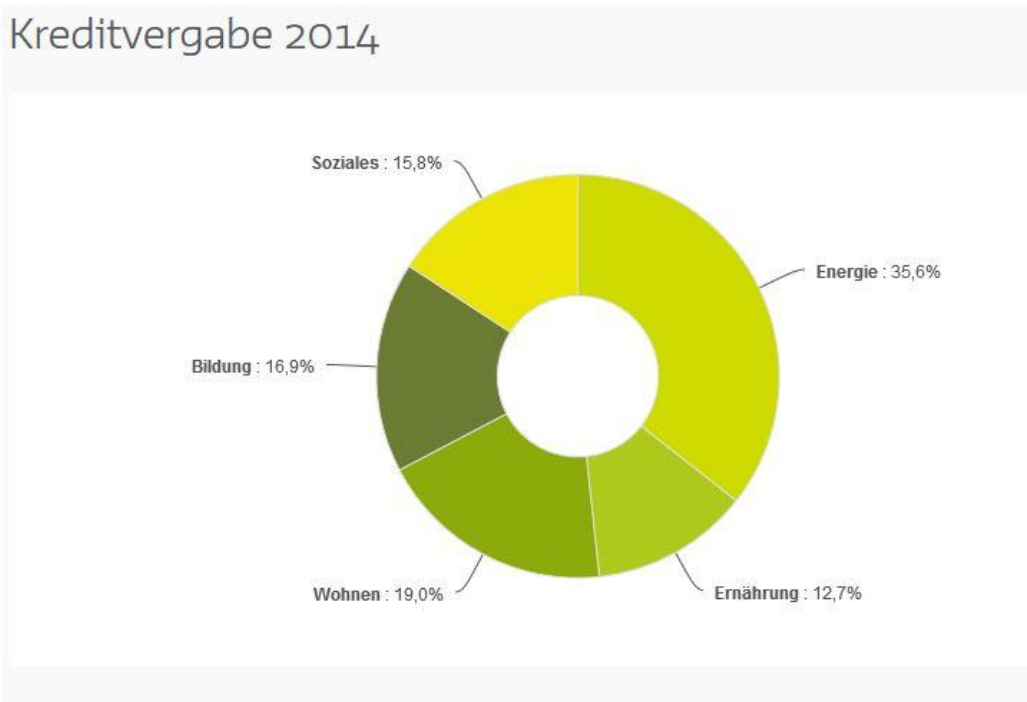
GLS Bank: ESG aspects controlled assets; percentage and totals in regards to the balance sheet. Source: (GLS-Bank, 2014c)

Aktivgeschäft GLS	2014	entsprechen den sozial ökologischen Kriterien der GLS Bank		2013
	Mio. €	%	%	%
Kundenkredite	1.926,3	99,8%		1.652,4 99,8%
Bankanlagen	1.214,0	100,0%		1.108,7 100,0%
Wertpapiere (ohne Aktien/Fonds)	431,6	98,6%		416,2 98,6%
Beteiligungen (inkl. Aktien/Fonds, Anteile an verbundenen Unternehmen)	39,9	92,2%		31,7 94,4%
Sachanlagen und weitere Positionen	28,7	100,0%		28,2 100,0%
Bilanzsumme GLS Bank	3.640,5	99,6%		3.237,1 99,7%
Bilanzsumme BAG	2,6	100,0%		2,8 100,0%
Bilanzsumme EAG	18,0	100,0%		18,1 100,0%

Translation of content (by author): “Aktivgeschäft GLS” = active business GLS; “entsprechen den sozial ökologischen Kriterien der GLS Bank” = in conformance with the social and ecological criteria of the GLA Bank; “Kundenkredite” = client credits; “Bankanlagen” = bank investments; “Wertpapiere (ohne Aktien/Fonds)” = securities (without shares/funds); “Beteiligungen (inkl. Aktien/Fonds, Anteile an verbundenen Unternehmen)” = holdings (incl. shares/funds, interests in associated companies); “Sachanlagen und weitere Positionen” = fixed assets and other items; “Bilanzsumme GLS Bank” = balance sheet result GLS Bank.

Attachment 14

GLS Bank: The breakdown of the lending distribution. Sources: (GLS-Bank, 2014c), (GLS-Bank, 2015b)



Translation of content (by author): “Kreditvergabe” = credit distribution; “Soziales” = social; “Energie” = energy; “Bildung” = education; “Wohnen” = realty; “Ernährung” = foodstuff.

The percentages correspond to lending volumes of:

Energy – 686.723.000 €

Realty – 366.350.000 €

Education – 324.685.000 €

Social – 303.947.000 €

Foodstuff – 244.599.000 €

Attachment 15

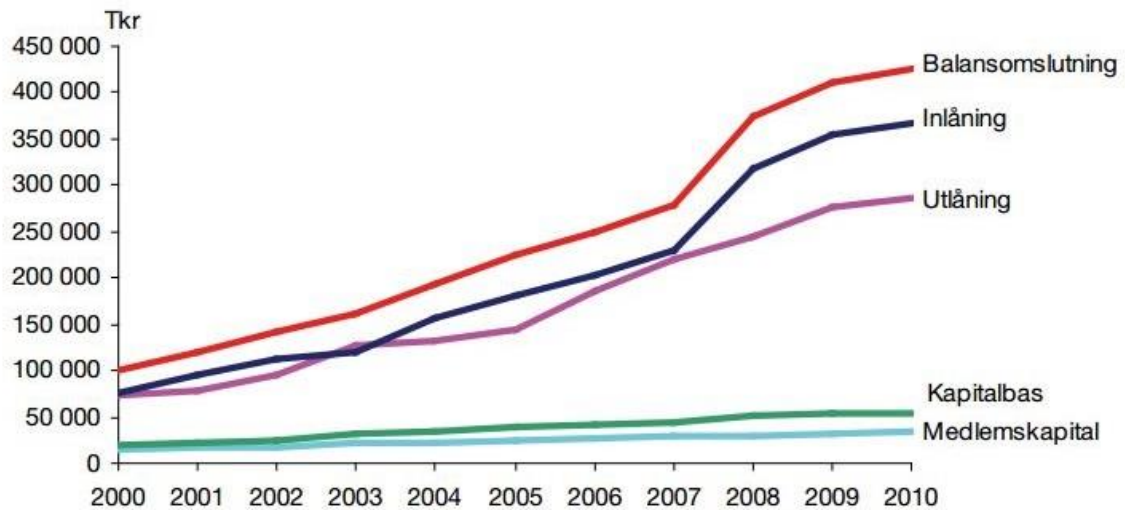
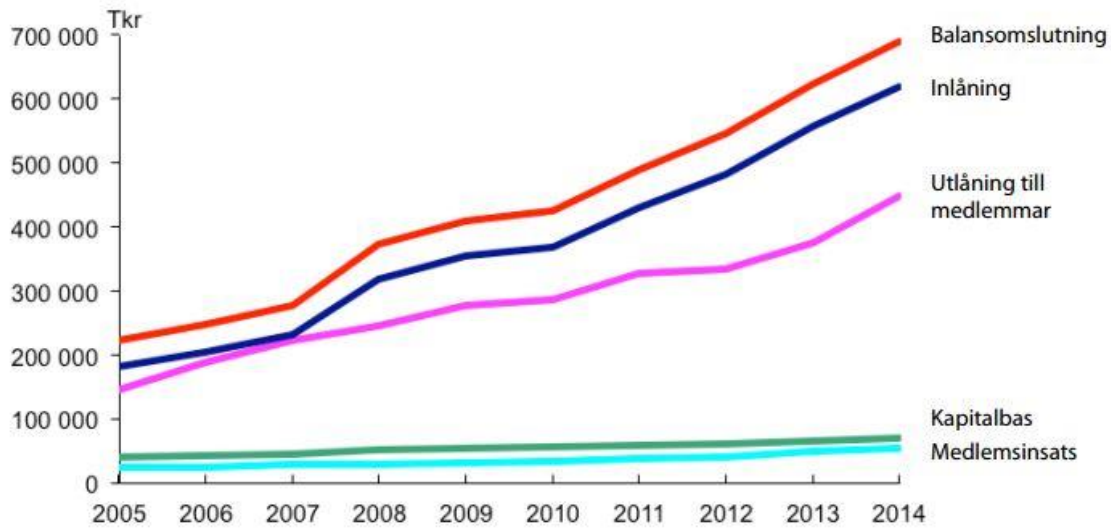
Ekobanken: The lending areas in detail. Source: (Ekobanken, 2015h)

Ekologiskt	Förnybar energi, hållbart kretsloppsjordbruk, produktion, handel och förädling av ekologiska och biodynamiska produkter, hållbart byggande
Socialt	Rättvis handel, äldre- och handikappomsorg, verksamheter för människor med funktionshinder eller psykiskt sjuka, missbruks- och beroendevård, terapeutisk verksamhet, sociala företag
Kulturellt	Kulturskapande verksamheter såsom idéburna skolor och förskolor, vuxenutbildningar, konstnärlig och andlig verksamhet, forskning

Translation of content (by author): “**Ekologiskt**” = ecological; “Förnybar energi” = renewable energy; “hållbart kretsloppsjordbruk” = sustainable closed-loop agriculture; “produktion, handel och förädling av ekologiska och biodynamiska produkter” = production, trade and processing of organic and biodynamic products; “hållbart byggande” = sustainable building. “**Socialt**” = social; “Rättvis handel” = fair trade; “äldre- och handikappomsorg” = elderly and disabled care; “verksamheter för människor med funktionshinder eller psykiskt sjuka” = activities for people with physical deficiencies or psychological illness; “missbruks- och beroendevård” = abuse- and addiction-care; “terapeutisk verksamhet” = therapeutic activities; “sociala företag” = social companies. “**Kulturellt**” = cultural; “kulturskapande verksamheter såsom idéburna skolor och förskolor” = culture-creating activities, such as non-profit schools and pre-schools; “vuxenutbildningar” = education for adults; “konstnärlig och andlig verksamhet” = artistic and spiritual activities; “forskning” = research.

Attachment 16

Ekobanken: The growth curve shape: a constant growth with a sharp incline after the GFC in 2008 is visible. Sources: (Ekobanken, 2010, 2014)



Translation of content (by author): “Balansomslutning” = balance sheet total; “Inlåning” = savings; “utlåning” = lending; “utlåning till medlemmar” = lending to co-owners; “kapitalbas” = capital base; “medlemsinsats” = member shares.

Attachment 17

List of personal communications

Listed here are the individual interview partners with name, company, function, and interview date.

Hanna Roberts, Global Engagement Services (GES), Engagement Director and designated CEO, 2015-06-25

Sammy Almedal, JAK Banken, CEO, 2015-07-06

Ann Hybertz Frandsen, Merkur, communications officer, 2015-07-08

Jan Klarbaek, Merkur, head of credit department, 2015-07-22

Kristoffer Lüthi, Ekobanken, managing director, 2015-09-03

The following individuals work for Sparbanken Syd and have been in contact with this author since November 2014.

Emi Persson, assistant to the managing director

Jenny Reiman-Ehle, business developer

Per-Uno Alm, sustainability consultant

Mikael Ekdahl, compliance officer

Håkan Lundqvist, chief of security

Hans Nelfelt, deputy managing director and head of product department

Everyone with the exception of Nelfelt works in the bank's Green Team. There have been several meetings directly linked to the content of this thesis; with the Green Team on 2015-02-05, 2015-03-05, 2015-05-04, 2015-08-31 and with Nelfelt on 2015-05-04 and 2015-08-31 (workshop).