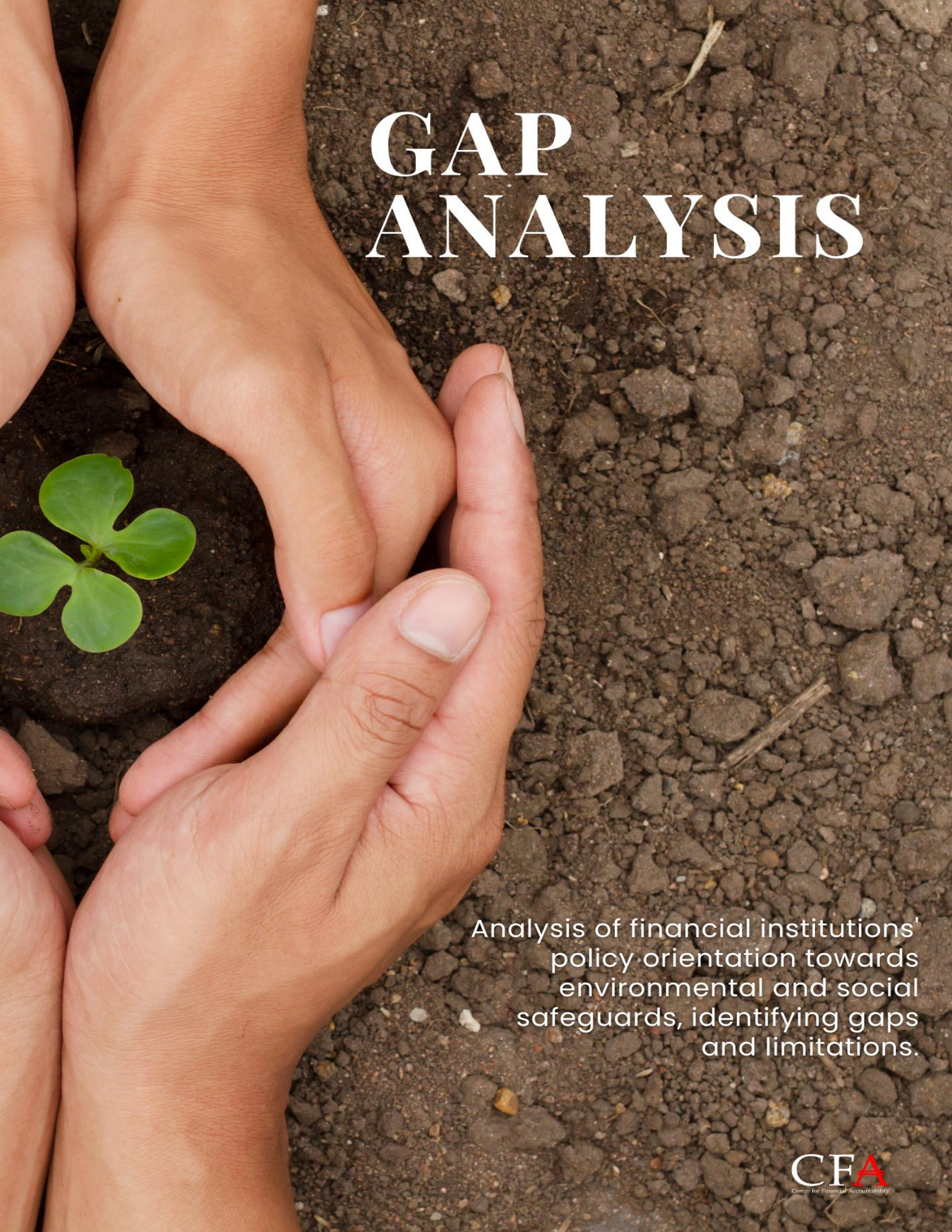

GAP ANALYSIS

Analysis of financial institutions' policy orientation towards environmental and social safeguards, identifying gaps and limitations.

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Introduction

This Gap analysis is an attempt to analyze the policy orientation of financial institutions with regard to environment and social safeguards identifying the gaps and limitations. This is done by comparing the existing policies with an ideal set of principles that need to be enshrined in developing an environment and social safeguard policy. This has become an imperative as financial institutions play a crucial role in funding developmental projects. Commercial banks, insurance companies which traditionally catered to individual needs are increasingly taking up roles of lending to large projects.

This study has taken the top two Financial Institutions that are lending to large scale projects – Public banks, private banks, insurance companies, NBFCs. For each of the institutions, the study looks into its available policies on environment and sustainability. Annual reports of the last three years (2018 – 2022) are studied for any commitments from the institutions on ESS, Climate crisis etc.
These commitments are compared with an ideal ESS policy and the gaps are identified.

Backdrop

Large scale development projects have been seen as a harbinger of development, growth, employment and prosperity. Governments saw industries as the foundation of economic, social and even political growth. India is no exception. Since independence industries (steel, mining, power), large dams, infrastructure projects become integral parts of the five year plans. Termed as the 'temples of modern India' by the then Prime Minister Jawaharlal Nehru, they gained the social and political support and sealed the vision and path of development for the newly independent country. In 1947 India's GDP was merely 2.7 lakh Crore (3% of the world GDP). These big projects required huge investments that were beyond the limits for a newly independent country. Hence the growth of large scale projects were tied to large lending, since their inception. The World Bank has played a key lending role since 1949. India not just continued on this path, but since the liberalisation of the economy in 1990 have adhered it to as the only model of growth. Today investment in large infrastructure projects is seen as the ticket to a five trillion economy!

While the gains and advantages of these projects are well advertised, what have always been overlooked were the environmental and social impacts of these projects. Large scale deforestation, displacement, forceful eviction of people from their lands and forest, loss of biodiversity, irreparable environmental impacts, loss of livelihood came as part and parcel of the large scale projects. These impacts have been long ignored and worse, accepted as collateral damage for the 'greater good'.

According to parliamentary data 20,314.12 hectares of forest land was diverted in three years 2015–2018 (till December 13, 2018), reports also say since 1951 50000 sq.kms of forests were cleared for river valley projects, a study reports over 50

million people have been displaced due to development projects in the last 50 years. The indigenous community that is just over 8 percent of the country's population constitutes up to 40 percent of those who are internally displaced due to development. It is the historically oppressed communities, women, religious minorities, economically weaker sections and other marginalized sections of the country who have played a heavy price for this model of development.

The 1970s and 80s saw resistance of the affected communities against displacement, loss of their homes, forests, rives due to the developmental projects globally and in India. These movements not only targeted the government but also the institutions lending for this projects – Multilateral Development Banks (MDB). The prolonged resistance resulted in the World Bank recognising the negative impacts of developmental projects.

As a consequence of growing criticism and protest, not just in the global south but also in the global north, The World Bank in the 1980s and 1990s started introducing Operational Policies and Bank Procedures, which came to be known as 'Safeguards' and established the Independent Accountability Mechanism in 1993. The panel responds to complaints from project affected people alleging the bank of non-compliance of its safeguard policies. Through consistent protests and engagement by the movements and civil society organisations, these 'safeguards' outlined protections for specific consequences like displacement, for specific target populations like indigenous people and tribes, and for precious natural resources like forests, habitat, mountains and more. Finally, through extensive consultation process in the second decade of 2000s the World Bank attempted to give a coherent shape to all the Safeguards it had adopted over the years, in the form of a systemic vision and a framework which came to be known as 'Environmental and Social Framework' (ESF).

The ESF policy adopted by the World Bank helped in influencing other financial institutions and holds them accountable for their lack of Environmental and Social Safeguard policies. Today, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, and the European Bank for Reconstruction and Development have adopted not only environmental and social standards modeled upon the World Bank's safeguard policies but also Inspection Panel-type accountability mechanisms. The OECD export credit financing conditions include Bank-type social assessments. Through the Bank's private sector arm, the International Finance Corporation (IFC), they also influenced the private banking industry, whose 'Equator Principles on Sustainable Finance' are largely modeled upon the IFC's environmental and social performance standards."

There are still problems in the implantation of these policies and many communities are fighting against the violation of these policies. But the existence of such policies and accountability mechanisms has been a tool for the communities in their struggle to hold these institutions accountable.

India and Safeguards

Funding for large scale projects by financial institutions other than development banks and Multilateral Development Banks (MDBs) was a part of the structural changes proposed in the 1990s. With the systemic destruction of the DFIs, the commercial banks and other financial institutions were pushed into filling the gap of term credit for industries and big businesses, by the late 1990s. But unlike the Multilateral Development Banks which have over the decades incorporated safeguard policies (discussed earlier, the commercial banks went in with no safeguard mechanisms, due diligence, or strong recovery mechanisms in the case of a default. Within a decade the banking system started to show vulnerability and is yet to completely recover from the crisis of bad loans caused by the term lending. But restricting to the scope of this paper, we would focus on the safeguard mechanisms followed by the Indian banks and the need for a more robust one.

Issues of sustainability, social responsibility, climate risks etc. have been pushed to corporate social responsibility. RBI in 2007 for the first time brought a notification to this effect requesting banks and financial institutions to *put in place a suitable and appropriate plan of action towards helping the cause of sustainable development, with the approval of their Boards. In this context, particular reference is drawn to the IFC Principles on project finance (the Equator Principles) and carbon trading. Further, it will be advisable for the Banks/Financial Institutions to keep themselves abreast of the developments on an ongoing basis and dovetail/modify their strategies/plans, etc. in the light of such developments.*

Over the years, there have been other initiatives from the regulators – Security and Exchange Board of India (SEBI) made it mandatory for top 100 listed entities based on market capitalization at BSE and NSE to publish annual business responsibility reports since 2012. In October 2017, the Report of the Committee on Corporate

Governance proposed that the board of directors shall meet at least once a year to specifically discuss strategy, budgets, board evaluation, risk management, ESG and succession planning.

The existing reporting and directives focus on increasing renewable and 'green investments', reducing carbon footprint of the banks etc. But none of them specifically focus on instituting an environment and social safeguard policy, like the ones adopted by MDBs. In the last couple of years a few banks have adopted ESG policies that also include impact and risk assessments with regard to lending. Before analyzing the limitations of these policies, it is important to look at the principles and provisions that an environmental and social safeguard policy should entail.

Environment and Social Safeguard Policy (ESS)

This section lists down the expectations on an Environmental and Social Safeguard policy, the list is made from studying some of the existing ESG policies of the banks, IFC's performance standards and some long pending demands of the communities.

Mandatory: First and foremost ESS policy should be mandatory. Without this operational aspect of the policies, it becomes toothless and does not serve its intended purpose. It should be applicable on on all projects financed by the institutions. Number of safeguards triggered in each project will be based on its nature and scale. Applicable to ongoing and future projects financed by the institution, both in the past and present.

Independent Accountability Mechanism (IAM): There has to be an independent mechanism that would be available for people to register complaints, grievances and demand inquiry into violations of the ESS. The IAM should have the power to make decisions which are independent of the Bank management.

Impact Perspective: The policy should in letter and spirit is to protect against the harmful impacts of the large scale projects on environment and people. This should be very clearly stated in the policy.

The policy deals with three phases: Pre lending, Life cycle of the project and Accountability and Transparency.

Pre lending phase covers all those procedures and due diligence required from the Financial Institutions and intermediaries before lending for a project.

- Check Exclusionary list:
- Required Compliances:

- Information disclosure(EIA, SIA and resettlement/rehabilitation and other plans should be publically available)
- Free and Prior Informed Consent:
- Public Consultations with due time for information disclosure :
- Check for previous default:

Life Cycle of the Project:

- Categorisation of the project based on environmental and social impacts
- Monitoring mechanisms based on the categories
- Clear definition of what will constitute environment and social categories.
    - ★ Assessment and Management of Environmental and Social Risks and Impacts
    - ★ Labor and Working Conditions
    - ★ Resource Efficiency and Pollution Prevention
    - ★ Community Health, Safety, and Security
    - ★ Land Acquisition and Involuntary Resettlement
    - ★ Biodiversity Conservation and Sustainable Management of Living Natural Resources
    - ★ Indigenous Peoples, Minorities and Marginalised Communities.
    - ★ Cultural Heritage
    - ★ Financial intermediaries
    - ★ Stakeholder Engagement and Information Disclosure

Accountability and Transparency:

- Public Disclosure of Lending / Investment:

- Disclosure of the ESG policies in the website in regional languages along with English.
- Information of grievance redressal mechanisms be available both at project and financiers level with the communities
- Reporting of monitoring procedures and action taken report every quarter

Keeping this as an ideal policy and procedure to be strived for, the next sections would look into the existing commitments and policies for the top financial institutions.

State Bank of India

The largest public sector bank of the country and its history spans over two centuries. SBI is one of the biggest lenders to large scale projects.

The bank though admits to have an ESG rating criteria for lending; it has not made public the parameters for the assessment. It does not seem to have an ESG policy in place either. What the Bank has is a Sustainability and Business Responsibility Policy (BR) in accordance with the SEBI policy.

According to the BR policy of the bank:

It commits to aligning its initiatives to the global Sustainable Development Goals (SDGs). The policy further states that it aims to balance its business and sustainability performance, and has therefore identified core environmental and social areas that it will concentrate on. According to the BR policy, it identifies the following as Environment and Social concerns:

Environment:

- Lending at concessional rates for renewable energy projects with a focus on boosting investment
- Establishing Digital Banking platforms
- Implementing Energy Conservation & Energy Efficiency initiatives
- Reducing Greenhouse Gas (GHG) emissions
- Managing Waste Generation and Disposal (Hazardous and Non-Hazardous)
- Reducing Paper Consumption
- Reducing Water consumption
- Adopting Environmental best practices, such as, establishing a robust environmental management system, installing mechanisms to harvest rainwater, setting up Solar ATMs across India, using LED lights across all the office building, composting waste etc. wherever possible

Social and Governance Aspects:

- Implementing Ethical Banking Practices
- Ensuring Compliance
- Promoting Human Rights
- Encouraging Gender Diversity
- Talent development and retention
- Promoting healthy work–life balance
- Constructive engagement with all internal and external stakeholders
- Increasing access to banking services
- Enhancing Financial literacy
- Ensuring Customer satisfaction
- Building Communities
- Establishing Strong Grievance Redressal Mechanisms

Further in its annual reports (2018 – 2022) SBI states, it has put in place an Environment, Social and Governance (ESG) rating model, which rates large borrowers on various objective ESG criteria. It also states *to enhance Sustainability practices in your Bank in a formalized manner, a Board–approved "Sustainability and Business Responsibility (BR) Policy" has been put in place. As per Global Reporting Initiative (GRI) framework, a Sustainability Report is being published annually. For reporting on ESG (Environment, Social and Governance) parameters by listed entities, your Bank is also endeavoring to adapt to the "Business Responsibility and Sustainability Report (BRSR)" framework.*

Gaps:

Though the bank mentions it has an ESG rating model, the parameters for such rating is not accessible. Further the rating model is not a substitute for having an ESS policy. In its BR policy and Annual Reports, the bank mentions about risk assessment and integrating it into all its policy, but there is no specific mention of how environment and social risks are linked to lending.

There is no precautions either before lending, during the life cycle of the project or any accountability mechanisms clearly spelled out that could considered as a safeguard policy or procedures followed by the bank.

As one of the biggest lenders to large scale projects, the bank does not have a policy that will monitor these landings and the environmental and social impacts that these policies could potentially have.

Going by the definitions or understanding of what constitutes environment and social aspects, they do not cover impacts due to lending to big projects. The scopes of these terms are very limited and pertaining to internal workings of the bank in their spirit and approach.

The approach to the issues of environment and social impacts, climate change or sustainability are not clearly defined anywhere in the documents. Both climate justice and sustainability are only looked from an opportunity of investment. There are commitments to reading carbon footprint and also increasing lending to renewable energy projects are a part of the bank's commitment to responsible banking and sustainable development. But there are no efforts in ensuring that these investments will do no harm.

There is no specific policy or mechanism from the bank to ensure that their lending will not negatively impact vulnerable communities.

The bank does not seem to have an exclusionary list.

There is no way for one to access project wise information, anywhere from the bank unlike other MDBs that lend to large scale projects.

There are no mechanisms to raise grievances regarding environmental and social concerns related to project finance.

Punjab National Bank

Founded in 1894, Punjab National Bank (PNB) is the second largest public sector bank. The Bank does not have an ESG policy or any other policy that is easily accessible, making it difficult to ascertain its commitments. There is mention in its Business Responsibility report (2021–22) that Bank has an ESG Framework in place and that a Board Level sub-committee steers the ESG initiatives. The same is mentioned in its annual report (2021–22):

Does the Bank have strategies/ initiatives to address global environmental issues such as climate change, global warming, etc.? Y/N. If yes, please give hyperlink for webpage etc.

Yes, Bank has strategies to address global environmental issues such as climate change, global warming. Bank believes in conducting responsible businesses. Bank has an ESG Framework in place. Board Level sub-committee steers the ESG initiatives. Potential sectors exposed to physical and transition risks have been identified by the Bank. Banks' credit rating and credit appraisal process takes into account environment related aspects. Efforts on enhancing credit on boarding and credit rating process are ongoing by incorporating ESG attributes in detail. Various schemes such as financing e-vehicle, solar panels, solar pumps etc. have been launched to support green energy.

Except for this commitment, there are hardly any other details published publicly to access the bank.

HDFC Bank

The Housing Development Financial Corporation Limited (HDFC) was one of the first financial institutions that got an 'in principle' approval to set up a bank. The HDFC bank limited was incorporated in 1994 and commenced operations in January 1995. The bank was listed in the stock exchange in May 1995. As of March 31, 2022 the bank has an all India distribution system of 6,342 branches and 18,130 ATM's in 3,188. It is the largest private bank with assets over 15 trillion Rupees.

HDFC bank, to its credit, is one of the few Indian Banks that comply with the Global Reporting Initiative (GRI). In 2012–13, the bank added sustainability to the core values of the bank and releases its sustainability report in accordance to GRI ever since. In 2018 – 19 the bank also included Environment Social and Governance (ESG) framework into its policies. The bank developed a board governed policy for the ESG framework and subsequently instituted an ESG committee that reports to the Corporate Social Responsibility (CSR) committee of the board of directors. As of August 2021 has an AA ESG rating by MSCI (annual report 2021–2022).

The ESG policy document published in 2020 is divided into four sections covering:

- Introduction
- Approach and Policy Governance
- Approach and Focus Areas
- Disclosures and External Standards

Section 3.2 of the policy covers Environment and Social Risk Management in Lending. The positive aspects are that the policy covers both green field and other projects that are above 10 Crore and above a duration of five years. It does have provisions to have independent impact assessments and monitoring for those projects that are potentially adverse to environment.

As mentioned it is a positive step in the right direction for the Indian Banks. But there is a need for more clarity and strengthening of the policy itself.

Gaps:

HDFC, does not have an ESS policy, but has adopted its own ESG policy. In this policy there are specific focus given to the impact on environment and social aspects through lending to large scale projects. But it must be mentioned that this is only a small part (only limited to section 3.2) of the overall policy.

The policy is focused on environment, social and climate risks. But fails to define what it means by 'Risk'. If the risk means the financial risks and losses for the banks or the risks that the projects pose for the environment and the people. One of the key focuses of the policy is climate risks, but it doesn't define what it means by climate risks. Further there is no detail or categories of the impacts that large projects cause.

The roles and scope of Relationship Manager (RM) and Lender's Independent Engineer (LIE) are not clearly defined. Whether there will be one RM and LIE for each of the projects or if there is one for monitoring all the projects is not clear. What would be their qualifications and capacity to do impact assessments is also not clear.

The policy maps out a process that the project goes through as a part of the Environmental & Social Risk Management in Lending. In this process the use of 'Shall/may/if necessary" highlights the aspirational nature of the policy. While there is a promise to redress any issues, there is no mention of actions that would be taken in the case of non-compliance.

This aspirational policy seems to be focusing on the future and does not mention the status or its application on current projects that are already functional. There are no specifications of what kind of impact studies will be conducted and the parameters.

The policy is broader and does not look go deeper into the impacts. To some extent the policy mentions some of the factors it will take into considerations when lending to the project. This does not cover gendered impacts, impacts on indigenous communities or other marginalised communities in the country.
The exclusion list of the policy is limited only to those projects that cause ozone depletion. There is many other highly polluting or potentially polluting sectors that are not included in the list.

The policy does have a section on its disclosures – sustainability Report, Carbon Disclosure Project, Annual Report and International Integrated Reporting Council. While these are good practices, the policy does not mandate a disclosure on project wise assessment.
There is still no direct way to track the lending for each of the projects and their corresponding studies and reports.
The policy does not have any mechanism for the people who would be directly impacted by the projects to reach out in case of any violations.

ICICI Bank

ICICI bank was established by Industrial Credit and Investment Corporation of India (ICICI) in 1994 as a wholly owned subsidiary. ICICI was established in 1955 as a joint venture of the World Bank and Indian Public Sector banks and Insurance Companies for financing Indian industries. The parent company later merged to the bank.

ICICI bank brought out its ESG policy that is in effect since April 23, 2022. With a stated ESG philosophy *to adopt sustainable business practices that ensure the long-term success of the organization and have a positive impact on the environment and society. The Bank endeavours to promote long-term sustainable growth in the economy through business initiatives and responsible corporate citizenship.*

According to the policy the Risk Committee of the Board of Directors will be overlook ESG related issues of the Bank. Identification and implementation of ESG related initiatives shall be undertaken by the Steering Committee comprising representatives of various functions within the Bank, which shall be chaired by the Group CFO.

The policy is divided into three sections:

- ESG Policy Statement
- ESG governance
- Key focus areas of ESG

The third section is classified into other subsections – Responsible financing, Environmental sensitivity in the Bank's operations, Our Customers, Our Employees, Society, Corporate Governance, Cyber security and data privacy governance

framework, Stakeholder engagement and accountability. As mentioned earlier, this study would primarily focus on those sections relevant to lending and environmental and social impacts.

ICICI does not have a specific ESS policy, but has its own ESG policy which also includes environment and social impacts due to lending.

Out of the policy only the section on Responsible Banking talks about lending and its impact. The only paragraph that clearly spells out ESG framework in lending:
The Bank's Social and Environmental Management Framework (SEMF) is used for screening new project finance proposals. The framework stipulates environmental and social due diligence for projects above specific thresholds. It has an exclusion list of industries not permitted for financing.

Hence, there is a lack of definitions and clarity. Even the above paragraph is vague and does not specify the threshold above which the ESG due diligence will take place. There is no mention of how and who in SEMF will be responsible for implementing the due diligence.
It is not clear as to what the due diligence process entails.

The policy has very less to say about the environment and social risks involved in its lending. Even within that the language is only aspirational. The bank admits that it is still in the process of incorporating these concerns into its policy:
The Bank is in the process of incorporating ESG and climate risk aspects as part of the credit evaluation process. This will include assessing the ESG profile of borrowers, their ESG related risks depending on the sector in which they operate and related maturity in terms of policies and processes deployed to address these risks.

The Bank is committed to managing climate risks and enhancing related public disclosures. While a common framework for adopting climate risk assessment at banks is still evolving, the Bank's approach to analysing climate risks would include developing methods to integrate climate risk in the risk management framework and begin testing the resilience of the lending portfolio to transition and physical risks. The Bank will be aligned to national goals and targets in the nation's collective transition to a low-carbon economy.

Without any specifics on how these commitments will be actualised the policy remains very limited.
The policy does not go into any specifics or detail raising questions on its motive to really engage with the issues. Further, the approach to the environment and social impacts are limited to promises and repeated commitments instead of any concrete action plans.

The policy does mention that the Social and Environmental Management Policy includes an exclusion list. But it does not mention the sectors / industries that are excluded. There is no details on impacts itself, let alone catering to any specific people or community.

The policy does not spell out any mechanisms or process that would hold the companies accountable for their impacts or any mechanism for the people impacted by the projects to reach out to the bank.
It only states "*the Bank believes in maintaining a transparent relationship with its stakeholders and holds regular interactions with them, including investors, employees, customers and regulators. The Bank will seek to enhance its practices and disclosures on ESG, with a focus on the material topics identified by stakeholders, on an ongoing basis.*"

Life Insurance Corporation of India

Life Insurance Corporation (LIC) is the largest insurance company of the country. LIC was formed in 1956 by merging 254 insurance companies and provident societies together. This state owned company announced IPO on May 4th 2022. LIC also has invested in all major sectors. But the company does not have any policy guiding its investments with regard to environment and social impacts.

The mention of environment and social concerns is limited to a standard paragraph in its annual reports:

Revision in Underwriting Guidelines Underwriting guidelines are reviewed from time to time on account of various factors such as Environmental and Regulatory; Technological and Medical advances; our Mortality experience of Insured lives; Industry practices and feedback etc. It has been the constant endeavor of the Corporation to provide security to as many people as possible and to channelize the savings mobilized for the welfare of the people at large.

Other than this mention there are hardly any other policy commitments or guidelines that are accessible in the public domain.

The idea of social responsibility is limited to its investment as mentioned in its annual report:

It has been the constant endeavor of the Corporation to provide security to as many people as possible and to channelize the savings mobilized for the welfare of the people at large. To meet this end, the Corporation has been promoting Social Welfare through investments in Infrastructure and Social Sector which includes:

** Projects/Schemes for generation and transmission of Power*
** Housing Sector*
** Water Supply and Sewerage Projects/Schemes*
** Development of Roads, Bridges, Road Transport & Railways*

According to the report *the total Investment in these sectors during 2020-21 was ` 26,322.90 Crore. The investments as at 31.03.2021 by way of Central, State and Other Government Guaranteed Marketable securities, Loans, Debentures & Equity investments in Infrastructure and Social Sector amounts to ` 26,86,527 Crore.* It further states that the institution has 43.24 percent or INR 11380.40 Crore in Power sector and INR 11272.78 Crore (42.82%) in other infrastructure projects. With such huge investments every year, in sectors that are known for their environment and social impacts it is disappointing for to see no policy or an effort towards ensuring no harm in their investments.

ICICI Lombard

ICICI Lombard is a joint venture between ICICI bank and Fairfax Financial Holdings (Toronto, Canada), established in 2001. It is today the largest private sector insurance company with a Gross Written Premium (GWP) of 143.2 billion in 2021.

ICICI Lombard is one of the few financial institutions that have an ESG report and a sustainability report along with their annual report. They also have a policy on Environment Management. Its Environment Management policy states that:

"*ICICI Lombard, as an organization, understands the privilege to consume natural resources from the environment and hence is committed to attain a leadership position in environmental stewardship. For this reason, ICICI Lombard shall evaluate and monitor its daily operations to lower environmental damage in order to maintain a sustainable development for all. ICICI Lombard shall imbibe and inculcate environment-friendly practices across its daily operations through optimization of resource consumption and reduction of waste.*"

In section 10 of the same policy, the institution also commits:

"... With an effort to create and deliver sustainable and long-term value to all our stakeholders, the Company has framed a Responsible Investing Framework, which would supplement its Investment policy to guide the investment team in taking investment decisions after due consideration to environmental and climate change aspects. As a part of the framework, the Company applies an Environment, Social and Governance (ESG) factors to evaluate the individual issuers and also has an exclusion/ negative list of sectors which are inconsistent with its investment strategy and broader sustainability goals. The Company has a stewardship policy, in accordance with which it will engage with the investee companies and vote on various resolutions. ICICI Lombard considers proxy voting as a core part of its investment and stewardship processes. This includes evaluation of shareholder proposals on issues concerning environment, climate change and governance. As a shareholder and bondholder, the Company will engage with the management of the investee companies, these engagement activities is carried out through the circulation of

questionnaires to these investee companies on environmental, social and governance matters."

Apart from the policy, their ESG report which is being published since 2018 also mentions that the institution's commitment to SDG goals and that the report is drafted in accordance to the Global Reporting Initiative (GRI). The business Responsibility report is also part of the statutory requirement.

Gaps:

While all these reports do mention about various initiatives for the company to include ESG framework into the work and investment, there are hardly any steps or process established that could speak to the implementation of these ideals proposed.

These reports do give links to the various policies and contacts of the people in charge, the reports are only in English and available online. This limits the scope of the purpose of these policies to only being obligatory requirements.

There are hardly any details on the investments made to projects and the any systems for monitoring.

Though various reports do mention about not investing in polluting industries, there is no list of sectors or parameters for such exclusion that is accessible.

Power Finance Corporation (PFC)

Power Finance Corporation (PFC) established in 1986 is owned by the Ministry of Power, Government of India. Since its inception, it has been a backbone of the Indian Power Sector and is one of the Navratna institutions.

PFC has been financing various power projects across the country. Since power sector primarily depends on coal fired power plants, the entire process is highly polluting. From mining, production and transition have had irreversible environment and health impacts across the country. As one of the primary financier of many such projects, one would expect PFC to have one of the strongest environmental and social safeguard policies. Not only do they not have a policy, but the issue gets much less attention in their annual reports.

PFC states that it has a "…*CSR and Sustainability policy in place. The aim of the policy is to ensure that the Company becomes a socially responsible corporate entity committed to improving the quality of life of society. For FY 2020-21, the Board approved the CSR budget of `148.45 Crore. PFC implemented wide range of CSR and SD activities in the field of Environment Sustainability, Healthcare, Sanitation and Drinking water, and Skill development."*

When it comes to environment, PFC commits that it *always endeavours to protect the environment by minimising consumption of natural resources and also by minimising wastage of the same. PFC endeavours to reduce its paper consumption through IT solutions by digitalising processes, wherever possible. PFC, being a Financial Institution, has limited applicability of mechanism to recycle products and waste, however, the Company has installed an Organic Composting machine in the office premises for recycling organic waste generated on routine basis in the office building kitchen/pantry.*

These commitments only point out the very limited scope and understanding of environment and social impacts from PFC. this is even after there have been

movements in every coal block across the country for safer practices in handling waste and on the negative impacts of the power plants.

The context and urgency of the increasing pressure to move away from dirty and polluting investments due to their harmful impacts does not reflect in any of the policies. The focus seems to be on the need to produce more energy rather than impacts. This is reflected in the statement "*Recognising the formidable challenges of meeting the energy needs and providing adequate and varied energy of desired quality in a sustainable manner and at reasonable costs, improving efficiency have become important components of energy policy. In addition, the environmental and health burdens arising out of the use of hydrocarbons may also force mankind towards energy efficiency and clean energy systems. Energy conservation has also assumed enhanced importance with a view to conserve depleting energy resources.*"

The impacts are only seen as one of the reasons for energy transition rather than something that needs to be addressed currently. The mere switch from coal to renewable has been proved to be equally problematic. Hence focusing on only energy transition as the only option without focusing on safeguards against the impacts shows limited vision.

Conclusion

This study has taken the top two institutions in each of the sectors, even among them the understanding and policies are seriously lacking. This extends to other financial institutions as well. The debate on environment and social impacts is still in a nascent stage. Though the issues of climate change, social responsibility, environment, impact assessments are slowly entering the business vocabulary, for the time being it is limited to pressure from global institutions.

Since these debates have come as a response to mounting pressure, the scope and the depth of understanding these issues are also limited as we have seen in earlier sections. Studying the various policies and reports, the approach towards these issues are limited to:

Reporting and Rating: Given the pressure on regulators to respond to issues of climate change and sustainability, there is increasing efforts to comply with domestic sustainability and Business Responsibility reporting. For the top 1000 listed companies these are mandatory and hence they bring out reports for the same. Beyond this, some institutions also comply with some voluntary global reporting. Most of them do so for either statutory reasons or to gain ESG ratings.

Claiming Green: Across all of these policy initiatives and reporting on Environment and Social issues, a major focus is on the investing more on renewable projects and initiatives like increasing digital transactions to reduce papers, installing solar panels etc. While these are welcome changes and are important, it cannot be a substitute for ensuring responsibility in investments and lending to large projects. But, the understanding on due diligence, protection from impacts etc. is yet to seep into the core of a green approach.

Policies without Accountability: Some of the institutions have adopted ESG policies, as part of their commitment to climate, sustainability and business responsibility issues. Some of these policies also have sections on lending and processes to monitor lending etc. But none of them have accountability mechanisms or process to redress any violations. there are no efforts to reach out these policies to the people impacted by projects. Hence the policies remain as paper tigers and just another compliance procedure.

There is a serious gap in understanding the importance of having policies with accountability that would focus on impacts and work towards prevention and mitigation of such impacts. Only that approach will ensure that financial institutions are truly responsible in their business. Policies for the sake of compliance or gaining ratings will in the long run go against the values of sustainability and protection of environmental and social issues.

This gap analysis is an attempt towards evolving a safeguard policy that would actually address the issues of Environmental and Social impacts due to large projects. Only adopting such policies and ensuring that the institutions are held accountable would truly make Indian financial institutions reach global standards. Further, from a people's perspective safeguards provide yet another layer of exercising vigilance, filing appeals, holding institutions accountable and resisting the profit driven model of development. The need for banks to adopt safeguards mechanisms to avoid and mitigate damaging consequences to people and the environment lies at the intersection of finance, climate and social impact, public policy and private governance.

Centre for Financial Accountability (CFA) engages in critical analysis, monitoring and critique of the role of financial institutions – national and international, and their impact on development, human rights and the environment, amongst other areas. Our body of work includes both research and programmes.

We produce information resources and policy analysis for a range of different readership – civil society, grassroots movements, general public, media houses, policy makers and parliamentarians. Our awareness programmes work towards demystifying finance through increasing public awareness and encouraging public debates about issues of financial accountability.

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