A Review of the Environmental and Social Policies of National Development Banks in Brazil, China, and India

A Working Draft Prepared for the "Advancing Sustainable and Accountable Finance: National Development Banks and Their Emerging Role in the Global Economy" Conference

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About this Draft Discussion Paper

Background

In recent years, national development banks have played a pivotal role in supporting, if not initiating, the impressive economic transformations of Brazil, China, and India. Although these countries were once leading destinations of foreign aid and development finance just a few decades ago, today the tables have turned. China now stands as the leader in financing development projects around the world, and Brazil and India similarly have become major investors in their own respective regions. These countries continue to be described as emerging markets, yet in many ways, they have already arrived onto the international stage as formidable financial players, in part because of the critical role NDBs have played.

As national development banks, particularly from BRICS (Brazil, Russia, India, China, and South Africa) countries, have taken on new roles, they are challenging the dominance of Western-dominated institutions such as the World Bank in shaping the economies of developing countries around the world. Especially in the aftermath of the financial crisis, the emergence of national development banks from BRICS countries may suggest the rise of potential alternatives to the "Washington consensus" model of economic development.

But what, precisely, is the development model being promoted by BRICS - based national development banks? Will national development banks from BRICS countries lead the way in fostering greater sustainability, accountability and financial stability? How do these financial institutions compare across BRICS countries?

Hong Kong conference on National Development Banks

This draft discussion paper outlines the structure and behavior of these institutions from Brazil, China, and India, with special attention paid to NDBs' environmental and social policies or programs. Each country chapter describes and assesses the scope, context, and social performance of each bank's lending practices, as well as highlights case studies to indicate how policies may or may not be implemented.

The authors welcome feedback and comments on this paper, and subsequent drafts will incorporate observations and conclusions from the Hong Kong conference on national development banks, include additional chapters to synthesize the similarities and differences between these banks, and highlight how banks can potentially learn from each other in advancing accountability and sustainability. We anticipate this portion of our research to be completed by early 2014.

Contributors for our current working draft include the Mais Democracia (Brazil), Greenovation Hub (China), and CUTS International (India). Friends of the Earth US has served as editor in chief for the report.

Executive summary

The first chapter focuses on Brazil's major development bank, BNDES (the National Bank for Economic and Social Development). Although other national development banks are tasked with investing in national development projects, such as Caixa Economica and Banco de Brasil, BNDES functions as the country's primary agent for financing Brazil's social and economic development goals.

Founded in 1952, it has operated under the jurisdiction of the Ministry of Development, Industry, and Commerce since 1979, with the bulk of its funds coming from the National Treasury and Fund for Worker's Support (FAT). It experienced steady economic growth from 2000 until the 2008 financial crisis, after which BNDES escalated its lending to mitigate the impact of the global crisis. At its peak, BNDES disbursed R$168 billion, or $76.5 billion USD, in 2010. Since then, BNDES continues to disburse a majority of funds to the Commerce & Services sector and Transformation sector (consisting of the production of food, drinks, textiles, petroleum, IT equipment, paper, etc), as opposed to the Agriculture and Extraction Industry sectors. In recent years, BNDES has sought to promote Brazilian corporations and industries by expanding its footprint across Latin America and even Africa, leading to an increasing number of growing pains regarding environmental and social safeguards.

The second chapter focuses on China Development Bank and China Export Import Bank (China ExIm Bank).[1] Over the past two decades, China has received worldwide attention for its phenomenal economic rise. China Development Bank and China ExIm Bank have played a special role in fostering the nation's "economic miracle"[2], financing a profusion of infrastructure, energy, transportation, and other development projects at home. Under the direct control of the State Council (China's highest governing body), CDB is tasked with strengthening China's competitiveness by through strategic financing which fall in line with government objectives. On the other hand, China ExIm Bank is responsible for facilitating the export and import of Chinese products and offers export/import credits, concessional loans, and loans for contracting and outbound investment. According to recent research, the two banks aim to create ideal political and economic conditions for private sector investment to follow. CDB is financed through both domestic and overseas bond markets, whereas China ExIm Bank also obtains funds from the People's Bank of China, public institutions, as well as interbank deposits. Both banks also fall under the jurisdiction of China Banking Regulatory Commission, a ministry level body tasked with supervising and regulating Chinese banks.

As notoriety of China's environmental problems increases, its financial institutions have adopted a broad range of policies to address this growing concern. This chapter demonstrates the history of Chinese government efforts to incorporate environmental principles into banking practices, starting with the first green credit policy in 1995.

The chapter further explores how these policies impacts China's growing overseas footprint. In particular, it examines how the raw commodity and energy demands of the Chinese domestic market are driving its national development banks to invest overseas. China is the leading financier of development and infrastructure projects in the world, surpassing even the World Bank. However, its environmental track record both domestically and overseas has cast doubt on whether Chinese

[1] Although China ExIm Bank is technically a policy bank, its lending record reflects a tendency towards development projects both in and outside of China, which is why it is included.
[2] "China's Economic Miracle", BBC News China. Published October 24, 2012.

financial institutions have been fully trained and equipped to successfully mitigate environmental and social risks.

The final chapter describes the unique multiplicity of national development banks in the Indian context. Unlike some of its BRICS counterparts, India does not have a financial institution tasked with the singular responsibility of overseeing national development financing needs. Instead, the Reserve Bank of India, its central bank, plays a direct role in supporting developmental activities.

Shortly after India's independence in 1947, the RBI was nationalized in 1948. While the core function of the RBI was to safeguard monetary stability, it played a key role in pursuing other developmental activities. In a novel departure from the conventional functions of a central bank, the RBI established a number of Development Finance Institutions (DFIs) that financed vulnerable sectors of the economy. With the establishment of India's first DFI in 1948, its national development financing sector subsequently experienced a burgeoning period, establishing almost 30 national DFIs. In its effort to advance sustainable finance, social sustainability goals have taken priority over environmental concerns. The chapter examines specific measures that the RBI has taken to channel resources towards areas of social development, then outlines the rationale for which environmental considerations remain voluntary. From the Indian case, the reader will see how India has approached mitigating social development concerns through the various lending, regulatory, and supervisory roles of DFIs.

Today, India has ten national DFIs that perform these functions within their specific sectors. In terms of state level DFIs, 40 carry the same responsibilities on a sub-national level. DFIs play a significant role in the financing of long-term investments within specialized areas; however, due to the ongoing conversion of a number of significant DFIs to financial supermarkets, there is a lack of sufficient capacity within the finance sector to fill the vacuum of long-term financing.

In conclusion, we welcome feedback which we can incorporate into this report, and hope our participants find it useful during the conference.

Chapter One:
Brazil – National Bank for Economic and Social Development

Mais Democracia

Introduction

The National Bank for Economic and Social Development (BNDES or the Bank) is Brazil's main agent for financing development, responsible for several investment policies, especially those related to industry and infrastructure. Although Brazil has other national banks that finance some aspect of development – such as Federal Government's *Caixa Econômica* (Federal Savings Bank), which focuses on housing and sanitation, or *Banco do Brasil* (Bank of Brazil) who strongly supports agricultural investments – BNDES, by far, has the most significant portfolio in terms of diverse economic and social sectors and volume of resources disbursed. Also, the Bank is the only one that has a prominent agenda towards internationalization. It is officially appointed as the agency responsible for executing the country's industrial policy, financing the main program for accelerating growth through infrastructure (PAC) and for representing Brazil in international agreements such as those made in the context of the BRICS Development Bank[3].

Since its founding in 1952, BNDES has played many roles in the Brazilian economy. Despite moments when the Bank's activities were restricted by a scarcity of funds – usually connected to Brazil's vulnerability to international shifts – it has been the primary agent of development in Brazil. Among these include Brazil's first phase of industrialization; between the 1950s and 1960s, it supported the Federal Government in installing an industrial park in the country; in the military period, extraordinary volume of funds were received from foreign investors and were redirected internally to BNDES in order to finance large-scale infrastructure and industrial ventures; later, during the late 1970s, it bought shares of indebted companies; lastly, during the National Privatization Plan led by

3 Representing their country, national development banks from BRICS members signed two financial and technical cooperation agreements during the groups 5th Summit in South Africa (March 2013), focused on sustainable development and in the African continent.

the Bank from the late 1980s throughout the next two decades, it converted over 50 large companies from the public sector to the private one, in which the latter the priority of the BNDES investments. Throughout its historical existence, BNDES' profile changed and its portfolio enlarged; each of the steps described was crucial in making the Bank what it is today.

Administrative Structure of BNDES

Brazilian development and its financing has been historically promoted by the State, with nationalistic contours at first, gradually becoming more receptive to international funds, although foreign investments were always either necessary and/or present for the installation of at least part of the country's industrial park. Although great amounts of public resources were directed to development through modernization, industrialization and infrastructure, Brazil's – and, consequently, the Bank's – investment capability was usually subject to the international economic scenario, fund availability and partner generosity. In this sense, until Brazil reached stability in the mid-1990s, the Bank's activities fluctuated but ultimately stabilized, making the BNDES a powerful finance institution today.

Although the Bank was originally under the jurisdiction of the Ministry of Finance and later moved to the Ministry of Planning, it now operates under the Ministry of Development, Industry and Commerce (MDIC) since 1979. Described in its own Statute (published in 2002) as the Federal Government's main instrument for investment, with the primordial objective of supporting programs, projects, ventures and services related to the country's social and economic development (article 3).

As part of the Executive Branch of the Republican Federation of Brazil, the BNDES is subject to overall monitoring by both the General Controller Office (CGU) and the Federal Auditors Court (TCU) and specific monitoring by institutions and offices related to each fund that it administers, such as the Ministry of Labor (MTE) in the case of FAT and the Ministry of Culture in the case of the Audiovisual Fund (FSA). In terms of organization, the BNDES is now a full-functioning system, in which there are four main subsidiaries, as shown in the figure below.

BNDES and Subsidiaries

Internally, the BNDES is structured around an Administrative Counsel, the Presidency of the Bank, who has his own office and executive secretariat, a Fiscal Committee (*Comitê de Auditoria*) and other general offices, like the Ombudsman service and the legal department. There are 9 Directories and 23 Areas in the Bank today, with different scopes that are sometimes thematic and other times procedural, and neither the Bank's hierarchy nor the arrangement of these Areas are clearly indicated in the structure offered publicly by the BNDES.

The Bank's current sources of funds are far more numerous and generous as they ever were historically, which was definitively proven by the BNDES' disbursement capability despite the recent global economic crisis, increasing its financial support during that period, as will be shown ahead. The oldest forms of funding still in use by the BNDES are both the National Treasury and the Fund for Worker's Support (FAT). Interestingly, although the Bank's first capital had come from the Treasury, it was FAT that represented the majority of the BNDES' available funds during many decades.

Recently, the Treasury has become the largest source of funds to the Bank, commonly by indebtedness in the capital market.

Most of its published information and statistics revolve around disbursement patterns. The following section will present and analyze data collected directly from the BNDES "Transparent" web page – which accounts for its activities through numbers and reports – with the objective of illustrating BNDES' recent and current situation, of consolidating the profile the Bank developed along its 60 years of existence and of providing insight on the tendencies for the future.

It is interesting to note that the BNDES was showing a gradual growth along the decade of 2000, up until the economic crisis that hit North America and Europe between 2008 and 2009, moment in which the Bank increased significantly its disbursements. The peak reached in 2010 – R$168,4 billion or around US$76,5 billion – other than combining different efforts by the Bank to keep the economy dynamic and avoid the effects of the global crisis (such as the Program for Sustained Investment), is also due to the third capitalization of *Petrobrás* that the BNDES supports, once again breaking records in terms of the operation's financial volume and complexity[4]. In the last three years, although volume fell slightly in comparison to 2010, as expected, this does not necessarily point towards a *tendency* to diminish disbursements by the Bank in the near future.

In terms of large sectors disbursements, the table below demonstrates the evolution from 1999 to June of 2013 in millions of *reais*. It is observable that the sectors referred to as Transformation Industry and Commerce & Services concentrated historically most of the BNDES' investments in similar proportions – 45% and 46% respectively. Nonetheless, it is important to highlight that in the last two years (2011 and 2012), the disbursements for Commerce & Services has been little over the double of those to the Transformation Industry, indicating that the Bank accompanied Brazil's economic tendency towards services, especially in big urban centers, during the last decade. Another relevant aspect from these numbers is the growth in investments in Agriculture & Livestock sector since 2010, having doubled the investments since 2010 when compared to the previous decade. For these reasons, the Agriculture & Livestock and Commerce & Services were the sectors that present, according to the available data for the period, the largest growth: 7.26 and 5.91 respectively.

Evolution of BNDES' disbursement by sector – 1999 to June of 2013

In Millions R$

Year	Agriculture & Livestock	Extraction Industry	Transformation Industry	Commerce & Services	Total
1999	1.286,6	258,5	8.136,2	8.370,2	18.051,5

4 The other two happened in 1985 and in 2000.

2000	1.908,0	120,9	10.267,3	10.749,7	23.045,8
2001	2.762,0	396,3	12.736,9	9.321,4	25.216,5
2002	4.508,9	250,3	17.157,0	15.503,0	37.419,3
2003	4.595,0	157,3	15.919,8	12.861,4	33.533,6
2004	6.930,2	242,6	15.526,2	17.134,8	39.833,9
2005	4.058,8	337,7	23.032,6	19.551,1	46.980,2
2006	3.422,6	1.457,9	25.663,0	20.774,5	51.318,0
2007	4.997,8	1.050,5	25.395,4	33.448,0	64.891,8
2008	5.594,5	3.310,7	35.710,3	46.262,5	90.877,9
2009	6.855,7	3.219,3	60.302,2	65.979,1	136.356,4
2010	10.126,3	1.513,6	77.255,2	79.527,7	168.422,7
2011	9.759,0	3.579,0	40.270,4	85.265,0	138.873,4
2012	11.362,2	1.825,3	45.861,0	96.943,7	155.992,3
2013	9.345,9	946,6	28.534,7	49.511,6	88.338,9
Distribution	7,13%	1,43%	45,07%	46,37%	100,00%
Average	5.834,2	1.244,4	29.451,2	38.080,3	74.610,1
Growth Rate	7,26397	3,66223	3,507127	5,91522	4,89371

Source: BNDES Transparente. Elaboration: IMD, 2013.

In the Transformation Industry – which includes a vast spectrum of activities, like the production of foods, drinks, textile, cellulose and paper, petroleum and fuels, metallurgy, IT equipment, optics and electronics, vehicles and chassis**,** among others – the subsectors who were most benefited historically with BNDES loans were Petroleum and fuel with R$ 73.8 billions, followed by Food Products, with R$ 63.1 billion and in third and fourth place: Other transportation equipment and Vehicles and chassis with, respectively, R$ 55.5 and R$ 53.9 billion.

Beyond these subsectors – which remained as the largest investments in the Transformation Industry for the last five years – one must also consider Cellulose and paper, that had high investments in comparison to other subsectors in the period (1999-2013) and in 2012 had its highest investments volume (totaling R$ 24.2 billion in the period); Machines and equipment, that had few years of low investments and has demonstrated a consistent growth throughout the historical series, probably due

to the stabilization and expansion of FINAME (totaling R$ 25.1 billion in the period); and Metallurgy, that has also held an important position in the historical series, presenting a varying cycle of investments[5], currently in decline since 2009 (totaling R$ 31.2 billions in the period).

For Commerce & Services, the BNDES's investments are historically concentrated in Electricity & gas and Terrestrial transportation, having accumulated respectively R$ 122.3 and R$ 171.6 billion between 1999 and June of 2013. Investment growth in the Electricity and gas sector throughout the historical series presented interesting variations that pointed for a massive and recent investment by BNDES in 2010 – the capitalization of *Petrobrás* –, while Terrestrial transportation grew consistently throughout the period analyzed, specially between 2006 and 2010, in which the investments grew about R$ 5 billion per year, before falling significantly in 2012 (from R$ 28.6 billion in the previous year to R$ 18.8 billion).

Commerce itself, which is the third largest subsector, accumulated R$ 62.3 billion in the period. The investments' progress began on a yearly average of R$ 1 billion to the sector between 1999 and 2005, growing steadily until they practically doubled between 2009 and 2010 (from R$ 5.6 billion to R$ 10.5 billion), after which a gradual growth was maintained, reaching R$ 13.2 billion in 2012. Other two subsectors that presented large share in the Commerce & Services were the Construction and Telecommunications, which received along the historical series R$ 47.7 billion and R$ 41 billion respectively. The investments in Construction grew gradually throughout the period analyzed, showing average growth and reaching its highest investment in 2012 (R$8 billion). In Telecommunication, the investments varied throughout the years, peaking in 2008, when the subsector received R$ 6.2 billion, and decreasing again until 2012, when it began receiving a second wave of large investment volume (R$ 4.8 billion).

This superficial analysis of Commerce & Service is fundamental to evaluate, in terms of financial investments, the importance given to the social utility of BNDES, once investments in areas that are essentially social – such as Water, sewage & waste, Housing & nutrition, Education, Health & social services and Arts, culture & sports – are part of this sector. For the nearly 15 years of disbursement data analyzed – from 1999 to 2013 –, these subsector *combined* received R$ 24.2 billion, distributed as follows: R$ 9.4 billion for Water, sewage and waste; R$ 3.2 billion for Housing & nutrition; R$ 2.9 billion for Education; R$ 5.3 billion for Health & social services; and R$ 3.5 billion for Arts, culture & sports.

Financing schemes

The financing schemes through which the BNDES disburses its funds are various, since innumerous products from several programs and dozens of funds are offered to all types of beneficiaries. The Bank simplified these schemes separating them by type of operation: *direct*, in which the borrower's application, selection and contract is straight with the BNDES and *indirect*, through which the borrower is selected and financed by an accredited institution part of the System's network in a previously approved line of credit. There is also an indirect, but non-automatic, type of operation

5 Based on the BNDES' data, it is possible to notice a first decline in Metallurgy investments in the years of 2003 and 2004 – the first two of the PT/Lula Administration – from a peak of R$1.2 billion in 2000 to a low of R$ 741 million in 2004, followed by a strong and prolonged growth until 2009, when it reached R$4.5 billion, and began to fall again, closing in 2012 with R$2.5 billion.

referred to as "*mixed*", since the funding is through a partner institution but at least of the process has the BNDES' direct involvement.

Environmental & Social Policy Development

In the last three decades, the concept of development has evolved from simple economic growth to a more complex idea that involves environmental and social issues, referred to as *sustainable development*. In this context, the BNDES has a contradictory stance, since it has accompanied the environmental trend since the 1970s, with criteria, projects and programs related to the theme. In 1981, Brazil published a **National Environmental Policy** that required the Bank to deal only with operations that were environmentally approved. In 1984, the BNDES created its first program for environment conservations called **Conserve***,* focused on the control of pollution.

In 1992, Brazil hosted the United Nation's Conference on the Environment, known as Rio or Eco '92, where the "**Green Protocol**", a declaration of intentions on sustainable development signed by banks was drafted. Three years later (1995), Brazil signed the Protocol in the name of the BNDES, the Bank of Brazil, *Caixa Econômica*, the Bank of the Northeast (BNB) and the Amazon Bank (Basa). The Bank participated in the UNEP (or PNUMA) and steadily gave the theme attention and importance. In 1999, year identified as the 10th year since the Bank is engaged in sustainable development, the BNDES had disbursed US$ 5 billion to the environmental area, representing 6% of the total investments of the Bank in that decade.

In 2003, the BNDES published, for the first time, environmental guidelines, with criteria and orientation to guide the projects that would receive the Bank's support. In the subsequent years, this preoccupation intensified, and by 2006 the Bank completed a reformulation of its environmental policy, the main initiatives being a new line of credit and program focused on energy efficiency and conservation.

According to the Bank, since 2007, **Article 10 of the Statute** requires, among other items, a technical, economic assessment of the venture, project or business plan, including evaluations on social and environmental implications. In 2008, the **Amazon Fund** was created under the BNDES' administration, within a newly created Environmental Area that selects, contracts and monitors projects and investments in forest control and preservation of protected areas, recuperation of deforested areas, sustainable economic use of the forest, among other possibilities. In 2009, under pressure from social and environmentalist movements, the Bank proposed specific environmental conditions and criteria for the cattle industry.

This way, the process of internalizing the environmental aspect of development in BNDES' history took place during the 1990s, starting with the context of the Green Protocol (recently revised and reapproved in 2008) and passing through the Bank's environmental policy of 1999, which basically upholds the borrowers and applicants to national legal standards and sets objectives and principles for the Bank and its loans. During this period, the Bank had a small department for these issues, which the new Area now replaced, increasing available funds, technical capacity and importance. This, however, does not mean a significant change in the profile of projects the Bank supports, or that the Bank changed radically its posture in terms of environmental issues.

This new area and funds promoted the diversification of products, programs and financing possibilities for projects that dealt both directly and indirectly with the environment. Another

important step was the signature of the **Protocol of Intentions Regarding Social-Environmental Responsibility** by the BNDES and the other public banks, together with the Ministry of the Environment. The document is interesting since it proposes that these banks promote policies and practices that induce, multiply and exemplify social-environmental responsibility, going beyond minimum standards and legalities. In 2009, the Environmental Area updated its guidelines, which were now social-environmental; it represented a change in the Bank's role in the theme, from disposing of its traditional technical support during analysis/monitoring procedures to offering effective instruments to establish sectorial policies through risk and impact identification and mapping methods.

Environmental Policy & Safeguards during the Loan Process

In 2010, the Bank published its own Social and Environmental Responsibility Policy, with the intention of developing and improving financial products, analytical methods and other instruments that incorporated social-environmental criteria for use on local and regional development. Also, the BNDES established guidelines to monitor and evaluate its own impact on society and the environment and of those activities and projects it supports financially. This way, the BNDES today officially has a transversal social-environmental policy that permeates the whole approval process for all of the direct and indirect non-automatic financing.

Projects and ventures are indirectly supported, and credited financial institutions are responsible for checking the beneficiary's and the project's adequacy to laws, standards and best practices. The described standard procedure for any project/venture approval regarding social and environmental aspects is divided in three phases:

1. **Preliminary assessment of the intended operation and applicant:**
    a. Evaluation of *main social and environmental aspects* of both the venture or project and the applicant through background research and information provided by the project´s owners;
    b. Clearance from any labor and/or environment-related crimes or judicial records;
    c. Classification of the operation, which will define the specific procedures for the next phases, according to categories based on multiple factors such as sector and type of activity, location, magnitude and characteristics of the social-environmental impact inherent to the venture;
    d. Recommendations needed for the project, that are not conditional nor binding;
2. **Analysis, approval and contracting of operations and applicants:**
    a. Evaluation of the policies, practices and management of social and environmental aspects of this and other operations;
    b. Cross-examining the social and environmental impacts and costs against legal permissions and licenses;
    c. Compliance to BNDES standards related to labor qualification or relocation in case of necessary cutbacks in employment, to inclusion of disabled people, against race or gender discrimination, child labor, slave labor or any acts that might characterize abuse or harassment of any kind;
    d. Definition of social and environmental indicators and benchmarks as bases for the monitoring and evaluation of the operation and applicant during the process;

e. Inclusion of conditions, if needed.

3. **Monitoring of operations and applicants:**
    a. Fiscal, social security and environmental adequacy (strictly in terms of legal compliance) of the applicant and operation;
    b. Compliance to mitigating measures required eventually, as well as commitments assumed in conduct adjustment agreements and rules contained in the environmental licenses;
    c. Use of (formal) indicators (provided by the project and not raised by the bank) to monitor the social and environmental impacts and evaluate both the venture and the applicant through them;
    d. Presentation of the Operation License of the venture (issued by the empowered environmental agency).

Although this process is as so described on the BNDES' website and official documents, there is little information available on the efficacy of safeguards, enforcement guarantees, or details on the Bank's inspection or monitoring process. Little information is available on any other form of transparency that focuses on their environmental assessment of ventures and beneficiaries as well. As a result, there is a lack of clarity to what extent the Bank actually monitors and responds to the projects it finances.

In addition, there also has been social pressure towards restrictive policies and punishments for approved projects that cause damages, since many ventures are supported in spite of their lack of social-environmental feasibility. BNDES has established a method for the appreciation and assessment of environmental issues and aspects. To grant any assistance as of the year 2000, the Bank expects that the ventures and beneficiaries respect applicable legislation and the policy itself, comply with environmental measures, undertake environmental risks, and promote social and environmental practices that raise the level of competitiveness and improve quality of life. In this analysis, the Bank may recommend a revision of the project, offer resources to strengthen mitigation measures to stimulate the achievement of social and environmental goals by the beneficiaries, or even refuse or cancel financial support due to non-compliance or serious social and environmental risks.

The Environmental Policy upholds principles such as sustainable development and eco-efficiency, among others, to be executed through different instruments. These include:

- Products, lines, programs and reimbursable and non-reimbursable funds for financial support for initiatives and investments in the Environment and Social and Regional Development;
- Sector resolutions, specific policies and other regulations;
- Internal social and environmental guides, assessment methodologies of beneficiaries, assessment of credit risk and monitoring and impact assessment of projects supported;
- Internal procedures for risk assessment and for social and environmental analysis of beneficiaries and undertakings seeking financial support.
- Agreements and protocols to which the BNDES is a signatory member, sharing information and experiences through the dialogue channels and the dissemination of social-environmental efforts of the Bank also contribute to implementing the Social-environmental Policy.

In this sense, although advancements are undeniable, safeguards remain vague, with little disclosure on the process, standards and criteria, or results of such processes. However, the inclusion of these instruments and demands have yet to demonstrate a clear impact.

Compliance and Accountability Instruments

In this context, the basic instrument to establish compliance between the Bank policies and borrowers are their contracts. Scant information is publicly available on audits, inspections and monitoring procedures maintained by the Bank over the ventures, projects, borrowers, and beneficiaries. Regulations from the Bank – **Resolutions 665/87 and 660/87** – define that the measure applied to the shortcomings or defaults regarding non-financial obligations are fines of varying percentages, depending on how extensive was the loss and/or damage. In these resolutions, which regard contractual rules and instructions for monitoring and follow-ups, the environment is mentioned as part of the obligations, but no compliance procedures is directly stated in cases where social and environmental conditions are disregarded.

In addition, borrower's accountability is not detailed or openly discussed by the Bank. Legally, most of the documents, conditions, and steps are properly managed. However, they have yet to generate a pattern of concrete compliance and accountability regarding social and environmental issues. In this sense, the mentioned resolutions from 1987 and its periodic revisions have not greatly advanced the observance of social and environmental conditions and preservation.

An example of this disconnect can be seen through the Bank's Ombudsperson service (*Ouvidoria*). Created in 2003, the service is tasked to manage "opinions, complaints and reports of misconduct, aimed at guaranteeing the principles of ethics, efficiency and transparency in the relationships between the Government and citizens."[6]. Attempts to call the available telephone line in September 2013, however, asks the caller to keep on hand the corporate registry. Average persons are thus unable to use this service unless they are credit borrowers or MPMEs.

The Ombudsperson is intended to work with the Senior Administration by suggesting necessary improvements based on analysis of what it has received through its channels; it also is meant to help resolve disputes between BNDES and society by issuing official clarifications, declarations and explanations that strengthen the bonds between Bank, clients and the general public. Even so, there is little detail on the functioning of this service, its procedures, or criteria and periodicity. Unfortunately, the Ombudsperson has not played a prominent role in mediating disputes or allegations of human, social and environmental rights' violations which have stemmed from projects and companies financed by the BNDES.

In 2011, Brazil published a new law in favor of transparency – known as the **Access to Information Law** (nº 12.527 of 2011) – which establishes universal procedures for citizen request of information and mandatory answer by public offices of all types and levels. Although the BNDES is submitted to this law, like all other public institutions, it has managed to withhold information on the grounds of protecting trade secrets, even when demanded by one of its external auditors, the CGU (General

6 BNDES website. "Ombudsperson". Available at: <http://www.bndes.gov.br/SiteBNDES/bndes/bndes_en/Navegacao_Suplementar/Ouvidoria/>.

Federal Controllership). According to major media, in 2009 the dispute between BNDES and CGU was due to the refusal of the Bank in submitting itself fully to auditing processes. Arbitrated in the General Federal Advocacy office (AGU), the negotiations were also kept secret and never reached the Judiciary (through the Supreme Court)[7].

In comparison, during a dispute between a public bank (Bank of Brazil) and the external auditors (the TCU or Federal Court of Auditors), the Judiciary decided in favor of the latter. The court determined that public banks are submitted to audits by public offices, and doing so would not threaten trade secrets or the financial health of the any organization.

Case Studies

TK-CSA, Steel Plant: TK-CSA[8], a steel-producing plant, is a recent example of a controversial BNDES investment in Rio de Janeiro. Managed by Vale and the German group Thyssen Krupp (which has had serious problems in its home country over environmental damages it caused and cartel formation) , the unit failed to obtain the Operation License for the steel plant; nonetheless, the BNDES kept financing the project. The problem, however, was more than bureaucratic.

TK-CSA has been accused of poor management by Vale[9] and of causing serious social-environmental and health impacts by local organizations, such as the Instituto for Alternative Policies in the South Cone (PACS)[10].

Belo Monte Dam: Another controversial case is that of hydroelectric plant of Belo Monte, in the Xingu River in the Amazon Forest near the town of Altamira in the state of Pará. The project, which involves a dam construction and other large-scale plant components, is estimated to cost US$ 15 billion of which the BNDES will fund 89% (R$22.5 billion out of R$28.9 billion)[11]. The nearly 50 social and environmental issues raised against the execution of the project were turned into conditions to be respected or attended by *Norte Energia S.A*[12], which was approved by Brazil's environmental

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7 Estadão. "BNDES resists CGU audit" ("BNDES resiste a audiência da CGU"). Published 26/10/2009. Available at: <http://www.estadao.com.br/noticias/impresso,bndes-resiste-a-auditoria-da-cgu,456259,0.htm>.

8 Thyssen Krupp *Companhia Siderúrgica do Atlântico*. Available at: <http://www.thyssenkrupp-csa.com.br/pt/sustentabilidade.html >

9 Exame. "Vale wants indemnization of 300 million reais for bad management of the CSA". Published 29/05/2013. Available at: <http://exame.abril.com.br/gestao/noticias/vale-cobra-indenizacao-de-r-300-mi-por-ma-gestao-da-csa>.

10 PACS. Stop TKCSA. Documents available at: <http://www.pacs.org.br/tkcsa/>.

11 BNDES. News. "BNDES approves financing of R$ 22,5 billion for Belo Monte". Published 26/11/2012. Available at:<http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Institucional/Sala_de_Imprensa/Noticias/2012/energia/20121126_belomonte.html>.

12 Norte Energia S.A. is a consortium composed of the *Eletrobrás* Group, which is State-owned, with 49,98%; two of the largest complementary pension funds in Brazil, *Petros* and *Funcef*, with 10% each; two Specific Purpose Entities (SPE) composed of private companies as *Neo Energia S.A.* and as *Cemig and Light*, with around 10% each; and *Vale*, with another 9%, and two smaller private shareholders that have 0,25% and 1% each. Source: Norte Energia S.A. website. "Shareholder composition of Norte Energia". Viewed 01/09/2013. Available at: <http://norteenergiasa.com.br/site/portugues/composicao-acionaria/>.

authority (IBAMA). Interestingly, on the BNDES' webpage dedicated to the project[13], the non-financial conditions are not mentioned or referenced, even though the Bank has claimed that Belo Monte has the greatest portion of the funds dedicated to social and environmental projects. Costing an extra R$ 3 billion, the Basic Environmental Project (PBA), elaborated by *Norte Energia* as a response to the EIA-RIMA report on the venture's negative impacts, was added to the original R$25.9 billion budget, representing 11,2% of the new total.

Despite protests from indigenous communities and civil society in general, Belo Monte has slowly been built since 2012, when the first couple of billion dollars were given to *Norte Energia* by the BNDES[14]. Less than a year later, social movements were able to obtain the Bank's contract for Belo Monte through the Access to Information Law, which stipulates that the BNDES would suspend financing if the project ignored or infringed the imposed environmental conditions. Tensions rose when IBAMA fined Belo Monte for not observing these conditions in their due time and the BNDES did not suspend the funding, as the contract stipulated. The Social-Environmental Institute (ISA) has raised alarm that 16 months and 30% of the construction of Belo Monte have gone by and that nothing significant had been done to mitigate the impact on people's lives. ISA has also pointed to the $3 million dollar fine applied by IBAMA after *Norte Energia* turned in their first report on the PBA.

Cases like the TK-CSA and Belo Monte may not be widespread across the Bank's vast funding portfolio, but they are certainly not uncommon. The form of development promoted by the BNDES, which has roots in its historical role of financing all large-scale industrial and infrastructural projects in the country, focuses on the economic and financial aspects of projects which thus results in high social and environmental costs; in this context, social and environmental costs are subsequently downplayed as unavoidable obligations.

Alternative forms of promoting development, which extend beyond attending to financial and technical demands of MPMEs and investing in regions considered "underdeveloped", have not been explored by the Bank in recent years, even despite technological advances and social demonstrations that would allow for a more democratic and participative decision-making process, monitoring methods and penalties enforcement. The Bank could opt to lead the development of social and environmental standards in Brazil that measure up to the country's potential and diversity of natural and cultural resources. At this time, however, the obligation to monitor projects and companies are unevenly displaced onto local, regional and national environmental agencies.

BNDES Abroad

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13 BNDES. "Conditions of the financial support of hydroelectric plant of Belo Monte." Viewed 01/09/2013. Available at: <http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Areas_de_Atuacao/Infraestrutura/Energia_Eletrica/ belo_monte.html>.

14 O Eco. "Belo Monte: BNDES clears the first couple of billion reais". Published 28/12/2013. Available at: http://www.oeco.org.br/noticias/26793-belo-monte-bndes-libera-primeiros-bilhoes-de-reais

The internationalization of Brazilian private companies, which has been appointed as one of the Bank's priorities since the end of the 1980s, has lead to the internationalization of the BNDES itself, since it wishes to both finance Brazilian private or joint ventures in other countries and obtain foreign funding for its own investments. This process has given the Bank a prominent role in Latin America and allowed it to reach other continents such as Africa, competing at the same level, or even higher in terms of disbursements, of traditional multilateral organisms such as the World Bank's IBRD and the IDB.

During the 1990s, the BNDES signed important international agreements, such as the initiative of UNEP (or PNUMA in Brazil), the Declaration for Sustainable Development of 1992, and the Green Protocol in 1995. Since then, "soft laws" have been privileged in the international financial sector since treaties and binding agreements, never seemed to pass. In 2003, the Equator Principles were elaborated by the International Finance Corporation (IFC), affiliated to the World Bank, and signed by all major private banks in Brazil, but not like public ones such *as Caixa Econômica* and the BNDES. Other important and recent "soft law", known as the Ruggie Report and criticized by social movements as insufficient to protect human rights, is yet to be considered as a standard by the Bank.

Conclusion

BNDES has grown significantly since its foundation and has surpassed many expectations regarding its financial and technical capability. In recent years, it has become undeniable that the Bank is on a path of internationalization of its investments and influence and promoting Brazilian private companies in international markets. Many Brazilian productive units, construction sites, projects and exportations are expanding increasingly outside of the country through the support of BNDES. Of course, the Bank has also taken a prominent role in institutional negotiations in the international scenario, representing Brazil in the BRICS Bank agreements and other soft law debates.

However, BNDES' responsibility to cultivate opportunities overseas has yet to correspond to its responsibilities at home in implementing social and environmental safeguards. The Bank has developed a lackluster reputation in this regard, which has caused strained relationships with local populations affected by its investments. At the same time, the decision-making process in Brazil continues to move away from the general public. From this perspective, the debate around BNDES' role in Brazilian and overseas development merits further discussion.

Appendix 1

Borrower's size: MPME *versus* large corporations

In terms of the borrowers' size, the data available by BNDES for the period of 2003 to 2012 confirms that the Bank has in fact increased the number of operations to the called MPME (Micro, Small and Medium Companies), as part of an ongoing effort since the military period, when the Bank definitively privileged the private sector over the public sector to promote development. Although the possibility and programs to support MPME exists in BNDES since at least 1965, it was only in the decade of 2000 that the Bank raises significantly the volume of funds and increases the number of operations. There is definitely a shift of attention towards MPMEs, focused on micro companies since it increased the support in significantly smaller proportions to the small and mid-sized companies; but it is also noted that the medium-large (introduced in 2010) and large companies maintained a stable and low number of operations throughout the series.

Also, the data on evolution of disbursements in millions of *reais* from the Bank to borrowers by size shows that there was an increase across the board, in which large companies stand out as having received a proportionally larger volume of funds, especially between 2007 and 2010, when this volume began to fall. Meanwhile, micro companies increased their volume of funds more significantly than other MPMEs between 2009 and 2010, maintaining the level of investments on the following years.

For micro companies, for example, it is clear that the Bank has been giving more attention to this category since 2008, since it boosted the number of operations from 79 thousand in 2003 to over 775 thousand in 2012, while at the same time increasing the investment from R$ 5.6 billions in 2003 to R$ 23.9 billions in 2012 for this category, especially after 2009. At a first glance, one could conclude that the Bank has been redirecting part of its attention and funds to MPMEs, betting on a more diffused financing of development. This, however, is not supported by the crossing of both variables – volume of funds divided by number of operations along the years – as show in the table below.

Appendix 2: Evolution of average volume of resources per operation by borrowers' size – 2003 to 2012

Year	MICRO	SMALL	MID-SIZE	MEDIUM-LARGE	LARGE
2003	70,8	159,7	427,0		3.586,1
2004	69,4	201,0	446,2		3.594,8
2005	64,3	24,9	449,0		3.553,9
2006	55,7	152,0	422,1		3.330,6
2007	45,7	130,1	370,0		2.455,3
2008	68,4	135,2	379,2		2.854,6

2009	40,8	80,4	252,3		4.742,0
2010	50,8	109,5	289,3	444,6	3.600,6
2011	36,2	87,8	227,9	363,4	2.826,9
2012	30,8	82,0	224,0	510,7	4.277,3

Source: BNDES Transparente. Elaborated by IMD for this report.

The numbers above indicate that the BNDES has been essentially reducing the average amount per operation to MPMEs, especially to micro companies, since the increase in volume of funds have not been proportionally sufficient given the increase in volume of operations. Even if considered impacts of conceptual changes of each category and appreciating the Bank's effort and success in reaching ever more micro entrepreneurs, the tendency observed in the table above is clear regarding the maintenance of the inequitable distribution between sizes. While across MPMEs the ratio of funds per operation has consistently decreased, large and medium-large companies have seen a stable or even increasing ratio. Hence, there has been no real distribution of the Bank's resources or change in direction, meaning that financially, the BNDES' focus is still supporting "national champions" (large companies competing in the international market). Although it is understandable that larger companies are naturally less numerous than micro companies and have greater demand for resources and funds, the proportion in which a development bank chooses to direct financial support is illustrative of its conception of development and major policy objectives.

Regional distribution of disbursements

The BNDES has made efforts towards diminishing regional inequalities at least since the military period, in which attentions turned to the effects of the industrialization in a territorial perspective. It was clear since the beginning that there was a preponderance of the Southeast region above all others, since it concentrated the three richest and politically powerful states – São Paulo, Minas Gerais and Rio de Janeiro. In contrast, the Northeast has always been identified as the region in most need of support and development investments, with a large population and structural problems ranging from droughts to urban poverty.

Data from the period of 2003 to 2012, however, shows that the efforts made historically by the Bank towards directing investments towards equalizing development patterns and quality of life standards between region has been put aside. Although an increase in financing to the Northeast is observable from 2008 onwards, it has stabilized in the last three years at a lower level than the funding to the South region. A cluster of Southeastern investments in the BNDES' portfolio reflects recent capitalizations and large-scale operations with companies like *Petrobrás, CSA* and others.

Exportation by economic sector

As mentioned in the section on the BNDES' history, the Bank has promoted exportations by Brazilian private companies since the mid-1980s as part of the strategy to make these companies more competitive in international markets through a subsidiary, BNDES Exim. In this process, also referred to

as creating “national champions”, exportation plays an important role and the data discriminated by sectors indicate in which this support is concentrated.

It is notable the Transformation Industry’s share of the export financing, having accumulated between 1999 to 2013, US$ 60.6 billion out of US$ 69.9 billion disbursed by BNDES for exportation during the period. Furthermore, of the remaining US$ 9 billion, approximately, the sector of Commerce & Services corresponds to US$ 8.8 billion; Agriculture & livestock received US$ 308.9 million and the Extractive Industry, US$ 197.9 million. For the latter, there is no data on disbursement for 2005 and for after 2008, which may be an indication that the sector did not receive any support on those years – a possible tendency of the BNDES, moving away from extractive industrial exports. The subsectors of the Transformation Industry that are benefitted by the BNDES Exim overlap those from general disbursements, with the exception of Electricity & gas which does not appear in the data for exportation. In this sense, Other transportation equipment received US$20 billion throughout the series (1999 to 2013), Vehicle and chassis, that got US$15.4 billion, Machines and equipment, with US$6.4 billion and Food products, with US$4.5 billion are the most significant subsectors.

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Chapter 2:

China – China Development Bank and China Export Import Bank

Greenovation Hub

Introduction

With the rise of environmental pollution and resource depletion hindering economic and social development, the Chinese government has prioritized finance reform against domestic environmental pollution. In the past ten years, they have introduced a series of policies intended to regulate or guide the financial sector and domestic markets to assist industry in low-carbon development and improve their CSR standards. Compared with other countries that rely on the market, China's green lending is more applicable to the environment of policy intervention due to the special statues of big Chinese banks. However, implementing policy into practice requires time and supervision. Although many green finance policies have been issued, implementation has yet to be standardized since most of policies are based on "opinions" or "notices" without mandatory law enforcement.

The Evolution of Green Finance Policies in China

Despite recent media attention on the environmental health problems in China, the Chinese government has in fact released a series of green finance policies and circulars since 1995. Over the years, China has experienced a spate of innovative policies which incorporate environmental protectionism into lending and finance principles. Bold policies such as the 2007 "Two Highs" Emissions Policy and 2012 Green Credit Directive reflect how China has produced some of the most cutting edge green finance policies in the world due to the high standards placed upon financial institutions. The chart below offers readers a timeline indicating the evolution of green finance policies in China.

Date of Issuance	Issuing Institution	Policy	Objective
1995 Feb	PBOC	Announcement on credit policy for environmental protection[15]	To be aware of environmental protection in bank's lending.
1995 Feb	SEPA	Announcement on making use of credit policy for promoting environmental protection[16]	
2005 Dec	State Council	Decision of the State Council on Implementing Scientific Outlook on Development and Strengthening Environmental Protection [17]	To encourage developing economic instruments, like pricing, fiscal and financial policies for environmental friendly development.
2006 Oct	CBRC	Guidelines on Compliance Risk Management in Commercial Banks [18]	To require banks to establish compliance management systems, including compliance policies, compliance management department, and compliance risk management plan as well as training and education system. Note: Article 2, the guidelines shall also apply to policy banks.
2007		Lending Guidelines Aimed at Energy Conservation and Emission Reduction[19]	To urge China's banks to follow scientific development, to restructure and optimize their credit portfolio in order to prevent credit risk, as well as to promote energy conservation and environmental protection in industries. The Guidelines and Circular issued by CBRC aim to improve the performance
2007 Jun		Notice on Implementing Macro Tightening Policies of the Government to Prevent	

15《关于贯彻信贷政策与加强环境保护工作有关问题的通知》http://www.chinaacc.com/new/63/69/110/1995/2/ad594249401116259919555.htm

16《关于运用信贷政策促进环境保护工作的通知》http://china.findlaw.cn/fagui/xz/28/194598.html

17《国务院关于落实科学发展观加强环境保护的决定》http://english.mep.gov.cn/Policies_Regulations/policies/Frameworkp1/200712/t20071227_115531.htm

18《商业银行合规风险管理指引》http://english.mofcom.gov.cn/aarticle/policyrelease/announcement/200703/20070304477638.html

19《银监会对银行业金融机构节能减排授信工作制定指导意见》http://www.cbrc.gov.cn/chinese/home/docView/20080129C75512340B1C707DFF190FC614C3AA00.html

		Credit Risk in High-Energy Consumption and High-Pollution Industries[20]	of China's banking sector, but do not constitute binding regulations.
2007 Jul		Opinion on Strengthening the Corporate Social Responsibility of Banking Institutions[21]	To require Banking institutions to fulfill their social responsibilities according to the ten principles of United Nations Global Compact and to draft and publish annual social responsibility reports.
2007 Jul	CBRC, MEP, PBOC	Opinions on preventing credit risks and implementing policy of environmental protection [22] --- Green Credit Policy	Is regarded as the most innovative policy on green finance. It requires Chinese banks at all levels to withdraw/constrain financing to high-energy consumption and high-polluting companies or projects, while increasing investment to energy conservation and emission reduction projects.
2009 Jan	CBA	Guidelines on Corporate social responsibility for Chinese banking sector[23]	To require banking institutions to take CRS seriously in order to realize harmonious and sustainable development in China's economy, society and environment.
2012 Feb	CBRC	Green Credit Guidelines[24]	To require banks to promote green credit operations, by strengthening supervision responsibility and information disclosure. Specifically, guidelines emphasize management of both environment and social risks.

20 《关于贯彻落实国家宏观调控政策防范高耗能高污染行业贷款风险的通知》http://www.cbrc.gov.cn/govView_6CBE7A16931C4A9489FCB2284D007C35.html

21 《关于加强银行业金融机构社会责任的意见》http://www.cbrc.gov.cn/govView_91D73B8D49484BF4B1D87D29F9577C2D.html

22 《关于落实环保政策法规防范信贷风险的意见》http://english.mofcom.gov.cn/article/policyrelease/bbb/201303/20130300043226.shtml

23 《中国银行业金融机构企业社会责任指引》http://www.docin.com/p-281617256.html

24 《绿色信贷指引》http://www.cbrc.gov.cn/EngdocView.do?docID=3CE646AB629B46B9B533B1D8D9FF8C4A

2013 Feb	MOFCOM MEP	Guidance on Environmental Protection in Foreign Investment and Cooperation[25]	To require that Chinese companies engaged in overseas investment raise awareness of environment protection and fulfill CSR, conduct EIA and abide laws of host countries, respect local religion and customs and protect labors' rights. To encourage Chinese companies to research and learn the environmental principles, standards and norms applied to international organizations and multilateral financial institutions

China Development Bank

As the national development bank, many domestic large-scale projects such as the North-South Water Diversion Project, Three Gorges Dam, high-speed railways, and airports have been financed by CDB. It accounts for 39.3 percent of the banking sector's total investments in major national initiatives[26]. CDB's capital is mainly raised from overseas and domestic bond market. At present, CDB has grown to be the 2ed largest bond issuer in China after the Ministry of Finance. Through the end of 2012, the total asset of CDB has exceeded 7.5 trillion Yuan, with 63.1 billion Yuan of annual net profit.[27]

In 2008, CDB began converting from a policy bank to a commercial bank. Three current shareholders of CDB are the Ministry of Finance at 50.18 percent, the National Council for Social Security Fund at 2.19 percent, and Central Hujing Investment Ltd accounting for 47.63% of the institution, with the total capital contribution amounting to 3.1 trillion RMB. The commercialization means that CDB will be gradually losing its advantages as a policy bank and thus will operate as a joint-stock company, pursuing the practice as normal commercial companies while maintaining its previous role in supporting national policies. It also will force CDB to face more regulations, risk management, corporate governance, and shareholder supervision. In the past five years, CDB has been establishing a management system for risk control and has prioritized ESG, as business decisions will be based on not only policy directives but also profitability and risk management.

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25 《对外投资合作环境保护指南》 http://www.zhb.gov.cn/gkml/hbb/gwy/201302/t20130228_248632.htm

26 CDB Website, *China Development Bank -2012 Operations Overview*, http://www.cdb.com.cn/english/NewsInfo.asp?NewsId=415

27 国开行2012年总资产破7万亿 净利增长38%http://www.nbd.com.cn/articles/2013-05-02/737962.html

Responding to China's 'Going Out' policy, CDB has also played an increasing role in financing overseas activities of Chinese state-owned enterprises. By the end of 2012, its foreign currency loans have spanned more than 90 countries and regions around the world. The outstanding loans in Renminbi and foreign currencies have respectively reached to 72.6 billion Yuan and 224.5 billion U.S. dollars, which were mainly provided to the overseas development of infrastructure, agriculture, local livelihood, and energy[28]. In Africa, CDB has heavily invested in fostering business relationships with regional multilateral development banks like Africa Development Bank, creating created the China-Africa Development Fund in 2007; the fund is regarded as a typical example of CDB's attempt to expand its overseas impact and facilitate Chinese investments. Today, the fund has financed over 60 projects worth over 2 billion U.S. dollars.

CSR Disclosure

Based on CDB's CSR reports from 2007 to 2012, the bank has developed and adopted numerous guidelines on CSR. In 2007, the CDB released its first CSR report; since then, it has released subsequent reports every year, where CDB emphasizes the promotion of financing for infrastructure, energy resource, people's livelihood, and environmental protection. Particularly, it has committed itself to fulfilling China's mandate of encouraging green finance and tackling climate change, as through increasing forest carbon sinks and exploring low-carbon finance.[29]

Internal Policies regarding Environment and Society

In 2004, the CDB issued the "CDB Lending Assessment Handbook"[30], which provides specific guidelines on loan procedures, ranging from assessment of borrowers, management of the assessment group in the environmental assessment, and the financing criteria of different industrial projects. This is in accordance with the **Law on Environmental Impact Assessment** (2003), which demands project implementers submit their EIA reports to the MEP at national or local levels. CDB has also committed to follow the environmental law and requires EIAs from all loan applications. The CDB claims that environmental compliance has become an important aspect of their loan evaluation process. In other words, CDB will not grant approval of any loan application until applicants have obtained the appropriate agreements from environmental agencies, and until the CDB is satisfied with environmental compliance.[31] Applicants' compliance with environmental laws and regulations has been stated to be one of CDB's concerns.[32]

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[28] CDB Webiste. http://www.cdb.com.cn/web/Column.asp?ColumnId=12

[29] **Appendix 1** summarizes all sections regarding environmental concerns from its CSR reports. The annual CSR report of the CDB applies the reporting framework of GRI and is verified by a third-party auditing firm. Meanwhile, CDB has been the only Chinese bank that has joined the UN Global Compact Compliance and has committed to fulfill its ten principles[29]. The ten principles of the UN Global Compact are listed in **Appendix 2**. Besides joining the Global Compact, there has been no disclosure found to show that the CDB had applied other international principles or standards regarding environment and society.

[30] 《国家开发银行2004年版贷款评审手册》http://www.docin.com/p-470046347.html

[31] Prospectus Supplement (To prospectus dated September 17, 2004) p9; Luxembourg Stock Exchange Listing Offering Circular p21.

[32] CDB Bond Prospectus, Luxembourg Stock Exchange Listing Offering Circular p21;

According to a report from the Global Environmental Institute, CDB's environmental policies are integrated into a two-phase examination, called "client suitability review." It oversees borrowers' environmental violations, in addition to environmental laws/regulations that companies must abide and records of environmental compliances, including ex-ante environmental review and ex-post environmental monitoring.[33] **Appendix 3** lists CDB's environmental guidelines in a loan cycle, which are indicated in CDB's bond prospectus[34].

Based on the World Bank's environmental assessment policy and pertinent Chinese laws and regulations, the CDB released the **"Environmental Impact Assessment Framework for Lending to Small or Medium-Sized Enterprises"** . The framework aims to promote environmentally friendly business activities supported by microloans.[35] The CDB has also released guidelines to support the State Council's two issuing policies, namely the **Circular on the Publication and Distribution of a Work Plan on Energy Conservation** and **Emission Reduction and the Government's Eleventh Five-Year Plan on Environmental Protection.**

China Development Bank also released **"Guidelines on Environmental Protection Project Development Review, Guidelines on Special Loans for Energy Conservation and Emission Reduction"**, and the **"Work Plan on Loans for Pollution Control and Emission Reduction"**.[36] These documents aim to fulfill CDB's social responsibility for supporting energy conservation and emission reduction by promoting the healthy growth of environmentally friendly businesses. However, these policies are not legally binding; the effectiveness of these policies needs further investigation.

China Export and Import Bank

China Exim Bank was established in 1994. It is one of three Chinese policy banks, under the direct leadership of the State Council. It facilitates the export and import of Chinese mechanical and electronic products and sets of equipment, assisting Chinese companies with comparative advantages in their offshore project contracting and outbound investment. Its business covers export and import credits, loans for offshore contracts and overseas investments and providing concessional loans designated by the Chinese government to China's foreign aid. From its inception through the end of 2011, the total assets of China Exim Bank was1.365 trillion Yuan [37]. The bank's capital is raised by overseas and domestic bond issuing, refinancing from PBO, savings of enterprise and public institutions, as well as by interbank deposits.

CSR Disclosure

China Exim Bank began reporting social responsibility indicators in 2012, where it noted the bank's involvement in disaster relief, material and education support to rural areas, as well as its launching of a green credit for low carbon industry.

CDB Bond Prospectus, To prospectus dated September 17, 2004 p9;
CDB Bond Prospectus, Renminbi 2.70% Bonds due 2013, p34.

[33] Global Environmental Institute (2010), *Environmental Policies on China's overseas investment*, China Environmental Science Press, p63.

[34] As footnote 21

[35] 《微小企业贷款项目环评框架》 at Environmental Policies on China's investement overseas (GEI) p62.

[36] CDB Corporate Social Report 2007, p72

[37] http://finance.caijing.com.cn/2012-01-11/111605527.html

Environmental and Social Policies

China Exim Bank adopted an environmental policy in 2004, which was released to the public in April 2007. In August 2007, China Exim Bank released an updated and more detailed policy **"Guidelines for the Environmental and Social Impact Assessment of China Export and Import Bank's Loan Projects."**[38] It states that in addition to economic benefits, social and environmental aspects should also be taken into consideration before a project is approved. In addition, the guidelines require an Environmental Impact Assessment both prior to and after a project's completion and regular review of the implementation of the project.

Exim Bank also encourages clean production and energy conservation. Below is an extract of key provisions of the Exim Guidelines:

> ***Article 5*** *Environmental assessment refers to the systematic analysis and evaluation of the environmental impacts and its related impacts on human health and safety due to the implementation of the projects. It then proposes policies and measures to reduce the impact. The scope of the impact assessment includes air, water, soil, waste, natural environment and other factors.*
>
> ***Article 6*** *Social impact refers to the systematic analysis and assessment of the impact on socio-economic, natural resources and social environment caused by project implementation, and proposes policies and measures to reduce that impact. The scope of evaluation includes labor and terms of employment, social security and health, land acquisition and migrants' protection, etc.*
>
> ***Article 8*** *China Exim Bank encourages clean production, especially for the creation of a circular economy, environmental protection and energy-saving pollution-preventing technological projects.*
>
> ***Article 9*** *When domestic non-building projects undergo the loan review, mainly the borrower's environmental compliance and status of resource and energy conservation should be reviewed. The borrowers who exceed emissions and energy consumption standards and do not meet the requirements of environmental protection and energy conservation in principle will not be granted the addition of new credit lines, and [their] existing credit will be gradually withdrawn.*
>
> ***Article 10*** *Domestic construction projects shall undergo not only environmental protection and energy consumption reviews, but also an environmental impact review, according to the approval advice from the EIA that are conducted by the departments in charge of environmental protection. China Exim Bank has the right to request that borrowers hand in the EIA report, EIA form and EIA registration form under the regulation of environmental protection departments. The projects that do not gain approval from the environmental protection department will not get credit support from China Exim Bank.*

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[38] Unofficial translation retrieved from：
http://www.globalwitness.org/sites/default/files/library/Chinese%20guidelines%20EN.pdf

> ***Article 21*** *Financial institutions should actively participate in the practice of environmental protection and promotion activities, to contribute to the increase of the environmental awareness of clients and society as a whole.*

In addition, the **Environmental Assessment Framework**[39] was released by China ExIm in 2011, which introduced two phases in conduct assessment: the Subproject Preparation and Construction and Subproject Implementation. According to China ExIm, the first phase covers six aspects and the second phase has two aspects.

Subproject Preparation and Construction	Subproject Implementation
➢ Screening ➢ Environmental Documentation ➢ Public Consultation ➢ Public Disclosure ➢ Review and Approval of Environmental Documentation ➢ Related Conditions and Responsibilities	➢ Supervision ➢ Reporting

In addition, Exim's Environmental Protection Policy of China ExIm [40] includes environmental management, economic, technology and industry policies. The China ExIm seeks to encourage international cooperation on environmental protection and policy development. Based on the Environmental Protection Policy, China ExIm has set three phases in assessing environmental risks.

First, the pre-finance or ex-ante project approval period requires an environmental impact assessment to be implemented as a prerequisite to project approval. The bank will not consider financing any projects that fail to obtain approval from environmental agencies. Second, during the process of implementation, the bank will conduct routine reviews of projects' environmental impacts. If a project is found to have an adverse impact on environment, the bank will urge immediate measure to be taken and may even suspend lending. Third, the post-completion phase or ex-post project will also assess projects' environmental impacts.

China ExIm has stated that the results of such an assessment would be used as a reference for similar projects. In doing so, it notes that it may amend its environmental requirements accordingly.

Case Study

These policies have created a system of environmental and social standards which encourage banking institutions to adopt greener, sustainable operations. However, several areas should be strengthened.

[39] Source: ExIm Bank website.
Retrieved from http://www.eximbank.gov.cn/gonggaoarticle/notice/201101/11150_1.html
[40] in International Rivers, Appendix 2 / For Chinese and translated English version see Time to Go Green p96)(PDF version on the internet:
http://pacificenvironment.org/downloads/Chexim%20environmental%20policy%20Chinese%20and%20English.pdf

First, some bank-supported projects continue to degrade the environment, such as air pollution, deforestation, heavy metal poisoning; the environmental impacts thus causes social discontent. For example, operations of the CDB-backed Asia Pulp & Paper Group exemplifies the challenges that CDB faces in implementing its environmental and social policies.

Asia Pulp and Paper: APP conducts activities mostly in Indonesia; as of 2012, APP reportedly produces more than 15 million tons of pulp and paper per year. Indonesia's rainforests are some of the most biologically diverse in the world, but APP contributes substantially to the destruction of its forests. Deforestation in the country has caused a serious decline in the number of Sumatran tigers, elephants, and other endangered species. Other concerns include the problem of climate change, as projects produce significant amounts of carbon dioxide. Also, APP projects have caused some serious social impacts, such as displacement of local people, and negative health impacts due to pollution.

Assessing CDB's and China ExIm's Environmental and Social Policy Framework

This case study demonstrates the disconnect between policy and practice. For example, CDB's official website states that the bank will *"learn the spirit of Fifth Plenary Session".* CDB has pledged to follow the spirit and mission of the session by serving as a pioneer in developing creative, green finance models. On May 9, 2008, it stated on its website that *"the CDB enhances Green Credit and financially support the Tai Lake Clean-up Campaign"*.[41]

On the other hand, however, the official website simultaneously notes that the CDB will "further strengthen the development of coal industry." Data shows that the its primary areas of focus remain in coal, electricity, oil and transportation and other public infrastructure sectors. The total loans in these sectors increased by RMB 338.2 billion, accounting for 54.1 percent of total loan increments in 2012.[42]

Secondly, even though China Exim Bank has adopted environmental policies, they have been criticized for being less systematic and comprehensive than the environmental policies of other international financial institutions.[43] This is in part due to the fact that the need to comply with the EIA Law is not compulsory. Many developers actually do not conduct EIAs. In fact, only 10 percent of the total projects take EIAs.[44]

Although CDB's environmental policy has been greatly improved, it still requires unified regulations for its domestic and overseas lending. A useful regulatory model for CDB and China ExIm Bank could be the Equator Principles. Projects financed by CDB and China Exim Bank are subject to their respective environmental and social policies, but these two banks have not yet adopted these international standards, nor those set by the World Bank or the International Finance Corporation.[45]

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[41] http://www.cdb.com.cn/web/NewsInfo.asp?NewsId=2799
[42] http://www.cdb.com.cn/english/Column.asp?ColumnId=86

[43] Environmental policies on China's overseas investment. Global Environmental Institute, p66.
[44] Gu, Lin (2005-09-29). "China Improves Enforcement of Environmental Laws". China Features.
[45] Time to go green: Environmental Responsibility in the Chinse Banking Sector. (2007) Friends of Earth (US) and BankTrack, p73

Compared with its fellow development financiers, CDB lags behind its international counterparts regarding its project standards. The chart below provides some basic comparisons:

	Equator principles	Industry Specific Social & environmental Guidelines	Grievance Mechanism	Social Issues and Human Rights
China Development Bank	No	No	No	No
China Exim Bank	No	No	No	No
World Bank	Yes	Yes	Yes	Yes
Asian Development Bank	Yes	Yes	Yes	Yes
IFC	Yes	Yes	Yes	Yes

Despite a promising start to green finance, China's policy banks have yet to standardize their environmental and social responsibilities. It has been reported that major Chinese development banks, including China Development Bank, have been too lax with social and environmental concerns. However, criticism should not solely be placed on the policy banks themselves; national laws should guarantee their implementation. For instance, the Green Credit Directive released by the China Banking Regulatory Commission, mentions that banks financing overseas companies should have environmental guidelines, but there is no specific language on what these guidelines should include.[46] China and the policy banks should both work to adopt global standards and build solid and systematic policies taking the environmental and social issues into consideration, especially in developing countries where Chinese businesses operate.

The Role of CDB and China ExIm in Financing Overseas Investments

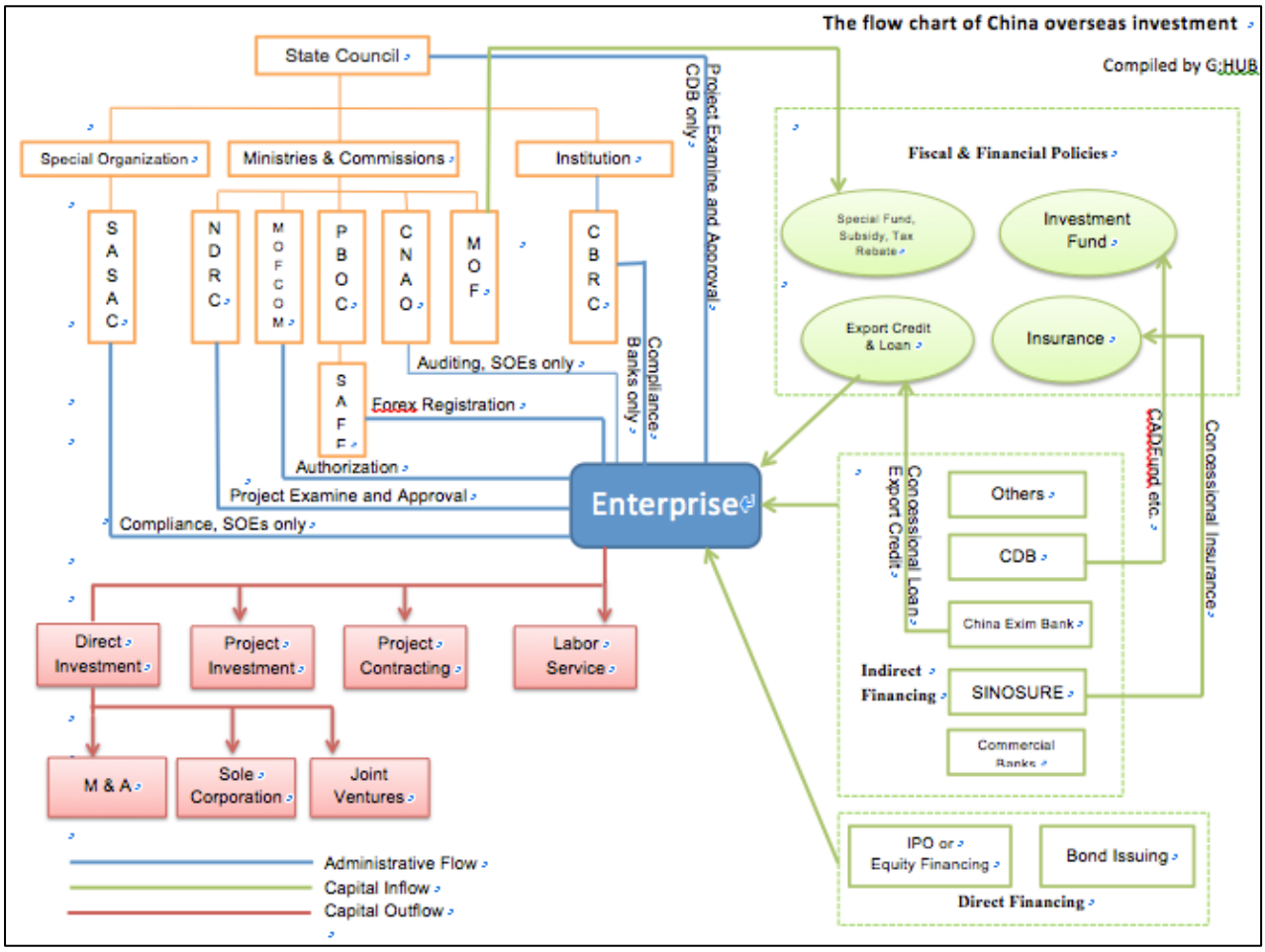
China's "Going Out" strategy was first raised in the late 1990s, and was officially recognized in China's 10th Five-Year Plan (2001-2005), and the subsequent 12th Five-Year Plan for 2011-2016 called for acceleration of the strategy in the form of foreign aid, overseas investment and foreign trade. Since the strategy was adopted, China's overseas investments have soared from USD 6.9 billion in 2001 to USD 68.8 billion in 2010, and China has grown to be the fifth biggest global investors. Within this context, Chinese companies are now active across the world and in multiple sectors over the last 10 years. Correspondingly, Chinese financial institutions have also become increasingly active in the financing of overseas development projects and Chinese companies.

The two most important banks that are active in overseas development financing are the China Development Bank and the Export-Import Bank of China. As the similar role as multilateral development banks in developing countries under the state's directives and macroeconomic

[46] http://insights.wri.org/news/2013/07/look-chinas-new-environmental-guidelines-overseas-investments

policies, the two development banks aim to create the right political and economic conditions for private sector investment to follow. Chinese development banks thereby have become the "new and big actors" in global finance, and consequently, they might bring a considerable influence over how development plans are conceived and implemented, and how natural resources are managed.

The following chart illustrates the administrative and financial flows in China's overseas investment.



Major Administrative Institutions for Chinese Overseas Investment

- **State Council**: China's top government authority. It is chaired by the Premier, four vice-premiers and state councilors and ministers. It directs overseas development assistant with diplomatic concerns and supervises most of administrative institutions responsible for approving overseas investment.

- **National Development and Reform Commission:** This department makes medium and long term plans for the "going out" strategy, in addition to developing regulations and standards for China's overseas investment and domestic energy sector. It is responsible for examining and approving major resources oriented projects of overseas investment, and projects that consumes substantial amount of foreign currency.

- **Ministry of Commerce:** This Ministry manages and approves companies' overseas investment. Investment projects over US$100 million or at countries without diplomatic relationship with China are approved by MOFCOM. Investment projects between US$10 million and US$100 million are approved by provincial department of Commerce. Once foreign aid referring to national financial budget, it will coordinate with the Ministry of Finance, Ministry of Foreign Affairs, and China ExIm Bank.

- **China Development Bank:** Established as one of three policy banks in 1994, CDB was created under the direct control of the state council in order to strengthen the state's competitiveness by financing strategic projects in line with government objectives.

- **Export and Import Bank of China:** Facilitates the export and import of Chinese mechanical and electronic products and sets of equipment and assists Chinese companies with comparative advantages in their offshore project contracting and outbound investment. Its business covers export and import credits, loans for offshore contracts and overseas investments, and concessional loans designated by the Chinese government for China's foreign aid.

- **State-owned Asset Supervision and administration Commission:** A special institution directly authorized by the State Council that supervises China's state-owned enterprise and has the authority to appoint top mangers of SOEs. It oversees the performance of the state-owned companies who conduct overseas investments, including development and the issuance of regulations or guidance that requires SOEs to report environmental and social performance.

- **State Administration of Foreign Exchange:** An affiliated institution of People's bank of China, this is a national bureau under the State Council. It is responsible for supervision and management of China's foreign exchange. SAFE provides approval of foreign exchange once a proposed overseas project receives the approval required.

Financing the "Going Out" Strategy

China's overseas investment, foreign aid, and foreign trade are heavily dependent on receiving support from the Chinese state. This support includes export credit, concessional loans, and credit issuance with guarantees for foreign payment risk provided by the China Export & Credit Insurance Corporation. Chinese export companies can also choose a export rebate or subsidy of loan interests as fiscal incentives. The financial capital mainly comes from China's policy banks as well as the state-owned commercial banks. As the public financial institution under the state's directives and macroeconomic policies, Chinese policies banks, including China Development Bank and China Export-Import Bank, often take the lead in lending to countries where political and economic risks are high, supporting in the form of export buyer/sellers credits and concessional (low-interest/fixed-rate) loans.

Like the development banks' aim in developing countries, these two policy banks aim to create the right political and economic conditions for private sector investment to follow. Gradually, China's large commercial banks has been following and doubled their lending in past three years by

engaging in "Greenfield Investment[47]" and "Equity Investment[48]" as well as supporting state-owned companies for investing in overseas energy projects. However, exact data is not publicly accessible. Lastly, the issuing of bonds for particular overseas projects and public offerings have increased as a way of financing companies' overseas development.

47 Greenfield Investment refers to a type of FDI where a corporate begin a new business abroad by building new construction or facilities, such as branch offices.
48 Equity Investment means to invest money in a firm by owning or holding its shares. For example, a bank can hold stock shares of another bank through mergers or acquisitions.

Appendix 1: The sections regarding environmental concerns raised from CDB's CSR reports

Titles of sections regarding Environment in CSR report	Subtitles
2007 **Environmental Performance Report**	1. Fully preventing environmental impact of lending projects 2. Jointly promoting the establishment of a financing machanism for environmental protection 3. Significant achievements in supporting environmental protection and energy-saving projects 4. Paying attention to global climate change 5. Mitigating operation impacts on environment
2008 **Promoting environmental-friendly efforts**	1. Green finance 2. Green procurement 3. Green office
2009-2010 **Tackle Climate Change**	1. Supporting Environmental Protection 2. Increasing Forest Carbon Sinks 3. Exploring in Low-carbon Financing 4. Sticking to Green Operations
2011 **Tackle Climate Change**	4. Develop Sustainable Energy 5. Support Energy Conservation and Emission Reduction 6. Industrial Pollution Treatment 7. Promote Comprehensive Environmental Treatment 8. Adhere to Green Operation

Appendix 2: The ten principles of the Global Compact[49]

10 Principles of UN Global Compact
Human Rights
2. Strengthened compliance management, observed the laws and regulations of China and relevant regions, guaranteed lawful and standardized operation, and signed labor contracts with all employees; strengthened staff democratic management and democratic supervision, protected employees' lawful rights and interests, collected 370 rationalization proposals from employees and addressed 290. 3. Observed the international conventions and international practices signed or recognized by the Chinese government; and respected the Universal Declaration of Human Rights, United Nations

[49] 2011 Social Corporate Report, p132-134.

International Covenant on Civil and Political Rights, International Covenant on Economic, Social and Cultural Rights and other conventions and declarations.
Labor
4. Established and improved the employee representative meeting, and Labor Union was established in all branches and covered all formal employees. 5. Refrained from all forms of forced labor. 6. Refrained from use of child labor. 7. Established open, equal and competitive talent selection mechanisms; and refrained from staff 8. discrimination due to nationality, gender, marriage status, nation, family responsibility, social origin, age, disability, religion, education background, cultural background and language.
Environment
9. Continued to have prior planning lead development, helped local economy achieve scientific development, integrated eco-environment protection with plan formulation, reduced negative impact of economic activities on the environment. 10. Undertook more responsibilities on environmental protection; strictly implemented the green loan policy; managed lending targets; supported industrial and energy restructuring; promoted comprehensive environment treatment of river valleys and cities; and promoted energy conservation and emission reduction with innovative financial products and services. 11. Worked to increase the efficiency of energy utilization; provided lending support to clean energy, the ten major energy-saving projects, the comprehensive environment treatment of river valleys and cities, industrial pollution treatment, and recycling economy; new loans to energy-conserving and emission-reduction projects grew by 66.91% year-on-year, about 13% of the bank' s total. Outstanding loan balance in this sphere rose by 49.37% from a year earlier, about 11% of the bank's total.
Anti-Corruption
12. Addressed problems and eliminated their causes, stuck to comprehensive management, used punishment but put prevention first, vigorously constructed and improved the anti-corruption system composed of education, regulation and supervision, improved internal control, advanced external joint supervision, investigated and punished malpractice according to law; closed 18 cases in 2010, 95% of the total 19 cases reported, provided anti-corruption training to all employees.

Appendix 3: CDB's environmental guidelines in a loan cycle (Source: CDB bond prospectus[50])

Loan cycle	Guidelines
Pre-lending	1. Clients must be in compliance with all environmental laws of the People's Republic of China; 2. All loan applications require an environmental impact assessment (EIA);

[50] As footnote 21

	For highly polluting and energy-intensive industries such as coal mining, oil and gas exploration and development, power generation and transmission, hydropower, etc., EIAs must be approved by relevant environmental authorities; EIAs must be completed by an independent evaluator; 3. Environmental standards and costs can be written into loan covenants in order to commit borrowers to environmental promises; 4. The Bank can exercise the "one-ballot veto" procedure that allows loans to be rejected by the credit committee solely for environmental reasons; 5. The Bank assigns two personnel to do due diligence for each loan application: one to evaluate the loan and the other to evaluate the client; 6. The Bank also has an appraisal department to assess environmental and social risks, and also manages environmental and social issues across business units.
Post-lending	7. In order for loan requirements to be considered fulfilled, clients must provide proof from a relevant environmental department that the project meets environmental protection requirements.

Appendix 4: Environmental Protection Policies of China Exim Bank[51]

1. Environmental management Policy: The core of the policy is to adopt preventive measures and enhance environmental management, in order to not produce and to produce less environmental pollution and destruction.

2. Environmental Economic Policy: It mainly includes capital investment and tax return or exemption policies:

(1) corporations to include the expenditure incurred due to pollution abatement into the fixed assets investment plan.

(2) to give financial support to the national major pollution abatement and ecological protection projects; municipal government to spend the budget of municipal maintenance in the construction of environmental facilities; to levy the discharge treatment fee for pollution abatement.

(3) tax return or exemption policies

3. Environmental Technology Policy: Its purpose is to raise the energy and resources utilization efficiency, and reduce the pollutant's discharge.

4. Environmental Industry Policy: During the strategic adjustment of economic structure, we should promote the improvement of environmental industry, raise the technological elements in the

[51] International Rivers, Appendix 2) / (For Chinese and translated English version, see Time to Go Green p96)(PDF version on the internet)

environmentally friend -ly products and implement measures to promote socialization of environmental industry, and make environmentally friendly products marketable and standardized.

5. International Cooperation on Environmental Protection: China has been paying high level of attention to international cooperation on environmental protection.

6. China Exim Bank's environmental protection policy: China Exim Bank is paying a high level of attention to our funded projects' environmental impacts. We enhance environ-mental monitoring and management before, during and after the project implementation.

Chapter 3:
India – National and State level Development Finance Institutions

CUTS International

Introduction

After gaining independence in 1947, the Indian financial sector played a key role in promoting aggregate investment and output and development in India. While the core function of the Reserve Bank of India was to safeguard monetary stability policy, it was also responsible for the administration of India's national development finance. A major task undertaken by the RBI was to establish the necessary institutional mechanisms to complement India's planning efforts. In the absence of a well-developed capital market, the RBI played a proactive role in setting up a number of specialized financial institutions at both the national and regional levels to widen the facilities for term finance and for institutionalization of savings. These institutions became known as development finance institutions (DFIs), marking a novel departure for a central bank.

Following the nationalization of the first bank in 1955, the 1960s and 1970s were characterized by increasing state control over commercial banks. This was due to an effort to channel the amount of DFI resources directed towards specific sectors in need of assistance. India's strategic move to increase extensive investment into non-market efficient, but socially crucial sectors and regions, increased finances directed towards under-developed areas; unfortunately this had adverse repercussions on the banking sector.

As India's economic policy shifted toward liberalization, the financial sector underwent a reform and adopted more stringent international banking practices. Due to India's strong social impetus, problems concerning India's Non-Performing Assets that had previously been neglected came to the fore and bank profitability saw a marked decline. Driven by the change in the financial and banking policy regime, India's banking system began a transition away from centralized planning. It sought to reduce the level of state-control over the finance sector and rectify the problem of Non Performing Loans.

Given the fact that development funding and the finance sector are intricately interwoven, this

decision had grave repercussions on national development financing in India. As the privileged access to low-cost funds was withdrawn, DFIs were forced to raise resources at market-related rates. Unable to stand against the pressures of competition from the mainstream-banking sector that offered lower rates, the financial health of the development-financing sector began to deteriorate. As such, DFIs, once fundamental tools of rapid industrialization, were no longer recognized as a viable means of resource allocation.

In 2002, the government of India rendered the business models of development finance institutions unsustainable and supported the RBI's initiative to facilitate the transformation of DFIs into commercial banks. Consequently, in the last two decades, India has seen a wave of significant DFIs convert to universal banks due to increased financial pressures and a decision by the RBI to move towards universal banking. As such, most pertinent social needs are increasingly being met by Indian commercial banks through mechanisms that were established following India's bank nationalization. Such schemes include the Lending to Priority Sector scheme, which obligate banks to increase their social involvement in identified priority sectors.

The new banking policies have, however, also begun to erode the banking sector's role as the primary instrument for rapid and broad-based development. As banks begin to shift away from DFIs towards more profit-driven allocations of resources, India has seen a decline in activities with more social returns.

Development Finance Institutions

Although the term "Development Finance Institution" is absent in both the Reserve Bank of India Act, 1934, the Companies Act, 1956, and other statutes, the RBI Act does define the term 'Financial Institution,' and the Companies Act has categorized some of these institutions as Public Financial Institutions. While the various Financial Institutions vary in terms of their business specifications, some essentially function as DFIs. For the purposes of this report, we draw upon the RBI's definition of a DFI as "an institution promoted or assisted by Government mainly to provide development finance to one or more sectors or sub-sectors of the economy."[52]

Entrusted with the role of developing an appropriate financial architecture to mobilize and direct resources to priority sectors in 1948, the RBI established the Industrial Finance Corporation of India, India's first DFI.[53] DFIs were given access to a soft window of Long Term Operations from the RBI at concessional rates, as well as cheap funds from both multilateral and bilateral agencies that were guaranteed by the government. They were allowed to issue bonds that qualified for Statutory Liquid Ratio investment by banks and faced little competition with regards to the deployment of funds because the banking system concentrated on working capital finance. As the government committed to provide low cost resources for lending at lower rates of interest to DFIs, it also provided support for underwriting losses.

[52] This definition of a DFI is used in the RBI Report on the Working Group of Development Finance Institutions http://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/53674.pdf

[53] After the passing of the SFCs Act in 1951, India then established State Financial Corporations to work as DFIs at the state level.

Concomitant to the formation of India's development finance institutions, the government undertook a process of bank nationalization in the late 1960s and early 1970s in order to increase the amount of credit being directed towards sectors and areas in need of development assistance. The government instituted requirements for commercial bank lending to priority sectors and the expansion of commercial bank branches in under-developed areas. The burgeoning growth in development finance institutions, combined with the increased engagement of commercial banks, established a complex finance system that had a very strong development component.

However, with the advent of financial sector reform in the wake of the 1990s, the environment for DFIs changed substantially. The supply of low-cost funds was withdrawn and, as time progressed, the intermediary role of DFIs became obsolete as banks and bond markets became increasingly sophisticated in risk management techniques. Because of the access to low cost funds, in addition to diverse loan portfolios, these commercial banks enjoyed distinct advantage over DFIs.

Recognizing the evolving needs of the sector, the Ministry of Finance set up various committees to analyze and recommend options to strengthen India's banking sector. In 1998 one such expert committee released the Narasimham Committee-II Report and recommended that DFIs should convert themselves to banks over a period of time so that there would only be two types of intermediaries: banking and non-banking finance companies. Following this publication, a working group on Harmonizing the Role and Operations of Development Finance Institutions was convened and recommended a move towards universal banking for DFIs.

In 2000, the Governor of the Reserve Bank of India stated that the principle of universal banking was indeed a desirable goal. Some progress had already been made; in fact, by permitting banks to diversify investments and long-term financing. This allowed DFIs to lend for working capital. He noted that although DFIs would continue to have a special role in the Indian financial system, any DFI that wished to convert to a bank could do so insofar as it prepared a transition path in order to fully comply with the regulatory requirements of a bank.

Following the policy pronouncement by the RBI on the Approach to Universal Banking, the operational guidelines for enabling a DFI to convert to a universal bank were issued in 2001. These guidelines outlined measures to consolidate the banking industry through mergers that would combine all banking and financial activities under one roof.

The matter was finally concluded in 2002 when the government announced in the 2002 Mid-Year Review that there was no longer a place for DFIs within the Indian financial system. It stated: "…financial sector reforms, involving interest rate deregulation, increased competition from banks, and lack of concessional funds have rendered the business models of development financial institutions (DFIs) unsustainable."

Types of Development Finance Institutions

DFIs work as development banks in their own right and are engaged in the financing of sectors of economy where the financial risks exceed the acceptable limits of commercial banks. They are primarily engaged in long-term assistance and generally meet the credit needs of financially riskier

but socially and economically desirable objectives of state policy. DFIs are essentially specialist institutions that cater to different sectors, appraising projects from both technical and financial perspectives. Given their specialization in their respective sector, they have built specific expertise in industries that include exports and imports, small industry, agriculture, infrastructure, and tourism.

DFIs can be broadly categorized into two groups based on the geographic scope of their activities: All-India Financial Institutions and state-level institutions. In India, there are ten All-India Financial Institutions which function at a national-level and 40 state-level DFIs.

Functionally, national DFIs can be classified into: term-lending institutions which extend long term finance to different industrial sectors; refinancing institutions which extend refinance to banking as well as non-banking intermediaries; and sector specific or specialised institutions. Six Non-Banking Financial Companies also function as national level DFIs, but these differ from the other DFIs because they are not instituted by acts (as will be explained later) but function as government companies. State-level development financial institutions can be divided into State Financial Corporations and State Industrial Development Corporations.

All-India Financial Institutions

The National Housing Board, the Small Industries Development Bank of India and the National Board of Agriculture and Rural Development are considered refinancing institutions. Their main function is to refinance (extend indirect finance) to banking as well as non-banking intermediaries for finance to housing sectors, Small Scale Industries and agriculture. Oftentimes they also have a regulatory or supervisory role in their specific sectors. The fourth AIFI, the Export Import Bank of India, provides financial assistance to exporters and importers and functions as a specialised principal financial institution for coordinating the working of institutions engaged in financing export and import of goods and services.

There are currently no DFIs that function as term-lending institutions. All of the DFIs that previously functioned in this capacity have either converted to commercial banks or were forced to shut down due to financial constraints in the last twenty years.

Non-Banking Financial Companies

DFIs are established companies that undertake specialized financial activities and by nature are large in size. A Non-Banking Financial Company is a company registered under the Companies Act, 1956. The key distinguishing factor between a company and an NBFC is that the financial activity of NBFC loans or advances should be used for activity other than its own. In the absence of this provision, all companies would be NBFCs.

NBFCs lend and make investments and hence their activities are akin to that of bank, however there are a few differences: NBFCs cannot accept demand deposits, they do not form part of the payment and settlement system and they cannot issue check drawn on themselves. Additionally, the deposit insurance facility of the RBI, the Deposit Insurance and Credit Guarantee Corporation, is not available to depositors of NBFCs, unlike in case of banks.

State-level Development Financial Institutions

State-level DFIs are composed of various State Financial Corporations and Small Industries Development Corporations that were established under the State Corporations Act in 1951 to meet the financial requirements of small-scale and medium industries. SFCs are mainly concerned with the promotion and development of small-scale industries in their respective states with a special focus on spreading industrial culture in the rural, semi-urban and backward areas of the states. These corporations are owned by the respective state governments jointly with SIDBI, and function under the administrative control of the state governments. They provide the same type of financial assistance as the national DFIs.

SIDCs are wholly owned state government undertakings tasked with the promotion and development of medium and large industries. In addition to the provision of financial assistance, they are also involved in developing industrial infrastructure. They exist in all states and have developed industrial infrastructure facilities to enable prospective entrepreneurs to establish industries in various states.

Procedural Structures

The procedural structures for AIFIs and NBFCs are outlined in the Reserve Bank of India's *Guidelines for Fair Practices for Lenders* and *Guidelines for Fair Practices for NBFCs* respectively. These guidelines provide broad parameters detailing how national DFIs should establish and implement their loan applications as well as appropriate grievance redressal mechanisms to resolve disputes. AIFIs and NBFCs are required to draw up loan policies that are in line with these guidelines. In the same manner, SFC and SIDC policies are governed by the State Financial Corporations Act, 1951, and have their own individual procedural structures that dictate the parameters in which they can function.

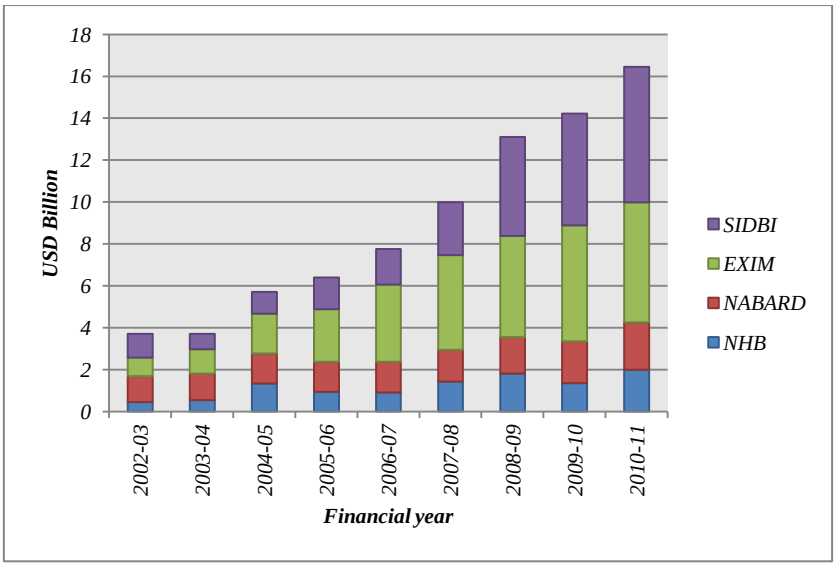
Table 1: India's Development Financial Institutions

Category	Development Financial Institution	Year established	Public Financial Institutions (Companies Act 1956)	Non-Banking Institutions	Financial Institutions (RBI Act 1934)	Established by specific Acts	Established by the Companies Act 1956	Set up by the State Financial Corporations Act 1951	National-level operations			NBFCs	State – Level operations		Regulated by RBI	Regulated by state government	Regulated by SIDBI
									Term lending	Refinance	Specialised		SFCs	SIDCs			
1. All India Development Financial Institutions	National Housing Bank (NHB)	1988	✓	✓	✓	✓				✓					✓		
	Small Industries Development Bank of India (SIDBI)	1989	✓	✓	✓	✓				✓					✓		
	National Bank for Agriculture and Rural Development (NABARD)	1981	✓	✓	✓	✓				✓					✓		
	Export Import Bank of India (EXIM Bank)	1982	✓	✓	✓	✓					✓				✓		
2. Non-Banking Financial Companies	Infrastructure Development Finance Company Ltd. **(IDFC Ltd.)**	1997	✓	✓	Although NBFC continue to be regulated by RBI as FIs		✓				✓	✓			✓		
	Tourism Finance Corporation of India Ltd. **(TFCI Ltd.)**	1989	✓	✓	Although NBFC continue to be regulated by RBI as FIs		✓				✓	✓			✓		
	Power Finance Corporation Ltd. (PFC Ltd.)	1986	✓	✓			✓				✓	✓			✓		
	Rural Electrification Corporation Ltd. (REC Ltd.)	1970	✓	✓			✓				✓	✓			✓		
	Indian Railways Finance Corporation Ltd. (IRFC Ltd.)	1986	✓	✓			✓				✓	✓			✓		
	Indian Renewable Energy Development Agency Ltd. (IREDA Ltd.)	1987	✓	✓			✓				✓	✓			✓		
3. State Level	State Financial Corporations	1951	✓	✓				✓					✓			✓	✓
	Small Industrial Development Corporations	1951	✓	✓				✓						✓		✓	✓

Lending Trends of National DFIs

Financial assistance from national DFIs has been increasing over the past ten years with EXIM and SIDBI contributing to the bulk of this growth. Total disbursements by the national DFIs in 2011 exceeded one trillion Rupees (about USD 16 billion). The bulk of the finances were disbursed by SIDBI to micro, small and medium enterprises. EXIM had the second largest disbursement of finances diverted towards the promotion of Indian exports to foreign markets. Housing and rural development financing by NHB and NABARD made up 13 and 14 percent of the disbursements respectively.

Table 2: National DFI Loan Disbursements



Source: Data extracted from Handbook of Statistics of Indian Economy 2011-2012 and EXIM Annual Report 2012 (See Appendix 1)

Unfortunately, there is no publicly available information on the recent disbursements by SFCs or SIDCs, but these institutions continue to contribute to sub-national infrastructural development to a large extent.

Social Sustainability Policies Among DFI

Given the need for solutions to improve India's most pressing social concerns, India's primary focus has been on measures that promote its economic development as a gateway to achieving its socially sustainable goals.

As a whole, DFIs are instituted to meet the financial needs of riskier but pertinent socially and economically desirable objectives of state policy. National executing bodies that are responsible for the infrastructural development of a given sector regulate these policy areas. Given the nature of development, much of the work done by DFIs often overlaps into areas of infrastructural

development need that may be covered by a different DFI. Each DFI, however, is mandated to oversee the flow of financing within its respective area of expertise.

There are seven policy areas under which each DFI can be placed. The primary four policy areas that are governed by separate acts are: national housing, rural and agricultural development, micro, small and medium business development and foreign trade. These acts establish financial institutions to oversee their implementation in ensuring the flow of finance into these specific areas of need. The remaining three policy areas are covered by NBFCs that have undertaken specialized financial activities in the areas of transport, energy and tourism. SFCs and SIDCs function as a financial platform to channel funds from the central government into specific states in need across a number of policy areas.

Table 3: Policy Areas and their Executing Bodies

Development Finance Institutions	*National Housing*	*Agriculture and Rural Development*	*Industrial Development (SME)*	*Foreign trade*	*Transport*	*Energy*	*Tourism*
National Housing Bank (NHB)	✓						
National Bank for Agriculture and Rural Development (NABARD)		✓	✓				
Small Industries Development Bank of India (SIDBI)	✓	✓	✓		✓		
Export Import Bank of India (EXIM Bank)	✓	✓	✓	✓			✓
Indian Railways Finance Corporation Ltd. (IRFC Ltd.)	✓	✓			✓		
Power Finance Corporation Ltd. (PFC Ltd.)	✓	✓				✓	
Rural Electrification Corporation Ltd. (REC Ltd.)	✓✓✓	✓				✓	
Indian Renewable Energy Development Agency Ltd. (IREDA Ltd.)	✓	✓	✓			✓	
Tourism Finance Corporation of India Ltd. (TFCI Ltd.)	✓	✓		✓			✓
Infrastructure Development Finance Company Ltd. (IDFC Ltd.)	✓			✓	✓	✓	✓
State Financial Corporations (SFCs) and State Industrial Development Corporations (SIDCs)	✓	✓	✓			✓	

✓ *Denotes primary policy area*

<u>Policy Area 1: Urban Development</u>

The National Housing Bank works as the apex body responsible for providing refinance under the National Urban Housing & Habitat Policy 2007 (NUHHP-2007). This policy was formulated to promote various types of public-private partnerships as a direct means of helping the urban poor. Given the budgetary constraints of both the central and state governments, the NUHHP-2007 works to bring together multiple stakeholders in the private sector, cooperative sector, industrial sector (for labor housing) and the services or institutional sector (for employee housing) in an attempt to tackle India's widespread housing issue.

Policy Area 2: Agriculture and Rural Development

The **National Bank for Agriculture and Rural Development** works as the primary financing institution for financing rural development in India. It was established by the National Bank for Agriculture and Rural Development Act in 1981. As a development bank, it provides and regulates credit for the promotion and development of agriculture small-scale industries, cottage and village industries, handicrafts, other rural crafts and other allied economic activities in rural areas. The purpose of such financing is to promote integrated rural development and enhance the prosperity of rural areas.

Policy Area 3: Industrial Development

The Small Industries Development Bank of India Act in 1989 established the **Small Industries Development Bank of India** as the principal financial institution for the promotion, financing and development of industry in the small-scale sector and for the co-ordination of the institutions engaged in this sector.

Policy Area 4: Foreign Trade

The Foreign Trade Policy of India is guided by the **Export Import Policy** of the Indian Government and is regulated by the Foreign Trade Development and Regulation Act, 1992. The main objective of the Foreign Trade Act is to provide the development and regulation of foreign trade by facilitating imports into and augmenting exports from India. The Indian EXIM Policy contains various policy-related decisions taken by the government in the sphere of foreign trade with respect to imports and exports from the country and especially export-promotion measures, policies and procedures. Trade Policy is prepared and announced by the Ministry of Commerce and aims at developing export potential, improving export performance, encouraging foreign trade and creating a favorable balance of payments position.

Policy Area 5: Transport

The **Indian Railways Finance Corporation Ltd.** is the dedicated financing arm of the Ministry of Railways. Its sole objective is to raise money from the market to part finance the plan outlay of Indian Railways that includes the acquisition of rolling stock assets and the meeting of other developmental needs of the Indian Railways. The borrowing program of IRFC is guided by the requirements projected by the Ministry of Railways. IRFC also makes use of innovative financial instruments to diversify the debt portfolio and to minimize the cost. Its contribution to infrastructure build-up in railways is very significant.

Policy Area 6: Energy

The **Power Finance Company Ltd.** was set up in 1986 in an effort to finance the power sector and support the integrated development of the power and associated sectors. It works as a catalyst to bring about institutional improvements in streamlining the functions of its borrowers in financial, technical and managerial areas to ensure optimum utilization of available resources, and to mobilize those resources from domestic and international sources at competitive rates.

The **Rural Electrification Corporation Limited** was established in 1969 as a NAVRATNA Central Public Sector Enterprise under the Ministry of Power. The REC provides financial assistance to State Electricity Boards, State Government Departments and Rural Electric Cooperatives for rural electrification projects. The Project Offices in the states coordinate the programs that REC finances with the concerned SEBs or State Power Utilities and facilitate the formulation of schemes, loan sanction and disbursement and implementation of schemes by the concerned SEBs or State Power Utilities.

Indian Renewable Energy Development Agency Limited was established in 1987, under the administrative control of Ministry of New and Renewable Energy to promote, develop and extend financial assistance for renewable energy and energy efficiency and conservation projects.

Policy Area 7: Tourism

The **Tourism Finance Corporation of India Ltd. (TFCI Ltd.)** functions as a specialized national DFI to cater to the financial needs of the tourism industry. It was set up under the aegis of a Planning Commission to promote a separate AIFI for providing financial assistance to tourism-related activities. It serves to promote the tourism industry.

Although all of the policy areas entail substantial infrastructural development, in 1997 the **Infrastructure Development Finance Company Ltd.** was established as India's leading integrated infrastructure finance player for providing infrastructure financing and project implementation services particularly in underdeveloped urban and rural areas as well as the energy sector. It works to provide finance for the diverse needs of India's infrastructure development. The IDFC Ltd. also works closely with government entities and regulators to advise and assist them in formulating policy and regulatory frameworks that support private investment and public-private partnerships in infrastructure development.

Environmental Policies Among DFIs

Given the need for solutions to improve India's pressing social concerns, there exists a poignant conflict between economic development and environment sustainability. The RBI acknowledges that while economic progress improves standards of living, oftentimes the trade-off is that this very progress can also tend to be the cause of environmental degradation. The pervading sentiment is that at times an attempt to preserve non-renewable resources at times requires compromising on growth rates that are essential in helping India achieve its social sustainability goals. There is

however a general consensus that in spite of the present challenge, there is a need to maintain a balance between economic growth and preserving natural resources.

As the global community has begun to emphasize the need for environmentally sustainable development, India has begun to reflect these international polices in its own frameworks. As the financing agents of India's economic and developmental activities, it has been acknowledged that although banks may not have a direct effect on environmental sustainability, they nonetheless have a crucial role in promoting projects that can contribute to overall sustainable development. It is becoming increasingly acknowledged as well that commercial viability is not entirely independent from environmental sustainability. Without careful consideration of the environmental impacts on investment decisions, banks can at times expose themselves to credit, legal and reputational risks.

In light of these growing concerns, the concept of green banking was created by the RBI as an important strategy to address sustainable development concerns and create awareness on environmental responsibility. Green banking has two dimensions: the first concerns the use of paper in its every day operations which is outlined in several guidelines from the RBI on e-banking. The second and perhaps more pertinent dimension to green banking is with regards to the role of social and environmental factors in determining their investment decisions.

Green banking encourages banks to finance environmentally friendly investments and prioritize lending to those industries that have already turned green or are trying to go green. There are no specific RBI regulations or guidelines on green banking, however: the RBI has a circular entitled **Corporate Social Responsibility, Sustainable Development and Non-Financial Reporting – Role of Banks** which advises banks to integrate social and environmental concerns in their business operations. These guidelines, however, are not mandatory as the RBI does not have an implementation mechanism; therefore the purpose of these guidelines is to raise the banking sector's awareness of ways in which financial institutions can contribute to sustainable development. The guidelines draw attention to international environmental sustainability initiatives and urge banks to consider using them 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 order to make progress in the area of environmental sustainability, a certain level of national social development needs to be achieved. A program that calls for controlling environmental degradation cannot be successfully implemented unless a minimum national standard of living that provides for the basic needs of the majority of the population is established. As such, India, like many other developing countries, does not mandate the implementation of environmental standards because their application may at times jeopardize social objectives which are crucial at a nascent stage of development.

To this end, the RBI has placed a heavier emphasis on the attainment of social sustainability goals while environmental sustainability goals have remained secondary. It has, however, acknowledged that this does not mean that there is an inherent conflict between these goals. A balance needs to be struck between development goals and environmental objectives which is why the RBI encourages financial institutions to increasingly align within environmental initiatives.

The RBI guidelines advise banks and financial institutions to keep themselves abreast of developments in this area and make particular reference to the IFC Principles of Project Finance

(Equator Principles) and carbon trading. It urges financial institutions to modify their strategies to align themselves with relevant international standards such as the Collevechio Declaration on Financial Institutions and highlight their progress in the public domain along with the annual accounts of banks.

Comparing DFIs and Commercial Banks

In spite of the presence of commercial banks within development financing however, there has been growing concern that commercial banks do not have the capacity to fully replace DFIs. One concern is that DFIs cater to a niche market that requires long-term funds and services to induce investments and encourage private enterprise. Yet the decline of DFIs created a vacuum for this financial service.

As financial institutions transform into banks, long-term financing for infrastructure and other sectors is becoming harder to access. Earlier this year, the Reserve Bank Governor observed that commercial bank loans for road, port, airport and power sector projects were at levels that could not be increased much further. In addition, the corporate sector's need for long term funds for project implementation was previously met by the IDBI, the ICICI and the IFCI, but their conversion to commercial banks stranded development projects in need of long term financing. A quick glance at Table 1 shows that there are no longer any DFIs that occupy the long term financing role.

There is, therefore, a striking imbalance between funds that are available with commercial banks and the loan periods required by infrastructure projects. After the deregulation of the financial sector, RBI observed that in spite of the tremendous growth of the banking industry, banks were neglecting rural and under-developed regions of India. As banks begun to shift towards more profit-driven allocation of resources, India has seen a decline in activities with more social returns. After the disbanding of branch licensing policy in 1995, there has been a reduction of rural banks which created a serious institutional void in regards to rural credit structure. As a result, RBI created mechanisms to provide more opportunities to channel resources to these sections.

Although the RBI is attempting to make headway in addressing the problem of rural development financing, the lack of sufficient long term funding for large-scale industrial projects is an example of this pressing problem, as can be seen by the World Bank's continued support to India for such projects.

Case studies

Although environmental sustainability has taken a backseat to the India's more pressing social concerns, there is a move to encourage the finance sector to align themselves with more environmentally sustainable practices. The following two case studies highlight efforts by national-level DFIs to begin to implement environmentally sustainable activities.

The International Development Finance Corporation Limited: The IDFC Ltd. is India's leading integrated infrastructure finance player and has always been a pioneer in the field if environment risk management. Since its inception, the IDFC Ltd. has mainstreamed environmental and social risk

management into its business operations in order to integrate global best practices into their risk management framework. It has an **Environmental and Social Policy**, which provides for the assessment and mitigation of the environmental and social impact of the projects its finances and has a separate specialist **Environmental Risk Group**, which is tasked with systematically assessing and incorporating the environmental impact of their corporate lending and investing operations.

The IDFC Ltd. also recently announced its adoption of the **Equator Principles**. It was the first Indian DFI to voluntarily align itself with the internationally accepted credit risk management framework for determining assessing and managing environmental and social risk in project finance transactions. The move was adopted as part of the IDFC Ltd.'s goal of contributing to nation building in an environmentally and socially acceptable manner.

Additionally, in response to the RBI's recommendation on green banking, in 2011 the IDFC Ltd. adopted the **Ministry of Corporate Affairs' Green Initiative in Corporate Governance** and began allowing paperless compliances by companies through electronic mode. It also called on its shareholders to join in its corporate social responsibility initiative by registering their email addresses to receive their communication from IDFC Ltd. electronically.

The IDFC Ltd. also complies with the principles of the **Global Impact of the United National Global Compact**, which is a globally recognized policy framework for sustainable and ethical business practices. Principles seven to nine are concerned with environmental sustainability, and, in aligning themselves with these principles, the IDFC Ltd. has committed to following a precautionary approach to environmental challenges. To this end, the IDFC Ltd. has been assessing its carbon footprint since 2011 with the aim of becoming a carbon neutral organization in the future. The IDFC Ltd.'s carbon footprint assessment for 2013 was done as per 150-14064 standards and verified by the British Standards Institution India. The IDFC Ltd. has also obtained energy efficient certification for their central data centre and continues to receive LEED "Gold" certification for their registered office in Chennai. It is also a signatory to the **Carbon Disclosure Project** and the **UN Principles for Responsible Investment**, in the category "Investment Manager."

The IDFC Ltd. is a prime example of a DFI with a strong emphasis on environmental sustainability that runs concomitant to its commitment to social sustainable development. It remains one of the few Indian financial institutions that have worked to deliver results in tackling the issue of environmental sustainability.

The National Board of Agricultural and Rural Development: As highlighted earlier, the National Agricultural Policy in India focuses on the sustainable development of agriculture by promoting amongst other objectives environmentally non-degrading and socially acceptable uses of the country's natural resources. Unlike the IDFC Ltd. it has not yet adopted any international environmental standards, but it continues to integrate aspects of environmental sustainability into its work program.

One such project by NABARD was the Adivasi Development Programme. The model was presented as a successful replicable model for poverty alleviation in developing countries at the UNDP Forum of Ministers for Poverty and Environment in New York, U.S., in 1999 as well as at the Global Dialogue

in Hanover, Germany. It was also exhibited in the "Basic Needs Pavilion" at the Expo-2000 in Hanover.

The central focus of ADPs was to help scheduled tribes, which constitute India's most underprivileged people, cultivate small orchards for revenue generation while making an effort to ensure measures such as soil conservation and water resource development were taken. Through local, orchard-based farming systems, the project improved the quality of tribal life. This model of tribal development was a holistic approach towards production; processing and marketing the produce farmed by the tribal communities has been acclaimed worldwide as a sustainable and replicable model for poverty alleviation.

This project was externally supported by the German bank KfW, which selected NABARD as its India partner. NABARD served as an intermediary and provided concessional rates of refinance and general lines of credit for tribal development agencies that were involved in this project. The project implementation was undertaken by a renowned non-governmental organisation called BAIF that specialises in natural resource management sector. This project was a component of NABARD's Natural Resource Management policy, which seeks to provide sustainable livelihoods.

The Role of India's Development Partnership Administration and International Development

The purview of India's international development assistance has increased over the past few years, mirroring India's growing political and economic influence within the global community. The nature of India's development has also changed over the years following its independence. In the 1950s and early 1960s, India's development assistance consisted mostly of grants and loans offered by the Ministry of Economic Affairs. In 1964, the Indian Technical and Economic Cooperation was formed and became India's premier bilateral channel for development assistance. Constrained by traditional development assistance avenues in the early 1990s, India sought an alternative means of extending development assistance. It established Lines of Credit that enabled the government to raise more resources through the private sector and subsidize the interest rate through Ministry of Finance.

India's development cooperation was implemented by various ministries and institutions directed by the MEA. However this made calculating the magnitude of India's contributions to international development difficult to quantify. In 2003, the idea of an Indian aid agency was first raised in the Budget Speech that introduced the establishment of the *Indian Development Initiative* which was to give grants or project assistance to developing countries in Africa, South Asia and other developing nations. This was never established and in 2007, there was talk of creating the India International Development Cooperation Agency, but this too was never fully resolved. Due to the increasing amount of development assistance flowing out of India, the need for a centralized coordinating structure became acutely apparent. In a final effort to streamline the growing number of India's overseas investments, India's Development Partnership Administration was established in 2012 under the MEA.

India's overseas DPA is divided into three areas:

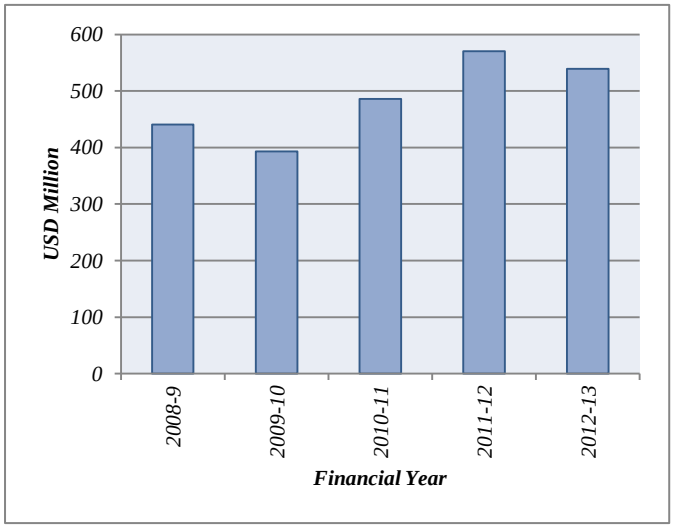
1. DPA I deals with project appraisal and Lines of Credit given to countries through the Export Import Bank of India.

2. DPA II deals with capacity building schemes, disaster relief and the Indian Technical and Economic Cooperation Programme.

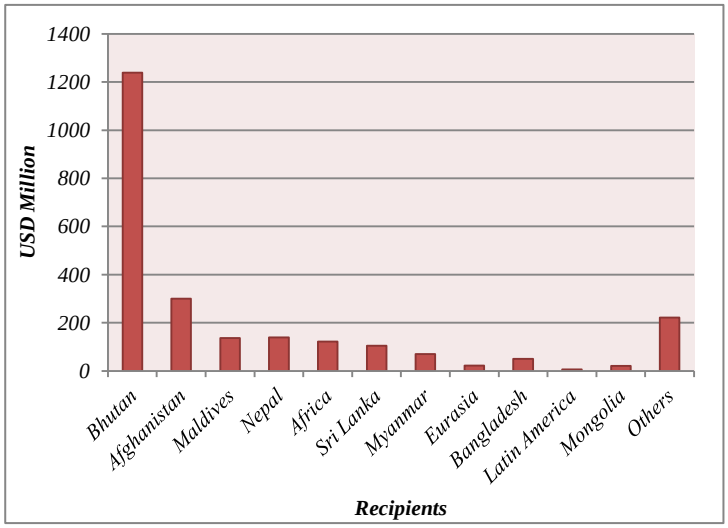
3. DPA III deals with the implementation of grant assistance projects in neighboring countries mainly in the Central and South East Asian region.

India's International Development Assistance at a glance

Year Totals



Country Totals



**Source Ministry of External Affairs, Annual Reports 2008 – 2013(See Appendix 2)*

At the international level, India's development assistance is directed primarily to its neighbors in the south and Southeast Asian region, with Bhutan as India's largest recipient of financial assistance. Much of the aid given by India to its neighboring countries has included food medical care and shelter materials. Most of the financial aid to Bhutan, Bangladesh and Nepal has been to finance large infrastructural products. This aid has been said to strengthen India's geopolitical influence. Outside of Asia, African countries are the largest recipients of assistance, followed by the Latin American region.

Conclusion

As DFIs continue to convert into banks, long-term financing for infrastructure and other sectors is becoming harder and harder to access. With the establishment of a BRICS Development Bank as well, India may be provided with another option to support infrastructural development, particularly in the area of long-term financing; currently, this gap is partially being funded by the World Bank.

Given the need for solutions to improve India's pressing social concerns, India's primary focus both nationally and internationally has been on measures that promote economic development with the goal of achieving social objectives. This has often times led to the issue of environmental sustainability being neglected. The pervading sentiment is that an attempt to preserve non-renewable resources at times requires compromising on growth rates that are essential in helping India achieve developmental goals.

There is however an acknowledgement that in spite of the present challenge, a balance must be struck between economic growth and preserving natural resources. As the global community began to emphasize the need for sustainable development, India has increasingly reflected these international polices in its own framework. Some DFIs, as mentioned, have begun to integrate environmentally sustainable practices into their work program. However, at this stage in India's national development, critical short-term developmental objective continue to outweigh the long-term goal of sustainability.

Appendix 1

Loan disbursements by National DFIs (INR Billion)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
NHB	27.10	32.53	80.62	56.33	55.00	85.87	108.54	81.08	120.35	144.54
NABARD	74.19	76.05	85.77	86.22	87.95	90.46	105.35	120.09	134.86	154.22
EXIM	53.20	69.58	114.35	150.39	220.76	271.59	289.33	332.49	344.23	370.45
SIDBI	67.89	44.14	61.88	91.00	102.25	150.99	283.18	319.42	387.96	418.12
TOTAL	**222.38**	**222.30**	**342.62**	**383.94**	**465.96**	**598.91**	**786.40**	**853.08**	**987.40**	**1087.34**

The graph in the paper has used USD for ease of comparison at the forex rate USD 1:Rs 60

Appendix 2

Total Indian Financial Assistance (INR Billion)

	2008-9	2009-10	2010-11	2011-12	2012-13	**Total**
Bhutan	12.06	13.02	17.23	20.30	11.71	**74.32**
Afghanistan	4.19	2.87	3.10	2.90	4.91	**17.97**
Maldives	5.05	0.04	0.11	2.73	0.30	**8.22**
Nepal	1.13	1.50	1.50	1.50	2.70	**8.33**
Africa	0.95	1.25	1.50	1.24	2.38	**7.32**
Sri Lanka	0.30	0.80	0.90	1.33	2.90	**6.23**
Myanmar	0.35	0.55	0.90	1.12	1.25	**4.17**
Eurasia	0.19	0.20	0.30	0.30	0.30	**1.29**
Bangladesh	0.06	0.04	0.03	0.08	2.80	**3.01**
Latin America	0.02	0.02	0.04	0.01	0.28	**0.36**
Mongolia	0.00	1.25	0.00	0.02	0.01	**1.28**
Others	2.16	2.06	3.56	2.71	2.81	**13.29**
Total	**26.45**	**23.59**	**29.17**	**34.23**	**32.34**	**145.78**

The graph in the paper has used USD for ease of comparison at the forex rate USD 1:Rs 60

End Notes

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