

## **Model CSR framework for DFIs for MSME support**

Given an increased awareness of social and environment impact of businesses, business enterprises should aim for a holistic approach towards sustainable development by extending their policies beyond purely economic considerations and should also review their standing in the overall landscape of CSR and sustainable development. Development Financial Institutions (DFIs) play a key role in shaping the economic development of a country, as well as the social and ecological landscape. As DFIs provide much necessary financial assistance for economic activities, they are in a position to positively influence the social and environmental impact of businesses supported by them. Therefore, Corporate Social Responsibility has a different connotation and orientation for DFIs than to other forms of businesses. This document is an attempt to provide an appropriate CSR framework for Development Financial Institutions (DFIs) focusing on MSMEs, to integrate CSR within their operations.

### **Mainstreaming CSR into Business**

For DFIs to effectively contribute towards sustainable development, it is vital they mainstream CSR into their business policies and embed at all levels of organization. Their strategies and policies must confirm to the “Triple Bottom Line” model (i.e. measuring business performance at the economic, environmental and social levels) and aim to create a business that is profitable as well as sustainable. There is a need to consider CSR beyond the organizations’ own internal environment. Whilst a DFIs’ own environment impact can be limited through monitoring of carbon footprints, it would be critical for them to integrate sustainability into their credit policies by using the “exclusion” criteria (specific activities or sector which they will not invest or give credit to) or “conditional” criteria (usually with conditions like a requirement for the applicant to have an independent environment or social impact assessment and incorporating the recommendations from these into the credit conditions) along with positively incentivizing and targeted assistance towards environment friendly endeavors.

Following steps could be undertaken for effective implementation of CSR at the organizational level:

- Formal structures need to be established with specific designed responsibilities and CSR process needs to be top-down where CSR policies and strategies flow from the Board of Directors or Senior Management. Only when there are clear directions from the top, is an organization able to embed and internalize CSR into all facets of its business and operations.
- There should be internal engagements focusing on educating the entire organization as to what CSR is. Given that the area of CSR may be new in many organizations, there may be insufficient resources with the relevant knowledge to help the Management rollout the organizations CSR strategies, systems and processes. In addition this may limit the ability to identify significant issues for their CSR report hence impacting the credibility of the

report. Overall it is important to understand that CSR implementation is a gradual process.

- CSR approaches should encompass the concerns of all relevant stakeholders in order to build a long term CSR strategy
- It is imperative to look beyond financial risk to understand the non financial risks associated with CSR. The DFI needs to understand the various risks associated with CSR, including reputation risks, business risks, operation risks, human rights risk and health and safety risks. The DFIs need to consider and incorporate CSR associated risks into their overall risk management framework
- It is common for organizations to look at CSR only from the social responsibility aspect, but it is important to think beyond this. DFIs need to give due considerations to CSR as a whole, including environmental and economic responsibility. There is also a need for them to assess their environmental and climate change impact (carbon foot printing).

#### **CSR Thematic Areas for a DFI (Illustrative)**

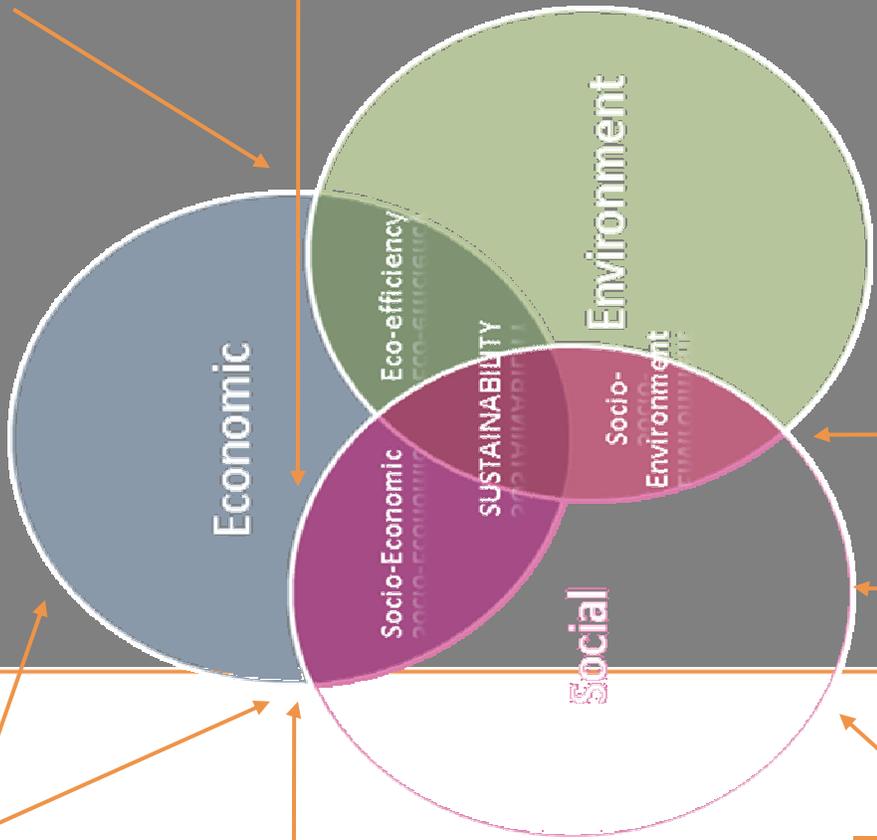
Based on the characteristics and functions of a DFI, there are four thematic areas which can form the basis of a CSR strategy:

- Responsible Products & Services
- Inclusive Growth and social development
- Clean & Green development
- Nurturing Human Capital

MODEL CSR FRAMEWORK

Theme 1  
Responsible Business

Theme 2  
Clean & Green  
development



Theme 3  
Social development and  
inclusive growth

Theme 4  
Nurturing Human Capital

## Components of CSR Thematic Areas

### Responsible Products & Services

- Service Provision Standards/ Service Excellence
- Sustainable & Responsible Investment (SRI) funds
- Strengthening management of regulatory compliance
- Corporate governance and code of conducts
- Financial health and accountability; ratings and recoveries
- Effective Risk Management
- Customer Satisfaction and Privacy
- Educational activities to popularize financial knowledge for customers

### Inclusive Growth & Social Development

- Bottom of Pyramid Initiatives
  - Reaching out to under-served areas
  - Expansion of frontiers of support in order to encompass the disadvantaged sections of the society
- Microfinance and Community Initiatives
- Support to Women
- Community service activities including charitable donations, financial education camps and employee volunteering programs etc.

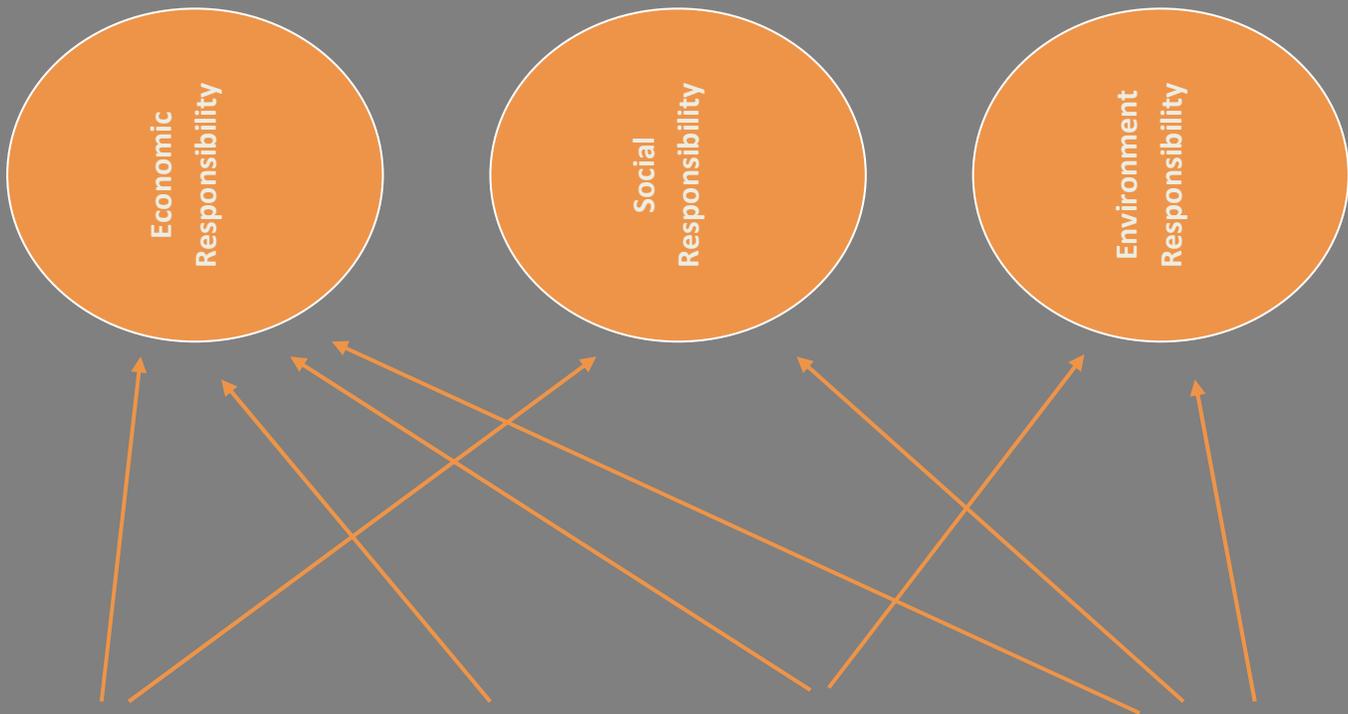
### Clean and Green Development

- Environment friendly lending based on exclusion & conditional criteria
- Clean tech finance credit lines
- Carbon foot print reduction commitments
- ISO 14000 Certification Support
- Awareness Campaigns and environment protection to customers and employees
- Optimal resource utilization
- Reduction of negative impact of daily operations on the environment
- Staff participation in environmental protection activities

### Nurturing Human Capital

- Skills and Capacity Development of employees as well as of the extension partners
- Diversified workplace by being an equal opportunity employer
- Equal pay for equal work
- Performance Recognition
- Corporate Ambassadorship
- Employee Volunteering
- Protection of rights and interests of employees
- SHE (Safety, Health & Environment ) at work

# MAPPING ACTIVITIES TO TBL



## Responsible Products & Services

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## **Benchmarking with international initiatives**

While formulating CSR policies and activities, it would be useful to align with existing international initiatives such as the Collevocchio Declaration which is most relevant for DFIs.

### **Collevocchio Declaration on Financial Inclusion**

DFIs can integrate the concepts of Corporate Social Responsibility (CSR) and Sustainability with their business strategy through:

#### **1. Commitment to Sustainability**

DFIs must expand their missions from ones that prioritize profit maximization to a vision of social and environmental sustainability.

#### **2. Commitment to 'Do No Harm'**

DFIs should commit to do no harm by preventing and minimizing the environmentally and/or socially detrimental impacts of their portfolios and their operations.

#### **3. Commitment to Responsibility**

DFIs should bear full responsibility for the environmental and social impacts of their transactions.

#### **4. Commitment to Accountability**

DFIs must be accountable to their stakeholders, particularly those that are affected by the activities and side effects of companies they finance.

#### **5. Commitment to Transparency**

DFIs must be transparent to stakeholders, not only through robust, regular and standardized disclosure, but also through being responsive to stakeholder needs for specialized information on the institutions' policies, procedures and transactions.

### **Other useful initiatives are:**

United Nations Global Compact (UNGC) - [www.unglobalcompact.org](http://www.unglobalcompact.org)

United Nations Environment Programme Finance Initiative (UNEP FI) - [www.unepfi.org](http://www.unepfi.org)

Equator Principles - [www.equator-principles.com](http://www.equator-principles.com)

## Reporting & Assurance

Sustainability reporting is a process for publicly disclosing an organization's economic, environmental, and social performance. Global Reporting Initiative (GRI) is an initiative at the global level to standardize Sustainability Reporting, which the institutions adopt and has become the de facto standard internationally. GRI is a long-term, multi-stakeholder, international process whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines. These Guidelines are for voluntary use by organizations for reporting on the economic, environmental, and social dimensions of their activities, products, and services. The aim of the Guidelines is to assist reporting organizations and their stakeholders in articulating and understanding contributions of the reporting organisations to sustainable development.

To indicate that a report is GRI-based, report makers should self declare the level to which they have applied the GRI Reporting Framework via the GRI 'Application Levels' system. To meet the needs of beginners, advanced reporters, and those somewhere in between, there are three levels in the system. They are titled C, B, and A. The reporting criteria at each level reflect a measure of the extent of application or coverage of the GRI Reporting Framework.

In addition to the self declaration, reporting organizations can choose one or both (not mandatory) of the following options:

- Have a third party offer an opinion on the self-declaration i.e. to go for *External Assurance*. A "plus" (+) is available at each level (ex., C+, B+, A+) if external assurance is utilized for the report.
- Request that the GRI check the self-declaration.

		2002 In Accordance						
		C	C+	B	B+	A	A+	
Optional	Mandatory			Report Externally Assured	<input checked="" type="checkbox"/>	Report Externally Assured		Report Externally Assured
	Self Declared				<input checked="" type="checkbox"/>			
	Third Party Checked			Report Externally Assured	<input checked="" type="checkbox"/>	Report Externally Assured		Report Externally Assured
	GRI Checked							Report Externally Assured

For example, this illustrates that a report maker self-declared the B level, a third party checked the declaration, and the GRI checked the declaration.

GRI  
Checked  
Icon



 For more details, log on to [www.globalreporting.org](http://www.globalreporting.org)