Responsible Finance – What and Why?

The Challenge
Global sustainable development challenges such as climate change or poverty cannot be addressed without Responsible Finance – finance that integrates social, environmental and governance concerns into the lending and investment decision making of financial institutions. Responsible financial systems can contribute to the goal of sustainable economic development through promoting business innovation and strengthening economic, environmental and social responsible behavior of businesses. Non-financial criteria are equally as important as financial criteria and are equally as valid to assess the businesses. By setting the right incentives through non-financial lending and investment criteria, the financial sector acts as a ‘multiplier’ of responsible business practices and sustainable economic development. Consequently, Responsible Finance cannot be detached from the responsible business agenda as ultimately Responsible Finance is a means to the end of responsible business practices.

GIZ’s Approach
GIZ is creating a new initiative on promoting “responsible enterprise finance”, aiming at strengthening financial institutions to integrate environmental, social and governance (ESG) concerns in their operations and strategy decision making. Within the new Initiative, GIZ will work with banks, investors and impact investors to promote the role of finance for sustainable economic development and innovation. The new initiative supports thrift institutions (Development Bank of India (SBI) and its “Sustainable Banking” activities), other partners include public and private sector banks, the SME Exchange, investors and financial service providers as well as advocacy organizations with a similar agenda. The new initiative aims to create awareness for the business case of financial risk management and ESG integration, increase market transparency, and bring the lessons to the policy level.

International and Indian Trends of Responsible Enterprise Finance

International Commitment to the Financial Institutions
• 1,805 signatories to the UNPRI, only 2 from India

Governmental and regulatory drivers
• New & existing 2013 for the Corporate Social Responsibility (CSR) to become a more responsible and transparent financial system

Global challenges
• Lack of measurement tools
• Data quality & comparability
• Standardization of metrics & impact

Challenges of the impact investing ecosystem
• Information asymmetry & lack of pipeline
• Investment readiness: plenty of ideas but lack of skilled entrepreneurs
• Lack of access to adequate financing
• Transaction costs of sourcing ideas and due diligence
• Scalability of the initial business model to new geographies

New trend: Impact investing
Impact investment is an investment approach by a new breed of venture capitalists and angel investors at the start up or early stage of a social business’s development.

Translation into ESG Policies
• Reporting publicly all the above criteria and metrics into financial lending and investment integration of environmental, social and governance (ESG) strategies employed by financial institutions involving the integration of environmental, social and governance (ESG) criteria and metrics into financial lending and investment decision making. Financial institutions can hence act as key multipliers for promoting responsible business practices and environmental and social compliance.

Challenges in International ESG Integration and Responsible Finance

Index-specific challenges
• Lack of awareness, understanding and engagement among investors and companies
• Lack of adequate ESG integration
• Lack of corporate governance

For more information please visit http://www.giz.de

Promoting Responsible Enterprise Finance

GIZ's starts new Initiative on Strengthening the Integration of ESG in the Financial Sector

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