

**THE FUTURE OF RESPONSIBLE LENDING IN INDIA:
PERCEPTIONS OF THE ENVIRONMENT AND
SUSTAINABILITY**

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The future of responsible lending in India: Perceptions of the environment and sustainability

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Financial institutions are becoming increasingly accountable to a broader range of stakeholders, particularly with regard to their lending habits and their subsequent social and environmental footprint. As a consequence, a substantial number of banks, predominantly from the minority world, have voluntarily adopted the Equator Principles, a set of environmentally and socially sound lending guidelines aimed at the project finance industry. It is imperative that Indian banks become signatories; increasingly they are funding national infrastructure growth at the expense of the environment and communities which inhabit areas of development. Previously, Indian bankers have been absent from the Equator dialogue; this research sought to include them and ascertain the future of responsible lending within the Indian context. Across the minority world, responsible lending is entwined with the motivation to become a good corporate citizen. An analysis of Indian corporate social responsibility initiatives demonstrated that a number of financial institutions and corporations are encouraging innovation, sustainable development and independence within their local communities; a positive outcome for the potential of Equator adoption in India. The global financial crisis presently threatens to negate the progress banks have made with their commitment to responsible project finance. However, the reshaping and redefining of the global banking system presents an opportunity for financial institutions worldwide to be more responsible with the allocation of credit on an individual basis and the financing of large-scale development projects. India, at this time of major infrastructure growth, can either develop at the expense of its natural and social environments, or strive towards lifting its population out of poverty within a sustainable, responsible framework.

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Abbreviations

AP	Action Plan
ATM	Automated Teller Machine
BoE	Bank of England
BOS	Bristol Online Survey
BPL	Below the Poverty Line
BRIC	Brazilian, Russian, Indian and Chinese economies
CBA	China Banking Association
CD	Community Development
CDO	Collateralised Debt Obligation
CEO	Chief Executive Officer
CGI	Clinton Global Initiative
CMS	Centre for Media Studies
CNG	Compressed Natural Gas
CoRE-BCSD	Corporate Roundtable on Development of Strategies for Sustainable Development and Environment-Business Council for Sustainable Development
CPCB	Central Pollution Control Board
CS	Corporate Sustainability
CSR	Corporate Social Responsibility
CST	Chhatvapati Shivaji Terminus
EA	Environmental Assessment
EC	Environmental Clearance
ECC	Environmental Clearance Certificate
EIA	Environmental Impact Assessment
EIRIS	Ethical Investment Research Service
EMP	Environmental Management Plan
EMS	Environmental Management System
EPFI	Equator Principle Financial Institution
ESIA	Environmental and Social Impact Assessment
ESP	Environmental and Social Policy
G-20	Group 20 countries
G250	Top 250 companies of Fortune 500

GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GRI	Global Reporting Initiative
IBA	Indian Banks Association
IBEF	Indian Brand Equity Foundation
IBF	Islamic Based Finance
IBRD	International Bank for Reconstruction and Development
ICBC	Industrial and Commercial Bank of China
ICDP	Integrated Community Development Programme
IDFC	Infrastructure Development Finance Company
IFC	International Finance Corporation
IFSB	Islamic Financial Services Board
IIBI	Institute of Islamic Banking and Insurance
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
KPI	Key Performance Indicator
MoEF	Ministry of Environment and Forests
N100	National 100
NBA	Narmada Bachao Andolan
NCAER	National Council for Applied Economics and Research
NGO	Non-Government Organisation
NHPC	National Hydro Power Corporation
OEDC	Organisation for Economic Co-operation and Development
OPEC	Organisation of the Petroleum Exporting Countries
PS5	Performance Standard 5
RAN	Rainforest Action Network
RBI	Reserve Bank of India
RBS	Royal Bank of Scotland
RMB	Ren Min Bi
RUDSETI	Rural Development and Self-Employed Training Institute
SAP	Structural Adjustment Programme
SBI	State Bank of India
SSB	Shariah Supervisory Board
SSF	Social Safeguards Framework

SUPPORT	Society Undertaking Poor People's Onus for Rehabilitation
TBLI	Triple Bottom Line Investing
TERI	The Energy and Resources Institute
TII	Transparency International India
WB	World Bank
WBCSD	World Business Council for Sustainable Development
WHO	World Health Organisation
WTO	World Trade Organisation
WWF	World Wildlife Fund

Chapter 1

Introduction

The financial sector has been criticised in recent years as a result of extensive environmental and social degradation linked to the funding of development schemes. Consequently, the industry has transformed its lending policies and procedures. Leading financial institutions have voluntarily adopted a set of guidelines, the Equator Principles, which aim to ‘determine, assess and manage social and environmental risk in project financing’ (Equator Principles, 2006: no page). However, the emergence of indigenous financial institutions in majority regions, capable of independent project finance, challenges initiatives to attach conditions of corporate responsibility to lending activities at the global scale. As ‘Equator Banks’ from the minority world are increasingly denying funding to development projects on the grounds of environmental and social impacts, so financial institutions from emerging Asia, are agreeing to finance such infrastructure schemes. It is within this context that this thesis examines the ‘greening’ of financial institutions and leading companies in India.

The research explores the commitment by Indian financial institutions to sustainable project finance and investigates the possibility of a responsible development paradigm emerging within the contemporary Indian context. The research is multi-disciplinary. It adds to the literature on the geographies of finance and challenges existing thought within development geography, it deals with issues of sustainable development in India and supplements the debate on Corporate Social Responsibility (CSR) within the business and management literature.

This chapter introduces the context, nature and the purpose of the research. First, a background is provided, followed by an explanation of the key terms referred to throughout the thesis. The chapter then progresses to provide the rationale for the research enquiry, outline the main aims and research objectives and provide the reader with a summary of the chapters herein.

1.1 Background

On 4th June 2003, the project finance industry was revolutionised. Ten of the world's largest financial institutions from seven countries (Netherlands, United Kingdom, United States of America, France, Switzerland, Germany and Australia) voluntarily adopted the Equator Principles, formally known as the Greenwich Principles (Abbott *et al.*, 2005). Developed by the International Finance Corporation (IFC), this code of conduct was to ensure that the projects financed by Equator signatories, adhered to environmentally and socially sound standards. Increased public environmental awareness and, 'backlash over a rising number of controversial projects' (Abbott *et al.*, 2005: 1) were the primary drivers. Financial institutions could no longer afford to be funding projects that had significant environmental implications; their corporate reputations were being compromised. Since the launch of these standards, it has become increasingly apparent that financial institutions have a role to play in sustainable development, as Bouma and Jeucken (2001: 25) comment, 'banks transform money in terms of duration, scale, spatial location and risk and have an important impact on the economic development of nations.' Banking and the environment are intrinsically connected. By complying with the Equator Principles, banks are agreeing to work towards a common baseline for the standard of

development projects around the world and to, 'contribute to rather than undermine sustainable development' (Amalric, 2005: 18).

More recently, however, on 6th July 2006, the first major revision of the Equator Principles was announced (Equator Principles II). At the start of this research (October 2006) 51 financial institutions had adopted these revisions in recognition of their commitment to environmental and social issues. Sustained shareholder activism and reputational damage caused by non-compliance have been suggested as the primary drivers for a bank to adopt the principles (Mongoven, 2006). Furthermore, banks were becoming more aware of the economic, political, social and environmental risk involved in financing development projects. Equator Principles II can now serve as a functional and valuable set of guidelines for project financiers. Now that a critical mass of banks have become signatories, environmental evaluations can be made to a common baseline. Despite the large number of signatories, there are geographical disparities in the distribution of adopting institutions. Increased support and compliance is needed from banks in majority nations, notably India and China. If financial institutions, particularly from emerging markets voluntarily adopt the standards, and the guidelines are consistently and transparently applied, then the Equator Principles may in the future be considered by all stakeholders to be an effective baseline for development projects worldwide.

The Indian environmental movement has been scrutinised by academics, focusing predominantly on the Narmada Dam development, India's most controversial infrastructure project (Doyle 2005; Swain 1997). Not surprisingly, NGOs dominate much of the literature, in recognition of their attempts to give a voice to Indigenous people (Routledge 2003; Townsend *et al.* 2002). Consequently, there has been relatively little research conducted on sustainable finance and CSR in India. General commitments to environmental and social issues are not just prominent in minority world countries, businesses in the majority world are also grappling with these issues. For the future of the Equator Principles and the safeguarding of environments and communities in areas of development, particularly in fast growing emerging economies, understanding how environmental and social issues are perceived both

generally and within the corporate banking sector will offer an insight into the future of responsible lending in the Indian context.

1.2 Consistent terminology

There are a number of terms used throughout this thesis that need defining due to their complexity and the debate which surrounds their meanings.

1.2.1 North/South, Developed/Developing, Minority/Majority?

Due to the inherently geographical nature of this research, the terminology for countries and regions has to be considered. There has been much debate within the development literature as to the terms used to describe populations around the world, evolving from modernisation and dependency theorists. Many of these terms are opposites, suggesting a simple bipolar world of haves and have not's (Power, 2008). Dualistic expressions such as, developed/developing and north/south give the latter a negative connotation. Since this research touches upon the increasingly plural societies of countries such as India, these simplistic dualisms do not highlight the inequalities which exist within the countries in the north and the south. Therefore this research follows Doyle's (2005) classification; the more affluent countries of the world such as the UK and the USA will be termed the 'minority world' and those less affluent populous countries including India and China will be termed the 'majority world.' It was also necessary to identify with the emerging nature of India and China in the global economy; in these instances they have been described as 'emerging economies.' Additionally, on several occasions throughout the thesis quotes by interview respondents and existing literature mention dualisms; including west/east and north/south, in these instances the researcher has left the connotations to which the interviewee or author intended.

1.2.2 Corporate Social Responsibility

There are a wealth of definitions and terms used to describe the commitment by corporations to the wider society and environment; corporate social responsibility (CSR); corporate citizenship; corporate governance; corporate sustainability; social accountability; social reporting; sustainable development; triple bottom line and more

recently CSR 2:0 (Visser, 2008a). It was not an aim of this thesis to add to this expanding and increasingly confusing list; therefore, for the purpose of this research the definition of CSR is taken from the World Business Council for Sustainable Development (WBCSD, 2000: 8):

‘the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large.’

In addition, a company striving towards this goal or actively engaging with each of the elements is defined in this thesis as a ‘good corporate citizen.’

1.2.3 Empowered

In the development literature, the term empowered has been heavily used, focusing on local communities, particularly women (Moser 1989; Moyle *et al.* 2006; Xavier *et al.* 2006). In this thesis, the term is used to describe the localised impacts of CSR initiatives predominantly on women. The research uses the explanation provided by Xavier *et al.*, (2006) which originates from the Indian context. Their explanation of recognising empowerment is divided into economic and social. Therefore a woman who is empowered through a CSR programme has been given all or some of the following:

Economic empowerment

- Knowledge about borrowing from a bank
- Not entirely dependent on her husband’s earnings
- Ability to go for progressive borrowing
- Increased income
- Sense of economic independence

Social empowerment

- Greater mobility
- Networking with others at meetings
- Opportunity for self-development and family welfare
- Ability to contribute to a public cause
- Confidence to hold a leadership position

(Xavier *et al.*, 2006: 13)

1.2.4 Corruption

It was not an intention of this thesis to delve into the possibility of corrupt practices occurring within the Indian banking sector. However, as the research progressed it became evident that corruption with respect to the project finance industry in India needed acknowledgement. Whilst geographers have worked on corruption in India (Jeffery, 2002) the definition used in this thesis follows that of Transparency International India (TII), a non-profit organisation which monitors corruption and works towards promoting transparency. The definition is as follows:

‘the misuse of entrusted power for private gain.’

(TII, 2009: No page)

For the purpose of this research the term ‘private’ used in the definition is taken to mean corporate or company gain. It is also important to note the pervasiveness of corruption in India; very few sectors are free from some form of corrupt practice. As recognised by TII (2009: No page) ‘corruption is deep rooted in India and has become part of Indian psychology.’ The World Bank (2009: no page) identifies ‘corruption as among the greatest obstacles to economic and social development. However, as Bayley (1966: 720-721) suggests, ‘applying the label to behaviour on the part of public officials in many non-Western countries immediately poses a dilemma of intriguing dimension.’ He continues with the following example, ‘in both Africa and India the man who uses his official position to obtain jobs for his relatives is not considered immoral: in traditional terms, he is only doing what every loyal member of an extended family is expected to do’ (Bayley, 1966: 721). It is important therefore to acknowledge that the term ‘corruption’ is not an objective notion; it is culturally conditioned.

1.3 Rationale for the research enquiry

In 2006, prior to starting this PhD research, work carried out for Professor Michael Bradshaw as a Research Assistant involved exploring and collating information on NGO reaction to oil and gas exploration off Sakhalin Island, Russia. Criticism was focused on the offshore pipelines interfering with the natural habitat and the migration path of

the Western Grey whale. In addition, the financiers of this development were in fact Equator signatories, violating their voluntary commitment to the environmental and social lending guidelines. During the initial months of the research, a number of conferences organised by the Ethical Corporation were attended which initiated interest in the Equator Principles, specifically the non-adoption of banks in India and China. At the Sustainable Finance Summit (2006) there was the general consensus that one of the greatest challenges for the Equator Principles was gaining support from majority market banks. There was a sense of frustration and irritation from current signatories that Indian and Chinese financial institutions were not committing to the international lending guidelines. At the conference Burrett (2006) asked 'large Chinese projects are already being financed by local banks in local currency ... going forward, how do we engage with local banks in China and India?' The reasons for the lack of adoption in these regions were unknown. It was from this question that this research emerged; to ask Indian banks their reasoning behind their lack of Equator adoption.

This research is therefore significant, particularly at the international scale; this is reflected by the following:

- Announcement of Equator Principles II (July 2006) signifies that the issues central to this research are at the forefront of global agendas.
- The Sustainable Finance Summit in November 2006 organised by the Ethical Corporation, stressed the importance of banks in emerging markets committing to sustainable finance.
- In the past, banks from minority nations have financed infrastructure development in the majority world; increasingly Chinese and Indian banks are financing their own development.

1.4 Justification: Why India?

As previously highlighted, at the outset of the research, India and China (emerging powers within the world economy) were yet to commit to the international lending guidelines; a set of voluntary standards to ensure that communities and environments are protected in regions of large scale infrastructure development. In addition, with their increased economic prominence they are also finding they have the ability to fund their own development; whilst this is positive, if there are no safeguards in place then the environment and communities could suffer in these regions. Due to time constraints, cost and the sheer breadth of research to be conducted, it was decided that only one emerging power could be considered. For the personal, academic and cultural reasons identified in Chapter 6, India was chosen as the focus of the research.

India is a fascinating country; a land of the rich, a land of the poor, a land of contrasts. In the sixty years since India's independence, a confident country has emerged. Not so long ago India was seen as a poor nation, but increasingly it is now home to entrepreneurs, software engineers and a thriving film industry. India is the world's largest democracy, the second most populous country (1.1 billion) and by geographical area is the world's third largest nation (CIA, 2009). Since 1991, when its government dismantled the Licence of the Raj (regulation), its economic course has accelerated. When field research was carried out in 2008, India was confident for its future. Economists and forecasters predict that by 2035 India will be the third largest economy in the world, preceding the USA and China (Kaplinsky and Messner, 2008).

Despite these predictions and the confidence which eludes, one third of the world's chronically malnourished people live in India, the country faces significant over-population, environmental degradation, extensive poverty and widespread corruption (CIA, 2009). As recognised by Rajadhyaksha (2007: 50) '17 percent of the world's population are crowded into just 2.2 percent of the world's land area ... there are 29 Indians being born every minute and over 15 million every year,' India faces tough challenges ahead. The Indian government needs to spread the growth and prosperity to its poorest people, if this is not done, the two thirds of India's population which currently live in rural communities will certainly cause friction, further dividing the

population. At this time the world is looking towards the emerging powers, to see the direction they take, as Rajadhyaksha (2007: 3) suggests, 'the march of a billion people out of poverty and into some modicum of prosperity is bound to send ripples (and an occasional shockwave) to the rest of the world.'

India has some choices to make, develop at the expense of natural and social environments or develop within a sustainable responsible framework. It is within this wider context that this research pursues the following aims and objectives that together explore the 'greening' of financial institutions and leading companies in India, using a predominately qualitative approach.

1.5 The research aims and objectives

This research has the following aims:

- 1. Identify the commitment of Indian financial institutions to sustainable project finance*
- 2. Explore the possibility of a responsible development paradigm emerging within the contemporary Indian context*

In order to achieve the aims identified, the programme of research is organised around six research objectives:

1. An analysis of the commitment to the Equator Principles from financial institutions in the minority world and an assessment of the significance of increased compliance from emerging market institutions
2. An analysis of general environmental awareness in India and an assessment of the current lending strategies of India's leading financial institutions

3. An examination into the reasons why Indian banks have adapted or disregarded Equator Principles II, the international project finance lending standards
4. An evaluation of how the environment is regulated in India. What is the potential of regulating the Equator Principles in the Indian context?
5. An assessment of the general commitment to Corporate Social Responsibility (CSR) amongst the wider corporate community in India and an exploration into approaches to CSR from an emerging economy
6. An examination of how Indian bankers use the Internet to promote and advertise their CSR commitments

1.6 Changing geographies

Since this research began in 2006, major changes have taken place in the world of finance. Major financial institutions, described as pillars of the banking community have buckled in the wake of a financial crisis. During the write-up phase of the research it became increasingly clear that this thesis would need to make reference to the changes that are occurring within the global financial system. Undoubtedly, the failures, bailouts and nationalisations are important to acknowledge as ultimately the notion of responsible lending will be redefined in the wake of the crisis. The financial turmoil will re-shape many sub-disciplines of geography; finance, economy, society, politics and the environment. Prior to the financial crisis, centres of finance were beginning to emerge, including Mumbai, Shanghai and Dubai; in the wake of the crisis, the power of finance is shifting further away from the minority world. Given these changes, it was necessary to re-contact the interviewees to ascertain the impact of the crisis on India, the potential of Equator adoption and more generally the future of CSR.

1.7 The significance to geographers

Global communication infrastructure has expanded exponentially; at the touch of a button we can now exchange, communicate and overcome the traditional geographic

boundaries of space and place. Consequently, the financial sector has become truly global in its operations, suggesting to some that we have reached the end of geography. This thesis argues, however, that the changes occurring within the finance sector are not obliterating geography, but paving the way for a new field of enquiry termed the 'geographies of project finance.' Due to the lack of published literature on the role of banks in environmental decision making and governance, this research furthers the theoretical diversity of the field through an analysis of the various actors and stakeholders involved in project finance. This thesis explores the links between financial institutions and their inherent relationship with the environment and society.

Despite the fact that geographers have not explicitly focused on scales of lending, the geography of project finance ties together a range of emerging issues, namely financial, ethical and corporate geographies. However, this research also challenges the standard line between economic and development geography. Traditionally, infrastructure development in the majority world has been financed by development agencies and commercial financial institutions originating from minority nations. Therefore, for decades the development agenda has been based on the premise that those in the majority world require financial assistance from the industrial minority countries. However, in line with the rise of ethical consumerism in the minority world, the finance industry has become the latest sector to embrace environmentally and socially responsible practices. Additionally, as this research highlights, banks in the majority world have the increased capacity to finance their own infrastructure development. The volume and composition of development finance is therefore shifting, compromising the sustainable development agenda initiated by the minority world. Therefore, as geographers we have to ask ourselves, as India and China become strengthening powers in the global economy, what impact will this have on traditional development agendas and prescriptions to safeguard the environment on a local scale? It is important that geographers expand their understanding of the project finance industry in order to identify the impact that the responsible development paradigm is going to have on the traditional development agenda and the role of money, power and space in emerging markets such as India.

With increased financial globalisation in emerging economies, combined with their growing power and plans for huge infrastructure development over the next few decades, this thesis argues that majority-to-majority development infrastructure financing is on the rise. The impact that this has on the traditional development agenda and the current 'sustainable finance' ethos of the international project finance industry remains to be seen, but is hugely significant, reshaping how we understand development *per se*.

Geography is important in an age where infrastructure and development is expected to grow at an unprecedented rate in the emerging markets and in a world where environmental issues, particularly climate change, and sustainability are set to be on the global agenda for the foreseeable future. The research is multi-disciplinarily, informed by key geographers and other social scientists. An inductive approach is adopted, whereby generalisations are made from observations made in both the literature and from field-research undertaken in India. This is in contrast to a deductive approach which would have expected a model building outcome; as found with this research, the project finance industry as well as CSR is place and space specific; a model therefore would have been inappropriate.

Geographers in recent years have reacted to the notion that scale is unproblematic, a given and fixed unit of space that can be used in geographical enquiry (Marston, 2000). Traditionally scale was considered as a fixed entity, defined as local, regional, national and global. However, much of the literature now argues that, 'geographical scale is socially constructed rather than ontologically given,' (Agnew, 1997: 100). For the purpose of this research however, the regulatory 'scales' of project finance can be loosely tied to the global, national and local. Firstly, it is necessary to identify the changes which have occurred within the project finance industry at the 'global' scale, both with the adoption of international lending standards and the shifts which are occurring within the landscape of global finance. The national scale is addressed through an analysis of Indian banks (public and private); how does India as an emerging market 'fit' into the responsible lending paradigm initiated by the minority world? Whilst the 'local' environmental and social implications of financed

development projects are not specifically identified in this research, the participation by local NGOs enables an exploration into the localised impacts of corporate commitment to CSR and opens up future research questions and lines of enquiry.

In summary, research into the project finance industry is sorely lacking from a geographical perspective. Given the dramatic and often devastating impacts that infrastructure projects can have on environments and societies, this needs further exploration by geographers. The actions of the world's largest and most influential financial institutions, in addition to local banks, can and are having huge geographical implications for the environments and the communities that are situated in regions of large scale infrastructure growth. The geographies of project finance is a new field of exploration; in addition, as emerging markets such as India and China become greater powers within the global economy, this will challenge existing thought within the development literature.

1.8 The significance of Corporate Social Responsibility

After identifying with the literature on responsibility within the corporate environment, it was decided that CSR would be an element within the research. For Indian banks to recognise the significance of the Equator Principles in infrastructure finance, it was thought that a wider commitment to environmental and social issues and responsibility would be needed in the Indian corporate sector. Therefore, an exploration into current CSR perceptions and practices was deemed essential to address the main aims of this research.

Historically, Indian corporations have a long association with social responsibility, predominately linked with deep rooted religious obligations and acts of philanthropy. The thesis presents case studies of several forms of Indian CSR. Empirical evidence is offered to show how traditional, sporadic corporate commitments will buckle under the pressure of the global financial crisis, whilst integrated, creative development initiatives will continue to contribute to poverty alleviation and sustainability on a local scale. It is a conviction of this thesis that CSR and sustainable finance go hand in hand,

if a financial institution is openly portraying their commitment to CSR but not a signatory to the Equator Principles, then this negates their CSR commitment.

This research considered CSR to be an important element for understanding the aims. However, in the process it has also contributed to the literature on CSR, specifically from a geographical perspective, contending that there is no standardised CSR formula for companies to follow, the relationships between business and society are localised, bound in specific places.

1.9 Political implications

To date, banks from around the globe have united in adopting a set of internationally recognised environmental and social project finance lending guidelines. Despite the fact that this research has brought the Equator Principles to the attention of many Indian bankers, a year on there are still no signatories. If Indian banks have no intention of signing the global lending standards, then the direction in which existing signatories have come in declaring their responsible actions will be negated. If India and other emerging markets decide, as growing powers in the global economy, that they will make their own rules, then this could have significant political, environmental and social implications.

1.10 Structure of the thesis

The thesis begins with a focus on the geographical nature of the topic. Finance has entered the geographical arena within recent years; however, literature on the project finance industry and the implications of financing destructive developments has been absent. As noted above, given the often devastating environmental and social consequences of funding such projects, this is surprising. The landscape of global finance is shifting with the emergence of financial institutions in the majority world increasingly able to fund their own development; an interesting challenge for geographers. Due to the multidisciplinary nature of the research, the literature is drawn from an array of disciplines including, geography, economics and management. Chapter 3 addresses the dominant discourses which have shaped the global economic agenda and global finance since the end of World War Two. The chapter also

addresses postcolonial theory, a conceptualisation used to assess the changes which are occurring within both the project finance sector and global finance more widely. Chapter 4 'The Greening of the project finance industry' reviews the emergence of the Equator Principles and the general move towards responsible finance. Chapter 5 brings together literature on India, focusing on development, the environment and its banking sector. Chapter 6 reviews the methodological underpinnings of the research. The study was conducted in three prominent phases, the first 'Greening of financial institutions' addressing objective one, the second 'Sustainable finance in emerging markets' focussing on objectives two, three and four and finally phase three, 'Commitment to CSR' primarily addressing objectives 5 and 6. The chapter outlines methods specifically related to conducting research with 'elite' foreign interviewees and research using the Internet. The chapter also provides an insight into the positionality of the researcher, as a young, white, female conducting research in a predominately male orientated banking industry. Ethical issues and an outline of the risk mitigation strategies undertaken whilst carrying out the field research in India are also presented.

Chapter 7, the first of the analysis chapters reviews current attitudes towards environmental issues in India both generally and more specifically within the Indian financial sector. Perceptions are revealed as to which sector (public or private) should be the driving force behind India's environmental agenda. This chapter is necessary in order to give an appreciation of how Indian people perceive the environment to shed light on the potential of Indian banks to adopt environmental and social safeguards in the future. Chapter 8 follows on to review existing standards of environmental regulation in India both within the public sector in general and internally within financial institutions. This chapter sheds light on the corrupt practices which are occurring within the Indian financial sector with regard to the funding of development schemes; negating the responsible lending paradigm in the Indian context. Chapter 8 also reviews the relevance of the 'Equator Principles' to the Indian banking system.

Chapter 9 is dedicated to CSR both within India generally and more specifically within the Indian banking sector. This chapter reviews current commitment to explore the direction Indian banks may follow with regard to responsible lending in the future. A

case study approach is utilised to examine two dominant Indian corporations, the Tata conglomerate, heralded as a leader of CSR in India, and AIS Glass, India's largest glass manufacturer, less well known however, for its integrated CSR programme. A further case study is provided of Muktangan, an educational initiative, supported through company CSR initiatives.

Due to the economic crisis which unfolded throughout the latter stages of composing this thesis, it was deemed essential that issues of responsibility and corporate behaviour should be addressed in the light of a recession and weakening economies. Undoubtedly, the world is witnessing a global financial crisis; Chapter 10 reviews the origins of the current financial turmoil and progresses to explore the potential impacts of the crisis on the commitment made by companies worldwide, to CSR and responsible lending.

The final section, Chapter 11 provides an overview of the research, reaffirming the aims and objectives in relation to the conclusions drawn. This chapter also explores the implications of the research for geography as a discipline, its real world significance, and the potential areas for future research.

1.11 Summary

Research of this kind incorporating economic geography within the framework of sustainable finance is unique. An aim of this thesis was to bring issues of sustainable project finance and CSR into the geographical eye, to understand the role that these institutions can play in safeguarding the environment and society. This is a highly original project that combines a concern with understanding global economic power structures with environmental justice. Research on large scale ethical banking is lacking from existing academic knowledge, particularly from a geographical perspective. This thesis provides an insight into the direction that the finance industry is heading with respect to their environmental and social commitments. The focus on finance, emerging markets, the environment and sustainability is a core part of the future of geography.

The process of producing this PhD has been a fascinating, exhilarating and challenging experience. The research process has enabled me to explore India, a country which captivates me, meet some wonderful people and build upon existing academic knowledge. As a result, I have developed intellectually and am excited about the research opportunities ahead. Before you progress to the second chapter, I leave you with an extract from my fieldwork diary:

'India is a country full of contrasts and contradictions. It has only been the past week or so that I have really been touched by the absolute levels of poverty and the lengths that India, as a country, needs to go to in order to help those that need it the most.'

Chapter **2**

The geographies of project finance

The financial sector has become truly global. Since the late 1980s the volume of international banking and cross border activity has exploded; large finance companies now operate worldwide (Steger 2003; Häusler 2002; Dicken 2007). Instantaneously, money can be transferred from one part of the globe to another, having huge economic, social and political consequences. Despite these geographical implications, geographers have only very recently explored these issues. This chapter argues, that the discipline is being reshaped and reorganised in line with these global challenges and opportunities. To date, the 'geography of finance' has evolved around three topics; the flows of finance over time and space (Clark 2005a; Warnock and Cleaver 2002), the power of financial centres such as London, New York and Tokyo in the global economy (Martin 1994; Agnes 2000; Zhao 2003) and financial exclusion within the minority and majority world's economies (Pollard 1996; Leyshon and Thrift 1995; Dymski 2005). However, the landscape of finance is shifting paving the way for a sub-discipline termed the 'geographies of project finance.' Scales of lending for a large

part have been ignored by geographers, however, with the launch of international standards for lenders (the Equator Principles) the project finance industry will continue to be remoulded. The emergence of India and China as growing powers within the global economy will no doubt challenge the minority world ideologies of financing development and issues of sustainability.

This chapter is divided into four sections; first, it explores the concept that geography is now obsolete as a consequence of the increased interconnectedness of the globe. The second section examines finance in the context of globalisation. The final two sections explore the geographies of finance and the emerging geographies of project finance.

2.1 Globalisation and the 'end of geography'

Much has been written within the geographical realm on the apparent globalisation of the world, its economies, cultures, spaces and commodities (Dicken 2007; Martin 1994; Beaverstock and Boardwell 2000). People and place are more connected than ever before. Whilst there is much disagreement over the concept of globalisation, in terms of its definition and scope, most commentators agree that there has been a 'speeding up' of flows around our planet, redefining the geographical notions of space and place (Clark, 2005a). One of the predominant arguments surrounding the globalisation debate suggests that this is not a new phenomenon which much of the literature has implied; in fact Harvey (2000) suggests that globalisation can be dated back to the 1940s. Regardless of the disparities, it can be true to say that 'the current phase is significant for the profound reorganisation of geography, where prior configurations of borders and boundaries are rapidly misshaped' (Oza, 2001: 1070).

Three major developments stimulated this shift to an increasingly globalised planet; the internationalisation of trade and finance, the influence of transnational corporations, and the burgeoning role of international economic institutions such as the International Monetary Fund (IMF), the World Bank (WB) and the World Trade Organisation (WTO). However, advances in technology and the uptake of global communication infrastructures have without a doubt stimulated these changes. The

Internet has played a major role in facilitating human networking beyond the traditional boundaries of the community, village, town and the state (Castells, 2001).

The liberalisation of trade, breakdown of national borders and the increase in global flows, networks and communications, led some geographers to suggest that it was the 'end of geography' (O'Brian 1992; Ohmae 1990). Hyper-globalists such as these argue that in a borderless world the national scale is no longer relevant. However, critics suggest that while 'the speed of information communication has annihilated space, it has by no means undermined the significance of place' (Martin, 1994: 263). This thesis supports this view that we are far from reaching the 'end of geography' especially when considering the globalisation of finance. Whilst capital travels at unprecedented speeds through space, place is very much firmly grounded particularly when considering the lending sector and the localised impacts of funding development projects. Relations exist between 'local' place and 'global' space; place is therefore relational. The local impacts of development projects do not exist as separate from the decisions which are made on the 'global,' thus geography cannot 'end' as all scales are mutually constituted (Swyngedouw, 1997).

2.1.1 The globalisation of finance

The concept of globalisation has been theorised and critiqued by many in the social sciences. Most commentators agree, however, that international finance has most certainly been transformed. Prior to the 1970s the world's financial system was generally characterised by closed national markets, whereby national currencies were predetermined in accordance with the agreements set by the Bretton Woods system. Post 1970, however, was a period characterised by dramatic changes to this heavily regulated structure. Exchange rates were floated, interest rates deregulated, credit controls liberated and many government owned banks and financial institutions became privatised (Steger, 2003), stimulating the transformation to 'the internationalisation and transnationalisation of financial markets' (Martin, 1994: 257).

Häusler (2002) proposes four factors that have driven the apparent globalisation of finance. Firstly, he argues that advances in communication technologies have been fundamental in this process, enabling finance to be circulated almost instantaneously around the globe. It is generally agreed that 'new satellite systems and fibre optic cables provided the nervous system of Internet based technologies that further accelerated the liberalisation of financial transactions' (Steger, 2003: 42). As a result, industries and markets have become increasingly interconnected. Secondly, the globalisation of national economies has grown significantly in recent decades due to countries lowering their barriers to free trade, enabling the flow of goods and services across national borders. Consequently, demand has risen 'for cross-border finance and ... [has] fostered the creation of an international mobile pool of capital and liquidity' (Häusler, 2002: 1). Thirdly, liberalisation of national finance is considered an important factor in the globalisation of finance. The liberalisation of 'rules governing the entry of foreign financial institutions into domestic capital markets' is believed to have 'fostered financial innovation and spurred the growth of cross-border capital movements' (Häusler, 2002: 1). Competition amongst financial providers is considered to be the fourth factor. Banks and financial service companies are rapidly enhancing their international portfolios in order to diversify risk and 'seek out the best investment opportunities from a wider range of industries, countries and currencies' (Häusler, 2002: 1).

As a result there have been major developments in the global financial sector. Dicken (2007) suggests that financial services have greatly increased their output and efficiency as businesses. Financial institutions have also substantially increased the speed at which they turnover capital investments, in addition, they have been able to 'increase their loan activities and also respond immediately to fluctuations in exchange rates in international currency markets' (Dicken, 2007: 385). Given these developments and the mobility of finance it is argued that, 'the geographies of money are being remapped and rescaled' (Martin, 1999: 14).

Prior to 2007, there was confidence within global financial markets and the globalisation of finance was being theorised by geographers in terms of flows and

pools. However, in the latter stages of compiling this thesis, major changes occurred within the global financial system. Prominent financial institutions collapsed, governments nationalised their banks and leading world economies were experiencing a recession. Chapter 10 focuses on this development in more detail with respect to the notion of 'responsible banking'.

2.2 Geographies of finance

Finance, its flows, theorisations and processes have been on the academic agenda for decades. Research has predominantly derived from historical, economical and financial perspectives (Calem and Nakamura 1998; Greve 2002; Degryse and Ongena 2005), however, 'there is a modest but rapidly growing body of academic research that could be captured under the banner of the geography of finance' (Clark, 2005b: 100). Geographers, including Leyshon and Thrift (1998), Leyshon *et al.*, (1998), Martin (1999, 2000), Tickell (2000) and Pryke and Allen (2000), have all contributed to this growing sub-discipline of geographical enquiry. Geographers have also explored the relationships between the financial sector and its impact on mobility, identity, technological change, trust, power and scale (Clark *et al.*, 2004).

Clark and Wojcik (2003), suggest three approaches to exploring the geographies of finance. Theorising flows of finance around the globe through time and space has been high on the research agenda; analysing the distribution and location of regional, national and global financial centres (Clark, 2005a). Recently, geographers have been exploring the traditional global centres of finance, (e.g. London, New York and Tokyo) and the strain they are increasingly under given that financial institutions operating in the 21st Century can now be located almost anywhere in the world (e.g. Mumbai, India) given sufficient connection with information hubs (Zhao 2003; Martin 1994).

The second approach to studying the geography of finance (suggested by Clark and Wojcik, 2003) focuses on the function of borders in financial systems, 'the extent to which national borders are deeply embedded in the global flow of funds' (Clark and Wojcik, 2003: 911). The third approach, relates to the early work of Pred (1977) through his analysis of flows of information throughout cities and Castells' (2000)

exploration into the post-modern networked society. In addition to these three approaches, more recently Clark (2005b) has provided a conceptual framework to assist in understanding global finance, using the metaphor 'money flows like mercury.' He contrasts the properties of mercury with water, in his analysis of global finance. For example, 'water is passive, it must be organised or its geography is characterised by aimless meanders ... by contrast, mercury runs together at speed, because of its weight, its viscous properties ... it is never randomly distributed, even if set upon a smooth undifferentiated landscape' (Clark, 2005b: 104). Additional characteristics of the liquid metal identified by Clark (2005b), are as follows: a) forms in pools; b) it reforms in pools if disturbed; c) follows the rivulets and channels of any surface however smooth they appear to be; d) is poisonous in small and large doses if poorly managed. Evidently, global finance has similar attributes whether it is collecting in pools such as in the financial centres of London, New York or Tokyo or if poorly managed, the consequences can have significant global ramifications. In addition, 'there is little doubt that global finance runs together at speed, taking just seconds to circumnavigate the globe through established networks' (Clark, 2005b: 105). This conceptual tool is useful for exploring the flows and intricacies of the project finance industry and financing of development. As Clark (2005b: 108) recognises, 'leading western financial institutions have played a crucial role in driving up standards of transparency and accountability among many emerging markets' however, now that the current lending environment is being more closely scrutinised, what impact will this have on the actions of financial institutions in emerging markets? Will Indian banks collaborate in working towards a sustainable lending agenda or turn their backs and disengage? Chapter 8 reviews this in relation to the fieldwork conducted in India.

This chapter argues that there is a further approach to studying the geography of finance, focusing on the scales of lending within the financial sector and its impact on development in the majority world. The geography of finance is well suited to exploring the scales of lending, as this is a 'very new discipline that crosses economics, finance, geography and information technology that can interpret and explain the spatial restructuring of financial centres in modern times' (Zhao, 2003: 568). In subsequent years, with the mounting power and prominence of emerging economies

such as China and India, there will be a shift in the flows and pools of finance, redefining traditional economic relations and creating a new realm for the geographies of finance and its relationship with power, space and place.

2.3 Historical context of international lending

The context of this thesis is project finance lending; however, it is also important to acknowledge from a historical perspective, the broader political economy of international lending. This section draws attention to the post World War Two international monetary system and the subsequent neo-liberal agenda that has been pursued by the most powerful organisations and individuals (e.g. the IMF), both politically and economically.

In an attempt to steer the global economy away from a repeat of the 1930s Great Depression, in 1944, global leaders from 44 allied nations met at the Mount Washington Hotel in Bretton Woods, USA to draw up an agreement. The central tenant of this was to rebuild and stabilise the international economic system, post World War Two. What emerged from discussions was the Bretton Woods agreement; primarily, 'a system of fixed exchange rates, currency convertibility and ostensibly national controls over employment, savings and interest rates' (Corbridge and Thrift, 1994: 7). The economists, John Maynard Keynes and Harry Dexter were influential in this process and as a result, the agreement is characterised by an Anglo-American framework. Historically, the country which assumes the principal economic and political position 'has underwritten the soundness of the international financial system and had its currency accepted internationally as the currency in which commodity prices are quoted and payments made' (Pollard, 2008: 367). Prior to the Second World War, Britain and the sterling currency dominated the international monetary system; however, in line with the Americanisation of the Bretton Woods agreement, the US dollar became the currency of international exchange, whereby it 'served as the convertible medium with a fixed relationship to the price of gold' (Knox *et al.*, 2003: 52).

A number of institutions were established as part of the Bretton Woods agreement, namely the World Bank (WB) (formerly known as the International Bank for Reconstruction and Development, IBRD) and the International Monetary Fund (IMF). Originally, their purpose was to provide loans to countries which needed reconstruction in the aftermath of the war, and for development purposes in the majority world. Money was also made available to support countries experiencing short-term balance of payments difficulties. Also introduced was the General Agreement on Tariffs and Trade (GATT), to govern international trade (now known as the World Trade Organisation (WTO)). As discussed below, the Bretton Woods system saw its demise in the early 1970s, however, the WB and the IMF are a surviving legacy.

In summary, 'this post-war government-centred design inspired by the ideals of liberal internationalism but implemented within the bounds of western containment policy, proved an unprecedented success' (Story, 2000: 130). As Corbridge and Thrift (1994: 7) acknowledge, the Bretton Woods years 'coincided with the golden age of capitalism in the developed world.' However, the dominance of Europe in international trade paralleled with the progressive weakening of the US dollar, initiated the downfall of Bretton Woods (Knox *et al.* 2003). By the 1970s the US was running a balance of payments and a trade deficit. To stabilise the US economy and attempt to keep its global hegemony, in August 1971, President Nixon, announced that the US currency would no longer be the focal point of the world financial system. This declaration came as a shock as Nixon did not confer with the members of the international monetary system. Within a few years, currencies around the world had abandoned the system of fixed exchange rates (Story, 2000). As Thrift (1989: 34) comments, 'fixed exchange rates effectively disappeared and every domestic currency became convertible to every other ... all domestic currencies became a medium that could be bought and sold, and out of which profit could be made.' The demise of the system between 1971 and 1973 and the breakdown of fixed exchange rates 'ushered in a substantially deregulated world monetary order and stimulated the internationalisation and transnationalisation of financial markets' (Martin, 1994: 257).

As such, the 1970s was characterised by sharp rises in inflation across the globe and years of variable exchange rates; 'governments sought once more to recover some of the economic powers they had previously surrendered to the international community' (Corbridge and Thrift, 1994: 9). In parallel, a global pool of Euro dollars (US currency held in banks beyond its national border) had accumulated; post-1971 this pool expanded further, 'as the US government began to finance its budget deficit by paying in its own currency, flooding the world with dollars and fuelling worldwide inflation' (Knox *et al.*, 2003: 52). Knox *et al.* (2003: 58) also acknowledge the growth of global monetary reserves during this period, it increased by, 'twelve fold with the availability of OPEC [Organisation of the Petroleum Exporting Countries] petrodollars and as a by-product of the inflation that accompanied the break-up of the Bretton Woods system.' From this a new form of international lending emerged, stimulated by a petrodollar recycling process (Martin, 1994). Prior to this, loans made by the WB and the IMF were predominantly directed towards state governments (Coleman, 2002) however, the 'removal of capital controls and fixed exchange rates, in tandem with the proliferation of petro-dollars in western banks, ushered in a period of concentrated private lending to developing country governments, businesses, banks and individuals' (Coleman, 2002: 499). As Knox *et al.* (2003: 58) describe, 'bankers from developed countries suddenly found a willingness to lend to less developed country (LDC) governments ... they found eager borrowers desperate for capital.'

As a result of this shift, majority world countries increasingly had access to capital, however, they were also experiencing, 'rising interest rates, falling commodity prices and a rapid appreciation of the US dollar [this subsequently] left debtor countries unable to cope with repayments' (Pollard, 2008: 371). Thus the international debt crisis emerged, as Knox *et al.* (2003: 58) explain, 'many LDC governments committed themselves to capital projects, huge bills and debt repayments that were more than they could finance through taxes.' In 1982, Mexico was the first country to suspend its debt repayments; by the end of 1983 more than 20 countries were in a similar situation (Pollard, 2008). By the year 2000, international debt had surmounted to over US\$2.1 trillion (Knox *et al.* 2003). Consequently, banks significantly decreased

'lending to these countries, to effectively exclude them from international bank lending networks' (Pollard, 2008: 371).

As previously mentioned, the IBRD and the IMF were established as part of the Bretton Woods agreement. Uniquely, it was the first time that leading economies agreed on a set of international rules, however, as Strange (1994: 55) acknowledges, 'the underlying bargain was that states got access to a new source of credit to help them adjust to economic change.' The original purpose of the IBRD, or the WB as it is now known, was to finance post-war development and construction in affected countries. In the 1960s its focus shifted to provide technical and financial assistance to majority world countries for development agendas; the primary goal to reduce poverty. In contrast, the IMF was initiated to act as a stabilisation fund and to monitor the financial and economic policies of its members, as well as offering financial assistance to low and middle income countries to help with the management of their economies. However, as a result of the debt crisis which emerged, lending institutions shifted their policies 'away from project, sector and institutional lending, to non-project, policy-based and conditional structural and structural adjustment lending' (Coleman 2002: 500). The conditions of these structural adjustment loans were based on market based policies known as the Washington Consensus. In general, the Consensus recommends that borrowing governments should: a) control inflation and reduce fiscal deficits; b) liberalise and expand their trade routes, to the rest of the world; and c) liberalise domestic markets through privatisation and deregulation (Gore, 2000). Developed by John Williamson in 1990, the Consensus encourages a shift from state led to a market led international agenda. As stated by McCleery and De Paolis (2008: 440), the Washington Consensus, 'follows the trickle down approach, whereby the ten key policies support to raise rates of economic growth which then trickle down to the poor, reducing poverty.' Advocated by the international institutions and pursued through the IMF and WB structural adjustment policies this has been, 'the dominant approach to development' (Gore 2000: 790), however, as discussed below this has not been without criticism.

In line with the Washington Consensus, loans were only approved if the state borrower agreed to a series of conditions; a) privatisation of government corporations to cut back on spending; b) removal of price subsidies; c) increase their exports of natural resources to earn foreign exchange to assist with debt repayments; d) pursue restrictive monetary policies and high interest rates; and e) reduce real wages to control inflation and attract multinational investment (Coleman, 2002). Based on adherence to these conditions governments are granted a structural adjustment loan. In summary, Bretton Woods institutions 'pursued neo-liberal free market policies and encouraged the deregulation of financial markets and the liberalisation of flows of capital across national borders' (Pollard, 2008: 365).

Criticism has been rife surrounding the loan prescriptions placed on already fragile states and economies. In the majority of cases the impact of SAPs (Structural Adjustment Programme) on recipient countries has been destructive. As Willis (2005: 52) describes, 'the withdrawing of the State, the opening up of the national economy to foreign investment and currency devaluation did not have the desired effect ... poverty levels increased as real wages went down, unemployment increased and the cost of living rose.' In summary, much of the evidence suggests that the recommendations central to the neo-liberal approach have failed to resolve the economic problems within the majority world and have been too heavily focused on the promotion of minority world interests. As Pollard (2008: 373) comments, 'for those that do not toe the line, life can be made very difficult ... money is a very powerful tool of social and political control.'

Since the end of World War Two, international finance has been transformed 'from national-centred economic behaviour to internationally co-ordinated finance and trade' (Hewitt, 2002: 291). The landscape of international finance has been skewed towards an Anglo-American impetus, particularly with the dominance of international finance institutions such as the WB and the IMF. As acknowledged by Pollard (2008: 373), 'the concentration of wealth and power in the major capitalist economies ... is such that they hold sway, economically and politically, over the networks through which international lending is conducted and its terms negotiated.' She continues,

'even supranational agencies like the WB and the IMF rely on funds from major capitalist countries that exert considerable influence over where funds go and how they are spent' (Pollard, 2008: 373). This section has provided a historical background for understanding international lending and the powers at play both politically and economically. Geographers have significantly contributed to this literature on the historical processes of international lending, however, as the previous section eluded they consider 'global finance' to be more than just a set of processes or a 'machine, but rather [they seek] to understand 'global finance' as a social, cultural and political phenomenon' (Pollard, 2008: 360).

2.4 Geographies of project finance

The actions of the world's largest and most influential banks can and are having geographical implications for both the physical environment and for the communities which inhabit areas of development. However, as financial institutions in emerging economies increasingly finance their own infrastructure development with little or no regard for the consequences, this will undoubtedly place greater strain on fragile environments. Geography provides an insight into a range of issues related to project finance, particularly with regard to human-environmental relationships, spatial differentiation, modes of governance, ethical consumerism and environmental ethics. Geographers, for example, have explored the rise of ethical consumerism and consumption (Barnett *et al.* 2003; Clarke *et al.* 2007; Seyfang 2009), a trend that has undoubtedly stimulated the mounting interest in sustainable finance. Environmental ethics has also been on the geographical agenda, relating processes of globalisation to its impact on people and place (O'Riordan 1981; Lewis 1992), a further issue central to the geographies of project finance. Ultimately, the transformation which has occurred in recent years within the project finance industry paralleled with the 'emergence of new actors and local scales in environmental decision making [indicates that this is an] important area for geographic research and practice' (Liverman, 2004: 735).

As Chapter 4 will highlight, it is now a reality that if financial institutions wish to operate within the global arena, they have to be promoters of environmentally and

socially sound investments. Banks are increasingly 'expected by shareholders, business parties and other stakeholders to improve their competitive advantage by demonstrating (and thus contributing to) economic development, which promotes environmental care and social responsibility' (Saraiva, 2004: 1). What then does this have to do with the globalisation of finance and geography? Banks have increasingly invested in and lent to the development of large infrastructure projects in the majority world, this type of finance is termed 'non-recourse', 'limited recourse' or more simply 'project finance.' This trend of minority-to-majority lending was initiated by the WB in the early 1970s. At that time, loans were intended for European reconstruction; however, 'the Bank [then] shifted its focus to developing countries and ... provided loans for large scale infrastructure projects' (Thomas-Slayter, 2003: 151). After years of lending to projects which were causing environmental and social upheaval, increased media attention and NGO criticism stimulated a change in the 1980s; they were forced to reconsider the ways in which they lent to projects in majority nations. The WB attempted to become more transparent and accountable with its lending procedures (Seymour and Dubash, 1999). Subsequently, the WB's sister organisation, the IFC followed suit.

During the 1970s and 1980s commercial banks became a major source of lending to development projects in the majority world (Thomas-Slayter, 2003). This shift arose primarily from the oil crisis in the early 1970s whereby, 'commercial banks in the USA, Europe and Japan recycled petrodollars to finance development in third world countries ... banks were eager to find new lending opportunities for those monies coming in from oil producing states and calculated the risks, profits and opportunities accordingly' (Thomas-Slayter, 2003: 158). Low interest rates in industrialised countries, economic liberalisation and the desire to create diverse financial portfolios are just some of the incentives for this increase in project lending (Seymour, 1998). The globalisation of finance has opened up multiple opportunities for minority-to-majority lending; however, this has had major consequences in areas of infrastructure development particularly with regard to environmental degradation and sustainability.

2.5 Summary

The 'geographies of project finance' tie together a range of inherently geographical issues, namely, globalisation, finance, power, space, ethics and scale as well as environmental and sustainability concerns. While it may be true that financial institutions can operate their businesses globally with relative ease, in an environment where location and distance matter less and less, the lending habits of these influential centres of power can, and is, having significant implications for geography at varying scales. Undoubtedly geography still matters in this age where infrastructure and development is expected to grow at an unprecedented rate in emerging markets and in a world where the environment and sustainability are set to be on the global agenda for the foreseeable future.

The following chapter focuses on the theoretical underpinnings of the 'development agenda' that has been pursued in parallel to the changes in international finance identified in this chapter. Postcolonial theory is also drawn upon to reflect on the recent changes within the project finance industry and the role of India's elite in the landscape of international project finance.

Chapter 3

Theorisations of development

This chapter addresses modernisation and dependency theories, the dominant discourses which have shaped the global economic agenda and global finance since the end of World War Two. It is important to acknowledge the theoretical juxtapositions which have underpinned much of the international policy formation (identified in Chapter 2) since the Second World War. A discussion then follows identifying postcolonial theory as a useful conceptualisation for assessing the changes which are occurring both with the project finance industry and global finance more widely. Firstly, it is important to acknowledge the term ‘development’ as the discourses outlined below are based on the premise that countries ‘develop.’ Thus the term is defined as ‘an economic, social and political process which results in a cumulative rise in the perceived standard of living for an increasing proportion of a population’ (Hodder, 2000: 3). However, the term is complex and contradictory.

3.1 Modernisation and dependency theory

The previous chapter acknowledged the broader political economy of international lending, identifying the lending structures which arose post World War Two, the

Bretton Woods agreement. Modernisation and dependency theory were the dominant discourses of development and were influential during this post-war period. Similar to other popular discourse, these theories have shaped economic and political agendas; by way of an example, the structural adjustment programmes, introduced by the International Monetary Fund very much, 'reflect the thinking of neo-classical counter-revolutionists' (Hodder, 2000: 13).

Modernisation theory emerged in the 1950s, its basic premise being that all countries of the world would progress along a linear path, towards the ultimate goal, a modern society. This model was based on the experiences of parts of Europe and the United States, countries which were characterised very much by their economic, social, cultural and political modernity, (Hodder, 2000) this 'contrast[ed] markedly with traditional values in developing societies' (Hodder, 2000; 13). Modernisation, *per se*, was thus seen as the key to development, involving, 'mechanisation, rapid industrialisation and the transfer of the underemployed rural population to the productive urban-industrial sector' (Hodder, 2000: 13). By way of industrialisation and technological innovation in traditional societies, it was assumed that prosperity would trickle down to the poorest.

One of the most cited examples of the modernisation approach to development is Rostow's (1960) *'The Stages of Economic Growth: A Non-Communist Manifesto.'* Walt Rostow theorised that there was a single path to prosperity whereby the process was characterised as 'a move from agricultural societies with traditional cultural practices, to a rational, industrial and service focused economy' (Willis, 2005: 39). It was assumed that countries would pass through several stages, along the linear path, ultimately aiming for the 'Age of High Mass Consumption' (Rostow, 1960).

In the mid-1960s theorisations of development shifted; the dependency school provided an alternative line of thought based on the positioning of countries in Latin America - they were not progressing along the linear path, as modernisation theorists had previously suggested (Willis, 2005). As a result, in 1967, Andre Gunder Frank proposed the theory of underdevelopment. Essentially Frank and the dependency

school claimed that the 'world is dominated by a single economy, such that all people are integrated into the sphere of capitalist production' (Forbes, 1984: 67). Principally, they suggested that the world is divided into a 'core' of industrialised nations who progress economically by means of 'peripheral' exploitation. As Willis (2005: 69) identifies, 'the argument differed greatly from that of modernisation theorists who saw non-industrialised countries as merely being further behind on the development ladder.' Primarily then, according to the 'development of underdevelopment,' Latin America 'was caught up in a global system of dependence consisting of relationships of exploitation from the global scale to the interpersonal' (Willis, 2005: 69).

Immanuel Wallerstein was also considered to be an influential dependentista who sought to explain the reasoning behind why particular countries failed to follow the linear path of modernisation. Like Frank, Wallerstein also focused on 'the importance of the global economic system and hierarchies within it' (Willis, 2005: 72). Wallerstein's thinking correlated with the theorisations emanating from the dependency school, particularly with regard to the historical contextualisation and emphasising the significance of national economic development (Willis, 2005). However, in proposing World Systems Theory, Wallerstein 'was keen to move beyond the static dualism of the dependency model. Rather than viewing the world in terms of core and periphery, Wallerstein identified three groupings of countries: core, semi-periphery and periphery' (Willis, 2005: 73). Based on a country's economic circumstances, Wallerstein proposed that, rather than the groupings remaining fixed entities, countries could move between them. This premise reflects the global situation in the late 1960s through to the early 1970s, whereby 'some countries were experiencing economic development in terms of industrialisation' (Willis 2005: 73).

Despite the fact that the approach was accepted its 'influence on policy making was limited' (Willis, 2005: 69). Critics based their appraisal on the basis that the focus was predominantly economic, without an appreciation of the 'social, cultural or political contexts within which development took place' (Willis, 2005: 72). In contrast, the 'flows of international aid from North to South' (Willis, 2005: 45) was a policy response to modernisation theory. As previously mentioned, modernisation theorists perceived

development to be a path, or a ladder and those at the bottom were characterised as 'agricultural and lacking the autonomous capacity for investment and economic growth' (Willis, 2005: 45). As a result of this elucidation, finance, through policy, in the form of aid and technology was sent to transform the recipient economy. A major focus of this aid was on large scale infrastructure development, for example roads and dam construction. As Willis (2005: 46) comments, 'this form of top-down development was advocated because policy makers believed that this development path had worked in the North so it could work elsewhere.' It was later confirmed that this approach to development had serious social and environmental implications; this will be expanded on in Chapter 4.

In the late 1970s and early 1980s there was the general consensus that countries were not developing, in the form that modernisation and dependency theorists had suggested. As a result theorists were forced to reconsider ways in which the poorest nations could prosper and develop (Willis, 2005). The counter-argument that evolved suggested that countries were not developing as predicted due to the, 'heavy hand of the state ... [and] corruption, inefficiency and lack of economic incentives that permeate the economies of developing nations' (Todaro, 1997: 87). As a result, the neoliberal movement arose, promoting free markets and correct pricing policies (Hodder, 2000). The central feature of neoliberalism was that 'the same rules of economic development can be applied across the board from the most developed country to the least developed' (Hewitt, 2002: 302). The most widespread policy influenced by neo-liberalism were the structural adjustment loans imposed by the IMF (Hodder, 2000; Willis, 2005), forms of conditional, strings-attached finance, as referred to in the previous chapter. Willis (2005: 51) comments that, 'the underpinning philosophy of SAPs [Structural Adjustment Programmes] reflects the market ideologies adopted by the Thatcher and Regan administrations and their implementation demonstrates the ways in which policies developed in the North could be imposed on Southern nations.'

It is evident from Chapter 2 and the preceding section that the development theories produced and the resultant policy formation are 'imposed by the West, using western

concepts' (Hodder, 2000: 17). It has been suggested that, 'development can be regarded as an attempt by the West to produce other societies in its own image' (Corbridge, 1995: 8). Neo-liberalism in the form of SAPs has had devastating social, economic and political consequences in majority world nations; however, it does 'remain the broad theoretical context which shapes so much of the international policy today' (Willis, 2005: 208). The theoretical underpinnings of development which have arisen from the minority world and consequent international policy formation reflect the situation within the global finance industry. As acknowledged in Chapter 2, countries which hold the powerful bargaining chip, 'are such that they hold sway, economically and politically, over the networks through which international lending is conducted and its terms negotiated' (Pollard, 2008: 373). Pollard (2008: 373) continues, 'even supranational agencies like the World Bank and the IMF rely on funds from major capitalist countries that exert considerable influence over where the funds go and how they are spent.'

Development theory, such as those discourses emanating from the modernisation and dependency schools has been challenged by 'Said's account of Orientalism (1979), Foucault (1979) and post-modernism to suggest that the modern concept of development is based on all sorts of colonising ambitions' (Hodder, 2000: 17). The following section of this chapter focuses on a body of work termed 'postcolonial theory' originating from the work of Edward Said on the Orient. Briefly, 'dependency chooses a structuralist and socio-economic perspective, seeing imperialism as tied to the unfolding of capitalism, where as postcolonial theory favours a post-structuralist and cultural perspective, linking imperialism and agency to discourse and politics of representation' (Kapoor, 2002: 647).

3.2 A postcolonial lens

The central features of postcolonial theory are outlined in this section to show that to some extent this research has been influenced by its positioning. First, the origins of the theory will be noted, moving on to explore a number of interrelated themes of postcolonialism which are relevant to this research; knowledge, power and voice.

As previously mentioned, theories of development have predominantly originated from the industrialised minority world, whereby theorists have assumed common social organisation (Willis, 2005), as opposed to identifying with the patchwork quilt of religions, ethnicities and social strata which inhabit the planet. As such, 'many sociological theories of development have been criticised for their lack of engagement with cultural diversity' (Willis, 2005: 120). In response to this, postcolonial scholars have sought to 'disrupt ways of thinking about the world based on Northern assumptions and also to recognise difference ... particularly within the context of places and peoples who have experienced colonialism' (Willis, 2005: 121).

The work by Edward Said was instrumental in influencing postcolonialism. However, unlike the discourse which emerged from the modernisation and dependency schools; postcolonial reasoning transpired from literature. Said's writing emanated from 'an analysis of western novels, travel and anthropological writing, opera and media to link western imperialism with western culture' (Kapoor, 2002: 650). Primarily, in his analysis, Said refers to Orientalism, 'a systematic body of theory and practice that constructs or represents the Orient' (Kapoor, 2002: 650). By 'theory' Said refers to the accumulation of ideas, research and writing produced through a minority world lens, by 'practice' he refers to the institutions and structures from which this knowledge is produced, i.e. colonial administration, universities, museums and the media (Kapoor, 2002).

In a similar vein to dependency theory, postcolonialism is a critique; as Kapoor (2002: 653) acknowledges, 'in their own fashion, both are counter modernist and critical of western liberalism.' Kapoor continues, 'in response to the liberal / modernisation tendency to explain the rest of the world in Euro-North American terms, each attempts to shift the focus to the periphery' (2002: 653). However, postcolonialists would argue that dependistas sideline the importance of culture, whereas dependistas suggest that postcolonialists do not appreciate the significance of capitalism (Kapoor, 2002).

3.2.1 Configurations of knowledge, power and voice

To some extent this thesis has been influenced by a postcolonial perspective in that it 'challenges the whole notion of the impact of imperialism on third world cultures and opposes the ethnocentrism of white, Anglo-Saxon culture' (Hodder, 2000: 17). A central feature of the postcolonial critique is 'the need to destabilise the dominant discourses of imperial Europe' (McEwan, 2002: 127). Discourses of history, philosophy, language and development are all, 'unconsciously ethnocentric, rooted in European cultures and reflective of a dominant western world view' (McEwan 2002: 127). As a result, postcolonial scholars aim to disrupt these dominant ethnocentric discourses of knowing and portraying the world. As Sharp (2009: 4/5) comments, postcolonialism offers 'alternative accounts of the world ... [and a] critique of the ways in which western knowledge have come to dominate.'

Postcolonial theorists predominantly apply their grounding 'within the context of places and peoples who have experienced colonialism' (Willis, 2005: 121). The context of this research is India, a post-colonial subcontinent, in terms of its historical relation to British colonial rule. However, moving away from India's 'post' colonial positioning, postcolonial theory is also valuable in terms of recognising the knowledge, power and voice of the peoples living within the 'post' colonial context. In line with postcolonial theorists challenging minority world ways of knowing, this research identifies that minority world governance structures dominate the global financial system.

The formulation of dominant knowledge is inherently linked to 'power'. The term 'third world' is one of the most widely cited development expressions which has emanated from minority world discourse. However, this is suggestive of 'economic backwardness [and] the failure to develop economic and political order' (Darby, 1997: 2). Said highlighted the contrasting characterisations and suggested that those in the minority world are predominantly characterised as being 'rational, peaceful, liberal, logical ... without natural suspicion' in contrast to 'easterners [who are depicted as] irrational, degenerate, primitive, mystical, suspicious [and] sexually depraved' (Said 1995: 49). In his analysis, Said draws on Foucauldian discourse theory; recognising that minority world representations of the 'other' are loaded with power (Kapoor,

2002). In response to this, a postcolonial lens has been applied to challenge the existing power bases within the current system of project finance lending; a system which has until now been dominated by voices from the minority world.

Recently, Pollard *et al.* (2009) have drawn on postcolonial theory in their analysis of 'other' banking systems, notably, Islamic finance. They recognise that like dominant political and economic discourse, 'economic geographers still unconsciously universalise the western parochial ... non-western economies are seen in terms of a lack, an absence' (2009: 138). They call for geographers to postcolonialise economic geography, as 'explicit theorisation of the economic is rare and tends to remain rooted in variants of dependency or world systems theory' (2009: 138). They comment that 'relatively few economic geographers have examined flows that emanate from non-western and other subaltern settings' (2009: 139). This thesis however, acknowledges this research gap; from the initial stages of outlining the research agenda, to conducting the fieldwork and dissemination of the findings, the tensions between studying the 'economic' in an alternative, majority world setting has been felt. Pollard and Samers (2007: 323) also acknowledge this challenging situation, 'the immense power of economic discourses in shaping debates and public policy ... is problematic ... Economics assumes the ontological precedence of modern European societies.' However, in line with the shifts that are occurring within the economic landscape, as acknowledged in Chapter 10, this 'presents a pressing case for new approaches to theorisation in economic geography' (Pollard and Samers, 2007: 326).

Whilst 'power' and 'representation' are central features of postcolonial theory, so too is 'voice'; postcolonial writers 'attempt to recover the lost historical and contemporary voices of the marginalised, the oppressed and the dominated' (McEwan, 2002: 128). Sharp (2009) also acknowledges that postcolonialism seeks to include previously excluded voices. Considering this body of research, 'voices' of Indian bankers have been incorporated into 'global' discussions concerning responsible project finance. Not only has this research focused on a population which has until now been absent from both academic and project finance discussions, but multiple voices have been included in the analysis. As highlighted in Chapter 1, discussions regarding project

finance and responsibility within this fast growing industry have previously been dominated by actors originating from the minority world context. However, in recognising previously excluded voices, both in an international governance and academic sense, the researcher provided a platform for 'other' knowledges to be spoken.

It has been suggested that researchers should avoid the "scholar-as-tourist" model in which brief forays into the South are subject to a Eurocentric gaze ... and the 'scholar-as-explorer' model in which the foreign other is the object and subject of knowledge' (Pollard *et al.*, 2009 : 140). Rather, however, they suggest that postcolonial researchers could 'involve adopting a comparative, solidarity-based model, premised on the idea that the local and global exist simultaneously and constitute each other' (2009: 140). Indeed, in the case of this research, 'other' voices and knowledges were explored within their own environment, however, it was also acknowledged that India as a country exists simultaneously within the broader global system. Given this dualism, the positionality of the researcher is important in the research process. When working from a postcolonial perspective, Raghuram and Madge (2006: 276) suggest that the researcher should not relinquish their 'own position entirely, but start from [an] ... acknowledged position with an openness to other positions.' Given that the researcher, in this case, is a white, female, minority world, academic, some would argue that she would not be able to 'speak for the other' e.g. elite Indian bankers. Critics suggest that the theorisation 'has become institutionalised, representing the interests of Western-based intellectual elite who speak the language of the contemporary western academy, perpetuating the exclusion of the colonised and oppressed' (McEwan, 2002: 129/130). However, Sharp (2009: 114) acknowledges that 'although Spivak points to complexities and difficulties she does not rule out the possibility of speaking for the other. She raises the possibility of adopting temporary alliances, what she called a 'strategic essentialism.'" In a similar vein, for those white academics considering postcolonial research, Hooks offers encouragement, 'Enter that space. Let us meet there. Enter that space. We greet you as liberators' (1990: 343).

A further critique of the approach suggests that academics in the minority world attributing their research to a postcolonial perspective are often 'armchair decolonisers' (Gross, 1996: 248), critiquing that researchers do not spend 'enough time considering the real issues being faced by people in the global South today' (Sharp, 2009: 145/146). However, with respect to this research, as Chapter 6 highlights, the researcher conducted an in-depth qualitative study in the Indian sub-continent. Elite Indian bankers, for the first time, were given a voice in predominantly minority world discussions about the Equator Principles, governance and responsible finance. From the outset this was a priority, to acknowledge the voice of the subaltern and to 'recognise agents and sites of knowledge outside the North' (Raghuram and Madge, 2006: 272). As Robert Young succinctly states: 'If you participate [in research] you are, as it were, an Orientalist, but of course if you don't then you're a eurocentrist ignoring the problem' (quoted in Sparke, 1994: 119).

3.3 Summary

This chapter has reviewed the dominant development discourses which have shaped economic and political agendas since World War Two. For example, the modernisation school in the 1950s theorised that all countries in the world would progress in a similar linear fashion to prosperity; as a result, 'flows of international aid from North to South were part of the policy response' Willis (2005: 45). Subsequently, the dependency school theorised the world into a central dominating core and an exploited periphery; suggesting the development of underdevelopment (Frank, 1967). However, it was the counter-argument to the dependency school which has been the most influential in shaping international prescriptions for development. Neo-liberal theorisations suggest that countries are not developing because of internal state control and corruption; therefore IMF prescriptions have evolved in response to this line of thought.

It is important to acknowledge these broader historical theorisations of development to appreciate the current situation within international lending and the changes which have occurred within the project finance industry. Pollard *et al.* (2009) call for economic geographers to embrace and acknowledge the postcolonial approach. Significantly however, they maintain that postcolonial economic geography, 'is not a

geography *of* 'the South', but an economic geography more conscious of its own perspectives and more open to embracing different perspectives' (2009: 139). In light of this, postcolonial theory has influenced the development of this thesis, in that it 'seek[s] to disrupt ways of thinking about the world based on Northern assumptions' (Willis, 2005: 121) and acknowledges the voice of the 'other' which has until now been absent from discussions of international responsible project finance.

Chapter **4**

The greening of the project finance industry

Literature from a variety of disciplines, namely, geography, management and business is addressed to provide an understanding into issues which are central to this research. This chapter reviews the rise of the ethical consumer leading to an examination of the corporate social responsibility (CSR) literature. The Equator Principles are considered as a form of corporate environmentalism, in addition the literature surrounding the growth of alternative ethically based finance is addressed. The chapter contextualises the research within existing knowledge, enabling conclusions to be drawn in subsequent chapters with regard to the potential of a responsible development paradigm emerging within the contemporary Indian context.

4.1 Acting responsibly within the corporate environment

Environmentalism, the concern for safeguarding, restoring and improving the natural environment has gained increased political and economic prominence since the 1950s (O’Riordan, 1990). Heavily polluting industries and leading companies were the first to be held liable for their irresponsible practices, predominantly due to unsustainable consumption of natural resources and their general lack of concern for the environment (Thompson, 1998). Since the 1970s, public awareness of environmental issues has become widespread. This has stimulated key industries (e.g. chemical, manufacturing and oil) to scrutinise their policies. Adhering to environmentally sustainable practices now ranks highly on the agendas of many leading firms and corporations.

The concept of Corporate Social Responsibility (CSR) as defined in Chapter 1 originates from the publication, ‘Social Responsibilities of the Business Man’ (Bowen, 1953). Bowen argued that large businesses were, ‘vital centres of power and decision making [whose] actions touched the lives of citizens at many points’ (Carroll, 1999: 269). Over subsequent decades, definitions of CSR have been moulded and transformed into alternative concepts such as stakeholder theory, business ethics theory and corporate citizenship (Carroll 1999, Donaldson and Pretson 1995). Mounting pressure in the 1970s and 1980s from anti-capitalist activists concerned with environmental and human rights issues are thought to be the primary drivers for the shift in corporate attitudes.

In 1998, capitalism is said to have been given a ‘human face’ when Shell became the first major corporation to produce a CSR statement (The Corporate Watch, 2007). Since then, the concern for CSR has escalated with many companies now regarding sustainability as an important element of their business agendas. There is the general assertion amongst the corporate community that acting responsibly in their everyday practices makes business sense. However, as KPMG (2005: 6) comment, ‘seen from purely an ethical or philanthropic viewpoint, CSR is not without its critics who claim that it is yet another promotional campaign to improve corporate image and public relations.’ In fact there were those in the 1970s, such as Milton Friedman who

believed that, 'companies should have no social responsibilities other than to comply with the law and to maximise returns to their shareholders' (Gouldson, 2006: 402). Despite its critics, the concept of CSR has become widespread with companies in both minority and majority worlds agreeing to act responsibly on a variety of scales; internally with regard to working conditions and ethics as well as externally in terms of community involvement and safeguarding the wider environment.

During the 1980s, the term 'sustainable development' gained popularity through the publication of 'Our Common Future' which coined the concept as, 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs' (World Commission on Economic Development, 1987: 43). Concepts of sustainable development and CSR have been integrated into the corporate community in their attempt to work towards the triple bottom line management initiative of people, profit and planet (van de Ven, 2005). According to Bansal (2005), three principles, namely environmental integrity, social equity and economic prosperity, provide the essential framework for corporate sustainable development and CSR. Primarily, firms are required to implement internal environmental assessments, termed as a company's, 'ecological footprint,' whereby businesses justify their expenditures such as lighting, pollutant emissions and resources utilised on a daily basis. Corporate Social Responsibility also requires businesses to negotiate with individuals who have a stake in the company, and to, 'distribute the value created by the firms equitably among all relevant stakeholders' (Bansal, 2005: 199). Companies must also act responsibly with regard to the social decisions they make, such as preventing the employment of children for cheap labour and trading with unethical dealers (Bansal, 2005).

Increasingly, CSR is viewed as an integral element of business strategy. In 2002, a survey conducted by Price Waterhouse Coopers suggested that approximately 70 percent of the Chief Executives at global multinational companies believe that addressing CSR issues is central to the companies' image and profitability (Adams and Zutshi, 2005). Since 1993, on an annual basis KPMG has conducted widespread surveys, recording the CSR activity of the world's largest corporations. The most

recent is an analysis of 1600 company reporting strategies which provides a, 'truly global picture of reporting trends over the last 10 years' (KPMG, 2005: 4). Findings suggest that CSR reporting has increased from the period 2002 – 2005, with the financial sector showing the greatest growth. Analysis indicates that nationally, Japan and the UK are leaders in CSR, reporting 80 percent and 71 percent respectively (KPMG, 2005).

Large corporations are changing the way they do business and ultimately are engaging with a broader range of stakeholders (Jonker and Nijkof, 2006). Many companies have revolutionised their policies in response to CSR, Table 4.1 depicts some of the more structural changes which firms have gone through to become increasingly responsible in their practices. However, in order for businesses to sustain their social and environmental commitment, agendas must be transparent and a broader range of actors must be engaged with, including 'share-owners, employees, customers and suppliers ... but also neighbours and citizens' (Holliday *et al.*, 2002: 22).

Table 4.1: Companies which have incorporated CSR into their business agendas may have made some or all of the following changes

Prior to CSR	CSR driven companies
Sustainable development was seen as a cost and difficult to implement	Concept of sustainability within the business environment is viewed as an investment, more of an opportunity than a hindrance
Inefficient technologies were used in the everyday running of the company	More efficient technologies throughout the entire production system are utilised
Environmental and social issues were viewed as the responsibility of another department within the company	Environmental and social issues are viewed as company-wide responsibilities
Operated as a closed structure	Aims for increased transparency
Narrow and limited discussions with stakeholders	Open discussions with all stakeholders

(Adapted from Holliday *et al.*, 2002: 26)

One of the most important research questions surrounding issues of CSR is, 'why should companies whose major objective has been to maximise profits ... worry about serving the interest of society at large?' (Pachauri, 2004: 1). This has been widely

debated (Dentchev 2005; Mc Williams and Siegel 2000; Mohr *et al.*, 2001), however as Pachauri (2004: 1) argues, 'in this age of widespread communication and growing emphasis on transparency, customers are unlikely to feel satisfied if buying from a company that is seen to violate the expectations of ethically and socially responsible behaviour.' In addition, there is a general assertion that companies and businesses cannot thrive in a region which is deteriorating socially or environmentally.

4.1.1 Shareholder value and the competitive nature of contemporary banking

The previous section in this chapter gave a general overview of the corporate sector and the increased emphasis on social responsibility. This section will focus more on shareholder value and specifically the banking industry and its inherently competitive nature.

As previously alluded, 'globalisation has increased calls for corporations to use firms' resources to help alleviate a wide variety of social problems' (Hillman and Keim, 2001: 125). This is an immensely controversial issue. Whilst large multinational companies have the resources to potentially alleviate poverty and other social struggles, some argue that it is the role of the government and nongovernment organisations to deal with these issues (Hillman and Keim, 2001). One should not forget that any company whether a retail unit or a finance house, has the primary goal of generating as much wealth as possible for its shareholders. Lazonick and O'Sullivan (2000: 13) comment that, 'the ideology of shareholder value has become entrenched as a principle of corporate governance among companies based in the United States and Britain.' Traditionally, the valuation of company assets has been conducted using accounting figures, however, shareholder value 'is a conventional calculation used to assess financial assets (particularly shares) ... technically speaking, shareholder value is the discounted value to a company's future free cash flow' (Schaltegger and Figge, 1998: 6). Competition is an important factor when considering shareholder value as 'sales growth and operating profit are determined by the general development of the sector and by the competitive position of the company within the sector' (Schaltegger and Figge, 1998: 12). They continue, 'individual companies can further increase their shareholder value by improving their competitive position' (1998: 12).

Given the global market which companies in the twenty first century operate in, competition is rife; the key nature of business is to move into unexplored territories, expand portfolios and increase profits. Hillman and Keim (2001: 135) argue that this competitive environment 'encourages firms to search for sources of organizational advantage that cannot be easily or quickly duplicated in order to continue to attract investment capital.' As previously mentioned, engagement with environmental and social issues is perceived to give corporations a competitive advantage, through brand enhancement. On the one hand such activity may be seen as a way of differentiating the company from rivals; however, 'on the other hand, participating in social issues may be seen at best as a transactional investment easily copied by competitors' (Hillman and Keim, 2001: 135). It remains to be seen the exact impact that engagement with environmental and social issues has on shareholder value.

4.1.2 The ethical consumer

Corporations declaring their interest in responsible business have in part been stimulated by a new form of consumer who places value on ethics. Originally, consumers were thought to be concerned with environmental issues, more recently however, the concept of the 'ethical consumer' has become widespread; incorporating social and ethical issues (Auger and Devinney, 2007). Much of the research, both academic and commercial, focusing on consumers' willingness to be ethical in their purchasing, suggests ethical consumerism to be a growing trend among the minority world (Uusitalo and Oksanen, 2004). As a result, many companies have put increased effort into working out the 'carbon footprint' of their company or of their individual products.

The widespread interest in CSR among leading companies, suggests to some extent, they believe these actions will enhance their corporate image and reputation. Much of this research is contested. There are those who suggest that ethical consumerism is on the rise (Creyer and Ross 1997; Mason 2000; Simon 1995). However, there is a plethora of literature proposing that the research is essentially fallacious, due predominantly to weak survey methodologies (Auger and Devinney 2007; Ulrich and Sarasin 1995). Carrigan and Attalla (2001: 574), for example, argue that, 'the current

emphasis on social responsibility and marketing ethics by academics and practitioners is both misplaced and misguided.’ Despite this scepticism, the period 2003 to 2006 witnessed an unprecedented increase of ethical media coverage, advertising (Shaw *et al.*, 2006) and the adoption of CSR policies by leading companies and increasingly, financial institutions.

Since 2000, The Co-operative Bank, a leading UK financial institution concerned with ethical finance, has on an annual basis conducted surveys on ethical consumerism in the UK. Each year ethical consumerism has been on the rise. In 2005, their report suggested that the amount spent on UK ethical consumerism exceeded the sales of over-the-counter beer and cigarettes for that year (The Co-operative Bank, 2006). The key findings from the latest report show that from 2007 to 2008, ethical food and drink purchasing is up 14 percent; green home expenditure has increased by 13 percent; ethical personal products have risen by 4 percent and ethical banking and investments have increased by 15 percent. The report concludes that the ‘overall ethical spend in the UK reached £35.5 billion in 2007, up 15% from £31 billion in the previous twelve months’ (The Co-operative Bank, 2008: 2).

Several factors have been attributed to the sustained interest in ethical purchasing, including, media attention, continued hype surrounding issues of environmental degradation and the extensive availability of ethically sound produce (Auger and Devinney, 2007). Other factors, suggested as stimulators for ethical consumerism include: the globalisation of markets and weakening of national governments; the rise of transnational corporations and brands; increased growth of pressure groups; social and environmental effects of technological advance; shifts in market power towards consumers; effectiveness of marketing; and the growth of the wider corporate responsibility movement (Harrison *et al.*, 2005).

Considering the banking industry; ethical finance is reported to be one of the fastest growing sectors. In the UK during 2004, investments in ethically based finance surpassed the £10 billion mark for the first time (The Co-operative Bank, 2006). Table 4.2 below, illustrates that each sector of ethical finance has increased, and as a whole

the industry has grown 15 percent from the period 2005 to 2006 (The Co-operative Bank, 2007).

Table 4.2: Ethical finance 2005-2006

	Expenditure 2005 (£m)	Expenditure 2006 (£m)	% growth of ethical finance 2005-2006
Ethical banking	5,020	5,551	11
Ethical investment	6,098	7,223	18
Credit unions	388	428	10
Ethical share holdings	49	55	12
Total	11,555	13,257	15

(Adapted from The Co-operative Bank, 2007)

Smith (2006a) interestingly highlights the financial cost to The Co-operative Bank as a result of their enhanced corporate responsibility, brand reputation and loyalty to customers. In 2005, The Co-operative Bank rejected £10m worth of business on environmental and social grounds, 'more than 50 percent (£5.3m) [of which] was declined for activity that conflicted with its ecological policies' (Smith, 2006a: no page). Their dedication to global climate change in addition, cost them £2.4m. However, since the inception of ethical finance customers have changed their desires as consumers. Originally, in 1992 when The Co-operative Bank implemented its ethical approach to finance, customers sought dialogue with regard to what was happening to their money. However, fourteen years later, 'a quarter of the banks customers join ... because [they] are prepared to turn away certain sorts of business' (Smith, 2006a: no page).

Other research in this field has been directed to finding a causal link between a corporation's concern for environmental and social welfare and their desire for profits (Berman *et al.*, 1999; Dowell *et al.*, 1999; Graves and Waddock 1994). Margolis and Walsh (2001) present a review of all such research and document ninety five empirical studies of this sort since 1972. Of the research examined, 53 percent suggest a positive association between a company's social responsibilities and financial performance (Margolis and Walsh, 2001). However, considering financial institutions, there is no hard evidence to suggest that banks engaging in social and environmental

causes 'is in conflict or in harmony with the philosophy of shareholder value' (Schaltegger and Figge, 1998: 5).

4.1.3 Acting responsibly or 'greenwashing'?

'Greenwashing,' defined as the, 'disinformation disseminated by an organisation so as to present an environmentally responsible public image' (Concise Oxford English Dictionary, 2003: 761) according to Rowell (2002: 19) has, 'spawned a whole industry as the US\$35BN corporate public relations business has responded to corporate clients eager to spread a green veneer.' In line with the adoption of CSR policies, anti-globalisation protestors, non-government organisations (NGOs) and academics, have all been quick to hold corporations accountable of 'greenwashing'; whereby they are, 'posing as friends of the environment but continue to expand their markets and destroy the environment' (Perry and Singh, 2001: 53).

Adams and Zutshi (2005) identify three types of corporate code which companies are readily adopting, these being; internal, business sectoral and multilateral voluntary. HSBC for example has adopted a 'Group Standards Manual,' an internal document highlighting the company's policies and procedures, addressing issues ranging from health and safety, waste management and employee relations. Secondly, the HSBC group is a member of the Institute of Business Ethics and the anti-corruption organisation, Transparency International UK (HSBC, 2009). In addition, they are signatories to a number of internationally accepted standards, including the Equator Principles, Global Sullivan Principles and the United Nations Global Compact. Examples of these and other international codes of conduct are shown in Table 4.3.

Table 4.3: Examples of international codes of conduct

Code of conduct	Focus	Notes
AA1000	Sustainability of the organisation	Principle based standard
Equator Principles	Environmental and social issues for ethical project finance	Launched in 2003 and revised in 2006; Voluntary
Global Sullivan Principles	To protect both the environment and economic opportunity for all workers	Voluntary; All industries and all nations
ICC Business Charter	Environmental management within companies	Voluntary
OECD Guidelines for Multilateral Enterprises	Human rights, the environment and industrial relations	Voluntary
Responsible Care	Health, safety and environmental performance	Voluntary; Chemical industry focus; Global initiative
SA8000	Adequate working conditions	Global social accountability standard; Developed and managed by Social Accountability International
United Nations Global Compact	To encourage businesses worldwide to adopt sustainable and socially responsible policies and report on them	Global standard; Launched in 2000

Perceived benefits of incorporating internal, sectoral and international standards such as these into business agendas include; increased customer loyalty, enhanced reputation and good publicity (Perry and Singh, 2001). If companies appear to be lagging behind their competitors by not acting responsibly, then to some extent they are placing themselves at a disadvantage. Not only are companies assessing the benefits of being a good corporate citizen but they are also considering the potential cost of being 'bad.' However, as previously identified, the degree to which consumers consider the environmental policies of where they shop or bank is a contested issue. Regardless of this, NGOs are monitoring CSR uptake and holding companies to account when they fail to comply; this will be reviewed in section 4.2.6.

4.1.4 Summary

Corporations in minority world countries have become increasingly conscious of their responsibilities towards environmental and social issues, and have readily adopted CSR policies into their business agendas. In theory therefore, they are managing the social,

environmental and economic aspects of the business in a responsible manner, to the satisfaction of all stakeholders. This is a significant step, due to the fact that standards such as the ones mentioned are only adopted on a voluntary basis. Despite this however, there are those who believe that CSR has ulterior motives, as The Corporate Watch (2007: 30) highlights, 'CSR sells ... by appealing to customers' consciences and desires ... CSR helps companies to build brand loyalty and develop a personal connection with their customers.' Regardless of the motivations behind CSR and the divide which has occurred amongst researchers about its effectiveness, 'many companies are convinced that CSR will be a guiding vision for the future for companies that wish to maintain their licence to operate in an increasingly globalised and critical world' (Holliday *et al.*, 2002: 114).

4.2 The 'greening' of financial institutions

During the past five years there has been mounting interest into issues of sustainability amongst leading financial institutions. Lending to development schemes is huge business; in 2004, almost US\$200BN was lent to finance projects in the majority world [Ethical Investment Research Service (EIRIS), 2006] such as mining schemes, major transportation developments and dam constructions. Project finance, also termed, 'non-recourse' or 'limited recourse' finance, is the process whereby lenders are reimbursed only from the revenue generated by the project (i.e. tolls, electricity generation) rather from the assets of the developers (EIRIS, 2006). For the financiers, this is risky business, experiencing both direct (environmental and social) and indirect (reputational) risk as they, 'do not have recourse to the borrowers own assets if a project fails to generate the revenue projected' (EIRIS, 2006: 3).

It is thought that the concept of sustainability and CSR translates well into the banking environment, for predominantly two reasons. Firstly, financial institutions are huge sinks of 'money and capital which implies that finance is very well suited to realise future generation needs,' and secondly, 'if financial processes are assumed to reflect underlying real economic processes, rather than a goal in itself, it is important to stress a financial policy aimed at integrity and trust in the longer run' (Soppe, 2004: 214). Initially, financial institutions were generally perceived to be relatively environmentally

friendly, 'in terms of emissions and pollution' (Bouma and Jeucken, 2001: 22). However, sustainability in recent years has become a key concept within the banking industry, particularly in relation to project finance. Financial institutions are increasingly finding that they have to be accountable to a broader range of stakeholders, particularly in relation to which projects they agree to finance (Figure 4.1).

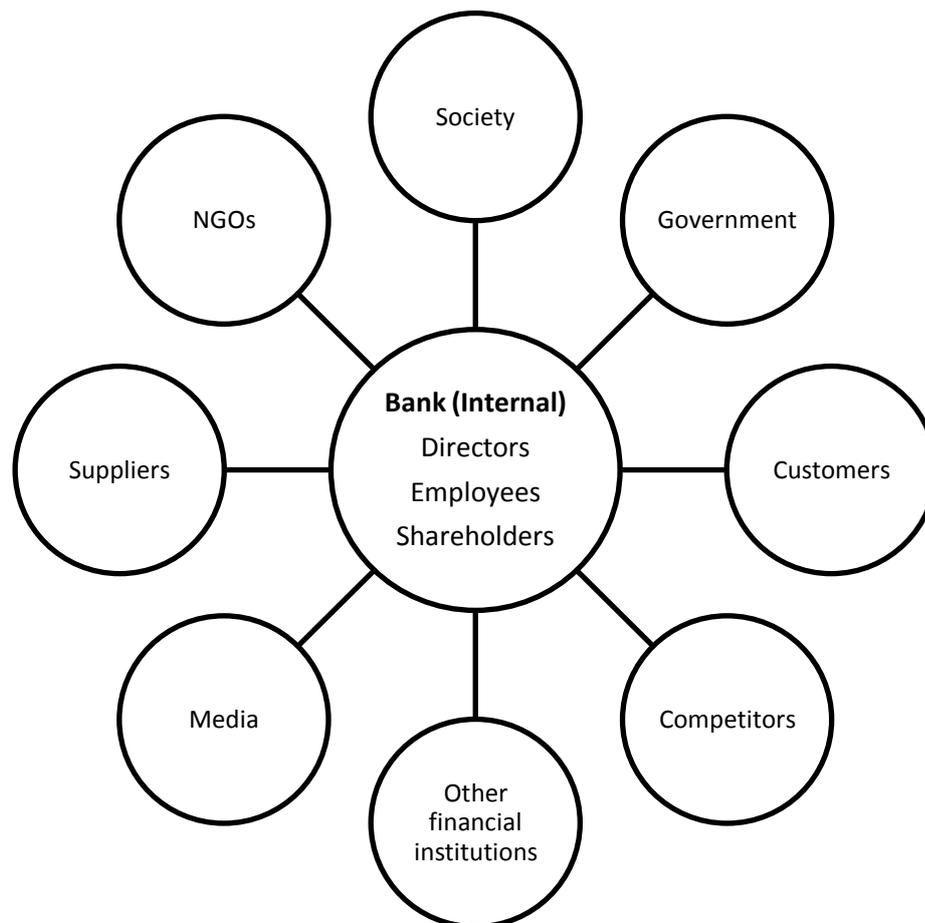


Figure 4.1: Internal and external stakeholders of financial institutions
(Adapted from Bouma and Jeucken, 2001: 32).

It has become increasingly apparent that financial institutions can play a major role in contributing towards sustainable development, as Bouma and Jeucken (2001: 25) comment, 'banks transform money in terms of duration, scale, spatial location and risk and have an important impact on the economic development of nations.' According to a survey implemented by KPMG (2005), 60 percent of the financial sector in G250 and more than 30 percent of the sector in N100, publish reports on their social and environmental responsibilities. Results also highlight that financial institutions use

varying methods of incorporating CSR into their businesses; 35 percent were found to use a steering group, 13 percent had established CSR departments and others used working groups, policy review boards or CSR advisory committees (KPMG, 2005). Leading financial institutions have in just three years transformed their policies and practices beyond recognition, in comparison to other industries who gradually over several decades adopted concepts of CSR into their business agendas (Newton, 2006a).

4.2.1 A new era for project finance

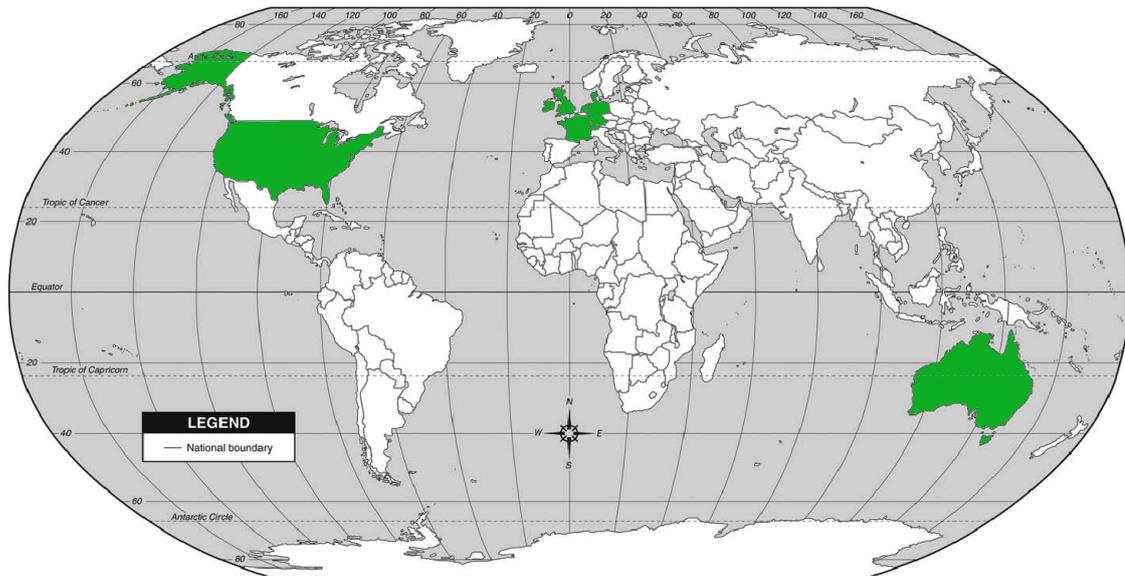
The World Bank (WB) led the way for the incorporation of environmental and social policies into lending decisions. In the late 1980s, the WB reformed its lending policies, 'focusing on increasing transparency and accountability' (Seymour and Dubash, 1999: 1) and almost a decade later the WB's sister organisation, the International Finance Corporation (IFC) followed suit. Until this time, not only were there no environmental advisors within the corporation but the IFC had, 'no separate environmental and social policies and procedures designed to address the diverse and often unique operational contexts of private sector projects' (Wright, 2005: 9). With increased NGO criticism and heightened media attention regarding their irresponsible lending decisions, the IFC was forced to reconsider the ways in which they lent to projects in majority nations. As Goldman (2001:193) recognises, 'the greening of the World Bank over the past decade has been the result of persistent pressure from a growing transnational social movement.' From 1989 to 1997 the IFC expanded its environmental department (Wright, 2005). A crucial turning point came in 1997 when the WB announced an innovative set of policies aimed at responsible lending and sensitivity towards the environment and social welfare. These guidelines required borrowers to attend consultations, conduct monitoring and report on their progress in meeting these requirements. In 1998, the IFC formally adopted these policies and as a result they became, 'the foundation for IFC's work in the environmental and social areas and for assessments of IFC compliance and accountability' (IFC, 2002: 33).

The change in attitude of the WB and IFC had a dramatic influence on private sector lending. By the late 1990s, there was strong evidence to suggest that sustainability

was being considered by the financial community, particularly with the introduction of the Dow Jones Sustainability Group Index in 1999 which was established to, 'track the performance of the leading sustainability-driven companies worldwide' (Bouma and Jeucken, 1999: 22). At this time, however, a further change was initiated, stimulated predominantly by several large development schemes that required funding. Developers working on an oil pipeline scheme in Ecuador approached the IFC for funding. However, in line with their revised policies, the proposed project failed to meet the guidelines. In spite of this, other financial institutions such as WestLB were prepared to provide the capital (Van de Ven, 2005). Similarly, the WB refused to fund the controversial Three Gorges Dam development in China, but once again private banks from all over the globe willingly accepted the proposal (Van de Ven, 2005). The public objection resulting from these controversial decisions led to the emergence of the 'Equator Principles', a set of voluntary standards, 'for assessing, managing and monitoring environmental and social risk in project finance lending' (Lazarus, 2004: 5).

4.2.2 Equator Principles I

On June 4th 2003, the project finance industry was revolutionised. Ten of the world's largest financial institutions from seven countries voluntarily adopted the Equator Principles, formally known as the Greenwich Principles (Abbott *et al.*, 2005) (Figure 4.2). Developed by the IFC, this code of conduct was to ensure that the projects financed by Equator signatories, adhered to environmentally and socially sound standards. Increased public environmental awareness and, 'backlash over a rising number of controversial projects,' (Abbott *et al.*, 2005: 1) were the primary drivers behind the Principles. Financial institutions could no longer afford to be funding projects which had significant environmental implications; their corporate reputations were being compromised in the process.



Country headquarters	Financial institution
Australia	Westpac Banking Corporation
France	Crédit Lyonnais
Germany	HVB Group; WestLB AG
Netherlands	ABN AMRO Bank; Rabo Bank Group
Switzerland	Credit Suisse First Boston
United Kingdom	Barclays Plc; The Royal Bank of Scotland
United States of America	Citigroup

Figure 4.2: Global distribution of the original Equator signatories (Author’s own*)

ABN Amro, Barclays, Citigroup and West LB were the original steering group of banks which stimulated this change towards responsible lending. It was decided that in order for the Equator Principles to be a success, ‘a certain number of banks or a certain percentage of the market must adopt the Principles’ (Abbott *et al.*, 2005: 1). Without the support from leaders in the industry, it was thought that project organisers would seek financial support from non-Equator banks, thus undermining

the scheme. Since the launch of the Equator Principles, there has been exceptional support from major financial institutions. In the first year, 27 banks adopted the guidelines, and after three years there were 41 signatories, representing 75 percent of the lending market (Van de Ven, 2005). As EIRIS (2006: 4) recognise, 'it is the first time that banks, which are otherwise in competition with each other, have presented a united approach in attempting to mitigate environmental and social risks associated with financing projects.'

4.2.3 Implementation

Prior to implementation, projects which require funding must be categorised according to their type, location, sensitivity and scale (Equator Principles, 2003). Potential environmental and social impacts of each project are also in consideration during this primary stage (Figure 4.3). Projects categorised as A are deemed to have significant adverse environmental impacts; such applications predominantly include almost any new major development scheme. Category B applies to, 'projects thought to pose potential for less adverse environmental impacts on human populations or environmentally important areas' (Lawrence and Thomas, 2004: 20). Whilst, category C, includes projects which are thought to have minimal or no adverse environmental or social impact. Subsequent to categorisation there are nine Principles (Table 4.4) which lenders must adhere to if they are to be seen as acting responsibly.

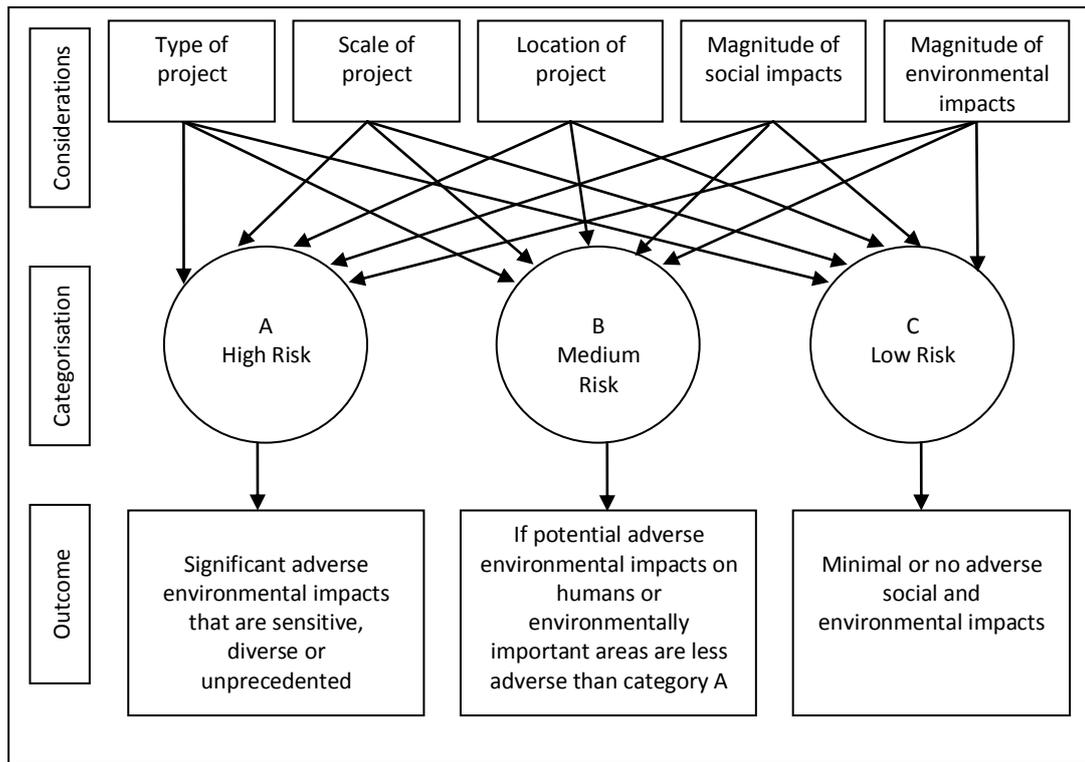


Figure 4.3: Project categorisation (Adapted from Equator Principles, 2003)

At the outset, the Equator Principles were praised for being dynamic and all-encompassing. They were viewed as a unique opportunity for banks to voluntarily self regulate, as Abbott *et al.*, (2005: 2) remarked, ‘adoption of the Equator Principles is a catalyst for change in thinking throughout an organisation because it requires banks to rewrite credit procedures, educate and train staff as well as adopt new internal audit procedures.’

Table 4.4: Equator Principles I: Guidelines and Recommendations

Guidelines and Recommendations	
1	All projects are categorised as A, B or C according to environmental and social criteria
2	For all projects categorised as A or B the borrower is expected to implement an Environmental Assessment (EA) focusing on the key environmental and social concerns identified in the categorisation process
3	In line with the specific development, the EA has to address each of the following: baseline environmental and social conditions; the requirements presented by the host countries laws and regulations and appropriate international treaties and agreements; sustainable development and use of renewable resources; protection of human health, cultural populations, biodiversity (including endangered species and sensitive ecosystems); use of toxic materials; major hazards; occupational health and safety; fire prevention; socio-economic impacts; land acquisition and land use; involuntary resettlement; impacts on Indigenous people and communities; the cumulative impacts of existing, proposed and future projects; participation of affected parties; consideration of feasible alternatives; efficient production, delivery and use of energy; pollution prevention and waste minimisation. In each case EA will be in compliance with applicable host country laws, regulations and permits. Reference to the minimum safeguards set by the WB and IFC for projects in low and middle income countries
4	For all A and appropriate B projects, the borrower is required to prepare an Environmental Management Plan (EMP) drawing on the conclusions of the EA. In addition, the EMP is to address mitigation, action plans, monitoring and the management of risk
5	For all A and appropriate B projects, the borrower has to consult with the groups affected by the project, such as Indigenous people and local NGOs. A summary of the EA has to be made available to the public for a reasonable period of time, in a local language in a culturally sensitive manor
6	The borrower has to agree to the following: a) comply with the EMP in the construction and operation of the project, b) provide regular reports stating compliance with the EMP c) in appropriate circumstances the project is to be decommissioned
7	Lenders to employ an independent environmental expert to offer additional monitoring
8	In circumstances whereby the borrower is not in compliance with any of the environmental or social covenants, the lender is to seek solutions to bring it back into compliance with the agreements
9	Principles apply to projects which exceed the total capital cost of US\$50M

(Adapted from Equator Principles, 2003)

4.2.4 Embracing voluntary codes of conduct

As with other businesses and industries, banks have also been accused of 'greenwashing.' After the inception of the original Equator Principles, critics were quick to identify banks which were primarily jumping on the bandwagon to enhance their company's credentials. As with other industries, it is necessary to identify the reasons why financial institutions commit to voluntary guidelines, as Bansal (2005: 215) recognises, 'it is important to understand how social and economic processes

interact in order to answer when and why firms commit to sustainable development.’ BankTrack, a coalition of NGO groups, monitoring compliance to the Equator Principles, observes a strong correlation between, ‘declaring a commitment to the Principles and being subjected to a sustained campaign by a civil society group’ (Wright and Rwabizambuga, 2006: 106). Furthermore, it is evident that banks, like other industries, which have incorporated CSR guidelines into their policies have also gone public with their voluntary commitment, ‘being an Equator bank has become a crucial aspect of many participants’ public images, brands and growth strategies’ (Mongoven, 2006: 3).

4.2.5 Accountability and transparency

At face value, the Equator Principles are a voluntary set of guidelines which have the potential to revolutionise the way in which banks consider lending to development and infrastructure projects, and appear to be consistent with sound environmental and social policies. Conversely however, since their inception there has been a backlash from NGO groups and activists who suggest that the Principles are riddled with loopholes and, ‘ambiguities concerning their scope and requirements’ (Lawrence and Thomas, 2004: 21).

One of the greatest inconsistencies of the guidelines is that they do not stipulate who should be carrying out the project reviews; furthermore, transparency, accountability and the methods by which projects are implemented and monitored is debatable (Lawrence and Thomas, 2004). The Principles have been criticised because signatories cannot be held accountable for failing to comply, ‘there is no legal redress ... and no dispute resolution mechanism for dissatisfied third parties’ (Watchman and July, 2006: 24). Lawrence and Thomas (2004: 22) also argue that the Environmental Assessment (EA) addresses various environmental and social criteria, but only to the signatories’ satisfaction, implying that, ‘a lender may be satisfied with a justification for a violation of the standards.’ In addition, the lender is required to hire an Environmental Consultant to conduct the EA, however, there is an immediate conflict of interest with this arrangement.

Lack of transparency is a major limitation of the original Equator Principles. Signatories are not required to publish specific information with regard to their lending decisions, as banks are obliged to refrain from disclosing information about clients and the fiscal details of the projects funded. Equally, the extent to which Equator banks can rely on the client to carry out the reports and requirements stipulated by the guidelines, has been questioned (EIRIS, 2006). Critics have also argued that Equator signatories were only agreeing to not provide loans directly to non-compliant projects, meaning that lenders could, 'participate in a syndication which is an indirect sharing in the loan' (Lawrence and Thomas, 2004: 24). Therefore, banks providing an indirect loan such as this would not be subjected to the guidelines. A further criticism was that the Principles were only intended for projects costing in excess of US\$50M.

4.2.6 The role of NGOs in project financing

Non-government organisations (NGOs) have gained prominence and status at the global scale in recent years and have, 'gradually developed into global actors that seek to engage with powerful institutions to create social transformation' (Jonker and Nijkof, 2006: 458). With regard to financial institutions and their compliance to the Equator Principles, the NGO community plays an active role in their implementation and governance. BankTrack has been particularly forceful in scrutinising the Equator banks to ensure compliance and due diligence. Despite the framework provided by the Equator Principles, seemingly inappropriate decisions have been made by signatories, ultimately undermining the responsible development paradigm. To identify but one example, the lending decision of one major UK signatory, Barclays, raised significant environmental and social concerns and consequent protest from NGO groups. Being one of the original Equator banks and the third largest project lender in the world, Barclays has in general been praised for its recognition of responsible lending. However, in June 2004, having agreed to the Principles, decisions were made to, 'finance a controversial multi-million dollar gas pipeline development between Thailand and Malaysia' (FoE, 2005a: 1). Project developers claimed that, 'industrialisation would improve the local economy reducing poverty and socio-economic disparities in the region' (FoE, 2005a: 2). However, the construction

threatened to devastate biodiversity in the region, as well as impact the livelihoods of local villagers who are directly dependent on clean air and natural resources to earn a living from fishing (FoE, 2005a). Despite these ramifications, Barclays agreed to finance the US\$524.3M development, providing 49 percent of the required funds (FoE, 2005a). Human rights activists reacted, mainly due to the fact that developers did not acquire the parcel of land which, 'includes four public rights of way which are wakaf-common lands, passed down as part of Islamic custom' (FoE, 2005a: 4) through the correct procedures.

Controversially, Barclays has also been involved in the Narmada development, the construction of over 30 major dams in central India (Doyle, 2005). This large scale project has been evolving over several decades and has received significant media attention. The development involves the flooding of one of India's most productive agricultural regions and the forced relocation of an estimated 2 million people. In 1993, the WB withdrew its funding in response to villagers threatening to drown themselves, rather than be evicted from their homes. In 2003, plans were being considered for the Omkareshwar, a scheme which would flood over 5,800 hectares of pristine forest and displace approximately 50,000 people (FoE, 2005b). Although Barclays have not directly financed this particular project, their actions have been criticised. Principally, they have played an advisory role in the development, as FoE (2005b) recognises, 'even undertaking an advisory role still requires banks to consider their applications.' Furthermore, in December 2003, Barclays' agreed a US\$23M corporate loan to finance the National Hydro Power Corporation (NHPC), the lead construction company in building the dams. As FoE (2005b) state, 'although not specifically for the Dam, this is one of their major projects, it seems reasonable to assume that it will cover some of the expenses of building the dams.' Opponents have argued that this project alone violates at least five areas of the Equator Principles (Table 4.5). Environmental and Social Impact Assessments (ESIAs) have not been conducted, the needs of Indigenous people have not been recognised, and there has been no regard for one of the most sacred places in the Narmada Valley which attracts hundreds of thousands of pilgrims each year (FoE, 2005b).

Barclays is not however, the only bank which has been criticised for its inappropriate lending decisions under the Equator Principles. HSBC are also signatories, but they too are alleged to be, ‘actively engaged in the destruction of rainforests and linked to human rights abuses’ (FoE, 2003: 2). For a bank with 8,000 offices in 80 countries, and who advertise themselves as, ‘the World’s local bank,’ NGOs have been quick to question some of HSBC’s investments and lending decisions such as aiding the Three Gorges Dam project in China and, ‘supporting unsustainable oil palm plantations in Indonesia’ (United Nations Development Programme, 2003: 1).

Table 4.5: Violations of the Equator Principles for the Narmada Dam scheme

Violation	Requirement by Equator Principles	Narmada Development (Omkareshwar dam)
Environmental assessment	For all large dam projects an EA is required to assess the environmental and social impacts of the scheme	No EA was undertaken
Indigenous people	Informed participation and the incorporation of Indigenous people into the development plan is required	No plan was formulated and Indigenous people were not informed or consulted
Natural habitat	The projects which will pose significant loss of natural habitats will not be supported. Consultations with local communities are a requirement	No public consultations or hearings, despite many relying on the forest for their livelihood
Cultural property	A consideration of culturally significant structures	No consultation or mitigation measures such as relocating significant structures were included in the project plan
Involuntary resettlement	Cash compensation alone is not sufficient, land based resettlement should take preference. A detailed resettlement plan is required	No surveys took place and no resettlement plan existed

(Adapted from Equator Principles, 2003 and FoE, 2005b)

It is evident that NGOs have gained prominence in the past decade and they are now regarded by some to be a, ‘powerful force in the government and business landscape’ (Schepers, 2006: 282). One particular NGO, the Rainforest Action Network (RAN) targeted financial institutions in North America believing that, ‘in a globalised economy bank, investments know no boundaries ... tropical rainforests and other

endangered forest types are all threatened by the irresponsible financing driving the destruction of these valuable and irreplaceable ecosystems' (RAN, 2007: no page). In 2000, prior to the launch of the Equator Principles (of which Citigroup are now a major supporter) RAN approached Citigroup as part of its 'Global Finance' campaign. Citigroup was known to be financing projects which were actively causing destruction to rainforests. RAN's campaign was to change Citigroup's approach to financing projects, which involved targeting the general public, encouraging, 'current customers to cut up their credit cards and college students (future customers) to refuse applications for credit cards' (Schepers, 2006: 287). After four years of persistent campaigning (Table 4.6) Citigroup are now leading proponents of the Equator Principles and in 2004 for the first time announced a set of 'New Environmental Initiatives' which according to RAN (2007: no page) are, 'the most far-reaching set of environmental commitments of any bank in the world.'

*Table 4.6: Campaigning by Rainforest Action Network
in response to Citigroup's irresponsible actions*

Date	RAN action	Public outcome
Apr 2000	RAN sent a letter to Citigroup with the aim of making the bank more aware of its irresponsible lending	
Oct 2000	First demonstration – 50 protests around the country (credit card cut ups and divestments of accounts)	
Mar 2001	100 students attended the 'Spank the Bank' camp – to learn ways to transform the financial sector. Second demonstration – 80 protests in 12 countries on 5 continents	
Jan 2002	Activists protest at the Mindo Nambillo Cloudforest Reserve (Citigroup provided funds for a crude oil pipeline)	
Nov 2002	24 activists went to great lengths to blockade every Citibank branch in San Francisco's financial district	
Apr 2003	Protest planned to be held at Citigroup's annual shareholder meeting in New York	Citigroup approached RAN and asked for a cease-fire of campaign activities Citigroup withdraws funding from the Camisea project in Peru- RAN agrees to a 3 month stand down of campaigning
Jun 2003		Citigroup adopts Equator Principles
Jan 2004		Citigroup announces their 'New Environmental Initiatives'

(Adapted from RAN, 2007)

4.2.7 Summary

Financial institutions have come a long way in recognising their responsibility towards the environment. Given the substantial changes which have occurred within the project finance industry, it is not surprising that mistakes have been made in the process. The sustained backlash by NGO groups has, however, to a large extent triggered the revision of the Principles (Equator Principles II). With the latest version, it is anticipated that increased attention and diligence will be paid to the environment, cultures and local communities when considering the fiscal arrangements of development projects.

4.3 Equator Principles II

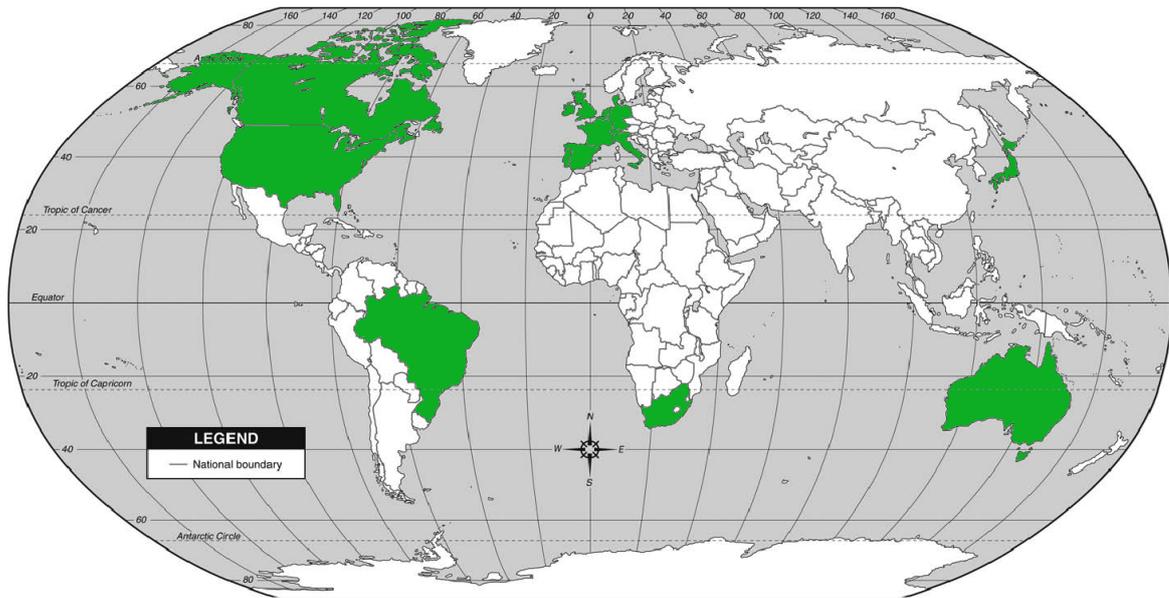
On 6th July 2006, the first major revision of the original Equator Principles was announced (Table 4.7. for Equator Principles II and Appendix 1 for the full guidelines). By December 2006, 43 financial institutions had adopted the revisions in recognition of their commitment to environmental and social issues (Equator Principles, 2006) (Figure 4.4). Banks were becoming increasingly aware of the risk (economic, political, social and environmental) involved in financing development projects. Increased transparency and more coherent guidelines were needed within the lending environment.

The revisions do represent a significant tightening of the Principles. One of the most dramatic alterations has been the reduction of the lending threshold to US\$10M, recognising that developments with lower capital costs can also have far reaching environmental and social impacts. Other modifications include enhanced social and environmental standards and a more transparent reporting system, whereby banks are required to report on their lending progress and performance on an annual basis. The Principles also cover upgrades or expansions to existing projects where the additional impacts are significant. One of the more noteworthy changes to the Principles is the increased recognition of social standards. Additional in-depth and documented consultations are required with affected communities; in recognition of the status of Indigenous peoples in international law.

Table 4.7: Equator Principles II: Guidelines and Recommendations

Guidelines and Recommendations	
Review and Categorisation	Each project is categorised (A, B, C) based on the magnitude of its potential impacts and risk in accordance with environmental and social screening
Social and Environmental Assessment	For A+B projects, borrower has to conduct a Social and Environmental Assessment, to the lenders satisfaction. Mitigation and management measures are to be proposed, relevant to the nature and scale of the project
Applicable Social and Environmental Standards	For projects located in non-OECD (Organisation for Economic Co-operation and Development) countries and those in OECD countries not designated as High Income the assessment will refer to the IFC Performance Standards and the Industry EHS Guidelines. Assessment should also comply with host country laws and regulations
Action Plan and Management System	For A+B projects in non-OECD countries and those in OECD countries not designated as High Income- borrower is to prepare an Action Plan (AP) to describe and prioritise the actions needed to implement mitigation measures and to maintain and establish a Social and Environmental Management System
Consultation and Disclosure	For all A and appropriate B projects in non-OECD countries and those in OECD countries not designated as High Income - consultations are needed with affected communities in a culturally sensitive manor. Non-technical summaries need to be made available for a reasonable period of time in the local language
Grievance Mechanism	For all A and appropriate B projects in non-OECD countries and those in OECD countries not designated as High Income - ensure that consultation, disclosure and community engagement continues throughout the construction and operation of the project
Independent Review	For all A and appropriate B projects, an independent social or environmental expert is needed who is not directly associated with the borrower, to review the Assessment, AP and consultation process and also to assess the lenders diligence and Equator Principle compliance
Covenants	For A and B projects, borrower has to covenant in financing documentation: a) comply with host country Environmental and Social laws and regulations, b) comply with AP during construction and operation, c) provide reports in a format agreed with the lender documenting compliance and d) decommission the facilities where applicable and appropriate
Independent Monitoring and Reporting	Ensure ongoing monitoring and reporting over the life of the loan. For all A and appropriate B projects an independent environmental and/or social expert is required to verify monitoring.
EPFI Reporting	Each lender is to report publicly at least annually about its Equator Principle projects, implementation and experience

(Adapted from Equator Principles, 2006)



Headquarters	Financial institution
Australia	Westpac Banking Corporation
Belgium	Dexia Group; KBC; Fortis
Brazil	Banco Bradesco; Banco do Brasil; Banco Itau; Unibanco
Canada	BMO Financial Group; Manulife; Royal Bank of Canada; Scotia Bank
Denmark	EKF
France	Caylon
Germany	Dresdner Bank; Hypo Vereinsbank; West LB AG
Italy	Banca Intesa; Sanpaolo IMI
Japan	BTMU; Mizuho; SMBC
Netherlands	FMO; ING Group; Rabo Bank Group; ABN AMRO
Portugal	BES Group; Millennium Bcp
South Africa	Nedbank Group
Spain	BBVA; Caja Navarra
Switzerland	Credit Suisse Group
UK	Barclays Plc; HBOS; HSBC Group; The Royal Bank of Scotland; Standard Charter Bank
USA	Bank of America; CIBC; Citigroup Inc; E+Co; Wachovia; Wells Fargo

Figure 4.4: The global distribution of Equator banks, as of December 2006 (Author's own*)

4.3.1 Response to the revisions

In general, Equator Principles II (Table 4.7) have been praised, however, it has been suggested that they still fall short of an inclusive regulatory framework which is needed in the project finance industry. As Durbin and Frijns (2006: 8) comment, 'these new principles are pegged to the IFC performance standards but not to the sustainability policies underlying these standards.' Furthermore, despite financial institutions often having their own guidelines relating to an array of services, it has been suggested that the Equator Principles should be applied to other areas in the sector such as corporate loans (EIRIS, 2006).

Issues of accountability in spite of the revisions are still at the forefront of lending discussions. Regardless of modifications, there is no governance structure in place to monitor the compliance of Equator signatories. Furthermore, despite the fact that Equator banks are now required to publicly report on their Equator projects, implementation and experience, lack of transparency is still a major problem. However, if banks were to be bound to legislation and intense forms of governance, to the Principles to which they have voluntarily adopted, then without a doubt banks would turn their backs and disengage. BankTrack is consistently critical about issues of accountability and transparency, however, one cannot forget the distance that banks have come in acknowledging their responsibility towards the environment and ultimately 'dissatisfaction is the NGOs job' (Newton, 2006c: 15).

4.3.2 The future of responsible lending

On the face of it, financial institutions seem to have dramatically revolutionised their lending practices over a relatively short period of time. Despite the criticism, protests from activists and mistakes which have been made on the banks' part, three years on from their initial inception the Equator Principles serve to provide a global standard for project finance. At the start of the research Citigroup were the lead arranger of project finance, securing 12.2 percent of the market, followed closely by HSBC at 10.01 percent. Other prominent Equator lenders included, West LB (8.41 percent), ING (7.88 percent) and Standard Charter Bank (7.82 percent) (Caceres and Ellis, 2006). However, seeing as there are 11,000 correspondent banks worldwide, there is potential for more

widespread adoption of the Principles (Caceres and Ellis, 2006). With increased support from banks in both minority and majority nations, this will no doubt raise the standards; environmental and social risks will be able to be identified and managed in a responsible manner and to a common baseline.

Despite this however, it has been suggested that the Equator Principles have 'opened up Pandora's box' (Burrett, 2006: no page). There is an expectation by Equator proponents that the guidelines should encompass a wider range of environmental concerns, despite the fact that the financial community already has different policies in place for a range of issues (Scholtens, 2006). As previously identified, the United Nations Global Compact, London Principles of Sustainable Finance and OECD Guidelines for Multinational Enterprises are such examples, aiming to encourage businesses worldwide to adopt sustainable and socially responsible practices. The extent to which the Equator Principles should also consider labour issues and human rights are also at the forefront of discussions amongst the leaders of project finance. If signatories are required to comply with a wider range of guidelines, then it is inevitable that the risks involved in project lending will multiply, encouraging smaller banks to withdraw and therefore negating one of the greatest challenges; the inclusion of more financial institutions. At the outset of this research there were 43 signatories (2006) with huge geographical disparities in their distribution. A survey carried out by Wright and Rwabizambuga (2006) found that of the then 32 signatories, 53 percent were located in Europe, 25 percent in North America and the remaining 23 percent made up of banks in the majority world. A further challenge the Equator Principles face is that of governance. At present, there is no overriding form of authority, no central organisation to check compliance, to deal with free riders and to manage the consequences of non-conformity. Non-governmental organisations have gained considerable power since the inception of the Equator Principles; BankTrack members now have a seat at the table amongst leaders of project finance. However, as Mongoven (2006: 3) suggests, 'the next phase is consolidating and expanding the power.' It is essential that the finance industry and civil society collaborate and trust each other, in order for both parties to achieve the desired outcomes of responsible lending and sustainable development.

4.4 The changing landscape of finance

Substantial changes have occurred within the project finance industry in recent years, a move towards more accountable and transparent lending procedures for the most part. Despite this, the landscape of finance is once again shifting; further challenges are arising which may undermine and negate the intentions of the sustainable finance lending agenda.

It is evident that Equator compliance and support is essential from financial institutions in emerging markets, in order to achieve a level baseline for project finance globally. The outlook at present however, is bleak. Despite the fact that the majority of leading banks have now accepted the Equator Principles (a positive step towards responsible development), there has arisen a multitude of financial institutions and financial service companies in emerging economies, willing to either directly fund non-Equator compliant projects or indirectly assist with the developments. India, the focus of this research, has been identified by market demographers as one of the fastest growing economies; with many of the leading firms and financial institutions now operating on a global scale (IBEF 2006; Government of India 2009). Despite this, India like many other countries in the majority world faces numerous environmental (e.g. destruction of natural ecosystems) and social struggles (e.g. poverty and population growth). It is essential that leading companies and financial institutions in emerging markets accept responsibility for their actions during this period of infrastructure growth and sustained economic activity. However, to the current signatories it is also imperative that these banks comply with the Equator Principles; otherwise, the responsible lending agenda will be compromised, resulting in huge financial burden for those willing to comply with environmental and social lending standards.

General commitment to environmental and social issues and CSR is not just a minority world phenomenon. Although not as widespread as in countries such as the UK and USA, CSR is becoming ever more popular in the emerging economies of Asia (KPMG, 2005). Chapter 5 focuses specifically on CSR in India, but briefly, India has an extensive and diverse history of CSR, ranging from philanthropic donations in the 1850s to

temples and social welfare causes, to Ghandi's theories of trusteeship, aiming to 'consolidate and amplify social development' (Chahoud *et al.*, 2007: 3). The Indian economy has averaged a growth rate of 8.6 percent in the past four years (Sharma, 2007) however, despite the more recent slowdown (2008/2009) it is still estimated that their booming economy will require in the region of US\$500BN until 2010 to fund development and infrastructure projects (Sharma 2007; Sanyal 2008). This is good news for proponents of the Equator Principles, if CSR is on the agenda of leading Indian companies then it is anticipated that others will follow suit. However, it is yet to be seen whether the Indian finance industry, the crux of economic development and expansion, will put aside environmental and social issues at the expense of financial loss.

4.5 Majority-to-majority lending

It is evident that the uptake and spread of information communication technologies around the globe has had a dramatic influence on the financial landscape. As highlighted in Chapter 2, this has been of interest to geographers, and thus the geography of finance has emerged and is rapidly developing. What role then does the discipline of geography play in this changing landscape of project finance? Despite the fact that finance appears to be an expanding field within the geographical arena, geographers have not explicitly focused on scales of lending and the complex power relations which exist between the minority and majority regions of the world, particularly when considering global environmental agendas and the financing of development.

For decades the development 'agenda' has been based on the assumption that countries of the majority world require financial assistance from the industrialised minority nations. However, with the apparent shift towards 'sustainable finance' within the project finance industry, the globalisation of finance and the growing power of emerging economies, development funds are increasingly being met by majority world financial institutions. The volume and composition of development finance is therefore shifting, compromising the 'sustainable finance' agenda. It is therefore imperative that geographers expand their understanding of the project finance

One of the main characteristics of Islamic based finance is that interest is not charged on loans and they are ethical in their approach to finance and investment. Prohibited actions include; gambling, hoarding, pornography, liquor and pork (Newton 2006d; IIBI 2009). The most prominent features of Islamic banking are as follows:

1. While permitting the individual the right to seek his economic well-being, Islam makes a clear distinction between what is Halal (lawful) and what is Haram (forbidden) in pursuit of such economic activity. In broad terms, Islam forbids all forms of economic activity, which are morally or socially injurious.
2. While acknowledging the individual's right to ownership of wealth legitimately acquired, Islam makes it obligatory on the individual to spend his wealth judiciously and not to hoard it, keep it idle or to squander it.
3. While allowing an individual to retain any surplus wealth, Islam seeks to reduce the margin of the surplus for the well-being of the community as a whole, in particular the destitute and deprived sections of society by participation in the process of Zakat.
4. While making allowance for the ways of human nature and yet not yielding to the consequences of its worst propensities, Islam seeks to prevent the accumulation of wealth in a few hands to the detriment of society as a whole, by its laws of inheritance.
5. Viewed as a whole, the economic system envisaged by Islam aims at social justice without inhibiting individual enterprise beyond the point where it becomes not only collectively injurious but also individually self-destructive.

(IIBI, 2009: No page)

Despite Islamic finance being ethical in its motivations, Pollard and Samers (2007: 316) recognise that, 'as a form of finance, IBF does not appear to disrupt capitalist social relations and nor are the principles of Islamic economies against profit.' In relation to ethical finance and sustainability, Islamic banking is well-suited in two main ways.

Primarily, the Sharia law is based on justice; as a consequence investments can only be made in stocks that pass through 'Sharia filters' meaning that companies must not carry out primary business activities which do not comply with Islamic law. In addition to the guidelines set by the Islamic Financial Services Board (IFSB) individual banks have their own Sharia Supervisory Board (SSB) which decides on the approval of each investment (Wollard, 2008). As Wollard (2008: no page) comments, 'the Islamic model is based around investment rather than treating money as the primary asset with Sharia Law providing a framework which encourages honesty and up front transparency in all dealings.' Furthermore, the Islamic faith believes that, 'if you degrade a resource you are accountable for its use and liable for its repair' (Newton, 2006d: 16), a central trait of sustainability. In addition, according to Islamic principles, any 'impure' income is donated to charity; therefore many Islamic banks have strong attachments with charitable trusts.

In 1998, the HSBC group established 'HSBC Amanah', an Islamic bank division which currently, 'represents the largest Islamic banking team of any international bank' (HSBC Amanah, 2007: no page). This is a rapidly growing industry, estimated at US\$350-650BN globally, and growing at 15-20 percent per annum, with key markets in Saudi Arabia, United Arab Emirates, Bahrain and Kuwait. Faith based finance is community driven but it also aims to be all inclusive, catering for, 'non-Muslim individuals and communities that seek ethical financial solutions' (HSBC Amanah, 2007: no page). The CEO and Global Head of Amanah private banking, Abdel-Haq stresses the importance of Islamic finance particularly in London. Predominantly due to the fact that over the next decade, half of Muslim savings are expected to be in Islamic finance and it is estimated by 2015, one out of every four London graduates will be Muslim (Abdel-Haq, 2006).

Islamic finance is embedded with environmental and social concerns, however at present no Islamic financial institution has become an Equator signatory. Gaining Equator compliance from the Islamic banking industry would further the geographical reach of the environmental and social standards. It has been suggested that, 'adapting

the Equator Principles for Islamic purposes might represent a way forward that does not stretch the already overburdened Sharia board system' (Newton, 2006d: 17).

4.7 Summary

Commitment to sustainability and general concern for the environment and societies of our planet, amongst the corporate community has gained increased prominence and attention in recent years. As recognised by AEO (2005: 5), '... emerging changes in the structure of the increasingly globalised economy are leading to enhanced environmental awareness and a shift in expectations regarding both public and private environmental management.' Public attitudes and actions are gearing towards more environmental and sustainable habits, NGO groups have multiplied and become sophisticated in their approach to monitoring corporate behaviour and the media has played a huge role in publicly disgracing unsustainable or unethical companies and promoting the 'green' way. Despite there being differences in researchers' results with regard to the actual extent to which ethical consumerism is growing, it is evident that for whatever reason, corporations in both minority and majority world countries are adopting CSR language into their business agendas, policies and practices.

In recent years, the financial sector has come under intense scrutiny due to the widespread environmental and social degradation which has occurred as a result of providing funds to development schemes. Consequently, the project finance industry has gone through a major transformation; leading financial institutions have voluntarily adopted a set of guidelines, aiming to adhere to environmentally and socially sustainable lending decisions, the Equator Principles. Evidently, financial institutions have an important role to play in sustainable development; banking and the environment are intrinsically connected, as recognised by Mongoven (2006: 1), 'bringing about a philosophical change among the worlds' largest banks is an important victory.' By complying with the Equator Principles, banks are agreeing to work towards a common baseline for the standard of development projects around the world and to, 'contribute to rather than undermine sustainable development' (Amalric, 2005: 18).

Over the past three years, it is evident that leading financial institutions have dramatically altered their attitudes, however, further compromises need to be made between, 'banks' commercial interests and the NGOs' environmental and social concerns' (Amalric, 2005: 20). One of the greatest challenges facing the lending community is that of transparency; stakeholders at all levels whether they be customers, employees or shareholders need to be made aware of the banks' responsible actions. Trust, both on the part of banks and stakeholders is critical to the success and delivery of the Equator Principles II; whether it does so is worthy of future analysis.

Current research on sustainability, CSR and the Equator Principles however, is heavily focused on minority world perceptions and is sorely, 'lacking knowledge on the different contextual idiosyncrasies of sustainability and their role in shaping the concept in particular settings' (Khan, 2005: 1). It is imperative that leading companies and financial institutions from emerging markets such as India voluntarily adopt codes of conduct, and apply them consistently and transparently. With India's expanding economy, integration into global markets, and the growing potential of majority-to-majority lending, leading companies and financial institutions alike will have to increasingly consider their role in safeguarding the environment and society within which they operate. Critics of CSR and those who have suggested that corporations are 'greenwashing' their stakeholders, may also deem 'responsible finance' as a momentary fad. However, as Newton (2006b: 10) suggests, 'when it comes down to individuals' consciousness it is not readily returned to its box.'

The financial sector is seen as a leader with regard to sustainability and ethical agendas. As Newton (2006b: 10) recognises, 'as the financial sector places even greater emphasis on individual autonomy and personal accountability, it becomes harder to expect people to leave their values outside the door each morning.' Despite the fact that research carried out in the late 1990s suggested that CSR was just a corporate stunt, the ethical industry particularly with regard to the financial sector, has in recent years become embedded into human consciousness through the media. As Newton (2006a: 7) suggests, 'banks carry a too influential role to be allowed to slip

back into old habits, fortunately it will be real people within these institutions, not abstract markets, who will decide which interest will prevail and how.’ Theoretically, with Equator Principles II, greater attention and diligence will be paid to the environment and Indigenous communities. Additionally, if an increasing number of financial institutions, particularly from emerging markets such as India, China and the popular Islamic finance sector, voluntarily adopt the standards, and the guidelines are consistently and transparently applied, then the Principles may in the future be considered by all stakeholders to be an effective baseline for development projects worldwide.

Chapter 5

An Indian perspective: corporate responsibility

Corporate social responsibility (CSR) is not only prominent in the minority world; businesses in the majority world have also been grappling with its complexities. This chapter focuses on India, the literature surrounding CSR within the Indian context, their approach to development and the environment, and an insight into its banking sector. The chapter concludes by asking, what role can the Indian financial sector play in the global move towards more responsible lending and sustainable finance?

5.1 Development, sustainability and CSR in India

In 1999, the World Business Council for Sustainable Development (WBCSD) held a sequence of dialogues with regard to CSR in Argentina, Brazil, Thailand, Ghana and the Philippines, and each were attended by more than 200 business leaders, representatives from the media, religious groups and non-government organisations (NGOs) (Holliday *et al.*, 2002). The concept of CSR in many of these countries has only appeared in the past decade, with an increased surge of interest in recent years, predominantly due to the privatisation of many state run companies. Although not as

widespread as in countries such as the UK and USA, CSR is becoming ever more popular in the emerging economies of Asia, particularly India and China (KPMG, 2005). In these societies and cultures public recognition plays an important role, well suited for principles of CSR.

China lags slightly behind India in terms of its commitment to sustainability and involvement with CSR, however, as a report from KPMG (2005: 14) suggests, 'this is expected to change as China continues to expand foreign trade, seek overseas listings and as multinational companies increasingly source products from Chinese suppliers.' In 2002, the Global Reporting Initiative (GRI) published its guidelines in Chinese in order to encourage companies to implement CSR into their business frameworks. In 2006, at the start of this research, no Chinese financial institutions had agreed to adopt the Equator Principles, however, a select few had begun to publish CSR reports (KPMG, 2005). This issue is briefly addressed in Chapter 10, section 10.6.

In comparison, India has an extensive and diverse history of CSR, identified as four prominent phases. During the period 1850 to 1914, CSR was in the form of donations to temples and social welfare causes, predominantly determined by religion and traditional family values. Philanthropy at this time was not only stimulated by religion and traditional motives but industrialisation also played a key role, 'it had business considerations in supporting ... industrial and social development of the nation and was influenced by caste groups and political objectives' (Mohan, 2001: 109). Phase two, from the period 1914 – 1960 occurred at a time when India was struggling for independence. Mahatma Gandhi primarily influenced this form of CSR, with theories of trusteeship, aiming to, 'consolidate and amplify social development' (Chahoud *et al.*, 2007: 3). During the third phase (1960 - 1988) CSR transformed into the emergence 'of ample legislation on labour and environmental standards' (Chahoud *et al.*, 2007: 27). The fourth and most current phase is characterised partly by India's traditional engagement with philanthropy but also the integration of CSR into business strategies. Sood and Arora (2006: 16) identify four models of CSR; ethical, statist, liberal and stakeholder, these they argue, 'have emerged since the beginning of the

Industrial Revolution in Britain and ... all four models are present in India.’ Table 5.1 highlights each model, its explicit focus and proponents of these concepts.

Table 5.1: Four models of CSR

Model	Focus	Champions
Ethical	Voluntary commitment by companies to public welfare	M.K. Gandhi
Statist	State ownership and legal requirements determine corporate responsibility	Jawaharlal Nehru
Liberal	Corporate responsibilities limited to private owners (shareholders)	Milton Friedman
Stakeholder	Companies respond to the needs of stakeholders – customers, employees, communities, etc	R. Edward Freeman

(Adapted from Sood and Arora, 2006: 17)

India is a growing economy and it is becoming increasingly imperative it recognises its environmental and social responsibilities, as Chahoud *et al.*, (2007: 28) identifies, ‘as Western consumer markets are becoming more responsible to labour and environmental standards in developing countries, Indian companies producing for the global market need to comply with international standards.’ At present, corporate responsibility reporting in India is not mandatory; however, a number of both multinationals and local companies are jumping on the CSR bandwagon. The Tata Group, India’s largest business conglomeration, owning over eighty companies, is a leader on issues of CSR, believing that, ‘the private sector should realise that they have a part to play in the spirit of trusteeship advocated by Mahatma Gandhi’ (Hopkins, 2006: 205). In addition, the Tata Group withholds that, ‘no business success is worthwhile unless it serves the needs or interest of the country and its people’ (Hopkins, 2006: 205). It is evident that CSR is gaining prominence in India. Indian corporations adhering to sustainable policies and procedures, like in the minority world are doing so in a variety of ways. Several companies have launched their own CSR departments, others prefer to distribute the responsibility throughout all

departments, but there are also those who work closely with NGOs in an attempt to increase transparency (Hopkins, 2006).

The Tata Energy Research Institute (TERI) recently launched the Corporate Roundtable on Development Strategies for the Environment and Sustainable Development-Business Council for Sustainable Development initiative (CoRE-BCSD). This comprises of a network of leading Indian companies which have united in order to address key problem areas and issues of industrial sustainability, as Pachauri (2004: 2) highlights, 'CoRE-BCSD includes some of the most innovative, some of the largest and the most forward looking organisations in the country.' This partnership provides the corporate community with a framework necessary to assess environmental management and work towards the global sustainability agenda, in a country which faces a multitude of environmental and social challenges.

5.1.1 Equator compliance in India

Traditionally, the Indian state played an active role in the regulation of the financial sector, however, since 1991 the government has gradually withdrawn its support, progressively liberalising the financial sector (Bosshard, 2002). Table 5.2 shows the groups of financial institutions which today, constitute the financial sector in India.

Table 5.2: Groups of financial institutions operating in India

Type of bank		Management
Commercial banks	Public	Government owned and the largest category in the Indian banking system -60,000 branches
	Private	23 private sector banks comprising of a network of 5,000 branches
	Foreign	Have operated in India for decades. In 2001, 42 foreign banks operating in India (5 percent of aggregate deposits)
Development finance banks	Development finance institutions	Created by the government to provide long term loans, equity investment and other forms of funding to industry and infrastructure development
	Investment institutions	Formed to provide long term support for sectors such as electricity generation and transport
	Other financial institutions	e.g. Co-operative banks, non-bank finance companies and state level financial institutions –these do not play a role in funding development projects

(Adapted from Bosshard, 2002: 19)

Equator compliance and support is essential from Indian financial institutions, in order to achieve a level baseline for project finance globally. In the past, Indian financial institutions have financed development projects in India, such as the Narmada dams which have caused significant damage to the environment and social upheaval (Doyle, 2005). However, in line with the NGO outcry and social movement which arose from the controversy, many of the dominant banks have withdrawn from funding schemes such as these directly. One of the most problematic issues now, however, is that these same banks are still encouraging environmental and social harm through funding schemes indirectly. Although the Asian Development Bank has never directly funded any hydropower developments in India, they do provide monetary sources to the State power utility, the main facilitator of the Maheshwar Dam, one of largest in the Narmada scheme (Bosshard, 2002). A growing trend in emerging markets is that, 'governments are successfully withdrawing from funding infrastructure projects [but instead] look towards private investors and financial institutions to mobilise resources for these sectors' (Bosshard, 2002: 4).

India has been identified by market demographers as one of the fastest growing economies. The National Council for Applied Economics and Research (NCAER) in both 1997 and 2003, 'projected India as one of the largest markets in the world by the year 2020 and 2050 respectively after the USA and China' (Sood and Arora, 2006: 1). Despite this, India, like many other majority world countries also faces numerous environmental and social problems such as destruction of the natural environment, high levels of poverty and population growth to name but a few. It is essential that leading companies and financial institutions accept responsibility for their actions during this period of sustained economic activity.

Perkins (2007: 281) suggests that 'as countries become richer, popular demands for improved environmental quality rise ... leading to the introduction of new and more stringent environmental regulations.' In the case of India, however, Perkins (2007) acknowledges that the emergence of corporate environmentalism is bound to their growing international engagement, exposure to non-domestic actors, integration into

the world economy and global pressures. He also suggests that social globalisation has led to India aspiring for recognition as a major power on the environmental front:

‘... through growing exposure to foreign media, international travel and a wider aspiration for Western lifestyles, rising numbers of India’s middle classes have become socialised into ‘First world’ forms and norms of environmentalism’ (Perkins, 2007: 298).

Whilst his analysis of corporate greening within certain industry sectors may have been influenced by ‘social globalisation,’ the Indian financial sector is yet to comply with the internationally recognised project finance lending standards.

5.1.2 *Development and the environment*

Much of the literature with regard to issues of development, the environment and sustainability in India, has documented and analysed the Indian environmental movement from the perspectives of the poor and marginalised, particularly in relation to the Narmada dam development (Doyle 2005; McCully 1998; Swain 1997). Additionally, NGO groups have dominated much of the literature, in recognition of their attempts to give a voice to Indigenous people (Routledge 2003; Townsend *et al.* 2002). As recognised by Doyle (2005: 2), ‘environmental movements are amongst the most vibrant, diverse and powerful social movements occurring today, across all corners of the globe.’ The general environmental movement in the minority world gained significant ground in the late 1950s and became prominent in the 1970s. In the majority nations however, the environmental agenda emerged in the late 1970s to early 1980s. In recent years environmentalism has become prevalent in India (Jain and Kaur, 2004).

The State of India is one of the world’s largest democracies, centralised in New Delhi, it controls some of the country’s most basic needs such as education and health care (Doyle, 2005). As previously identified, despite the fact that India is the second fastest growing economy and in 2006 experienced a GDP growth rate of 8.5 percent (CIA,

2007) a huge proportion of India's population experience extreme levels of poverty, unemployment, malnutrition and environmental degradation. India is the second most populated country in the world with just over 1.1 billion inhabitants (July, 2008 est.), however, estimates suggest that 25 percent of its population lives below the poverty line (CIA, 2009). In line with their growing economy this situation is changing rapidly; transnational corporations are infiltrating and basic services are becoming privatised. Despite this, however, as Doyle (2005: 122) recognises, 'as this trend continues it is feared by environmentalists that the Indian people may suffer even more.'

Subsequent to independence in 1947, India had the option of taking two paths of development, either, Mohandas Gandhi's philosophy which involved strengthening the rural economy or Jawaharlal Nehru's strategy which entailed rapid industrialisation (Turaga, 2000). India, like many other majority world countries, opted to replicate the minority world model of technological development, particularly the building of large scale dam projects and infrastructure, but as Doyle (2005: 125) recognises, 'mega dams are a bit like nuclear power ... just when the minority world comes to terms with their inherent dangers, the majority world embraces them.'

As previously mentioned, the Narmada Dam scheme has been India's most controversial development. This project has been evolving since the 1940s and has consequently had profound environmental and social implications. The NGO 'Narmada Bachao Andolan' (NBA) arose in protest to the scheme. They mobilised Indigenous people, farmers, environmentalists and human rights activists against the largest of the dams, the Sardar Sarovar in Gujarat. As a result, this protest has 'dominated much of the eco-political landscape of India for over a decade and a half' (Doyle, 2005: 121). Methods of campaigning include hunger strikes and mass media publicity. The NBA is regarded as India's most successful political lobby group; 'what began as an environmental movement has now snowballed into an emotional and complex debate on the political and social implications of the present development paradigm in India' (Turaga, 2000: 250). The protests and campaigns undertaken by the NBA have ultimately had two predominant motives, primarily the struggle for the

people who were displaced in the damming of the Narmada River and secondly, critiquing the minority world paradigm of development. As Turaga (2000: 250) states, 'the Andolan sees the dam as the most urgent and life threatening manifestation of the western model of development.' Furthermore, critics have deemed the Narmada development as, 'a symbolic and hollow nation building exercise which ultimately delivers more water, electricity and money to those in India who already possess an inequitably large share of wealth, resources and power' (Doyle, 2005: 128).

It has been suggested that in order for India to achieve economic growth without the consequent environmental degradation and social upheavals it must, 'abandon [its] grow now, clean up later approach to development' (Ahmad, 2005: no page). With the rapid privatisation of India's economy, it is becoming increasingly clear that in order for India to be sustainable, commitment is needed from the private sector.

5.1.3 Summary

It is evident from a review of the existing literature that CSR and general concern for the environment and sustainability are not just a minority world phenomenon. India has a long history of traditional CSR concepts dating back to the 1850s, in addition to their longstanding philanthropic commitments. These obligations still prevail, however, in correspondence with increased compliance from the minority world, leading Indian companies are following suit. As identified by Chahoud *et al.*, (2007: 9), '... the CSR agenda in India is changing, on one hand, traditional philanthropic approaches are still widespread, on the other CSR activities in India are undergoing a reform process in line with global trends.'

In order for the Equator Principles to be considered an effective tool for project finance and sustainability, compliance from Indian financial institutions is needed. Despite the fact that CSR is gaining prominence amongst the leading corporations in India, to initiate Equator compliance from Indian banks; active engagement and commitment to CSR policies from leading Indian corporations is essential.

5.2 India's banking sector: challenges and opportunities for CSR

In the early 1990s India dramatically altered its economic direction through a series of reforms. Seventeen years later, India is recognised as a nation which is 'increasingly self-confident, materialistic and globalised' (Luce, 2007: 9). In recent years, India's information technology software and services sector has grown from US\$150M in 1991 (Embassy of India, 2009) to an estimated aggregate revenue of US\$60BN in 2009 (NASSCOM, 2009). At the beginning of the 21st Century India is beginning to emerge as a significant player in the global economy, with increasing political power on the world stage (Humphrey and Messner, 2006). Despite this, 'India's economy is now rapidly expanding without having gone through a broad-based industrial revolution' (Luce, 2007: 19). Regardless of the fact that India has economic and political potential; it currently faces several important decisions. Currently, India is investing large amounts of capital into its physical infrastructure in order to 'sustain 8 percent plus annual growth, reform its agricultural sector, improve education and health care, open its economy to the benefits of globalization and emerge as a true world power' (Mulford, 2005: no page). India's growing infrastructural development is in the hands of the banking sector, both locally and globally. It is therefore important to review the history of the Indian finance industry in order to assess the opportunities and challenges it faces in conforming to global environmental and social standards.

This section is structured in the following way: first, a historical account of both the pre- and post - independence strategies to banking in India is presented, focusing specifically on the Indian government's decision to nationalise the financial sector after independence. The financial reforms of 1991 are then reviewed, exploring the actions and impacts of such changes; this is followed by a brief account of what constitutes the banking sector today. India's rapid economic growth is considered, acknowledging the role of the financial sector in the years ahead. Finally, this section highlights the opportunities and challenges which face the Indian finance industry with regard to CSR and international environmental and social standards at a time of rapid infrastructural growth.

5.2.1 The banking sector: pre- and post-independence

The formal banking sector in India dates back to the establishment of the General Bank of India in 1786. In subsequent years, the following banks emerged under British rule: Bank of Bengal (1809), Bank of Bombay (1840), Bank of Madras (1843) and Allahabad Bank (1865), the first bank owned and operated exclusively by Indians. However, between 1906 and 1913 a considerable number of banks were founded, including, the Bank of India (1906), Corporation Bank (1906), Indian Bank (1907), Bank of Baroda (1908), Canara Bank (1910), Central Bank of India (1911) and the Bank of Mysore (1913). The Reserve Bank of India (RBI) was founded some years later in 1935 (RBI, 2009). Prior to India's political independence in 1947, the banking sector was well developed (Sathye 2003), predominantly private and 'largely family operated' (Dossani and Kenny, 2001: 13). Figure 5.1 below shows a timeline of banking in India pre-1947.

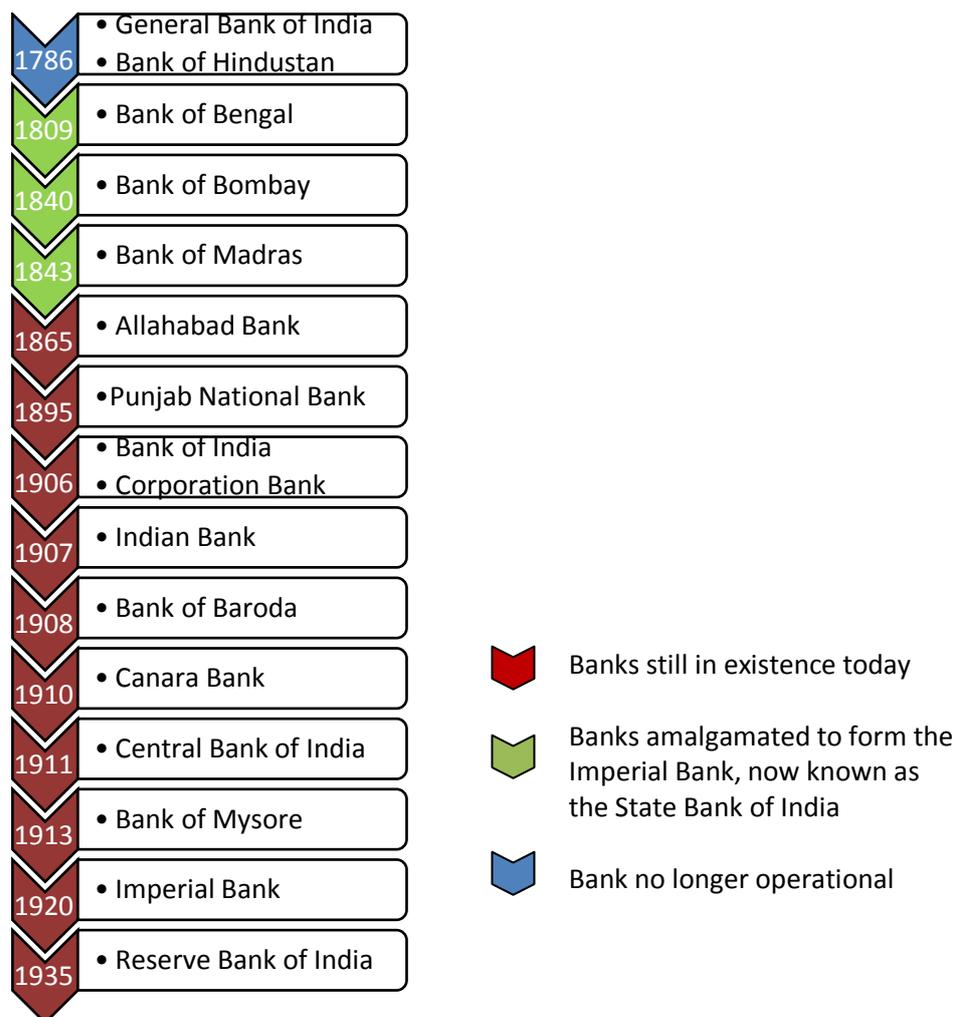


Figure 5.1: Banks founded in India prior to independence in 1947 (Author's own)

Prior to independence from British rule, the financial system in India was ‘fairly liberal, [with] no controls on interest rates and low reserve requirements’ (Demetriades and Luintel, 1996: 359). However, post-independence the Indian government took a number of actions to nationalise and regulate the banking industry, in an attempt to distribute credit and stimulate development (Table 5.3.)

Table 5.3: Actions taken to regulate the Indian banking sector

Year	Action taken
1949	Enactment of Banking Regulation Act
1955	Nationalisation of Reserve Bank of India
1959	Nationalisation of State Bank of India subsidiaries
1961	Insurance cover extended to deposits
1969	Nationalisation of fourteen major banks
1971	Creation of credit guarantee corporation
1975	Creation of regional rural banks
1980	Nationalisation of seven banks (deposits over 200 Crore)

(Adapted from India Mart, 2007)

The Indian government sought to restructure the activities of commercial banks operating in India and released The Banking Regulation Act in 1949, which declared the RBI as the Central Banking Authority (Dossani and Kenny, 2001). In addition, ‘lending rate controls were introduced, liquidity requirements were raised and state development banks for industry and agriculture were established’ (Demetriades and Luintel, 1996: 360). Subsequently, in 1969 under the leadership of Prime Minister Mrs. Indira Gandhi, a further fourteen banks (the largest in operation) were nationalised (Table 5.4); ‘together with the State Bank of India the State then controlled 90 percent of all bank assets’ (Dossani and Kenny, 2001: 13). After the first round of nationalisation, the banking sector grew at an unprecedented rate, greater than any other country (Banerjee *et al.*, 2004). According to India Mart (2007: no page), ‘banking in the sunshine of government ownership gave the public implicit faith and immense confidence about the sustainability of these institutions.’ In 1980, there were further nationalisations, whereby seven other banks (those with deposits of over 200 Crore / US\$41.7M) were taken over by the government.

Table 5.4: Bank nationalisations in 1968
(largest banks in operation at the time)

Allahabad Bank
Bank of Baroda
Bank of India
Bank of Maharashtra
Canara Bank
Central Bank of India
Dena Bank
Indian Bank
Indian Overseas Bank
Punjab National Bank
Syndicate Bank
UCO Bank
Union Bank
United Bank of India

During the 1970s and 1980s, nationalisations were a common occurrence in majority world economies. The process generally involved, ‘deregulation of interest rates, revamping of the directed credits and measures to promote competition’ (Arun and Turner, 2002: 429). Nationalisation was viewed as a means of guaranteeing financial security, primarily due to the fact that, ‘deposits are backed by the government’s ability to print currency’ (Arun and Turner, 2002: 430). In addition, this process was seen as a way in which governments could accomplish their own economic and social agendas through the allocation of credit to priority areas.

The process of nationalising the Indian banking sector ‘became an instrument of social policy’ (Dossani and Kenny, 2001: 13). Government control over commercial banks meant that they were then able to pursue national agendas and various developmental and societal goals, including ‘rapid growth in agriculture, small industry and exports’ (Banerjee *et al.*, 2004: 1). As Banerjee *et al.*, (2004: 4) recognise, ‘the post-war development strategy was in many ways a socialist one and the Indian government felt that banks in private hands did not lend enough to those who needed it the most.’ In accordance with the nationalisation policy, nationalised banks remained corporate entities and retained the majority of their staff, however,

representatives from central government substituted the board of directors in each bank (Banerjee *et al.*, 2004).

The greatest accomplishment of nationalisation in India has been the broad step towards mass participation. From 1969 to 2003 over 58,000 bank branches were opened in India and 9 trillion Rupees (US\$187.8BN) in deposits had been accumulated (Banerjee *et al.*, 2004). Despite this success, there were some inherent weaknesses with the banking system post-independence. Subsequent to nationalisation, public sector banks controlled over 80 percent of banking business (Sathye, 2003), and between 1969 and 1991, 'the financial position of the banks progressively weakened, due to loss making branch expansions, ever strengthening unions, overstaffing and politicised loans,' (Dossani and Kenny, 2001: 13) as well as the lack of concern for efficiency. In addition, 'depositors were reluctant to use banks because, although their savings were safe, the government set deposit rates below the rate of inflation' (Dossani and Kenny, 2001: 13). Coupled with the fact that India's economy was suffering in response to its foreign exchange reserves plummeting to almost zero (Luce, 2007), and that the State run banking system was unprofitable and nearing failure, changes were needed within the Indian finance sector.

5.2.2 Banking sector reform

By 1991, the Indian government owned and controlled over 80 percent of the financial sector, including commercial banks, co-operative banks (rural and urban) and regional rural banks. As previously identified, banking in the pre-reform period was highly inefficient. However, it was not just the sense of financial solvency which was prompting the government towards reform; technological change in the global financial market was causing trepidation. On the global scale, banking was becoming increasingly automated both spatially and temporally, which was undoubtedly increasing competition amongst foreign banks (Arun and Turner, 2002). However, it was not until 1991 that the government realised the severity of its problems and 'in the wave of an exceptionally severe balance of payments crisis' (Ahluwalia, 2002: 67) resorted to a 'more open economy with greater reliance upon market forces, a larger

role for the private sector including foreign investment and a restructuring of the role of government' (Ahluwalia, 2002: 67).

Financial reform in the 1980s and 1990s was a common occurrence in the majority world, through processes such as privatisation of the banking sector, the removal of regulations and a greater focus on 'capital adequacy requirements and supervisory control via on-site and off-site monitoring' (Arun and Turner, 2002: 434). The financial reforms implemented in India in the early 1990s were not dissimilar to those implemented in other majority world economies. The aim was to enhance the productivity of the national economy and enable India to become a more significant player in the global financial system. As Sarkar *et al.*, (1998: 266) recognised, 'the fundamental philosophy underlying the reforms was to make the banking system more responsive to changes in market conditions and to reduce the intervention of the RBI to that of an arm's length regulator.'

Numerous financial reforms were introduced in order to move from the centralised operation of the banking industry to a banking environment that relied upon market forces, the three most widely cited reforms are as follows. Firstly, the process of liberalisation, whereby interest rate controls were dismantled and the prior approval of the RBI for large loans was removed. Post-1991, public sector banks were also, 'allowed to access the capital market to raise up to 49 percent of their equity' (Sarkar *et al.*, 1998: 266), secondly, measures were introduced to increase financial reliability; and thirdly, reforms were established to encourage greater competition, including, 'liberal licensing of private banks and free expansion by foreign banks' (Ahluwalia, 2002: 81) in order to create a more level playing field between local and foreign financial institutions.

In sharp contrast to financial reforms in other majority world economies where the governments introduced rapid restructuring of the economy or rather 'shock therapy' (Ahluwalia, 1994), the Indian government adopted a more gradualist approach, in an attempt to, 'promote stability and sustainable results' (Arun and Turner, 2002: 443). In countries such as Bolivia, Poland, Russia and Vietnam, drastic and immediate

reforms were introduced as a result of, 'prolonged economic crisis or system of collapse of the type which would have created a widespread desire for and willingness to accept radical restructuring' (Ahluwalia, 1994: 1). The International Monetary Fund (IMF) and the WB promoted a set of ten economic policy prescriptions known as the Washington Consensus, based around a predominantly unilateral process of trade reform. The term 'shock therapy' was coined by the economist Jeffery Sacks who believed that for those countries experiencing a long period of non-performance, drastic measures were needed in order to kick start the economy (Sachs, 1994). Immediate reforms included the sudden liberalisation of price controls, withdrawal of state subsidies and immediate trade liberalisation within a country (Marangos, 2002). In contrast to this approach, the Indian government opted for a more measured method of economic restructuring. Despite the fact that at this time (1991) India was 'in the wake of a balance of payments crisis which was certainly severe, it was not a prolonged crisis with a long period of non-performance' (Ahluwalia, 1994: 1). The gradualists argued that this method of liberalisation, 'would ease the pain of the adjustment process and allow time to develop a political consensus in support of the reform process which would make it more politically sustainable' (Arun and Turner, 2002: 430).

It has been widely cited in the literature that the gradualist approach to reform (across all sectors of industry) adopted by the Indian government has had a positive impact on its economy and has played a major role propelling India into becoming an economic and political power (Ahluwalia 2002; Reddy 2005). The growth rate of India's economy is one of the most noteworthy outcomes. In the ten year period post-1991, the average growth rate 'was around 6.0 percent, which puts India among the fastest growing developing countries in the 1990s' (Ahluwalia, 2002: 67). In addition, it has also been suggested that the poverty rate has slowed considerably, although there is much contention surrounding this issue (Ahluwalia 2002; Jha 2000; Datt and Ravallion 2002). The financial reforms also gave rise to New Generation Technology banks, such as UTI Bank, ICICI Bank and HDFC Bank. The introduction of these financial institutions into the Indian system, kick started the banking sector into increased competitiveness and higher rates of growth (Rai, 2007). Despite the aforementioned successes of the

reform process, critics believe that unlike other majority world economies, the Indian government still controls too great a percentage of the banking system (Farrell *et al.*, 2006).

5.2.3 The landscape of Indian banking in the 21st Century

The gradualist reforms of 1991 have made a positive contribution to the financial landscape operating in India in the 21st Century (Reddy, 2005). Today the Indian banking sector takes an interesting form due to the diversity of banks operating within the system, as recognised by Sathye (2003: 663), 'India is the largest country in south Asia with a huge financial system characterised by many and varied financial institutions and instruments.' There are predominantly four types of bank that operate in India today: nationalised, old private, new private and foreign. As previously identified, the nationalised banks are those which were the product of the 1969 and 1980 nationalisation processes. However, these banks are no longer purely government owned with 'some nationalised banks approaching the 51 percent lower ceiling for government ownership' (Banerjee *et al.*, 2005: 1). The old private banks, are those which at the time of nationalisation were not deemed important enough to become nationalised. The new private banks are those which emerged in the liberalisation era, at the time when the Indian government permitted new entry into the banking system, however, 'whilst some are purely in private hands, many of the large ones (ICICI, UTI and IDBI) evolved from or were created by government owned institutions' (Banerjee *et al.*, 2005: 1). Banks formed during the onset of financial reform have 'grown spectacularly over the last decade or so from zero in 1994, and now they supply over 12 percent of the total credit' (Banerjee *et al.*, 2005: 2).

In 1991, the Indian government accounted for 85 - 90 percent of savings and despite the financial reforms which have been gradually taking place over the past fifteen years, the government still holds a large stake in the Indian banking sector (75 percent) and as such there is still a long way to go in withdrawing from government control (Financial World, 2007). It is thought that the Indian government should further reduce its share in public sector bank ownership, to further drive the banking sector into world markets. As recognised by Farrell *et al.*, (2006: 1), 'to create a well

functioning financial system, India's government must relinquish its hold on domestic savings and cut its deficit.' According to the Financial World (2007: no page), the Executive Vice Chairman and Managing Director of Kotak Mahindra Bank (private sector) argues that it is imperative that this happens as 'the single biggest investment opportunity in the world today is Indian public sector banks, they are the most undervalued asset class in the world, the challenge is to persuade government to reduce its current minimum stake from 51 percent to 33 percent which would transform the countries financial sector.'

The Indian government has, however, pledged to reduce its stake in public sector banks and to open up further India's financial sector to competition. There are procedures in place to ease restrictions on 'foreign banks, in particular how many branches they can have and how much they can invest in local private banks; foreign banks will be able to take up to 74 percent direct investment in Indian banks in April 2009' (Financial World, 2007: no page). A further area of improvement is the financial sectors use of technology; despite the fact that India's banking sector has changed considerably in the past few years in terms of its, 'geographical coverage, deposit mobilisation and credit expansion' (Sathye, 2003: 664), its use of technology is underdeveloped. Since the entry of foreign banks there has been an expansion of ATMs in metropolitan areas, but there is still a long way to go on the technology front.

In summary, the Indian government has produced positive outcomes with a gradual approach to financial reform. Despite progress being slow, the banking sector is now more than ever open to global competition and market forces. However, at this time of economic growth and increased global financial competition, 'there must be far-ranging changes in how India's entire financial sector is regulated ... India has no choice but to become a producer and exporter of international financial services and capture an increasing share of its global market ... to achieve this Mumbai must become a successful International Financial Centre' (Financial World, 2007: no page). Farrell *et al.* (2006) also suggest that the Indian government should relinquish its stake in the banking system and the Indian banks should meet international standards of corporate governance. However, given the financial crisis which has emerged from

the minority world banking system during the latter stages of the research (2008 – 2009), whereby the free market approach to banking has led to irresponsible markets and ultimately a global financial crisis, the debate of nationalisation verses privatisation has once again emerged.

5.2.4 *India's economic growth and the role of the financial sector*

Rapid growth rates in India require 'well functioning infrastructure, including electric power, road and rail connectivity, telecommunications, transport and efficient ports' (Ahluwalia, 2002: 78). India at this time of exponential growth has critical choices with regard to its journey towards development, there are two options. The most straight-forward for India, would be to replicate the industrial growth pattern of minority nations, sacrificing the environment for growth (EnCoRE, 2006). However, this path would undoubtedly have serious implications for global climate change and put increased demands on the world's natural resources. The alternative course of action would lead to the same outcome, but could be achieved through more sustainable approaches. However, controversy pivots around the debate that why should majority nations have to be more responsible than the minority world during a period of growth?

India's financial sector forms the crux of the country's development, through providing the funds to support infrastructure growth and the choices it makes with regard to funding unsustainable projects with devastating environmental and social implications. The Indian State does play a role in the regulation of projects, the impact of which is reviewed in Chapter 8. However, despite the fact that formal financial institutions in India share 64 percent of total assets 'non-bank financial companies and development finance institutions are also emerging as alternative sources of funding' (Talwar, 2001: 75). Financial service companies have primarily arisen to assist the boom in infrastructure and development financing (project finance) (Table 5.2 in section 5.1.1). The Infrastructure Development Finance Company (IDFC) for example, as of March 2007 had approved financial assistance to 332 projects and since its outset has expanded its initial focus (power, roads, ports and telecommunications) to include,

'energy, telecommunications and information technology, integrated transportation, urban infrastructure, healthcare, food and agri-business infrastructure, education infrastructure and tourism' (IDFC, 2007: no page). It is also important to note that since the reforms of 1991 increasingly there has been a 'blurring of distinction between activities of banks and development finance institutions' (Talwar, 2001: 77). Increasingly, Indian banks, whether private or State owned are diversifying their financial portfolios, becoming involved in areas such as project finance and investment banking.

5.2.5 Corporate Social Responsibility and the Indian finance industry

The Indian finance industry has critical choices to make now that the majority of Indian banks and financial service companies have become involved in financing their countries own development infrastructure. Increasingly, Equator banks are denying funds to such projects on environmental and social grounds, and so, banks from emerging markets are providing the funds, regardless of the consequences. The Equator Principles provide an opportunity for financial institutions to act in a socially and environmentally sustainable way when involved in project finance.

In order to achieve a level baseline for project finance globally it is essential that Indian banks comply with the Equator Principles. In the past, major global banks have financed and supported development projects in India which have caused significant damage to the environment and social upheaval. However, in line with the NGO outcry and social movement that arose from the controversy, many of the dominant banks have withdrawn from directly funding such schemes. At the start of this research there were no Indian signatories to the Equator Principles, an indication that they would be willing to provide funds to environmentally and socially damaging projects. What then is the link between responsible project finance and CSR?

Given India's long philanthropic obligations and the commitment to CSR by a number of its larger companies, Tata Group, Reliance, Gudrej, Bharat Heavy Electricals Ltd. to name but a few, it is anticipated that with the encouragement and direction from both civil society and government, others will follow suit. Unfortunately, the current

government administration in India is yet to embrace the language of CSR. However, as Webb (2004: no page) recognises, 'the Indian government has some serious work to do when it comes to the right policy frameworks for encouraging responsible business ... there is no single vision by the government on CSR but there are some positive signs.' Sood and Arora (2006: vi) also acknowledge that, 'the government will have to be re-engineered so that its regulation and monitoring role can be strengthened.'

Despite the rather positive CSR outlook in some sectors of the Indian economy, the finance industry as previously discussed, has yet to declare its responsibility to such issues, as Sood and Arora (2006: 21) comment, 'the conspicuous absence of Indian banks from the list [Equator Principles] is distinctively depressing.' It has been suggested that, 'given the rapid rate at which infrastructure investments are taking place in this country, further delay in acceptance of the Equator Principles would represent a missed opportunity of huge dimensions with consequences that would be spread over a long period of time' (EnCoRE, 2006: 3).

5.3 Summary

Since the financial reforms initiated by the Indian government in 1991, there have been some positive outcomes, not least in their extensive scope. Banking in India is no longer confined to the major metropolitan areas; rural regions, country-wide are now being provided for. Additionally, Indian banking has gone global, with many of the financial institutions having branches in a multitude of foreign countries. The State Bank of India (SBI), for example, has fifty two foreign offices in thirty four countries across the globe (SBI, 2007) and ICICI, India's second largest bank currently has a presence in seventeen countries (ICICI, 2007). The banks operating in India today have a combined network of over 53,000 branches and 17,000 Automated Teller Machines (ATM) (D'Silva, 2007). Indeed, the gradual strategy adopted by India has propelled the finance industry forward in terms of its reach and thirst for competition.

In general the gradual reforms have produced a banking system which is increasingly, 'strong, efficient, functionally diverse and competitive' (Talwar, 2001: 75). However, in the coming years, in times of intense economic growth, India's banking system is

going to come under intense pressure to both meet local funding needs as well as compete with the foreign banks now operating in the domestic market (Financial World, 2007). The Indian economy is expected to remain strong for some time, therefore, the demand for banking services are expected to rise, particularly with regard to services such as project finance.

However, at this time of increased infrastructural expansion in India, major corporations and in particular the financial institutions who are lending the capital for such projects, need to act responsibly. India is increasingly being approached to finance its own development, as a result of the Equator signatories denying funds because of the direct (environmental and social) and indirect (reputational) risks involved. Leading Indian banks should therefore urgently consider compliance with the Equator Principles, as ultimately, 'does any credible financial institution wish to occupy the market niche of financing the least environmentally sustainable projects?' (EnCoRE, 2006: 3).

In four years the Equator Principles have come a long way in gaining voluntary compliance from large financial institutions with respect to the projects which they agree to finance. The time has come for the Indian financial sector to embrace a new set of challenges and opportunities. The gradual reforms of 1991 have produced a banking sector which is increasingly pluralistic and open to competition from other financial markets. The current Equator signatories are looking in anticipation with regard to the direction that the Indian banks are going to take; are they going to comply with international standards on project finance or turn their backs and disengage? In order for concepts of CSR and sustainability to be adopted on a national scale, enthusiasm and direction is needed from the Indian government, civil society and leading businesses. India, its government and its industries will soon have to decide which path to development they are going to adopt, one which allows it to develop at the expense of the environment, or one which leads to development with sustainable outcomes. From a review of the existing literature, it is evident that more empirical research on sustainable project finance and CSR is needed. Such research will diversify the existing literature, ascertain the future of responsible finance on both

a global and national scale, and provide a review of the current level of CSR integration into business frameworks from an emerging economy perspective.

Chapter 6

Research design

This chapter provides an analysis of the methods used in the research by highlighting the data collection process, interpretation of results and the reporting of the empirical data. The three phases of analysis are reviewed with respect to the data collection techniques utilised (Figure 6.1). As with any research there are limitations, these have been outlined in each section, from gaining access to populations, the implementation of an online survey, to the analysis of the data. The positionality and reflexivity of the researcher is also presented; the study cannot be considered as valid without an understanding of the researcher's own identity as a young, white, female researcher working in India. Ethical issues are also reviewed in addition to an examination of the risk mitigation strategies undertaken whilst conducting the field research.

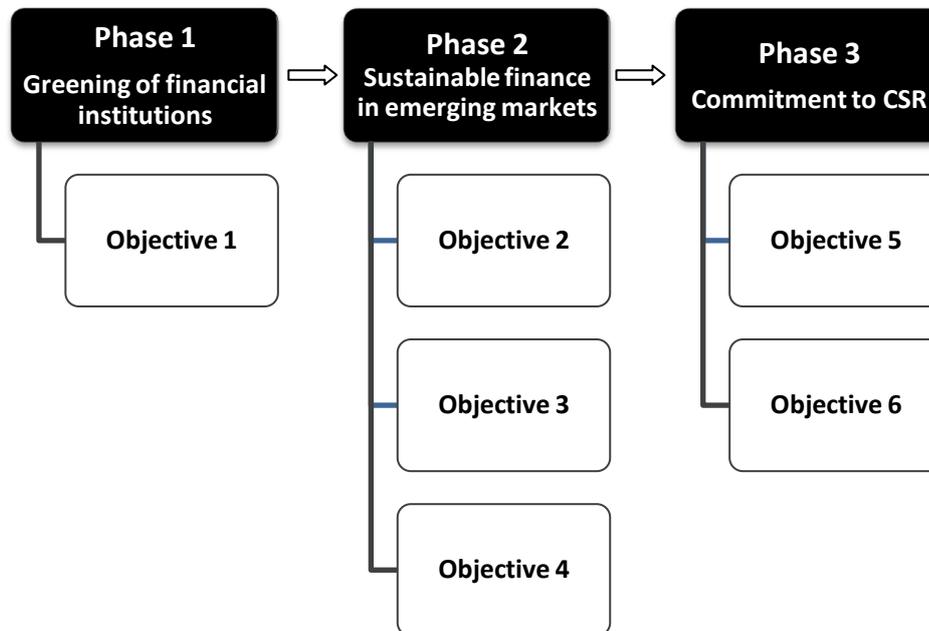


Figure 6.1: The three phases of research and corresponding objectives

In order to address the over-riding aim and the six objectives identified in Chapter 1, the research was organised around three phases of data enquiry (Figure 6.1.). Phase one encompassed the general move by financial institutions in recent years to 'green' their lending policies; through researching this transformation, objective 1 was addressed. Phase two, explored the possibility of a responsible development paradigm in emerging markets, addressing objectives two, three and four. Phase three, focused on corporate social responsibility (CSR) within the Indian context, the foundations of objectives 5 and 6. Worchester and Dawkins (2005: 19) suggest five principles which should be followed to produce accurate results and avoid limitations (Figure 6.2). This study complied with these principles throughout all phases of the research.



Figure 6.2: Strategy for accurate research
(Adapted from Worchester and Dawkins, 2005: 19)

The research was conducted using a range of qualitative research methods including in-depth interviews, case studies, an online survey, web-content analysis and secondary resources. A field visit to India was undertaken during the months of February to April 2008, the purpose being to conduct in-depth interviews with the Chief Executive Officers (CEOs) and Managing Directors of India's financial institutions, predominantly based in either Delhi or Mumbai. This chapter examines each of the phases in greater depth, identifying the methods of data collection and the strengths and weaknesses of each methodological approach.

6.1 Phases of data collection: Synopsis

The first phase of research addressed the commitment to the Equator Principles by financial institutions in the minority world. It was necessary to analyse the current Equator signatories and the general assertion that support from banks in emerging markets is needed in order for the lending guidelines to be considered an effective

baseline for development projects worldwide. The policy documents of leading Equator banks were extensively reviewed, in addition to recent conference proceedings.

Objectives two, three and four were addressed in the second phase of research. An exploratory approach was adopted, to provide an account of Indian banks' current lending strategies and stance on the revised Equator Principles (II); enabling a determination of the extent to which they have adopted, adapted or disregarded environmental and social guidelines. This phase also set out to evaluate current Indian environmental regulation and to review the possibility of the Equator Principles being regulated in the Indian context. Initial research revealed that the majority of India's financial institutions are located in the capital, Delhi or the city of Mumbai. Subsequent to gaining access from 'gatekeepers', in-depth semi structured interviews were conducted with the CEOs at each of the participating banks in addition to those who control the lending to development projects. Secondary data such as the banks' CSR reports and annual reviews were also collated to analyse each company's specific commitment, or future plans, towards the environment and sustainability.

The final phase of research aimed to explore the general commitment to CSR amongst the wider corporate community in India. Originally, a quantitative survey using the software provided by the University of Bristol was designed and sent to the top five hundred Indian companies (based on market capitalisation). However, due to the limitations identified in section 6.5.3, as an alternative, a case study approach of studying localised CSR impacts combined with a website analysis of company CSR commitments was adopted.

These three phases of research were conducted at various stages throughout the PhD. Figure 6.3 shows a process diagram of the full research methodology.

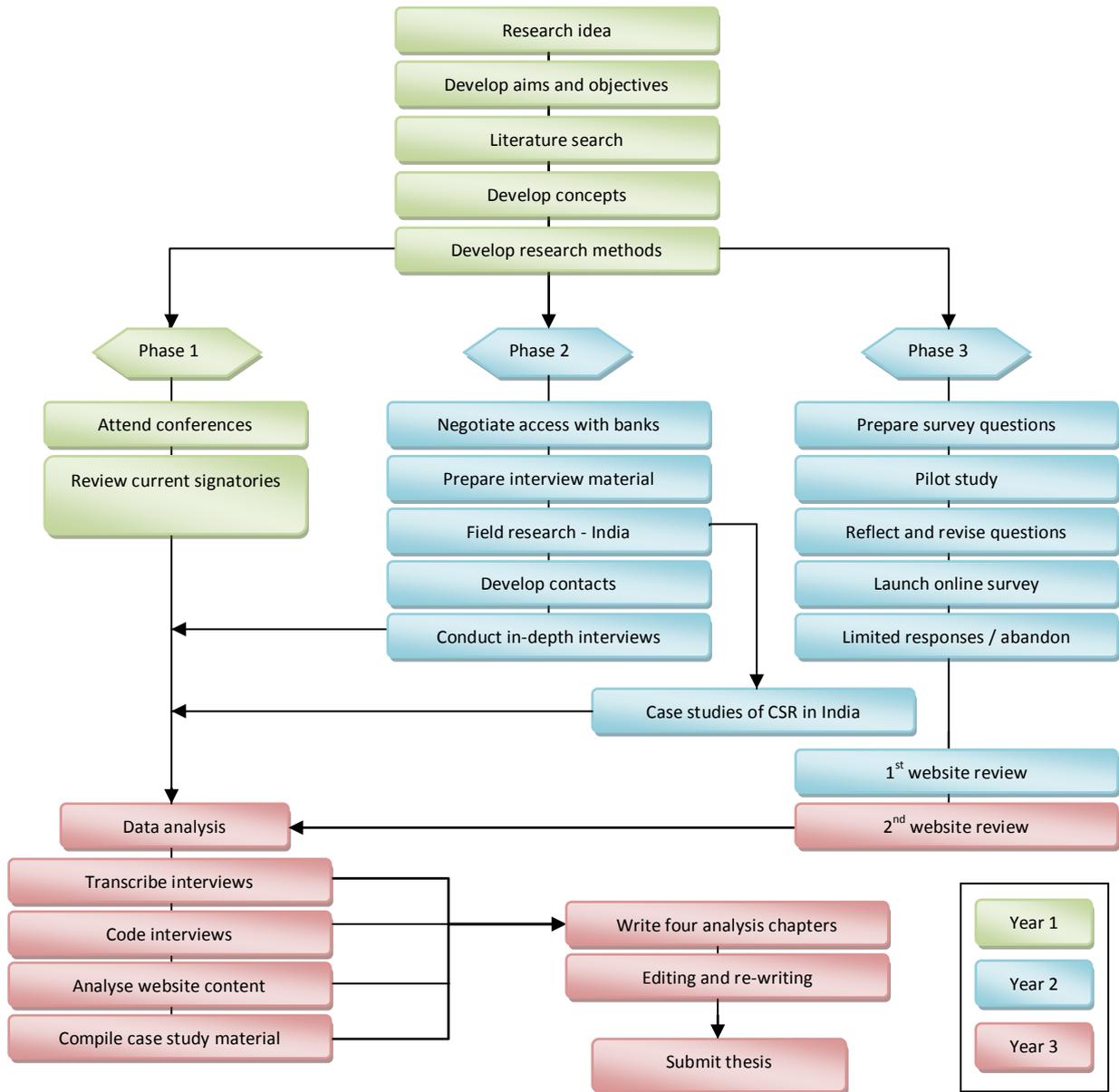


Figure 6.3: The full research methodology

6.2 Methodological approach

In order to maximise the validity of the research an approach termed ‘methodological triangulation’ was used (Flick, 2006). As Winchester (1996: 119) explains, ‘the triangulation approach sits firmly within the empirical-realist tradition and offers cross checking of results and methods in order to provide fresh insights into a given social problem.’ The data collated was mainly qualitative in nature, in the form of in-depth interviews. However, quantitative material, including data collated from company

reports and league tables were also utilised in order to enhance the validity of the findings. The following section reviews each phase of data collection and the corresponding methodological approach (Figure 6.4).

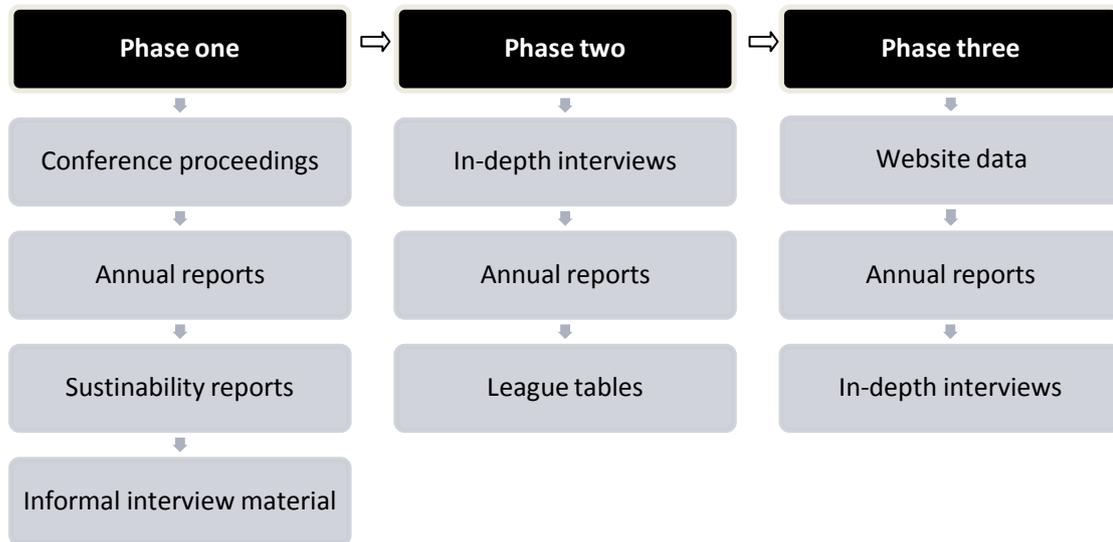


Figure 6.4: The qualitative and quantitative data utilised for each phase of research

6.3 Phase one: Greening of financial institutions

Phase one drew on a range of sources, the aim being to analyse existing Equator Principle commitment and to gain an understanding into the situation within the project finance industry. The majority of which was conducted during the first year; however, conferences were attended throughout the three year research period (Table 6.1).

Table 6.1: Conferences attended for background data collection

Conference	Organiser	Date
Sustainable Finance Summit, London	Ethical Corporation	Nov, 2006
Responsible Business Summit, London	Ethical Corporation	May, 2007
Sustainable Finance Summit, London	Ethical Corporation	Sept, 2007
Equator Principles Workshop, London	Linklaters	Sept, 2007
Sustainable Bank of the Year Awards, London	Financial Times	June, 2008
World Financial Centres Summit, London	Financial Times	Oct, 2008

Comprehensive notes were taken at each of the conferences and direct quotes have been used to support claims made in the thesis. Networking at conference events also enabled the researcher to undertake informal interviews with participants from a range of organisations (Table 6.2). These informal discussions led to opportunities, including leads for interviews in India, sources of funding and an internship opportunity. These discussions were used for information gathering and no direct quotes have been used in this thesis. Company annual reports of current Equator signatories were also used to gain an understanding of their commitment to the guidelines and more generally CSR. As recognised by Guthrie *et al.*, (2004: 287) company reports are useful as they are ‘a major medium for communicating social and environmental information to the public.’

Table 6.2: Informal interviews undertaken with senior representatives from the following organisations

Company
ABN-AMRO
Business in the Community
Citigroup
HSBC Amanah Private Banking
Leicestershire India Trade Bureau
Sustainable Finance Ltd
Tata
Transparency International
United Nations Environment Programme
World Resources Institute
WWF-UK

6.4 Phase two: Sustainable finance in emerging markets

Phase two consisted of a research visit to India, interviewing Indian bankers to address objectives two, three and four. The majority of bank headquarters are either located in the capital New Delhi or the financial district of Mumbai (Figure 6.5). It was considered that five weeks in each location was a reasonable time to allow

interviewees to schedule meetings. Whilst in India the researcher lived at a Bed and Breakfast with an Indian family in Delhi and stayed with relatives of a friend in Mumbai. A reflexive diary was written each day (an extract of which can be found in Appendix 2) as it was not only the interviews with bankers which provided fruitful information; living with Indian families also enriched the research experience with regard to Indian perceptions of environmental and social issues. The researcher was provided with a driver in Delhi, however, in Mumbai, due to the nature and layout of the city, it was quicker and cheaper to travel by the local rail network. The timetable of the research can be found in Appendix 3. As with any fieldwork the potential hazards were considered prior to the research trip and are discussed in section 6.7 of this chapter.



Figure 6.5: Map of India highlighting the Capital, New Delhi and the city of Mumbai (CIA, 2009)

The second phase of research consisted of in-depth interviews, however, company annual reports and league tables were also used to clarify the responses given. The interview process enabled the researcher to ‘follow up and probe responses, motives and feelings’ (Davies, 2006: 157), in addition to permitting the exploration of ‘non-verbal communications, facial expressions and gestures [which] enrich the qualitative aspects of the data’ (Davies, 2006: 157). With any interview, respondents need to be

carefully selected, gaining access can be problematic and the means by which the results are going to be analysed needs careful consideration. These issues are highlighted below; firstly, discussing the method of gaining access to and interviewing 'corporate' or 'elite' members of society.

6.4.1 Corporate interviews

First, it was necessary to identify what is meant by the 'elite.' For the purpose of this research the term is used to describe those who hold positions of power within leading corporations and financial institutions. However, in defining an elite interviewee Welch *et al.*, (2002) identify the following characteristics which hold true to this research:

- Usually a male who occupies a senior or middle management position
- Has functional responsibility in an area which enjoys high status in accordance with corporate values
- Has considerable industry experience
- Possesses a broad network of personal relationships

(Adapted from Welch *et al.*, 2002: 613)

Of the 52 interviews conducted, 60 percent (31) of the respondents were considered to be 'corporate elites,' using the classification provided by Welch *et al.*, (2002). Table 6.3 shows the 'elite' interviewees, their position, age and gender, a full list of all interviewees is shown in Table 6.9. Despite the fact that 60 percent of the respondents are recognised as elite this does not mean that the remaining interviewees are any less important or powerful within their organisations. With this considered, the same techniques were used in all interview situations.

Table 6.3: Elite interviewees and their characteristics

Position	Approx age	Gender
Executive Director	50+	Male
Managing Director	50+	Male
Chairman and Chief Executive Officer	50+	Male
Chairman and Managing Director	50+	Male
Chairman and Managing Director	50+	Male
Director	50+	Male
Executive Director	50+	Male
Chief Economist	50+	Male
Assistant Vice President (Credit Risk)	40+	Male
Associate Vice President (Microfinance)	50+	Male
Chairman and Managing Director	50+	Male
Chairman and CEO	50+	Male
Managing Director and CEO	40+	Male
Executive Vice President	40+	Male
Chairman and Managing Director	50+	Male
Vice President	50+	Male
CEO of Foundation	50+	Male
Foundation President	40+	Male
Senior Manager, Global Resources	40+	Male
Vice President, Global Head CS	50+	Male
Chief General Manager	50+	Male
Senior Country Officer	40+	Male
Head of Local Credit Analysis	40+	Male
Head of Group Marketing	40+	Male
Country Head – Responsible Banking	30+	Female
Vice president and Head of Microfinance and Sustainable Development	40+	Female
Director	40+	Male
Chairman	50+	Male
Founder of organisation	60+	Female
Managing Director and CEO	40+	Male
Managing Director and CEO	50+	Male

Conducting interviews and conversing with research participants ‘provides one of the richest and most interactive means of generating information available to human geographers’ (Bradshaw, 2001: 207). In addition, interviews with the ‘corporate elite’ are the ‘closest we can get to our research subjects and their corporate worlds [and] remain an important research method in economic geography’ (Hughes, 1999: 365). Given the strong evidence in the literature that the ‘corporate elite’ has a major role to

play in geographical research and enquiry (Schoenberger, 1991), it was decided that interviewing the corporate heads of Indian financial institutions would provide an accurate assessment of the current lending strategies in India and a rich examination into the lack of Equator adoption. However, as Cormode and Hughes (1999: 299) suggest, 'researching the powerful, presents very different methodological and ethical challenges from studying down.' With this considered, much of the empirical interview analysis undertaken in human geography has failed to address the most powerful, particularly in the majority world; there are two suggested reasons for this. First, 'researchers of development often hold a political commitment to working with the less privileged in society' (Scheyvens *et al.*, 2003: 182) and second, gaining access to elite groups is often perceived as problematic (Cormode and Hughes, 1999).

When researchers are studying elites, echoing McDowell (1992, 1998), Cormode and Hughes (1999: 299) suggest that the scholar is perceived to be a 'suppliant dependant on the co-operation of a relatively small number of people with specialised knowledge.' As a result, 'the researcher is so humbly grateful to obtain an interview that he or she is unwilling to ask critical or demanding questions' (Welch *et al.*, 2002: 615). Other researchers have also noted that there are fundamental differences in conducting interviews with foreign elites, compared to 'either elite members of one's own nationality or with non-elite foreign nationals' (Herod, 1999: 313). In addition, it is suggested that, 'a researcher who conducts interviews with members of different nationalities is automatically at a disadvantage because they can never hope to understand the cultural complexities of that which they are not' (Herod, 1999: 314). During the research design, a decision had to be made with regard to the focus of the research; India or China, as neither of these countries had any Equator signatories. It was decided that the research would be conducted in India for two reasons, first, because the researcher had previously visited and was aware of the cultural nuances and second the business language in India is English, as opposed to China, where a translator may have been required.

Moyser (2006) identifies a number of reasons why face-to-face interviews with elites may be of benefit to the researcher. First, they hold authority in large firms and organisations, therefore interviews are essential if information regarding societal

outlooks and corporate motivations are required. Second, elites are believed to be experts in the field and quite often serve as gatekeepers, controlling access to valuable data sources. For some researchers, 'interviewing the person at the top may simply be aimed at gaining institutional rapport and unlocking the door' (Moyser, 2006: 85). It was anticipated that the CEOs of Indian financial institutions would hold the key to the knowledge and the resources required. In addition, it was assumed that they would be active agents in the decisions which are made at the corporate level with regard to the responsible financing of infrastructure projects. Ultimately, the decisions which are made by financial institutions to fund major development projects can and are having significant impacts on the environment and communities both at the local and international scale. Since conducting the interviews it is evident that interviewing the 'elite' or 'corporate head' particularly in the Indian context was vital for gaining an insight into the issues pertaining to this thesis. In India, it is certainly true that if corporate information is required it must come from the top of the organisation.

When conducting research with 'elite' members of society, the dichotomy between being either an 'insider' or an 'outsider' is important to acknowledge. In some interview situations 'being perceived as an insider is the most advantageous position to be in, since this gives the researcher a privileged position from which to understand processes, histories and events as they unfold' (Herod, 1999: 320). However, Herod (1999: 317) also suggests that being a foreign 'western' academic in some interview situations with elites has worked in his favour; 'it offered me a warmer reception than had I been a local researcher, my positionality as an outsider was important in conducting the research.' This is also the case with this study; as a foreign researcher interested in the Indian financial system, the warmth Herod describes was experienced. In addition, gaining access, without a doubt, was influenced by the fact that the researcher had travelled from the UK to India to conduct the interview. The positionality of the researcher will be explored in greater depth in section 6.6. This chapter progresses to address issues of access and the 'secretary,' the gatekeeper of the CEO.

6.4.2 Contact and access

Careful and timely preparation is required when conducting interviews with the 'elite' (Healey and Rawlinson, 1993). With any research there are 'gatekeepers' who can restrict access to certain individuals or organisations. As recognised by Saunders (2006: 26) 'gatekeepers often have different views as to the amount of time for which it is reasonable for their colleagues to be [participants] in the research.' In addition, access is often denied on the grounds that the research agenda is too sensitive. In some instances, this may 'lead to outright refusals or to a reduced level of cooperativeness' (Moysen, 2006: 85). The main 'gatekeepers' in this research were primarily the Indian authorities and secondly the secretaries of the CEOs at each of the financial institutions. Prior to arranging any of the interviews a visa had to be secured. Through contacts at the University of Leicester, the India Trade Bureau Manager at the Leicester Chamber of Commerce arranged a visa for the researcher.

When in the process of obtaining permission for interviews polite persistence is required, in addition to 'a well designed and presented letter which is personally addressed' (Healey and Rawlinson, 1993: 347). Initial contact with the CEOs was made using traditional postal methods. However, for the smaller financial service companies initial contact was in the form of a short, focused email, outlining the needs of the researcher and the role that the financial institution could play in the study. Unlike in the UK, the contact details of Indian CEOs were readily available on the Internet on both the Indian Banks' Association website and the individual websites of the financial institutions. All correspondence with prospective interviewees was personally addressed, and referred to the significance of their specific bank taking part in this research.

Letters and emails were sent to prospective interviewees two months prior to the fieldwork. The timing of initial contact was crucial to the success of the research. Initiating contact too early would likely mean that the CEOs would not know their diary plans and there is the potential for relocation, however, too close would undoubtedly mean full schedules. If no response was heard within two weeks of the email and one month of sending the letter then a follow up fax was sent to the

organisation. However, the response rate was encouraging; the majority of interviewees replied within the first week.

Advances in global communication has ultimately made contacting those in the majority world easier, however, as Leslie and Storey (2003: 80) recognise, 'establishing contacts with third world people through email can still be problematic.' Internet servers are not as reliable as in the minority world and emails can easily be lost. As previously mentioned, in order to overcome these technical difficulties, a follow up fax was sent if a reply had not been received. For a number of un-responsive companies, it was decided that phone calls and personal visits to the headquarters of the companies would be made whilst in India to actively encourage participation. A letter was hand delivered to these organisations outlining the research and requirements. As recognised by Leslie and Storey (2003: 81), 'in many non-western cultures, personal contact is still much more preferable to other forms of communication, even experienced researchers find that the most successful way to gain interviews and material is simply to turn up at someone's office and make an appointment in person.' Goldstein (2002: 671) also acknowledges that 'elites will often have last minute breaks in their schedules, being on the ground and ready to conduct the interview at a moment's notice is a huge advantage.' In the initial communication, the researcher requested an interview lasting half an hour; taking into consideration the often demanding schedules of elite respondents it was important that a realistic time frame was suggested. As correspondence was directed to the CEO it was often the case that a positive response was given personally via email with a copy forwarded to the secretary to arrange the appointment. In other instances, the secretaries responded to the initial email (Figure 6.6).

Dear Ms. Sophie

Thanks for your email dated January 9.

Mr. ***** is glad to know that you are conducting research on the Indian Financial Sector and will be pleased to meet you during your visit to Mumbai. As the period of your visit will be an extremely busy time for our bank, (as it coincides with our financial year ending) I suggest that you contact us immediately on your arrival so that we can fix up an mutually convenient time for your interview.

For any other clarifications please feel free to contact me.

Regards,

Yours sincerely

Figure 6.6: An email response from a secretary (Received: 11th January 2008)

However, in a number of cases, particularly when CEOs did not respond to the initial email, their secretaries were contacted via email or phone. It was evident in a number of instances that secretaries of high level officials were 'gatekeepers' and very protective of their employers. However, during all stages of negotiating access, a professional approach was adopted. In addition, it was essential that a balance was struck between, 'impersonal and personal interaction' (Scheyvens *et al.*, 2003: 185). A number of banks rejected the request for an interview, three of the most common reasons being that the CEO of the bank was in a period of transition and would not be available (Figure 6.7); second, the CEO would not be in Delhi or Mumbai during the research period, and lastly, a blank refusal to participate. However, only one Indian bank refused any participation in the research. A number of banks were non-responsive to all forms of communication.

Dear Ms. Sophie Hadfield

I received your email and fax, Mr. Singh is moving away for new assignment. Hence, it is not possible to fix any appointment. Wishing you all the best in your research programme.

Yours sincerely,

Figure 6.7: A negative email response (Received: 30th January 2008)

Despite the fact that the initial response was positive, only one of the interviewees would secure a date for an interview. In the initial correspondence dates of the research trip were given and respondents were asked to suggest a time within that period. In the majority of cases they were reluctant to commit (Figure 6.8) one month in advance and would rather the timings be arranged by telephone once the researcher was in India; it was a huge risk to travel to India, with only one interview secured.

Sophie,

It is nice to see your enthusiasm in India's Banking / financial sector and also learn about your research project. Since the exact date of your visiting India is not mentioned, I am not able to commit to you about my availability. However, you can contact Usha or Joydeep over phone number [*****] for a suitable time when you come to India.

Regards,

Figure 6.8: A non-committal email response (Received: 9th January 2008)

The researcher was unable to interview several of the respondents due to the lack of flexibility of the elite participant. Figure 6.9 shows an email from one of the CEO secretaries. Due to the headquarters of this particular bank not being located in either Delhi or Mumbai, originally, it was thought an interview would not be possible. However, unannounced he had arrived in Delhi for another meeting and had expected

to meet the researcher that day. Due to a full interview diary and the time it takes in Delhi to travel across the city, the interview unfortunately was not possible.

Dr. ***** will be available up to 2.0K PM today at A= 90 Defence Colony New Delhi. You are well come for the meeting.
 Regards
 Sanjay
 P.R.O.
 Sent from BlackBerry® on Airtel

Figure 6.9: An email request for a meeting (Received: 2nd March 2008)

To a certain extent, the number of interviews to be conducted for the validity of the research was already pre-determined. Prior to conducting the research, searches identified India’s top banks. According to the classification used, the results varied. Table 6.4 shows the findings of a survey conducted in 2007 by The Financial Express in partnership with Ernst and Young, five of these seven ‘best banks’ partook in the research (those highlighted in the table).

Table 6.4: Results of India’s Best Banks Survey highlighting those that took part in the research

Best nationalised bank	1. Canara Bank
	2. Corporation Bank
Best new private sector bank	1. ICICI
	2. YES Bank
Best old private sector bank (top 2)	Kaur Vysya Bank
	Federal Bank
Best performance: Strength and soundness	IDBI

(The Financial Express, 2007)

Table 6.5 highlights that of India’s ten largest banks (by total assets), eight agreed to participate in the research (those highlighted in the table).

Table 6.5: India's largest banks, according to total assets, highlighting those that took part in the research

	Ranking by total assets
1	State Bank of India
2	ICICI
3	Punjab National Bank
4	Canara Bank
5	Bank of Baroda
6	Bank of India
7	Union Bank of India
8	IDBI
9	Central Bank of India
10	HDFC

(Dun and Bradstreet, 2007)

The Dun and Bradstreet (2007) survey also classifies India's top banks according to the growth in deposits, i.e. the fastest growing. Table 6.6 indicates the Indian banks which achieved over 50 percent growth in deposits during the period 2006 – 2007; five of these participated in the research (those highlighted in the table).

Table 6.6: India's top banks, by growth in deposits (2006-2007), highlighting those that took part in the research

Financial institution	Growth in deposits (%)
Yes Bank	383
Centurion Bank of Punjab	339
IDBI	72
ICICI	65
HDFC Bank	54
Kotak Bank	53

(Dun and Bradstreet, 2007)

Since conducting the research, a report has been released (February 2009) ranking the most valuable global banking brands. The report states, 'each brand has been accorded a brand rating, a benchmark study of the strength, risk and future potential of a brand relative to its competitor' (Brand Finance, 2009: 3). In 2007, six Indian banks were listed in the ranking of the top 500 global bank brands; in 2008, this figure rose to 19. Table 6.7 shows the Indian banks and their rankings. Of these 19 banks, 10 took part in the research (those highlighted in the table).

Table 6.7: Indian banks listed in the top 500 global bank brands, highlighting those that took part in the research

Financial institution	Rank 2008	Rank 2007
State Bank of India	70	60
ICICI	110	64
HDFC	153	236
Punjab National Bank	192	-
Bank of India	228	-
Canara Bank	251	-
Bank of Baroda	260	-
Axis Bank	269	379
Kotak Mahindra	280	318
Union Bank of India	351	-
State Bank of Hyderabad	369	-
Indian Overseas Bank	371	-
IDBI	418	395
State Bank of Patiala	453	-
Indian Bank	454	-
Power Finance Corporation	461	-
Oriental Bank of Commerce	467	-
Syndicate Bank	486	-
State Bank of Bikaner and Jaipur	498	-

(Brand Finance, 2009)

A total of 23 financial institutions participated in this research and 30 interviews were conducted with Indian bankers. Table 6.8 indicates the types of banks (public, private or foreign), the coding scheme used throughout the thesis and the number of respondents interviewed within each institution.

Table 6.8: Financial institutions interviewed as part of the research

Interviewee Code	Country of origin	Type of financial institution	Number of respondents
3	Netherlands	Foreign	1
7	India	Other	2
9	India	Public	1
10	India	Public	1
11	India	Other	1
18	UK	Foreign	2
20	India	Private	1
21	India	Private	1
22	India	Private	1
24	India	Public	1
25	India	Public	1
26	India	Private	2
27	India	Private	1
29	India	Public	3
30	France	Foreign	3
31	India	Private	1
32	India	Public	1
33	India	Private	1
34	Netherlands	Foreign	2
36	India	Private	1
37	India	Private	1
39	Netherlands	Foreign	1
40	India	Public	1

In addition to the 23 financial institutions which took part in the research, 17 other organisations are represented. In total, 40 organisations took part and 52 interviews were conducted; on a number of occasions several people within the same organisation were interviewed (identified as either a, b or c in the text). Table 6.9 shows the codes and the corresponding type of organisation. For reasons of anonymity Table 6.10 shows the positions of all respondents interviewed unidentifiable from their type of organisation.

Table 6.9: All respondents interviewed

Code	Organisation
1	Bank
2	International funding organisation
3	Bank
4	Financial services consultancy
5	NGO
6	NGO
7	Funding organisation
8	Energy company
9	Bank
10	Bank
11	Funding organisation
12	NGO
13	Financial services consultancy
14	NGO
15	Credit rating organisation
16	NGO
17	Leading Indian corporation
18	Bank
19	Leading Indian corporation
20	Bank
21	Bank
22	Bank
23	NGO
24	Bank
25	Bank
26	Bank
27	Bank
28	Leading Indian corporation
29	Bank
30	Bank
31	Bank
32	Bank
33	Bank
34	Bank
35	NGO
36	Bank
37	Bank
38	NGO
39	Bank
40	Bank

Table 6.10: The positions of all interview respondents

Positions of all respondents interviewed	
Branch Manager	Associate
Principle Environmental and Social Specialist, South Asia	Assistant Vice President (Credit Risk)
Executive Director	Associate Vice President (Microfinance)
Consultant	Chairman and Managing Director
Corporate Manager	Chairman and CEO
Executive Director	Managing Director and CEO
Chairman and Chief Executive Officer	Executive Vice President
General Manager – Environment and CSR	Head of Environmentally Sustainable Project Finance
Treasurer	Chairman and Managing Director
General Manager	Managing Director
Chairman and Managing Director	Vice President
Chairman and Managing Director	CEO of Foundation
Associate Fellow and Area Convenor	Foundation President
Director	Senior Manager Global Resources
Assistant Director	Vice President, Global Head CS
Executive Director	Chief General Manager
Chief Economist	Assistant General Manager
Field Associate	Deputy Manager
School Teacher	Senior Country Officer
Head of CSR	General Manager
General Manager	Head of Local Credit Analysis
Vice president and Head of Microfinance and Sustainable Development	Head of Group Marketing
Director	Founder of organisation
General Manager	Trustee
Chairman	Country Head – Responsible Banking
Managing Director and CEO	Managing Director and CEO

The majority of the interviewees were identified as potential participants prior to the research trip. However, in several instances, the snowballing approach was used; ‘a method of locating information-rich, key informants by asking other interviewees’ (Welch *et al.*, 2002: 620).

6.4.3 The interview

Much thought went into the interview format and style, concluding that they would follow a non-standardised approach. Healey and Rawlinson (1993: 342) suggest that this method is ‘most helpful when exploring new topics, sensitive or emotive areas and when the businesses are highly variable in their characteristics.’ Figure 6.10 shows the features of a non-standardised interview.

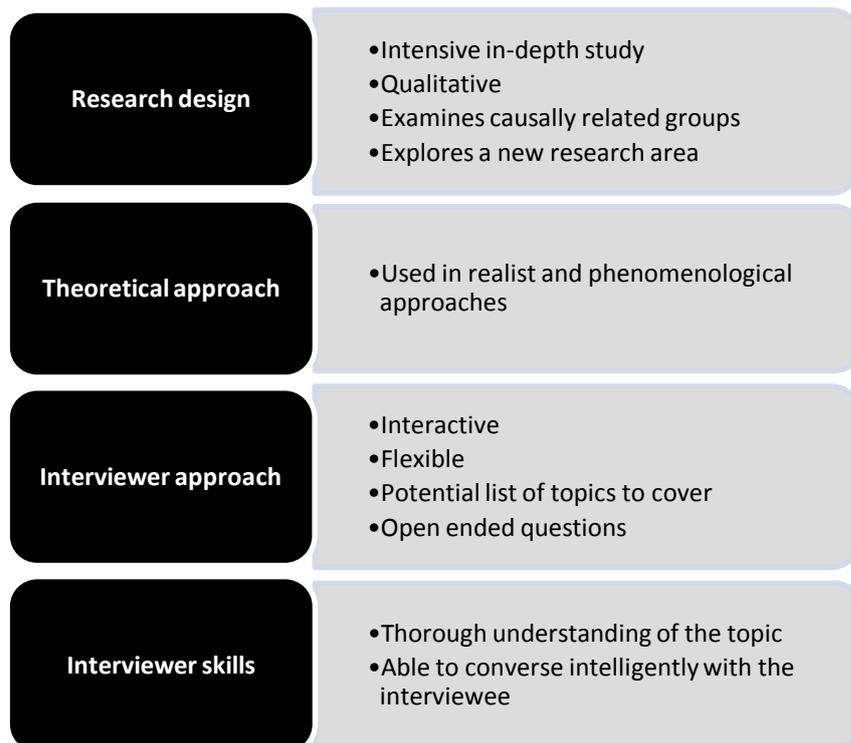


Figure 6.10: Characteristics of a non-standardised interview
(Adapted from Healey and Rawlinson, 1993: 343)

As with any interview, the researcher must adopt the appropriate interview strategy for the situation. For each of the interviews conducted with Indian CEOs and high level officials, the researcher was dressed in formal attire and had a high degree of both subject and company knowledge. A thorough understanding of the research topic was needed to ‘represent oneself as a temporary insider’ (Mullings, 1999: 340). In addition, Schoenberger (1991: 187) comments, ‘good preparation is likely to make the interview interesting to the respondent, perhaps the key to a productive interview.’ Prior to each of the interviews, Internet based research was conducted to gain background knowledge on the history of the particular financial institution, its

work ethics, ranking amongst the Indian banks and potential commitment to CSR and responsible project finance (see Appendix 4 for an example). It was also necessary to acquire background information on the interviewee, for example their education and their length of time with the particular bank. This pre-interview research was essential to ensure that the researcher appeared confident and knowledgeable.

The anonymity of the interview respondents and their institutions was decided early on in the research; it was anticipated that without anonymity the interviewees would refrain from disclosing 'insider' information and keep to the 'corporate line.' Indeed, it may have been the case that without anonymity, the interviews would not have been granted. Therefore it was imperative that the respondents were made aware of this both in the original covering letter (Appendix 5) and at the start of the interview. The aim of the research was not to name and shame financial institutions with respect to their irresponsible project lending, more, to tease out the general habits and thoughts with regard to responsible development. It was also decided that more sensitive questions would be approached towards the end of the interview, as 'this allows a greater time for the respondent to build up trust and confidence in the researcher' (Healey and Rawlinson, 1993: 350).

For each of the interviews a guided approach was taken using a series of pre-defined questions; this allowed comparisons between organisations to be made. Additionally, it enabled the researcher, 'to follow up and probe responses, motives and feelings' (Davies, 2006: 157). The questions were all open-ended to ensure that 'the interviewee's responses [were] not constrained to the categories provided by the interviewer,' and therefore, '[reflected the individuals'] own thinking' (Kitchen and Tate, 2000: 213). Table 6.11 shows the guided questions used in the interviews.

Table 6.11: Interview questions

Questions	
General	Currently there are no Indian banks that have signed up to the Equator Principles, why do you think this is?
	Current Equator signatories are increasingly looking towards banks in India and China to become signatories, why do you think this is?
	More generally, do you think at this time in India, sustainability and environmental issues are of importance?
	If there was to be a push towards environmental sustainability in India, do you think it would come from the government or the private sector?
	Do you think banks and leading businesses need regulation in order to be more responsible?
	Do you think India’s corporate community has embraced corporate social responsibility?
	What does CSR mean to you as a company?
	Do you think the Equator Principles are relevant to the Indian financial sector?
	Which sectors of project finance do you think will grow the most during 2008/2009?
	How would you define sustainability?
	What is driving change amongst the corporate community in India?
Indian banks (public and private)	What is the targeted role of your bank in the Indian financial sector?
	Does your bank engage with project finance and for how long have you been doing so?
	What percentage of your business deals with project finance?
	Does your bank have any intention of signing up to the Equator Principles?
	If you were to become an Equator signatory what challenges would you face?
	If other Indian banks became signatories would you consider adoption?
	Western banks are increasingly adopting this image of being ‘green’ and sustainable, do you see this as part of your forward strategy?
	The Narmada Dam scheme in India has had a multitude of environmental and social impacts, have high profile cases such as this had any impact on your lending decisions?
	Do you consider the social and environmental impacts of the projects which you fund?
	(For smaller Indian banks) – Do you think that the larger Indian banks should make the first step towards sustainable finance?
(For the larger Indian banks) – As an Indian bank that has a global presence, do you feel under pressure to act more responsibly and ethically with your lending?	
Non-Indian banks operating in India	As a western bank which has embraced a CSR agenda, how does it feel operating in India, where banks have no such guidelines?
	Why do you think Indian banks are yet to embrace the Equator Principles?
	What do you think would encourage Indian banks to adopt such environmental and social guidelines?
	As a bank which is a signatory to the Equator Principles, what advice would you give Indian banks which are thinking about adopting the guidelines?
	Do you think the Equator Principles are translatable to the Indian financial sector?

Financial services companies	Can you tell me a bit about your company and how it originated?
	The Indian economy is expanding and the demand for infrastructure is booming, where does this company fit in?
	Do you consider the social and environmental impacts of the projects which you fund?
	Has your company considered adopting the Equator Principles?
	Who do you think should take the lead on adopting the Equator Principles in India?
	If you were to become an Equator signatory what challenges would you face?

At the outset of the research it was decided that the interviews would not be recorded. The researcher did not want to risk the respondent terminating the interview or refrain from talking about certain topics. Therefore, copious notes were taken, predominantly of direct quotations, body language observations and general perceptions.

During all stages of the interview process, there were outward displays of power from the elite interviewees (Pini, 2005). The security measures on the day of the interview were tight, secretaries were forcefully inquisitive, the offices were grand and the researcher was often told to wash her hands prior to the interview with the elite. In addition, on numerous occasions the interviews would be interrupted with phone calls and the signing of paperwork. Welch *et al.*, (2002: 615) suggest that, 'elite subjects are used to addressing a wide range of audiences and developing elaborate and persuasive arguments,' in addition 'they dominate the interview and challenge the researcher's statements and views.' However, only in one instance was the interviewee overtly domineering. The meeting started with no niceties or welcome, instead the respondent began by saying, 'you are not going to like what I have to say ... now just listen' (7b). In addition, the researcher was not given the opportunity to ask any questions during the meeting. Welch *et al.*, (2002: 621) also recognises that, 'elites may offer tantalising insights into secret deals and inner circles of power ... however, such revelations are often accompanied by the request to 'keep this off the record.'" On several occasions this occurred, particularly when talking about corruption within the Indian financial sector. Due to the anonymity of the interviewees, these direct quotes have been used in the analysis.

After the interviews the researcher maintained contact with the respondents, in the form of an email thanking the interviewee for their time. The post-interview correspondence was useful; ten months after the initial research the respondents were contacted once again asking for their thoughts on the global financial crisis with regard to project finance and the Equator Principles. In January 2009, each of the respondents was contacted via email with three questions and given one month to respond. The response rate was 28 percent (11 of the 40 organisations which took part in the research). The majority of interviewees responded via email, however, in several instances they requested a telephone conversation to discuss the questions.

6.4.4 Interview analysis

Immediately after each of the interviews, the researcher typed up the notes and reflected on the interview adding personal observations (see Appendix 6). This process aided the analysis which occurred over several months after returning from India. Coding of interview transcripts is the most common method of analysis for qualitative data, and should be seen 'as an active, thoughtful process that generates themes and elicit meanings, thereby enabling the researcher to produce representations of the data that are ... suggestions of some of the broader connections to the scholarly literature' (Cope, 2003: 457). The pages of coherent typed text produced immediately after the interviews were coded, whereby keywords and phrases were extracted in line with the researcher's aims and objectives (see Appendix 7). As Kitchen and Tate (2000: 234) suggest, by classifying the data it is possible to 'draw out commonalities and divergences,' which further aids the analysis process. In general, data analysis consisted of 'examining, categorising, tabulating and otherwise recombining the evidence' (Yin, 1994: 102) to address the aims and objectives of the research. Coding of the interview data also enabled the researcher to quantify the types of responses as a percentage of the number of interviewees; this can be seen throughout the analysis chapters.

It was assumed that a member checking process would occur, 'a new paradigm or fourth generation translation of more positive respondent validation' (Bradshaw, 2001: 203). The procedure of member checking enables participants to remark on the

researchers understanding of their comments made in the interview (Bradshaw, 2001). It was anticipated that a replica of the relevant section in which each of the financial institutions are acknowledged would be sent via email to the participant, to establish the accuracy and credibility of the data interpreted by the researcher. However, member checking has also been found to be a less reliable form of feedback (Welch *et al.*, 2002). In addition, the elites interviewed in this research were hard to contact six months on from conducting the research. People in positions of power tend to change their jobs more frequently than others, in the majority of cases the elites had moved on and were no longer working for the original organisation. Welch *et al.*, (2002: 623) commented that in their experience of sending transcripts, 'most were not returned, which presented the interviewer with the dilemma of whether to interpret the silence as consent.' For this reason it was decided that a summary report would be sent to each head of the organisation post research-analysis as a form of feedback. Due to the fact that the interviewees and their comments remained anonymous, member checking was not regarded as vital.

6.4.5 Limitations of the interviews

Despite problems of access, consent and representation which can arise when conducting corporate or elite interviews, there is a further issue of non-response. At the outset it was anticipated that not all of the Indian financial institutions would want to participate in the study. The question begs therefore, what does a non-response mean for the research? What are the consequences of a non-response, from a leading financial institution which is heavily involved in providing funds to development projects? Considering this, Goldstein (2002: 672) states that, 'unlike those doing survey research of the mass public, researchers using elite interviews actually know quite a bit about those who remain un-interviewed.' Of the 45 public and private Indian financial institutions (Indian Banks Association, 2009), 16 participated in the research (36 percent response rate), however, this included 58 percent of India's leading banks (according to the categories identified earlier in section 6.4.2) and significantly for this research, 25 percent of the 2008 Asia-Pacific project finance market share. Of the companies who did not respond to the emails, faxes or telephone calls, it can be assumed that they were aware of the research and they did

not want to participate. Indeed, a non-response says a great deal about the company, its motivations and its future compliance to both the Equator Principles and more generally CSR. Whilst conducting the field research, it was suggested on several occasions by bankers and NGOs that the research should include a discussion with both infrastructure developers and representatives from the Government of India. All, however, were non-responsive.

A further limitation of conducting the interviews in India was that despite the majority of the banks headquarters being located in Delhi or Mumbai, there were a number of banks who were ruled out due to the fact that their corporate headquarters were located in other cities. Due to limitations of time and finance, it was unrealistic to try and conduct face-to-face interviews with these respondents. In several instances however, this was overcome with the researcher interviewing the respondent via telephone.

6.5 Phase three: Commitment to Corporate Social Responsibility

It was anticipated that an online survey would be conducted in order to assess the direction of CSR amongst leading corporations in India, whereby a quantitative survey would be directed to the top 500 Indian companies (by market capitalisation) via the Internet. Quantitative surveys are thought to be an effective tool for 'describing, comparing and predicting knowledge, attitudes and behaviour' (Fink, 1995: 4). The introduction of the Internet into mainstream society within the past decade has provided researchers with an innovative tool. It is recognised that, 'digital technology presents researchers with new opportunities that ease many constraints previously experienced using traditional research methods' (Denzin, 2004: 19). It was assumed that the use of a web-based survey for this research was ideal due to the geographical separation of the researcher to the respondents. Online surveys have the ability to yield immediate respondent feedback which in turn can be analysed automatically; furthermore, some researchers suggest that online surveys generate higher rates of return in comparison to traditional survey methodologies (Sheehan and Hoy 1999; Yun and Trumbo 2000).

6.5.1 Survey: Design and implementation

The online training package provided by Madge *et al.*, (2006) was utilised to develop an understanding of the complexities of conducting research online. In addition, the Bristol Online Survey (BOS) system was used to construct and implement the survey. The design of any survey is vital to its success, but for those conducted in cyberspace this is particularly so; due to 'the highly visual nature of the web environment and the variety of technical skills of the survey respondents' (Madge *et al.*, 2006: no page). For this reason, the number and style of questions was carefully considered. The majority were 'closed' in style, whereby the respondent could select an answer from a predefined list. However, the final question was 'open', inviting the respondent to express personal opinion. All questions were visible on one webpage, so that the endpoint could be seen, encouraging the respondent to complete the survey (see Appendix 8). Once designed, a pilot study was conducted in order to make sure the survey was workable and easy to use. Due to the non-anglo context of the research, the pilot survey was completed by Indian nationals to be sure that the questions and the system was understandable in the Indian context. The pilot study focused the questions and eliminated minor errors.

6.5.2 Sampling

One of the most common methods of obtaining survey participants in cyberspace is to advertise the survey on multiple websites (Hewson *et al.*, 2003). This method relies on Internet surfers to stumble across the notice and make an active decision to take part. Alternatively, researchers post an announcement and the survey link on a targeted site, thus having more control over the potential respondents. However, for the purpose of this research whereby the respondents were pre-defined, (i.e. the top 500 companies) companies were individually contacted, encouraging a representative to take part on behalf of the organisation. The data provided by Sunrise Consultancy Services (2007) was used to identify the top 500 Indian private and public sector companies; the contact details of each company were readily available on the Internet. In the majority of cases, where possible, rather than emailing a general corporate email address, a representative from the Human Resources department was contacted, in an attempt to yield higher response rates. The initial email (Appendix 9)

contained information about the research and a link to a website designed by the researcher (see Appendix 10), the webpage gave further information and contact details as well as a link to the online survey. All survey material included the University of Leicester crest to highlight the credibility of the research (Madge and O'Connor, 2002).

There is much debate in the literature with regard to response rates yielded by web-based surveys in comparison to traditional paper based methods (Sheehan and Hoy 1999; Yun and Trumbo 2000). Due to the geographical spread of the researcher to the potential respondents and the financial costs involved in using postal surveys, a web-based methodology was favoured for this research. In accordance with the literature it was anticipated that the survey would achieve a 40 percent response rate with a high proportion of companies responding within the first three days of receiving the initial email (Yun and Trombo, 2000). It was anticipated that the survey would be active for 12 months and monthly reminders would be sent via email to encourage participation. The completed surveys were immediately logged onto the BOS system, 'in a completely predictable and consistent format making automated analysis possible' (Mann and Stewart, 2000: 70).

6.5.3 Limitations

Prior to conducting the online survey, the response rate was identified as a potential limitation. As cited in the literature, one of the most common problems with online surveys is that the respondents are not interested in actively participating, as Anderson and Kanuka (2003: 150) suggest, 'researchers must develop compelling reasons for the subjects to complete net based surveys.' However, due to the fact that this research required a corporate perspective rather than individual thoughts and tendencies, a higher response rate was expected. It was anticipated that issues central to this research are on the agendas of many leading firms and corporations, a compelling reason for them to participate. However, in reality this was not the case. The survey was launched on 20th January, 2008 and after four months the response rate was only 2.6 percent, only 13 of the 500 organisations had completed the survey. A decision was made therefore to terminate the online research; a great deal of effort

had been expelled in trying to encourage participation, with limited success. This decision was confirmed when it was announced that a similar survey 'CSR Asia' also had limited success. As the Executive Director of *CSR Asia* commented, 'the response rate is terrible ... we developed a database of over one thousand companies and approached each one via email to target people and followed up with a phone call if possible ... we hassled people we knew ... very tough' (Stephen Frost, personal communication). Despite the fact that Internet methodologies are thought to bypass gatekeepers, in the case of this research, the email recipients discarded the initial email, therefore restricting access. The poor response rate was disappointing, especially given the large amount of work which went into the construction and the design of the survey. However, upon reflection, the alternate methodologies used in this research to investigate CSR in India yielded noteworthy results.

6.5.4 An alternative method: Case studies

In general, case studies 'take one or more examples of a social entity such as communities, social groups or organisations' (Hakin, 2000: 59) and apply several data collection techniques in order to produce a rounded analysis. As suggested by Tellis (1997: no page), case studies are an 'ideal methodology when a holistic, in-depth investigation is needed.' The case study method utilises a multi-perspective analysis (Keddie 2006; Tellis 1997; Yin 1994) an approach well suited to this research, in that 'the researcher considers not just the voice and perspective of the actors, but also the relevant groups of actors and the interaction between them' (Tellis, 1997: no page).

Yin (1994) suggested six primary data sources which can be used in the case study approach, namely archival records, documentation, direct observation, interviews, participant observation and physical artefacts. However, it is important to note that research varies significantly from one study to another; therefore some researchers may only find a few of these methods appropriate. For this research, three of the above methods were deemed necessary to generate information for a case study approach: interviews, documentation and direct observation. A case study methodology was used predominately for Chapter 9, exploring CSR strategies of Indian companies. 'The corporate annual report has traditionally been seen as the primary

vehicle by which companies have communicated with external stakeholders' (Adams and Frost, 2006: 276). However, in addition to this main document, corporations are increasingly producing environmental and sustainability reports covering their CSR commitment. These documents were analysed together with both the interview material and direct observations made whilst visiting local rural communities, drug centres and schools to form a case study presentation.

Whilst case studies are generally the preferred strategy for answering how and why questions (Yin, 1994) the approach has been criticised for making too generalised assumptions. Much of this criticism has arisen when research has primarily focused on one case study. As Rice (2003: 225) comments, 'there is no formal basis for sustainability inferences made about a population on the basis of a single sample ... most geographers would and should be sceptical of such subjectivity.' It is true that a single case study should not be used to make grand claims about a given population or social situation, therefore this research utilised three case studies in Chapter 9. It may be regarded that broad generalisations cannot be made on the findings of three case studies; however, comparisons between the three CSR strategies are informative.

6.5.5 Website analysis

An analysis of Indian bank websites was conducted in 2008 and repeated a year later in 2009. This was achieved using the websites of the Indian banks which participated in this research, the aim being to assess the disclosure and type of CSR reporting. A content analysis approach was used, as this seeks to 'analyse published information systematically, objectively and reliably' (Guthrie *et al.*, 2004: 287). It is a method whereby 'the text [is coded] into various groups or categories based on selected criteria ... it assumes that frequency indicates the importance of the subject matter' (Guthrie *et al.*, 2004: 287). Wanderley *et al.*, (2008) used seven indicators for their website content analysis including: (1) availability of a Code of Ethics; (2) details of CSR projects; (3) CSR project results; (4) CSR partnerships; (5) social reports; (6) corporate values; and (7) CSR or sustainable development on the homepage. These were adapted for the purpose of this research:

1. Details of CSR projects
 - a. Available on the homepage
 - b. Available anywhere on the website
2. Details of specific CSR projects and results
3. Evidence of socially and environmentally responsible lending
4. Evidence of microfinance initiatives
5. Social and environmental reports available to download
6. Number of photos
 - a. Social
 - b. Environmental
7. Links to charities / donation

In the content analysis literature a debate has arisen as to what should form the basis for coding; individual words, sentences or paragraphs. It was decided for the purpose of this research, sentences would be used in the analysis, 'as for coding and measurement they are likely to provide complete, reliable and meaningful data for further analysis' (Guthrie *et al.*, 2004: 288). An important element of the website analysis was time, due to the topical nature of the research. The websites were reviewed twice, initially in June 2008 following the field visit to India and then in May 2009. This method was used to see if there were any changes in CSR reporting over a given period, particularly due to the recent interest in CSR within the Asian context. The results of the website content analysis can be found in Appendix 11.

There are several limitations of this form of analysis. Primarily, in that the coding of the websites is a highly subjective process. However, this was minimised due to the rather tight coding scheme mentioned above, e.g. there are either links for the consumer to make a donation to a temple or charity, or there are not. A further limitation is the coding of photography and imagery. It could be argued that a 'picture may be worth a thousand words' in addition, 'some pictures cannot deliver the intended message without surrounding text [therefore] what amount of disclosure is a picture equal to?' (Guthrie *et al.*, 2004: 288). With this in mind, not only were the

numbers of photographs considered, but also their type, according to two classifications, social or environmental.

6.6 Positionality and reflexivity

There has been a substantial amount of literature exploring the positionality of researchers (Staeheli and Lawson 1994; Olson and Shopes 1991; England 1994; Katz 1994). When conducting any type of interview, either 'up' or 'down', 'the relations between the interviewer and interviewee can be very unequal' (Winchester, 1996: 122). Mullings (1999: 337) suggests that a 'researchers knowledge is always partial ... because his/her positionality as well as location in time and space will influence how the world is viewed and interpreted.' The positionality of the researcher refers to their perspective, which is individually shaped by their unique mix of race, class, sexuality, nationality and gender, whereas reflexivity refers to the life experiences gained by the researcher. In the case of this study, the researcher is a young (25), white, female conducting research in India, in a predominately male orientated environment. It was necessary therefore to consider identity, as undoubtedly assumptions would be made about the research, analysis and conclusions drawn from the study.

This research experience was highly gendered, with only three of the respondents being female. Mullings (1999: 340) suggests that, 'women are likely to find it difficult to gain access to spaces that are considered 'exclusively' male.' Whilst there were no problems in gaining access to Indian male elites in this research, a high proportion of interviewees were surprised to be introduced to a female researcher. During the initial correspondence with the respondents and their secretaries, the researcher would sign the emails and letters, 'Ms. S. Hadfield-Hill,' and after several responses use her forename, Sophie. However, on a number of occasions emails were returned addressing the researcher as 'Sir' or 'Mr. Sophie' (Figure 6.11).

Sir,

With reference to your mail dated 11.01.2008 addressed to our Chairman & Managing Director, *****. In this connection, we have to inform you that he has given his consent for the proposed meeting. For Date & Time of the meeting, you may please revert back to us in the third week of February 2008.

Regards,
Chief Manager

*Figure 6.11: Example of an email response addressing the researcher as Sir
(Received: 14th January 2008)*

It was no surprise that several of the interviewees thought the researcher was in fact the researcher's assistant upon entering the respondent's office. The interviewee would be watching the door, waiting for the researcher to enter, when in fact she had already entered the room. The positionality of the researcher is also of importance as interviewer characteristics, including 'age, race [and] sex may also influence the attitude of the respondents and the kind of answers they give' (Healey and Rawlinson 1993: 349). Welch *et al.*, (2002: 622) suggests that a 'gender gap' could potentially be of benefit, 'as informants often respond to the flattery of an attentive female audience.' However, they also comment, 'like the seniority gap, the gender gap is a double edged sword; it may encourage elite interviewees to patronise the female researcher, but it may also make them more willing to devote time to an interview.' Healey and Rawlinson (1993: 349) also identified that, 'interviewees may act in a patronising manner to junior research workers.' In the majority of cases, when conducting interviews with elite respondents, some would say the researcher was patronised. Respondents passed comments including:

- Did your parents allow you to travel to India alone?
- Are you married? (Followed by: If not why?)
- How did you travel to my office today?
- Which district of Delhi / Mumbai are you staying in?

In some of the interviews this form of questioning was perceived by the researcher to be acceptable and acted as a gentle icebreaker; however, when interrogated about marital status and the disbelief that the researcher's partner and parents 'let' her travel to India; despite the acknowledgement of different cultural values, this was highly patronising. After several minutes of these questions the interview normally commenced with no further interrogation. However, in a number of cases, it was clear that the interviewee was still pondering on the researcher's identity. One respondent remarked after fifteen minutes of interviewing, 'are you really not married?' (10) and another 'I will arrange for my driver to meet you after the meeting, I am not happy about you using Mumbai trains, he will take you back, I am in the office today so I do not need him' (20).

Section 6.4.1 identified with Herod (1999) and his analysis of being an 'insider' or an 'outsider', often finding that being a foreign academic worked to his advantage. Although hard to prove, this was certainly the case with this research; the fact that the researcher had travelled from the UK for the meetings helped in securing the interviews. On one occasion the CEO even insisted on flying to Mumbai to meet the researcher for an interview; his corporate office was located in another State. In the majority of interviews the researcher was offered lunch and copious amounts of tea. In some instances she was invited out to a restaurant after the interview, whilst in others, lunch was served during the meeting. In a number of instances the researcher was given gifts, including silk scarves, a gold plated crucifix and other corporate paraphernalia.

Thus far a number of dichotomies have been identified, male and female, black and white, insider and outsider. Smith (2006b: 645) also suggests that whilst the term elite has been clearly defined, 'there is a dichotomy between powerful elites and powerless others.' However, as previously mentioned there was only one occasion when the researcher felt powerless. In all other interviews the status of being an academic from a British institution who was knowledgeable about the Indian banking system gave power to the researcher. The notion of positionality and reflexivity implies that the 'researchers-self is a transparently known agent whose motivations can be fully known' (Rose, 1997: 309). However, whilst one's outward positionalities of gender

and race are fixed other elements of identity are in a state of flux. Smith (2006b: 647) suggests that, 'if we accept the post-structural idea that people ... including both the researcher and the interviewee ... are multi-positioned and do not have one single identity, it seems understandable that power dynamics are liable to shift within interviews.'

Whilst conducting interviews with elite males of the Indian financial sector, it can be argued that the researcher's positionality was not fixed, indeed it was in a state of flux, 'a continual balancing act ... reconciling the roles of an insider and outsider ... sympathiser and critic, therapist and spy, academic and consultant' (Welch *et al.*, 2002: 625). As research with human subjects can never be purely objective, it was important that the researcher identified her own positionality in all aspects of the research process. As a white, female, young researcher it could have been possible to shy away from this research due to the dominance of the corporate male, Indian elite. However, in doing this research it has proved that changes in societies and 'social relations of gender have given some women more spatial mobility, locally, nationally and transnationally' (Miraftab, 2004: 597).

6.7 Ethical issues and risk mitigation

Ethical issues were addressed throughout all phases of this research. As recognised by Healey and Rawlinson (1993: 340) ethical issues arise, 'with explaining adequately the purpose of the investigation, the confidentiality of the responses and the rights of the respondents to comment what is written about them.' When dealing with the data obtained from both leading companies and financial institutions, security and confidentiality were respected. Corporations were made aware that the information they provided with regard to both their lending behaviour and their CSR habits would be kept anonymous. Prior to conducting both the interviews and the online survey, respondents were fully informed of the purpose of the research. At the outset of the research it was decided that this would be in the form of a permission slip; an agreement between the respondent and the researcher as to how the company wishes to be identified within publications (Appendix 12). As recognised by Schmidt (1997: 4) 'the informed consent form can be presented to the user, requiring them to

take some action signifying their acknowledgement of the consent form.’ However, after several interviews, it was decided the researcher would verbally ask each of the respondents if unattributed quotes could be used in the publication of the thesis as many immediately clammed up when asked to sign a document. None of the interviewees declined. This process made the researcher aware of the practical problems in following institutional textbook research strategies.

In addition to ethical issues such as consent, representation and feedback, there is a further ethical concern which arises when researchers target individuals to complete Internet based research. Email research, as Yun and Trombo (2000: no page) recognise, ‘raises many ethical concerns because unsolicited emails are often considered rude and senders of such emails may be seen as lacking an appreciation of netiquette.’ Due to this research using corporate email addresses which are readily published on the Internet, this is not perceived to be such a great issue in comparison to some researchers, who directly spam private email addresses in order to yield responses. An extensive ethics survey was completed as per University of Leicester regulations prior to conducting the field research. In addition, a risk assessment was completed in order to minimise any risks associated with being a young, white, female researcher working in India (Table 6.12).

Table 6.12: Mitigating potential hazards

Potential hazard	Actions undertaken to mitigate the risk
Working alone	<ul style="list-style-type: none"> Carried a mobile phone Left a daily plan with the Bed and Breakfast owners Left a schedule with supervisors If the plan changed the Department of Geography was notified Carried a personal alarm Arranged a daily 'check-in' system with the host family
Travelling alone (by foot)	<ul style="list-style-type: none"> Avoided walking alone at night Planned each journey in advance Hid valuables Dressed appropriately – to fit in with surroundings Carried a copy of insurance details and contact numbers at all times
Travelling alone (by car)	<ul style="list-style-type: none"> Made sure the vehicle was in good working order Travelled with a mobile phone Planned each journey in advance Did not leave valuables in the car Carried a copy of insurance details and contact numbers at all times
Dealing with people (physical attack)	<ul style="list-style-type: none"> Carried a personal alarm and was prepared to activate in the event of an emergency
Interviews	<ul style="list-style-type: none"> Sought training in interview techniques Dressed appropriately Carried University of Leicester identification Sought permission from relevant gatekeepers
Environment (interview location)	<ul style="list-style-type: none"> Respected local customs Dressed appropriately Followed business regulations whilst in interview locations
Environment (local area)	<ul style="list-style-type: none"> Avoided areas known to be unsafe Walked with confidence and purpose Dressed appropriately Planned routes carefully
Health (accidents)	<ul style="list-style-type: none"> Was aware of the location of the local chemist Carried the contact details of a local doctor and hospital Travelled with an unopened set of medical supplies
Other health risks	<ul style="list-style-type: none"> Made certain all inoculations were up to date for travel in the region Took malaria tablets for travel in affected regions Carried a first aid kit with sterile syringes and antibiotics Did not accept ice in cold drinks Was wary of food preparation standards (especially of meat, fish, salad and fruit)

6.8 Summary

This chapter has reviewed the methodological approaches undertaken in this research. A variety of data collection techniques were used, predominately qualitative in nature in order to explore the aims and objectives of the research. It was a three-phase approach. The first phase predominately consisted of data gathering from attending

conferences and conducting informal interviews with participants as well as a review of corporate literature and annual reports. The second phase was conducted during the field visit to India. It was necessary to extend the research beyond that of corporate published material, as Bradshaw (2001: 207) recognised when conducting his research, 'limiting myself, to researching corporate management through publically available documents means that I am denied the opportunity to elicit information from horses' mouths.' The final phase of research utilised data collated from NGO site visits and website material to review the state of CSR in India.

The majority of interviewees that participated in this research could be classified as 'elite.' Not only did the field visit enable the researcher to 'research up' to gain important insights into economic geography (Healey and Rawlinson, 1993) but opportunities also arose for the researcher to gain first hand observations of the impacts of CSR, through visits to schools, drug abuse centres and rural villages. This chapter also considered the positionality of the researcher, being a young, white, female interviewing in a predominately male orientated environment. It is important to recognise identity as 'the validity of one's research is seen to be a reflection of one's personality' (Herod, 1999: 314).

Chapter 7**Environmental awareness and responsible lending**

At the Sustainable Finance Summit, 2006, organised by the Ethical Corporation, leaders of global banks and those working in the field of project finance expressed frustration concerning the non-adoption by Indian banks of the Equator Principles. Again, at the Sustainable Finance Summit, 2007 and 2008, there were questions asked with regard to India's willingness to comply with global standards. To understand the rationale behind why Indian banks are choosing not to adopt the environmental and social lending standards, it is necessary to have an appreciation of the unique cultural and economic situation in India. This chapter reviews current attitudes towards environmental issues in India; gauges awareness of global environmental and social standards; assesses the Indian financial sector and their commitment to green issues and reveals perceptions on which sector (public, private, civil society or the media) should be driving forward India's environmental agenda.

7.1 Attitudes towards environmental issues in India

During the second quarter of 2008, whilst industrialised nations were beginning to witness real economic slowdown, India was confident about its future. Prior to September 2008, pinpointed as one of the most dramatic months for the failure of the modern banking system, there was confidence amongst the Indian people from the CEO of India's largest banking corporation to the small shop owners of urban Mumbai. With huge malls appearing in the major cities and highways being constructed across the nation, there were visible signs of this confidence. Sixty years after independence the Prime Minister of India, Dr. Manmohan Singh recognised this confidence:

‘When we look back and look around I believe we can say with some sense of satisfaction that India is on the move. There is a new dynamism in our people. A new sense of confidence in their capabilities. A new sense of hope in their collective future’ (Singh, 2007: no page).

During the interviews, 45 percent of respondents made optimistic comments about India's potential, as Respondent 3 remarked, ‘it is exciting to be living in India at the moment, there is rapid change on the economic front ... before, Indians were sceptical about the future of their country, now there has been a real shift in people's attitudes.’ Respondent 11 remarked that, ‘for the first time Indians are on top of the world ... confidence among the people is growing.’ This enthusiasm is reviewed in greater detail in Chapter 10, particularly with reference to the global economic crisis which has matured since the field research was conducted.

Environmental issues are prevalent in India, particularly in its cities. As commented by Dembowski (2001: 64) ‘air and water pollution and lack of sanitation, garbage and sewage disposal and other basic urban services severely hamper the development of Indian cities.’ In 1989, Bowonder highlighted the major environmental problems facing India; deforestation, air, water and pesticide pollution and poor sanitation. In addition he argued that, ‘the Indian environment is becoming irreversibly degraded because of the prevalence of poverty and as a result of problems caused by activities

aimed at economic development' (1989: 599). More recently in 2007, the World Wildlife Fund (WWF) announced that widespread environmental issues in India included deforestation, pollution and palm oil (WWF, 2007). With this considered, the past three decades have witnessed a lively environmental debate in India, with the rise of social protests and opposition movements occurring predominantly at the local scale as well as legislative involvement. However, there is 'vast agreement that the results of various reforms and regulations have been disappointing [and] implementation has been poor' (Dembowski, 2001: 63).

The 'Father of the Nation' Mahatma Gandhi played a significant role in the education of Indian people as to the importance of the natural environment, famously stating that 'Earth has enough resources for our need but not for our greed.' Despite the fact that the environment was not a central trait of Gandhi's approach, his recommendation of 'simple living' encouraged reduced consumption and decreased exploitation of natural resources (Suchak, 2002). Several interviewees commented on the affiliation they have towards the environment, as Respondent 1 observed, 'some Indians are very conscious about preserving the world, Indians respect all things ... in the past, environmental issues used to mean water preservation and basic issues, now we are thinking about carbon emissions.'

Encouragingly, a number of interview respondents made reference to the younger generations becoming more environmentally conscious. In 1986, for the first time since independence, environmental education was integrated into the National Policy (Hoerisch, 2002); this called for 'a need to create consciousness of the environment which must permeate all ages and all sections of society beginning with the child' (National Policy on Education, 1986: 8.15). Environmental education has now been introduced into the majority of secondary school curriculums and is thought to be 'the trendiest new subject in the country' (Yasmeen, 2003: no page). Despite the fact that there are disagreements about the subject content, suggesting that the focus is too isolated from India's political, social and economic agenda (Yasmeen, 2003), interview respondents did suggest that the younger generations are becoming increasingly aware and enthusiastic about environmental issues. As Respondent 12 suggested,

'you will find a lot of youths who want to be responsible citizens ... India is increasingly a young country ... our school children are the future.'

Despite the fact that awareness of environmental issues might be growing in India, distinctions were made between the upper, middle and lower classes and their attitudes towards green and sustainability issues. It was not an intention of this thesis to delve into either the caste or class system of modern India, as connotations of these vary widely in the literature. Depending on the criteria used by researchers, India's 'middle class' can range anywhere from 30 to 300 million (Ekins, 2003). As Sridharan (2004: 405) remarks, 'the emergence of this 'middle class' has changed India's class structure from one characterised by a sharp divide between a small elite and a large impoverished mass, to one with substantial intermediate class.' Beinhocker *et al.*, (2007) suggests India's middle class to be roughly 5 percent of the population (households with disposable incomes from Rs.200,000 (US\$4200) to Rs.1,000,000 (US\$20,900) per year), however, estimates this figure to rise to 41 percent by 2025. It has been widely documented that the minority consume large quantities at the expense of the poor on a global scale, however as Mawdsley (2004: 81) remarks, 'this is not just a north / south issue but it is also inflected within national inequalities,' as in the case of India. Several of the respondents remarked that awareness of environmental issues is growing amongst the 'substantial intermediate class,' due to the fact that the poor have more pressing concerns. Respondent 24, for example, remarked, 'the upper and middle classes whose stomachs are full, they are the ones now beginning to talk about environmental issues.'

Comparisons were also made between India's current stage of development and countries such as the UK and the USA. Respondent 1 used plastic carrier bags as an example of how companies in the minority world have only recently acknowledged the severity of the problem, introducing re-usable bags for shopping in high street stores. However, in India 'families have several cloth bags for shopping which are washed occasionally ... in the West there is the mentality of use and throw, this is not the case in India' (1). Respondent 31 also acknowledged that, 'impoverished people sort out plastic for their own agenda.' However, from observations whilst in India, the use of

cloth bags for shopping purposes and plastic recycling schemes in India almost certainly has more to do with money than a genuine concern for the environment.

The general consensus amongst the interview respondents was that, despite India's current economic growth, environmental issues should be given a lower priority, and global environmental standards should not be signed until the nation has reached a stage of development comparable to the UK and the USA. As Respondent 1 remarked, 'the UK, the USA and the West have now done their bit, it is very easy for them to set rules ... India is now on a growth curve, they have got to first think about their stomachs.' Respondent 24, the Chairman and Managing Director of one of India's leading public banks also commented that, 'environmental concerns are a reflection of a developed society ... in India we have a survival struggle; people are more concerned about bread and butter than environmental issues ... once we have got these basic things then we will give more attention to the environment.'

Encouragingly, other respondents highlighted the link between education and awareness of environmental issues, particularly in the State of Kerala where they have a literacy rate of 90.9 percent, the highest in India (Census of India 2001; Véron 2001). Kerala has become the focus of attention for many working in social and economic development as Parayil (1996: 941) explores '[Kerala] has become an enigma to analysts of international development, social progress and peaceful social change in the third world.' In Kerala there is a real difference in hygiene levels and a commitment to keep the State clean; there are signs reminding people to put their rubbish in the bins (Figure 7.1).



Figure 7.1: A gentle reminder from green Munnar, Kerala (Author's own)

Using the case of 'green' Kerala, it was suggested that, 'when people get educated, awareness of these issues increases ... but for the majority of the population, the next meal is more important' (26a). Whilst there is a huge distinction between the rich and the poor in India, and comments such as, 'the bottom 40 percent of the population don't even dream of basic needs ... never mind environmentally sound choices' (1) are valid, it seems, to some extent that the rich are using the poor as an excuse for not committing to environmental issues on both an individual and a collective basis. It may be easy for some to ignore environmental issues at the expense of development, but for India to truly progress on the economic front, the causal relationship between environment, society and development must be recognised (Hoerisch, 2002).

There is a strong association between per capita income, consumption and waste disposal; given that India has an ever increasing 'intermediate class' it is predicted that 'India will see a rise in waste generation from less than 40,000 metric tonnes per year to over 125,000 metric tonnes by the year 2030' (Gupta, 2004: no page). Currently, whether in a wealthy gated neighbourhood in Mumbai, in the back streets of urban Delhi or in a rural village in Rajasthan, waste pollution is highly evident. The rich and

the poor daily dispose of their household waste onto the streets, clogging the doorsteps, communal areas and drains with non-degradable containers, plastic bags, sanitary waste and rotting organic material (Figure 7.2). Disease is easily spread, with the cows and pigs rummaging for food amongst the children who are searching for items to sell. Whilst the disposal of waste onto the streets can spread disease, the collection of this waste currently provides a source of income for over one million people who recycle for a living (Gupta, 2004). As previously mentioned, with rapid urbanisation, rising populations and changing consumer patterns, the amounts of waste generated are only set to rise. Effective and organised disposal systems need to be put in place. The mindsets of the people need to adjust in response to the cultural changes which are occurring, for ecological, health and aesthetic reasons.



Figure 7.2: Waste clogging the streets of New Delhi (Author's own)

Figure 7.3 shows a car park attendant working for one of Delhi's largest tourist attractions, the National Zoo. Each day she collects car park tickets and instead of disposing of them in an appropriate manner, each one is thrown onto the ground. This was not an isolated incident within the park; improved management of public areas is needed as well as appropriate waste disposal schemes. The willingness to

change has to come from the top, the managers of public areas have to take the lead in being responsible about waste and basic hygiene in order to ultimately change the current mindset about waste disposal. Respondent 3, an Executive Director of one of India's foreign banks suggested that, 'once we have provided basic needs for India's 1.1 billion, then we will be able to do it in more sustainable ways.' Surely, however, in order to truly lift the millions out of extreme poverty, basic needs will only be met if achieved in a sustainable way.



Figure 7.3: Car park attendant at the National Zoo, New Delhi (Author's own)

Respondent 9 identified that India cannot and should not have its own agenda; India is part of the global system and ultimately, 'running away from environmental issues is not a solution.' Respondent 31 also recognised the urgency of the situation stating that, 'India has leapfrogged into a consuming economy with the evidence being in the gutters, rivers and seas.' Worryingly, only 5 percent of interviewees emphasised that environmental issues (deforestation, pollution and climate change) in India need urgent attention on a national scale.

7.2 Awareness of global environmental and social standards

Since 2003, financial institutions across the globe have become increasingly aware of the environmental and social implications of financing large infrastructure projects. The lack of Indian commitment to the voluntary environmental and social lending guidelines, the Equator Principles, is an issue for current signatories and environmental NGOs. Ultimately, Indian financial institutions are continuing to finance large infrastructure projects with no formal concern of the possible environmental and social implications. At the Sustainable Finance Summit in 2006, Chris Smith from Standard Chartered (an Equator signatory) commented that, 'one of the biggest challenges we face is the incorporation of the Indian Market, who are not taking these issues into account' (Smith, 2006c: no page).

Of the 52 interview respondents, 46 percent (24) had heard of the Equator Principles; however only 27 percent (14) were well-informed about the guidelines (those who discussed specifics of the Equator Principles without prompts from the interviewer). Given that 8 of these 14 interviews were with foreign Equator signatories operating in India and other organisations with a vested interest in sustainability issues, this figure is disturbingly low. Only four of the respondents interviewed from India's top 10 banks (based on total assets 2008) had heard of the Equator Principles. Respondent 24, the CEO of one of India's leading banks replied 'Equator what?' to the question 'Have you heard of the voluntary guidelines the Equator Principles?' Of India's top 10 banks interviewed (Figure 7.4) only 20 percent knew specifically what the guidelines are intended for and that foreign banks involved in project finance are subscribing to them.

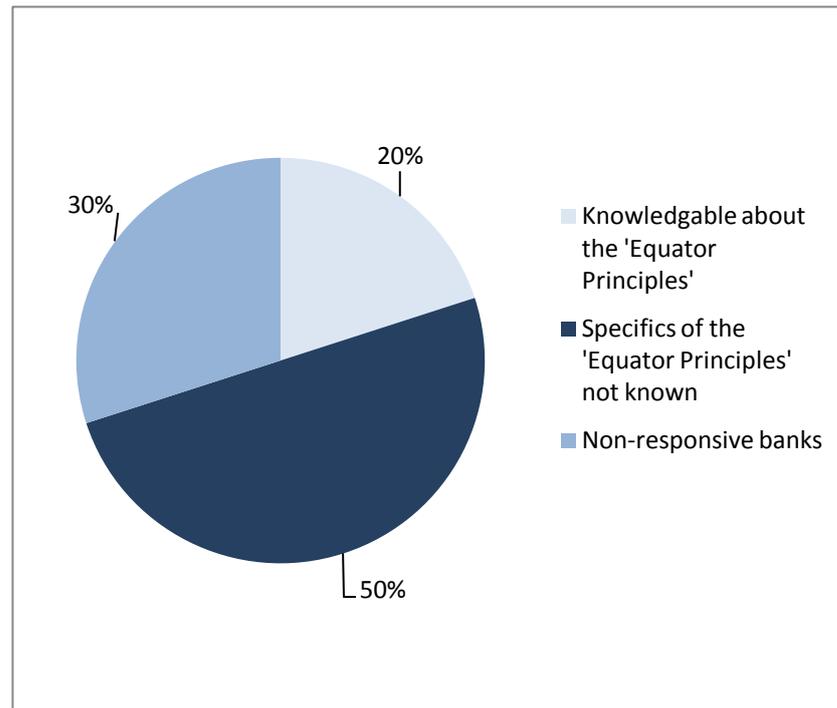


Figure 7.4: Awareness of the Equator Principles amongst India's top 10 banks (based on total assets as identified by Dun and Bradstreet, 2007) (Source: Fieldwork empirical data collection)

Three of the respondents who had heard of the Equator Principles were confused with its meaning, instead, thinking that the guidelines specifically referred to climate change. As one respondent stated, 'the Equator Principles are a new concept for India, the development of carbon credits will take some time but we are progressing' (32). Another leading bank, confidently believed they were well-informed about the Equator Principle guidelines, but followed on to say, 'the World is looking to India and China for the generation of Compressed Natural Gas (CNG), as a bank we support this projection ... some Indian banks have already started ... banks are looking to non-conventional energy' (29a). Climate change, being high on the global agenda, is currently a buzzword in India. For those who had not heard of the Equator Principles, it would appear that they assumed that the guidelines were related to selling carbon credits for companies to offset their greenhouse gas emissions and supporting sustainable energy projects.

Five of India's six fastest growing banks (in terms of growth in deposits 2007) were interviewed. Only one of the representatives from these financial institutions was aware of the Equator Principles and had a knowledgeable understanding of the guidelines (Figure 7.5).

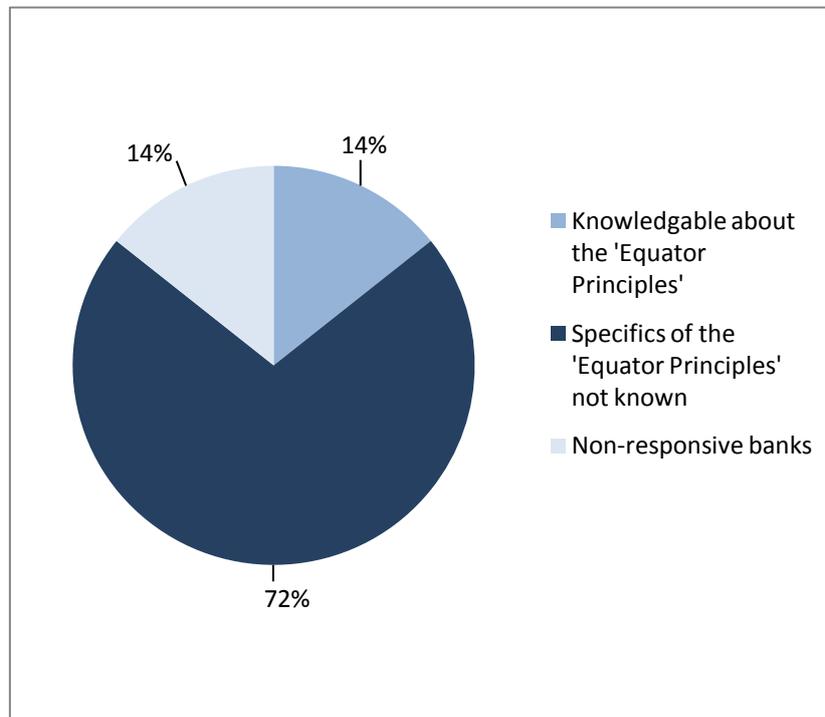


Figure 7.5: Awareness of the Equator Principles amongst India's fastest growing banks (Top 6 in terms of growth in deposits, as identified by Dun and Bradstreet, 2007) (Source: Fieldwork empirical data collection)

7.3 Indian banks and their commitment to environmental issues

This section reviews specific commitments by Indian banks, both public and private, to environmental issues, over and above the environmental clearances set by the Indian government (details of which will be reviewed in more depth in the following chapter).

Since 2004, the Indian government has allowed for the gradual presence of foreign banks into the Indian market. Currently, there are twenty six operating in India, ten of which are Equator signatories (as of September 2008). Representatives from five of these Equator banks were interviewed as part of this research. The Assistant Vice President of Credit Risk at Bank 18a interestingly commented that, 'when I worked at

'37' [an Indian bank] I never heard anything about sustainable development, but '18' sees this as a major part of its risk ... environmental issues are related to money, my money is going to be put at risk.' All of the foreign banks interviewed are committed in some way to sustainability and environmental issues, as Respondent 3 commented, 'we primarily focus on three business areas: food and agribusiness, life science and renewable energy ... renewable energy is going to be big business in India we deal a lot with carbon credits ... we buy carbon credits from Indian projects to sell to international companies who need to offset their carbon footprints.'

Of all the Indian banks, only two (one public and one private) stood out with their commitment to environmental issues. Representatives from Bank 29, one of the largest public sector banks operating in India, were the most knowledgeable about the Equator Principles. During the interview three representatives from the bank were present. The most senior employee however, the Chief General Manager, was totally confused with the meaning and significance of the Principles. The Assistant General Manager, however, was slightly more aware, as he had been given sole responsibility of reviewing the Equator Principles and deciding on possible actions for the bank. This was the only financial institution interviewed that had a designated person responsible for reviewing the guidelines. The Assistant General Manager was proud to announce that although not committing to the Principles, the bank was incorporating elements of the guidelines into its lending strategy. However, when asked specific questions about which of the nine Principles they were implementing, the response given was, 'regulation, compliance, pollution, social impacts, resettlement and safety measures' (29b). Examples were not offered with regard to implementation or the specifics of their strategy. Bank 29 is one of the more progressive banks in terms of responsible lending, in that they have identified a person within the organisation to review the specifics of the Principles; perhaps the next step will be actual Equator commitment and responsible project financing? Despite not making the full commitment to the Principles, they do have a 'green bank policy' which all of their branches engage with, the aim being to reduce their carbon footprint. The bank encourages 'rain water harvesting and energy efficient offices from the headquarters to the branches offices' (29a).

The second financial institution showing impressive signs towards responsible project finance was one of the new age private sector banks, 33. In comparison to Bank 29 which does not advertise the fact that it is 'being green' (there are no website references to any version of the 'green bank policy') a central trait of Bank 33 is its pledge to 'Responsible Banking.' Unlike any other Indian financial institution they declare on their website that they have a strong commitment to sustainability (see extract below):

'33' has a vision to champion 'Responsible Banking' in India where the concepts of Corporate Social Responsibility and Sustainability are embedded in the DNA of the organization and integrated in its business focus. We are committed to adding long term value to society, to differentiate ourselves from the marketplace based on a strong 'sustainability mandate' and to build in flexibility and openness as part of our core strategy.'

Bank 33 is also engaged with global sustainability and leadership forums including, the Clinton Global Initiative (CGI), Triple Bottom Line Investing (TBLI) and Tallberg Forum. Being the first Indian bank to sign the Carbon Disclosure Project they believe they are, 'staying in touch with strategic global initiatives' (33). Bank 33 is one step ahead of Bank 29 in that, since 2005 they have incorporated an environmental and social policy (ESP) into their credit and risk policy which covers the following environmental and social considerations (Table 7.1).

Table 7.1: Bank 33 environmental and social considerations

Environmental considerations	Social considerations
Air pollution	Social infrastructure
Water pollution	Capacity building
Land use and contamination	Indigenous peoples rights
Waste creation / disposal	Rehabilitation and resettlement
Natural resource depletion	Sustainable livelihoods
Energy use and its efficiency	Community development
Climate change	Social issues (child labour, gender issues, remuneration, health and safety, forced labour, freedom of association, discrimination, working hours/conditions)
Ozone impacts and depletion (CFCs, greenhouse effect, ozone)	
Deforestation (carbon dioxide absorptive capacity, habitat and biodiversity, soil erosion, land degradation)	

Prior to enabling a loan, the bank verifies that the proposed activity is not on their prohibited list (see Appendix 13). For all proposals received they undertake an initial assessment using the survey found in Appendix 14. If the bank determines that the activities have the potential for adverse environmental or social impacts then a detailed assessment is carried out (Appendix 15). If the environmental and social risks are too great then the bank will either:

- a) decline to provide any loan, advisory or other services to such customer; or
- b) offer to provide the relevant loan, advisory or other services subject to the condition that the customer shall implement an agreed corrective action plan within a specified period of time.

(Bank 33 ESP)

As the representative for Bank 33 commented, 'the basis for the ESP was international standards including the Equator Principles.' In recognition of their commitment to responsible banking and green issues (since conducting the interview) Bank 33 has won a prestigious award for its commitment to sustainable and responsible finance. Being the first Indian bank to achieve such an accolade, may stimulate other Indian financial institutions to make responsible banking commitments.

Of all the other banks interviewed, commitment to environmental issues was minimal. The main justification for having no environmental obligations over and above the clearances set by the government was that Indian banks don't know how they can participate in sustainability and environmental causes. The Chairman and CEO of Bank 20, for example, remarked that banks do not have a 'list of what is environmentally friendly and what is not ... this is the main problem.' Interview respondents were also asked whether the Narmada Dam construction, a controversial development project (Doyle, 2005) which raised environmental issues to national and international importance, has had any impact on their lending decisions. A representative from Bank 26 commented that it had no influence on their lending outcomes, due to the fact that, 'it will take time to understand their impact ... the impacts will not be known immediately' (26a). Similar comments were made by other banks, giving the impression that they are blaming ignorance, for their continued funding of projects which could have potentially harmful environmental and social consequences.

Educating Indian banks about the Equator Principles is essential. A select few respondents suggested that their bank would consider becoming signatories to the Principles, but as Respondent 26a remarked, 'this will take time and at the moment we don't really understand the implications of becoming an Equator signatory.' Through initiating contact with the majority of the leading Indian banks, awareness of environmental and social issues has been raised. This research has had a positive impact, three banks specifically said that they would consider reviewing the guidelines now that they are aware, as the respondent for Bank 36 commented, 'because you were speaking about the Equator Principles I looked it up ... we should be looking into this.'

7.4 Project finance companies – how environmentally responsible are they?

Indian financial institutions are not the only providers of finance for large scale development projects. There are also a multitude of other financial institutions which readily lend to such projects. Due to the current economic growth in India, infrastructure development is a burgeoning industry; developments within India's cities are expanding at a phenomenal rate. Therefore, it is necessary that project

finance companies are also aware of global environmental and social guidelines. Interviews were conducted with two of the largest companies in the industry, who are approaching the matter of sustainable finance from opposite poles.

Company 11, is wholly government owned and has been in operation for two years. From 2006 to September 2007 they approved financial assistance for 64 infrastructure projects amounting to Rs.14,966 Crore (1 Crore equals US\$208K). Financial assistance is available to the following:

- roads and bridges, railways, seaports, airports, inland waterways and other transportation projects;
- power;
- urban transport, water supply, sewerage, solid waste management and other physical infrastructure in urban areas;
- gas pipelines;
- infrastructure projects in special economic zones;
- international convention centres and other tourism related infrastructure; and
- other infrastructure projects, as may be determined from time to time.

(Source: Website of Company 11)

From a review of the Company 11 website it is evident that they are a leader in the Indian project finance sector with regard to environmental and social issues. On the 'What's new' section of their website, there is a report dedicated to the environmental and social safety framework. They are currently working with a number of influential global finance institutions to implement a responsible finance framework. There are plans for an Environmental Management System (EMS) framework and a Social Safeguards Framework (SSF), both of which will be implemented for sub-projects financed from the Asian Development Bank, for direct lending to projects, re-finance operations and all public and private sector developments. In addition, lead banks and sub-borrowers needing financial assistance from Company 11 will have to conduct their business with both the EMS and SSF in mind. The EMS has four main objectives, firstly, to avoid and to minimise adverse environmental impacts, secondly, to ensure environmental impacts are well mitigated to achieve applicable environmental

standards, thirdly, to comply with the Government of India State laws, regulations and environmental safeguards and fourthly, to provide guidance to other banks and sub-borrowers on these issues.

The EMS framework was discussed during the interview and similarities were made with the Equator Principle guidelines. The Chairman and Managing Director of Company 11 commented that, 'we are helping the people in the long run with the projects we are funding ... the World Bank is very keen for us to work on our environmental and social report.' He also emphasised the importance of the environmental and social clearances when considering lending to a development project. In the case of a major highway for example, 'if the developers do not have the land then the project cannot be completed and we do not get the returns on our loan ... there has got to be security so we need the environmental and social clearances.'

In contrast, Company 7, also a major lender, has rather different views on sustainable finance and adoption of environmental and social lending guidelines. Two interviews were conducted, the first with the Executive Director and the second with the Chairman and CEO, neither of whom had heard of the Equator Principles or had any interest in the conservation of the environment through responsible lending. During the first interview, the Executive Director explained how the company operates, in terms of the standards they use to assign loans, he described that, 'it varies from industry to industry, we use our own judgement ... in that sense it is a bit ad-hoc ... we don't do anything like the Equator Principles in a formal way ... it varies according to what industry and project we are deciding to fund' (7a). Unlike Company 11, they do not see the potential financial threat from funding a project that could in the long or short-term create environmental problems. As the Executive Director explained, 'our primary concern is that our loan is safe, rather than a focused examination of whether a company is complying with environmental requirements' (7a). The second interview, with the Chairman and CEO, was brief, but he clearly emphasised his thoughts on sustainable project finance, 'these things that sound good are things for your day off ... how can you consider these things as serious aspects of business? You should do these things in your private life and not in the company' (7b). He did not

see environmental pitfalls to a project being of risk to his investment, 'a company should be responsible to its shareholders and not look at the amount of pollution generated' (7b).

It is concerning to think that Company 7, one of the largest project finance organisations, does not see the importance of sustainability and environmental issues in the project finance industry. On the website of Company 7 there is the following image (Figure 7.6) suggesting that the company has an environmental ethos. Far from it, the Chairman and CEO himself said, 'leave companies to do what they are supposed to do, that is maximise profits ... the financial sector has so many regulations ... this (the Equator Principles) would just load us with further costs' (7b).

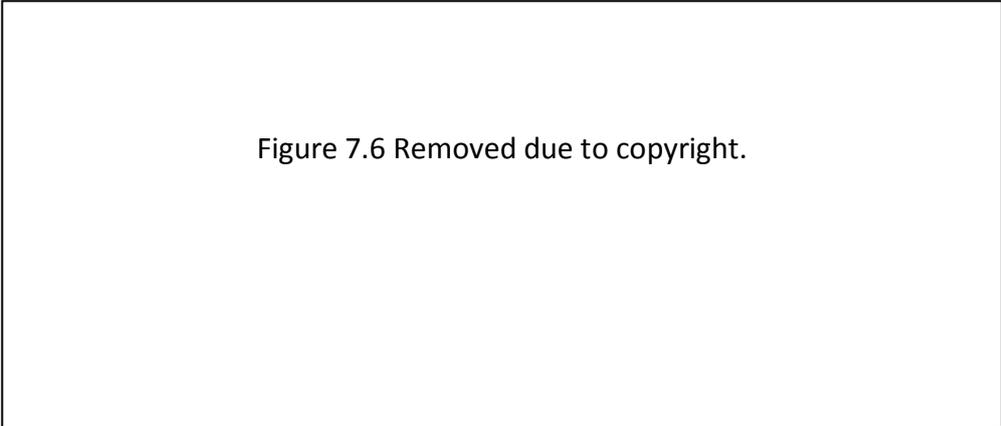


Figure 7.6 Removed due to copyright.

Both of these project finance companies are fuelling the development of India's infrastructure. Encouragingly Company 11 recognised the importance of environmental issues to minimise the risk and safeguard their reputation as a financier. In the case of Company 7, however, it is clear that the views of the Chairman and CEO (with regard to environmental issues) resonate in the company's lending strategy; to develop India at the expense of its natural environment.

7.5 Increasing environmental awareness in India: who should take the lead?

Currently, neither the government nor the private sector is taking the lead in committing to environmental sustainability and responsible lending. Each of the 52 interviewees were asked, 'if there was to be a push towards environmental sustainability in India, do you think it would come from the government or the private

sector?' Not, surprisingly, the responses to this question were varied. There were those who thought it has to come solely from the public or private sectors, however, the minority thought that both need to work together to increase environmental sustainability and awareness.

India's private banks didn't hold back in saying that the government should be taking the lead on India's environmental and sustainability agenda, as the representative from private Bank 27 commented, 'why are people talking to us and getting us to sign the Principles, we are not the problem ... the government has to take a view, individual banks are not going to decide.' Respondent 26a supported this view, with the opinion that, 'predominately this has to be government driven.' Only one of India's emerging private sector banks (21) believed that the private sector has a role to play in encouraging the environmental agenda in India, 'if Bank 34 can do it, then so can Indian banks.' However, it was expressed that this is not a priority at the current time, 'we have got one hundred and fifty other things to do, but three years from now, this may be a positioning which may help us' (21). This is in contrast to Respondent 9 who commented that, 'the Indian private sector is too concerned with profits to be adopting guidelines such as the Equator Principles.'

Several banks, both public and private remarked that, 'commitment to environmental and social issues and responsible lending will have to come from both the private and the public sector' (25). Respondent 3 also commented that, 'it will come from both ... the government is shaping up, it is going to have an impact ... I think the private sector in the mean time is going to find solutions.' On a more positive note, Bank 40 suggested that, 'there is already recognition of environmental issues both in the public and the private sector... further thrusts in the field are expected from both of these quarters.'

The Reserve Bank of India (RBI), fully owned by the Government of India since 1949, regulates and supervises the Indian financial system. There was the general consensus amongst public and private Indian banks as well as foreign banks that the RBI should take the lead on environmental guidelines and the acceptance of global standards

such as the Equator Principles. As one of the foreign banks suggested, 'this has to come from the RBI for [Indian] banks to accept these Principles ... it would be easier to implement if the government took the lead, then the private banks would fall into place' (18a).

In December 2007, a circular was issued from the RBI to all public and private Indian banks, reviewing the lack of Indian commitment to corporate social responsibility (CSR), sustainable development and non-financial reporting. The Managing Director and CEO of Bank 21 received and noted the circular, 'in India everything goes with our government or Central Bank ... there was a circular sent around to all banks recently making them aware of CSR and the Equator Principles.' He commented that the circular advised banks to 'put in place a suitable and appropriate plan of action towards helping the cause of sustainable development' (21). Reading from the circular he stated, 'this is a direction, but not an order ... those who want to engage in this can do' (21, personal communication). Interviews conducted with those working in the field of sustainable finance suggested that if you read between the lines, the RBI does not want Indian banks to engage in global environmental principles.

It has been suggested that the International Finance Corporation (IFC), a prominent actor working towards sustainable finance, needs to take a more pivotal role in encouraging Indian banks to adopt the Principles. In addition to the circular sent out by the RBI, the Indian Banks Association (IBA) together with the IFC, in January 2008, organised a seminar 'Sustainable Financing' aiming to increase awareness of the Equator Principles. However, several of the interviewees noted that this was a failure. As Respondent 27 commented, 'they organise these conferences but nobody turns up, or the people that do show up don't really matter ... people are aware of the Equator Principles but they don't really want to do anything.' Respondent 18a also commented that, 'a few months ago the IFC arranged a talk on the guidelines and the Equator Principles, however, the fact of the matter is that Indian banks were not interested.' Respondent 34 agreed that, 'the IFC could do a lot more.' Given that the RBI released a circular and the IFC organised the conference, the senior management and CEOs interviewed as part of this research, were largely unaware, particularly of

the conference organised by the IFC in January. During the interviews only three of the respondents mentioned the circular and two mentioned the conference, therefore, it was not surprising to find that the majority of high level board executives were unaware of the Equator Principles.

In the minority world, both media and civil society have played a major role in holding financial institutions accountable for their irresponsible lending actions. In India it seems that the media is becoming increasingly interested in these issues. As Respondent 8a, a representative from a large energy company exclaimed, 'the media shout and scream in India if there is a problem with a company or a project.' Respondent 12, a representative from one of the large NGO environmental groups operating in Delhi commented that, 'increasingly the media is becoming educated and companies in India are becoming more weary of the media ... with the release of an exaggerated story, as the media tend to do, this can bring share prices down in a flash.' Respondents also noted that several development projects have been scrapped because of media and NGO attention to the environmental degradation projects can cause.

Several of the interview respondents mentioned that the daily newspapers are littered with 'green' articles. The Times of India, one of India's leading English-reading newspapers, has a section dedicated to the 'Earth'. Within this there are four sub-sections, global warming, the good earth, developmental issues and pollution. From the 4th - 9th September 2008, there were 19 articles related to green and sustainable issues. The headlines, shown in the table below (Table 7.2), signify that the media is really pushing forward the environmental agenda in India. 'Bill to curb plastic bag use in Delhi' and 'Drive with the windows up' (to cut down on fuel costs) are just two examples of modern India being made aware of environmental issues.

Table 7.2: The Times of India 'green' headlines (4th – 9th September, 2008)

The Times of India – Earth section			
Global warming	The good earth	Developmental issues	Pollution
Global warming making tropical cyclones fiercer	Small is beautiful	42 kids die of malnutrition in Madhya Pradesh	Nissan launches first clean-diesel car in Japan
Oz told to cut greenhouse gas emissions	Drive with the windows up	More alternate energy vehicles in future	Havoc in Aravalis as Supreme Court norms are ignored
Chandigarh to become world's greenest city		Pay a voluntary carbon market, make green conscience!	Tata to launch electric car within one year
New fodder for cows to combat climate change		India will avoid 5mn tonnes of CO2 by 2012	Asian pollution could spur US, European warming
Wash dirty linen yourself, combat climate change			Pollution could make your kid obese
Human rights must be at heart of climate deal			Bill to curb plastic bag use in Delhi
			Heavy air pollution reduces rainfall

Indian civil society is also holding companies increasingly accountable for their irresponsible actions, as one Delhi based NGO (6) commented, 'companies are now sitting up and saying, we need to do this.' A number of interview respondents mentioned the impact that The Energy and Resources Institute (TERI) has had on increasing environmental awareness, 'the work that TERI has done has been acknowledged worldwide ... TERI has brought important people together in India to work on sustainable development issues' (3). The Director-General of TERI, Dr. R. K. Pachauri, also Chair of the Intergovernmental Panel on Climate Change (IPCC), in 2007, received the Nobel Peace Prize. On the 2nd September, 2008, Dr. Pachauri, was re-elected for a second term. As Respondent 14 commented, 'these issues are very important ... it has come into the light since TERI got the Nobel Prize ... awareness of environmental issues is really catching up ... civil society, companies and responsible citizens are all talking about it.' The re-election of Mr. Pachauri, an influential figurehead in India will undoubtedly further enhance awareness of environmental issues amongst the Indian people.

Despite the fact that there were positive comments with regard to the awareness of environmental issues, several of the interviewees recognised that India has a lot of work to do in terms of raising environmental awareness amongst the masses. For example, Respondent 21 acknowledged that, 'more people are talking about environmental issues, but people have a hell of a lot of work to do,' and 32 commented, 'awareness is there but not totally, we are becoming alive to the realities.'

7.6 Summary

This chapter has focused on awareness of environmental issues amongst the Indian banking sector but has also touched upon the wider commitment in India. Interview analysis showed that awareness of environmental issues is increasing amongst 'elite' members of society, however, the attitude remains that India has a long way to go economically before individuals, particularly the 'elite' can and should consider the environmental implications of their actions.

The consensus amongst interview respondents was certainly that awareness of environmental issues is increasing amongst the younger generations. However, in every segment of society a dichotomy exists in India, from the elaborate homes of the richest to the corrugated shacks of the poor, their homes are kept in a pristine condition. There is no guilt attached to throwing the daily waste out onto the street, as Respondent 3 openly admitted, 'we are very careful with our home environments, inside our houses, but we don't really care about outside, people just throw their rubbish onto the streets.' Whilst this situation is not unique to India, it is certainly highly pronounced. Positive comments about increasing awareness were matched with suggestions that India's masses cannot be taught about environmental issues, due to the fact that the poor need feeding, before contemplating such concerns. Elite interviewees were also quick to announce that India cannot address environmental issues due to its current stage of development. Respondent 7a bluntly remarked that, 'people in India don't care ... a lot depends on the level of development ... the environment is a luxury ... once we have given three square meals a day to everyone in the country then we can start thinking about environmental issues.' Such statements

from 'elite' interviewees are an excuse for ignoring both global and national environmental problems. Simple acts of cleanliness, particularly from the rich are currently being sacrificed for the attitude of 'wait for the poor to become richer.' However, in order for India to further develop, basic environmental hygiene standards must be met by all segments of society.

Justification for conducting this research was based on the fact that Indian banks are not signing up to global environmental lending standards. From the interviews conducted with the majority of India's leading financial institutions, it is evident that awareness of the term 'Equator Principle' is minimal. In particular it is worrying that only one of India's six fastest growing banks was fully aware of the Equator Principles and had a knowledgeable understanding of the guidelines. Those respondents who had just heard of the term thought that the guidelines were specifically related to climate change and carbon credits rather than the responsible financing of development projects, due to the current national and global attention of these issues. Actual environmental commitments are also minimal amongst both public and private Indian banks, there are currently only two banks which have put in place a formal environmental agenda, one of which is focusing on being 'green' in-house, and the other which markets itself as a responsible bank.

It seems that neither the public or private sector banks are willing to make the first move towards sustainable responsible project financing. In order for the Equator Principles to be adopted, there needs to be more of a drive towards environmental sustainability in India. Each of the respondents had their own view on which sector of society should be leading this movement. There were encouraging comments from NGOs such as, 'civil society, companies and responsible citizens are all talking about it, awareness is growing' (14) but equally there were remarks such as, 'the interest is not there in India, it is beyond the imagination of the people' (21). For the Equator Principles, it seems that the public banks are waiting to be led from the RBI and the leading private sector banks are waiting for someone else to make the first move. As one leading private bank suggested, 'we would definitely adopt the Equator Principles if others do' (26a).

Despite the fact that the RBI issued a circular to Indian banks to outline global financial movements towards sustainable responsible finance and the IFC held a workshop in January 2008 to boost awareness amongst Indian banks about the Equator Principles, understanding is still minimal. Of the banks which were interviewed, the overwhelming majority of the CEOs and Managing Directors were unaware of this workshop organised by the IFC. It became evident through the interview process that if any changes need to be made within the bank, the CEO needs to be aware, as Respondent 18a commented, 'these banks have typically been driven by the top ... environmental and social awareness within these companies has to come from the top.'

Indian banks are optimistic about the current growth in India. A key point is that at the current time there is talk of environmental awareness increasing but there is minimal collective and individual action. For India to further its economic development then the view should be taken that, 'India is part of the larger system and running away from environmental issues is not a solution' (9). Is regulation therefore the answer to making Indian banks accountable for their irresponsible lending decisions? The next chapter reviews current environmental regulation within the Indian context and assesses the compatibility of the Equator Principles to the Indian financial sector.

Chapter 8

Regulating responsible lending

The previous chapter explored environmental consciousness in India concluding that whilst awareness is increasing, particularly amongst the younger generations, India's financial sector has yet to recognise and embrace environmental and social standards. Indian banks do not consider the direct and indirect environmental and social impacts of the projects and the developments they are financing. This chapter reviews existing environmental regulation in India, using the example of curbing pollution levels in Delhi, cited as a success by interview respondents. This leads onto an evaluation of environmental standards within the Indian banking system, reviewing the current process required by the Ministry of Environment and Forests (MoEF). Regulation of the Equator Principles for the Indian context is then considered. In contrast to the existing system of becoming an Equator signatory on a voluntary basis, the majority of Indian bank officials were in favour of the Indian government regulating the guidelines. However, evidence suggests that loopholes and corruption exist in the current MoEF procedure, which negates the responsible lending paradigm in the Indian context.

The relevance of the Equator Principles to the Indian financial sector is also addressed in this chapter. Arguments against Equator adoption were predominantly based on their perceived lack of relevance to Indian banks. Those in favour, however, held the opinion that accountable lending is a banking responsibility whether local or global. This section concludes with a consideration that the Equator Principles need to be ‘tropicalised’ for Indian banks to become signatories.

The overall aim of this chapter is to review regulation and governance within the Indian financial sector, focusing on environmental lending decisions and the relevance of the Equator Principles to the Indian system.

8.1 Existing environmental regulation: Transport in Delhi

Whilst the following example is not specifically related to Indian banks and project finance, it does represent a systemic change in the existing system (in this case the transport sector) due to environmental pressures. A number of respondents cited this case as a ‘beacon of success.’ In the late 1990s, the Capital of India, New Delhi, was one of the world’s ten most polluted cities with estimated pollution levels exceeding specified recommendations set by the World Health Organisation (WHO), fivefold (Jain, 2004). In response, a public pressure group led by the ‘Right to Clean Air Campaign’ protested for six years. Political support was sporadic and events culminated in the Supreme Court passing an order in 1998. The Government of India was forced to place restrictions on public vehicles within the City limits; assign standards for the maintenance of vehicles; gauge fuel quality; withdraw old public vehicles from the existing fleet; commit financial incentives to rickshaw drivers and organise pollution testing laboratories for monitoring and forecasting (Singal, 2007) (Figure 8.1).

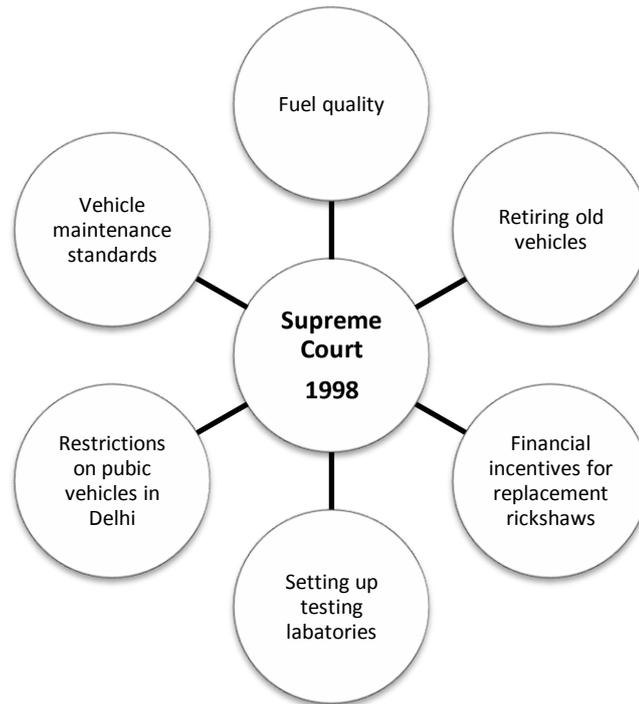


Figure 8.1: Order passed by the Supreme Court in 1998 and the subsequent demands (Adapted from Singal, 2007)

From the beginning of 2001, by the order of the Supreme Court, the Government of Delhi embarked on converting all public buses to Compressed Natural Gas (CNG). To encourage the switch, they ruled that ‘polluters should pay’ (April 2002) enforcing bus owners to pay Rs.500 (\$10) per day for failing to convert to CNG; as of 6th May 2002 this was increased to Rs.1,000 (\$20). By late 2002, the total fleet of 8,096 diesel buses was phased out of the Delhi transport system and had been replaced with 8,874 CNG buses (Singal, 2007) (Figure 8.2).



Figure 8.2: CNG public bus operating in Delhi (Author's own)

The Courts also made it compulsory for all auto-rickshaw owners to hold a 'proof of intent' to show that they proposed to switch to CNG in the near future (Singal, 2007). In addition, taxis, buses and auto-rickshaws older than 15 years were banned from the city limits during peak hours. In order to incentivise the switch to CNG the Government of India offered sales tax exemptions and subsidised loans to auto-rickshaw owners; predominantly the urban poor. To date, public diesel cars have not been prohibited; however, the government is currently considering placing an environmental tax on large diesel vehicles in an attempt to persuade the public to convert to CNG (The Financial Express, 2008).

In 2003, Delhi won the US Department of Energy's first 'Clean Cities International Partner of the Year' award, for its 'bold efforts to curb air pollution and support alternative fuel initiatives' (Jain, 2004: no page). The driving force behind the Supreme Court ruling was the public outcry about the situation. If there is sustained public reaction to an issue, as in the case of pollution in Delhi, then regulations can be enforced, as Respondent 7a commented:

'I was very sceptical at the start, but I think it has certainly made a difference ... but the point is that the traffic situation had to reach unbearable proportions ... the CNG ruling was passed by the Supreme

Court due to public petition ... if there is enough of a will power then it will be done ... the judiciary in India is active in social and environmental issues and it gets its way.'

Ruling by the Supreme Court in this case has undoubtedly made a difference to the air quality in the Capital, this is evident from the fall in five air pollutants from 2000 to 2008 (Dikshit, 2008). In this situation, the Court made an important contribution in pushing the government to implement change (Narain and Granspan Bell, 2005).

8.2 Existing environmental regulation: The Indian financial sector

Environmental and social risks associated with providing funds to infrastructure projects are assessed and managed by Indian regulation and procedures. Currently, development projects are reviewed on environmental grounds by the MoEF, representatives of the State and the Central Pollution Control Board (CPCB). In each case, project developers are required by law to conduct an Environmental Impact Assessment (EIA) in order to give Environmental Clearance (EC) to a project. According to the MoEF (2008: 89) EIAs are conducted to 'ensure environmental concerns are integrated in developmental activities, in order to achieve sustainable development.' The first EIA was introduced to assess the impacts of a proposed controversial hydroelectric dam spanning the Kunthipuzha River in the Silent Valley, Kerala. The development was considered to pose significant threat to the biodiversity and forest ecosystems of the region. In 1980, the development was abandoned and Silent Valley was declared a National Park (Silent Valley National Park, 2008). It seems 'over the years, the system has undergone several amendments to improve the EC process and to make it an integral component of decision-making' (Paliwal, 2006: 493).

Once approval has been granted on environmental and social grounds, the MoEF and CPCB release an Environmental Clearance Certificate (ECC) which is then passed on to the financier. Funds cannot be released until the financial institution has received the ECC from the developer. During the entire process, the State is responsible for the EIA and compliance; unlike the Equator banks, Indian financial institutions are not required to spend any resources on mitigating the environmental and social risks of projects which they agree to fund (Dash, 2008).

8.2.1 *The Equator Principles vs. Indian environmental regulation*

Following the IFC guidelines, the process of mitigating risk is the responsibility of the financier. As identified in Chapter 4, each development project requiring funds is screened and categorised as either A, B or C according to its potential environmental and social risk. Based on this assessment, there are ten Principles which lenders and borrowers must adhere to. Dash (2008) recently conducted a comparative analysis of the Equator Principles and current Indian environmental regulations. Results concluded that the technical requirements such as the categorisation process, the EIA and the procedure of public consultation are similar to that of the Equator Principles. However, Indian regulations are inadequate particularly when considering social standards, labour and health and safety issues (Dash, 2008).

From April 2007 to December 2008, the MoEF received a total of 5,369 project proposals (1,836 of which were pending prior to April 2007), of these 1,412 have been awarded EC, 880 granted Terms of Reference and 579 have either been rejected, exempted or withdrawn (Table 8.1).

Table 8.1: Environmental clearances by sector (April 2007 – December 2008)

Sector	Number of proposals given environmental clearance	Number of proposals awarded terms of reference
Industry	371	316
Thermal power	77	130
River valley and hydroelectric	22	26
Mining	335	398
Infrastructure and miscellaneous	107	-
Construction	500	10
Total	1412	880

(Adapted from MoEF, 2008)

With a similar categorisation and EIA process to the Equator Principles, it seems that the Government of India is protecting the environment from the potential impacts of

large scale developments. Indian regulations are mandatory and legal action can be taken against non-compliant developers. However, Dash (2008) suggests that the EIA reports are so technical that it is unclear what impacts the project will have on the local communities and the surrounding physical environment. In addition, many of the EIA reports are not authentic and public consultation is not carried out. Dash (2008: 27) concludes that, 'corruption and poor monitoring make the system even more inefficient ... clearly the Indian system is not working.' The interview process confirmed the conclusions made by Dash (2008) with numerous references to flaws in the current EIA process (see section 8.4). Given the evidence of corruption and loopholes in the Indian system, would further regulation be the answer to Equator adoption in India?

8.3 Potential regulation of the Equator Principles

The Indian financial sector has a history of closed regulation, with rigid interest rate controls and prescribed directions of credit (Banerjee *et al.* 2004; Demetriades and Luintel 1996; Dossani and Kenny 2001). Prior to 1991 the Government of India owned and controlled over 80 percent of the financial sector, including commercial banks, co-operative banks (rural and urban) and regional rural banks. As discussed in Chapter 5, post-1991 was a period of privatisation and gradual financial reform. However, the Indian government still holds a large stake in the banking sector (75 percent) with the RBI controlling many of the banking activities. Chapter 7 concluded that a high proportion of public and private Indian banks believe the RBI should take the lead on environmental guidelines and the acceptance of global standards such as the Equator Principles.

Considering the historical relationship between the Indian government and the financial sector, it was not surprising to find that 41 percent of respondents were in favour of the Indian Banks Association (IBA) regulating the Equator Principles (Figure 8.3). As the representative from Bank 32 commented, 'all these things would normally be regulated ... there needs to be direction from the IBA.' In contrast, 28 percent of interviewees were against further regulation of environmental standards suggesting that, 'the best regulation is self-regulation' (9). Additionally, 13 percent of

interviewees consider regulation to be necessary at the outset to initiate the shift to responsible lending.

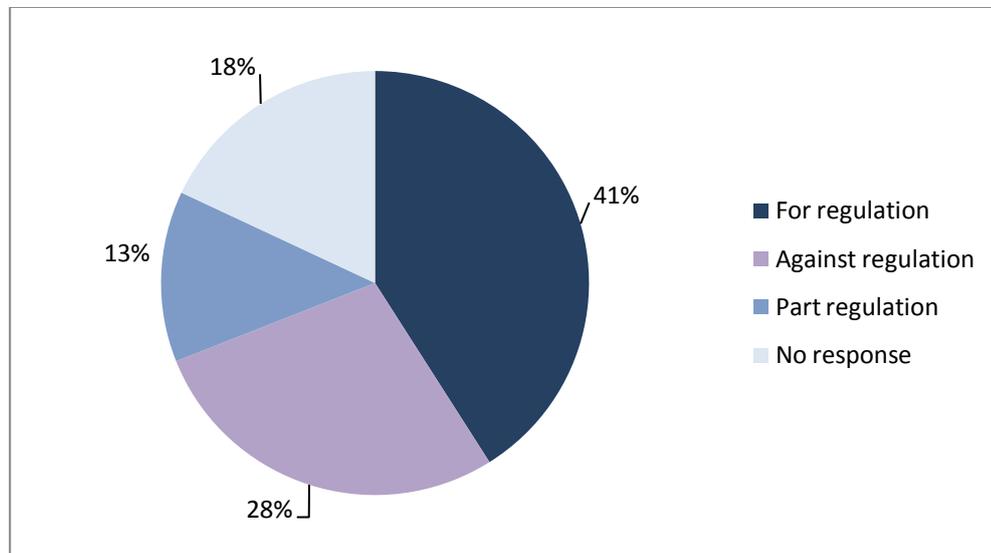


Figure 8.3: Responses of interviewees with respect to regulation of the Equator Principles
(Source: Fieldwork empirical data collection)

8.3.1 Indian banks in favour of regulation

In each banking category (public, private and foreign) the majority of interviewees would like to see the Equator Principles regulated by the IBA (Figure 8.4). Of the private banks, 50 percent called for regulation of the environmental and social lending guidelines, suggesting that with time Indian banks would become more responsible. On several occasions, interviewees referred to the prescribed Key Performance Indicators (KPI) set by the RBI; financial and non-financial metrics used to measure progress towards common goals. The Executive Vice President of Bank 22 stated that, ‘being a signatory to the Equator Principles is not in the KPI ... this year is the International Year of the Planet ... it needs to be made part of the KPI ... it needs to be made mandatory.’ The majority of private banks emphasised the government control to which historically they have been subjected, suggesting that the Equator Principles should come under the remit of the Indian government. As Respondent 36 commented, ‘we have never been pushed ... that is why there are no signatories, from the RBI or the IBA.’ Respondent 20 also remarked, ‘if we were told to sign then we

would agree to sign ... if we have somebody telling us then we will do it ... if it was regulated we would have to.'

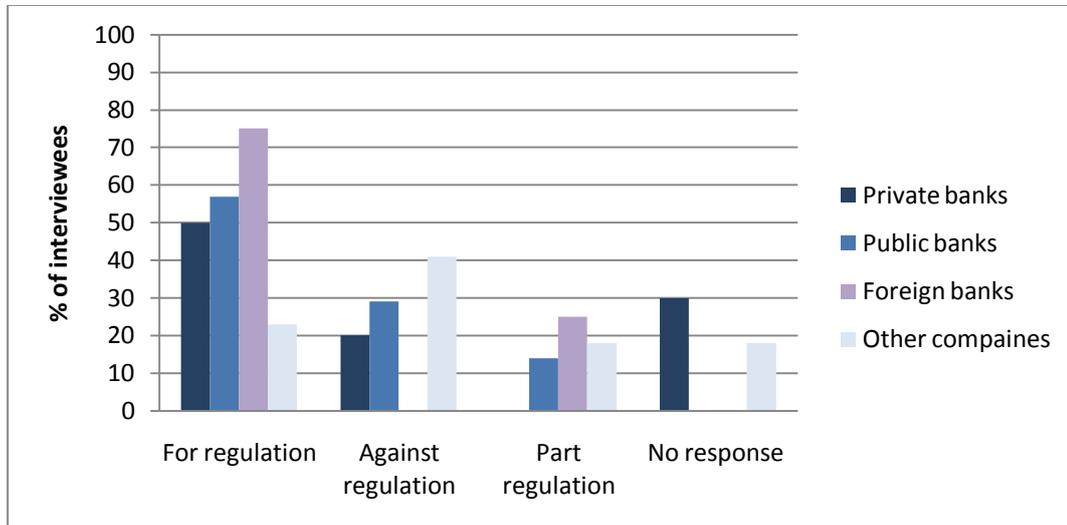


Figure 8.4: Respondents' thoughts on regulating the Equator Principles

Of the public banks interviewed, the majority (57 percent) were in favour of regulating the environmental and social lending guidelines (Figure 8.4). Like the private sector, public banks also referred to the long period of government control suggesting that guidance should be given from the RBI and the Ministry of Finance. Public banks blamed the government for the lack of direction, as Respondent 40 remarked, 'so far we have not received any directive from our regulators on the Equator Principles.' Evidently, there is no pressure in India to become an Equator signatory and the public banks in particular 'need to be told' (29a).

Three of the five foreign bank representatives held the opinion that the lending standards would need to be regulated in India, suggesting 'that it would be easier to implement if the government took the lead' (Bank 18a). In addition, Respondent 34 remarked, 'regulation might be the only thing that would work in India.'

8.3.2 Indian banks against regulation

Of the public, private and foreign banks interviewed, 19 percent were against regulating the Equator Principles, asserting that the best regulation is self-regulation.

The Chairman of Bank 37 commented, 'it is much better if it comes voluntarily ... if it is regulated then it will become a box ticking exercise ... we should be responsible and not told what to do.' In contrast to this opinion, only one representative was against further regulation on the grounds that 'there are too many controls and regulations concerning the environment' (26a).

8.3.3 Indian banks in favour of part regulation

The remaining interviewees favoured part regulation, recognising that, 'if [banks] can do it on their own then great ... but initially some amount of regulation needs to be there' (10). The interviewee representing foreign Bank 3 also remarked, 'to some extent there needs to be regulation, but everything cannot be regulation driven.'

8.3.4 Non-banking organisations: thoughts on regulating the Equator Principles

In comparison to the Indian banks, the majority of other organisations interviewed (41 percent) did not deem regulation as the key to Equator Principle commitment by Indian financial institutions. As Respondent 4 commented, 'it should be voluntary ... not be restrictive,' and 'the banks should be responsible and not told what to do' (37). It was suggested that responsible lending should be initiated by the boards of directors of individual banks and that social pressure should force companies to change rather than regulatory enforcement.

Of the representatives from non-banking organisations, 23 percent suggested that the Equator Principles should be regulated (Figure 8.4). The Chairman and Managing Director of a leading Indian company exclaimed that, 'we pay our taxes, therefore it is the job of the government to implement schemes to help the environment ... financial institutions cannot do this without regulation' (19). Several of the larger companies were concerned that if the Equator Principles were not regulated then a level playing field would not exist; whereas regulation would ensure that, 'competitors spend the same amount of money and time on the issue' (5). Like several of the banks, a number of organisations (18 percent) were in favour of partial regulation, due to the length of time it would take for banks to voluntarily adopt the standards (Figure 8.4). The representative from Company 12, evaluated the current situation in India, 'there is a

need for companies to sign on the dotted line, force organisations ... but I also think it has to be a voluntary mandate, this is a thin line ... voluntary ensures responsibility but mandate ensures accountability ... the carrot and the stick approach works in India.'

8.3.5 Summary

Senior representatives from public, private and foreign banks favoured regulation as opposed to a voluntary approach to adopting the Equator Principles. Despite the fact that the current Equator signatories voluntarily adopted the standards, Indian banks would prefer to be led by their government. Current Indian regulations are in the form of an EIA, a prerequisite for the funding of development and infrastructure projects. With the Indian banking system, it is the responsibility of the developer to obtain the ECC to prove to the financier that the government has conducted the necessary environmental and social clearances. A senior official from one of India's leading banks suggested that if the Equator Principles were to be regulated then, 'there would be full compliance' (30a). However, this statement contradicts research findings and literature on Indian banks and accountability (Dash, 2008). If the Equator Principles were to be regulated in India, would this mean full compliance and greater transparency within the Indian lending system, or would it be 'just another layer of paperwork?' (26a).

8.4 A loophole in the system?

Corruption in India has become a part of life; people 'are ready to pay a bribe to get their work done, or faster' (Rao, 2008: no page). Each year Transparency International publishes a Global Corruption Survey, ranking the corruption levels of 180 countries. In 2008, India ranked 85th, 13 places behind the previous year (Transparency International, 2008). According to research conducted by the Centre for Media Studies (CMS) in collaboration with Transparency International India (TII), within one year, 50 million households below the poverty line (BPL) paid bribes amounting to approximately Rs.9,000M (US\$188M), in order to gain access to eleven of the essential public services (TII-CMS, 2008). Table 8.2 ranks the eleven services in terms of their corruption score.

Table 8.2: Levels of corruption amongst public services

Corruption index (1 - most corrupt)	Public service
1	Police
2	Land records / registration
3	Housing
4	Water supply
5	National Rural Employment Guarantee Scheme
6	Forests
7	Electricity
8	Health
9	Public Distribution System
10	Banking
11	School education

(Adapted from TII-CMS, 2008: 16)

Corruption within the Indian government is common. According to Transparency International India (2007) on a scale of 1 to 5 (1, not at all to 5, extremely corrupt), Political Parties scored 4.6, the Police 4.5, Parliament and Legislature 3.9, Legal System 3.8 and Registry and Permit services 3.7. The least corrupt service according to the survey is perceived to be the Military (1.8). Compared to the results of a similar survey in 2006, the levels of corruption have increased amongst all sectors apart from the Military (Transparency International India, 2007).

At the outset of this research project it was not an intention to delve into some of the corrupt practices of Indian financial institutions. However, corruption would become an issue if Indian banks became signatories; the Equator Principles mean nothing if compliance is not forthcoming. Interviewees were not specifically asked questions relating directly to corruption, however, if suggestive comments were made of corrupt practices then the interviewer probed to find out more details. Of all the respondents, 33 percent made indicative comments of corruption (see Figure 8.5 for the types and number of comments).

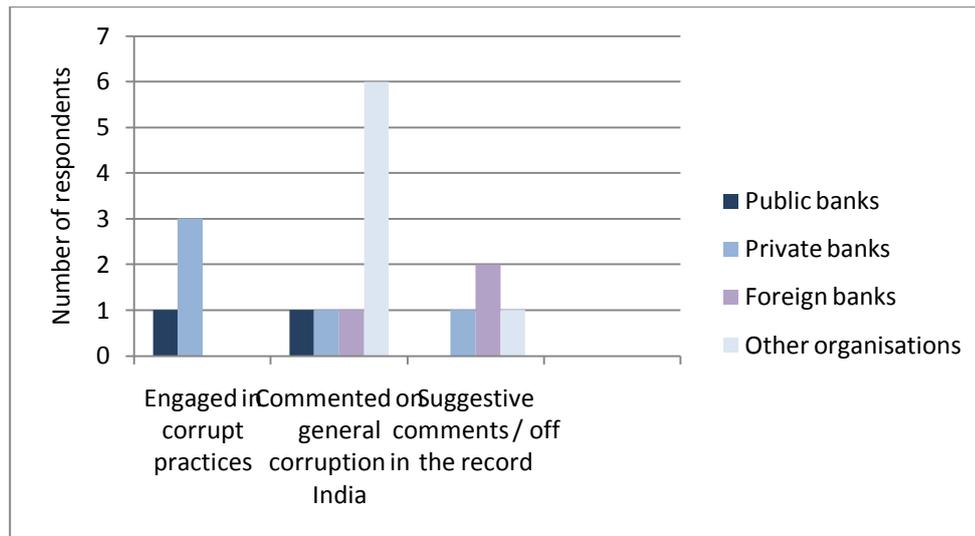


Figure 8.5: The types and number of comments made suggestive of corruption
(Source: Fieldwork empirical data collection)

Nine interviewees directly referred to corruption in India. The Chairman and Managing Director of Bank 10 reiterated much of the corruption literature, suggesting that it is deeply embedded into ‘every part of society.’ He explained that corruption in India began after the Second World War when goods were in short supply, however, he suggested that with increased levels of development corruption will decrease. Respondent 18a made reference specifically to the EIA process, suggesting that, ‘it is easy to get a certificate in India ... corruption is ingrained in people ... it is not going to go away quickly.’

Acquisition of land for development projects also lacks accountability and transparency in India (Baviskar 1999; Dreze *et al.* 2000; Sangvai 2000; Sims 2001). As identified in Chapter 4, the Narmada dam development in central India has caused widespread concern, particularly with regard to land rights and the relocation of its two million inhabitants. The Director of Company 13, commented that, ‘corruption plays a part ... the rates of agricultural and industrial land fluctuate, there are huge amounts of money involved in these transactions ... it is a very unclear and grey area.’ Despite the widespread concern that corruption is deeply rooted within the Indian system, several interviewees were slightly more optimistic; ‘corruption is an issue, but it is not going to last long ... the media is going to get to them ... getting away with these things in India is not as easy as it used to be’ (12). The Chairman and Managing

Director of Company 19 also remarked that, 'in India more and more of the corporate sector is not doing it ... it is risky at the end of the day.'

Not only were there references to 'bottle necks' (14) in the system, four Indian banks (public and private) openly admitted to providing funds to infrastructure projects which had not been passed by the MoEF. As one respondent disclosed, 'to be frank we have provided funds to projects that have not been cleared, clearance is only a bit of paper, bribes and corruption happen ... as long as we have got the piece of paper the funds can be handed over' (9). The representative from Bank 27 also admitted, 'you can pay money and get approval for a project ... I am not saying this does not happen.' When discussing the environmental protection mechanism enforced by the government with the Chairman and CEO of Bank 20, he admitted that, 'we can get the certificates without the mechanism,' emphasising that indeed there are loopholes within the current system of environmental protection in India.

Four respondents made comments indicative of corruption, however, when probed for more details they were not prepared to discuss the situation. Examples of comments included:

'but who signs what, I am not going to comment' (30a)

'it is happening everywhere ... but I don't want to comment on this issue' (11)

'how do you get the approvals? Pay money ... that is how'
[interviewee requested complete anonymity]

Encouragingly, the Chairman and Managing Director of Bank 24 emphasised that they decline project funding based on the absence of an ECC, 'we insist on their being an ECC, it is part of the funding process ... yes projects do get declined if there is not an ECC there.' He also mentioned that, 'if there is no certificate, companies will not even approach us for funding ... they know we require it to loan the money.' As recognised previously in this chapter, in addition to the regulations set by the State, private Bank 33 has an ESP 'which all project financing deals go through.' In June, 2008, they won

an international award in recognition of their positive direction towards the responsible financing of developments projects.

The integrity of foreign Equator signatories operating in India was questioned by several of the Indian banks. During discussions with a representative from an environmental research institute (23), it was suggested that foreign banks operating in India (current signatories) may not be as stringent with the guidelines in comparison to their minority world counterparts. The respondent disclosed details of a conversation with a previous employee of a major foreign bank (34) now working for an Indian private bank (33), 'he said that '34' are not as great as they say they are ... he also said that no environmental clearances passed his desk whilst he was there.'

Existing environmental regulation for project finance deals in India are inadequate. From interview discussions there is a sense that if the Equator Principles were to be regulated in India this would, 'just be another layer of paperwork and corners would be cut' (26a). With the current system 'getting an ECC means nothing,' (9), in order to safeguard the environment and move towards responsible lending within the Indian project finance market, 'the best regulation is self regulation' (9).

8.5 Relevance of the Equator Principles to the Indian financial sector

This research sought to reveal the reasons behind the non-adoption of the Equator Principles by Indian banks; unsuitability to the Indian context has been cited as a possible rationale (Sanyal, 2008). The previous chapter highlighted that awareness of the Equator Principles was minimal amongst senior officials of Indian banks. For this reason, it was difficult for interviewees to respond to questions directly relating to the relevance of the guidelines. For those who had not previously heard of the term or had not researched the Principles prior to the interview, a broad overview of the ten guidelines was given and an explanation of what being an Equator signatory entailed.

Fourteen respondents were able to comment on the suitability of the Principles based on prior understanding (Figure 8.6); 28 percent (4) of which believed the Principles to be unsuitable for the Indian context; 36 percent (5) thought elements of the guidelines needed to be adapted to make them more relevant for the Indian financial system and

36 percent (5) thought that they should remain as a global standard, and exceptions should not be made on a country-by-country basis.

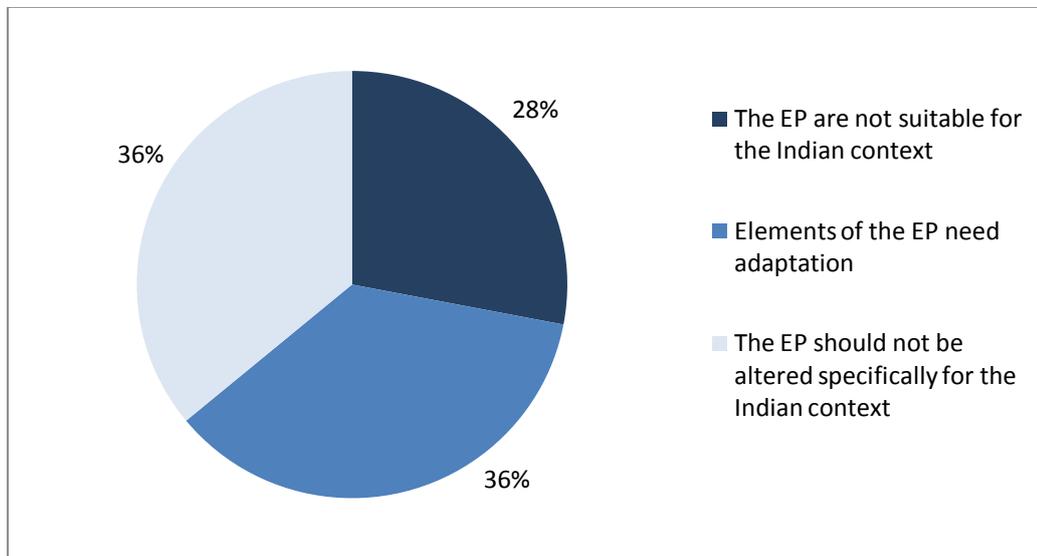


Figure 8.6: The relevance of the Equator Principles to the Indian context, views of respondents
(Source: Fieldwork empirical data collection)

Reasoning behind Indian banks not adopting the Principles included, ‘environmental and social needs vary[ing] significantly in India,’ (1) and, ‘the Equator Principles are very specific to a moment in time, a specific location and community’ (8a). Two respondents with prior understanding of the guidelines, specifically compared the situation in India to the minority world, stating that, ‘the Equator Principles will not work in a country like India, we are working in a very different environment,’ (9) and ‘India has a lot of catching up to do ... [the Equator Principles] are not relevant’ (30c).

In contrast, other interviewees believed that the global lending standards should not be altered exclusively for Indian banks; ‘Indian financial institutions cannot get away with saying, they are not relevant ... the Equator Principles are a set of guidelines for the banking sector, so there are going to be some similarities ... this is acting irresponsibly’ (14). The respondent representing private Bank 36 also commented, ‘it is relevant to India because we are doing big projects, if we don’t care for the environment now it will be too late.’ In comparison to the view that Indian banks

should reject the guidelines on the basis that they have a minority world underpinning (the views of 1, 8, 9 and 30), the Chairman and Managing Director of Bank 24 stated, 'there is no reason for Indian banks to reject the Equator Principles, just because they have been designed by the west.'

Remaining respondents who were able to comment on the relevance of the Equator Principles considered adoption to be feasible; however, for the Indian situation modification is required. As one interviewee suggested, 'there is need for Indianised Principles ... the whole state of play is different in India ... an Indian version would be more important for us ... we need a standard to think global and act local ... Indian financial institutions need to have a standard they can relate to' (12). More specifically, the official speaking on behalf of Organisation 2 highlighted a potential pitfall in the current guidelines, 'particularly when it comes to PS5 [Principle 5: Land Acquisition and Involuntary Resettlement] ... in India, land is very scarce and there are 700 million people living on less than US\$2 per day ... when it comes to resettling these people it is very tricky ... PS5 deals with a very sensitive issue which is spatially specific.' The representative from foreign Bank 34 summed up these comments by suggesting that the Equator Principles should be 'tropicalised' to make them culturally sensitive to the Indian situation.

At the initial Equator discussions in 2002, no Indian banks were invited to the table to consider responsible project finance; those present 'were banks in the northern part of the globe facing similar problems' (34). This has been one of the main reasons cited for lack of Equator awareness in India. As the respondent from foreign Bank 34 remarked, 'we can't hold it against those who haven't adopted, we need to come to a common agreement ... the views of those who have not adopted need to be incorporated.'

In summary, it has been suggested that the guidelines need to be tropicalised to make them more culturally specific for the Indian context. However, there is the view that this tropicalisation needs to originate from the Indian banks; 'somebody has got to work with the Indians to find a solution' (27). Whether Indian banks adopt the current

set of guidelines or a more localised and culturally specific set of Principles, the theory behind the Equator Principles as a set of environmental and social lending standards are as relevant to a major international bank as they are to a local Indian bank; 'responsibility is everyone's business' (26a).

8.6 Incentivising the Equator Principles

Current signatories to the Equator Principles adopt the standards on a voluntary basis, motivated predominantly by reputational risk. Leading financial institutions could no longer afford to be funding large scale infrastructure projects with no concern for environmental or social welfare; their corporate reputations were being compromised in the process (see Chapter 4). Officials from Indian banks were asked what would encourage them to become signatories. A range of responses were given, however, the majority favoured a system of incentives attached to being a responsible lender.

Several respondents thought that continued external pressure would encourage Indian banks to become signatories. As the official representing Organisation 2 suggested, 'wanting to be a part of the global, may encourage Indian banks to adopt ... Equator has common understanding ... instant recognition.' However, as previously identified in Chapter 7, the IFC has made numerous attempts to encourage Indian banks to commit to the guidelines, through the organisation of a workshop in January 2008 and discussions with the banks. In contrast, several interviewees commented that external pressure will not work, 'India thinks it knows everything, they have a can do mentality ... it is hard to predict what will happen' (2).

Indian banks were, however, in favour of attaching a materialistic incentive to the Equator Principles. As the Executive Vice Present of Bank 22 suggested, 'there has got to be incentive to do this stuff ... banks should be graded or ranked and banks should get awards with regard to these issues.' A foreign bank representative commented that Indian banks would adopt the guidelines, 'if they see the money, if they see the incentive, if they see a game, then they will participate' (34). The respondent from Bank 26a also remarked, 'in India there needs to be a structure of incentives and penalties ... Indians need a nudge.' Interestingly, of the banks which mentioned an

incentive structure attached to the Equator Principles, all but one was an Indian private bank, none of the public banks mentioned incentivising the guidelines. The respondent representing Bank 20 further reiterated the corrupt nature of regulation in India and suggested that ‘an incentive would be better ... if there is regulation then there is a tendency to find a loophole ... an incentive scheme would be constructive.’ It is recognised that incentives and league tables establish ‘a competition mechanism and exert pressure’ (People and Planet, 2007: no page) on companies, thus helping to increase awareness and standards.

8.7 Discussion

One of the greatest challenges for the Equator Principles is the lack of support from financial institutions in emerging economies. Much of the publicity surrounding the Equator Principles suggests that the current signatories control 70 to 80 percent of the cross-border international project finance market. However, as Chapter 10 will highlight, large Indian and Chinese development and infrastructure projects are increasingly being financed by local banks in local currency (Burrett 2006; Jones 2005; Orr and Kennedy 2008). This chapter aimed to review the current regulatory framework in India and asked, going forward, how can India participate in the move towards responsible financing of large development projects?

One of the greatest environmental regulation success stories in India has been the banning of diesel public transport vehicles in Delhi, and the replacement of 8,096 diesel buses with a fleet of CNG vehicles from 2001 – 2002. In recognition of their bold efforts, Delhi in 2003 won the US Department of Energy’s first ‘Clean Cities International Partner of the Year’ award. Currently, the MoEF regulates the process of project lending. Despite the fact that there are similarities between the MoEF and the Equator Principles, particularly with regard to the categorisation of projects, the EIA, environmental management plan and the public consultation process, there are ambiguities with social standards, labour and health and safety issues (Dash, 2008). The main difference between the procedures is that the Indian EIA places no responsibility on financiers; in comparison to the Equator Principles whereby banks can be held accountable for irresponsible project finance deals. From 2007 - 2008, 579

projects were rejected by the MoEF, thus no certificates for these developments were issued. However, conversations with officials from both public and private Indian banks suggest that there are loopholes in the current system, making one question how many of the 579 rejected projects have actually been abandoned. As the Managing Director of one of the leading project lending companies commented, 'there are policies in place and if you talk to the MoEF they are there ... but bla bla bla ... you just have to step outside and you will see a very mixed bag ... there are also differences not only on the country level but also between individual states ... I am sure you won't find a uniform answer to all of this' (7a).

With the current system there are no penalties attached to Indian banks providing funds to projects without the necessary documentation. Therefore, it is not surprising to find that Indian banks would prefer the Equator Principles to be regulated. Much of the existing literature (Banerjee *et al.* 2004; Demetriades and Luintel 1996; Dossani and Kenny 2001) concurs with the interview material, suggesting that Indian banks are permanently looking towards the Government of India for direction; 'stemming from the long period of control,' (37) whereby, 'Indian banks have always had a framework in which to operate' (29b). Encouragingly however, 28 percent of interview respondents recognise that the best regulation is self regulation, acknowledging that 'voluntary acceptance would be much better than law enforcement' (36).

This chapter has also addressed the relevance of the Equator Principles to the Indian context. Several of the high level officials are resentful that no Indian banks were invited to the initial roundtable Equator discussions; attended solely by minority world financial institutions. Perhaps if representatives from emerging market countries were involved in the design of the Equator Principles, then Indian banks would be more inclined to become signatories on a voluntary basis and contribute to responsible development. One foreign bank remarked, 'we can't hold it against those who haven't adopted, we need to come to a common agreement ... the views of those who have not adopted need to be incorporated' (34). There were suggestions that the Equator Principles could be adapted to suit the Indian situation; 'they don't need their own set, but there is room for tweaking ... tropicalise it' (34). This is an interesting concept to

tropicalise the environmental and social lending guidelines, although once again this is an idea originating from Europe and North America. In order for this to be a success, it must originate from the Indian banks themselves, as one of the leading officials from private Bank 27 remarked, 'somebody has got to work with the Indians to find a solution.'

Much of the literature surrounding the Equator debate suggests that current signatories voluntarily adopted the guidelines on the basis that they could no longer afford to be financing projects without gauging the environmental and social risk; corporate reputations were being compromised (Abbott *et al.*, 2005). Despite the fact that Chapter 7 concluded that environmental awareness is increasing in India, the level of environmental concern is far behind that in the minority world. Voluntarism was a success in gaining Equator signatories in the minority world because of public environmental awareness and a 'backlash over a rising number of controversial projects' (Abbott *et al.*, 2005: 1) this is not the case in India. If the Principles were not regulated in India then the guidelines would need to be organised around an incentive or rewards scheme to arouse interest from the Indian banks. In light of the corruption, which occurs with respect to the current environmental and social safeguard procedure, an incentive programme attached to being a responsible lender is required for the Indian context.

The research has identified flaws in the current system of environmental regulation in India; whilst it might be easy to set prescriptions, implementation on the ground is problematic. Currently, public sector Indian banks are looking for direction from the RBI and leading private sector banks are waiting for others to make the first move towards responsible project finance. However, if Indian banks are to operate on an international scale and increasingly participate in the global economy, it is important that they recognise their responsibilities as global corporate citizens. Indian banks have significant influence over the safeguarding of fragile social groups and environments across Asia and beyond. The next chapter considers corporate social responsibility (CSR) within the Indian context. Dedication from a diversity of industries is needed to achieve a credible environmental and social framework in India and

ultimately to encourage financial institutions to commit to sustainable project finance. Corporate social responsibility is addressed in the context of exploring the challenges and opportunities which large businesses and financial institutions face, operating in a country which is home to approximately one third of the world's poorest people.

Chapter 9

Corporate Social Responsibility: evidence from an emerging economy

Previous chapters have focused on the lack of commitment from Indian banks to international lending standards. In order for them to recognise the importance of the Equator Principles in infrastructure finance, a wider commitment to environmental and social issues is needed in the Indian corporate sector; also referred to as corporate social responsibility (CSR), a responsible approach to all aspects of business. This chapter reviews the current commitment to CSR in India to shed light on the direction Indian banks may follow with regard to a commitment to responsible lending in the future.

The first section highlights recent discourses from the CSR literature and makes comparisons with the themes drawn from the interview material. Three case studies are presented in this chapter. The first, Tata, heralded as a leader of CSR in India, second, AIS Glass, India's largest glass manufacturer, less well known, however, for its integrated CSR programme, and Muktangan an NGO which receives support from a number of corporations. Dedication to CSR within the Indian banking sector is then

examined. General trends are depicted and several examples are presented to show the inward commitment that a number of Indian banks are making to wider societal development. The fourth section focuses on the influence of globalisation on CSR, particularly with regard to the use of web based advertising and marketing. The chapter concludes with an examination of the future of CSR in India and the role of Indian companies and financial institutions in the country's socio-economic development.

9.1 Corporate Social Responsibility in India: emerging themes

As identified in Chapter 5, India has a diverse and distinguished history of CSR. In the early 1900s it was viewed as more of a religious commitment, whereas today it is characterised partly by India's traditional attachment with philanthropy but also the integration of minority world CSR approaches into Indian business models (Sood and Arora, 2006). Recent literature on CSR predominantly focuses not on its multiple guises but ways to measure its impact on economic and social development (Blowfield 2007; Lodge and Wilson 2006). This is thought to be critical for the development of CSR and its integration into business strategies, 'especially in the context of [its] relevance to developing countries' (Blowfield, 2007: 683). Debates surrounding the link between business and development are predominately split into two camps. There are those who propel Milton Friedman's argument that the only responsibility of business should be to make as much money for the shareholders as possible (Levitt, 1983). In contrast there are those who withhold that the firm has a pivotal role to play in society and development (Newell and Frynas 2007; Blowfield 2007; Carroll 1999). Interestingly, in recent months, the responsibility of businesses particularly banks has come into the spotlight due to the current economic situation. Chapter 10 will review this in greater detail, specifically looking at the potential impacts of the credit turmoil on the commitment made by companies to CSR and responsible lending.

From the analysis of the interview material, four themes are identified with reference to the current state of CSR in India and its longevity amongst Indian corporations; ranging from a Friedman inspired egotistical approach to a positive altruistic attitude. The four themes identified were as follows:

9.1.1 *The role of business is to maximise profit*

Friedman (1962) suggests that the social responsibility of business is to maximise profit. He argues that 'few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money as possible for the stockholders' (Friedman, 1962: 133). In addition, he asks, 'if businessmen do have a social responsibility other than making maximum profits for stockholders, how are they to know what it is? Can self-selected private individuals decide what the social interest is?' (Friedman, 1962: 134). Several of the interviewees favoured this approach to business; however, of the four themes identified, proponents of this attitude were in the minority. The Chairman and CEO of Company 7, a financier of Indian infrastructure proclaimed that, 'a company should be responsible to its shareholders and not look at the amount of pollution generated ... leave companies to do what they are supposed to do, that is maximise profits' (7b). On several occasions interviewees mentioned that they were undertaking CSR through their compliance with statutory employment laws. As Respondent 7b exclaimed, 'we have to employ 50 percent of our workforce from the lower social strata, regardless of educational achievements, you could call this our CSR.' He concluded that, 'Europe has gone too far, companies are suffering, the economies are suffering, Europe has to get back to the capitalist values ... they have gone too far on the social side' (7b).

9.1.2 *Philanthropic commitment*

Much of the literature surrounding CSR in India suggests that it is deeply rooted in a philanthropic historical context (Mohan 2001; Chahoud *et al.* 2007). A number of respondents were also proponents of this suggesting that corporate donations and charitable acts are nothing more than philanthropy, often sporadic and not well executed. A company donating a certain percentage of their annual turnover is thought in the literature and by interviewees to be inherently unsustainable. As Respondent 2 remarked, 'these companies who are purely doing philanthropy but say that they do CSR, is like putting a plaster on a haemorrhage.' Whilst acts of philanthropy certainly do make positive contributions to worthy causes there is the

general consensus that philanthropy does not encourage independence or innovation, as Visser (2009: no page) explains:

‘CSR should be about how you make your money not whether you give it away once it is made. Companies and their leaders should be judged on who they trample on and what they destroy in the process of making money, not who they keep once they have succeeded at all costs. Writing cheques is easy. Running a sustainable and responsible business is hard.’

A number of respondents also commented on the difference in attitude between large companies and the ‘sense of caring fatigue which can be seen on the streets’ (4) as depicted in Chapter 7. Respondent 2 commented, ‘general society worships the God of Lakshmi, they pride themselves in spirituality but this doesn’t translate into caring for society ... there is no sense of shame about the beggars which line the streets.’

9.1.3 CSR behind closed doors

The third theme emerging from the interview material is the link between CSR and Indian culture. Whilst CSR might not be as visible as in minority nations, certain Indian companies are responding to societal needs through their CSR agendas. Prior to each interview an Internet search was conducted to see if the particular firm was engaging with CSR. On the majority of websites no public commitment could be found, but on numerous occasions CSR was alive within the organisation, occurring ‘behind closed doors’ (4). Respondents felt that their companies were social development agents, but felt no drive to publicise their acts of good; in these cases, the companies are doing it because they have to. For instance, public Bank 9 is one of those silently engaging in CSR. On their website they declare, ‘a good bank is not only the financial heart of the community, but also one with an obligation of helping in every possible manner to improve the economic conditions of the common people.’ Despite the various projects which they are involved in, there is no further explanation of their commitment to CSR on their website.

9.1.4 Integration – a new business generation

The fourth theme suggests that although historically India has a long tradition of CSR, Indian business is currently in a transition phase whereby iconic business leaders are further embracing CSR; adopting a more sustainable approach to their business strategy. The Executive Director and Chief Economist of Company 16 suggested that previously companies supported charities to offset bad business practices however today, 'alignment is the new generation of the way to do business.' Visser (2008b: no page) also recognises a shift in CSR, he terms this CSR 2.0 suggesting that it is, 'the creation of scalable solutions to the world's most urgent and intractable problems ... unlike the defensive, incremental, risk-based CSR of the past, CSR 2.0 rides the wave of emerging responsible and sustainable markets.' Whilst it may take some years for CSR 2.0 to reach the Indian context, this research has identified several beacons of integrated CSR, encouraging independence, innovation and development.

9.2 Leading Indian companies and their approaches to CSR

Prior to reviewing leading Indian financial institutions and their approaches to CSR, it is necessary to consider the commitment by Indian corporations in general. In line with multinational companies advocating their responsible approach to business, as well as the Indian media becoming attuned to reporting irresponsible business practices, CSR in India is on the rise. Despite differing agreements as to the company and societal value of CSR, 'there are some good cases [of CSR] coming from the [global] south' (4). Two case studies are presented of influential Indian companies which in differing ways are acting as agents of social development. The first, Tata, an Indian multinational, heralded as a beacon of success in the Indian CSR literature and the second, AIS glass, a household name, but not for its CSR activities. Both of these examples illustrate that there are Indian companies who are being good corporate citizens not just because of the reputational benefit such acts bring. It is possible that these examples are few and far between in this emerging economy; however, lessons can be learnt from the creative and innovative approaches which Tata and AIS glass have adopted in becoming good corporate citizens.

9.2.1 Case study: Tata Group

The Tata Group is one of India's oldest and largest business conglomerates, comprising of 96 companies, employing 350,000 people across the globe (Tata Group, 2008). Eight interviewees specifically commented on Tata's approach to its business success. Respondent 6 commented, 'the Tata conglomerate is genuinely interested in CSR, they view it as critical to their business process.' In addition, Respondent 7a remarked, 'Tata take CSR very seriously, [it] has been their ethos right from the beginning, they have always been a responsible corporate citizen ... all the Tata factories are spick and span.' Other comments included, 'they have been following a socially responsible model but not using the CSR terminology ... Tata is a very respected company in India with regards to what they have done for the society in general' (13). In addition, 'the slogan for Tata Steel is 'we also make Steel'' (12).

The Tata Group is renowned for conducting business in a responsible manner and has set a benchmark. The 96 companies have a common CSR direction (driven by its founder); however, they have their own individual programmes and initiatives. As part of the research, interviews were conducted with the Vice President and Global Head of Corporate Sustainability and the Senior Manager of Global Resources from Company 28, one of the Tata conglomerates. Unlike other corporations, Tata does not refer to their actions as CSR, instead the Vice President explained that they use the term Corporate Sustainability (CS) because, 'if you don't do it, you don't survive' (28b). Company 28 engages with three types of CS. Firstly, philanthropy, however this approach is not one of their 'main ways of doing CS, although if a hospital is in dire financial needs then we will give' (28a). Secondly, they engage with stakeholders, particularly academics. Through partnering with engineering colleges and designing the courses, in 2008 Company 28 hired 35,000 engineers, as the Senior Manager remarked, 'this is sustainability.' The third type of CS engaged with is large scale societal problems. The Vice President gave their response to the devastating Tsunami in 2004, 'when [it] hit we used our GPS to map areas which needed assistance ... we identified the diseases that were spreading in these areas and sent doctors.' The Senior Manager added, 'we are still helping some of these areas, it has got to be sustainable, not just help and leave ... we showed people how to make a water filter

from burning husk, to stem waterborne diseases' (28a). An additional programme which utilised the expertise of Company 28 is the 'Cognitive Recognition Literacy Programme,' aiming to make an illiterate person literate in 30 - 45 hours and combat the 200 million illiterate in India. Initial research conducted found that 'traditionally it requires 200 hours of instruction, up to two years to make a person literate, which leads to high drop-out rates' (TCS, 2006: 2). With this considered, in 2002, a scheme was launched which uses visualisation techniques and sound patterns to encourage learning (TCS, 2006). The scheme is free for those enrolled, and due to its technological input, teachers do not need to be trained (Figure 9.1). In partnership with MS Swaminathan Research Foundation, the programme is being rolled out to 600,000 villages across India. At a recent CSR awards ceremony one of the judges remarked, 'this goes far beyond traditional corporate philanthropy by focusing on how the company's own core business expertise and technological innovation can contribute to a social cause ... this is a model example of third generation corporate citizenship' (TCS, 2008: no page).



Figure 9.1: Cognitive recognition literacy programme, Tamil Nadu (TCS, 2008)

Corporate Sustainability at Company 28 also involves a commitment from the employees. In 2008, a CS week was held in each office around the world, 'reminding

people of the work that [Company 28] does through CS ... it was a resounding success in promoting awareness' (28a). As part of the employee engagement scheme, there is a 'Maitree' network of 36,000 employees working in thirty two offices across the globe on five continents. Maitree, meaning friendship, began in 2002 and was founded by, 'Mala Ramadorai, an educationalist ... who decided to start an organisation to connect and support the spouses of [Company 28], many of whom had to move outside India and adjust to a different culture at short notice.' For those working in the Mumbai offices, employees can choose to volunteer with six organisations, predominately focusing on education. The Maitree network, operational for three years, has 1000 volunteers globally, with 70 working in Mumbai. As part of the research, the NGO 'SUPPORT' (Society Undertaking Poor People's Onus for Rehabilitation) was visited by the author to experience first-hand the impact of staff volunteerism and donations from companies operating in Mumbai. This particular NGO receives assistance from three of the companies interviewed, as part of their CSR agendas, including Company 28, whereby members of the Maitree network volunteer for two hours each weekend.

9.2.2 SUPPORT

Founded in 1985, SUPPORT has worked with street children and homeless youths to combat drug addiction and to prevent the spread of HIV/AIDS. The organisation offers medical, emotional and physical support to 'children aged five upwards who are addicted to drugs [and have] run away from their homes for a variety of reasons ... children living in extreme poverty' (35). SUPPORT is one of the few organisations in India which offers a residential rehabilitation programme for street children using drugs. As an employee from SUPPORT explained, '[children] get on a train from their village and the last stop is Mumbai ... they end up here and other children pick them up. On day one they may give them some food, but on day two they say you have to fend for yourselves, beg and steal.' The children are soon exposed to solvents, heroin, cannabis, tobacco and alcohol, as Respondent 35 explained, 'if they don't spend the money they get instantly, then the older boys will steal from them ... they become addicted to the stuff they chew/spit, also on harder drugs.'

The vision of SUPPORT is to, ‘provide substance-using children and/or HIV affected street children and homeless youth, a recovery process that integrates them into mainstream society’ (SUPPORT, 2006: 3). The organisation operates several day care centres on the platforms of two of the largest railway stations in Mumbai, Chhatvapati Shivaji Terminus (CST) and Dadar, supporting in the region of seventy children per day. The children are provided with a mid-day meal, clothes and access to a doctor. Staff are trained to encourage and motivate the children to undertake the SUPPORT rehabilitation programme. If they accept the offer, they embark on a residential detoxification ‘lasting from two to four weeks ... during this time they do not go to school, we just focus on weaning them off the drugs’ (35). After detoxification, they are sent to the rehabilitation centre. There are two such facilities, one for girls and one for boys, caring for 130 in total (Figure 9.2). Here they learn about personal development, hygiene and recreational activities. At the end of the six month programme, the children are either sent to school, work, vocational training, become peer educators or are sent back to their homes (SUPPORT, 2008).



Figure 9.2: SUPPORT, female rehabilitation centre (Author's own)

Without the financial and volunteer support from companies such as 28, this project would cease to exist. The cost of caring for each child (food, medical needs and carers) is between Rs.2000 and Rs.3000 per month (US\$42 - \$63). In addition, the organisation has to cover the rent of the centres. Space is at a premium in Mumbai, and rental prices are equivalent to cities such as New York and London (World Development Report, 2009). SUPPORT is appreciative of any form of corporate assistance, as one representative commented, 'some do not give money, but give time through volunteers, or take the kids on outings and picnics.' Company 34 for example assists financially with the day to day running of SUPPORT through their employee donation scheme; 'staff are asked to donate some of their pay ... [the company] then matches this each month.' Whereas Company 28 'provides a good volunteer system' (35). The Director of SUPPORT emphasised that, 'with funding agencies, they fund for one to three years and then move on, but the corporates are in it for the long term, it is a sustainable project with their support ... we can do this because of them' (35).

The children cared for at SUPPORT live, sleep and overcome their addictions in very cramped conditions; improved facilities are certainly needed. Despite this and the fact that SUPPORT only touches the lives of a small number of Mumbai's street children, if it were not for the companies and their CSR objectives, SUPPORT would cease to exist. A number of the children have been housed at the centre for ten years, now educated and trained in a skill their chance of employment is much improved. Several of the older residents are now employed to motivate and encourage their peers. In addition, the cooks now working at SUPPORT have also been through the rehabilitation programme (Figure 9.3). As previously mentioned, donations and funding as a form of CSR has been criticised in the literature, however in this case, the money is certainly making a difference to lives of the Mumbai railway children.



Figure 9.3: Former railway children, now employees of SUPPORT working in the kitchen (Author's own)

9.2.3 Case study: AIS Glass

The second case study is AIS Glass, the largest integrated glass company in India, recognised as 'the leading supplier of auto-glass to most passenger car manufacturers, supplying 80 percent of their requirements' (AIS, 2008: no page). Unlike, Tata, they are unknown for their CSR initiatives. AIS Glass has been operational in the Delhi region for the past twenty five years and the board recognises that in order for their business to survive and grow in the long-term, considerations have to be given to the environment and society within which they operate. Currently their CSR agenda is focused on their headquarters, located in Gurgaon, employing 1000 workers. However, there are plans to 'extend [this] to their other plants and surrounding communities' (16a). Their strategy is termed the AIS Integrated Community Development Programme (ICDP), aiming to 'enhance the quality of life and well-being in the community by providing services and enabling community participation and

leadership to mobilise government' (AIS, 2007: 2). To achieve this, AIS has four strategic objectives:

- 1) Provide quality services in an equitable and efficient manner
- 2) Create leadership in the community by establishing and strengthening community institutions
- 3) Develop community participation through the promotion of volunteerism and cost-sharing arrangements
- 4) Institutionalise the interface between community institutions and the government for convergence of efforts

(AIS, 2007: 3)

Focusing on five areas (environment, health and safety, education, water supply and sanitation and community development) AIS glass is leading the way with its CSR agenda, connecting their business objectives to wider social goals. The practicalities and the day to day running of the programme is operated through an external Delhi based NGO, 'Youth Reach', a model which is becoming increasingly popular in India. In 2004, AIS focused their efforts towards a two phase development plan, see Figure 9.4 below:

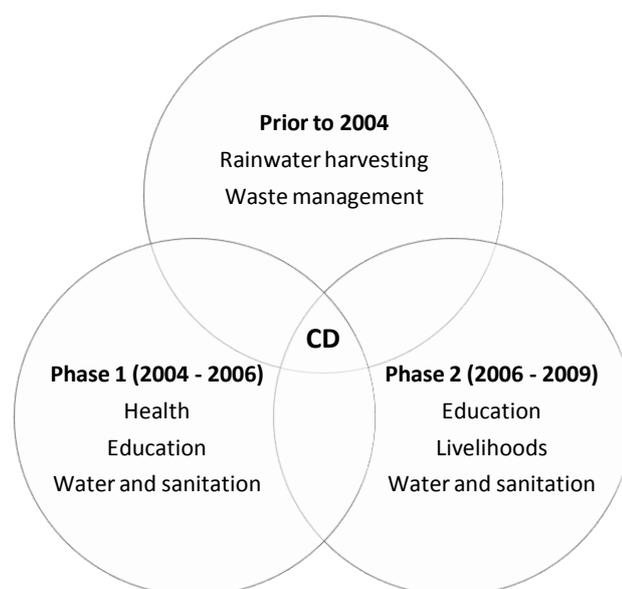


Figure 9.4: Phases of the AIS Glass integrated community development programme (CD = community development) (Adapted from AIS, 2007)

As part of the research, the village of Bawal, in the state of Haryana, was visited, to experience first-hand the impacts of AIS glass on the community. Bawal is one of sixty villages supported through the CSR programme, or ICDP (Figure 9.5).



Figure 9.5: Location map highlighting the village of Bawal (A) (Google, 2009)

As Respondent 16a commented, ‘you have got to develop the area around you, this has got to be part of your long term business strategy ... AIS are thinking of the local people.’ As highlighted in Figure 9.4 the ICDP focuses on different aspects of community development. These are examined below:

Education

In 2006, AIS, in association with the local community utilised a community-owned building to provide free schooling to girls from the village. Girls commonly fail to complete their formal education, predominantly due to: parental objection of female education, marriage at an early age and often the location of the school being too great a distance from their village. Through the ICDP scheme, a woman (16b) from Bawal village has completed her teacher training and she is now educating twenty one girls from the village for four hours each day between 10am and 2pm. As Respondent 18 explained, ‘she is the brightest lady in the village and has a master’s degree, she is paid for by AIS glass, per month she gets Rs.6,500 [US\$136].’ Initially, the teacher sets basic work for the girls, then when ready, they are registered with the National Open

School and submitted for their exams. As recognised by 16b, this is an excellent, sustainable centre, 'helping the [village] girls to revive their education and give them a sense of worth.'

Through the ICDP, remedial classes are provided after school for students in grade 7 and 8 (age 12 -13), a total of forty students are given Maths, English and Science guidance. This model has been replicated in nine villages throughout the district. In 2009, AIS plans to increase this to fifteen (in total). At the Bawal centre (Figure 9.6), the facilities are basic (one table, a blackboard, a few textbooks and mats for the students to sit on), however, in this case, the scheme does seem to be adding value to the local community particularly through the investment in human capital (the teachers education).



Figure 9.6: The community school, Bawal (Author's own)

In addition to the education centres, AIS also provides five buses which transport 475 students daily from 34 villages, to and from school. As previously highlighted, students often drop out of education due to the long distances involved. The furthest village from the government run school is 16Km. The following is a quote from a 19 year old girl who has benefited from the AIS bus service:

'I am Asha, I am a student of 1st BA. I took the school bus run by AIS enabling girls to attend the High School in Bawal. In the absence of the school bus, girls would study only up to the level that was available in their village, after which they would drop out. Parents were scared of sending girls outside the village for studies, for security reasons. I remember two years ago, only one girl used to go to school in Bawal, but now around 15 girls are going to secondary school. Now that I have been given a second chance I want to work hard in school and college and want to become a teacher. I hope all the girls complete their schooling and graduation, so they are able to carve their own identity and stand on their own feet.'

(Youth Reach, 2006: 74)

The buses have now been operational for three years; however, there are plans to introduce a small fee for each child of Rs.50/month (US\$1). As suggested by 16a, 'it is important for the community to realise that these things are not free ... it gives them ownership over the project and gives the project sustainability.'

Women's co-operatives

There is a wealth of literature on micro credit schemes and particularly the lending of credit to women's cooperatives (Yanus 2003; Karim and Osada 1998; Pitt *et al.* 2003). One of the greatest successes has been the launch of Grameen Bank, developed by Professor Mohammad Yanus, to loan credit to the poor people of Bangladesh (Yanus, 2003). As Karim and Osada (1998: 257) recognise 'the micro credit approach believes that the poor can be trustworthy and if provided with loans can use them successfully in micro-enterprises to generate income.' Similar to the microcredit scheme in Bawal, many of these programmes only lend to women. There are several reasons for this, 'they are more likely to be credit constrained, have restricted access to the wage labour market, and have an inequitable share of power in household decision making' (Pitt *et al.*, 2003: 1). In the village of Bawal, since 2004, ninety four women and farmers' groups in fifty eight villages have been formed. Each group has twelve to

fifteen members eligible to receive loans from AIS Glass (up to four times the amount that collectively the group has saved). The members are required to save Rs.50 to Rs.200 (US\$1-\$4) per month. 'Each year the group gets support ... a loan from AIS of Rs.8,000 (US\$160) this money is always in the pot, once one group has repaid this loan then it will be available for another group' (16a). As recognised by 16a, 'the self-help group plays a major role in sustainability ... it enables women to feel empowered ... teaches them how to work in a group and how to manage accounts.' As one cooperative group member remarked, 'at first my husband was not happy about me joining, but we have been able to buy a water tank and a toilet, so now he is pleased, I now have a sense of purpose' (translated). This correlates with research conducted in Bangladesh by Pitt *et al.*, (2003: 30) who suggest that, 'credit programme participation leads to women taking a greater role in household decision making, having greater bargaining power *vis-à-vis* their husbands, and having greater freedom of mobility.'

Water and sanitation

Using the AIS co-operative grant, seven community water tanks, thirty two family tanks and two groundwater recharge systems have been built (Figure 9.7). In addition, 163 families now have toilets, 105 of which were possible because of the AIS grant. In total, 367 families have been supported through the loan system. Women in the groups have also used the loans for agricultural activities, livestock, trading, production and service based enterprises.



Figure 9.7: A community water tank built using the money raised by a women's co-operative group (Author's own)

Demonstrations

Demonstrations and training sessions have also been organised in the villages, particularly to educate about general water issues and rainwater harvesting. In total, thirty one villages have been taught the 'soak pit technique,' a method to deal with waste water in the village. In addition, regular meetings with the women are held to address issues of a social and political nature, including 'violence against women, proliferation of liquor vending, sanitation issues and microfinance' (AIS, 2007: 11).

As previously mentioned, AIS operates the ICDP through an external NGO in contrast to Tata (Company 28) which leads their CSR programme through an internal department. AIS collaborate with Youth Reach (Company 6) in achieving its CSR goals; their vision is, 'to inspire individual and collective transformation to create positive social change.' As part of the agreement, 'there is a Youth Reach worker situated at AIS glass monitoring the sixty villages ... overseeing this work is a huge task ... they need to have someone permanently based at AIS, this was expressed by the company'

(16a). The Manager of Youth Reach corporate programmes explained that, 'AIS to some extent wants visibility within the local community but not too much as this can cause problems with politicians ... in addition, the expectations of the local population increases, and people start to expect and want things for free' (6). This is a fine balance, and for the time being AIS Glass is achieving community development. However, for the long term sustainability of these projects, like in the case of the local school teacher, the communities need to take ownership.

9.2.4 A helping hand

Youth Reach the Delhi based NGO which has evolved to support corporations in their CSR programmes also assists the company Jones Lang LaSalle Meghraj, the largest real estate company in India. As part of their commitment to the local community they provided a financial donation to a shelter home for boys. The money went towards a herb and vegetable garden, a roof-top water harvesting structure and a vermin compost pit. Employees from the Delhi office worked on developing the garden with the boys from the shelter. The once barren unused land is now a fully functioning self-sustaining resource for the centre to use (Figure 9.8).



Figure 9.8: Prior to the vegetable garden and several months later, a fully usable resource (Youth Reach, 2009)

9.2.5 Summary

Corporate social responsibility, as recognised in the literature can take several forms; this is evident from the various ways in which Tata and AIS Glass translate social responsibility onto the ground. Tata operates an effective employee volunteer

programme, offers charitable donations and utilises its business expertise as part of its CSR agenda, whilst AIS Glass organises a well designed system of integrated community development programmes. Although some of the initiatives could be viewed purely as philanthropy, community development is very much alive and these companies are making a difference to their local communities. The Vice President of Company 28 explained that before companies engage with CSR, 'first [they] have got to understand the need of the communities which [they] serve' (28a), this, without a doubt is what AIS has done in the case of Bawal. AIS are not engaging with the community for the sake of enhancing promotional material, they are doing it because it is their corporate responsibility to do so.

9.3 The foreign approach to CSR

Renewed interest in CSR amongst Indian banks could partly be due to the influx of foreign financial institutions competing within the Indian system. Despite critics suggesting that banks are greenwashing consumers in the minority world with 'green' advertising campaigns and eco-sustainable promotional tactics (Rowell 2002; Perry and Singh 2001), the green agenda is very much alive in foreign banks operating in India. That said, currently there is no evidence to suggest that the Indian consumer is concerned about corporate social and environmental practices. Given that consumer reputation is cited as a leading driver of CSR (Perry and Singh, 2001), why are foreign banks in India, spending time and resources on an agenda that bears no fruit? Three foreign financial institutions interviewed as part of this research explained their banks' global positioning on CSR.

Foreign Bank 3 is well known globally for its commitment to social issues. Here CSR is referred to as either, soft or hard. The Director explained, 'soft is usually the CSR defined in India; the support of education and microfinance ... we also try and work with the private sector to ensure that they are enduring to our principles.' Hard CSR relates to discrimination within the workplace, child labour and environmentally friendly practices, '[Bank 3] should not be funding any entity which leads to non-sustainable practices whether they are social, environmental or political.' In addition, 'every member of staff is aware of CSR ... affecting how we operate' (3). The

respondent suggested that with both CSR and the Equator Principles, 'you can't just talk about something, you can maybe greenwash for a year or two, but not for five to ten years; at the end of the day you might as well do it, it makes huge business sense to be sustainable' (3).

Similarly, the respondent from foreign Bank 18 explained that the entire bank whether in the UK or in India 'speaks the same language, the CSR agenda is being driven by the CEO ... I have been made responsible for this from the Indian side of our business' (18a). Core CSR commitments at Bank 18 include, donations and employee volunteerism, 'our department went to a few villages nearby, we took books and games ... we like doing volunteer work, it is driven by the company's CSR agenda and each of us likes to feel part of it ... we don't just want to give money.' Similar to its UK counterpart, they take a visible approach to conveying their social and environmental message. The majority of roundabouts and small gardens in Mumbai's financial district are maintained by the bank as part of its visible approach.

Unlike Banks 3 and 18, foreign Bank 34 does not refer to the terminology of 'CSR,' instead they use 'sustainable development'. Their agenda is supported and enforced through the main bank group, with 30 percent of the allocated funds sent to India, spent predominantly on poverty alleviation, schemes for children and relief rehabilitation. In addition, on a monthly basis 1400 employees make contributions to the NGO identified above, 'SUPPORT', the total amount raised is also matched by the bank. In each of the above examples, foreign banks are continuing with their CSR commitments in India, visually portraying this to the Indian nation. The next section focuses on Indian banks and their inherently different approach to CSR.

9.4 Indian banks: agents of social development?

The term 'CSR' is widely used amongst the Indian banks however, similar to the confusion in the literature, respondents were unsure about its meaning and impact. Firstly, commitment to CSR from public banks will be reviewed. During the interviews, the majority of government owned banks were confident to announce that 40 percent of their business is a form of CSR. According to the regulatory body, all Indian banks

are required to lend at least 40 percent of their net credit to the 'priority sector' (Table 9.1).

Table 9.1: Priority sector lending

Priority sectors	Additional notes
Agriculture	
Small scale industries	Including setting up industrial estates
Small road and water transport operators	Owning up to ten vehicles
Small business	Original cost of equipment used, not to exceed Rs.20 Lakh
Retail trade	Advances to private retail traders (up to Rs.10 Lakh)
Professional and self-employed persons	Borrowing limit not to exceed Rs.10 Lakh (of which not more than Rs.2 Lakh for working capital; in the case of qualified medical practitioners setting up practice in rural areas, the limits are Rs 15 Lakh and Rs.3 Lakh respectively and purchase of one motor vehicle within these limits can be included under the priority sector)
Organisations for scheduled castes/ tribes	
Housing	Direct loans up to Rs.10 Lakh in urban/ metropolitan areas, Loans up to Rs.1 Lakh and Rs.2 Lakh for repairing houses in rural/ semi-urban and urban areas respectively
Education	Educational loans
Consumption loans	Under the consumption credit scheme for weaker sections
Self help groups and NGOs	Microcredit provided by banks either directly or through any intermediary
Software industry	Credit limit not exceeding 1 Crore
Food and agro-processing sector	Investment in plant and machinery up to 5 Crore
Investment by banks in venture capital	Venture capital funds / companies registered with Securities and Exchange Board of India

(Key: Rs.1 Lakh = US\$2,086 / 1 Crore = US\$208K)

(Adapted from Reserve Bank of India, 2008)

On numerous occasions, interviewees insinuated that only public banks have to comply with the priority sector lending regulations. According to the respondent from Bank 9, 'private banks only have profits as a motive; public banks have social goals in mind.' He concluded that, 'anything we do as a bank has to take care of society, the weaker sections of society, those who are deprived of credit facilities.' The Chairman

and Managing Director from Bank 10 also commented that, 'we are State owned, therefore we have a vested interest in our society ... CSR is a business cost for me, we help those in agriculture and the students, my interest is those people ... banking for the poor.'

Only one public bank admitted to not having a CSR agenda, as the respondent remarked, 'we are not right for [CSR] but if some banks are doing it then we will ... follow the herd' (32). He also commented that, 'tax relief and benefits would be good for CSR, to be able to do it more aggressively.' In addition, only one other public bank had a CSR programme that was nondescript and purely philanthropic, as the respondent from Bank 25 remarked, 'a proportion of the bank's profits go towards funding schools, maintaining gardens and financing tree plantations.' The respondent was, however, unaware of the specific details of any of the projects.

In comparison, three of the public banks have specific CSR programmes, though predominately focused on philanthropy. Bank 9, for example is committed to education and artisan training institutes, coordinated through the Rural Development and Self-Employed Training Institute (RUDSETI). According to their literature, 'there are now RUDSETI programmes in eleven states and over 1,100,000 participants have benefited from it' (RUDSETI, 2008: no page). Bank 24 also reserves funds for social projects, as the Chairman and Managing Director remarked, 'we have a strong sense of CSR, we help a lot of society through giving ... CSR has been part of our way of doing business right from the beginning ... we help poor children, girls and also work towards improving the environment within our cities.' Bank 29 also uses the terminology 'CSR' to account for their green bank policy, which focuses on encouraging rainwater harvesting and energy efficiency within their headquarters, branches and offices. In addition they support a scheme which adopts female children, as the Chief General Manager remarked, 'we as an institution make a lot of profit, we want to see that society around us benefit from that' (29a).

The Chairman and Managing Director of Bank 10 had a contrasting view of CSR. He held the opinion that their commitment to society was through purely being a bank,

providing the availability of credit. He explained, 'if I can educate [young] people, then the 21st Century will be India's century ... education is the key, we have got to give people skills to make them employable' (10). He continued, 'this is why we [Bank 10] focus on the student population ... we can provide good educational loans, linking the bank with the student. Education is unaffordable to the poor, lack of funding should not be a problem for these students ... we have got to make our people globally employable' (10). In addition to the focus on students, the respondent also highlighted their commitment to the 8.8 million rickshaw drivers in India (whereby 53 million people depend on their incomes for their livelihood). He explained the situation; 'the majority of these men rent rickshaws on a daily basis, we have collaborated with an NGO and the American Indian Foundation to fund them, to make them bankable ... we want to finance 10,000 in each city' (10). Presently the scheme is operational only in Varanasi, providing loans to rickshaw drivers so that they can afford to buy their own, instead of giving Rs.40 (US\$<1) per day to the bike owner. This business-like approach to CSR will undoubtedly have far greater societal impacts, than the purely philanthropic acts of giving (Visser, 2008a). As their Chairman and Managing Director remarked, 'CSR is business for us, we don't donate money, the poor requires more dignity ... I would say 90 percent of our business is related to CSR' (10). Corporate social responsibility projects have to be self-sustaining, this is the distinction between simple philanthropic giving and CSR integrated throughout the business model, as the Chairman concluded, 'we have got to be inclusive and not drive people away, 60 percent of this country does not have a bank account ... it has to be sustainable if this society is going to survive' (10).

Private sector banks

Despite the RBI stating that 40 percent of all private banking business should be directed towards the priority sector, this was not mentioned by any of the private financial institutions. From a private bank perspective, CSR was viewed as either, philanthropy/charitable donations (there are tax benefits for doing so), a good PR tactic or a new way to do business. The majority of private banks interviewed mentioned that they set aside a percentage of their profits for CSR, or rather philanthropy. The Chairman and CEO of Bank 20 for example commented that, 'we do

not have a foundation or anything like that but we do give donations, we do sponsor activities if we are approached by certain organisations.’ Bank 22 also supports social projects and relief operations; in recognition of this they were honoured with the CSR award at the India Brand Summit in 2005. Similarly, Bank 36 recognised that they ‘don’t have an organised system of giving ... we do support some hospitals in Kerala ... but not on a large scale.’

One of the private sector banks in particular has been attracted to CSR due its promotional potential and subsequent reputational benefits, influenced by the recent drive in minority nations, as the Head of Group Marketing commented, ‘we have recognised that CSR has got to be part of our marketing agenda, this is what we have got to pursue’ (31). He explained that, ‘being a bank we get letters requesting donations, it is hard for us to choose so having a structured agenda would make it easier’ (31). Currently the bank is outlining its CSR agenda which will be supported by, ‘a percentage of the profits, between one and five percent will go towards CSR ... at the outset it will be a minimal amount’ (31). During the course of the interview, the interviewee made the following remarks about possible CSR initiatives:

‘we have got a large employee team ... we were thinking of giving employees two weeks off per year to get involved directly;’

‘we have a financial literacy scheme which is in the concept stage ... we are thinking of giving as many of our 20,000 staff as possible, kits, space and time to empower them to talk to all classes of society who earn money but who don’t do anything with it. If every person could speak to ten people per week ... we can influence and support the community we serve;’ and

‘we are planning on doing microfinance intervention at the branch level.’

Similarly Company 4, is developing ways to jump on the CSR bandwagon, explaining that they are now ‘doing this because we have grown enough, we can now spare a few percent of our earnings towards society.’ Like Bank 31 they also have ambitious plans:

‘we will assist with planting trees ... and telling people not to waste water;’

‘with our CSR, 70 percent will focus on social issues and 30 percent on environmental issues;’

‘for our social work we will be working with women and social upliftment in India ... in India the dowry still exists, we want to spread awareness that the dowry is bad;’ and

‘we also want to spread awareness about child abuse.’

These CSR plans from Bank 31 and Company 4 seem to be ambitious and rather ad-hoc. When talking with both respondents, numerous references were made to the marketing opportunities such activities would yield and the subsequent brand recognition.

In contrast, two of the private banks are making headway with their approach to CSR. Bank 33 is leading in the CSR field. As one of the new generation private banks, they brand themselves as being the ‘responsible bank.’ Their whole business model is geared around being a responsible corporate, they do however still have a CSR department which focuses more on philanthropy. One of their current projects is working with the largest player in commercial vehicle finance, partnering to provide HIV testing centres along truck routes, as truck drivers are one of the high risk groups. In addition to their philanthropic acts, CSR is integrated throughout the business; during the interview the following schemes were mentioned:

‘we are also working with non-profit organisations, to get them to be more profitable;’

‘we are also getting into Sustainable Investment Banking – in the sustainable development sense. This is a new unit, only three months old – it is just getting running;’

‘working with alternative energies to further that whole space;’
and

‘we are staying in touch with strategic global initiatives.’ ‘We were the first Indian bank to sign up to the carbon disclosure project.’

(Quotes from Respondent 33)

In contrast, Bank 26, also a leader with its CSR agenda, operates its initiatives through a foundation initiated in 2006. The CEO of the Foundation, previously sat on the board of directors, he explained, ‘I was a banker for thirty years and now I have moved into this ... they are continuing to pay my salary, they are serious about the Foundation ... I identify suitable projects, organise the funding and monitor [them] all over India’ (26b). It was decided at the outset that the bank should focus on one area, education. The Foundation provides funds to credible, worthwhile organisations; he explained ‘I interact with the NGOs and look at their past performance, I talk to the families and children of those benefiting from the schemes ... I physically go to the villages; because I have dealt with money and lending all of my life, I am able to make a good judgement on the allocations of funds for projects’ (26b). The current NGO partners and projects funded through the Foundation are shown in Table 9.2.

Figure 9.2 Removed due to copyright.

9.4.1 Case study: Muktangnan

One of the NGOs supported by the Foundation of Bank 26 is Muktangnan, a school run by Paragon Charitable Trust, Mumbai. Muktangnan believes that women from low income communities should be empowered by, 'offering low cost, high quality, inclusive and child-centred education, addressing the learning needs of underprivileged children and their families, avoiding the short comings of the mainstream educational system' (Muktangan, 2008: no page). Muktangnan provides an alternative method of education for the underprivileged. The local women would otherwise have limited career options; however, through the teacher training programme they are encouraged to develop into committed professionals. This model of training women of the local communities to teach the local children is sustainable. Since the inception of the scheme in 2003, Muktangnan has supported 1,000 students and 100 teachers. The initial training programme is for one year and they do not get paid, once they have passed the course they receive a salary and the children of teachers have priority on entrance.

Muktangan prides itself on its unique community focused approach 'with parents being the key stakeholders of this community initiative ... this is teaching in a developmentally appropriate way' (38a). Bank 26 funds the training of the teachers and their salaries post-training, this is vital for the future of the project. As the Head of the school commented, 'in the interest of sustainability we need donors ... we find that organisations like to give us books for the library or new chairs, something physical ... what we need is more money for the rent of the building and the teachers' salary' (38a).

As part of the research, Muktangnan school was visited, to see the ground level implications of the support from Bank 26. The setup is markedly different from the government school, in the adjacent building. There are educational posters on the walls, a well stocked library and a teacher to student ratio of 1:15. The drop-out rate at Muktangnan is zero, 'a stark contrast to national figures' (Muktangan, 2008: no page). There is a strong relationship between the CEO of Bank 26 Foundation and the Head of Muktangnan school (38a). Whilst on the site visit, the school librarian

explained that currently there is no referencing system for the books. As part of his commitment to Mukangan, the CEO arranged for the school librarian to spend time with the librarian at Bank 26 to learn how to structure the school library, an invaluable asset. Corporate social responsibility at Bank 26 could be viewed as an add-on as it is run through a separate Foundation, however, it should not be overlooked. Many worthwhile projects are being funded as a result of their commitment.

9.4.2 Summary

Similar to the literature surrounding CSR, there is much confusion within the Indian banking sector, over its meaning, impact and what actually constitutes good corporate citizenship. Many of the public sector banks interviewed suggested that they were already doing CSR, in the form of the required priority sector lending, whereby 40 percent of their credit has to be directed towards certain marginalised sectors of society. Amongst the banks interviewed, some give donations on an ad-hoc basis and others are contemplating setting up a CSR strategy purely for marketing purposes. However, the majority either had structured CSR programmes which predominantly focus on charitable acts, or had integrated CSR throughout their everyday banking practices. Unlike in the minority world however, advertising CSR is not a central trait of the Indian approach.

9.5 Marketing and promoting CSR

As discussed in Chapter 4, companies adopting CSR strategies in minority nations are likely to publically convey their actions through sustainability reports, advertising campaigns in the media, on billboards and on their websites. In recent years, CSR reporting on the Internet has proliferated. Its capabilities of speed and low cost allow companies to 'publicise more information less expensively and faster than ever before' (Wanderley *et al.*, 2008: 369). Marks and Spencer for example, spent vast amounts of resources on advertising its 'Plan A, because there is no Plan B' campaign, aiming to portray its responsible approach to business. Coverage can be found on billboards in stores, on full page newspaper advertisements, on the television and on their website. As Crowe (2006: no page) comments, 'Marks and Spencer, the iconic British retailer, has recently spent a fortune ... proclaiming its responsible approach to everything

from the salt in its prawn sandwiches to the dyes in its knickers.’ Other companies from energy firms to banks are rolling out advertisements, with the aim of convincing the consumer of their caring attitude towards society and the environment and thus trying to increase their market share (Figure 9.9).

Figure 9.9 Removed due to copyright.

Advertising and promoting CSR is very much a minority world phenomenon; research conducted in India shows a very different situation. One of the main reasons cited for advertising such issues is the rise of the ethical consumer (Auger and Devinney 2007; Uusitalo and Oksanen 2004), suggesting that increasingly consumers in minority nations are thinking ethically about their purchases. However, in India there is the feeling that, ‘the consumer doesn’t bother, they are not conscious about what banks do with their money’ (36) and as Respondent 9 suggested, ‘in India we do not take these things too seriously, I don’t think too many customers would be attracted towards an Indian bank because of its CSR orientation.’ Consequently, the majority of interview respondents did not deem it necessary to promote and advertise their acts of good. As Respondent 9 commented, ‘people spend a lot of money [on CSR] without coming into the limelight, without showing off. Businesses generally do feel that part of their earnings should go towards social causes ... CSR is happening in India because it is something that we believe in, not because of publicity.’ Respondent 26b also

remarked, 'we do not do it for the publicity, some companies do a little something take lots of photos and publicise, we want to give something back to society.' There is also the issue of cost; perhaps Indian banks cannot afford to advertise and market their CSR strategies; indeed seeing as only 45.3 million of the population (4.1 percent) are active Internet users (IMAI, 2009) then perhaps it is no wonder that web-based marketing is less common in India.

Prior to each of the interviews, Internet searches were conducted to find references to CSR. In a number of cases there was no public information available on the Internet despite the bank engaging with CSR. These banks emphasised that this was not part of their strategy, 'we do it but we don't publicise,' (10) and 'we do not believe in publicising our CSR activities' (21). In contrast, there were those who were shocked that their CSR efforts are not publicised on the Internet and commented, 'not on our website? Perhaps we should sort this out' (37). As previously mentioned, there were several of the banks who believe that advertising should be central to the CSR campaign. As the respondent from Bank 29a commented, 'publicity is part of it, the local media will be interested ... our bank is a caring institution.' The Director of Company 13 also remarked, 'we are beginning to think about our CSR ... the website will soon be revamped to include [it].'

9.5.1 Internet based marketing

In order to assess the disclosure and nature of website CSR reporting in the Indian context, a content analysis was conducted using the websites of the participating Indian and foreign banks. As identified in Chapter 6, the indicators, suggested by Wanderley *et al.*, (2008) were adapted for the purpose of this research:

1. Details of CSR projects
 - a. Available on the homepage
 - b. Available anywhere on the website
2. Details of specific CSR projects and results
3. Evidence of socially and environmentally responsible lending
4. Evidence of microfinance initiatives
5. Social and environmental reports available to download

6. Number of photos
 - a. Social
 - b. Environmental
7. Links to charities / donation

Following Chapple and Moon (2005), it was imperative not to impose a strict definition of CSR when carrying out the website analysis, as this may have masked Indian styles of disclosure. Despite the advantages of conducting a website content analysis, it could be argued that this method is inappropriate due to the fact that ‘websites are not as widely used for business communications as in, say western systems’ (2005: 423). In addition, as confirmed by the interview material, CSR reporting ‘is not necessarily a reflection of CSR policies and practices’ (Chapple and Moon, 2005: 424). However, due to the resurgent interest in CSR, it was decided that an analysis of Indian websites would be of interest, particularly due to the timely nature of the research. Websites of participating banks were reviewed twice; once upon returning from India in June 2008 and a year later in May 2009; enabling an analysis of CSR reporting over a given period.

Observations noted during the two phases of data collection can be found in Appendix 11. For ease, however, a summary of the content analysis can be seen in Table 9.4. In order to make comparisons between the 2008 and 2009 data, each financial institution was allocated a CSR sentence score (see Table 9.3). Of all the participating financial institutions, 44 percent (10) had similar website CSR content in 2008 and 2009, 30 percent (7) had made additions to their CSR reporting and 26 percent (6) made no reference to CSR in either 2008 or 2009.

Table 9.3: CSR sentence score (Author’s own)

Number of CSR sentences on website	CSR Score
0	0
1-10	1
11-20	2
21-30	3
31-40	4
41+	5

Table 9.4: A summary of the website content analysis and the corresponding CSR sentence score (Author's own)

Type of bank and code		Date: June 2008 Analysis snapshot	Date: May 2009 Analysis snapshot	CSR sentence score 06/08	CSR sentence score 05/09
Foreign banks	3	19 sentences, 1 report, 7 pictures	18 sentences, 1 report, 7 pictures	2	2
	18	1 picture	40+ sentences, 1 report, 10+ pictures, 1 donate	0	5
	30	1 sentence	40+ sentences, 3 pictures, 1 report	1	5
	34	5 sentences	5 sentences	1	1
	39	2 sentences	16 sentences	1	2
Public banks	9	5 sentences	11 sentences	1	2
	10	5 sentences	5 sentences	1	1
	24	1 sentence	1 sentence, 1 report	1	1
	25	Nothing	7 sentences	0	1
	29	2 sentences	38 sentences	1	4
	32	2 sentences	7 sentences	1	1
	40	Nothing	1 picture	0	0
Private Banks	20	1 donate	Not available	0	0
	21	Nothing	Nothing	0	0
	22	13 sentences	33 sentences	2	4
	26	2 sentences	5 sentences, 1 picture	1	1
	27	1 donation	1 Link to Foundation website	0	0
	31	Nothing	Nothing	0	0
	33	40+ sentences	40+ sentences, 1 photograph	5	5
	36	3 sentences	3 sentences	1	1
	37	7 sentences, 1 donation	7 sentences	1	1
Other financial institutions	7	1 sentence, 1 picture	1 sentence, 1 picture	1	1
	11	1 report	1 report	0	0

The findings which arose from the website analysis in the majority of instances correlates with the data collated during the interviews with the banks. For example, section 9.3 noted that foreign Bank 3 is well known globally for its commitment to CSR. In line with the data gathered from the interview, they use their website to publicise their commitment to CSR and received a CSR score of 2 for both consecutive years.

Similarly, it was identified earlier in this chapter that foreign Bank 18 adopts a visible approach to conveying its environmental and social agenda. Given their visible CSR strategy, it was surprising in 2008 their website received a CSR score of 0. However, a year on, it seems they have altered their approach. In May 2009, there were in excess of 41 sentences relating to CSR at Bank 18, yielding a top CSR score of 5. In addition, there was a Corporate Sustainability factsheet available to download as well as a range of social and environmental imagery. It is evident that the Indian branch of foreign Bank 18 has developed its website in line with the global business CSR advertising strategy. Unlike other foreign financial institutions in 2009, Bank 34 only received a CSR sentence score of 1. Of the financial institutions which participated in the research, 30 percent (7) increased their CSR website content in 2009; of these, three were foreign banks. Similar to foreign Bank 18, the CSR score for Bank 30 has increased from 1 to 5. In 2008 there were no visible links to the global business CSR strategy, however, in 2009 there are now links to various webpages on the Climate Principles, microfinance, the Equator Principles and specific CSR project related information.

Of all the public financial institutions, Bank 29 made the greatest changes to its website. During the interview the respondents were proud of their commitment to microfinance and their focus on branch energy efficiency. The website went from minimal reporting of these issues to a score of 4 in May 2009. Section 9.1.3 identified that a number of Indian companies, including banks are silently engaging in CSR and not advertising their commitment. Private Bank 26, for example, in section 9.4 was noted as a leader in its approach to CSR, however in both 2008 and 2009 the website only received a sentence score of 1, minimal reporting. Similarly, Bank 9 has committed to a number of impressive CSR projects, identified with during the interview, however, there is no mention of these of these on their website, despite the slight increase in CSR information available. In line with there being no CSR related information on the website of Bank 31, during the interview, the respondent suggested that, 'CSR has got to be part of our marketing agenda.' The following year, there was still no information available. However, an Internet search discovered another website dedicated to environmental issues and protecting the planet, with a

focus on air, noise, electricity and water. Despite their recent enthusiasm for saving the planet, there is no link to this from the main bank website. From previous analysis of the interview material it is evident that private Bank 33 is leading in the CSR and responsible banking field. In line with their commitment, the website scored 5 for both 2008 and 2009, for advertising and promoting their commitment to responsible banking.

The use of a sentence score gives a good insight into the quantity of CSR reporting on Indian bank websites. However, other indicators were also used including, the number of reports available to download, donation links and visual imagery. These are explored below.

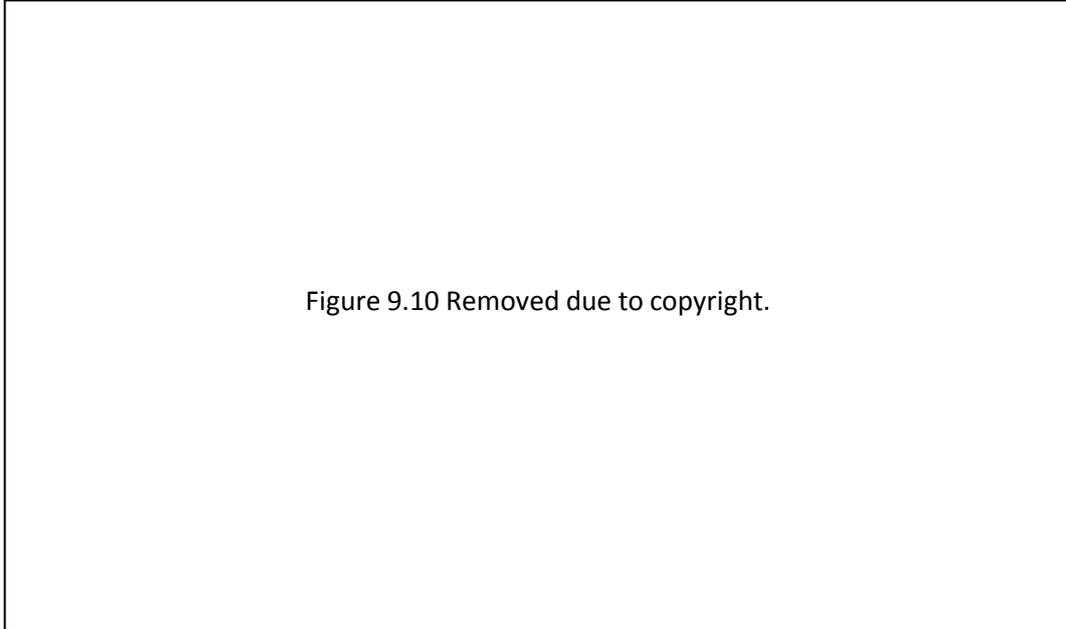
Reports

Of the participating banks 22 percent (5) had additional information in the form of reports available for downloading, three foreign financial institutions, one public Indian bank and one a non-banking financial institution. The types of documents available to download include, Green banking factsheet (3); Environmental and Social Safety Framework (11); Corporate Sustainability factsheet (18); Energy efficient project – environmental management plan (24) and Climate Principles (30).

Links to charities

Four of the participating bank websites (three private Indian banks and one foreign bank) contained links which enabled customers to make donations to charities and NGOs. It was evident however, that such links are placed on the websites at sporadic times, often correlating with national disasters. Given this, it might be the case that a number of other banks also display donation links. Foreign Bank 18 is not known for having this facility on the UK version of its website, however during the first website data collection, customers were able to donate to NGOs involved in educational and environmental activities. The link however, was not available the following year. Bank 20, despite having no other CSR related information available on the website, in 2008 the homepage enabled customers to make a donation to a temple. Similarly, on the homepage of Bank 37 during the first data collection, customers could make a 'Virtual

Darshan' or a 'religious donation.' During the two phases of website analysis, Bank 27 had no form of donation link available, however, on 17th September 2008 customers could donate to the flood victims of Bihar (Figure 9.10). This highlights the fluidity of website content, often changing on a daily or weekly basis.



Visual imagery

As identified in section 5.5.5, the analysis of visual imagery is a highly subjective and for some 'a picture may be worth a thousand words' (Guthrie *et al.*, 2004: 288). Unlike the websites of banks in the minority world which are littered with environmental and social imagery, only several of the Indian banks use images to attract consumers. Of the six financial institutions which used images on their websites, 3 were foreign. Bank 3 was the only financial institution to use a significant number of photographs in both 2008 and 2009. Five of these can be found on the CSR web pages and can be classified as social imagery, in line with the social projects they are involved with; Figure 9.11 is an example of one of these images.

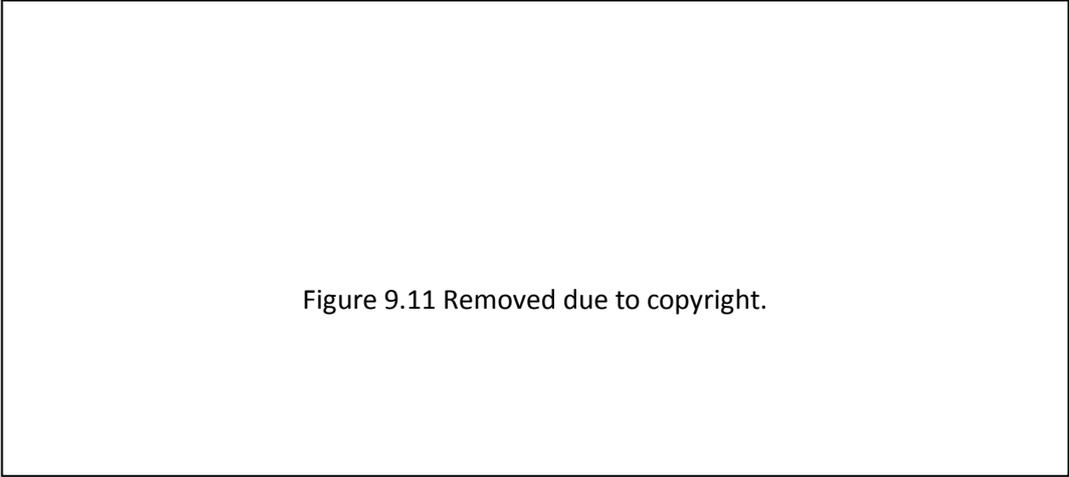


Figure 9.11 Removed due to copyright.

Unlike the majority of Indian banks and foreign branches, the homepage of Bank 3 includes two environmental images, one of wind turbines and the other of agricultural crops. See figure 9.12 below:

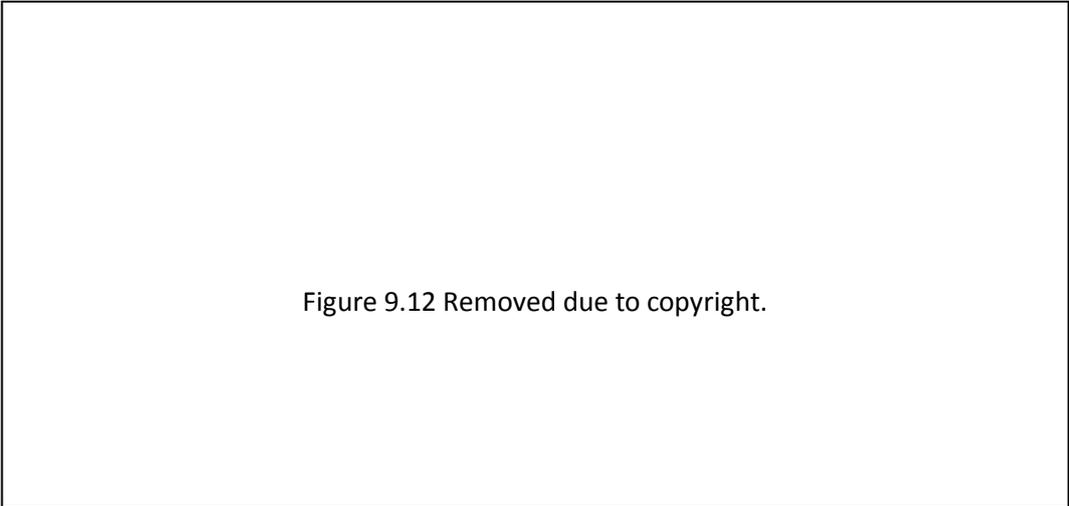


Figure 9.12 Removed due to copyright.

In line with foreign Bank 18 expanding its Indian website to include messages of CSR, sustainability and responsibility, its use of imagery has also increased. In 2008, Bank 18 only had one image, depicting a tree emerging from cupped hands. However, in 2009 the website is covered in environmental and social imagery, on the corporate sustainability web pages. The first, in Figure 9.13 includes both images and words, and encapsulates social and environmental in one image. In contrast, the second, shows two children playing in an open green field, this image was attached to examples of individual projects.

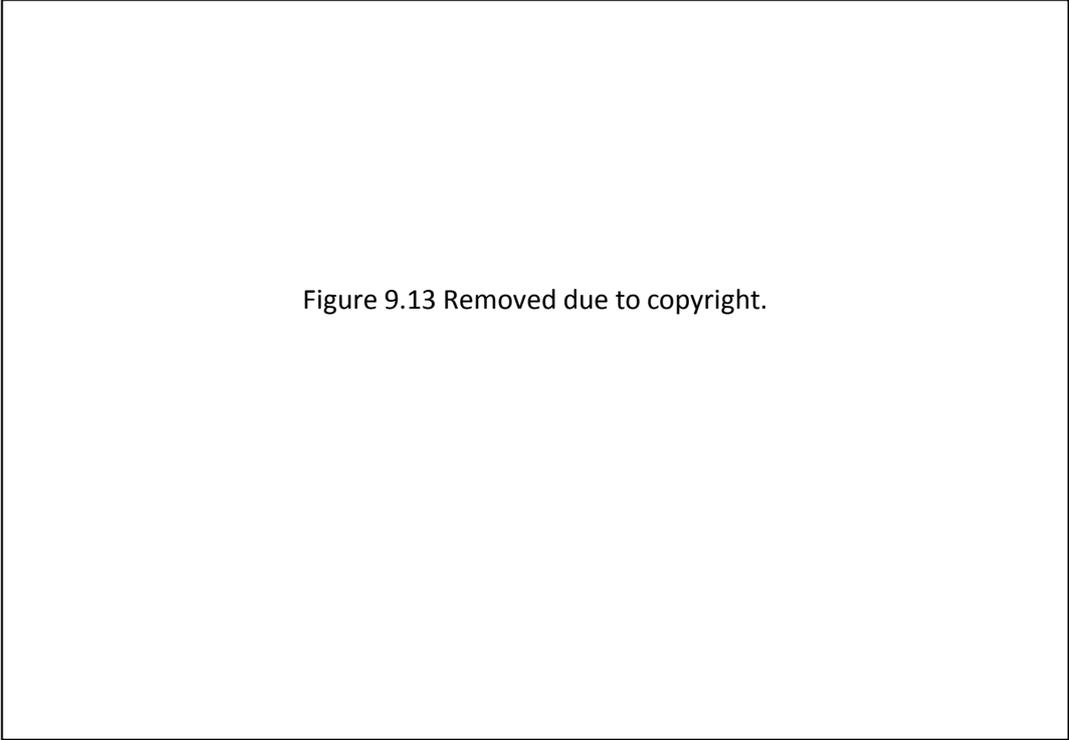


Figure 9.13 Removed due to copyright.

Banks 26 and 33, found earlier to be progressing well with their social and environmental agendas, were found to use minimal imagery on their websites. Both banks did not have any environmental or social images on their websites in 2008, a year later however, each bank has one. Bank 26, in association with its section on microfinance has included an image showing a group of women overlaid with the slogan 'financial solutions aimed at empowering the masses.' Similarly, Bank 33 has only recently added an image to its website. Unlike Bank 26, Bank 33 placed the following image (Figure 9.14) on the homepage of their website, advertising their approach to banking.

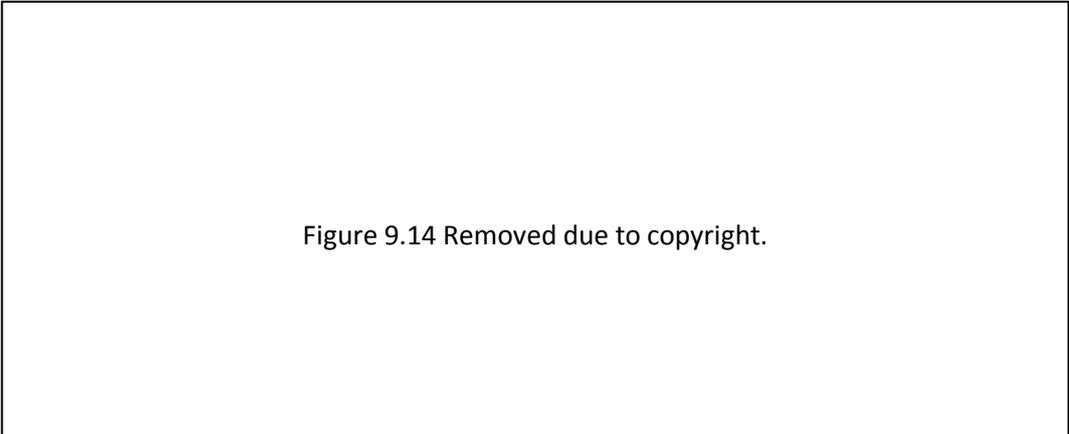


Figure 9.14 Removed due to copyright.

In contrast to the approach taken by other foreign banks, Bank 34, committed to responsible finance and CSR, does not include any imagery on its Indian website.

However, on its 'global' and minority world websites the following images are used in the 'Sustainable Development' section (Figure 9.15).

Figure 9.15 Removed due to copyright.

As mentioned in section 6.4, Company 7, a non-banking financial institution engaged heavily in funding India's growth, uses an image on its website (Figure 9.16) which is suggestive of an environmental caring ethos. However, there is no text on the website which corresponds to this. In addition, the respondent from Company 7 was a proponent of the Friedman approach to business; develop India in search for profits, at the expense of the natural environment.

Figure 9.16 Removed due to copyright.

The imagery used on the websites of Indian and foreign banks to portray their attitude towards society and the environment have commonalities. Although not all the images found during the web searches have been printed in this chapter, there is a commonality in the imagery used. To portray their responsibility to society and that they are a caring and giving institution, images of smiling, happy children are used. To illustrate their commitment to microfinance, the women benefiting from cooperative groups are often photographed. Environmental commitments are often portrayed using images of wind farms, rolling green fields and azure blue skies. Several of the

banks also use images combining elements of environment and society. As can be seen above, three of the images combined hands (the social) suggesting that the bank is a personal and caring entity, with other images including a sapling and the world (the environmental), cupped within the hands.

9.6 Current status of CSR in India

Existing literature and research focuses predominantly on illustrations and perceptions of CSR from minority world markets. This chapter has brought together empirical evidence from an emerging economy, India. As previously identified, India has a long history of corporate responsibility, elements of which could be classed as 'CSR.' This long term association can be linked to, 'long-standing, religiously derived, philanthropic traditions [as well as] earlier epochs of the internationalisation of business, colonisation and imperialism' (Chapple and Moon, 2005: 437).

From speaking to CEOs and high level officials of Indian banks and other leading companies, like elsewhere in the world, there is confusion surrounding the terminology and disagreements on whether CSR is a valuable tool for business. Views ranged from Milton Friedman's argument of maximising profits without touching upon social causes, to an alignment strategy, whereby several of the new private banks are aligning their business models with a responsible approach. In addition, there are banks mimicking minority world CSR trends, motivated predominately by the promotional jargon.

Indian companies across the continent, have for years been engaging with elements of 'CSR', and others more recently, however, it is evident that unlike their minority world counterparts, they are doing it 'as part of their social responsibilities, not because of consumer reputation' (36). In addition, it was evident from the interviews that like with other forms of corporate responsibility (i.e. responsible lending), the head of the institution has to take the lead. As the Chairman and Managing Director of Bank 24 commented, 'within the company it has got to come from the man at the top ... if it is going to happen within a corporation it has got to start from him and his beliefs,' the Executive Vice President of Bank 22 also remarked, 'it all depends on the vision of the

leader.’ However, it was also recognised that employees are vital to the success of CSR. As the respondent from Bank 9 commented, ‘there is a good communication channel within [9], employees do matter to us ... one man at the top cannot do everything ... a company or organisation can reach the poorest people through its employees.’

Amongst the public banks there was the consensus that CSR for them is their commitment to priority sector lending. At the outset, this seemed like an excuse for not engaging with other CSR activities. However, their focus on providing the poor with credit through their everyday banking practices is a sustainable and responsible approach. Inspired by the economist and banker, Mohammed Yanus, who in 2006 won the Nobel Peace Prize for his vision of making the poor bankable (Yanus, 2003); many of the Indian bankers now see the relationship between business, social responsibility and profit. Whilst the foreign banks ‘target the top strata of Indian society [with] the common man not banking with them’ (36), Indian banks are increasingly recognising the link between the millions of people who are living in poverty and the impact that it could have on their business. As the Vice President of Bank 26 remarked, ‘there are new business opportunities to work with the poor people and make them bankable ... it makes good business sense to get to the bottom of the pyramid’ (26a).

However, it is also recognised that social welfare should not be the sole responsibility of large corporations. Despite the fact that many of the companies interviewed are involved in credible projects and are really making a difference, there needs to be more collaboration and collective action. As the Director of foreign Bank 3 remarked, ‘if twenty corporates pooled together their financial resources then the problems in India could be minimised.’ Encouragingly, Respondent 26b is in the process of contacting other financial institutions, to pool together finances and knowledge resources in the field of CSR.

In India, large corporations and a number of financial institutions are alive to their social responsibilities; some are ‘doing it in fits and starts, sporadically,’ (21) whereas others have integrated social welfare into their business model. This chapter has

highlighted several projects which are thriving from corporate social commitment, including SUPPORT and Muktangam. With each project there is a sustainable element, suggesting that this is more than just philanthropy. It is important that the schemes supported through donations and staff volunteering have to be able to survive after the companies' withdrawal from the project; the people have to be empowered. As Respondent 12 remarked, 'it is like providing the fish but not the rod.'

As identified in Chapter 5, there are a number of models which Indian companies use to manage their commitment to CSR, internal, external and through a company foundation. This chapter has provided examples of each of these methods; Tata through an internal CSR department, the AIS Glass ICDP achieved through assistance from Youth Reach, an external Delhi based NGO and Bank 26 through their Foundation. Much of the CSR literature has set out to define the CSR terminology (van Marrewijk, 2003) distinguish between the various modes of company delivery and differentiate between philanthropy and CSR. From the research conducted in India, however, it is evident that there are multiple of ways of doing CSR. Whilst some companies are doing what some would describe as nothing more than philanthropy, academics should not engage in trying to define what it is and what it is not, rather, focus on the difference that these corporations are making by participating in such acts. Perhaps what is evident from the multiple definitions that have emerged (triple bottom line, business ethics, corporate sustainability, corporate social responsibility) is that there is no standardised formula for companies to follow (Henderson, 2001). Thus, the interrelationships between business and society are localised and bound in specific places. Therefore, it is not the terminology that matters, but the impacts that these programmes and strategies are having on place and the communities therein.

The heightened advertising and media attention to CSR in minority countries in recent years has created a need to advertise in India and this can be seen with several of the Indian banks using the Internet to portray their CSR agendas. Website reporting of CSR in India has increased over the period 2008 to 2009 in line with their commitment to CSR. Advertising with respect to CSR will be revisited in Chapter 10. Whilst, there may be a number of Indian companies that have jumped on the CSR publicity bandwagon, as shown with the website analysis, this chapter highlights that there are

also those who are being responsible for reasons other than the reputational value such acts bring.

Chapter 10

The impact of the global financial crisis

The previous chapter reviewed Indian commitment to CSR both within the financial sector and more generally, and concluded that there are those who are being responsible corporate citizens not just because of the reputational value such acts bring. During the latter stages of 2008, it became increasingly clear that this thesis would need to refer to the current financial turmoil and its impact on responsible project finance and CSR. This is relevant as the notion of responsible lending will have a new meaning in the current climate and for many companies it is likely that their commitment to 'green' initiatives will be challenged due to a decline in profitability.

At the time of the field visit conducted during the first quarter of 2008, there was optimism for the Indian economy, from the small street seller to the CEOs of India's leading banks. The Indian economy was enjoying a period of growth. The first section of this chapter will examine this confidence in relation to the global financial crisis that

was by the first quarter of 2008 gaining pace in the minority world. The second section focuses on the current financial crisis and its origins, progressing to review the potential impacts of the credit turmoil on the commitment made by companies worldwide, to CSR and responsible lending. The final section, compiles correspondence from respondents with regard to the potential of Indian banks to agree to the Equator Principles given the current financial situation. Within this, it is also necessary to mention China and their approach to responsible project finance. Like India, they have been slow to address environmental and social issues related to project finance. However, in December 2008 their leading commercial bank became a signatory to the Equator Principles, a significant step given the lack of commitment from banks in emerging markets to date.

10.1 First quarter 2008: Optimism in India

The landscape of finance has transformed in a relatively short space of time; within six months, major players of the financial world have fallen and minority nations are witnessing a recession (Altman, 2009). However, in the first quarter of 2008, when these economies were beginning to witness changes in their financial systems, India was confident.

During the interviews, respondents were not specifically asked about India's growth and the prevailing optimism. Without prompting, 25 percent (13) of the interviewees mentioned the excitement and confidence of the people. As Respondent 4 commented, 'there is optimism amongst the people ... the light is not yet too dim ... India is at the cusp at the moment, it is not yet at the tipping point.' Other comments included, 'we [India] are becoming richer, people are beginning to see the colour of money' (31) and 'it is exciting living in India at the moment, there is rapid change on the economic front' (13). It was also remarked that India's 'growth is not just in one area, GDP is built up over a variety of sectors such as infrastructure, services and finance ... the private sector is moving into all these areas ... government controls are reducing ... our telecommunications industry has been a real revolution, you will see that everyone has a phone' (13). Respondent 36 concluded the interview by

remarking, 'India is changing, in every sphere we see a change taking place ... there is lots of opportunity.'

However, despite the confidence there was also uncertainty; of these thirteen respondents, six (46 percent) concluded by saying that despite the apparent optimism, India still has huge disparities, problems and challenges which need to be overcome if the country is to progress. Respondent 11, for example remarked, 'for the first time Indians are on top of the world, but we have to sustain this and clear up the hiccups ... there are still millions of people who are living below the poverty line.' Respondent 30c also commented, 'there have been vast improvements in India but there is still a long way to go.' Other respondents were more specific about India's ills, Respondent 7a commented on the lack of services, 'we still have blackouts and why can't we have water available for 24 hours a day in the capital city of our country? Quality of life still leaves a lot to be desired.' Several of the interviewees expressed concern for the stark contrast which exists between the rich and the poor. As Gandy (2008: 110) recently acknowledged 'a widening segregation in both income and lifestyles is emerging between new global elites and the urban poor.' In fact, it has been said that there are two India's, whereby '80 percent of the population is excluded from the growth' (3). Although confidence for India's future is spread through all segments of its society, Respondent 39 remarked, 'there are stark contrasts between rich and poor, the wealth is not spread ... if this is not resolved it may lead to tension.'

During discussions, it was suggested that CSR could be the driving force to decrease these ever increasing disparities. As Respondent 11 highlighted, 'we are finding a new India now ... [however] it is the responsibility of the large corporations to create public and private partnerships to remove the disparity.' Encouragingly, a number of respondents noted the correlation between increased economic standards and attention towards environmental issues. As Respondent 12 remarked, 'sustainable development is at a tipping point, we have to go with the rest of the world ... our democracy is looking towards environmental issues ... caring for the environment has to become a core part of how we live.' More generally, the Chairman and Managing

Director of Bank 24 commented, ‘the Indian economy is booming and is here to stay ... environmental issues will keep coming to the forefront.’

Throughout the thesis, references have been made to minority nation companies outwardly portraying their green credentials to the consumer as part of the renewed interest in CSR. Similarly, in Delhi, there were signs from the local council and companies proclaiming to be green and ethical (Figure 10.1). Two signs are from developers promoting their ethical way of doing business and their ‘building of green India’ (a and b). Whilst the other two encourage Delhiites to ‘keep [the] city green and clean’ (c and d).



Figure 10.1: ‘Green’ signs and billboards, New Delhi (March, 2008) (Author’s own)

Several of the interviewees mentioned the rise of ‘green’ advertising in Delhi, as Respondent 13 commented, ‘green consumerism is not as big in India as it is in the West, but it is certainly coming into focus, there are signs now all over the city.’ However, a number of respondents are confused by the signs, as Respondent 3

remarked, 'I am not really sure what it means ... I think it is more related to the number of green spaces and trees we have, rather than how environmentally friendly we are.' Respondent 4, took a more critical view of the green advertising, 'you may have seen the signs all over Delhi 'Green Delhi', this is a conflicted message ... on one hand we are trying to be 'green' and the other we are widening the roads and cutting down the trees at the road side.' Developers and construction companies declaring to be 'green' may have been influenced by the surge of green consumerism in minority nations. During the research visit several of the leading construction companies were contacted; however, they declined to comment on their 'green' advertising.

The sense of optimism observed in India during the first quarter of 2008 was widespread and coupled with outward messages of sustainability by both construction companies and local governments; at first glance India's future looks promising. However, in the current period of economic uncertainty what will be the future of 'green' India, sustainable finance and CSR? The next section provides a summary of the financial crisis with respect to its 'global' ramifications and impact on emerging markets.

10.2 A 21st Century global financial crisis

At the outset of the research project in 2006, it was not an intention to investigate the particulars of global financial markets. However, a year into the research, the landscape of finance began to alter (2007). Twelve months later (2008), the markets slumped, 'choking the arteries of credit across the globe' (The Economist, 2008a: 13). Faced with this new situation, a review of the global financial crisis and its impact on CSR initiatives and 'responsible' lending is required. Geographers have begun to analyse, report and theorise the crisis and its ramifications (Aalbers 2009; Sidaway 2008; Wójcik 2009). However, a proliferation of material is predicted over the coming months and year.

This is not the first serious credit crisis, recession or financial turmoil, and no doubt will it be the last. The 1930s witnessed the Great Depression. Similarly, Argentina (1981-1990), South Korea (1997-1999) and Thailand (1997-2000) all saw their GDPs shrink by 30 percent, 'carrying painful economic and human costs' (Visser, 2008c: 25). However,

unlike past events, this crisis is truly global (Ridding 2008; Lyons 2008; Visser 2008b). As noted by Ridding (2008: no page), since the onset of the credit crunch, 'shockwaves have surged through financial centres, changing the landscape of finance.'

Over the past six months, governments worldwide have pledged billions of their currencies in the form of loans, guarantees and capital assistance, in an attempt to stabilise the global financial system (Altman 2009; Visser 2008c). At the time of writing (May 2009) financial institutions, such as Lehman Brothers, which were once seen as pillars of the financial community have filed for bankruptcy, governments have pledged to save failing banks in an attempt to restore confidence and leading world economies are experiencing a recession.

10.3 Pointing the finger

The world's media and economists have been quick to analyse which particular failing tipped the global financial system into crisis. It is evident that the current turmoil has escalated from a culmination of events and banking failures. However, general irresponsibility within the financial sector, particularly with regard to subprime mortgage lending is thought to be the greatest trigger (Green, 2008). From a geographical perspective Wójcik (2009: 258) suggests that, 'this time the major problem was with providers of finance being too far from the sources of risk, holding a false belief that some other institution in the long and complex chain of transactions held responsibility.' Visser (2008c) summarises the arguments into four dimensions of irresponsibility. First, irresponsible banking, suggesting that subprime mortgage lending was crucial to the demise of the financial system. Second, irresponsible financial markets, whose leaders increasingly played the 'casino economy' through speculative trading. Third, irresponsible executives and their extravagant pay packages. In the 1980s CEOs received 42 times the pay of an average US worker, by 2006 this had reached 364 (Visser, 2008c). Lastly, irresponsible capitalism; whereby 'some would even go so far as to say that the current financial crisis represents a systemic failure of shareholder driven, free market capitalism' (Visser, 2008c: 25).

Similarly, BankTrack (2008a) characterises the financial crisis as having three main dimensions. First, a financial and economic crisis characterised by a lack of trust among financial institutions, this led to a crisis of confidence which has spread to all sectors of the economy. As BankTrack (2008a: 1) explains, ‘as distrust takes over and money flows dry up, credit has tightened and the world is heading to a recession whose depth and duration no one can predict.’ Second, a crisis fuelled by speculation, as recognised by Visser (2008c). The third dimension is a governance crisis; over a short time scale banks have been given the space to take excessive risks in the pursuit of short term profits. In summary, ‘irresponsible and unsustainable behaviour of banks, driven by greed and kept unchecked by a failing regulatory system, has been the core of the crisis’ (BankTrack, 2008a: 1). A specific timeline of events can be seen in Table 10.1.

Table 10.1: Main events which have occurred during the financial crisis, (as of December 2008)

Time period	Action
2004 – 2006	US interest rates rose (1% - 5.75%); US house prices fell; Banks gave high risk loans
August 2007	The cost of credit rose sharply and the cost of borrowing increased; Banks refused to lend to each other - UK subprime lenders withdrew mortgages; European Central Banks pumped £63BN into the market
September	Bank-bank lending rate reached a peak of 6.7975% (Libor rate); Bank of England (BoE) guaranteed emergency support for Northern Rock and depositors withdrew £16BN; UK government guaranteed savings; BoE auctioned £10BN
October	The Swiss bank USB lost \$3.4BN from sub-prime related investments
December	BoE cut interest rates to 5.5%; Five of the world’s central banks offered billions of dollars in loans to struggling banks
January 2008	Global stock markets slumped - the worst since September 11 th 2001; US federal reserve cut rates to 3.5% (largest cut in 25 years)
February	BoE cut interest rates to 5.25%; UK nationalised Northern Rock
March	JP Morgan Chase acquired Bear Stearns (US 5 th largest bank) (\$240M)
April	Borrowers could no longer obtain a 100% mortgage in the UK; BoE cut interest rates to 5%
July	IndyMac (US mortgage lender) is the second largest bank in US history to fail
September	UK – Stamp duty exemption is lifted from 125,000-175,000; Fannie Mae and Freddie Mac are rescued by the US government; Lehman Brothers filed for bankruptcy; Merrill Lynch is taken over by the Bank of America \$50BN; US Federal reserve rescued AIG (\$85BN rescue package); Lloyds TBC acquired HBOS (£12BN deal); UK – Bradford and Bingley is nationalised; Iceland – Glitnir is nationalised; USA – Citigroup bought Wachovia; Dexia is saved by Belgian, French and Luxembourg governments; Ireland – declared they will guarantee all deposits for two years
October	US passed a £394BN government plan to rescue the US financial sector; UK – raised

	amount to be guaranteed to £50,000; Germany – the government saved Hypo Real Estate; Iceland – government took control of Landsbanki (second largest bank); UK – the government announced a rescue package worth £50BN; Five of the world’s central banks made emergency interest rate cuts; Finance ministers from the G7 countries met to tackle the financial crisis; Dutch government injected £7.7BN into ING; Sweden set out a bank rescue plan; India – cut short term lending rates; US federal reserve cut interest rates to 1%
November	IMF approved \$16.4BN loan to Ukraine to boost the economy; BoE interest rates cut to 3%; China set out a \$586BN package to boost the economy; Leaders of G20 gathered to discuss crisis; IMF approved £1.4bn loan for Iceland; UK – reduced VAT to 15%; IMF approved £5.1BN loan for Pakistan; US federal reserve injected another \$800BN into the economy
December	US recession is officially declared; France revealed a 26BN Euro package; US interest rates fell to 0.25%; Japans central bank cut interest rates to 0.1%; Belarus will receive \$2.5BN IMF loan

(Adapted from BBC, 2008)

Analysts have suggested that, ‘subprime was the trigger’ (Green, 2008: no page), whereby US banks offered high risk loans to individuals with little or no credit history. Subprime mortgage lending has grown exponentially, from \$35 billion in 1994 to \$600 billion in 2006 (Aalbers, 2009). Aalbers (2009) recognises that the current financial crisis originates from a sub-division of subprime lending. Known as predatory lending this is ‘designed to exploit vulnerable and unsophisticated borrowers’ (2009: 38), the features of which include:

1. Higher interest and fees than is required to cover the added risk of lending to borrowers with credit imperfections
2. Abusive terms and conditions that trap borrowers and lead to increased indebtedness
3. Fails to take into account the borrower’s ability to repay the loan
4. Violates fair lending laws by targeting women, minorities and communities of colour

(Aalbers, 2009: 38)

Subprime loans were sold together with other financial products (of varying risk) in portfolios (known as Collateralised Debt Obligations or CDOs) to investors worldwide. However, falling house prices coupled with rising interest rates saw an increasing number of people unable to repay their mortgages; in turn investors suffered losses and were reluctant to acquire additional CDOs. As a result, the availability of credit

froze as banks were reluctant to lend to each other. In an attempt to stimulate the economy the US Federal Reserve and the EU Central Bank released capital for banks to borrow. Base line interest rates were also cut to encourage lending. Bailouts, nationalisations and deposit guarantees occurred around the globe. In late 2008, the US agreed a \$700BN bailout to buy Wall Street's bad debts in return for a stake in the banks, whilst the UK made £400BN extra capital available (BBC, 2008). Meanwhile, 'whilst bank shares have been hammered because of bad debts, retailers have been hit as consumer confidence is shaken by falling house prices and job insecurity' (BBC, 2008: no page).

As recognised by BankTrack (2008a: 1), 'the world financial system is on the brink of collapse ... the crisis that is pervading the banking system has increasingly spread to other sectors of the economy, affecting the lives of millions of people living in both developed and developing countries.' In October 2008, organisers of the World Economic Forum recognised that the meeting in 2009 would have to address the prevailing financial crisis. Thus the meeting was to be titled 'Shaping the post-crisis world,' in recognition that 'the international landscape will be radically altered as a result of the present economic crisis ... countries, communities and companies are being forced to review their assumptions about the future and to rethink their strategies in light of the global transformation taking place' (WEF, 2008: 1). Indeed, the meeting at Davos (February 2009) highlighted the global nature of the crisis, suggesting that this was not just a problem for minority nations. As Drzeniek-Hanuuz (2009: 7) concluded, 'there will be an economic contraction (recession) in the developed economies and a slowdown in emerging markets.' On April 2nd 2009, leaders of the Group Twenty (G-20) met in London to put together a 'Global Plan for Recovery and Reform.' The meeting confirmed that indeed this is a global crisis requiring a global solution and as a result the members of the G-20 pledged to:

- restore confidence, growth and jobs;
- repair the financial system to restore lending;
- strengthen financial regulation to rebuild trust;

- find and reform our international financial institutions to overcome this crisis and prevent future ones;
- promote global trade and investment and reject protectionism, to underpin prosperity; and
- build an inclusive, green, and sustainable recovery.

(G-20, 2009: 1)

It is evident that this financial crisis is truly global, impacting both minority and majority economies worldwide (Table 10.2). A record number of companies from the BRIC economies (Brazil, Russia, India and China) now occupy the Fortune 500 rankings. In 2003, there were 31, today it stands at 62. These firms, due to the globalisation of the economy will undoubtedly feel the squeeze (The Economist, 2008b). The result of which will be passed on to the emerging economies, as recognised by The Economist (2008a: 13), 'output in rich economies will not simply shrink but collapse, the same could happen in many emerging markets, especially those that rely on foreign capital ... no country or industry would be spared from the equivalent of a global financial heart attack.'

Table 10.2: Countries impacted by the financial crisis (as of January 2009)
(Author's own)

	Deposit guarantee	Bail out	Extra government Funding	IMF loan	Nationalisation	Interest rate cuts	Cut short term lending rates
Belarus				✓			
Belgium	✓	✓					
Canada						✓	
China			✓				
France			✓				
Germany	✓						
Iceland				✓	✓		
India							✓
Ireland	✓						
Italy			✓				
Japan						✓	
Luxembourg						✓	
Pakistan				✓			
Russia			✓				
South Korea			✓				
Sweden			✓				
Switzerland		✓					
UK	✓	✓	✓		✓	✓	
USA	✓	✓	✓		✓	✓	
Ukraine				✓			

What then will be the impact of the credit squeeze, failing banks and bailouts on CSR? Will banks and companies alike disregard their 'green' credentials in a time of uncertainty and crisis? Or will CSR be heightened due to the public outcry for increased responsibility, transparency and accountability?

10.4 The impact of the crisis on CSR

With the lack of available credit in the economy and threats of looming job losses, cutbacks within businesses and increased business failures are inevitable. Unfortunately, in many cases this will be related to CSR; as Lyons (2008: no page) commented, 'executives in this environment will not be thinking about CSR, only growth.' Visser (2008b) provides an outline of the various types of CSR initiatives and their likelihood of surviving a recession. First, he suggests that philanthropic CSR (such as sponsorships, charitable donations and employee volunteer schemes) will be the first to be curtailed, he comments, 'irrespective of the fact that those most in need of charity will be the worst hit by the crisis, companies around the world will be forced into cost-cutting and philanthropy budgets will be among the first to be trimmed' (Visser 2008b: no page)

Second, Visser (2008b) suggests that strategic CSR initiatives will be less affected by the crunch. Companies that have aligned their core business to broader CSR initiatives will likely protect them. Finally, he proposes that deep rooted CSR will be largely unaffected as 'CSR can only be resilient if it is part of the DNA of an organisation' (Visser, 2008b: no page). He also comments that, 'CSR will only survive the vagaries of fickle markets, fluctuating profits, financial crises and leadership whims if it is totally embedded in the corporate culture, strategy and governance systems.'

Undoubtedly, there are countless boards of directors and CEOs that jumped on the green bandwagon during the good times. When the recession has passed, those companies who are in it for the long haul will be shining beacons of the CSR movement. However, whilst the financial crisis may enable Milton Friedman proponents to discard CSR, the turmoil has demonstrated more than ever, the 'importance of transparency, ethics and reputation, especially when it comes to investments' (Daignault, 2008: no page) and banking.

As highlighted throughout this thesis, leading financial institutions have come far in declaring their commitment to responsible project finance, the Equator Principles and more generally CSR. Whilst it might be tempting at this current time for banks to look at the short term profits and regress on CSR and responsible project finance, this

would negate the credibility that they have built up since becoming Equator signatories.

The next section focuses on India. Given the outward optimism experienced during the field research, ten months on, how has the economic crisis impacted Indian banks, particularly on their thoughts of becoming Equator signatories and their promising CSR objectives?

10.5 Evidence from India: Impact of the crisis

As a result of the global economic crisis, India's GDP growth rate has fallen from an impressive 9 percent in the first quarter of 2008 to 7.5 percent (December 2008). However, as noted at the India Economic Summit, 'even if you take growth at 7 percent, it is 2 percent less than what [India] had but still higher than what [India] had four years ago' (Ahluwalia, 2008: no page). It is also suggested that India's downturn in GDP is not the beginning of an Indian crisis, but rather, linked to the global turmoil (Ahluwalia, 2008). As this chapter has identified, the landscape of finance has altered since the initial research was conducted. It was necessary therefore, to ask interview respondents their feelings regarding the current turmoil and the potential impact on current and future commitments to responsible project finance and CSR. Interviewees were contacted on 17th December 2008 and respondents were given one month to respond to three questions:

- 1) Has the global economic crisis had any impact on the way your bank views sustainability and responsible lending?
- 2) Will the economic turmoil mean that you will have to re-assess your priorities with regard to CSR expenditure?
- 3) In our interview we talked about the Equator Principles, the international lending standards, do you see them as having a place in Indian banking?

The response rate was 28 percent (11), consisting of emails and telephone interviews. The email responses varied in length, from one word answers to 1,000 word explanations of the current situation.

Responses to question one were varied. Banks 26 and 33, (considered in previous chapters as leaders of responsible finance in India) both simply replied 'no.' Similarly, Bank 31, commented, 'it has reinforced our belief in our conservative value systems ... we have typically been more expensive than the market, and more choosy about lending ...we have rarely attracted the type of borrower who is likely to go delinquent.' Despite the CEO of Bank 39 not altering his views with regard to sustainability and responsible lending, he did remark that, 'when we get the next quarter financial results it may be different ... but the first things to be cut are hotel expenditure and courses ... our CSR is relatively small anyway.' The respondent from Bank 30 (a) had since been relocated, his replacement highlighted that financial institutions worldwide will have become more receptive to sustainability and responsible lending; he commented that, 'the global recession has made everyone think that we have got to be responsible in a big way now' (30c). Like Visser (2008b), several of the non-banking respondents commented generally on CSR and responsible lending during a period of economic recession. Respondent 14 remarked, 'the response to CSR initiatives will really depend on how integrated CSR has been in the core strategy of business ... sustainability initiatives will take a back seat for companies who view this as an image building exercise, undertaken due to peer pressure.'

The second question focused on CSR and the potential of budget re-allocation due to the economic turmoil. Like the previous question, responses were varied. Several of the banks commented that regardless of the situation, their commitment to CSR will remain. Bank 31 also positively commented, 'we have benchmarked budgets for CSR as a percentage of our profits ... so as long as we are profitable we will have resources to allocate to CSR.' The respondent continued, 'microfinance is an area we have chosen to focus on, as it happens, the current economic turmoil only reinforces our choice, since traditional lenders may be averse to lending to this unsecured segment of the market.' Bank 34, a foreign financial institution, also positively commented, 'domestically we only have one project and we continue to support this ... we are not going overboard but we are not curtailing either.' Three of the respondents were less positive about the impact of the global financial crisis on CSR, Respondent 14 remarked, 'no doubt CSR budget allocations will be very tight ... this may slow down

the pace of these initiatives.’ In addition, two of the foreign bank representatives commented, ‘it is too early to say,’ (34) and ‘at the moment we have not touched our CSR budget’ (39).

The final question related to the Equator Principles. Only two of the banks believe firmly that the Equator Principles have no place in Indian banking, Respondent 18 remarked ‘No’ to the question. In addition, Respondent 31 commented, ‘we are a third world country ... if development is hampered, Indian banks are not going to comply ... to commit on paper they would say no.’ However, a number of respondents believe that the Equator Principles do have a place in Indian banking. As Respondent 14 commented, ‘yes, with the coming in of the socially responsible investment paradigm, the Equator Principles are most likely to make a significant place in Indian banking.’ Three other respondents remarked that whilst they believe the Equator Principles to be relevant to India, they will not commit at present. As Respondent 31 commented, ‘we are all in an interconnected world, and while India is just beginning to have its days in the sun, that does not make it ok for us to lend irresponsibly to entities that are polluting the environment or causing other social damage.’ He concluded by saying, ‘I see no choice in this matter, it is just time before Indian banks adopt ... for India to take its place in the world order, it will have to adopt best international practices in this area’ (31).

Responses from the post-research questions were mixed with regard to both the curtailing of CSR initiatives and the possibility of Indian banks becoming signatories. Despite the fact that it is possibly too early to tell what the impact will be on CSR and responsible lending, it is interesting that China has turned a corner with regard to its approach to sustainable finance; the next section reviews their current commitment.

10.6 Sustainable finance in China

At the outset of the research, India was chosen (see Chapter 6) as the emerging economy not yet committing to responsible project finance. However, two years on it is necessary to mention China, due to its recent commitment to sustainable finance and the Equator Principles. Chinese banks are growing within the global economy; at the start of 2008, three Chinese banks (by market capitalisation) were ranked amongst

the top five in the world, including the Industrial and Commercial Bank of China (ICBC) (overtaking Citigroup and Bank of America), Bank of China and China Construction Bank (BankTrack, 2008b). Unlike India which has no Equator signatories, China's leading commercial bank, is now committed to the guidelines.

The recent commitment to sustainable finance by the Chinese government follows the record growth in profits experienced by Chinese banks in 2007-2008. As BankTrack (2008b: 1) recognises, 'the growth has been accompanied by serious environmental costs, both domestically and abroad.' In the past few years, China's investments in Africa, predominantly Nigeria, Angola, Ethiopia and Sudan (Foster *et al.*, 2008) have grown exponentially. In 2008, the China Export-Import bank (EXIM) pledged to commit US\$20BN in loans to Africa up until 2010, far exceeding the US\$4.8BN in project loans the WB committed in 2006 (BankTrack, 2008b). From Africa's viewpoint 'in the absence of funding from elsewhere, the Chinese finances are a welcome injection' (Taylor, 2006: 949). China has recently attracted media attention for their 'investments in bottom of the barrel extractive industries projects, the dregs left behind by western companies that have already [extracted] the most lucrative and accessible natural resources' (BankTrack, 2008b: 6).

Encouragingly, in 2007 the Chinese government released a set of sustainable finance regulations, the 'Green Credit Policy' (July 2007) aiming to regulate bank lending on environmental grounds. The main focus is a credit blacklist (comprising of thirty eight companies which fail to deliver on environmental grounds). Under these regulations, Chinese banks are prohibited from lending to these organisations. However, the Policy only applies to local funding projects; like the Indian financial institutions, the Chinese are increasingly providing funds to the international market.

Whilst Chinese lending policies are in line with international norms, 'few banks have gone beyond and developed their own publically disclosed environmental guidelines' (BankTrack, 2008b: 1). In addition, 'Chinese banks still lag behind their international peers, especially when it comes to developing comprehensive environmental and social management systems and engaging stakeholders' (BankTrack, 2008b: 1). Unlike the Equator Principles, whereby signatories are now required to provide reports on an

annual basis as to the allocation of funds, there are no such stipulations under the 'Green Credit Policy,' meaning that Chinese banks are providing minimal or no reporting of the actual companies and projects financed.

Similar to Indian banks, Chinese financial institutions have been encouraged to adopt the Equator Principles by the IFC and current Equator signatories (Mizuho, Citigroup and HSBC) (BankTrack, 2008b). In addition, the Executive Vice President and CEO of the IFC, Lars Thunell, recently commented, 'the IFC is committed to helping more Chinese financial institutions to gain sustainable development through cooperation with the Chinese government on green credit policies' (China CSR, 2008: no page).

The Green Credit Policy has 'fundamentally changed the green banking landscape in China' (BankTrack, 2008b: 18). Since its launch, China held a green banking innovation ceremony with Industrial Bank claiming the first award. Additionally, they have won international recognition; in both 2007 and 2008, Industrial Bank was a runner up at the Financial Times Sustainable Banking Awards in the category Emerging Markets Sustainable Bank of the Year. Due to their recent adoption of the Equator Principles, there is optimism that other Chinese banks will follow suit.

Like the situation in India however, there is a sense amongst Chinese banks that the Equator Principles should be 'localised' to fit its emerging market status. As BankTrack (2008b: 34) suggests, 'many banks are concerned about the difficulty of applying the Equator Principles as is and have expressed the desire to adapt or change international standards to fit the particular Chinese context.' For example, unlike the Equator Principle guidelines, Chinese banks are not required to ask for detailed loan documentation.

The commitment to sustainable finance by Chinese banks has to be praised; however, the next stage should look beyond the national border; as increasingly Chinese banks are funding international projects.

10.7 The Equator Principles: an Anglo-American impetus

Chapter 2 referred to the broader political economy of international lending, this was then expanded on in Chapter 3 with reference to the theoretical underpinnings which have shaped much of the political and economic discourse since the end of World War Two. However, as acknowledged in Chapter 2, development theory has been based on the premise of promoting western capitalism. The modernisation school, for example, theorised that all countries of the world would follow a linear path to modernisation, this was however, an ethnocentric theorisation of how, and by what means, majority nations of the world should develop.

The dependency school emanated from Latin America, whereby several countries were not progressing along the linear path to development, as suggested by the modernisation theorists. Dependistas called this 'development of underdevelopment' (Frank, 1967). They theorised the world into a system of a core, semi-periphery and periphery to explain why some countries were developing more than others (Wallerstein, 1974). However, the critique that followed proposed that those countries further down the linear development path were in this position because of internal State constraints and corruption. To overcome this, a neo-liberal development path was devised by the Anglo-American 'international' finance institutions; promoting structural adjustment prescriptions, including price distortions, trade liberalisation and privatisation (Hewitt, 2002).

Given the backdrop of the global financial crisis that has arisen during the period of writing this thesis, it is important to consider the legitimacy of international agenda setting in general, and more specifically the Equator Principles. Historically, Anglo-American economic and political power has dominated the international finance arena. However, as acknowledged earlier in this chapter, the 21st century financial crisis has been a result of numerous irresponsible actions of organisations and systems in the minority world (Visser 2008c). French *et al.* (2008: 26) suggest that the origin of this financial crisis can be 'traced back to the attempt to extend the networks of global finance into hitherto unexplored territories.' This had been part of a broader process that Leyshon and Thrift (2007) described as the attempted 'capitalisation of almost

everything' (2007: 97). Given this, the credibility and legitimacy of 'global' environmental and social agendas which have emanated from a banking landscape which is now in turmoil, must be questioned.

There is the general assertion amongst the public and media that in the year (2008/2009) since the collapse of the major banks in the minority world, financial institutions have not learnt from their irresponsible actions of the past. How then, can we trust minority world banks in acting responsibly with regard to the environment and complying with the voluntary Equator Principle guidelines, when in fact the whole system seems to be based on exploitation and irresponsible practice? Why should majority world countries adopt guidelines that have emanated from the same organisations that have spiralled the global finance industry into turmoil and caused widespread recession?

As the banking industry stands, questions are being raised on a weekly basis with regard to its legitimacy; there is a chasm between banking processes in theory and what has actually been happening in practice, the process has been undermined by excessive risk taking. However, despite the fact that during this period of crisis, the credibility and accountability of the minority world banking system has been questioned, the purpose behind the Equator guidelines remains significant. Principally, they are a set of industry standards aimed at protecting vulnerable communities and environments in regions of infrastructure development, a worthwhile purpose. In this age where infrastructure development in majority nations is on an ever increasing upward spiral, consideration needs to be given to existing environments and communities. Whilst the environmental and social safeguards have arisen from a banking system which is now in crisis, the rationale behind the Equator Principles is meaningful; they aim to 'determine, assess and manage social and environmental risk in project financing' (Equator Principles, 2006: no page). It could be argued that the Equator Principles arose from human morality, however, are these not the same people that have taken excessive risks in their lending habits which has caused ripples of destruction worldwide?

The purpose and methodological positioning of this research, as identified in Chapter 3, was influenced by a postcolonial perspective. Previously excluded voices from Equator discussions and more generally international environmental and social governance, were given an opportunity to 'speak' to the minority world actors involved in 'international' standard setting. For the credibility of any 'international' standards, actors from all over the globe need to be present at the initial formation. Perhaps then, what is needed is a reconfiguration of the Equator Principles, involving the subjects of the projects that are financed in the majority world, not just those from the minority world landscape. The subsequent section builds on this notion. With the increasing shift of financial and political power to the majority world and the assertion that the current crisis is global, then the case for global inclusion and internationally co-ordinated actions and standards is paramount. This research applies a postcolonial lens to challenge the existing power bases within the current system and process of international project finance lending; through the inclusion of the 'other.'

10.8 The shifting landscape of finance

As previously identified in this chapter (section 10.2) the current financial crisis has global ramifications. At the time of writing (May 2009), minority nations, oil-exporting countries and the BRIC countries have all been impacted by the crisis, but as Aalbers (2009: 39) recognises, 'the crisis has generally hit the west more than the rest.' However, several months since this publication it is evident that this is a truly global crisis and emerging economies such as India will soon see their economies slow down.

During follow-up interviews conducted in January 2009, respondents commented on India's role in the global economy and the reach of the financial crisis. Several of the interviewees from Indian banks remarked that to date the impacts of the 'global' financial crisis have been minimal. As Respondent 27 remarked, 'there has not been much impact here in India, fortunately.' Respondent 30c also commented, 'the economic recession is not so severe in India ... China and India have very significant domestic economies which are not externally linked.' However, other respondents were not so optimistic, as interviewee 14 remarked, 'the global economic recession has ushered in a difficult time for Indian businesses.' Additionally, the Corporate

Manager at Youth Reach observed that times are tough, 'while most companies are continuing with their existing commitments, they have kept new philanthropic activities on hold ... sectors like aviation, tourism, real estate and banks have been very badly affected' (6). Quite bluntly, the CEO of foreign Bank 39 stated, 'the Indian economy is not immune to the bloody situation.'

Despite the mixed responses and uncertainty which preludes in the financial world, one thing is for certain, there are now more secondary finance centres in the world which are gaining increasing importance. As Aalbers (2009: 39) comments, 'considering how much Europe has been hit by this crisis and how fast Asia's economies are growing and changing, a shift towards Asia seems likely.' Paralleled with the growing power of financial centres such as Mumbai and the changing geography of finance, is the growth and varying composition of development funds. At the outset of this research, development funds were increasingly being met by majority world financial institutions. Two years later, it is apparent that emerging economies have the capital available to fund both local and international infrastructure growth. It is important to acknowledge this shift which has occurred within global project lending. At a recent conference held by the Financial Times, Dr Omar Bin Sulaiman, the Governor of the Dubai International Financial Centre commented, 'increasingly we are fuelling growth with our own money ... we are looking locally.' In addition, he remarked, 'the UAE can fund its own growth as well as increasing investments in Asia' (Bin Sulaiman, 2008: no page).

With the rebalancing of development finance as well as the increasing power and stability of non-western financial centres, it has become apparent that the 'economic geography of the world has moved east' (Saidi, 2008: no page). As the Chairman and CEO of HSBC, Stephen Green commented, 'there is a rebalancing towards Asia ... collectively emerging markets are as large as the US economy' (Green, 2008: no page). If Equator banks are denying funds on economic, environmental and social grounds and are in competition with non-compliant emerging market banks, this could potentially hold devastating environmental and social consequences.

10.9 Financing oil and gas - more commitment is needed

On a daily basis the banking system is spiralling into deeper turmoil; questionable deals and irresponsible banking decisions dominate the media headlines. In Chapter 4, 'greenwash' was identified; banks declaring their commitment to environmental and social issues without internally changing their lending habits. In 2007, a number of NGOs collaborated in the publication of 'The Oil and Gas Bank: Royal Bank of Scotland and the financing of climate change.' The report states that 'RBS have major destructive impacts on the environment and society ... RBS provides oil corporations with the cash to build and operate drilling rigs, pipelines and oil tankers ... which contributes to environment destruction, disruption of Indigenous people and increased conflict across the planet' (Minio-Paluello, 2007: 4). One of the major findings of the report was that 'emissions embedded within RBS project finance to oil and gas reached 36.9 million tonnes in 2005, equivalent to those of 6.2 million homes, one quarter of UK households' (Minio-Paluello, 2007: 4). In spite of these revelations, in 2008, RBS, displayed leaflets in their branches proclaiming their green credentials, stating they are the 'largest financier of renewable energy in the world ... financing the transition to a low carbon economy' (Pearce, 2009: no page). However, Pearce (2009: no page) observes that, 'RBS is still built on oil ... stumping up [four times] more cash for coal than renewables.' With recent developments in the banking crisis, the RBS is now majority owned by the British government, the UK taxpayer; it will be interesting to see whether there are any significant changes to its investment policies with regard to the financing of oil and gas.

The Equator Principles are a significant improvement in the safeguarding of the environment through responsible finance; however, more restrictions are needed to slow down the financing of unsustainable projects and energy sources. Whilst, it is true that the transition away from fossil fuels cannot happen overnight, surely the current financial crisis presents an opportunity for more investment in sustainable projects and energy sources and an overriding move towards more responsible lending. However, support from governments is needed in order for sustainable sources of energy to be a profitable investment. Encouragingly, from an Indian

context, the Chairman and Managing Director of Bank 24 recognised the importance of the Equator Principles, despite the current economic climate:

‘in the context of current turmoil in financial markets, this has assumed even more importance since, to a large extent, the crisis seems to have emanated from the lack of management oversight over management of key risks and non-adherence to certain basic principles of due diligence. I feel that as compared to normal times, the Equator Principles assume further relevance in times of turbulence.’

10.10 Summary

The landscape of finance has transformed in a relatively short space of time. Within six months, major players of the financial world have fallen; minority world economies are experiencing a recession and emerging economies are slowing down; unlike previous times of financial uncertainty this financial crisis has global ramifications.

Significantly, Visser (2008a) talks of ‘CSR 2.0’, which will be fuelled by ‘the wave of emerging responsible and sustainable markets.’ A few months into the current recession may be too early to be optimistic about the future of CSR; however, at present there are positive signs, particularly with respect to the Equator Principles. Firstly, none of the existing Equator signatories have withdrawn their commitment and can still be held accountable to watchful NGOs and wider civil society. Secondly, in 2007 the Chinese government launched its Green Credit Policy scheme, prohibiting banks from lending to 38 blacklisted companies on environmental and social grounds. In addition, in December 2008, in the midst of the financial turmoil, China’s Industrial Bank became the sixty-third Equator signatory. Perhaps this is what is needed to encourage other Chinese and Indian banks to adopt the international lending guidelines.

Whilst the Equator Principles represent a significant improvement in the safeguarding of the environment through project finance and deep-rooted CSR programmes in India are at present not being curtailed, more restrictions are needed to slow down the financing of unsustainable projects and company activities. Aalbers (2009: 40)

recognises that 'the financial crisis is redrawing the world in lots of ways and at many levels,' the scales of responsible lending will be one area to alter dramatically over the course of the financial turmoil.

Chapter 11

Conclusions and recommendations

11.1 Addressing the aims and objectives

An overview of the study is presented, reaffirming the research aims and objectives in relation to the conclusions drawn. The chapter follows on to explore the implications for geography as a discipline, the real world significance of the research and considers potential extensions.

Research began in September 2006. At this time there was the general consensus that Indian financial institutions should commit to sustainable project finance through the adoption of the Equator Principles, in order for the guidelines to be considered a credible baseline for lending worldwide. The following year, fieldwork in India was conducted to specifically ask India's bankers their reasoning behind not wanting to become Equator signatories. Other fieldwork was carried out to appreciate the local impacts of corporate CSR initiatives. On returning from India, changes were occurring within the global financial sector; on a daily basis the banking sector was spiralling into

deeper turmoil. At the time of writing (May 2009), after numerous nationalisations and bail-outs, green shoots of recovery were yet to emerge and as a consequence, some might argue that environmental issues and green project finance is insignificant. However, this research argues that sustainable project finance should assume greater priority with the [immanent] restructuring of the global financial system. First however, we must not detract from India, the focus of this research.

To reiterate, the aims of this research were to:

1. *Identify the commitment of Indian financial institutions to sustainable project finance; and*
2. *Explore the possibility of a responsible development paradigm emerging within the contemporary Indian context.*

Each of the five research objectives are reviewed specifically to address the aims outlined above.

11.1.1 Objective one: A global outlook

An analysis of the commitment to the Equator Principles from financial institutions the minority world and an assessment of the significance of increased compliance from emerging market institutions

A review of the literature, conference proceedings, informal interviews and company reports of current Equator signatories established the following:

- The original Equator Principles represented a significant shift in thinking within financial institutions. Prior to 2003, banks were considered to be relatively environmentally friendly in terms of their paper usage and energy efficiency.

However, since the launch of the guidelines it has become increasingly apparent that there is an intrinsic link between financial institutions and sustainable development. The Equator Principles were launched as a set of global principles and are relevant to the worldwide project finance industry (Bray, 2006).

- Burrett (2006) (present at the original Equator discussion), emphasised that the Principles serve to only be a guideline for adopting banks; there is no one-size-fits-all approach to the diversity within the project finance industry. It is important that signatories embed their own decision making process into their project lending, guided by the Equator Principles.
- In 2006, at the Sustainable Finance Summit there was the consensus that one of the greatest challenges for the Equator Principles is the lack of support from majority world banks. As Burrett (2006: no page) asked, ‘large Chinese projects are already being financed by local banks in local currency ... going forward, how do we engage with local banks in China and India?’ This research sought to ask Indian banks their reasoning behind their lack of Equator adoption.
- Since the launch of the Equator Principles there has been the perception that they are a panacea for all of society’s environmental and social problems, particularly climate change. However, the guidelines were never intended to address this issue, only the potential social and environmental impacts of funding developments (Sohn, 2006).
- Abdel-Haq (2006) compared Islamic finance, a growing market, with ethical investment in finance and highlighted the main overlaps. First, that the Sharia law is based primarily on justice and second that Islam has clear guidance for all aspects of life.
- A year on from the inception of the Equator Principles it became apparent that there were some major limitations with the guidelines (outlined in Chapter 4). As a result, Equator Principles II was launched in 2006. All original Equator signatories adopted the revised guidelines.

The aim of this primary objective was to gain a baseline understanding of the Equator Principles, their purpose, successes and failures in order to be able to translate this to

the Indian context. Despite the criticism that has emerged from NGOs with regard to the mistakes that have been made on the banks' part, the Equator Principles have revolutionised the lending practices of major financial institutions within a relatively short period of time. At the outset of this research, no Chinese or Indian banks had adopted the international standards; this research sought to explore the potential of Indian banks becoming signatories. With local banks increasingly funding local developments, Equator support is needed from banks in emerging markets, only then will environmental and social risks be identified and managed in a responsible manner and to a common baseline.

11.1.2 Objective two: India's current commitment

An analysis of general environmental awareness in India and an assessment of the current lending strategies of India's leading financial institutions

Chapter 7 reviewed current levels of environmental awareness specifically amongst financial institutions and more generally in India. From living in India for several months it is evident that the country is rife with environmental problems; the air and water pollution (Gandy, 2008) were particularly striking in urban Delhi and Mumbai. Overcrowding and the lack of suitable waste disposal mechanisms are the main causes of poor sanitation and disease in these heavily populated cities. Dembowski (2001) suggested that environmental issues such as these were severely hampering development within Indian cities. Eight years on from his analysis, the municipal governments have not addressed these critical issues. Delhi in particular, at the current time, is experiencing huge infrastructure growth, yet fundamental sanitation and waste disposal issues have not been addressed. For Delhi to develop both in terms of its infrastructure and economically, it is critical that these issues are resolved.

From the analysis of the interview material, there was the general assumption that the younger generation are more environmentally aware. Despite the fact that Yasmeen (2003) suggested that the current focus of environmental education in India is too

isolated from the country's political, social and economic agenda, this research found that younger generations are increasingly aware and enthusiastic about environmental issues; a positive finding. An overriding premise of the interviews was that India must be left to develop further; once poverty is overcome then concern for the environment will follow. However, of the interviews conducted 60 percent were considered as 'elite' members of Indian society; it would appear the rich are using the poor as an excuse for not committing to environmental issues on both an individual and a collective basis. Hoerisch (2002) outlined the need for Indian society to recognise the causal relationship between the environment, society and development. The findings of this research support this view; waste and pollution are serious environmental issues which are currently hampering India's economic and social development. The mindset of all Indian citizens needs to adjust to the rapid development which is taking place, not only for environmental and ecological reasons but also for personal hygiene. Chapter 7 used the example of waste management in Delhi National Zoo; the photograph showed a car park attendant discarding paper tickets onto the floor with no regard. It is the responsibility of the public authorities to take the lead on waste disposal; this will help change the mindset of the people. Respondent 3, an elite interviewee, casually admitted, 'once we have provided basic needs for India's 1.1 billion then we can do it in more sustainable ways,' however, in order for India to lift the millions out of extreme poverty a sustainable mindset is required. Only 5 percent of interviewees deemed environmental issues to be of national importance, however, the link between poverty, development and the environment must be acknowledged in order for India to achieve development of a sustainable fashion.

Currently the process of mitigating environmental and social risk in India is managed and regulated by the Ministry of Environment and Forests (MoEF), representatives from the State and the Central Pollution Control Board (CPCB). In 2008, Dash conducted a review of the Indian mitigation procedure, comparing it to the IFC's Equator Principles guidelines. From his analysis the two are comparable; in their technical requirements for the categorisation of projects, their EIA and the process of public consultation (Dash, 2008). However, he identifies that the Indian guidelines are inadequate for the consideration of social standards, particularly labour and health and

safety issues. Throughout the entire process the State is responsible for compliance with the EIA and legal action can be taken against non-compliant developers. Indian financiers therefore, are not required to spend any resources on mitigating the environmental and social risks of a project they agree to finance, unlike the Equator signatories, where mitigating risk is a banking responsibility.

11.1.3 Objective three: Asking India

An examination into the reasons why Indian banks have adapted or disregarded Equator Principles II, the international project finance lending standards

A central element of this research was to expose the reasons why Indian banks are not committing to internationally recognised guidelines for the responsible financing of projects and to explore the potential of a responsible development paradigm emerging from the Indian financial sector. In this regard, the impetus and methodological approach was influenced by postcolonial theory, whereby the researcher aimed to 'disrupt ways of thinking about the world based on northern assumptions' (Willis, 2005: 121). Through a postcolonial lens the researcher has acknowledged the voice of the 'other' which has until now been absent from discussions of international responsible project finance.

From the interviews conducted, awareness of the international lending standards was minimal. Whilst 46 percent had heard of the Equator Principles, only 27 (14) percent were well informed, and as 8 of these were respondents from foreign banks and other organisations, this figure is disturbingly low. Of India's six fastest growing banks, only one was fully aware of the guidelines and of all the Indian banks interviewed only two stood out with their commitment to environmental issues within the company. It could be said that these two Indian banks have adapted the Equator Principles instead of becoming signatories. Unlike any of the other Indian financial institutions, Bank 29 had allocated a person within the organisation to review the Equator Principles, whilst he was non-specific as to which of the nine Equator Principles they were focusing on,

he did have a knowledgeable understanding of the guidelines. In addition, Bank 29 had a 'green bank policy' with the aim of reducing carbon dioxide emissions in their headquarters and regional offices. Bank 33 is also committed to responsible banking in all aspects of its business; in recognition of this they received a prestigious international award in 2008. Whilst Bank 33 is yet to commit to the Equator Principles, they have gone far in declaring their commitment to responsible banking; it is anticipated that their recent award may trigger an interest in responsible finance amongst the Indian banking sector.

Recent global and national interest in the environment and environmental issues, particularly climate change, has caused confusion around the significance of the Equator Principles. Many of the respondents were unclear about the guidelines, thinking that they were a precondition to combating climate change and carbon offsetting rather than the responsible financing of development projects. Indian bankers blame ignorance for their continued irresponsible funding of projects. Therefore, one would assume that educating the Indian banks about sustainable finance would be the next step. When conducting the research, three banks specifically said that they would consider adoption now that they are more aware (since the interviewer highlighted the issues). However, a year on from conducting the research, they are still not signatories.

Indian banks are not the only financiers of infrastructure development. As recognised in Chapter 5, the Government of India has invested a substantial amount of resources into the promotion of infrastructure development finance companies, several of which participated in this research. Similar to the financial institutions, there was a contrast in commitment to environmental and social issues. Company 11, wholly government owned, is a leader with its approach to mitigating environmental risk. At the time of conducting the research they were receiving support from the IFC with their environmental and social policy, to align it to the international guidelines; perhaps the next step will be the adoption of the Equator Principles. In contrast, Company 7, has no interest in the preservation of environments and communities, they use their own ad-hoc judgement which varies according to the industry and the project being

considered for financing. This large scale prominent infrastructure company is developing India at the expense of the natural environment and the communities which inhabit areas of infrastructure development.

Research objective two asked whether Indian banks have adapted or disregarded the international lending standards. From conducting the interviews it was evident that several of the Indian banks have not purposefully disregarded the Equator Principles, their lack of knowledge about the guidelines is one of the main reasons for non-adoption. However, amongst the interviewees there was the general consensus that Indian banks were not involved in the initial Equator roundtable discussions and why should Indian financial institutions adopt principles that originated from the minority world? Chapter 5 identified with Perkins' (2007: 298) work on globalising corporate environmentalism. He argues that India is striving to be recognised on the global stage and wants to '[secure] a reputation as a progressive member of the international community' (2007: 296). Considering this, according to Perkins they have:

'adopted many of the high-profile tools of corporate environmentalism, most notably, certified Environmental Management Systems (EMSs) and environmental reporting. In doing so, they have sought to align themselves with, and signal commitment to, wider norms of responsible business practice' (2007: 298).

Additionally, he suggests that the growth of social communication amongst Indian elites has accelerated corporate greening in India and 'induced firms to adopt a range of environmentally sound innovations' (Perkins, 2007: 304). However, whilst this may be true for certain sectors of Indian industry, the banking sector does not conform to this theory. If Indian banks were looking for respect and reputation amongst the international financial community, as suggested by Perkins, then surely by now they would have adopted the environmental and social lending guidelines.

11.1.4 Objective four: India vs. the Rest

An evaluation of how the environment is regulated in India.

What is the potential of regulating the Equator Principles in the Indian context?

Chapter 8 provided an example of current environmental regulation with respect to the transport sector in Delhi. Regulation was the result of continued criticism from civil society; the city and its population were suffering from the vast amounts of pollutants being emitted each day. The changes that have occurred in the transport sector in the last decade represent a systemic change in an existing system due to environmental pressures. This case shows that government regulation was needed in order to achieve the desired aim. Similar to this, the majority of interview respondents believe that the RBI should take the lead on Indian banks adopting the Equator Principles. The minority however, consider that collaborative action between the government and the private sector is needed. Currently, however, neither of these sectors is making a move.

The impacts of transport are highly visible, clogged cities, deteriorating health and smog; however, the impacts of the banking sector are less visible, particularly to the poor. Only when the marginalised are evicted from their land do the impacts become visible. As recognised in the literature, banks in the minority world succumbed to voluntarily adopting the environmental and social standards due to pressure from civil society groups, and a backlash over a number of controversial projects (Abbott *et al.*, 2005). However, this is not the case in India. The media has only recently become attuned to environmental issues; Indian civil society needs to put increased pressure on the Indian financial sector at this time of overwhelming infrastructure development growth.

Due to the long period of government control that the Indian banking sector has been subjected to (identified in Chapter 5) it is not surprising that 41 percent of respondents were in favour of the Indian government regulating the Equator Principles. As the CEO of Bank 20 commented, 'if we were told to sign it then we would agree to sign, if we

have someone telling us then we will do it, if it is regulated then we would have to.’ In addition, the respondent from Company 12 suggested, ‘voluntary ensures responsibility but mandate ensures accountability.’ However, as identified in Chapter 8, the current MoEF lending regulations are open to corrupt practices concurring with much of the literature on Indian banks and accountability. Dash (2008) noted that corruption and flaws exist within the current EIA process, however, this research confirmed this by providing direct quotes of non-compliance. Not only did this research refer to bottle necks in the system, but four Indian financial institutions openly admitted to providing funds to infrastructure projects which had not been passed by the MoEF. Interview material also correlates with the literature signifying that in India, acquisition of land for development projects lacks accountability and transparency (Dreze *et al.* 2000; Sangvai 2000; Sims 2001). Surely, if the Equator Principles were to be regulated in the Indian context then corrupt habits would not immediately stop, negating the responsible lending paradigm.

Sanyal (2008) cited unsuitability as a possible rationale of the lack of Indian Equator signatories. Indeed, a significant number of interview respondents were quick to suggest that the Equator Principles were designed by minority world financial institutions and therefore were not relevant to India. However, as the majority of respondents were unaware of the specifics behind the Equator Principles and only a few had researched their particulars prior to the interview this is not a valid appropriation. In addition, as previously mentioned, Dash (2008) identified strong similarities in the technicalities of the guidelines and their current MoEF procedure. One of the respondents (from a foreign financial institution) suggested that the Equator Principles should be ‘tropicalised’ for banks in emerging markets. However, as financial institutions from countries including Argentina, Chile, Colombia, Costa Rica, Oman, South Africa, Togo and Uruguay have adopted the Equator Principles, there is no reason why India should have an Indian-centric version. In addition, the Industrial Bank Co. Limited, a Chinese financial institution has recently become a signatory. An ‘emerging market’ version of the Principles would negate the international benchmark standard for responsible project finance which has been worked towards for the past six years. Reasoning behind tropicalising the Principles was the assumption that India

needs a standard to think global but act local. However, the Equator Principles as they stand are non-region specific and only serve as a guideline for responsible project finance. As both this research and the literature has identified that acquisition of land for development poses significant challenges in India (Dreze *et al.* 2000; Sangvai 2000; Sims 2001), the IFC Performance Standard 5 (PS5) relating to 'Land acquisition and involuntary settlement' would pose the most significant challenge to Indian banks under the Equator Principle guidelines. Performance Standard 5 aims to avoid or minimise involuntary resettlement, provide compensation, consult with those affected and improve their livelihood (IFC, 2006). This standard is not place specific; therefore regardless of India's issue of land scarcity, the IFC PS5 is as relevant to India as it is to any other region of infrastructure development. The Equator Principles were designed by those in the banking system to mitigate the environmental and social risks of financing large projects. Indian banks are engaging with such financing deals, therefore the guidelines are appropriate. In addition, the lending standards are as relevant to a major international bank as they are to a local bank, because responsibility is everyone's business.

In light of the corruption, as referred to in Chapter 8, which occurs with respect to the current environmental and social safeguard procedure, regulating the Equator Principles would fail in the Indian context. In the current system, the Equator Principles would just be another layer of paperwork to get signed off. Current Equator signatories are not only under the watchful eye of NGOs but those that excel in their commitment can be nominated for the annual Financial Times Sustainable Bank of the Year Award, a prestigious honour. In 2008, the Financial Times received 182 entries from 129 institutions across 54 countries (Financial Times, 2009). In 2008 they also added a category for 'Emerging Markets Sustainable Bank of the Year,' signifying the increasing Equator commitment from banks in emerging markets. There was the general consensus that incentivising the Principles in India would encourage adoption and compliance. Therefore a system of incentives and Indian league tables attached to being a responsible lender is required if Indian banks are to become Equator signatories.

11.1.5 Objective five: The Indian approach to CSR

An assessment of the general commitment to CSR amongst the wider corporate community in India and an exploration into approaches to CSR from an emerging economy

During the research design, CSR was considered to be an important element. For Indian banks to recognise the significance of the Equator Principles in infrastructure finance, a wider commitment to environmental and social issues is needed in the Indian corporate sector. Adopting the Equator Principles, for financial institutions is the responsible thing to do. Therefore an exploration into CSR was deemed essential to address the research aims. The research brought together empirical CSR evidence; from the interviews and field visits to NGOs and communities, CSR is approached or regarded in the following ways:

1. Not at all; 'leave companies to do what they are supposed to do, that is maximise profits' (8). Several interviewees were proponents of the Milton Friedman school of thought; however, they were in the minority.
2. CSR as purely philanthropy; a number of Indian companies interviewed are engaging with purely philanthropic acts of giving e.g. charitable donations.
3. CSR behind closed doors; engaging in more than just charity but not advertising or promoting their acts.
4. Integrated CSR; a small number of companies are striving towards an integrated approach to CSR, encouraging independence, innovation and development.

In addition, there were various ways of managing CSR within the companies and financial institutions: internally through a dedicated CSR department, through an external company foundation or through an external NGO. It was identified in Chapter 5 that CSR can take varying forms. In India, the initiatives supported and promoted by

Indian financial institutions take various forms on the ground. Several of the interviewed financial institutions engage with the NGO SUPPORT in urban Mumbai as part of their CSR commitment; in contrast to the community development programme initiated by AIS Glass in rural Bawal. Whilst several of the initiatives outlined in Chapter 9 could be viewed purely as philanthropy, without this corporate support these worthwhile causes would cease to exist. CSR in its pure sense is not just about philanthropy, it is wrong to assume so. However, this does not mean that those 'just' doing philanthropy should withdraw their financial contributions; what is needed is a more sustainable approach, to give people ownership of their own development.

Many of the interviewees mentioned the regulation set by the government which ensures that all Indian banks lend 40 percent of their net credit to the priority sector. Bangladesh in particular has been praised for its launch of Greeman Bank, a microcredit scheme which enables the poor to borrow money to aid their own development. However, from the interviews there was the impression that Indian banks are now 'racing to the bottom' to acquire a percentage of this largely untapped market; Indian banks are increasingly recognising the link between the millions of people who are living in poverty and the impact that it could have on their businesses. Priority sector lending, despite being regulated was viewed by some Indian bankers as a core element of their CSR. One banker explained his bank's micro-credit loan scheme to rickshaw drivers. Currently, the majority of rickshaw drivers are loaned bicycles in return for a substantial cut of their daily wage; with the bank's scheme, drivers can now purchase their own bike, and repay the bank at minimal interest. Whilst this contributes towards the bank's 40 percent priority target, it is also promoting sustainable development and good corporate citizenship.

Chapter 5 drew from the existing literature on CSR in the majority world, particularly India. Much of the CSR literature identifies with India's past, drawing on its diverse and distinguished history of corporate philanthropy (Chahoud *et al.* 2007; Sood and Arora 2006). In addition, articles from the business literature are heavily focused on measuring the impact of CSR, both economically to the firm and socially to the communities. Academics writing in the CSR field have set out to define CSR

terminology, distinguish between the various models of company delivery and differentiate between philanthropy and CSR. Whilst the term was used widely amongst the interview respondents, similar to the confusion in the literature, respondents were also unsure about its meaning. However, from the research conducted in India, it is evident that there are multiple guises of CSR, academics should not engage in trying to define what it is or what it is not, and bring out new terminology to add to the confusion; rather focus on the difference that these corporations are making by participating in such acts. Perhaps what is most evident from this research, given the plethora of definitions being used, there is no standardised formula for companies to follow. The relationships between business and society are localised, bound in specific places.

11.1.6 Objective six: Look at us!

An examination of how Indian bankers use the Internet to promote and advertise their CSR commitments

At various stages in this thesis, reference has been made to the lengths to which companies in the minority world go in declaring their responsible actions, for example, the media, sustainability reports, billboards and on their websites. Advertising and promotion of CSR has exploded with the growth of the 'ethical' consumer in minority nations. Concern has mounted however, that through this promotional jargon, companies are 'greenwashing' the consumer (Rowell 2002; Perry and Singh 2001). Objective six aimed to examine the use of the Internet by Indian bankers to promote and advertise their commitments to CSR. There was the general assertion that in India 'the consumer does not bother' (36) with green credentials, therefore advertizing of this sort would not be beneficial, particularly due to the financial costs involved in advertising. Chapter 9 contains the results of a website content analysis, which was conducted to assess the disclosure and nature of website CSR reporting in the Indian context. Whilst the majority of financial institutions had similar CSR content on their website in both 2008 and 2009, a significant number (30 percent) had made alterations to their CSR reporting with all showing an increase in content. The findings

correlate with much of the data collected during the interviews. Several of the Indian banks which were noted as leaders of Indian CSR and responsible banking in this thesis are utilising the Internet to portray their strategy (e.g. Bank 33). However, there are also those who proclaimed to be engaged with CSR during the interview, providing evidence of various worthwhile commitments, however, were not found to be utilising the Internet to convey this to its customers. Private Bank 26, for example, was noted as a leader of CSR in section 8.4, however, in both 2008 and 2009, the website only received a sentence score of 1, minimal reporting. The sentence score was used to give an indication into the quantity of CSR reporting, however, other indicators (reports, links to charities and imagery) were also used.

Increasingly, companies are writing reports and placing them on their websites for customers to download, for additional information. In 2008, only two bank websites contained downloadable environmental or social reports, in 2009 this had increased to five. Unlike websites of banks in the minority world, Indian banks sporadically use their websites to host links to charities, enabling customers to make donations to social or environmental causes; however, these are predominantly associated with the occurrence of a natural disaster. The use of environmental and social imagery on the websites of foreign and Indian bank websites from 2008 to 2009 has risen. However, unlike the approach used on the websites of banks in the minority world, only minimal imagery is used on the Indian bank websites. The image analysis found similar images being used by both foreign and Indian banks. To portray responsibility to society, predominantly, images of smiling children are used, whereas environmental imagery often contains wind farms, azure blue skies or rolling green fields. Some images however, contain the environment and society, quite often with hands cupping either an image of the world or an emerging sapling.

The period 2008 to 2009 has seen CSR reporting within the Indian context increase. The drive to promote and advertise in the minority world has certainly influenced a number of Indian companies to use the Internet in this manner. However, several Indian companies which are committed to CSR evidently do not see advertising and

marketing as part of their strategy. It would be interesting to review both minority and majority world CSR reporting in the future, given the current financial crisis.

11.1.7 An unexpected twist: A global financial crisis

It was not an intention of this thesis to explore global financial markets. However, due to the current turmoil that has emerged over the course of the research period, it was imperative that it was considered with respect to the future of responsible lending and CSR more generally. The concept of 'responsible lending' will undoubtedly shift in an era of financial hardship; commitments to responsible finance, green initiatives and societal obligations alike will be challenged due to a decline in profitability.

Within the last seven months (October 2008 – May 2009) the financial system has buckled, major players in the financial world have fallen and advanced economies are witnessing a recession. Economists have been projecting and pointing the finger (Altman 2009; Lyons 2008; Saidi 2008), therefore it was not an aim of Chapter 10 to build on this. However, it was useful to provide an overview of the speculative origins of the crisis. Current consensus suggests that the turmoil stems from a variety of irresponsible actors and systems, namely, the banking sector, the financial markets, the executives and that the whole system is grounded in irresponsible capitalism (Visser, 2008c). To put it simply, the financial crisis has its origins in two related developments; the deregulation of finance and the growth of debt; it is a regulatory crisis.

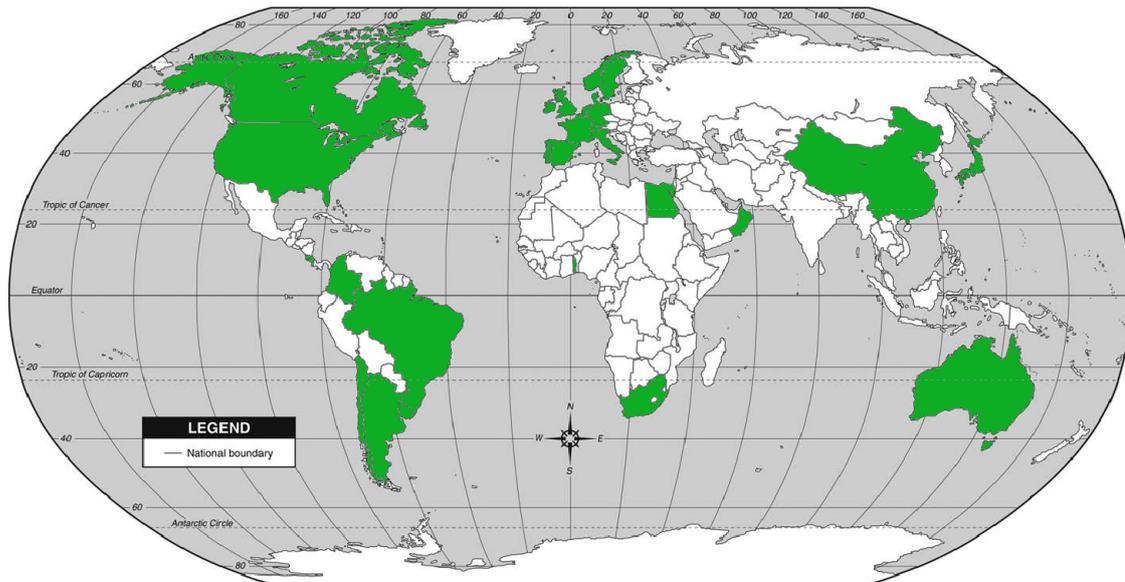
In the two and a half years since this research began, the landscape of finance has dramatically altered. Not only have major banks collapsed in the wake of crisis, but the power of financial centres is also shifting, away from the minority nations. This research concurs with Aalbers (2009) in that there are now more secondary finance centres in the world which are gaining increasing significance. From interviews conducted in India and financial conferences attended, it is obvious that financial hubs in emerging Asia are becoming increasingly confident. Not only are they finding that they are somewhat immune to the shockwaves of the credit crisis, but financial institutions in Asia are increasingly fuelling their own growth with local money. The

landscape of finance is shifting as is the project finance industry. At the outset of this research (2006) the State Bank of India, India's largest public bank, ranked 11th in the world for providing funds to development projects, in 2008 they were positioned 2nd (Thomson Reuters, 2008). The non-adoption of Indian banks to the Equator Principles will undoubtedly have devastating environmental and social consequences in regions of infrastructure development. What then will be the impact of the credit crisis on the commitment made worldwide to responsible project finance and CSR? A year on from conducting research in a confident India, it was necessary to re-contact the interviewees to ascertain the impact of the crisis on India, the potential of Equator adoption and more generally the future of CSR.

The responses to the post-research questions were mixed with regard to the impact of the crisis on India's financial sector. However, with India's large service sector and reliance on companies from the minority world for employment, there is bound to be a significant impact on the Indian economy. Whilst it maybe too early to gauge the exact damage, their confidence has certainly been hit as one interviewee remarked 'the Indian economy is not immune to this bloody situation' (39). Visser (2008b) in his analysis of the financial crisis and its impact on CSR suggested that philanthropic donations will be the first to be halted as companies cut back spending in hard times; however, strategic CSR will be less affected. This is certainly true in the Indian context, the Manager of Youth Reach, the NGO which organises CSR initiatives for a number of Indian corporations, has already noticed a decline in philanthropic spending; current donations are being cut and new clients do not want to commit during this period of uncertainty. She did however comment that those companies with ingrained commitments to CSR were continuing with their programmes. From conducting this research it can be said that Aalbers (2009: 39) was premature in his analysis of the financial crisis by suggesting that it has 'hit the west more than the rest', rather, this is a global financial crisis, with global ramifications.

What then will be the impact of the credit crisis on the Equator Principles and responsible project finance? A good sign is that currently none of the existing signatories have withdrawn their commitment and can still be held accountable to

watchful NGOs and wider civil society. In fact, at the start of the financial downfall (September 2008) there were 62 signatories, and in March 2009, there were 67 (Figure 11.1). Encouragingly, the 63rd signatory was a Chinese financial institution (October 31st 2008). Since 2007, China has woken up to green banking and released the Green Credit Policy which prohibits banks from lending to 38 blacklisted companies on environmental and social grounds.



HQ location	Financial institution
Argentina	Banco Galicia
Australia	Westpac Banking Corporation ANZ; EFIC; National Australia Bank
Belgium	Dexia Group; KBC; Fortis
Brazil	Banco Bradesco; Banco do Brasil; Banco Itau; Unibanco
Canada	BMO Financial Group; Canadian Imperial Bank of Commerce; Export Development Canada; Manulife; Royal Bank of Canada; Scotiabank; TD Bank Financial Group
Chile	CORPBANCA
China	Industrial Bank Co., Ltd
Colombia	Bancolombia S.A.
Costa Rica	CIFI
Egypt	Arab African International Bank
France	BNP Paribas; Calyon Corporate and Investment Bank; Societe Generale
Denmark	EKF
Germany	Dresdner Bank; HypoVereinsbank; KfW IPEX-Bank; WestLB AG
Italy	Intesa Sanpaolo; MCC
Japan	BTMU; Mizuho; SMBC
Netherlands	FMO; ING Group; Rabo Bank Group; ABN AMRO
Norway	DnB Nor
Oman	BankMuscat
Portugal	BES Group; Millennium Bcp
South Africa	Nedbank Group; Standard Bank Group
Spain	BBVA; Caja Navarra; la Caixa
Sweden	Nordea; SEB
Switzerland	Credit Suisse Group
Togo	Financial Bank
UK	Barclays plc; HBOS; HSBC Group; Lloyds TSB; Standard Chartered Bank; The Royal Bank of Scotland
USA	Bank of America; Citigroup Inc.; E+Co ; JPMorgan Chase; Wachovia; Wells Fargo
Uruguay	Banco de la República Oriental del Uruguay

Figure 11.1: Global distribution of Equator signatories, as of March, 2009 (Author’s own*)

Chapter 5, acknowledged that in 2006 China was lagging behind India in its commitment to sustainability and involvement with CSR. However, at the time of writing (May 2009) China's commitment to CSR has increased. The China Banking Association (CBA) launched a set of CSR guidelines which also apply to overseas investments. These guidelines refer to the Equator Principles and they include 'stipulations for independent on-site investigation and audit for the environmental impacts of financed projects and make their judgments not solely on clients own environmental impact assessment reports and data' (Matisoff, 2009: 4). This development is to be praised; however, further commitment from project financiers in China is needed to further the credibility of the Equator guidelines in the Chinese context.

In the previous section, microfinance was highlighted as increasing in India, with Indian banks racing to the bottom to obtain a proportion of this vast untapped market. Much of the literature has signified that microfinance works, it is a positive tool for community development, it is sustainable and in particular it empowers previously marginalised women (Xavier *et al.* 2006; Moser 1989; Moyle *et al.* 2006). However, Lightfoot and Lilley (2009) in a recent presentation discussed their work on traders and the Enron scandal; they suggest that microfinance, like existing financial markets, could in the future be subjected to crisis if left in the hands of irresponsible speculative traders. Undoubtedly, this would have a negative impact on development and would spiral the poor into deeper poverty.

Chapter 4 referred to the rise of faith based Islamic finance over the past decade. Whilst the impact of the global financial crisis to the Islamic banking industry is unknown, Wollard (2008: no page) highlighted that, 'one of the strengths of Islamic banks in the current climate is that due to the prohibitions of gambling they have remained free from speculation and derivatives which infected Western counterparts.' Due to the rise of this 'alternative' financial model, Pollard and Samers (2007: 326) call for geographers to recognise the growth of Islamic based finance and conceptualise its development, specifically to '[examine] the varying forms of IBF, [understand] their multiple connections to different sets of social, cultural and economic relations, and

[understand] how, if at all, they address inequality and exclusion in different contexts.’ Whilst there are currently no Islamic finance Equator signatories, the ethical model they follow undoubtedly assumes greater significance with the collapse of traditional markets, and as Wollard (2008: no page) suggests Islamic based finance ‘may well provide some useful pointers for the wider financial sector.’

Given the turmoil which has spread through global markets, Chapter 10 questioned the credibility and legitimacy of ‘global’ environmental and social agendas which have emanated from this risk-taking sector. However, the reasoning behind the guidelines is meaningful, in safeguarding the environment and society in regions of development. Whilst in some cases implementation may be inappropriate and opaque, the role of the media and civil society will remain increasingly active in pushing for increased transparency and accountability. The notion of financial responsibility is set to alter with the course of the credit crisis; the media, as mentioned, has been littered with references to irresponsible bankers and irresponsible financial markets; are financial institutions on a path to change in the wake of this latest financial crisis? Surely, the current financial turmoil presents an opportunity for more responsible financing, from personal credit to the financing of large scale infrastructure developments. Whilst the Equator Principles are a significant improvement in the safeguarding of the environment through responsible finance, more restrictions are needed to slow down the financing of unsustainable projects and energy sources. This research concurs with the New Economics Foundation and the ‘Green New Deal’ campaign which promotes closer regulation of finance, investment in renewable energy and the reigning in of the irresponsible aspects of the financial sector (NEF, 2008).

11.2 Critical reflection

This thesis has real world implications and deals with issues that are of both national and global importance; in addition to being timely in its publication. Until now geographers have been absent from the literature with regard to the financing of development and its implications on the environment and society. This research has opened up a new line of enquiry within the geographical discipline.

The research addresses a significant issue of international importance; why are there no Equator signatories from the Indian financial sector? For the future of the Equator Principles, it is imperative that India is brought into the Equator discussions having until now been absent. The field research conducted in India was a resounding success, in a relatively limited period 52 in-depth interviews were carried out. The number of elite interviews obtained by the researcher is significant. The timely and appropriate nature of the research is indicated by the researcher gaining access to the elite bankers. Through the interview process the researcher can also add her methodological experiences to the geographical literature; a young female conducting interviews with elite Indian bankers highlighted interesting power relations and dynamics.

There are however some limitations in the research. Due to financial constraints, the field research was limited to 2½ months. Despite gaining a representative number of interviews with a significant number of India's banking sector, with unlimited resources more interviews could have been obtained. In a number of cases the headquarters of the financial institutions were not located in either Delhi or Mumbai, the prominent financial centres. If it were not for the cost and time restraints, the researcher could have travelled to other cities where State bank headquarters are principally located, yielding additional interview material. In addition, if more time was spent in India, the researcher could have conducted in-depth ethnographic studies of the villages and communities which are benefiting from corporate CSR initiatives. This would have given a greater insight into how the corporate commitment to CSR in India is aiding individuals at the local scale.

A further limitation of this study is the absence of State input, in the form of interviews. Considering the Government of India has so tightly controlled the Indian banking sector, it would have been significant to record and interpret their view on Equator adoption in India. As one of the conclusions of this thesis is that greater State involvement is needed within the project finance industry and environmental awareness in general, interviews with representatives of the State and the MoEF would have been valuable. On numerous occasions the researcher attempted contact

the relevant departments, but with no success. Perhaps if the researcher had stayed in India for longer, through the method of snowballing, an interview could have been secured.

11.3 Contribution to knowledge and the implications for geography

This research makes a significant contribution to existing knowledge in both the discipline of geography and the wider social science community. This is the first study to conduct empirical research with the majority of Indian bankers on sustainable project finance and to gain an understanding into the existing environmental regulation process and the potential of Indian banks to adopt international project finance lending standards. This research has added to the literature on the 'geography of finance' shedding light on the ability of the majority world to increasingly finance their own development infrastructure. The changing landscape of finance and the emergence of a global financial crisis will reshape the flows and spaces of development finance. Wójcik (2009: 259) comments that, 'if this crisis proves again that geography matters in finance, and if it reshapes the global map of financial power, then financial geography should be booming, on both the theoretical and the empirical front.' The emergence of India and China as growing powers within the global economy will no doubt challenge the minority world ideologies of financing development and issues of sustainability. The project finance industry operates at all scales, global, national and local and by its very nature is geographical. By the process of a bank agreeing to loan funds to infrastructure development, there is the potential for communities to be shattered and for environments to be destroyed.

The launch of the Equator Principles and the number of signatories worldwide signifies that financial institutions have a major role in contributing towards sustainable development, the preservation of communities and ecosystems. Over time, the process of minority-to-majority lending has become the norm. Chapter 3 reviewed the dominant development discourses which have shaped economic and political agendas since the end of World War Two; modernisation theory, dependency theory and the counter-argument, neoliberalism which has influenced much of the policy

prescriptions in recent decades. Theorisations of development range from the analysis of the trickle down impacts of development to the view of 'development in a historical context [arguing] that colonialism helped place a set of dependant relations between core and periphery' (Power, 2008: 187). However, this thesis provides a new perspective, through the use of a postcolonial lens existing power bases within the current system of international project finance lending have been challenged, by the inclusion of 'other' voices. With the growing power and the increasing ability of financial institutions in emerging markets to participate in project finance, paralleled with the current financial crisis and the inability of minority nation banks to provide the development funds; increasingly majority-to-majority lending is occurring, challenging the minority world ideology of financing development.

This research has also contributed to the literature on CSR which predominately sits within business studies and management. It was necessary to provide a review of CSR in India as it was thought that a general commitment to CSR was needed for banks to realise their wider environmental and social responsibilities, through the finance they provide. Not only does this research add to the geographical understanding of CSR, in that it is spatially and locally grounded, but it challenges some of the existing CSR literature. This research suggests that the Indian CSR movement is having far greater implications than can be seen at first glance and proposes that academics should progress from labelling environmental and social obligations. There are a vast number of terms which have emerged, in the last decade, not to mention Visser (2008a) who believes that the world has now entered CSR 2.0. These minority world grounded terms are confusing those who are trying to make a difference in their communities. Labelling is suggestive of right and wrong, but as this research has concluded, there is no right and wrong on a global scale, what might be right for one company may not work for another. Corporate social responsibility is grounded in the places and spaces within which it operates.

11.4 Implications for policy and practice

Despite the reverberations of the global financial crisis which are bound to be felt in the Indian economy, domestic development is set to further increase, Indian

infrastructure requirements are conservatively gauged at \$500 billion (Sanyal, 2008). During this period of rapid economic growth, it is important to recognise, assess and mitigate environmental and social risk in the Indian sub-continent. The involvement of the private sector in infrastructure finance and the promotion of development finance institutions signify that a national approach in line with global guidelines is needed in the Indian context.

Whilst it is encouraging that a philosophical change has occurred in the habits of the world's most dominant financiers with respect to project finance, in addition to the Industrial Bank in China becoming the latest Equator signatory, more signatories are needed from emerging markets in order to provide a truly international set of environmental and social guidelines. In addition, commitment is needed from Indian banks, particularly due to their *laissez faire* approach to safeguarding the communities and environments in regions of infrastructure development. In India and China where mega projects are increasingly being financed domestically, leading local banks should consider adoption. Convergence on a uniform set of principles is essential. In India, a multi-stakeholder approach is needed to address this issue. An overriding theme of the interviews with Indian elites is that they are not environmentalists they are bankers. It is the responsibility of scientists and social scientists therefore, to work with large corporations to assist them with their understanding of the impacts they are having on local communities and environments at the local scale.

The research also addressed general perceptions of environmental issues; commitment from a range of industries is needed for banks to become more aware of their corporate responsibilities. Despite the consensus that awareness of environmental issues is increasing amongst the younger generations, there is also an overwhelming positioning that 'the poor need feeding' before India can think about the environment. This is an excuse for the wealthy members of society to ignore glooming environmental issues. The linkages between environment and development must be recognised by all segments of Indian society. For India to develop, basic hygiene standards must be met, however raising awareness amongst the masses is the greatest obstacle. It is the responsibility of local and national governments in India, to

clean up the major cities and stimulate a move towards environmentally responsible living.

As a consequence of the long history of tight control within the Indian banking sector, Indian financial institutions are reluctant to make the first move. Direction has to come from the government. The RBI circular in 2008 invited banks to think about their internal sustainability; however, it lacked direction and guidance. The project finance industry in India is growing at an exponential rate and is centred on highly polluting industries; now is the time for India to commit to responsible project finance. Whilst elements of the Indian standards are on par with the international guidelines, they are prone to corruption. Evidently, monitoring and ensuring compliance is the greatest challenge in India. It is therefore the role of the State to take the lead on the adoption of the Equator Principles, Indian banks to seriously consider their role as financiers of development and civil society to monitor and probe. As a result of undertaking this research the Executive Vice President of Bank 22 suggested that the researcher should 'contact the governor of the RBI ... this would create a whole revolution within the Indian banking sector.' By conducting this research, awareness of the Equator Principles and the importance of mitigating environmental and social risk within the banking sector has certainly increased. In many cases, the elite interviewees were unfamiliar with the Equator Principles and the growing international move towards responsible project finance. It is evident that prior to this research being conducted, the right people within the banks were not being made aware about the Equator Principles; it became increasingly clear that in Indian financial institutions, the man at the top needs to know, if action is required. Upon returning from India, a press statement was released outlining the initial findings of the field research. This was picked up by the Indian media (see Appendix 16) confirming that the research is of national importance.

Adoption of the Equator Principles by global banks does represent a significant acknowledgement of the importance of communities and the environment in areas of development. However, this research suggests that more commitment is needed to prevent unsustainable project financing, particularly in the wake of the global financial

crisis. A move towards more responsible financing is essential at the individual, national and international scale.

11.5 Future directions

This research has met its main aims and objectives, however, further questions have been identified which would offer an extension to this research project. There are three potential areas:

11.5.1 Majority-to-majority lending

The research highlighted the increasing ability of Indian and Chinese banks to fund their own development as well as in other emerging economies. In March 2009 Matisoff highlighted that despite the global financial crisis, Chinese banks are substantially increasing their lending; in February 2009 RMB1.1 trillion of loans were approved to industries and projects, particularly infrastructure construction. The report also highlights new guidelines released from the China Banking Association, applying CSR to overseas investments (Matisoff, 2009). An extension to the research would advance our understanding of 'majority-to-majority' lending in the context of the environmental and social standards to which financiers adhere to when investing outside of their national borders.

11.5.2 Global financial centres: a place for women?

The power of global financial centres is shifting east and financial hubs including Mumbai, India and Dubai, United Arab Emirates are gaining in international significance. Geographers have devoted much time to exploring the unequal gender relations which exist within various spaces (McDowell and Court 1994; Massey 1994). Much of this work has emerged from a minority world context. However, with the rise of global financial centres in the majority world, further exploration is needed to address the role of women within these global financial centres. As women from the minority world have become increasingly mobile, with the possibility of global relocation in the corporate sector, what place will women have within corporate environments in the majority world? This strand of research has emerged from

observations made whilst visiting foreign banks operating in India and the personal experiences of conducting interviews with respondents in the Indian banking sector.

11.5.3 Harnessing the environment through CSR

An extension of the CSR element of this research would focus particularly on the role of CSR for promoting environmental sustainability at the local scale. Much of the literature on CSR focuses on social elements including community development and women's empowerment. Further research would explore the environmental element of CSR in India and the potential of new and innovative environmental CSR strategies.

11.6 Final remarks

India, the second most populous nation on the planet and the world's largest democracy has in recent years witnessed accelerated growth and holds the potential to be a global superpower. In spite of this, in the 21st Century it is also a country grappling with extreme levels of poverty and vast environmental degradation. Given the increasing potential of Indian banks to finance their own development, in local currency, paralleled with the immense infrastructure growth forecasted, environmental and social issues need further attention in India. Current safeguards within the Indian system, whilst in some respects are comparable to international lending standards have a significant pitfall; no responsibility is placed on the financier and this has led to the system being subject to corruption. For the Indian context therefore, an incentivised system is needed to encourage and motivate Indian banks to become financiers of responsible infrastructure development. As the country has a deep rooted affection with corporate social responsibility and has innovative examples originating from the Indian context, the emergence of an Indian responsible development paradigm is likely. Whilst, Indian banks may be resentful that they were not invited to the initial roundtable discussions, they must take the lead as an emerging market which has woken up to its environmental and social responsibilities. Commitment needs to stem from the Indian government, in order for its people and its land to reap the benefits of vast infrastructure development rather than collapse under irresponsible financing.

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