SUSTAINABILITY IN ROMANIAN BANKING: A PROMISING NEW BUSINESS MODEL OR ”BUSINESS AS USUAL”?

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Abstract
For a long period, sustainability has been a marginal reason in decision-making process in the financial sector. Although environmental risks were refered to in the financial analysis of financed companies, or financial market has offered some niche products or investment funds in environmentally and socially responsible businesses, banks have not particularly valued those businesses, and, the less willing they were to hamper credit analysis of companies with such requirements. Only recently, driven by the challenges of contemporary development, by the necessity to regain communities’ trust, authorities and companies’ confidence, banks have started to consider the requirements of sustainability, acting to reconcile the financial objectives with the environmental, social and sustainability issues. Most of these actions, e.g. principles and codes of conduct relevant for credit risk analysis and business decisions, have, however, a voluntary nature. This paper examines the annual reports issued by Romanian commercial banks or by the central bank, in order to investigate the existence of explicit elements of environmental and social sustainability in financing activities, or voluntary compliance to the principles of sustainable development, and thus to understand the actual extent of Romanian banks’ involvement in enforcing sustainability issues.

Keywords: responsible business, sustainable banking principles, Romania

JEL Classification: O44, Q56, G21

Introduction

The sustenability issue in banking industry is not a modern-days’ question. It has begun in early capitalism, when banks, as intermediaries between capital owners and companies, have became aware of promoting the interests of the communities they belong to (Weber, 2012). However, the real concern on sustainability started in the second half of the XXth century, by highlighting the environmental issues that aggravated credit risks, thus directly affecting the profitability and even the existence itself of the credit institutions. Influenced by the productive sector, which has already recognized the importance and the opportunities of integrating social, community and environmental concerns in their business strategies (such as Corporate Social Responsibility - CSR), “sustainability became a business case in the financial sector” (Weber, 2012, p. 17). Integrating the sustainability issues into policies, strategies, products and services of the financial industry shoud not be only a fashion or an opportunistic behaviour, but a true business model. In differentr words, banks which have early acknowledged the value of sustainable development could avoid financial risks arising from environmental or social impacts and can even generate additional business opportunities.

1. Literature review

Financial institutions relate with the environment in multiple instances, such as: investors, financial innovators, valuators, powerful stakeholders, polluters, and even as “victims” of environmental changes (Delphi International Ltd and Ecologic Gmbh, 1997). Financial sector is not homogeneous and its constituents (i.e. banks, investors, insurance companies etc.) perform in highly segmented markets, with different instruments. Thus, the banking sector can be very effective in the SMEs sector but relatively limited in sector of large companies. Through their lending practices and encouraged business models, by addressing the information asymmetry in credit policies (Clarke and Boersma, 2016; Cocriş, Sârbu, 2017), and by providing information to the market and regulators, commercial banks could increase their contribution to sustainable development, and influence consumer behaviour through the financial products they offer.

Unlike SMEs, large companies are influenced mainly by equity investors. However, the interest of large investors in environmental issues and sustainability is not on par with their influence in decision-making processes in large companies (Delphi International Ltd and Ecologic Gmbh, 1997) and, certainly, lower than the interest of commercial banks, which are more careful about their reputational risks.

Nevertheless, there are some progress and changes of attitudes in this sector, but they come, paradoxically, not from large equity investors, but from small investors (i.e. more willing to consider environmental issues in their investment decisions) or from the environmental investment funds. Another explanation for the (relativelly) indifference of large investors to environmental and social issues comes from the large companies themselves. Forced by public opinion and the stakeholders’ pressure to pay attention to sustainability issues and to invest more in environmental actions, corporations feel increasingly frustrated that institutional shareholders (investors) do not appreciate and do not participate due to financial, sometimes grasping, reasons. Quite often, the executives of large companies are stunned by the reluctance and conservatism of institutional investors regarding environmental innovations or products based on the concept of eco-efficiency.

The large scale adoption of sustainability practices in banking is not always reconciled with the very important, systemic role of these financial institutions in the national economies or worldwide (Jeucken and Bouma, 1999), (Campiglio, 2016). Undoubtedly, the banking sector has always been highly controlled and regulated, particularly on monetary and credit policies, but, in the last decades, the range of banking risks expand to include environmental pollution and climate change. Furthermore, there is a strong pressure from stakholders and from community as a whole, for banks to assume environmental responsibilities.

In many cases, banks feel satisfied with getting involved in domestic programs aiming at reducing the impact of their activities on the environment (e.g. reducing energy and supplies consumption, charity and community programs etc.) or to create niche "sustainable" products, without applying the principles of sustainability to the major investment projects that are employed and whose environmental footprint is huge, compared with those of financial industry.

Various scholars and organizations (Pisano, et al., 2012), (Korslund and Spengler, 2012), (Kern, 2014) deplore that the recent financial and economic crisis has not led to a reinforcement of concerns and demands to integrate sustainability practices in banking. A large number of financial innovations have proved to be dangerous not only for the financial sector and the national economy, but also, directly or indirectly, for the natural environment, communities and social equilibrium. It would have been expected that, with the slowdown of the financial turmoil, these cases be carefully investigated, and that sustainability exceed its peripheral status in the newly enforced banking strategies. However, banks were concerned to recover losses and have resumed, with a focus on financial risks, the business model existing before the crisis. Researchers found that stakeholders' pressure was not strong enough, and regulators authorities have been reluctant to influence corporate environmental discipline through financial policies and guidelines, in order to transform environmental concerns in mandatory financial regulations. Although policy interventions have focused ”to reduce systemic risks, (…) on addressing short-term biases, misaligned incentives and better stewardship of assets, as well as improved transparency, governance and accountability” (Zadek and Chenghu, 2014, p. 2), these interventions have committed in a lesser extent environmental and social responsibility.

Undoubtedly, the existing banking performance indicators insist on economic performance and expected financial risks, without significant reference to environmental or social issues and the cost that certain financial decisions may entail. As long as there are alternatives that can lead to better financial performance, "as long as manager's performance is mainly judged on short-term performance indicators, managers have no incentive to invest in sustainable investments" (Stefania Rossi cited in Pisano, et al (2012, p. 49); consequently, investors will invoke their permanent responsibility towards shareholders and they will put in the background the sustainability concerns, with considerable long-term effects (Delphi International Ltd and Ecologic Gmbh, 1997).

Adding to this the lack of specific environmental regulations for financial intermediation activities or banks' circumspection not to be accused of being excessively interfering in clients' activity, we can explain why financial institutions have slowly reacted to integrate in their requirements the analysis of their customers' environmental performance (Oyegunle and Weber, 2015).

Banks are not very interested in promoting strategies regarding the environment and sustainability, as they felt themselves working in a friendly environment industry, compared with different sectors such as the extractive and intensive industries, energy, construction etc. The financing policy was mainly defensive, preferring to align to each particular industry requirements or to national regulations, than to impose their own requirements. Moreover, if the coercive power of regulations in the evironmental and social area was weak, banks were satisfied complying with the minimum requirements, considering that effective regulation and control should happen "at the source" and not as pre-condition for credit granting.

Most banks voluntarily adopt principles and codes of conduct, focused on the relation between the financial sector's activities and the environment, such as: Equator Principles

(2003), Principles for Responsible Investment (2006), Global Impact Investing Network (2007), Sustainable Banking Network (2012).

2. Research methodology

The goal of our research is to investigate whether and to what extent Romanian major commercial banks and the national banking regulatory authority (i.e. National Bank of Romania - NBR) are considering the principles of sustainability and have reffered this kind of activities in their annual reports issued in the last 5 years (2011-2015). We are mainly interested to find any reference regarding the voluntary agreement to sustainability initiatives as mentioned above, and any specific tangible actions undertaken (i.e. number of actions, economic sectors, amounts etc.). When possible, we distinguish the CSR – type actions (e.g. volunteering, charity etc.), even some of them add the ecological dimension to the social one, and preffer to focus on responsibility applied to business lines. In our investigation we consider nine major banks operating in Romania, i.e. their aggregate assets' value exceeding 77% of the total banking system' assets (National Bank of Romania, 2016; Morutan, Badulescu, 2016), namely: Banca Comerciala Romana / Romanian Commercial Bank (BCR) – part of Erste Group Austria (15.76% market share), Banca Română pentru Dezvoltare (BRD) – part of Societe Generale France (13.04% market share), Banca Transilvania (12,57%), Raiffeisenbank Romania (12.57%), UniCredit Tiriac (8.11%), CEC Bank (7.31%), ING Bank N.V. Romania Branch (6.2%), Alpha Bank Romania (3.48%), and respectively, a smaller bank – OTP Romania (1.3%), ensuring the representativeness of the sample for the whole Romanian banking market.

3. Results and discussion

Banca Comerciala Romana mentions the implementation of several projects for sustainable energy production, based on a loan of EUR 10 million (with EBRD support) since March 2010, and other EUR 5.5 million funding for the first project in organic waste collection integrated management system (Romanian Commercial Bank, 2010). Most of the others relate to the CSR projects involvement – supporting disadvantaged people, education, financial support and advice for social economy enterprises. We found no references regarding the voluntary embracing of the sustainability principles (e.g. Equator principles, Sustainable Banking Network etc.).

Romanian Development Bank's (BRD) reports are more specific, providing detailed information on the sustainable projects involvement. The annual reports of 2014 and 2015 present a specific section dedicated to Responsibility Applied to Business Lines and Equator Principles, stating that "BRD applies the Equator Principles since 2009. This commitment, taken by Société Générale Group, provides, for the assessment of social and environmental risks of projects, an allocation of over 10 million USD" (Banca Romana pentru Dezvoltare, 2016).

The information disclosed by Banca Transilvania are also consistent with the CSR initiatives area and its involvement in the local community, educational support and career guidance to disadvantaged young people, reforestation missions with voluntary participation, extensive financial and entrepreneurial education, benefiting from allocation of more than EUR 3 million during the last 10 years (Banca Transilvania, 2016). On the other side, "green awareness is one of Banca Transilvania's major concerns" (Banca Transilvania, 2014, p. 23), and the number of actions towards environmental protection are constantly increasing, e.g. the new office building housing built according to all greentechnology rules and energy efficiency. Since 2013, Banca Transilvania affirms its undertakings towards energy efficiency in all its premises, encouraging the use of recycled materials, and also striving to educate their clients towards e-banking and on-line banking (Banca Transilvania, 2014, p. 23). However, we found no references regarding the voluntary adoption of the sustainability principles (e.g. Equator principle, Sustainable Banking Network etc.).

Raiffeisen Bank mention in its last years' reports several important financing granted to projects meeting robust sustainability criteria, or co-financing energy efficiency projects, e.g. the EEFF program (Energy Efficiency Finance Facility) or Green Industry Innovation Programme Romania (supported by Norwegian funds) in different economic sectors: construction materials, electrical equipment, petroleum industry equipment (Raiffeisen Bank, 2016, p. 32). Although we have not found references to the voluntary adoption of principles related to sustainability (Equator principle, Sustainable Banking Network etc.) in the annual reports of the past five years there are comparable references like "pillars of our sustainability are: Staff – Environment – Market – Society" (Raiffeisen Bank (Romania), 2013, p. 18).

UniCredit Tiriac Bank makes in its annual reports extensive reference to its involvement in social entrepreneurship – defined as a business created to solve a serious social problem in a sustainable manner – by providing financial support and consultancy by its employees. Surprisingly, UniCredit Tiriac Bank (Romania) does not mention any financing of sustainable business, although a Special Report issued by its parent bank (UniCredit Group) presents steady information regarding the combination between the bank's financial and sustainability performance. The report mentions UniCredit participation in the European Bank for Reconstruction and Development (EBRD) initiative for the long-term financing of a green field wind project in Topolog (close to Tulcea, Romania), project in full commercial operation since April 2014, with an installed capacity of 84 MW (UniCredit Group, 2015, p. 3).

CEC Bank, a state-owned bank, does not disclose on its official website information on getting involved in any sustainable environmental or social projects or on voluntary compliance to the principles of sustainability in banking, as they were set out above.

Alpha Bank Romania does not mention any financed projects based on the principles of sustainability. Instead, the bank's official website presents a section dedicated to its involvement in environmental actions and launching, since 2010, of the Alpha Green Platform, committed to social responsibility projects, with focus on the environment protection. There are also mentioned several projects from educational and environment field which were supported by the bank, as "responsibility towards environment being an essential condition for a sustainable development" (Alpha Bank Romania, 2010).

Although ING Group (Netherlands) is one of the most dynamic international banking groups and involved in promoting sustainability, the Romanian branch seems not to be as much involved in this type of actions. Most of the disclosed information relates to the support provided for social economy enterprises, social entrepreneurship, environmental education and recycling (ING Romania, 2016).

More detailed (and positive) information are disclosed by OTP Bank Romania (a subsidiary of OTP Hungary), a bank with a lower market share than the previous ones. Acording to its reports, OTP Bank Romania has been involved in "financing the use of renewable energy resources: in 2014, 5 projects were granted, aiming to construct photovoltalic plants" (…) at 28 million RON (OTP Bank Romania, 2014, p. 27). For 2015 we found "8 financed projects focusing on renewable energy, with a total amount of 55 million RON and 36 new projects aiming to improve energy efficiency, with a total amount of 79 million RON (OTP Bank Romania, 2015, p. 26). OTP Bank Romania also mentions its involvement in financing local authorities for supporting sewerage systems, acquisition of technologic equipment, pipes systems for collecting rain waters, rehabilitation of swampy areas.

Regarding the main financial regulatory authority, i.e. National Bank of Romania – NBR, unfortunately we did not find any reference on this topic neither in annual reports nor in the financial stability reports issued by NBR, in the last 5 years. Probably this is due to the lack of mandatory financial regulations in the national legislation or in the decisions of European Central Bank (ECB) on sustainability and environmental responsibility. Actually, there is no incentive or any reputational consequences that would have led NBR to voluntarily comply to these principles or associations. The only mention regarding the social and environmental responsibility related to the new bank business model was found in the presentation delivered by Nicolae Danilă, member of the board, at the launchng of Oliver Wyman Report "The Shape of Things to Come – What recent history tells us about the future of European Banking", on 27th of November 2013 (National Bank of Romania, 2013). For a key institution in the banking system it is far too little and, obviously, with no impact in the regulation area.

Conclusions

The importance and role of the financial institutions in promoting sustainable development are well established, as their decisions to lend companies and projects could worsen or could be beneficial for the natural environment, for communities and society as a whole. However, the improvement in regulation and supervision of financial institution activities for sustainable development are partial and inconclusive. One explanation could reside in the fact that the actions of credit institutions are most often indirect. Another explanation comes from the reality that the paradigm shift is not rapid nor easy, it is achieved gradually by designing and implementing a wider range of policy instruments. Finally, the effect of these policies is revealed by a delay in the economy and society.

After a period when the banks' attention for the environment appeared to be circumstantially, banks have approached their responsibility for sustainability issues in two different ways. On one hand, they have restructured their internal environmental management systems to reduce the impact of their own activities on the natural environment. On the other hand, they have improved and developed more sophisticated business analysis procedures, by including environmental criteria (increasingly severe) into their credit assessment process. However, sustainable actions are based, mostly, on compliance to codes and voluntary principles, and less on mandatory regulations.

In this paper, we have analysed official reports issues by the most important commercial banks and by the national regulator bank authority in Romania, for the past five years, and found little evidence on banks' involvement and rather a marginal attention payed to these issues. There are banks that simply do not have any indication about voluntary adherence to sustainability banking principles or any tangible actions in this area. Most of the banks which have inserted related references, did this briefly, sometimes formal, without indicating their scale in the business portfolio. In some cases, these information are associated with the classical CSR type actions (e.g. volunteering, charity, education etc.) and they are not placed where they should be: responsibility applied to business lines.

Certainly, our research investigation and results are limited and do not cover the entire Romanian banking system in Romania, and did not provide any comparisons with other banking systems. Nevertheless, our prelimininary research indicates that sustainability issues are neither part of core business of Romanian banks, nor a significant concern for central bank. Further research should clarify the influence of sustainability policies of parent-banks on their Romanian subsidiaries.

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