# ENVIRONMENTAL AND SOCIAL RISKS MANAGEMENT IN BANK: DRIVERS, PROCESSES AND ACTORS

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## **CONTENTS**

**DRIVERS** 

**E&S STANDARDS AND POLICIES** 

**IMPLEMENTATION: PROCEDURES, PEOPLE** 

**EXAMPLES** 

## WHY?



#### WHY?

- ■Types of risks covered by ESG Management Systems
  - Credit
  - Legal
  - Reputation
- "Bankability"

Identification of positive E&S impacts

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• "Pos







The Future

## **E&S STANDARDS AND POLICIES**



#### **OBJECTIVES / PRINCIPLES**

- ■Refer to:
  - Internationally recognized standards
  - Best available techniques
- Discussed with our clients
- If possible and when pertinent, use of certification schemes / third party reviews
- ■For developing our E&S Policies:
  - Benchmark
  - Mapping
  - Impact



#### **ENVIRONMENTAL AND SOCIAL GUIDELINES OF SOCIETE GENERALE GROUP**

#### 'Environmental & Social General Guidelines for Business Engagement'

- Societe Générale's commitments to account for the economic, environmental and social consequences and impacts of its activities http://csr.societegenerale.com/home-page
  - Show norms & keys parameters set by SG for a responsible financing when proposing financial services

#### Key standards adopted and respected

- Universal Declaration of Human Rights.
- Main Conventions of the International Labour Organization.
- UNESCO World Heritage Convention.
- OECD Guidelines for Multinational Enterprises.

#### Voluntary best practice initiatives adopted and supported

- UNEP Finance Initiative.
- UN Global Compact.
- Equator Principles.











## **SECTORIAL POLICIES**



**Mining and Metals Sector Policy** 



Oil & Gas Sector Policy



**Defence Sector Policy** 



**Shipping Sector Policy** 



**Coal-Fired Power Sector Policy** 



**Nuclear Power Policy** 



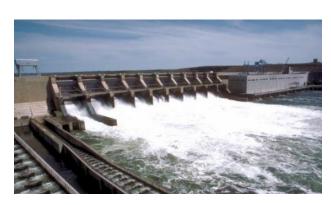
## **SECTORIAL POLICIES**



**Palm Oil Sector Policy** 



**Forestry Policy** 



**Hydropower Policy** 



**Agriculture Policy** 



## TRANSVERSAL POLICIES







**Human Rights Policy** 



**Water Policy** 

## IMPLEMENTATION: PROCEDURES AND PEOPLE



#### **OBJECTIVES / PRINCIPLES**

## ■Use existing processes in particular:

- RISK
- KYC
- Reputation Risk

#### ■But also:

- Legal, to integrate Environmental and Social clauses
- Middle Office, to monitor Environmental and Social issues

## ■Challenges:

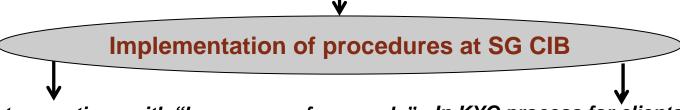
- Integrate E&S review in "standard" financing timeframe review
- Need for clear requirements/reports/documentation



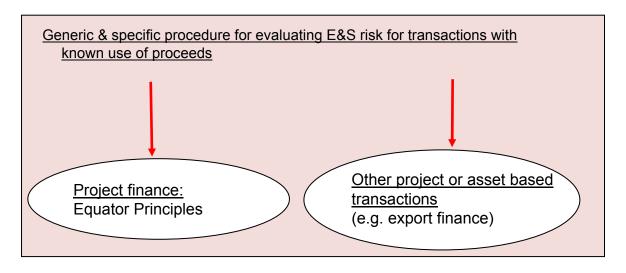
#### IMPLEMENTATION WITHIN SOCIÉTÉ GÉNÉRALE CIB

## SG Group Environmental & Social (E&S) Policies

Internal directive defining SG's general, transversal and sector E&S position, signed by our CEO



In RISK process for transactions with "known use of proceeds" In KYC process for clients



Procedure for evaluation of E&S risk for clients: evaluation of client's compliance with standards referred to by SG E&S Policies / reputation risk

#### **METHODOLOGY**

#### Identification Action **Evaluation General Approach** Sources of impacts Potential positive Business (clients, factors development action transactions, plan countries, sectors) Potential negative factors Remediation action Social. plan environmental and economic development impacts Documentation • E&S General Remediation action Principles and plan into legal Environmental & Sectorial Policies documentation Social procedures for • « Positive sources » Client engagement Transaction & Client (sectors, countries, process (awareness SME) raising, action plan)



#### **TOOLS**

## Identification Tools

- Categorization forms (by sector)
- Policies and Standards
- « Positive sources » of impacts
- Mapping tools

## **■**Evaluation Tools

- Procedures
- Environmental and Social Memo

#### Action tools

- Action Plans
- Loan documentation
- Client engagement



#### **CAT FORM**

SOCIETE GENER	ALE		FINE	THIC - Generic	Environment:	al and			
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Sector:			Country:			Longest mat	arity:		
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SG Role			_						
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SOCIETE
GENERALE

Over one year tenor (except for bridge facility)

Note that as part of the Client evaluation process, a specific Finethic screening for ES risk is performed. Depending on the results of the screening there may be ES conditions to operate with the client (KYC to be verified in BDR or with the PCRU).

Key Information on the transaction:

Key information on the	a u anadouon.					
Transaction Name:	Front Office	r:	Date:			
Client/Sponsor:	Business Lit	ne:	Total Amount:			
Sector:	Country:		Longest maturity:			
Multilateral Dev.	Other lender	<b>3</b> :	SG UW/FT:			
banks (if any):						
SG Role	□ Advisor □ MLA □ Lead Arranger □ Participant □ Agent □ Env. Bank □ Tech. Bank □ other:					
Type of	□ Advisory □ Project Finance (non-recourse) □ Export Finance If Yes, name of ECAs:					
Transaction	□Leasing □Bridge □ Refinancing □ Other:					
aitea):						
"Positive impact" Transactions						
				Yes	No	
Can the transaction be considered as having a positive environmental & social impact, i.e. socially/environmentally positive (e.g. renewable energy, waste management, public transportation, water treatment and health services)						
Ohen 4 FR annual Cuidelines Destroyed areas / analytical activities						

#### Step 1 ES general Guidelines - Protected areas / prohibited activities

As stated in the ES General Guidelines, Societe Generale will not enter in transactions prohibited by host country legislation or international conventions as follows:

Does the transaction involve any of the following activities prohibited by international conventions and agreements?	Yes	No
Cluster bombs or anti-personnel mines?		
Production, use or trade in unbounded asbestos fibres and asbestos-containing products excluding asbestos cement sheeting where asbestos content is less than 20 per cent?		
Production or trade in products containing PCBs (polychlorinated biphenyls)?		
Production, distribution, sale and trade in pesticides, herbicides, pharmaceuticals and other hazardous substances subject to international bans?		
Production, use or trade in chlorofluorocarbons (CFCs), halons and other ozone depleting substances which have been banned following an international phase-out?		
Trade in wildlife or wildlife products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)		
Drift net fishing in the marine environment using nets in excess of 2.5 km in length?		

If yes to any of the above the transaction is not allowed. If no to all, proceed to Step 2.

#### E&S MEMO

Author from Business Line (BL): [Author] Author from GLF VEME/ENV: [Author]

□ES IPA

STAGE: SES ATP

Transaction type: Date: [MM/DD/YYYY]

#### [PROJECT NAME] [PROJECT COUNTRY, PROJECT SECTOR]

categorization

Choose an item.

This section is to be filled by  $GLFI/EME^{t}$  and is based on the information provided by FO.

ES Final Assessment

GLFI/EME/ENV\*OPINION

[POSITIVE/NEGATIVE]

SUBJECT TO THE FOLLOWING CONDITIONS:

PENDING DOCUMENTS TO BE CHECKED BY EME PRIOR SIGNING:

#### KEY ES ISSUES TO BE SPECIFICALLY ADDRESSED:

[CONDITIONS PRECEDENT TO SIGNING]

CONDITIONS PRECEDENT TO FIRST DRAWDOWN

CONDITIONS PRECEDENT TO SUBSEQUENT DRAWDOWN (DATE OR EVENT)

OTHER CONDITIONS (INCLUDING AFTER AVAILABILITY PERIOD).

[GLFI/EME/ENVISHOULD BE DIRECTLY INVOLVED IN TRANSACTION'S E&S MONITORING]
Unless an arbitration attached to the Credit Application amends them, the above conditions are deemed fulfilled for RISQ assessment and/or the Business Line commits to implement them.

POSITIVE IMPACT FINANCE <sup>2</sup>			
[YES/NO]			
Transaction Eligible to Positive impact Finance			
<u>Sector:</u> Choose an item.	Country: Choose an item.	SME: [YES/NO]	
IMPACT ON SUSTAINABLE DEVELOPMENT THREE PILLARS			
Environmental: Choose an item.	Social: Choose an item.	Economic convergence: Choose an item.	

Following sections are filled by FO based on public information and information provided by the client. GLFIEME can amend them.

REPUTATION RISK ON E&S GROUND<sup>2</sup> [VERY HIGH/HIGH/MEDIUM/LOW] TRATIONALE/DESCRIPTION AS THE CASE MAY BET

CREDIT RISK ON E&S GROUND [NONE INDENTIFIED/IDENTIFIED] [RATIONALE/DESCRIPTION IF ANY IDENTIFIED]



Summary <sup>2</sup>
Project description and [[Stages includes construction/operation phase, refurbishment/rehabilitation]
stage
stage

#### **RESOURCES**

## ■Teams

- Corporate Social Responsibility
- E&S in KYC: 3 persons
- Equator Principles + Team: 4 persons

## Number of projects reviewed in 2011

Α	23
В	47
С	29
Total	99



#### **WAY FORWARD**

- Equator Principles type review
  - Build some capacity
  - Make profit of cofinancing
- Client type review:
  - KYC Teams to look at this
  - Use of external sources (SRI…)
- Learning by doing!



## **EXAMPLES**



#### **EXAMPLE: 168MW RUN OF THE RIVER HYDROELECTRIC PLANT IN PERU-PROJECT FINANCE**

#### Identification

- Renewable energy sector
- Potential biodiversity impacts
- Potential cultural heritage impacts
- Land acquisition and other socio-economic impacts

## **Evaluation**

- Categorisation: A
- Independent Environmental and Social **Assessment**
- Gap analysis with international standards

## Action

- Integrated Basin Management Plan
- Compensation Plan for land acquisition
- Socio-Economic Management Plan
- · Conservation Plans for biodiversity

