



# **Factoring in Environmental, Social and Governance Risks: the ‘new normal’ in loan decision-making**

**Sabina Timco, UNEP FI  
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**UNEP Finance Initiative**  
Innovative financing for sustainability

# UNEP FI & the evolution of the global debate on finance and sustainability

**Since 1992:** United Nations – Finance Institutions partnership on understanding, integrating and promoting environment, social and governance issues in business decision-making

**2012:** 220 members from banking, investment and insurance sectors

A finance community increasingly aware of sustainability challenges, risks and opportunities and its role in contributing to the well-being of society



## UNEP Statement by Financial Institutions on Sustainable Development

“ We recognize that sustainable development depends upon a **positive interaction between economic and social development, and environmental protection**, to balance the interests of this and future generations. We further recognize that sustainable development is **the collective responsibility** of government, business, and individuals. We are committed to **working** cooperatively with these sectors **within the framework** of market mechanisms toward common environmental goals. ”

*“ We recognize that **identifying and quantifying environmental and social risks** should be part of the **normal process of risk assessment and management**, both in domestic and international operations. ( § 2.3)”*



# How does ESG risk management fit in the sustainability approach?

Financing sustainable development is about:

- **NOT ONLY Financing Change:** mobilizing new capital for sustainability projects (clean energies, affordable housing, proper water treatment, etc.)
- **BUT ALO Changing Finance:** integrating sustainability in traditional projects – making sure that finance operations are conducted in accordance with the principles for sustainable development
  - For **banks:** applying environment, social and governance filters in loan decision-making



# ESG Risks: why should a bank care?

- **From purely ethical thinking to materiality of ESG risks**
  - Clients causing environmental/ social damage:
    - ⊙ Credit / collateral risk (reduced repayment capacity, reduced value of collateral)
    - ⊙ Reputational risk
  - Increasing regulatory environment - liability risk
    - ⊙ **Around the world:** *Green Protocol Brazil & Colombia, Green Policy Indonesia, Sustainable Banking Principles Nigeria, EU CSR strategy 2011-2014, etc.*
- **Requirement / expectations**
  - Regulators
  - Finance intermediaries
  - End consumers
  - NGOs
  - Employees
- **Opportunities** – better risk management, better relationships with stakeholders, market differentiation, staff attraction



# The ESG Risk Management System: part of the corporate culture change

- **Commitment: sustainable business = good business**
  - ⊙ **Vision, standards & internal policies forged and backed by top management**
- **Scope of ESG risk analysis system defined**
- **Teams to implement the system set up**
- **Teams equipped with the right tools**
- **Consistency vis-à-vis clients ensured: active engagement for delivery of sustainability value & reporting to clients**



# Examples from Eastern Europe

## **Banca Comerciala Romana (Romania)**

*As of 2003 – EBRD & IFC became shareholders of BCR*

*Environmental procedures cover all lending activities: corporate, SMEs and micro-clients*

## **Eurobank ESG (Greece; active in Bulgaria, Romania, Serbia)**

*Environmental risk assessment for own operations; for lending*

*Environmental assessment studies in Project Finance*

*Implemented the ERMS throughout the Group, with focus on Serbia, Bulgaria and Romania.*

## **TSKB (Turkey)**

*Analyzing and controlling indirect environmental risks part of sustainable & green banking*

*Environmental risks of credit activities since 1980s*

*Environmental-Social Risk Evaluation Tool (ERET): evaluation model, 36 Qs, rates answers*

## **Garanti (Turkey)**

*Management of indirect impacts pillar of sustainability approach*

*Environmental loan policies and (sector-specific) principles*

*Environmental Impacts Evaluation System – Process / Model / Matrix / Manual (Training)*



# UNEP FI tools for a better, global understanding of ESG risks & opportunities

## ❑ 'Guide to Banking and Sustainability' (2011):

*a common language on the meaning of sustainability in banks, including ESG risks*

## ❑ Online tool for practice-sharing (2012-2013):

*Sharing with and learning from peer banks, including from peers' risks departments*

*Foreseen for launch in 2013*

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**Online Guide to Banking & Sustainability**  
UNDERSTANDING AND IMPLEMENTING SUSTAINABILITY IN YOUR BANK BASED ON THE UNEP STATEMENT OF COMMITMENT BY FINANCIAL INSTITUTIONS ON SUSTAINABLE DEVELOPMENT

Find out what you can do to make your Bank more Sustainable

ROLL-OVER TO VISIT YOUR SECTION

1. BOARD & CEO
2. SENIOR MANAGEMENT
3. COMMUNICATIONS | CORPORATE AFFAIRS
4. SUSTAINABILITY TEAMS AND COMMITTEES
5. COMPLIANCE | LEGAL AFFAIRS
6. RISK MANAGEMENT
7. BUSINESS UNITS | PRODUCT DEVELOPMENT
8. TREASURY
9. HUMAN RESOURCES
10. GENERAL SERVICES | ESTATE MANAGEMENT



# Learning tools: building capacities for ESG risks analysis

## Environmental and Social Risk Analysis Training :

- Online Course (E,S,F)
- Introductory Training Workshop
- Advanced Training Workshop



➤ *Focused on middle-market projects in emerging / developing economies*

## ESG Risk training since 2005:

- 3,300 professionals trained
- 115 countries
- 3 languages



## Conclusion:

- Sustainability risks & opportunities: relevant now more than ever
- Pool of peer knowledge exists & expanding
- Tools available
- **Time to act!**





**Thank you!**



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