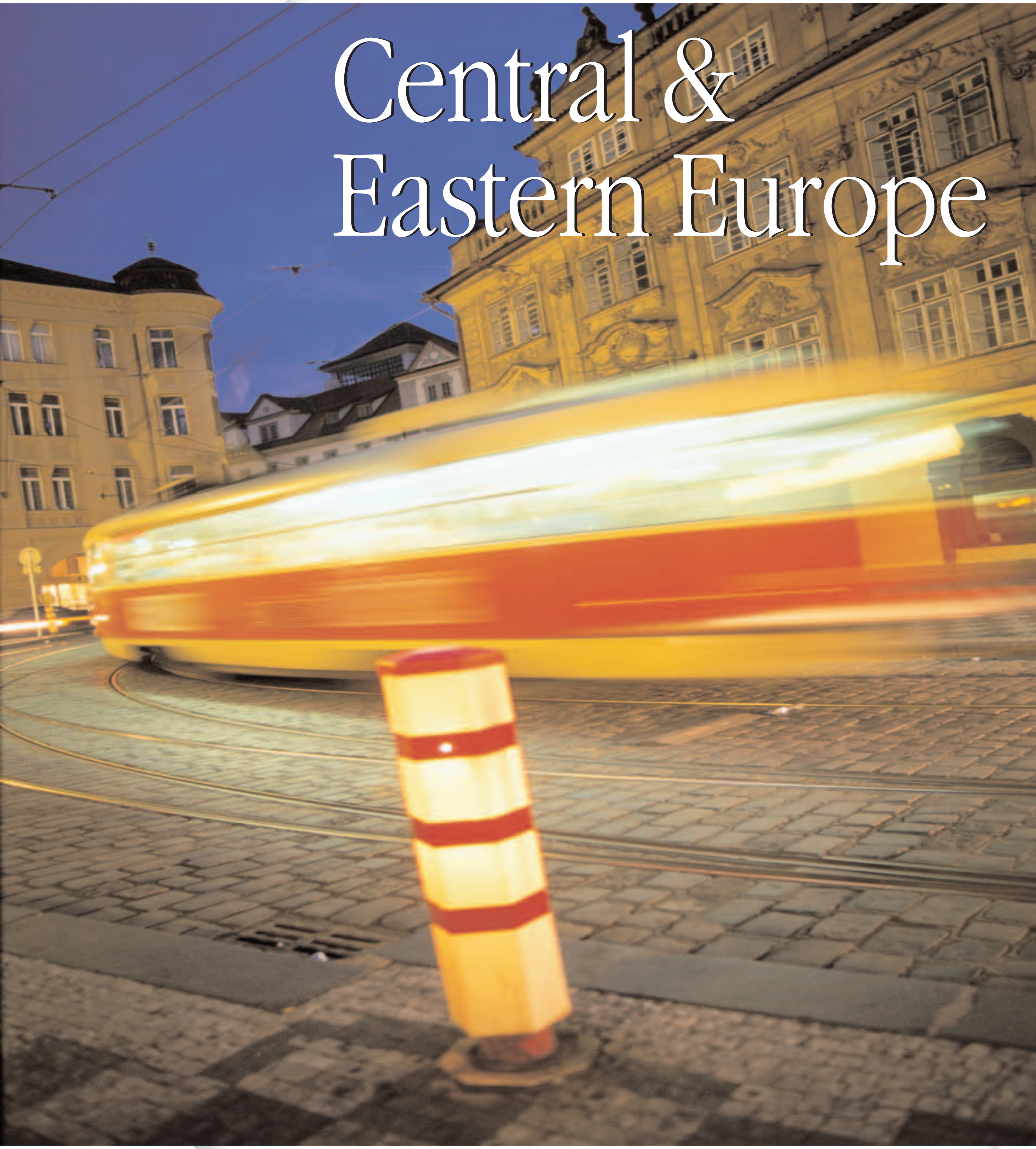
UNEP Finance Initiative
Innovative financing for sustainability

Finance and Sustainability in

Central & Eastern Europe



The UNEP Finance Initiative
Central and Eastern European Task Force

Introduction

The United Nations Environment Programme Finance Initiative (UNEP FI) has conducted a survey of 26 financial institutions in 14 Central and Eastern European (CEE) countries. The aim of the survey was to gain understanding of the current status of sustainable finance in the region's financial sector and the main drivers and barriers financial institutions are facing. The respondent financial institutions were drawn both from EU accession and non-EU countries and included larger Western corporations as well as locally owned financial institutions.

Background

Central and Eastern Europe still faces a complex set of environmental challenges such as hazardous waste sites in residential areas, low energy efficiency, urban air pollution, deteriorating water and sewage systems. The situation has improved in those CEE countries that have adopted or are striving for adoption of European Union (EU) environmental regulations.

The financial sector can play a critical role in the transformation to a more sustainable environment. As financial intermediaries in an economy, financial institutions can contribute to mitigating environmental problems, while at the same time taking advantage of the opportunities that sustainability offers to the finance sector.

The required compliance with EU regulations have far reaching implications for the CEE financial sector. Lending and investing transactions incur increased mandatory costs as financial institutions need to check compliance with new EU requirements while being aware of areas where national environmental regulations still differ.

At the same time, EU accession presents a number of new lending opportunities such as investment in wastewater management and financing of new environmentally friendly and energy efficient technologies in the transportation, heavy manufacturing and other heavy polluting industries. Furthermore, environmental compliance by CEE banks will help them to improve access to foreign capital.

Key findings

1 Awareness for Sustainability in the Financial Sector

Financial institutions seem to be aware of the importance of sustainability for their industry. Over 50 % of financial institutions assigned a rating of 4 or above on a 0 to 5 scale to the relevance of sustainability as a business risk or opportunity. There were no significant differences between sustainability rankings reported by subsidiaries of larger Western companies and the locally owned financial institutions. Furthermore, when asked whether the importance of sustainability in the finance sector will grow in the next five years, more than 75% of organisations responded positively with the remaining respondents not being sure. No organisation doubted that the finance sector will have to lay more emphasis on sustainability in the future, underscoring the growing awareness of sustainability in CEE.

2 Main Drivers and Barriers for Adopting Sustainable Finance Practices

The most frequently reported drivers and barriers for implementing sustainable practices are:

Drivers		Barriers	
1	Enhanced reputation	1	Difficulty to measure benefits
2	Social responsibility	2	No clear business case
3	Cost savings	3	No legal requirements
4	Competitive advantage	4	High implementation costs
5	Industry trends		
6	Access to capital		
7	Shareholder demand		

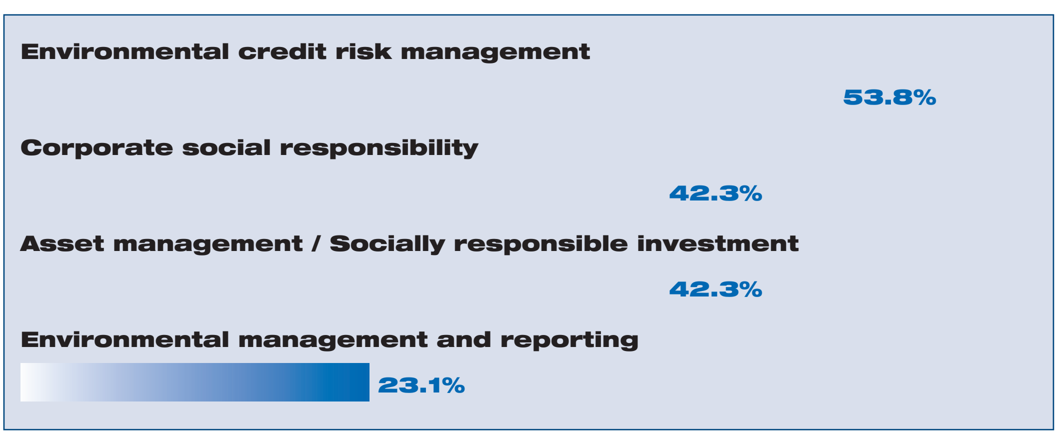
Less importance was assigned to employee and NGO demand. It was noted that NGO pressure is still rather weak in the transitional economies. Stock performance was the least frequently cited reason for adopting sustainable finance practices, since most companies surveyed are not listed on a stock exchange.

Drivers significantly differ between EU and non-EU countries. Sustainability practices in non-EU countries are much more driven by the improved access to capital, whereas none of the financial institutions in EU countries stated so. In new EU countries environmental regulations seem to be pushing sustainable finance much more than in non-EU countries.

Only a small number of respondents cited lack of senior management commitment and lack of key shareholder interest as major barriers, which indicates that there are clear opportunities for implementing sustainable finance practices on the board level.

3 Most Relevant Sustainability Issues

Environmental credit risk seems to be the most important sustainability issue in Central and Eastern Europe, as site contamination is a a very common risk for the financial sector to deal with. Less importance was placed on other sustainability topics such as Renewable Energy Markets, Sustainable Venture Capital, Carbon Finance, Water Resource Management and Biodiversity.



Most Relevant Sustainability Issues

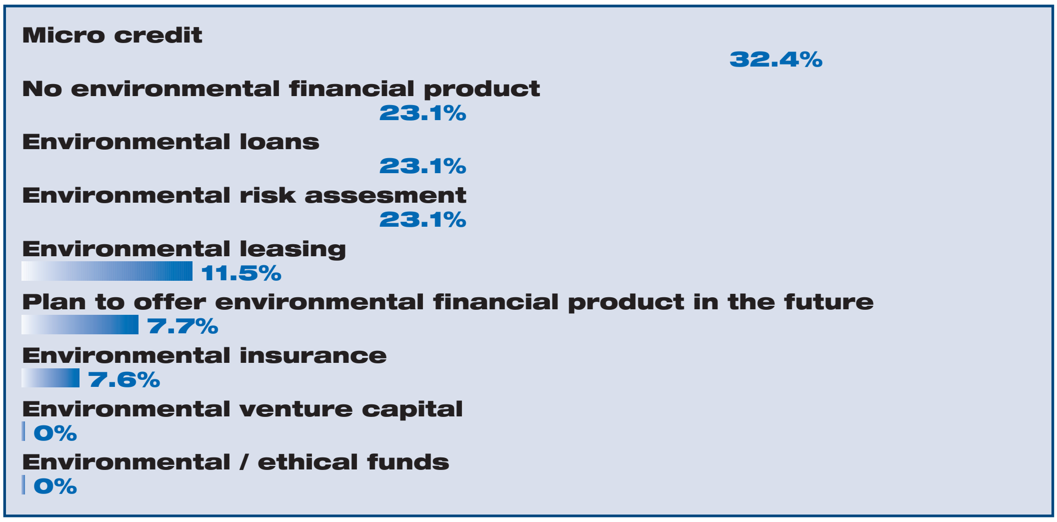
4 Sustainability Management and Reporting

In the area of sustainability management and reporting CEE institutions are significantly behind Western institutions. Only 8 of 26 respondents indicated that their company had an environmental management system in place, and none of the existing environmental management systems were certified.

Only one company among the surveyed financial institutions produces a sustainability report. 30 % publish an environmental report or an environmental section in the financial report, whereas the majority of these were required to fulfil guidelines of international financial institutions such as the European Bank for Reconstruction and Development (EBRD) or the International Finance Corporation (IFC). Furthermore, 27 % of respondents plan to issue an environmental or sustainability report within a few years, which emphasizes again the growing awareness for sustainability. However, at this stage 42 % of respondents do not publish and do not plan to publish any form of sustainability or environmental report.

5 Environmental Financial Products

Nearly 70 % of companies offer at least one sustainable product with an additional 7.7 % planning to offer such products in the future. If micro credit is not taken into account, 38.5% of respondents provide at least one environmental financial product. These results provide an indication that CEE financial institutions are beginning to show interest in financial products for environmental care.



Environmental Financial Products

> High environmental standards mean innovation, investments, growth and new jobs. Economic prosperity, environmental protection and social responsibility can go hand-in-hand if we are clever [...] I am calling on business to be pro-active in working with us for that triple bottom line composed of economic, social and environmental benefits, and I am commending those many companies which do so already.

Margot Wallström EU Commissioner for the Environment, March 2001

6 Internal Environmental Activities

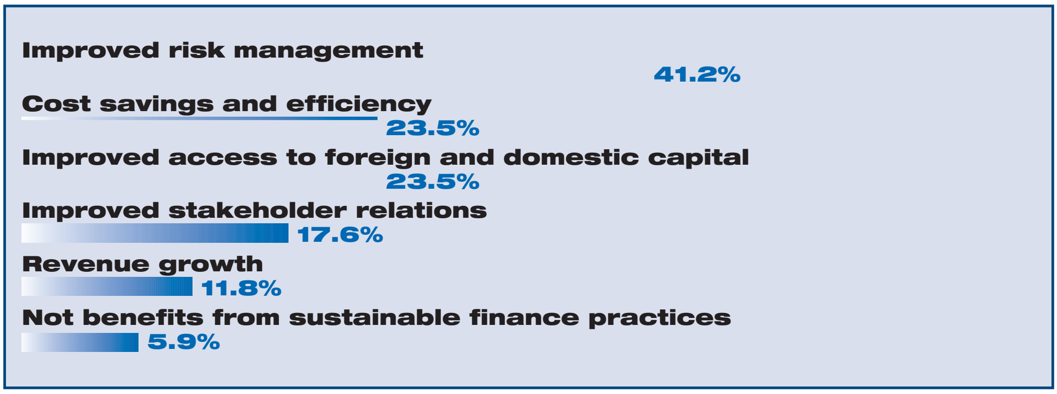
Over 50 % of respondents indicated that they engage in some type of internal environmental activities. Internal environmental activities included environmental targets, qualitative record keeping (e.g. "we reduce the use of paper") and other activities such as internal energy use reduction programs.

7 Community Development Activities

The majority of financial institutions (92.3 %) stated that they are involved in community development activities, such as community outreach (employee volunteering, community service, etc.), community investment (community lending, SME investment, etc.) and corporate charity. This is consistent with the fact that micro credit is the most common sustainable financial product offered by the survey participants.

8 Benefits of Implementing Sustainable Finance Practices

Nearly 94 % of those financial institutions that adopted sustainable finance practices stated that they benefited from these practices, while only one organisation responded that the introduction of sustainability practices had no positive effect.



Benefits of Implementing Sustainable Finance Practices

Very few organisations reported that revenue growth is one of the benefits of sustainable finance. However, this result is not surprising, as most participants of the survey did not have an established system to measure benefits of sustainable finance practices.

9 Commitments Important for a Successful Implementation of Sustainable Finance Practices

The majority of respondents who implemented sustainable finance practices stated that the most important commitments for implementing sustainability in a bank's business practices are:

- long-term commitment to build, maintain and improve on sustainable finance practices, and
- willingness to change and implement new practices and products.

On the other hand, financial and human resources commitment were viewed as less important.

Conclusion

The survey results highlight the fact that Central and Eastern European financial institutions are beginning to understand the importance of introducing sustainable practices into their mainstream operations. They are aware of a wide range of potential financial and non-financial sustainability risks and opportunities that may affect their business.

It should be emphasized that almost all institutions that implemented sustainability practices experienced clear benefits. However, at this stage measuring financial benefits of sustainable finance seems to be a challenge due to the lack of sustainability management and reporting systems. Nevertheless financial institutions experienced non-financial benefits from implementing sustainability such as improved risk management and cost savings.

The survey results indicate that the necessary groundwork is laid for sustainable finance practices in CEE to accelerate. The study findings point out that there is a clear need for further promotion of the benefits of sustainability for the finance sector, but also for more awareness raising among NGOs, governments and broader society.

The study therefore suggests the following actions to further promote sustainability in the finance sector:

RECOMMENDATIONS

- **Develop consistent set of materials that clearly outline the business opportunities and potential competitive advantage resulting from sustainable finance practices.**
- **Identify a series of case studies highlighting positive examples of CEE financial institutions that adopted sustainable finance practices.**
- **Create a set of guidelines that financial institutions should use when considering implementing sustainable finance practices.**
- **Develop a training course educating CEE executives and senior officers on the benefits of sustainable finance.**
- **Introduce a series of pilot sustainability management systems.**

"Corporate Social Responsibility is a business approach necessitated by the economic, social and environmental challenges of our times, and by the risk that these challenges entail for the sustainability of businesses."

Corporate Social Responsibility Report, Emporiki Bank 2004

UNEP FI Central and Eastern European Task Force (CEETF)

UNEP FI has operating task forces for financial institutions and regional partners in Africa, Australia, Asia-Pacific, North America, Latin America, and Central and Eastern Europe. Through regional work UNEP FI aims to address the opportunities and needs that sustainable development can provide to the financial community in specific regions.

Our Mission and Activities

The Central and Eastern European Task Force aims to support and expand sustainable finance practices in Central and Eastern Europe. Based on the results of the study it is proposed that the task force will focus on the following areas in 2004/05:

Raising awareness of the opportunities for sustainable finance
The study has proved that financial institutions in CEE are generally aware of the link between sustainability and the financial service sector. However, the benefits of offering sustainable products are not yet evident.
The CEETF will conduct more research on the business case for sustainable finance and organize conferences to increase awareness of sustainability within the financial sector but also among the finance sector's stakeholders.

Environmental credit risk management
Environmental credit risk was mentioned as the most important sustainability issue, due to the complex set of environmental legislation involved and the high risk of site contamination in CEE.
In order to support environmental screening in financial institutions, a web-based information platform will be developed. The platform provides information on country and sector-specific environmental credit risks in Central and Eastern Europe to facilitate environmental risk mitigation.

Training and capacity-building
Financial institutions are aware of the idea of sustainable finance. However, they need guidance on the different aspects of sustainability and how to implement sustainable practices into their mainstream operations.
The CEETF will develop a region-specific training programme on the opportunities and implementation of sustainable practices. The introduction of sustainability management and reporting will be promoted to facilitate the assessment of sustainability benefits.

Membership

Participants in CEETF activities are financial sector institutions based in the region or with a considerable network of subsidiaries in the region, as well as NGOs and other interested stakeholders. All activities in the task force are member driven. UNEP is a permanent member of the CEE Task Force. Through common research, joint conferences and networking with banks in your region, you will develop the necessary skills and expertise to make sustainability work under your local conditions. The knowledge gained from task force activities will help banks in Central and Eastern Europe to achieve first mover advantages in an area that will gain more importance in the near future and at the same time improve local environmental conditions for the broader community.

CEETF Chair: European Bank for Reconstruction and Development

CEETF Members: Bank Austria Creditanstalt; Emporiki Bank; HVB Group; KB; RZB Group

Advisor:

The Regional Environmental Center for Central and Eastern Europe

Survey participants:
Baltcap Management *Regional;* Banca Transilvania S.A. *Romania;* Bank Nadra *Ukraine;* Bank Austria Creditanstalt (CEE subsidiaries) *Regional;* Banka e Re e Kosoves (New Bank of Kosova) *Kosovo;* Bulgarian Post Bank AD *Bulgaria;* CB Unionbank AD *Bulgaria;* Emporiki Bank-Bulgaria EAD *Bulgaria;* Hansabank *Estonia;* Hebrosbank (HB) *Bulgaria;* ING Bank Rt *Hungary;* JS BANK AGGIO *Ukraine;* K&H Bank Rt *Hungary;* Lietuvos Draudimas, AB *Lithuania;* MAVA Investment Ltd. *Hungary;* Mezzanine Management *Regional;* Nova Kreditna banka Maribor d.d. *Slovenia;* OTP Fund Management *Hungary;* Parex Banka *Latvia;* ProCredit Bank sh.a *Albania;* RaiffeisenbankAustria D.D. Zagreb (RBA) *Croatia;* Slovenska Sporitelna, a.s *Slovakia;* Stopanska Banka AD *Macedonia;* Tatra Bank, a. s. *Slovakia;* Turkiye IS Bankasi *Turkey;* Volksbank Hungary Rt. *Hungary.*

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a global public-private partnership between UNEP and the private financial sector. UNEP FI works closely with 230 financial institutions to develop and promote linkages between the environment, sustainability and financial performance: sustainable finance. Through regional task forces (Africa, Latin America, North America, Asia-Pacific, Central and Eastern Europe) and working groups (Asset Management, Climate Change, Sustainability Management and Reporting), training programmes and research, UNEP FI aims to address the opportunities and needs that sustainable development can provide to the financial sector and subsequently to the larger stakeholder community.

For more information please visit:
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