



CENTRAL BANK OF EGYPT  
Egyptian Banking Institute



PAGE PARTNERSHIP FOR ACTION  
ON GREEN ECONOMY



Deutsche Gesellschaft  
für Internationale  
Zusammenarbeit (GIZ) GmbH



## Seminar: Introduction to Evaluation and Management of Environmental and Social risks in Credit Processes

Egyptian Banking Institute, Cairo: 15 November 2017

### Outcome and Recommendations

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#### Background and Objectives

This is a project to look at enhancing low-carbon development by greening the economy in co-operation with the Partnership for Action on Green Economy (PAGE). This project is being funded by Federal Ministry for the Environment, Nature Conservation, Nuclear Safety and Buildings (BMUB), under International Climate Initiative 2014, and will be implemented by UN Environment and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ).

Faced with the converging challenges of environmental degradation, climate change, scarcity of natural resources, and the pressing need for inclusive social development, a growing number of governments, especially those from emerging markets, have started to develop sustainable development and green growth policies. Egypt has recently launched a National Strategy on Green Economy, which supports the realization of Sustainable Development in the country. The government has adopted a variety of sectorial policies and targeted programmes to lower resource intensity, reduce environmental impacts of consumption and production, and improve well-being.

In Egypt, as in the rest of the world, regulatory frameworks, client expectations and public opinion have evolved at an ever-faster pace on sustainability issues, presenting both challenges and opportunities for the financial sector. With the Government of Egypt launching a National Strategy on Green Economy recently, the financial institutions (FIs) in

Egypt, as capital providers are ideally placed to help the private sector adapt to new economic realities under climate change scenarios and to contribute to national sustainability agenda sooner and more effectively. FIs can in turn reduce losses in their own lending portfolios that may result from business failures due to sustainability risks. They can also generate new lending opportunities in areas such as clean technologies and finance for underserved customers. More and more FIs around the world are adopting policies, systems and lending practices to do so. An example of how FI's have organized themselves collectively to do so, is the Equator Principles, which are based on IFC's Performance Standards and UNEP Finance Initiative. In Egypt, Mostadam was the first locally initiated platform promoting Sustainable Finance in Egypt and the MENA Region. It was instigated by Arab African International Bank (AAIB) in cooperation with the United Nations Development Program (UNDP) and the Egyptian Corporate Responsibility Centre (ECRC) in 2014. Its key focus areas are capacity building; advocacy and; advancing sustainable products and services. Since 2014 the Mostadam initiative has delivered 3 training programmes in Cairo introducing sustainable finance, the Equator Principles, socially responsible investment, corporate social responsibility and financing the bottom of the pyramid.

UNEP FI recognises both awareness raising and capacity building among both financial institutions and regulators as basic requirements to catalyse change. In order to achieve a fundamental shift in the allocation of finance from a brown to a green economy; a systemic change in business decision-making processes is required. To initiate such change, and under this project, activities could be focused on mobilizing the financial sector in order to increase awareness and raise support to a green economy transformation in the country, notably through

- i) capacity building and the sharing of best practices;
- ii) engaging stakeholders - both private and public ;
- iii) establishing a UNEP FI membership in the country and facilitating the networking of members and stakeholders with the sustainable finance champions through national events and regional activities and;
- iv) initiating dialogue platforms to address specifically the finance sector's role in supporting the four identified green sectors (as per the UNEP Green Economy Stud) namely Agriculture, Water, Energy and Waste Management.

This project serves as a first meeting point with leading banks in Egypt, the Central Bank and its training arm the Egyptian Banking Institute to understand better the needs and vision of the national financial institutions and the regulator in order to transition to an inclusive & sustainable financial system. The work will help examine the timeline to initiate a national dialogue around Sustainable Finance in Egypt, raising awareness on sustainable finance and its role in driving forward, and introduce capacity building activities in sustainable finance through utilizing a number of UNEP FI offered trainings to financial institutions in Egypt. These should complement the work done by the *Mostadam* Initiative and the Egyptian Banking Institute.

### **Participant profile**

A total of 52 participants from 20 institutions attended the ESRA introductory workshop held on 15 November at the Egyptian Banking Institute. The programme for the day is included as Annex 1.

Institutions represented at the workshop included the following:

*Financial Institutions:*

Ahli United Bank  
Alex Bank  
Arab African International Bank  
Banque Misr  
BMCE Bank  
Central Bank of Egypt  
Commercial International Bank  
EG-bank  
Egyptian Banking Institute  
Export development Bank of Egypt  
Industrial Development & Workers Bank of Egypt  
Mashreq Bank  
Misr Iran Development bank  
National Bank of Egypt  
National Bank of Kuwait  
SAIB  
QNB ALAHLI

*Government Representatives:*

Central Bank of Egypt  
Egyptian Banking Institute

*Other organisations:*

Advisian Consulting Group  
Egyptian Pollution Abatement Programs III  
Energy Tech for renewable energy  
Ernst and Young, Egypt  
Freelance Consultant  
WorleyParsons

Participants represented different service areas in their organisations including the credit department, risk team, legal team, investor relations, consulting and regulatory enforcement.

Final collation of the workshop evaluation showed that participants found the knowledge gained on the workshop very relevant and timely.

**Content of the seminar**

The seminar followed UNEP FI's tried and tested model for the introductory ESRA workshop. Participants were introduced to the concepts of environmental and social risk assessment through group work and case study exercises demonstrating the applicability of this risk to all types of lending and investment and to most industrial sectors. More in depth work on a detailed case study in the textile sector, one of Egypt's key industries, allowed the participants to start recognizing and mitigating E&S risks through a mock project assessment and use of the ESRA project assessment tools and forms. Three guest speakers interspersed through the day's programme reinforced key issues and themes and showed the relevance of these tools and approaches to the Egyptian economy:

- Dr. Dalia Abdel Kader – Director of Marketing and Communications – Arab African International Bank: *The business case for Sustainable Finance and the Mostadam Initiative*
- Ms. Nuran Atef, E& S Analyst, CIB: *Financing energy efficiency projects in the Egyptian market – opportunities and challenges*
- Mrs. Safae Berrah El Kheir, Project Manager, Principes de l'Equateur, BMCE: *Experiences in ESRA process development in the region*

The detailed programme for the workshop is included in annex 1.

### **Outcomes and Recommendations**

For many of the attendees at the seminar, this was a first encounter with the notion of E&S risk assessment. Judging from the course evaluations, the information was well received and of relevance. The Egyptian Banking Institute intends to build on this platform and further develop the E&S risk assessment approach and as such, participants were asked to highlight key recommendations for next steps. These are summarised as follows:

*Key recommendations for institutional structures required at a national level to drive sustainable finance:*

- Unified and clear policies or frameworks to follow across the banking sector as a whole
- Collective technical assistance and training programmes for banks to apply ESRA
- The Central Bank should consider some products or finance to incentivise FIs to finance more sustainable projects
- Developing a new policy for sustainable finance would help implementation and uptake at a national and regional level
- Central Bank regulations on ESRA should be drafted
- Central bank should enforce E&S policies sector wide
- Success stories and case studies should be communicated to catalyse change
- Work to alter the mindset of industry stakeholders
- Increasing public awareness and changing people's culture to being more ESRA focused
- Start this education on E&S risks at opportunities at school, as well as business school and bank training level
- Raise awareness and rules about E&S issues and assessment
- Financial solutions such as low interest rate funds to apply renewable energy
- Sharing of experiences regionally and nationally so as not to reinvent the wheel

*Key recommendations for institutional structures required at FI level to drive sustainable finance:*

- Unified and clear policies or framework to follow at institutional level
- Streamlining of procedures and documentation especially for assessing SMEs
- More training courses to different departments in the bank to increase awareness of E&S issues and to integrate this assessment with traditional project assessment
- Developing and implementing an ESMS
- Expanding our portfolio to include more sustainable projects and initiatives
- Each organisation should have a department dealing with and evaluating E&S risks
- Review of current portfolio to assess E&S risks already financed and then consider financing mitigation
- Examples of success stories to catalyse change in the organisation

- Top management commitment and leadership is critical
- Technical assistance internally and externally to develop the systems and to assess project risks
- Peer collaboration and learning with other counterparts in different organisations and different regions

*Key recommendations required to drive sustainable finance for individual participants:*

- More in depth training on how to develop the systems to assess and manage risks
- Top management sponsorship and commitment
- More examples to use to convince clients on why they need to provide information or look at these issues
- Team incentives to assess and manage E&S risks
- Technical assistance
- Preparation of proper procedures to follow in E&S risk assessment

Based on these recommendations, UNEP FI will now engage with the Egyptian Banking Institute and the Regulator to further explore how to support the finance sector in moving towards more sustainable finance in the region as a whole.

## Annex 1: Final Agenda for the workshop

<b>AGENDA</b>	
9:00 – 9:30	Registration and Coffee
<b><i>Introductory Session: Understanding the sustainable banking context in Egypt</i></b>	
9:30 – 10:30	<p>Sustainable Banking in Egypt:</p> <ul style="list-style-type: none"> <li>• General practice regarding sustainable banking in the country</li> <li>• The mandate of the institute</li> <li>• Economic externalities</li> <li>• Bank responsibilities.</li> <li>• The Mostadam initiative</li> </ul> <p><b><u>Speakers:</u></b></p> <ul style="list-style-type: none"> <li>• <b>Dr. Ola El Khawaga – Director – Research and Awareness Department, Egyptian Banking Institute</b></li> <li>• <b>Ms. Geeda Haddad, MENA Network Manager, UNEP FI</b></li> <li>• <b>Dr. Dalia Abdel Kader – Director of Marketing and Communications – Arab African International Bank</b></li> </ul>
10:30 – 11:00	<b><i>Coffee Break</i></b>
<b>Implementation I – Identifying Risks</b>	
11:00 – 12:30	<p>Understanding environmental and social risks:</p> <ul style="list-style-type: none"> <li>• Introduction</li> <li>• Presenting the methodology and mini real case studies</li> <li>• Analysis in groups</li> </ul> <p>Risk Identification: Assessing the Risks:</p> <ul style="list-style-type: none"> <li>• Risks to the environment</li> <li>• Risks to the company</li> <li>• Risks to financial Institution</li> </ul> <p>Analyzing the Context:</p> <ul style="list-style-type: none"> <li>• Regulatory framework</li> <li>• Markets</li> <li>• Natural environment</li> <li>• Society</li> </ul> <p><b><u>Speakers:</u></b></p> <ul style="list-style-type: none"> <li>• <b>Mrs. Christina Wood, Senior Tutor, UNEP FI</b></li> <li>• <b>Mr. Ilyès Abdeljaouad, Regional Tutor, UNEP FI</b></li> </ul>

12:30 – 13:00	<b><i>Light Lunch</i></b>
<b>Implementation II &amp; Illustration I – Analyzing Risks</b>	
13:00 – 14:30	<p>Assessment and management of environmental &amp; social risks:</p> <ul style="list-style-type: none"> <li>• Introducing the methodology</li> <li>• Case study based exercise – Categorization of risks</li> <li>• Case study based exercise – Managing the risks</li> </ul> <p><b><u>Speakers:</u></b></p> <ul style="list-style-type: none"> <li>• <b>Mrs. Christina Wood, Senior Tutor, UNEP FI</b></li> <li>• <b>Mr. Ilyès Abdeljaouad, Regional Tutor, UNEP FI</b></li> </ul>
14:30 – 15:00	<b><i>Coffee Break</i></b>
<b>Illustration II - Environmental &amp; Social Risk in practice</b>	
15:00 - 15:30	<p>Energy Efficiency in the Egyptian Markets: Opportunities and challenges</p> <p><b><u>Speaker:</u></b></p> <ul style="list-style-type: none"> <li>• <b>Ms. Nuran Atef, S&amp;E Analyst, Commercial International Bank (CIB)</b></li> </ul>
15:30 – 16:00	<p>Experiences in the process development of Environmental and Social Risk Analysis in the region</p> <p><b><u>Speaker:</u></b></p> <ul style="list-style-type: none"> <li>• <b>Mrs. Safae BERRAH EL KHEIR, Project Manager, Principes de l'Equateur, BMCE</b></li> </ul>
16:00 – 17:00	<ul style="list-style-type: none"> <li>• <b>Closing Remarks and open discussion on determining the banking sector needs in Egypt</b></li> <li>• <b>Award of certificates</b></li> </ul>