UNEP Finance Initiative

Environmental & Social Risk Management in Banks

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Direct Impacts of Environmental Issues on Businesses

**Financial**
- Cost savings
- Capital expense
- Operating costs
- Asset value

Cost

**Legal**
- Regulatory action
- 3rd party civil action
- Potential liability

Cost

**Reputation**
- New market opportunities
- Reduced market share
- Obsolete products

Cost

**Benefit**
Why Environmental & Social Issues Impact on Banks

- Financial
- Legal
- Reputation
Risks for Banks

Financial
- Inability to make repayments due to environmental costs
- Loss of value of collateral/assets as a result of contamination or non-compliance

Legal
- Potential direct liability for bank (to pay for clean-up of contamination caused by a customer) through control of client company or possession of assets

Reputation
- Damage to reputation through association with polluting or ‘unethical’ customers

- Environmental risk should also be considered at a portfolio level
- A bank should avoid overexposure to particular industries sensitive to environmental pressures
Structure of Legislative Framework

CONSTITUTION

Federal Laws
Codes and other Federal Laws

Underlying Regulations
Provisions, amendments, regulations, standards etc.
Key Environmental Bodies

Two main bodies at the federal level responsible for environmental matters:

- Ministry of Natural Resources of Russia with Federal Service for Environmental and Nature Management Supervision (RosPrirodNadzor)
- Federal Service for Ecological, Technological and Nuclear Supervision (RosTekhNadzor)
Future Trends

• Polluter pays principle
• New versions of some federal laws (The Forest Code, the Law on Subsoil Use) – in process of being adopted
• New federal law – the RF Environmental Code – second half 2006 and beyond
• Foundation of The Federal Agency for Environmental Protection (FAEP) - Amending current federal laws
• Restructuring of authority and responsibilities between federal, regional and local levels of government
International Law

Major international conventions that Russia has signed include:

- **Marpol Convention**
  - Marine pollution convention controlling shipment of oil in tankers

- **Montreal Protocol**
  - banning major ozone depleting substances such as CFCs

- **Basel Convention**
  - Controls international trade in hazardous waste

- **CITES**
  - Bans international trade in endangered species

- **Biodiversity Convention**
  - Protecting natural biological diversity

- **Forced Labour Conventions**
  - Ratification of child labour conventions anticipated this year.
Impact on Business

Failure to follow environmental regulatory requirements may result in:

• limiting or closing down of the operation;
• Penalties and fines;
• criminal responsibility;
• clean-up costs.

Environmental Opportunities:

• to reduce costs (such as those for waste or effluent disposal);
• improve the quality and reputation of products.
Permitting regime – Project Development and Approval

New project approvals require the following steps:

- Feasibility study
- Project planning (Impact Analysis of the projected activity (OVOS) + Public Hearings/Discussions)
- State Environmental Review
Permitting regime – State Environmental Review (SER)

Two Federal Bodies responsible for SER:
- RosTekhNadzor
- RosPrirodNadzor

SER is the final key step for project approval

Objectives:
- Preventive control
- Assessment of the proposed activity for compliance with environmental and safety regulations
Permitting regime – Operational Aspects

- Maximum permissible emissions and relevant permit;
- Maximum permissible discharges and relevant permit;
- Waste generation and disposal limits and relevant permit;
- Hazardous waste management license;
- Water Use Licenses.
Regulatory Enforcement

Key bodies:

- Ministry of Natural Resources of Russia (MNR RF);
- The Federal Service for Environmental and Nature Management Supervision (RosPrirodNadzor);
- Federal Agency of Subsoil Use (RosNedra);
- Federal Agency of Water Resources (RosVodResources);
- Federal Agency of Forest Resources (RosLesKhoz);
- Federal Service for Ecological, Technological and Nuclear Supervision (RosTekhNadzor);
- Sanitary and Epidemiological Service of the Ministry of Health Protection.

These organizations have the power (within their responsibility) to:

- set up standards and norms
- inspect enterprises,
- monitor pollution,
- require information,
- impose sanctions including fines,
- shut down or suspend industrial activities.

In general, industrial companies are required to monitor their emissions to air and water, and waste generation and regularly report on their performance.
Public Participation

Public participation practice includes:

• Participation in Environmental Impact Assessment through Public Hearings and Public Discussions (organization of public hearings and discussion is an obligatory procedure for any new project);
• Public Environment Expert Review;
• NGOs role increasing in promoting public awareness and assisting citizens in exercising their rights.
Key ILO Conventions

**Forced Labour**
- C29 Forced Labor Convention - 23-06-1956

**Freedom of Association**
- C87 Freedom of Association and Protection of the Right to Organise Convention – 10-08-1956
- C98 Right to Organise and Collective Bargaining Convention – 10-08-1956

**Discrimination**
- C100 Equal Remuneration Convention – 10-08-1956

**Child Labour**
- C138 Minimum Age Convention – 03-05-1979
Case

Description of the situation

The Center for recycling of radioactive materials Production Association “Mayak”, located in Ural Region has discharged 60 mln. m³ of pollutants onto Techa river in 2001-2004

Damage

30 mln. rubles

Actions taken

No actions were taken

Results/Outcomes

Court decided to institute criminal proceedings against the General director