EU Environmental Regulations – Risk or Opportunity for the Finance Sector?

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The business of business is business
- Milton Friedman
Environment going mainstream in financial markets...

Capital markets worldwide worth USD47 Trillion. Pensions funds hold 25% of these markets.

UN Principles for Responsible Investment:

Backed by more than 11 trillion USD assets under management, including more than 200 institutional investors.
Environment going mainstream in financial markets...

Equator Principles sees more than 50 banks representing more than 80% of global project finance volume integrating environmental and other qualitative issues into project lending criteria.
What is driving these developments?

JP Morgan publishes green investment guidelines

David Teather in New York
Tuesday April 26, 2005
The Guardian

JP Morgan Chase yesterday became the third big banking group in the United States to issue guidelines restricting its lending and underwriting to industrial projects likely to damage the environment.

The 10-page document covers climate change, sustainable forestry, illegal logging and the protection of natural habitats. It will, for instance, tie its loan review process for power plants to carbon dioxide emissions.

The firm said it has also adopted the Equator principles, a set of guidelines established by Citigroup and nine other firms for investing in industries including mining, oil and gas and forestry.

The bank said it would lobby the White House to adopt a national policy on greenhouse-gas emissions.

The policy document follows similar pledges from Citigroup and the Bank of America.

Environmental activists have in recent years been targeting the big banks as efforts to lobby the federal government have proved fruitless. JP Morgan developed its policy with environmental NGOs...
What determines the market value of a company?

S&P 500 1982

- Intangible assets: 38%
- Tangible assets: 62%

S&P 500 1999

- Intangible assets: 84%
- Tangible assets: 16%

Brand and qualitative issues are becoming more and more important in valuation.
Society has become curious

Rainforest Action Network forced Citigroup to adopt an environmental policy for lending and investment.

Banktrack Network –
Private finance: a public interest

Dodgy Deals

BankTrack works with communities and organisations worldwide to monitor 'dodgy' projects and deals. We consider being involved in these projects as incompatible with being a sustainable bank.

Belen nuclear power plant - Bulgaria

Description

The Belene nuclear power plant (BNP) is planned at the Danube in northern Bulgaria. It was first planned and construction started in the eighties, but due to environmental protests and economic doubts the project was stopped in the nineties. After Bulgaria joined the EU membership in 2004, the Bulgarian government brought up the Belene project again in 2006.

End of October 2006 a consortium was chosen to build the NPP. It consists of the Russian Atomstroyexport and French-German ArevaNP. The consortium offered to build two blocks of 1300 MW light water reactors for the price of approximately four billion euro.

UNEPAEP
Finance Initiative
Innovative financing for sustainability
The death of distance
Climate Change

Losses through great weather disasters 1950-2006 (in billion USD)

Note: The trend of insured losses is shown by a solid red line while the trend of overall losses is shown by a broken red line.
Climate Change

Banking - a clean industry?

Reputational Risk:

Source: Carbon Trust, 2006
„Romantic“ finance? – Real risks

Client:
• Inability to make payments due to environmental costs
• Loss of value of collateral/assets as a result of contamination or non-compliance
• Loss of license to operate
• Damage due to natural disasters

Bank / Insurer:
• Non-performing loans
• Devalued or loss of collateral
• Liability to clean up contamination
• Reputation loss
• Higher insurance claims

UNEP Finance Initiative
Innovative financing for sustainability
„Romantic“ finance? – Real risks

A loan to an electronic goods manufacturer in the Czech Republic. Security package included pledge on land. The client went bankrupt and EBRD became the owner of the land, which turned out to be contaminated. The contamination was not properly assessed at the due diligence stage. The National Property Fund requested that the land should be cleaned up. The cost of the clean up exceeded the value of the land and as a result the Bank made loss.
„Romantic“ finance? – Real benefits

- Access to capital
- Financing environmental projects
- Development of new products
- Staff retention and motivation
- Reputation gain
- Better risk management
- Improved competitiveness
- Cost savings, efficiency gains
Best practice in CEE

ČESKÁ SPOŘITELNA, A.S. (member of the Erste Group)
Leading the Way in Financing Sustainable Energy Projects

Bottom Line Impact

Today Česká Spořitelna is leading the way for commercial financing for energy efficiency and renewable project finance for SMEs in the Czech Republic. Just 18 months after the program started, by March 2005, these projects had generated $8 million in loans. The project pipeline is now over $50 million.
Best practice in CEE

Banca Comerciala Romana

Training on environmental credit risk assessment for all credit officers

Perceived benefits:

- Improved environmental awareness
- Better risk management leading to reduced risk profile
- Better competitiveness of clients
UNEP Finance Initiative

United Nations Environment Programme Finance Initiative

UNEP FI is a unique global partnership between UNEP and financial institutions worldwide.

167 banks, insurers and asset management companies comprise the partnership with UNEP.

UNEP FI develops global standards, guidelines and best practice approaches to sustainability for financial institutions.
# UNEP Finance Initiative – Activities

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UNEP FI Central & Eastern European Task Force

Mission:
Promoting Sustainability in the Central and Eastern European Financial Sector

Activities:
Awareness-raising, Training, Development of Research and Tools

Members:
Thank you for your attention!

For more information:
www.unepfi.org

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„Romantic finance“? – Real benefits

Source: Bank Sarasin, Banking on Sustainability, December 2006
This course offers:
• In depth-training for risk managers and financial analysts
• 3 weeks, online
• Case studies, readings, discussions and exercises
• Facilitated by a tutor from CEE

Modules:
1) Introduction to sustainable finance
2) Identification of environmental and social risks
3) Risk Classification
4) Assessment of environmental and social risks and
5) Environmental and social risk management

Next course: 19 Nov- 7 Dec 2007 !!