UNITED NATIONS ENVIRONMENT PROGRAMME
FINANCE INITIATIVE (UNEP FI)
UNEP: Declaration on Sustainable Finance and Development

“… we consider that sustainable development depends in the positive interaction between economic and social development, and protection of the environment, making this an equilibrium of interests between present and future generations”.

We also consider that sustainable development is the collective responsibility of governments, companies and people. We are committed to working in cooperation with these sectors, within the market mechanisms framework, towards common environmental goals.”
2. Environmental Management in Financial Institutions

• 2.3 We consider that the identification and quantification of environmental risks should form part of the normal process of evaluation and risk management, both in domestic and international operations [...]

UNEP Finance Initiative
Innovative financing for sustainability
What is an externality?
Some externalities

Clean air

Clean water

Stable climate on planet

Heritage

Clean sand
These costs will rise

- Cost of water
- Cost of *treating* water (effluents)
- Cost of waste disposal
- Cost of cleaning up contaminated land
- Cost of controlling air pollution
- Environmental fines
- Cost of indemnities to employees and customers
- *Number* of indemnities to employees and customers
- Damage caused by a campaign by an NGO
- Cost of emitting CO$_2$
Assessing the externalities

• Who sets the price of these externalities?

  • *Formal* regulators
    • Government agencies
  • The *informal* regulators
    • NGOs, civil society organizations, unions, etc.
    • Press
    • Importers in the US, Europe
    • Competitors
Assessing the externalities

Informal regulators are powerful

- NGOs, civil society organizations, unions, etc.
- Press
- Importers in the US, Europe
- Competitors
The CSN case

- Biggest and oldest steel mill in Brazil
- Operating in city of Volta Redonda, near Rio, since 1946
  - Between 1946 and 1999, CSN generated several impacts:
    - Respiratory problems among local community
    - Employees contaminated by toxic gases
    - Polluted river
    - Waste dumped in inappropriate locations
  - These externalities cost little to CSN
  - The company, though, made a loss every year
The CSN case

- Period when externality gained a price: 1999 - 2000
- Cost: US$ 100 million clean-up required by govt.
  - Remediation of contaminated land
  - 95% reduction in air emissions and effluents
  - Surge in recycling
  - New sources of income from sales of recyclable waste
  - Great improvement in relations with community
  - Excellent reporting on environmental data: www.csn.com.br
  - Great gains, after initial shock, and excellent cash flow
    (CSN almost bought a European steel company in 2006)
Risks to a financial institution

Credit risk: default

Collateral: devalued assets

Reputational risk

Shareholder risk: shares may drop in value
Printing press

Heavy metal (Cadmium) and Solvents

Cadmium is used in pigments

Cancer-causing, can harm reproductive system
Petrol stations

Contaminated land
Explosions
Water runoff from washing cars
Used lubricant oils
Cleaning rags contaminated by lubricants and fuel
Equator Principles

- The **Equator Principles** are a commitment by banks to ensure that project finance deals comply with World Bank environmental and social guidelines.

- Under the original version, this applied to any project with a capital cost of over US$ 50 million.

- ABN AMRO was co-author and founder of **Equator Principles**.


- About 40 banks are Equator signatories.
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