

Environmental Risk Management



Sustainable Finance: Opportunities and Challenges

Environmental and Social Credit Risk

May 21, 2008



Nigeria International Bank Ltd. (NIB)

“No matter how competitive you are and how globally you trade, if you are environmentally irresponsible someone can, and will—and should—padlock your door.”

A McKinsey & Company interview with former

Dow Chemical CEO and Chairman, Frank Popoff

DEFINITION

Environmental and Social Risk Management (ESRM) can be defined as the conscious and coordinated effort in appraising the potential and/or existing impact of various productive activities on their environment and people.

Who are the stakeholders?

- **Employees**
- **Customers**
- **Suppliers**
- **Competitors**
- **Community**
- **NGOs**
- **Media**
- **Customs**
- **Environmental Regulators**
- **Health Regulators**
- **Labor Regulators**
- **Rating Agencies**
- **Insurers**
- **Lenders**
- **Bank Regulators**
- **Depositors**
- **Shareholders**



What are they interested in ... ?

- Biodiversity**
- Environmental quality**
- Public health and safety**
- Worker health and safety**
- Major hazards**
- Site contamination**
- Child labor**
- Indigenous peoples**



Why bother ... ?

- ❑ **Ethics** (*Because we should*)
- ❑ **Regulations / Liability** (*Because we have to*)
- ❑ **Bottom Line** (*Because if we don't it will cost us money and, moreover, there is an opportunity here*)

Sectors most at risk ...

- **Wood processing**
- **Fisheries**
- **Tuna**
- **Bananas**
- **Textiles**
- **Pulp and paper**
- **Fur products**
- **Nuclear**
- **Hydropower**
- **Tourism**
- **Asbestos mining**
- **Asbestos construction**

- **Dairy**
- **Coffee, tea**
- **Flowers**
- **Diamonds**
- **Mining (gold, coal, iron ore, copper)**
- **Oil and gas**
- **Petrochemicals**
- **Mobile phones**
- **Shrimp**
- **Tanneries**

Linking Sources and Impacts ...

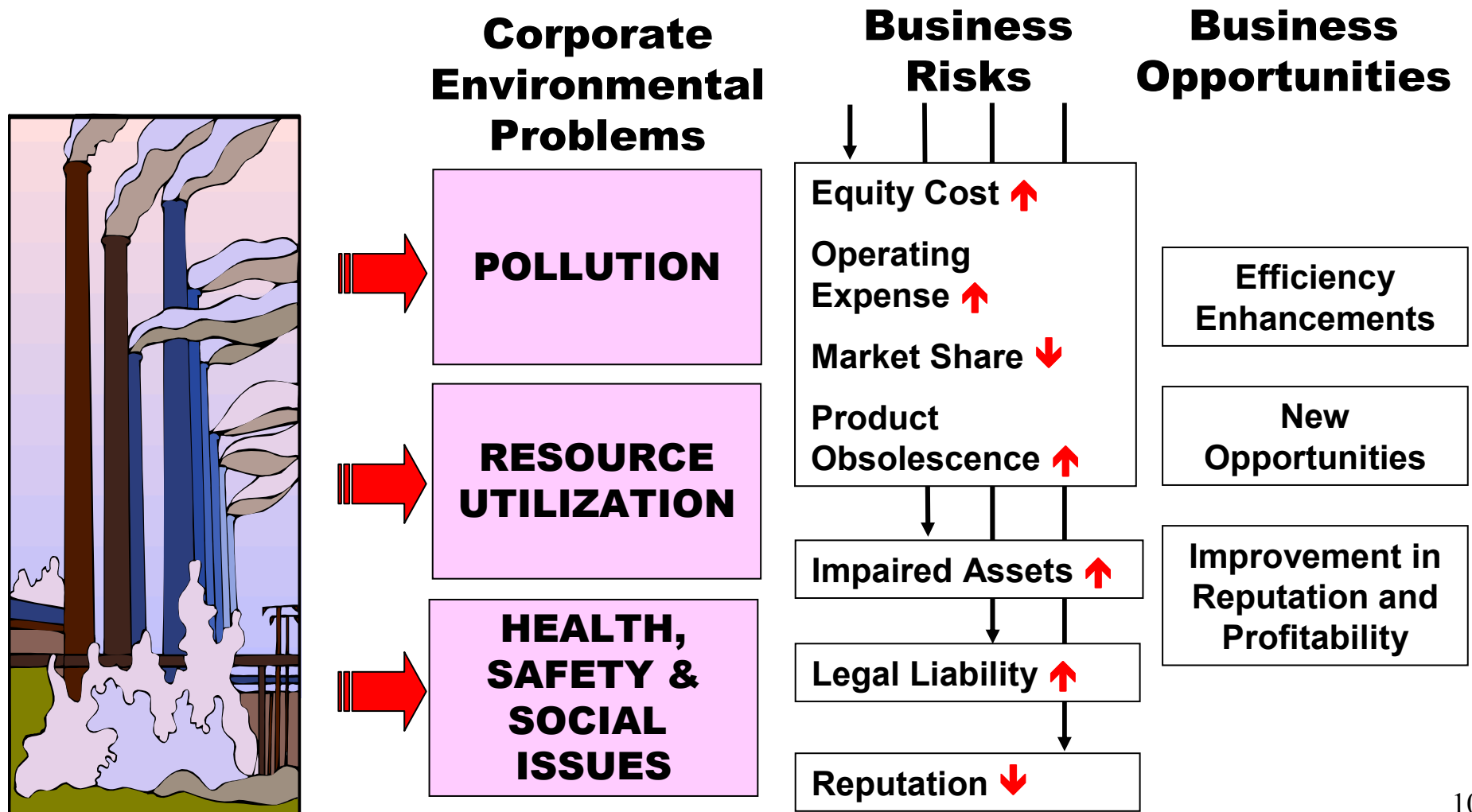


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|--|--|--|
| ▪ Dry Cleaners | Solvents/Spillage | Contamination of Soil and Water |
| ▪ Vehicle Repair Shop | Oil, Grease and Solvents | Contamination of Soil and Water |
| ▪ Fossil Fuel Energy Production | CO₂, NO_x, Acid Rain | Global Warming |
| ▪ Banana Plantation | Fungicides / Pesticides | Contamination of Soil and Water |

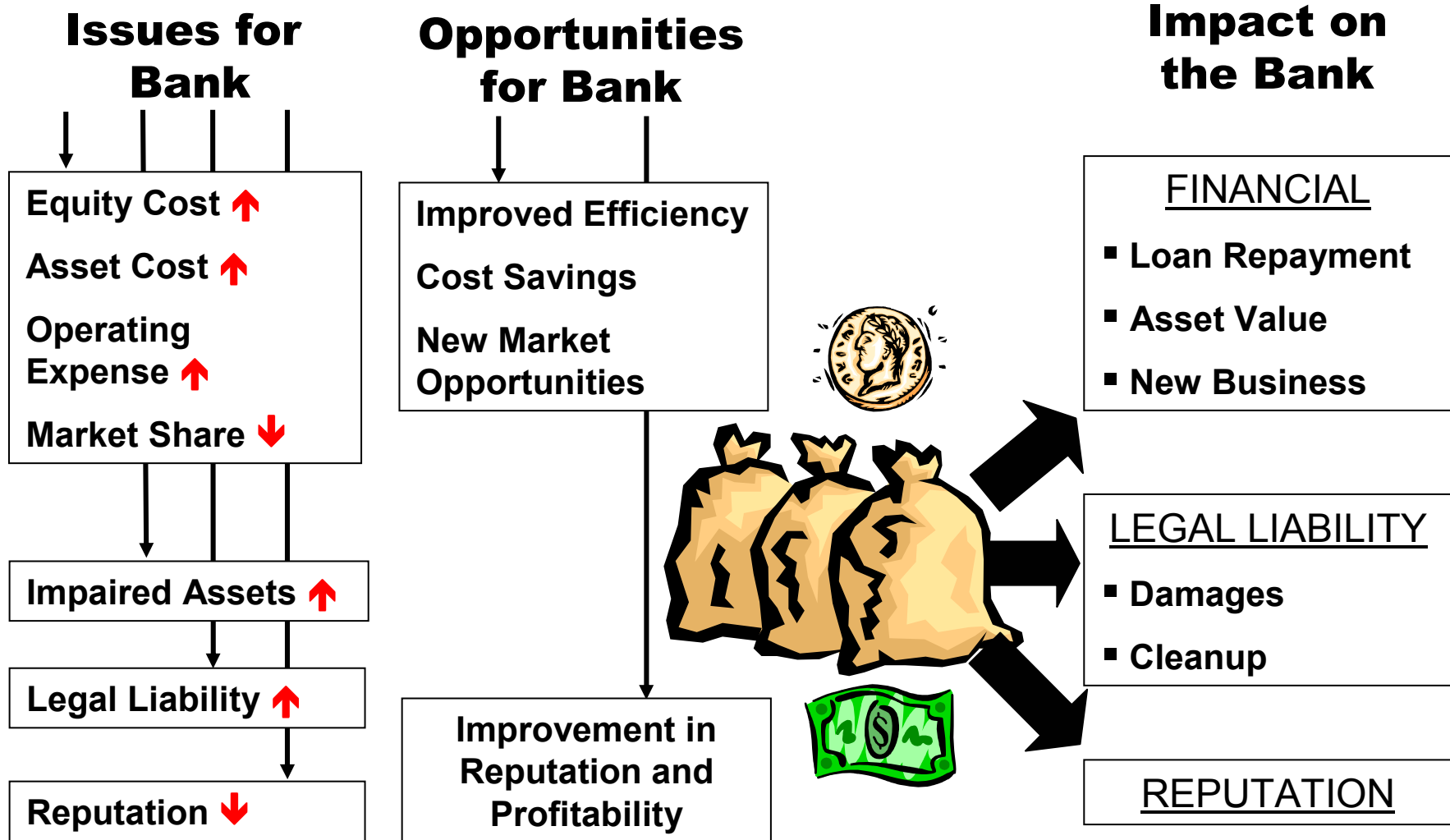
Bankers: Risks and Opportunities



Environmental issues for bank clients ...



Environmental issues for clients become issues for the bank ...



Risks to your client ...

□ **START UP**

- Obtaining Permits
- Contract Delays

□ **OPERATIONS**

- Plant Closure
- Plant Downtime
- Civil Liability
- Criminal Liability
- Public Protests

□ **SALES**

- Loss of market share
- Product Liability
- Product Boycott

□ **WORKERS**

- Health
- Safety
- Exposure

Risks to your client may be horizontal or vertical

Horizontal Causes

Your client is not alone

- Sectoral regulators
- Regional regulators
- Broad multi-sectoral issues

Vertical Causes

Your client is affected in a chain

- Vertical integration
- Supply and distribution chains
- SME impact

The result could be non-performing loans ...

Risks to the Banking Institution ...

❑ CREDIT

- Default
- Rescheduling

❑ EQUITY

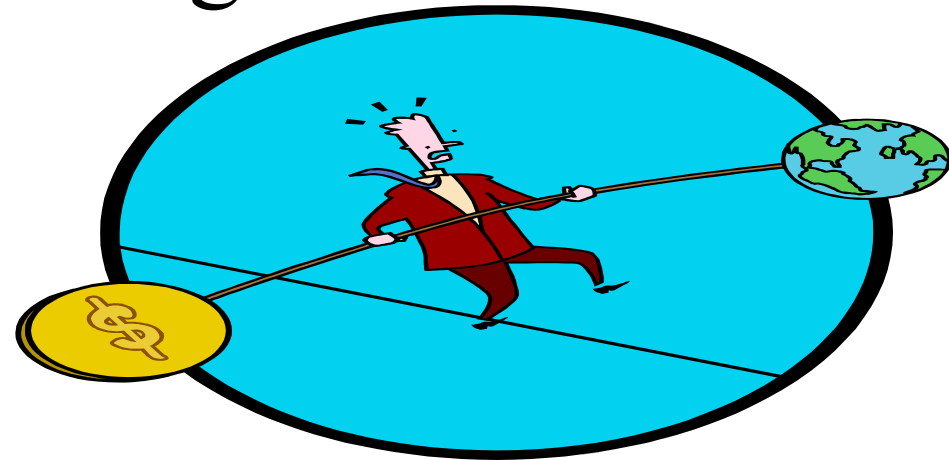
- Fall in Share Price

❑ SECURITY

- Shortfall in Collateral

❑ FUNDING

- Access
- Cost of Funds



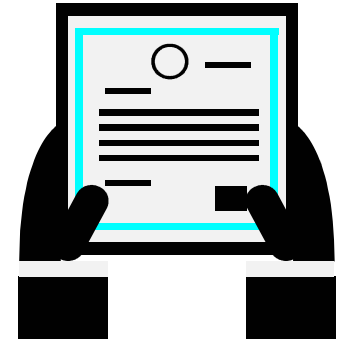
❑ LEGAL

- Potential transfer of liability from borrower to Lender

❑ REPUTATIONAL

- National / International

Effects on the bank's franchise ...



- **Shareholders**: withdrawal or resolutions
- **Raters**: watch notices
- **Analysts**: downgrades
- **Central Bank Regulators**: increased supervision, conditions
- **IFIs**: withdrawal of funds, reduced terms
- **Lenders**: withdrawal of funds, reduced terms
- **NGOs/Consumers**: boycott of products and investment
- **Co-financiers**: liabilities for negligence and misrepresentation
- **Insurers**: reduced coverage and increased cost



Nigeria International Bank Ltd. (NIB)

CITI Environmental and Social Risk Management Policy (ESRMP)



PURPOSE

Citi's goal is to be the world's most respected financial services company, committed to conducting business in an environmentally and socially responsible manner, consistent with our goal of being a good corporate citizen, sensitive to the communities in which we do business.

EQUATOR PRINCIPLES

Citi was instrumental in launching, and subsequently adopting, the Equator Principles in June 2003.

These principles are a voluntary set of guidelines and benchmarks for the financial industry to manage social and environmental issues in project financings, and are based on the policies and guidelines of the International Finance Corporation (IFC).

SECTOR BASED STANDARDS

- **SUSTAINABLE FORESTRY**
- **NUCLEAR RELATED TRANSACTIONS**
- **CLIMATE CHANGE POSITION**
- **HUMAN RIGHTS POSITION**

SHARED RESPONSIBILITIES

Implementation is a shared responsibility:

- **ESRM Approvers.**
- **ESRM Director & Unit - providing technical support & counsel.**
- **Transactors (Bankers) – ensure compliance with approval, analysis, documentation and categorization of transaction.**
- **Risk Officer/Portfolio Banker – confirms categorization and monitoring**

ESRM SCREENING AND CATEGORIZATION CRITERIA

Based on the type and magnitude, impending transactions are subjected to ESRM screening to appraise their potential environmental and/or social risk.

ESRM Categorization:

- **CATEGORY A – use of proceeds are likely to have potential significant adverse social or environmental impacts that are diverse, irreversible or unprecedented**
- **CATEGORY B – use of proceeds are likely to have potential limited adverse social or environmental impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures**
- **CATEGORY C – use of proceeds expected to have minimal or no social or environmental impacts.**

PRECLUDED ACTIVITIES

- **Precluded Activities are activities and/or transactions that involve adverse social or environmental impacts of such a serious nature that Citi can not and will not execute such transactions.**
- **Activities, or Transactions, that involve significant conversion or degradation of a critical habitat; and Activities, or Transactions, that utilize forced labor or harmful child labor.**

AREAS OF HIGH-CAUTION AND SPECIAL FOCUS

- **Critical Habitat and Areas of High Conservation Value**
- **Areas of Significant Cultural Heritage and Value**
- **Indigenous people**
- **Large-scale resettlement**

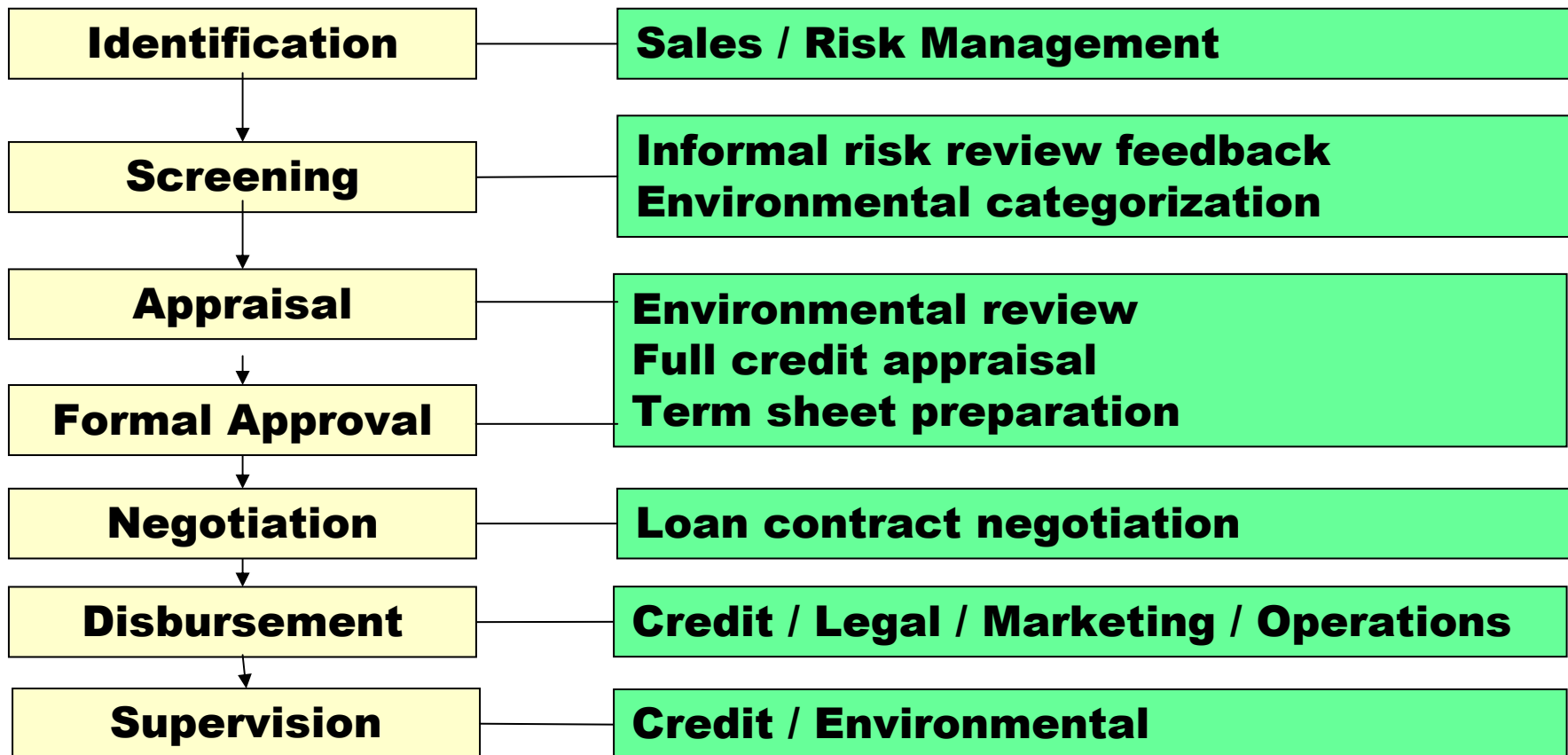
ESRM MANAGEMENT

- **Independent review: this involves the engagement of an independent social and environmental expert (not associated directly to the borrower). He will report to Citi on the clients ESRM status and compliance to equator principles.**
- **Client commitment and Capacity: here there is need to substantiate the client's commitment and capacity to address their ESRM issues. This serves as mitigant to potential adverse environmental and social issues.**
- **External Reporting on ESRM Policy implementation: this is a commitment to report on Citi's ESRM issues annually to external stakeholders and the public**

Environmental management of bank clientele ...

Credit Review Cycle

Credit and Environmental Review



Environmental reviews ...

OBJECTIVE

To ensure that all projects include adequate provision for actions and costs necessary to prevent, control and mitigate negative impacts on the environment and to improve environmental quality.



Environmental reviews (cont.) ...

- **Assessment of baseline environmental situation**
- **National regulatory and standards compliance**
- **Sustainable use of natural resources**
- **Pollution controls (liquid effluents and air emissions) and solid and chemical waste management**
- **Use of dangerous substances**
- **Major hazard analysis**
- **Occupational health and safety**
- **Fire and life safety**
- **Protection of human health, cultural properties, tribal peoples, endangered species and sensitive ecosystems**
- **Resettlement issues**

Environmental audit outputs ...

- **Project description**
- **Regulatory framework and standards**
- **Areas of concern**
- **Mitigation measures**
- **Corrective action plan with estimate of costs**
- **Annexed documentation**



Environmental Health and Safety Guidelines Published by The IFC

Nigeria International Bank Ltd. (NIB)



1. Airports
2. Ceramic Tile Manufacturing
3. Construction Materials Plants
4. Electric Power Transmission and Distribution
5. Fish Processing
6. Food and Beverage Processing
7. Forestry Operations; Logging
8. Gas Terminal Systems
9. General Health and Safety
10. Geothermal Projects
11. Hospitals
12. Life & Fire Safety (L&FS)
13. Office Buildings
14. Offshore Oil & Gas
15. Polychlorinated Biphenyls (PCBs)
16. Pesticide Handling and Application
17. Plantations
18. Port and Harbor Facilities
19. Rail Transit Systems
20. Roads and Highways
21. Telecommunications
22. Tourism and Hospitality
23. Development
24. Wildland Management
25. Wind Energy Conversion Systems
26. Wood Products Industries
27. Waste Management Facilities
28. Wastewater Reuse

Environmental Health and Safety Guidelines Published by The World Bank

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1. Aluminum Manufacturing
2. Base Metal and Iron Ore Mining
3. Breweries
4. Cement Manufacturing
5. Chlor-Alkali Plants
6. Coal Mining and Production
7. Coke Manufacturing
8. Copper Smelting
9. Dairy Industry
10. Dye Manufacturing
11. Electronics Manufacturing
12. Electroplating Industry
13. Foundries
14. Fruit and Vegetable Processing
15. General Environmental Guidelines
16. Glass Manufacturing
17. Industrial Estates
18. Iron and Steel Manufacturing
19. Lead and Zinc Smelting
20. Meat Processing and Rendering
21. Mini Steel Mills
22. Mixed Fertilizer Plants
23. Monitoring
24. Nickel Smelting and Refining
25. Nitrogenous Fertilizer Plants
26. Oil and Gas Development (Onshore)
27. Pesticides Formulation
28. Pesticides Manufacturing
29. Petrochemicals Manufacturing
30. Petroleum Refining
31. Pharmaceutical Manufacturing
32. Phosphate Fertilizer Plants
33. Printing Industry
34. Pulp and Paper Mills
35. Sugar Manufacturing
36. Tanning and Leather Finishing
37. Textiles Industry
38. Thermal Power Guidelines for New Plants
39. Thermal Power Rehabilitation of Existing Plants
40. Vegetable Oil Processing
41. Wood Preserving Industry

