Changing Landscapes: Towards a Sustainable Economy in Asia

Environmental and Social Risk

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Should FI’s worry about Environmental and Social Credit Risk?

- Is it just a “fashion” statement?
- Does it add to the bottom line profit?
- Does it improve customer focus?
- Does it reduce the chance for Reputational Risk?
What are the risks we face?

- Direct risks
  - Through land and buildings taken as sec
  - Mortgagee in possession
  - Deep pockets
- Indirect risks
  - Supply change pressure
  - Local legislation
- Reputational risks
Where does Env. And Social Credit Risk fit into the Risk map?

- Environmental and Social Risk is part of the total risk associated with lending and inherent in the primary risk.
- Environmental and Social Risk is NOT standalone.
Policy and Procedure

Needs to be business wide
- How do you deal with your own environmental and social impact

Needs to have full buy-in
- From senior management
- From the business
- This is not a “Risk” only issue
Policy and Procedure

- **Policy:**
  - Needs to clearly identify the areas being covered
  - Where necessary it should cover specific industries and/or businesses
  - It should be approved by a senior committee

- **Procedure**
  - Should set out the “do’s and don’ts”
  - Help the front line staff to understand and identify the issues
Risk Identification

- Industry assessment
  - both current and future risks
- Check Sheets
- Customer Visits
- External Assessments
- International Standards
- Press, Web, etc.
Risk Identification - Industry

- High Risk Industries
  - Land contamination – e.g. Tannery
  - Waste management – e.g. Chemicals
  - Emissions – e.g. Chemicals
  - Working conditions – e.g. Garment manufacture
  - Reputation – e.g. Infrastructure projects
  - Resource depletion e.g. Mining, timber
- Supply chain
  - Who is buying the output
  - What are their policies
  - What happens when standards are not met
## Risk Identification – Check list

### A. SITE INSPECTION

<table>
<thead>
<tr>
<th></th>
<th>YES</th>
<th>NO</th>
<th>NOT KNOWN</th>
<th>N/A</th>
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<tbody>
<tr>
<td>1. Has there been any local or national government enforcement actions against the customer relating to either environmental or social issues?</td>
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<td>2. Has the customer ever had a reported spill of petroleum or other hazardous substance(s)?</td>
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<td>3. Do the premises of the customer or its surroundings exhibit visual signs of contamination such as stressed vegetation, surface water contamination, surface subsidence, excessive surface contamination in any other areas?</td>
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<td>4. Has the site or any adjacent property ever been used for manufacture, storage, transformation or disposal of any toxic or hazardous substances?</td>
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<td>5. If there are any underground storage tanks on the property has there ever been leakage or have they been removed?</td>
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<td>6. Are there any environmentally sensitive areas nearby, e.g., schools, residential housing, parks, areas of high environmental importance, waterways etc.?</td>
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<td>7. Is the customer in compliance with all local and national environmental and social/labour regulations concerning the site(s) and operations?</td>
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Risk Identification – International Standards

- ISO 14001
  - Is a process – not a performance standard

- SA 8000
  - is a performance standard
Risk Identification – the Equator Principles

- A voluntary code for project finance
- Based on IFC Performance Standards and industry specific Environmental, Health and Safety Guidelines
- Over 60 Financial Institutions have adopted the Principles
Embedding the Process

• Training, Training, Training
  • very important to ensuring consistency of approach
• Adapting the credit application and approval process
• putting a process in place to escalate a high risk deal
In Conclusion

- This is not rocket science
- It is good risk management practice.
- Does it improve profitability? I’d say YES!
  - Anything that helps you understand risk better must be good for the business
  - Anything that helps you assess your customer better helps to identify business opportunities