



UNEP **Finance Initiative**
Innovative financing for sustainability

UNEP FI 2009 Global Roundtable

*Environmental & Social Risk Analysis (ESRA)
Introductory Training Workshop*

Wednesday 21st October, 2009

www.unepfi.org

Questions to consider:

- Do you think that environmental and social issues affect your business at the moment?
- Do you consider that environmental issues should be of relevance to the strategic interests of financial institutions? Why?



Introduction to E&S risk detection in practice



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“Find the Bombs”

- *Project Finance*: Copper Mine
- *Property Finance*: Housing estate and golf course
- *Trade finance*: commodity trading
- *Corporate Finance*: Waste management company
- *Corporate Finance*: Eco-tourism company operating
- *SME lending*: Clothing manufacturer



Lessons learnt?

- Risk does not always come from obvious sources....
- Environmental/ social risk can pose financial risk not just reputational risk
- Reputation is hard to price until you have lost it



Case Study:

CELCO, Chile – The 1,000 million dollar swans

Read the case study.

Consider the following questions:

- What are the risks to the environment?
- What are the risks to the company?
- What risks would be posed to the FI lending to this company?

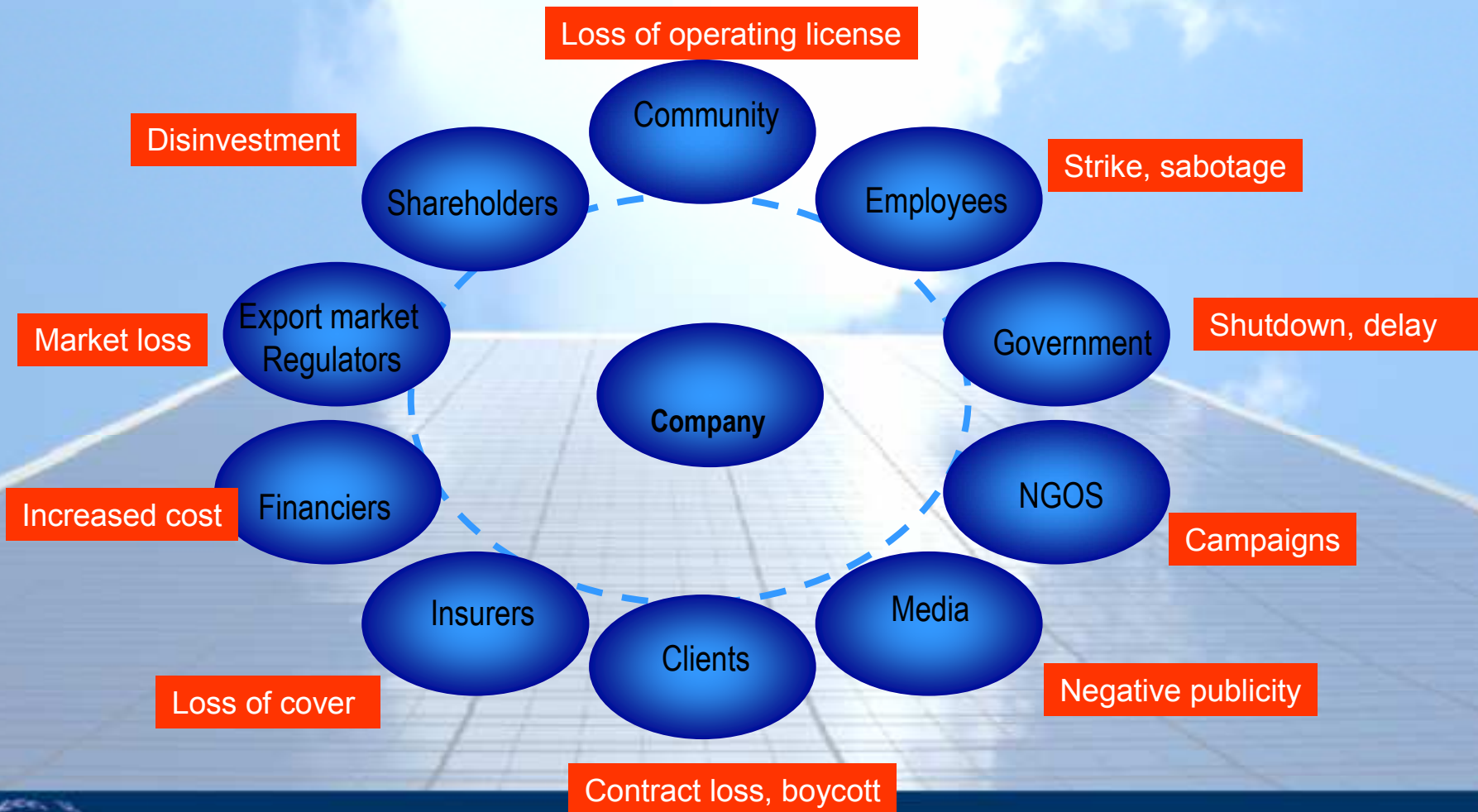


Analysing the Context:

The Changing Nature of Risk Assessment



Risks to the client



Risks to the FI

- ***Credit Risk***
 - defaults
 - payment rescheduling
- ***Market Risk***
 - sector-wide practices
 - market devaluation
- ***Guarantee Risk***
 - defunct / devalued collateral
- ***Legal Risk***
 - potential transfer of liability from borrower to lender
- ***Funding Risk***
 - access to capital
 - cost of funds
- ***Reputational Risk***
 - national
 - international



Analysing the Context

- Regulatory framework,
- Markets,
- Natural environment and;
- Society

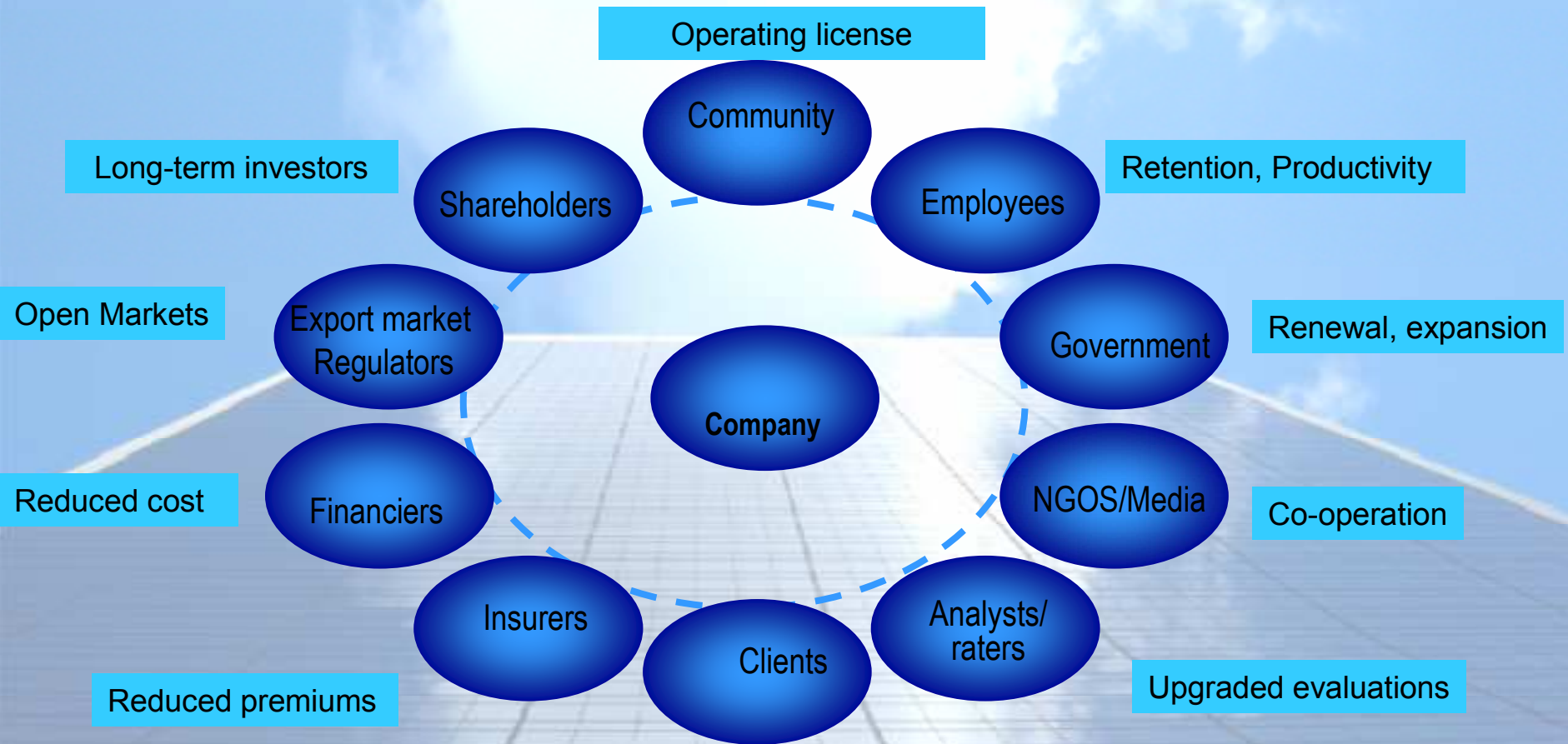


Environmental Legislation

- **Is evolving rapidly**
- Strongly influenced by **international agreements**
- **Legal requirements for companies** are increasing even if enforcement is sometimes still a challenge
- **Stakeholders** such as neighbours exert pressure on companies indirectly via politics, legislation and enforcement



Benefits to the client



Stable markets, premium pricing

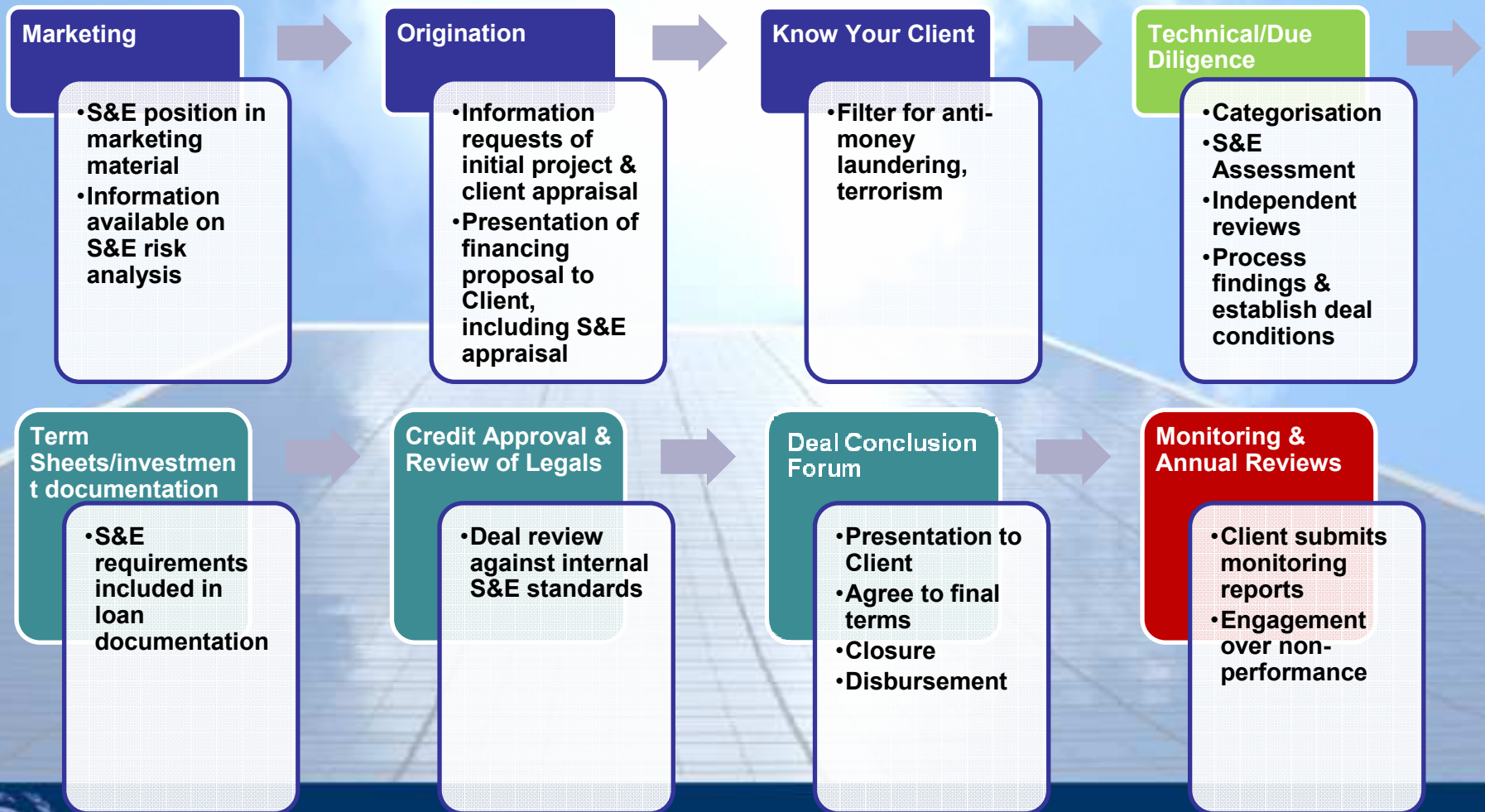


Analysing and Managing Risks:



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Process Integration



Project Classification

- A preliminary screening process to categorise a project based on the nature and magnitude of its potential impacts
 - sector, location, scale, type, related & associated activities, supply chain, client
- For the purpose of determining level of social and environmental risk assessment and management required



Managing Client Compliance

- Action plans
- Identify conditions for financing
 - approvals, disbursements
- Inclusions into loan documentation & provisions
- Monitoring
 - all category A and B should be monitored
 - independent verification of compliance

