



Responsible
social and
environmental
performance
in economic
activities is
no longer
just an ideal.



**Environmental
and Social Risk
Analysis (ESRA)
E-Learning
Programme**



It gives
companies a
competitive
advantage.



Introductory Training Workshop (ITW) on

Identification and Evaluation of Environmental and Social Risk in Credit Processes

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Istanbul, 8 October 2010

S&E Risk Management

1. Identification of S&E risks
2. Categorisation
3. Assessment of social and environmental risks
4. Managing client compliance

“Find the Bombs”

- *Project Finance*: Pulp and Paper Mill, Argentina
- *Trade finance*: Dutch registered commodity trader
- *Corporate Finance*: Wind farm developer, Europe
- *Property Finance*: Apartments in Sao Paulo, Brazil
- *SME lending*: Russian confectionary manufacturer

Lessons learnt?

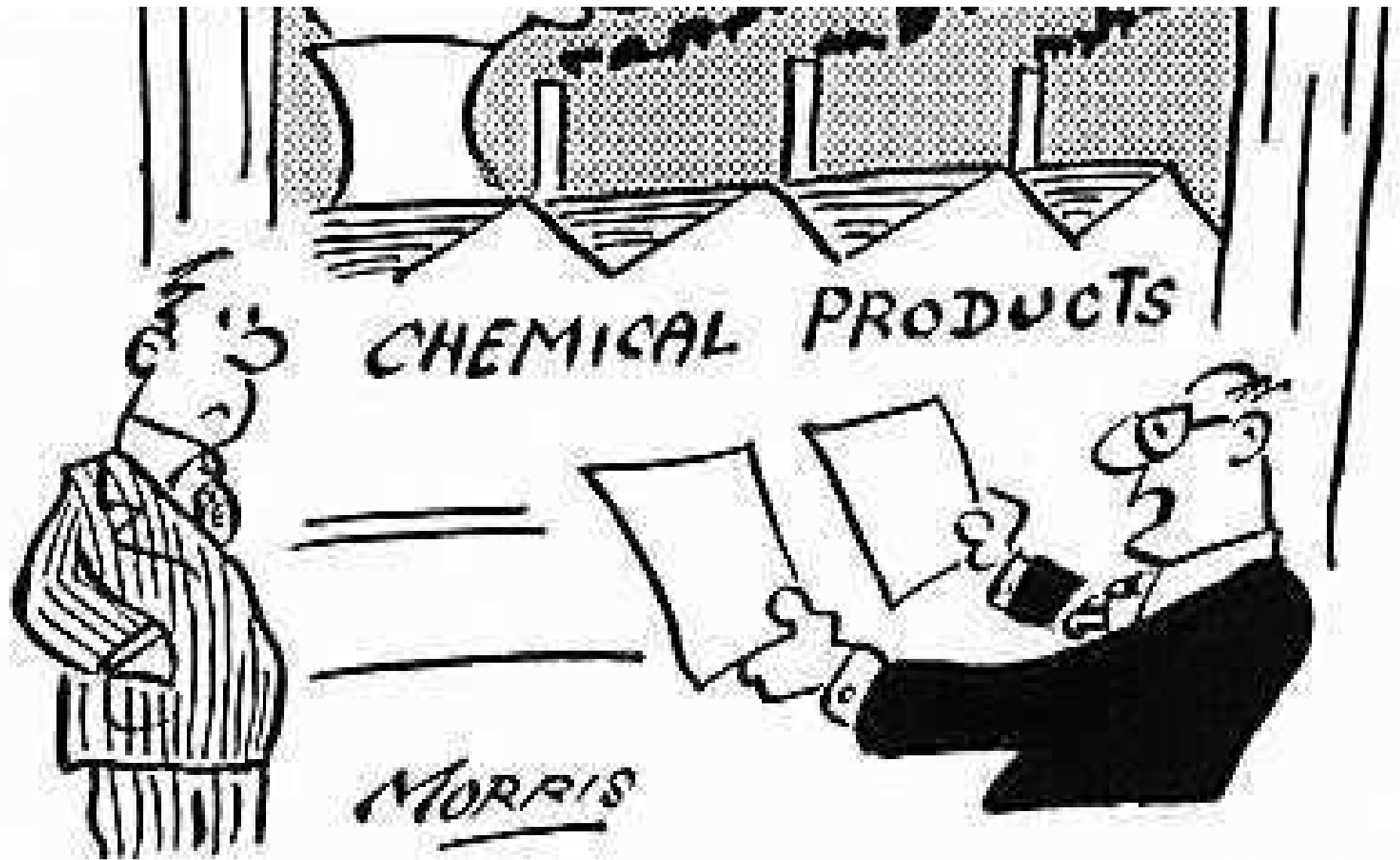
- Risk does not always come from obvious sources
- Environmental and social risks can be a financial risk and not just a reputational risk
- Reputation is hard to price - until you have lost it.

S&E Risk Management

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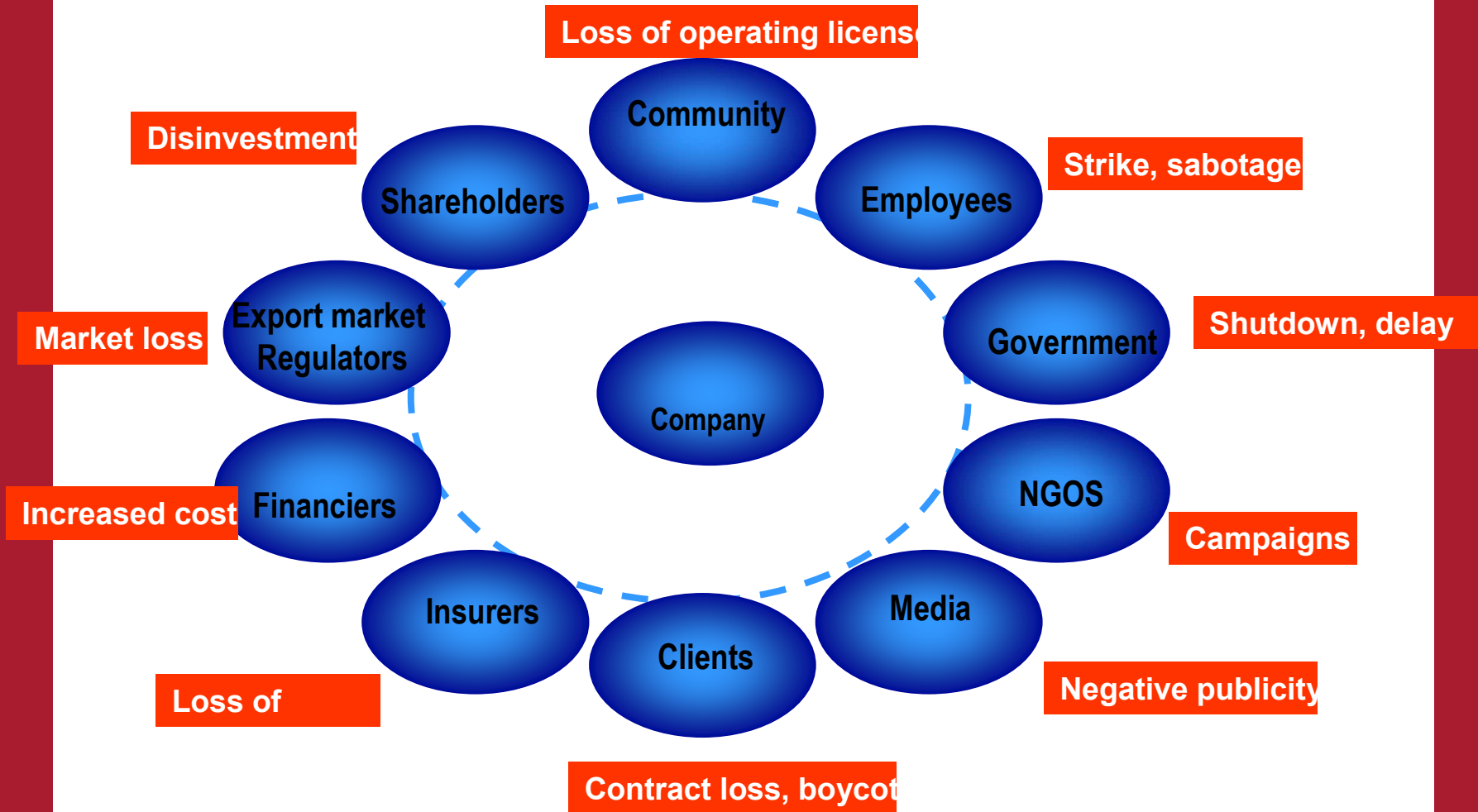
Analysing the Context:

The Changing Nature of Risk Assessment



"I've been nominated 'Industrialist of the Year' and the Dept of Environment are going to prosecute me for pollution."

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

Purpose of analysing the context:

- To detect and assess possible environmental and social risk that the project/ company activities might generate
- To establish the company's E&S performance against appropriate standards
- It is a general enquiry to establish the need for further follow up and research.

Benefits to the client

Operating license

Community

Shareholders

Employees

Retention, Productivity

Long-term investors

Company

Export market
Regulators

Government

Renewal, expansion

Open Markets

Financiers

NGOS/Media

Co-operation

Reduced cost

Insurers

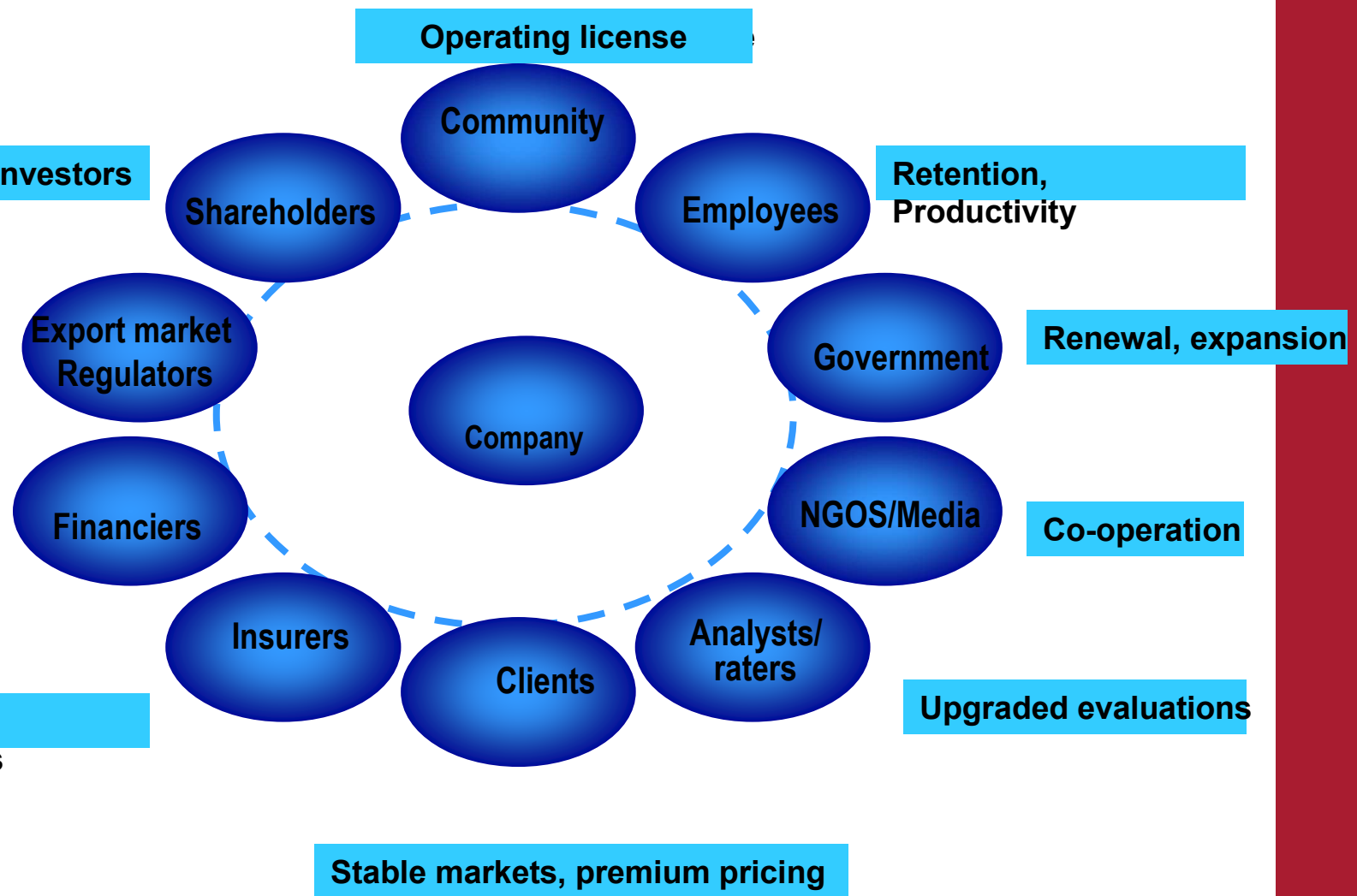
Analysts/
raters

Upgraded evaluations

Reduced
premiums

Clients

Stable markets, premium pricing



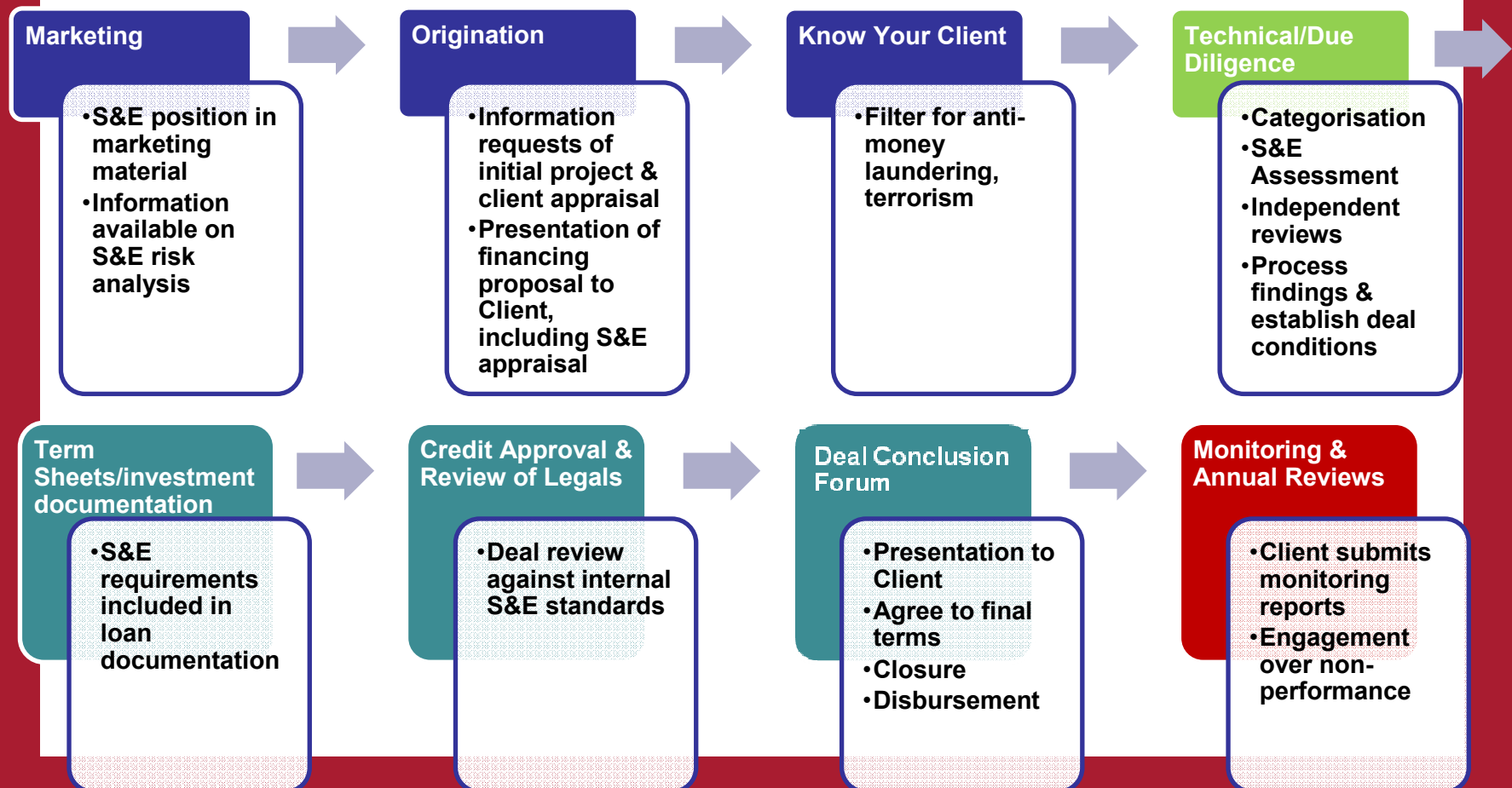
Aspects to Analyse

- Type & scope of the project – associated & related facilities
- Sector Risk
- Market
- Location
 - Policy & regulatory framework, capacity to regulate, governance
 - Prevailing natural and social environment, trends
 - Levels of stakeholder activity in the sector
 - Existing/ past impacts on the environment
 - Impacts associated with inputs & raw materials/ supply chain
- Third party risk
- Client commitment and capacity

Challenges

- Access to information
- Client willingness, resistance
- Reliability of information
- Benchmarks for performance
 - National standards
 - EU directives and standards
 - IFC Performance Standards and EHS guidelines

Process Integration



S&E Risk Management

Technical/Due Diligence

- Categorisation
- S&E Assessment
- Independent reviews
- Process findings & establish deal conditions

Loan documentation Approvals & Disbursement

- S&E requirements included in loan documentation
- Credit review & approval
- Presentation to client
- Agree to final terms
- Closure
- Disbursement

Monitoring & Annual Reviews

- Client submits monitoring reports
- Independent verification
- Engagement over non-performance

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Project Categorisation

- A screening process to categorise a project based on the nature and magnitude of its potential impacts
- For the purpose of determining level of social and environmental risk assessment and management required

Definitions

Category	Characteristics
A	Potential significant adverse social or environmental impacts that are diverse, irreversible or unprecedented. No standard mitigation measures.
B	Potential limited adverse social or environmental impacts that are few in number, generally site-specific, largely reversible and readily addressed through standard mitigation measures.
C	Minimal or no adverse social and environmental impacts.

Categorising Projects

The category of a project would depend on:

- Type and sector
- Location
- Sensitivity
- Scale
- Nature and magnitude of potential impacts
- Related and associated activities
- Supply chain
- Client profile

Tools

- ER002 form: an environmental screening and categorisation form
- ER003: economic activities according to risk criteria
- ER003A: project selection according to risk criteria
- National social and environmental impact assessment regulations

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S&E Assessment

- The duration, depth and type of E&S assessment required depends on the nature, scale and potential impact of the project, company activities.
- Area of influence
- Alternatives
- Avoid, minimise, mitigate and compensate
- Increase positive impact

S&E Assessment

Category	Assessment	ESRA form
A	SEIA and/or audit, Action Plans, Public Consultation & Disclosure Independent Review	ER006, ER007, ER008A, ER010A
B	Environmental Audit or internal Environmental Management Analysis, Evaluation of Risks, Corrective Action Plan	ER008, ER009

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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



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Thank you!

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