Environmental And Social Issues And The Financial Sector

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8/10/2010
Meeting Agenda

• Identify the scope and type of environment and social issues
• Look at why they are becoming material considerations for Financial Institutions
• Discuss associated risks and opportunities

Presentation jointly developed by DEG, WWF, ANZ, Euler Hermes, HVB/Unicredit, Standard Chartered, FMO and West LB as an effort to promote sustainable banking practices

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What Are Environmental And Social Issues?

- Pollution
- Climate change
- Waste
- Resource depletion
- Natural habitats
- Wildlife
- Labour practices
- Health and safety
- Community rights (land, water)
- Population growth
- Vulnerable people
- Human rights (safety, security)
- Cultural heritage
- Traditions and social values

These are a selection environmental and social issues. The list is expanding ……
But why is this of any relevance to Financial Institutions?

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The mining company Newmont was downgraded by analysts as a result of environmental and social issues in Peru.
Are E&S Risks as important as Financial Risks? - Why E&S Risks do matter

Community protests cause project shutdowns and infrastructure damage
Dead vultures cause energy production loss

Toxic waste dumping by third party supplier results in $250m fine

Not just best practice, but part of a robust risk management approach

Asia-Pacific: Project finance – Gunning for Gunns
Australian bank ANZ is having second thoughts about financing the controversial Gunns pulp mill in Tasmania. Now institutional investors are reported to be unhappy with the project, while its primary banker, ANZ, has stated its determination to finish an independent technical review before agreeing to arrange vital project financing. 12 Nov 07

Poor management of extra-financial risks results in financing difficulty

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How Does This Affect Financial Institutions?

Reputational risks to Financial Institutions

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The Brand Value Of Financial Institutions Is Threatened

Moving from individual projects/investments to targeted campaigns against the Financial Institutions themselves

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Opportunities Are Also Emerging

- New markets (energy efficiency, sustainable food, housing)
- Advisory services (relationship and new business advisory services that are based on superior knowledge of environmental markets)
- Trading and new markets (carbon and water credits)
So What Is Happening?

- Environmental and social risks are evolving (climate change, pollution, human rights, ecosystem services…)
- Companies increasingly need to demonstrate that they are managing these issues (“obey the law” and often more…)
- Financial Institutions are seen as responsible for the environmental and social impacts of their clients business (Green credit legislation)
- Technology too is playing an important role

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Google Earth

The Death Of Distance

Government

New Regulators

- Employees
- Suppliers
- Customers
- Local communities
- Financiers
- NGOs
- Media

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Technology Creates Transparency

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From The Times
January 19, 2008

Blogger backlash prompts inquiry into officials who ‘murdered’ man

Jane Macartney in Beijing and Jonathan Richards

A wave of protest from Chinese bloggers has forced authorities to arrest four people and call an investigation into 100 others after a man was beaten to death for filming a fight between villagers and local officials.

More than 50 municipal officers attacked a passerby who paused to film them as they scuffled with rural residents over a garbage dump near Tianmen, in central Hubei province, on January 7.

The killing has provoked widespread anger in Chinese cyberspace, where bloggers have expressed outrage over the so-called urban management officers — quasi-police who are often deployed to disperse small protests or to shut down unlicensed hawkers.

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Emerging Themes And Issues

- Environmental and social standards will become mainstream
- Financial crisis creates further need for sustainable projects/enhanced risk assessment
- Further harmonization of standards
- Growing importance of Sustainability Ratings
- Increasing scrutiny from external stakeholders – NGO’s, rating agencies, pension funds etc.
- Better financing conditions for sustainable companies/projects
- CO$_2$ accounting and water management
Application of E&S Risk Management within Banks to new opportunities in emerging markets will be a very necessary part of risk management, particularly Eastern Europe, Africa and Eurasia.

- Development in emerging markets often involves joint venture arrangements with national governments, who can have limited experience, resources or understanding of the need to manage extra-financial risk.
- Development in emerging markets is often in the context of less well developed or inconsistently implemented regulation.
- Consequently there are often conflicts between the requirements of host governments and international best-practice. The intent of the E & S Risk Management within Banks is to close any gaps and ensure implementation of relevant local laws.
- Understanding the risks well can help to provide certainty about the level of risk and therefore provide flexibility in risk management.

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Thank You

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