ENVIRONMENTAL AND SOCIAL RISK
– From awareness to action

Accra, 22 April 2013
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– Business, Society & the Environment
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Introduction
Objectives

• Introducing People
• Why we’re here today
Business, Society & the Environment
Externalities

Externality: A (positive or negative) consequence of an economic activity that is experienced by unrelated third parties, whose interests are not taken into account.

Negative Externalities:
- Air pollution, water pollution, and effect on availability and quality and related health problems
- Loss of biodiversity and/or cultural heritage

Positive Externalities:
- Stable Climate
- Water availability and water quality
Keeping rivers clean

Keeping a stable climate

Preserving heritage

Externalities – a thing of the past?
Stable Climate, Ecosystem Services ...can no longer be taken for granted...

Finance Initiative
Changing finance, financing change
The cost of “externalities”

- Cost of water, Cost of water treatment
- Cost of waste disposal
- Cost of cleaning contaminated land
- Cost of reducing air pollution, Cost of CO$_2$ emissions
- Cost of health & other social costs
- Environmental fines
- Cost of payment indemnities/damages/compensations
Modern industries, pollution and agricultural productivity: Evidence from Ghana

Published: 16th April 2013

Mining reduces agricultural productivity by almost 40%

Gold mining and its resulting pollution has reduced agricultural productivity by almost 40% in Ghana. The displacement of agriculture by gold mining can also be associated with increases in poverty, child malnutrition and respiratory diseases.
Drivers for Environmental and Social Risk Management
“As we have seen all too recently, when banks fail, the economic stability of nations and indeed the entire global financial system are threatened. This has brought the issue of “sustainability” into sharp focus.... sustainability has been considered somewhat of a “soft” topic until fairly recently, an addendum to the normal course of running a business and relying too heavily on anecdotal evidence rather than measurable benchmarks. This approach is now a thing of the past... sustainable economic development is not a luxury, but a requirement to strategically position our economy for this century.”

Mr Sizwe Nxasana
CEO, First Rand Limited
IFC Beyond Risk Survey: Risks for a FI’s clients

Figure 2.2 Significant sources of environmental risks for clients identified by all financing institutions
IFC Beyond Risk Survey: Risks for Lenders

Figure 2.11 Environmental risks for financial institutions
Regulators

- Green Banking/Green Credit Policies
- Central Banks are starting to take action
  - China’s Green Credit Policy, now supported by the CBRC Green Credit Guidelines
  - Nigeria Sustainable Lending Principles
  - Brazil – series of resolutions; E&S risk evaluation included in capital adequacy requirements
  - Bangladesh – ESRM policy, voluntary quarterly reporting
- Basel III shifts focus to ‘material risk’, and expectation for E&S risk to be specifically mentioned is rising
Investors & Capital Markets

Investors:
Collaborative engagements by PRI signatories

Engagements with companies on Carbon Disclosure Project data *
Investor statement calling for global arms trade agreement * Investor statement in support of Prof. John Ruggie’s Draft Guiding Principles * Pilot Project on Responsible Business in conflict affected and high risk areas * Sudan Engagement Group * Sustainable stock exchanges

Capital Markets:

• Sustainability Indices > rewards those who do well.
• Growing drive for ‘sustainable stock exchanges’, including mandatory reporting for listed companies.
Multilateral / Development Banks

- Have some of the most advanced/sophisticated E&S Risk Management policies and procedures
- Increasingly working through or with private sector FIs
- Access to deals is dependant on E&S Risk Management capacity
You are being watched

From NGO campaigns to Bank track to the Wall Street Movement...
Colorado-based Newmont's Ahafo gold mine in Ghana. The company was cited for human rights abuses associated with the removal of 10,000 farmers to make room for the mine. The company wants to displace another 10,000 people in order to expand the mine. The World Bank provided the $125 million loan that allowed Newmont to bring progress to the local economy by removing the people. When Newmont becomes unhappy with protests, the protesters get arrested.

Residents of Ohwim-Aman from near Kumasi in Ghana's Ashanti Region are protesting the sitting and operations of a factory in the area. According to them, a paper manufacturer, T & Y Company, is polluting their environment which exposes them to health risk and also destroying aquatic life.

The Chinese factory started operating in the community about two years ago. The company recycles plastic waste and produces toilet rolls and other plastic products.

Residents of Ohwim and Amanfrom, however, say locating the factory in a residential area is an affront to their dignity. They are not enthused about the environmental record of this company.

Some are reporting respiratory infections and other complicated medical conditions, while others have had to relocate in order to escape what they see as 'poisonous smoke' from the chimney of the company.

A woman who pleaded anonymity said she was diagnosed with asthma about a year ago, and her condition has been traced to the continuous inhale of smoke from the factory's chimney.

The community also accuses the company of discharging waste materials into a nearby river, which has killed all the aquatic life in the water body.

A supervisor at the factory acknowledged the concerns raised by the residents, but says the company installed new equipment early this year to reduce smoke emission.
## Peer Pressure

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Key Initiatives

- 1992, UNEP FI
- 2000, UN Global Compact, Carbon Disclosure Project, GRI, OECD Guidelines for Multinationals
- 2003, Equator Principles
- 2006, GRI Financial Sector Supplement, UN Principles for Responsible Investment, IFC PS, EP II, FT Sustainability Awards
Key Initiatives, since 2008

- Climate Principles
- Water Disclosure Project – moving faster than CDP
- Forest Footprint Disclosure Project
  - 12.8 trillion, forest risk commodities (biofuels, soy, palm oil, beef, timber)
- Revision of the IFC Performance Standards, Jan 2012
- Natural Capital Declaration – launch at Rio +20
  - Integration of natural capital considerations into financial products
- IFC PS Revision 2
- Equator Principles Revision III
From Awareness to Action
Leaders & Trends
Risk Management

Assessing & Deciding where to stand
- Exclusion Lists
- Sector Policies

Developing the tools and capacity you need to walk the talk
- Client questionnaires
- Access to information
- Training for employees (credit and risk, but also commercial teams)
E&S Risk for FIs

CLIENT/INVESTEE

Unmanaged E&S impacts in operations

Risks

• Disruption of Operations
• Fines & penalties
• Loss of market share
• Market devaluation because of liability

FINANCIAL INSTITUTION

Direct Risks
• Liability for E&S damage caused by client/investee

Indirect Risks
• Credit risk – reduced repayment capacity
• Market risk – reduced value of collateral
• Reputational risk – negative publicity

Consequences
• Loss of assets
• Reduced profits
• Damage to reputation
It’s not all about Risk!

Source: PWC
Smart Money ….. the Green Economy

• Going forward will Bank’s be more critically judged for
  – Investment in old polluting technology?
  – Commitment of funds that cause the loss of biodiversity and ecosystem services?

• UNEP’s “Toward a Green Economy” estimates that the investment required will be US$1.3 trillion per year from 2010 to 2050. 1

• The WEF and Bloomberg calculate that clean energy investment must rise to US$500bn by 2020 to restrict global warming to 2 degrees. 1

• HSBC estimates a US$10 trn growth in cumulative capital investment between 2010 and 2020. 2

• It is estimated that more than 80% of this financing needs to come from the private sectors.

1 Towards a Green Economy, UNEP (2011)
2 Sizing the Climate Economy, HSBC Global Research 2010
Today’s Sustainability Leaders

IFC/FT Awards designate the Sustainable Bank of the Year since 2006

• 2012: Standard Chartered Bank
  Regional winner Africa/Middle East: Nedbank, South Africa
• 2011: Banco Itau, Brazil
  Regional winner Africa/Middle East: Access Bank, Nigeria
• 2010: Co-Operative Financial Services, U.K. , Runner-up: HSBC, U.K.
• 2009: Triodos Bank, Netherlands. Runner-up: Standard Chartered, UK
“Green” Winners
The performance of sustainability-focused companies during the financial crisis

As companies cut costs to get through the current global economic slowdown, there is often a temptation to abandon recent forays into sustainability. Yet a new A.T. Kearney analysis finds that companies committed to corporate sustainability practices are achieving above-average performance in the financial markets during this slowdown. So before tossing out those sustainability practices and initiatives, it might be wise to first determine the real value of the efforts—especially the possible rewards for staying the course.

In the past few years, a decidedly “imperfect” storm of scarce resources, global warming debates, shifts in customer demand and regulatory changes have compelled many businesses to react to the sustainability challenge. An award is won for a track record of social responsibility.

As the financial crisis takes its toll, and sustainability-related projects add costs, many companies are considering abandoning their sustainabili-
If building a sustainable enterprise was a fashionable trend five years ago, today it is a business imperative. Forward-looking corporations have figured out that a focus on environmental, social and governmental (ESG) factors is not just a bid to burnish their image, but rather it is a necessity in today's marketplace. And if done well, it is a true competitive advantage.

A panel of senior executives from consulting, banking and the chemical industries sat down to debate and discuss this critical shift during the recent Wharton Social Impact conference. The panel, "Sustainability and Corporate Social Responsibility: Is ESG the New CSR?" included participants from a variety of backgrounds and experience. Still, all were in agreement that what was a somewhat nebulous (but fashionable) movement five or 10 years ago has become a focused, integrated way of doing business at many firms.

"Sustainability has become more mainstream now," said Eliza Eubank, assistant vice president for the environmental and social risk management department at Citigroup. "It is not just something that the do-gooder environmentalist cares about. It is something that is on the priority list of CEOs." Stephane N'Diaye, senior manager of strategy-sustainability at consulting firm Accenture, echoed that view. The progress over the last several years in sustainability efforts, he noted, stems from "where it stands on the CEO's agenda."

In fact, for savvy companies, a strategy built around sustainability can be a critical advantage, Boston Consulting Group senior partner Martin Reeves pointed out. Even when government action puts more burdens on business, Reeves said there can be an upside. When you change the rules of the game, you "are putting a floor on certain behaviors [and] raising barriers to entry." Case in point: the establishment
Moving from awareness
To facilitators of

Economic growth that is low carbon, resource efficient and socially inclusive
Changing Finance to Finance Change

- Business as usual → Unsustainable economic activity
- Environmental and Social Risk Management, Engagement, and Financing → Gradual shift to sustainable economic activity
A word on UNEP FI

Our Mission:
To identify and promote best environmental and sustainability practice at all levels of financial institution operations.

- We research
- We raise awareness
- We set standards
- We connect leaders
- We build capacity
- We facilitate dialogue and engagement
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