Environmental and Social Risk Management of Garanti Bank

Emre HATEM
Senior Vice President, Project and Acquisition Finance
Agenda

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• Garanti’s E & S Risk Management Tools
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  STEP 2: Sectoral Principles
  STEP 3: Exclusion List
  STEP 4: Financial Limit & Scope
  STEP 5: Categorization
  STEP 6: ESIA Model
  STEP 7: Risk Classification
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• ESMS at Project Cycle
• Selected Project Examples: Actions at Power Projects
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• A Project Case: Thermal Power Plant
• IFC PSs versus Garanti’s Implementation
• Comparison with Equator Principles Requirements
• Main E & S Risks Components
• Main Challenges
• Dealing with Client Resistance
• Benefits
Brief History in E & S Risk Management

2010

✓ **Sustainability Committee**, including direct and impact impact teams was formed

✓ Garanti started to **efforts** for establishing E&S Risk Management System

2011

✓ **“E&S Assessment of the Projects during Credit Appraisal”** project was started. During the project;
  
  ✓ An independent consultant company was hired and worked **during 1.5 years, by weekly workshops and training programs.**
  
  ✓ **E&S risks** were investigated in detail, with the **participation of the PF & Credit Teams** working on each specific sector.

✓ **E&S Credit Policies** were determined. The policies are valid for all loans without monetary limit.

✓ **E&S Impact Assessment System** was developed, including risk rating model was developed and was started to be implemented.
2012

✓ Garanti established **Sustainability Team**, within Project Finance and Acquisition Department, in 2012.
✓ Garanti designated an **ESIA Supervisor within the Sustainability Team**.
✓ Garanti started to implement **E & S Impact Assessment System**.

2013

✓ Garanti **has fully commissioned the E & S Impact Assessment System** as it was committed to UN Global Compact
✓ ...and **continuing improvement**
Garanti’s E & S Risk Management Tools

Garanti has developed

- **Policies, procedures and guidance staff**
  - ESIA Process, E&S Credit Policies, ESIA Manual, Sectoral Principles

- **E&S risk assessment tool**
  - Garanti Bank’s ESIA Model (inc. Sector Specific Rating Charts)

- **Internal management capacity**
  - Senior Management awareness and support, Sustainability team, ESMS supervision

- **Communication of the needs to internal stakeholders and clients**
  - all PF team and credits team trained

...and Garanti ensured that E & S procedures and processes formed an INTEGRAL part of its operational process.
Garanti’s ESIA Process - 10 Steps

- **STEP 1** E & S Credit Policies
- **STEP 2** Sectoral Principles
- **STEP 3** Exclusion List
- **STEP 4** Financial Limit and Scope
- **STEP 5** Categorization
- **STEP 6** ESIA Model & Risk Rating (R1, R2, R3, R4)
- **STEP 7** Risk Classification
- **STEP 8** Independent Consultancy & ESMP
- **STEP 9** Covenants
- **STEP 10** Independent Monitoring

**PROJECT**

**Credit Division**

**Credit Decision**

**APPROVAL**

**REJECTION**
STEP 1: E & S Credit Policies

Garanti finances activities with **maximum social and environmental benefits.**

Garanti **subjects new projects** with an investment value of more than US$ 20 million to the **ESIA Model of** the Bank. Credit decisions are based on the risk rating calculated in accordance to the model.

**Garanti ensures**

- **the projects to meet the social and environmental requirements** determined by the Bank’s policies, laws and regulations,
- **the additional measures** to be taken and required environmental actions by the project owner.
- **scheduled actions** are taken and projects have effective environmental management.

**Garanti supports**

- **the protection and management of natural biodiversity.**
- **increased energy efficiency and transition to low carbon economy.**

**Garanti aims** to contribute the increasing awareness by ensuring all of the stakeholders, especially shareholders, personnel and customers to learn E & S Credit Policies.
## STEP 2: Sectoral Principles

<table>
<thead>
<tr>
<th>Sector</th>
<th>Principles</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Energy</strong></td>
<td>Energy efficiency (BATs), fish passages &amp; makeup water, emission reduction, bird monitoring, re-injection</td>
</tr>
<tr>
<td><strong>Cement, glass, ceramic</strong></td>
<td>Rehabilitation for the quarries</td>
</tr>
<tr>
<td><strong>Manufacturing</strong></td>
<td>Waste management, emission reduction</td>
</tr>
<tr>
<td><strong>Textile</strong></td>
<td>Avoidance of hazardous materials in the manufacturing</td>
</tr>
<tr>
<td><strong>Metallurgy, machinery, petrochemicals</strong></td>
<td>Emissions and discharge control, management</td>
</tr>
<tr>
<td><strong>Mining</strong></td>
<td>ARD, rehabilitation plan, water resources management</td>
</tr>
<tr>
<td><strong>Infrastructure /transportation</strong></td>
<td>Alternatives, ancillary facilities</td>
</tr>
<tr>
<td><strong>Oil and gas</strong></td>
<td>Emergency response plan</td>
</tr>
<tr>
<td><strong>Waste</strong></td>
<td>Emission control for incinerators, leakage control for the compost plants</td>
</tr>
<tr>
<td><strong>Food</strong></td>
<td>Avoidance of hazardous materials, odor and noise control and aeration</td>
</tr>
<tr>
<td><strong>Paper and pulp</strong></td>
<td>Resource and energy efficiency, reuse &amp; recycle</td>
</tr>
<tr>
<td><strong>Tourism &amp; healthcare</strong></td>
<td>Wastewater, medical waste management</td>
</tr>
</tbody>
</table>
STEP 3: Exclusion List

Garanti does not finance activities/projects on;

- Production and trade of banned asbestos fibers and radioactive materials
- Related with the manufacturing of mass destruction weapons and land mines
- Employment of child labor and engage in the acts that violate human rights
- Forestry operations not managed in accordance with sustainability principles
- Excessive fishing
- Production, storage, transportation and trade of large amounts of dangerous chemicals,
- Prohibited and restricted by national legislation & international convention that Turkey becomes a party of such as Ramsar, UNESCO, CITES, etc.
STEP 4: Financial Limit & Scope

Garanti applies ESIA Model for all **greenfield projects** with an investment amount > 20 mio USD

**EXCEPT**
- Acquisition and privatization credits
- Construction & contraction credits, excluding housing projects
- Advisory services
- Short term or long term credits not consisting any greenfield project
- Ongoing projects (in operation)
- Re-financing credits demanded for previously utilized for projects
STEP 5: Categorization

**Category A**
- If Project is listed in
  - EIA Regulation Annex-I
  - EIA Regulation Annex-V sensitive areas, or close to these areas.
  - If there is a known significant public or NGO objection

**Category B**
- If project is listed in EIA Regulation Annex-II
- If there is public or NGO interest or objection potential
- If exempted from EIA Regulation but has high risk potential

**Category C**
- If project is not listed in Annex-I or Annex-II list of EIA Regulation and
- If there is no or limited public or NGO interest or objection potential
STEP 6-7: ESIA Model & Risk Classification

STEP 3
Exclusion List

STEP 4
Financial Limit & Scope

STEP 5
Categorization

STEP 6
ESIA Model and Risk Rating

STEP 7
Risk Classification by Risk Matrix
STEP 6: ESIA Model

Total 36-41 questions on;
1. Physical Impacts
   - Landuse and use of natural resources
   - Geology and topography
   - Natural disasters
   - Soils
   - Hygroeology and groundwater
   - Hydrology and surface water
   - Marine
   - Air
   - Noise and vibration

2. Biological Impacts
   - Vegetation and flora
   - Fauna and habitats
   - Aquatic ecology

3. Social Impacts
   - Socio-economical
   - Human health
   - Transportation and traffic

4. Cumulative Impacts
5. Public Consultation
6. E & S Management Plan
# ENVIRONMENTAL RISK ASSESSMENT MODEL

1. Physical characteristics of project area and impacts during construction, operation and decommissioning phases of the project

<table>
<thead>
<tr>
<th>Landuse and natural sources</th>
<th>R3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>R3</td>
</tr>
<tr>
<td>2</td>
<td>R3</td>
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<tr>
<td>3</td>
<td>R3</td>
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<td>R3</td>
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<td>6</td>
<td>R3</td>
</tr>
<tr>
<td>7</td>
<td>R3</td>
</tr>
<tr>
<td>8</td>
<td>R3</td>
</tr>
</tbody>
</table>

2. Biological characteristics of project area and impacts during construction, operation and decommissioning phases of the project

<table>
<thead>
<tr>
<th>Vegetative cover and flora</th>
<th>R2</th>
</tr>
</thead>
<tbody>
<tr>
<td>26</td>
<td>R3</td>
</tr>
<tr>
<td>27</td>
<td>R3</td>
</tr>
<tr>
<td>28</td>
<td>R2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fauna and habitats</th>
<th>R3</th>
</tr>
</thead>
<tbody>
<tr>
<td>26</td>
<td>R3</td>
</tr>
<tr>
<td>27</td>
<td>R3</td>
</tr>
<tr>
<td>28</td>
<td>R2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Aquatic ecology</th>
<th>R2</th>
</tr>
</thead>
<tbody>
<tr>
<td>29</td>
<td>R2</td>
</tr>
</tbody>
</table>

3. Social characteristics of project area and impacts during construction, operation and decommissioning phases of the project

<table>
<thead>
<tr>
<th>Socio-economic characteristics</th>
<th>R3</th>
</tr>
</thead>
<tbody>
<tr>
<td>30</td>
<td>R3</td>
</tr>
<tr>
<td>31</td>
<td>R3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Human health</th>
<th>R2</th>
</tr>
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<tbody>
<tr>
<td>32</td>
<td>R3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Transportation and traffic</th>
<th>R3</th>
</tr>
</thead>
<tbody>
<tr>
<td>33</td>
<td>R2</td>
</tr>
</tbody>
</table>

4. Assessment of cumulative impacts and alternatives

| 36                             | R3 |
| 37                             | R3 |

5. Public consultation and reactions of public

| 38                             | R3 |
| 39                             | R3 |
| 40                             | R3 |

6. Environmental and social management plan for construction and operation phases

| 41                             | R1 |
Review Questions like:

- Is the project carried out in areas that are protected by national or international legislation?
- Are the cumulative impacts of other power plants that are already in operation taken into account during the assessment of impacts?
- Is the planned minimum makeup flow of the hydropower plant project sufficient?
- Are there any economic, social or physical losses associated with the expropriation or resettlement in the project?
- Are environmental and social factors, in addition to technical and economic criteria, taken into account in the master plan or during the evaluation of alternatives in the feasibility study?
### STEP 7: Risk Classification Matrix

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>R1</th>
<th>R2</th>
<th>R3</th>
<th>R4</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>B</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>C</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

**RISK GRADE**

- **Risk Group 1**
  - Independent Due Diligence
  - ESMP

- **Risk Group 2**
  - ESMP

- **Risk Group 2**
  - No action
STEP 8-10: Actions (ESMP, Covenants and Independent Monitoring)

**Risk Group - 1**
- Independent Consultancy
- Risk Mitigation Analysis
- ESMP
- Covenants
- Monitoring and Reporting

**Risk Group - 2**
- Risk Mitigation Analysis
- ESMP (optional)
- Covenants (optional)

**Risk Group - 3**
- Optional
ESMS at Project Cycle...everywhere

- Identification
  - E & S Credit Policies and Exclusion List
  - Client Engagement
  - Industry/Project Assessment
  - Risk Categorization

- Evaluation
  - E & S Risk Assessment
  - Definition of mitigation measures

- Mitigation
  - Definition of loan conditions
  - Incorporation in loan agreement

- Monitoring
  - Evaluation of mitigation measures

Diagram:
- Project Life Cycle
  - 1. Project Concept
  - 2. Basis of Design
  - 3. Protocol Development
  - 4. Contract Management
  - 5. Start Up & Commissioning
  - 6. Instrument Calibration
  - 7. Start Up & Commissioning
  - 8. Qualification & Validation

- Garanti Logo
Selected Project Examples – Actions at Power Projects

**TEPP**
- **Case 1:** Desalination Plant for cooling water supply from sea & Independent Monitoring
- **Case 2:** ESMP for both plant and mining sites & Independent Monitoring
- **Case 3:** Additional air modelling studies and detailed ESMP for power plant, transmission line, and ash dam

**HEPP**
- **Case 1:** Fish passage
- **Case 2:** ESMP
- **Case 3:** EDD & ESMP

**WEPP**
- **Case 1:** For 5 plants, ornitological studies
- **Case 2:** Visual impact assessments and ESAPs
- **Case 3:** ESIA and ESMP
Selected Project Examples- Highways

Northern Marmara Motorway inc. 3rd Bosphorous Bridge Project
- Project Owner: General Directorate of Highways
- SPV: IC-Astaldi
- Voluntary Environmental and Social Impact Assessment (ESIA) is being conducted in the guidance of Equator Principles & IFC PSs including:
  - Stakeholder Engagement Plan,
  - Environmental and Social Management Plan,
  - Afforestation Plan.

Gebze-İzmir Motorway Project
- Project Owner: General Directorate of Highways
- SPV: Otoyol AS.
- Ongoing studies:
  - Second Public Disclosure
  - Independent Monitoring
A Project Case: Thermal Power Plant

Additional Studies

**Pre-closing**

- Gap Analysis of National EIA Report
- Environmental Due Diligence
- Additional Air Quality Modelling
- Desalinization Plant for Cooling Water Supply from Sea

**Post-closing**

- Environmental and Social Management Plan
- Independent Monitoring
<table>
<thead>
<tr>
<th>IFC PSs</th>
<th>Aim</th>
<th>Garanti Bank</th>
</tr>
</thead>
</table>
| PS1- Assessment and Management of E & S Risks and Impacts | • Identify project E&S risks and impacts  
• Adopt mitigation hierarchy  
• Improve performance through a ESMS  
• Engagement with affected communities & stakeholders | Applied                               |
| PS2-Labor and Working Conditions            | • Fair treatment, non-discrimination, equal opportunity  
• Good worker – management relationship  
• Comply with national employment and labor laws  
• Protect workers, in particular vulnerable categories  
• Promote safety and health  
• Avoid use of forced labor or child labor | Applied                               |
| PS3- Resource Efficiency and Pollution Prevention | • Avoid, minimize, and reduce project-related pollution  
• More sustainable use of resources, including energy and water  
• Reduced project-related Greenhouse Gas (GHG) emissions | Applied. Garanti supports increased energy efficiency and transition to low carbon economy. |
| PS4- Community Health, Safety, and Security | • To anticipate and avoid adverse impacts on the health and safety of the Affected Community  
• To safeguard personnel and property in accordance with relevant human rights principles | Applied.                               |
### IFC PSs versus Garanti’s Implementation—cont.

<table>
<thead>
<tr>
<th>IFC</th>
<th>Aim</th>
<th>Garanti Bank</th>
</tr>
</thead>
</table>
| **PS5- Land Acquisition and Involuntary Resettlement** | • Avoid, minimize adverse social and economic impacts from land acquisition or restrictions on land use  
• Improve or restore livelihoods and standards of living  
• Improve living conditions among displaced persons | Applied in accordance with Turkish Expropriation Law (not fully applicable) |
| **PS6-Biodiversity Conservation and Sustainable Management of Living Natural Resources** | • Protection and conservation of biodiversity  
• Maintenance of benefits from ecosystem services  
• Promotion of sustainable management of living natural resources | Applied in accordance with Turkish legislation and int. Conventions  
Garanti supports the protection and management of natural biodiversity. |
| **PS 7: Indigenous People** | • Ensure full respect for IPs  
• Avoid, minimize adverse impacts  
• Sustainable and culturally appropriate development benefits and opportunities  
• Free, Prior and Informed Consent (FPIC) in certain circumstances | Not applied |
| **PS 8: Cultural Heritage** | • Protection and preservation of cultural heritage  
• Promotion of equitable sharing of cultural heritage benefits | Applicable |
## Comparison with Equator Principles Requirements

### Common Issues
- Analysis, Review and Categorization
- Social and Environmental Assessment
- Applicable Social and Env. Standards
- Action Plan and Management System
- Covenants
- Independent Monitoring

### Differences
- Consultation and Independent Review is partially applied at some projects.
- Review Limit - Equator Principles -> 10 mio $  System -> 20 mio $

### Deficiencies
- Griveance Mechanism
- EPFI Reporting and Reporting

### Positive Sides
- Equator -> Non-recourse PF Loans  
  Our system -> All PF Loans over 20 mio $
**Industry Sector:** Thermal PPs, Some HEPPs

**Geographical context:** Dams, motorways

**Legislative problems:** 3rd Bridge, Gebze-İzmir
Motorway Projects (exempt from national EIA)

**Client resistance:** At most of the projects

**Competitiveness:** At most of the projects
Main Challenges

- **Competitiveness**
  - Not widely applied among Turkish Banks

- **Lack of Awareness**
  - Lack of client awareness in E&S issues
  - Low stakeholder engagement and public disclosure

- **Legal Framework**
  - Lack of efficient implementation and monitoring
  - Customers not obliged for additional E&S investments
  - Customers not obliged for additional disclosure
Dealing with Client Resistance

We face comments like:

- Other banks don’t require this.
- We don’t pole for this.
- We don’t have a problem.
- We don’t have the time.
- I am complying with the local regulations and that should be enough.
- You are a bank. Why are you telling me how to run my business?
- It may expose us to a whole load of problems.
Benefits

Increases
- corporate image
- efficiency and performance of the projects.
- risk management;
- availability of information for the decision making process and projects approval;
- time saving and money;
- better relations with stakeholders

Reduces
- financial risks
- probabilities of risks arising from projects
THANK YOU

Any Questions?

Emre Hatem

EmreHa@garanti.com.tr