

# Banking on Sustainability:

## *Risk Management and Growth Opportunities*

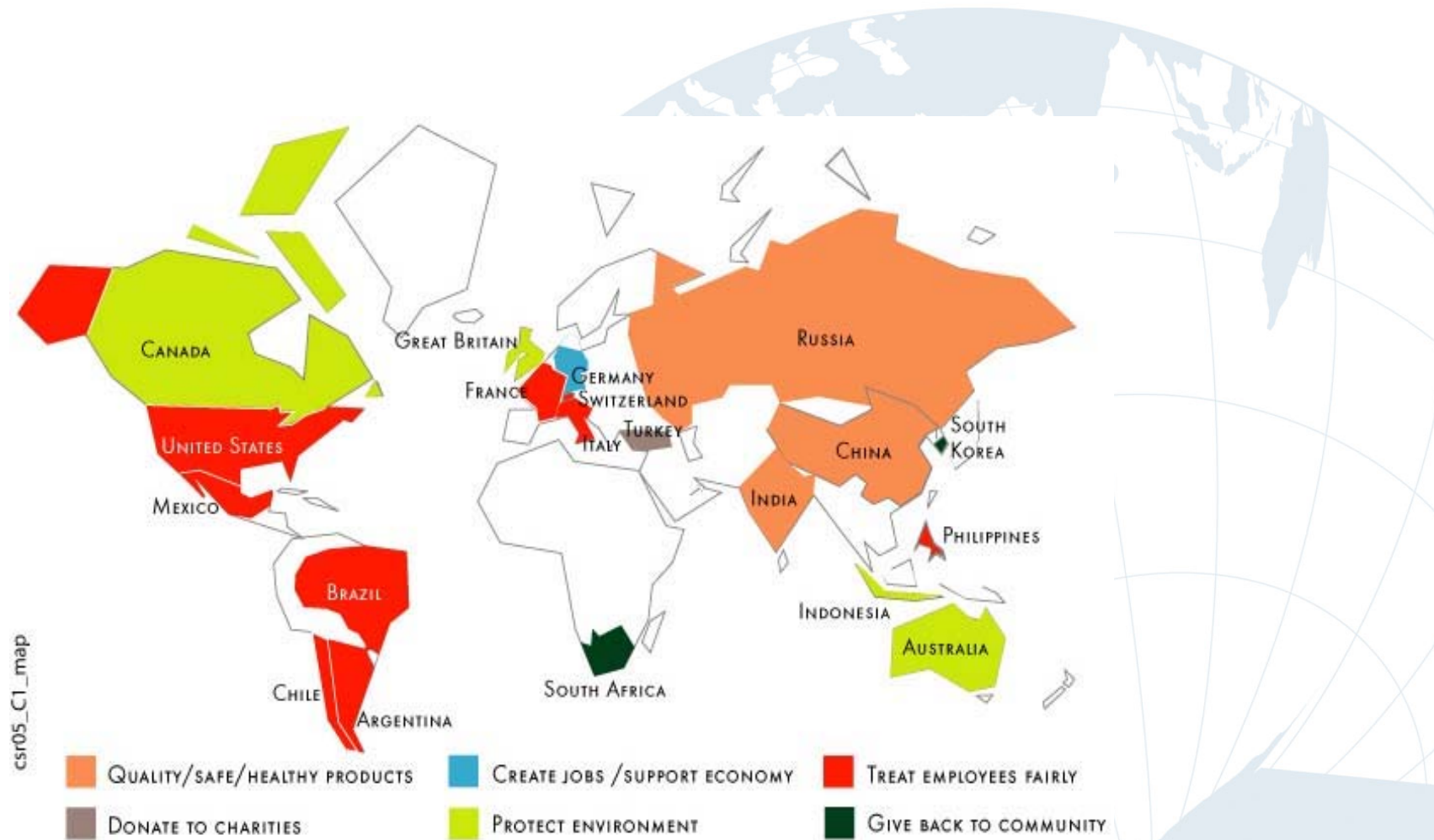
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January 30, 2008

# The Last Five Years - Big Picture

- Massive flows of cash both in developed and emerging markets fueling a world economic boom:
  - Relatively easy access to (cheap) finance
  - Many stock markets at their heights
  - Boosted prices of commodities, real estate, etc.
  - Record mergers and acquisitions
- Increased awareness among growing number of governments and societies on sustainability issues
  - Awareness is high in economies that are globally integrated
  - Effective NGO campaigns around the world
  - Distinct country differences are emerging

# Top Factors in a Company's Social Responsibility Focus



# Drivers of Sustainability in the Financial Sector

- Awareness that investment and trade create environmental and social risks
  - Harm to society and the environment
  - Harm to business
  - Harm to those who finance the business
    - Reputational risks
    - Nonperforming loans
  - More competition among financial institutions
  - Sustainability as market differentiator
  - Sustainability to drive new products, new business
- Risks and Opportunities as drivers

# New Initiatives on Sustainability

- IFC's standards providing a common international benchmark
- Equator Principles
- Convergence in E&S risk management approaches among public financial institutions
  - MFIs and BFIs, and now OECD Common Approaches for Export Credit Agencies
- Principles for Responsible Investment
- Socially Responsible Investment (SRI)
- Environmental or "green" financial products
  - Green credit cards; microfinance; energy efficiency loans. . . .

# SAMPLE BANKING PRODUCTS AND FINANCING MECHANISMS

## PROMOTING SUSTAINABILITY

OPPORTUNITIES	ENERGY EFFICIENCY	RENEWABLE ENERGY	CLEANER PRODUCTION	BIODIVERSITY CONSERVATION	SUPPORTING UNDERSERVED SOCIAL GROUPS
<b>PRODUCTS AND SERVICES ON THE DEPOSITORS' SIDE</b>					
				✓	✓
<b>PRODUCTS AND SERVICES ON THE BORROWERS' SIDE</b>					
LOANS with a sustainability focus	✓	✓	✓	✓	✓
LEASING with a sustainability focus	✓	✓	✓		
CARBON FINANCE	✓	✓	✓		
MICROCREDIT					✓
HOUSING FINANCE	✓				✓
SUSTAINABLE SUPPLY CHAIN FINANCE			✓	✓	
SECURITIZATION IN SUSTAINABLE AREAS		✓		✓	
ENVIRONMENTAL/ SOCIAL LIABILITY INSURANCE	✓	✓	✓	✓	
ADVISORY SERVICES	✓	✓	✓	✓	✓
COMMUNITY PROGRAMS				✓	✓



# IFC – A Decade of Experience in Managing E&S Risks

- Built its environmental and social sustainability policy framework over a decade
  - Sustainability Policy & Disclosure Policy
  - 8 Performance Standards
  - 56 sector-specific Environmental, Health and Safety Guidelines
  - Environmental and Social Review Procedure
  - Guidance Materials
- Management System and Quality Assurance
- Internal technical expertise
- Mainstreaming E&S issues in core operations

# The Equator Principles in a nutshell

- Environmental and social risk management framework for project finance
- Based on IFC's Performance Standards and Environmental, Health and Safety Guidelines
- First announced in June 2003 with ten banks
- Relunched as "EP2" in July 2006, referring to the new IFC standards
- Now 56 financial institutions, including 9 in emerging markets
  - Many EPFIs have taken Performance Standard training
- Around 86% of emerging markets cross-border project finance refers to Equator
  - Source: [Infrastructure Journal](#)



# Motivating Factors for Banks

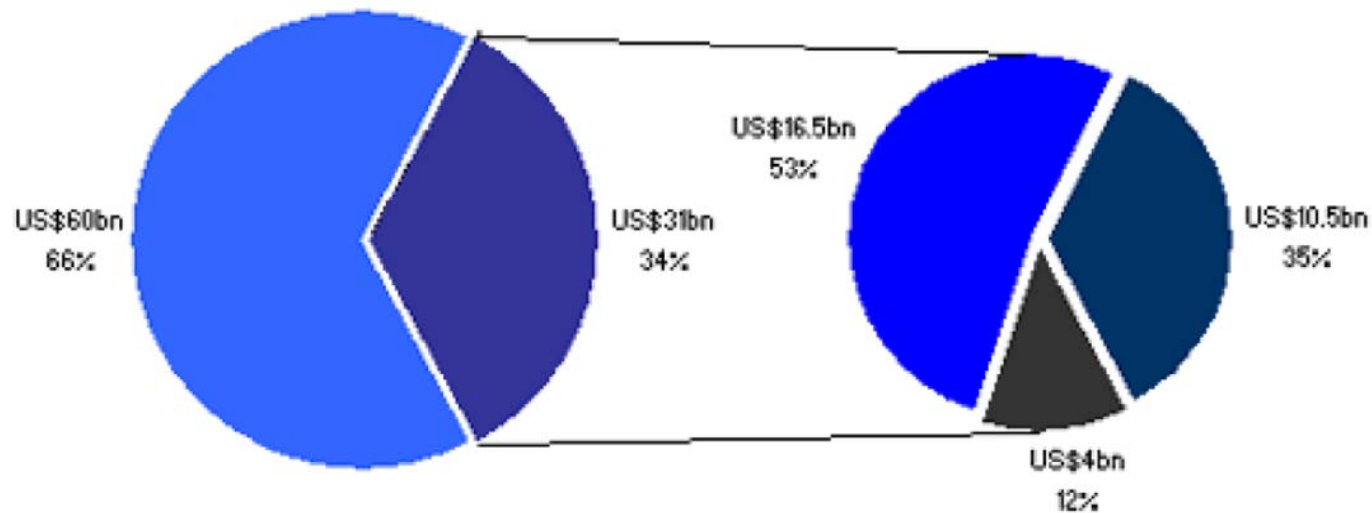
- Manage risks & protect reputation
- Create a level playing field among banks
- Realize efficiencies in large syndications
- Become a better banker and advisor to clients

# EP Benefits for Projects

- Consistent E&S requirements ensure predictability for developers
- Reduce the need for “loan-shopping” by developers based on E&S criteria
- Enable entire syndicate to claim Equator compliance
- Monitoring of projects over time expected to raise E&S performance of projects

# EPs in emerging markets

Equator Debt in Emerging Markets H2 2006



- High-income Countries
- Non-Equator
- Non-EPFIs in Equator Projects

- Non-OECD & non High Income OECD
- EPFIs

Source: Infrastructure Journal R&A

# Convergence of International Standards

- Multilaterals and bilaterals applying the IFC Standards or ensuring equivalence
- 32 export credit agencies from 28 OECD countries benchmark private sector projects against the IFC Standards
- MIGA applies the IFC Standards
- Also used by companies, investment funds, research firms
- IFC's global learning network: Community of Learning

# Broadening the Reach

- From project finance to other types of financing. . .
  - Corporate loans, trade financing, bond issues. . . .
- From lending to investing. . .
  - Investment screens in use by SRIs
  - PRI for institutional investors
- . . . To capital markets
  - BOVESPA Sustainability Index
  - India's first Sustainability Index launched yesterday
- Huge opportunities for innovation in emerging markets