In developed markets, the concept that environmental risk can critically affect the viability of investments is well understood. But in emerging markets, the appearance of a new set of global stakeholders presents both risks and opportunities for financiers.
FOREWORD

With support from the Japan/IFC Comprehensive Technical Assistance Trust Fund, IFC has developed a pioneering program designed to help its financial sector clients in emerging markets integrate environmental management techniques into their operating practices.

Drawing on the lessons of experience of these clients, the objective of this casebook is to examine emerging risks for the financial sector, outlining examples of strategic responses that have the potential to transform this risk into opportunity and documenting experience in implementing these initiatives successfully.

Letitia F. Lowe
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Table of Contents

1 INTRODUCTION .................................................. 5
2 THE NEW GEOGRAPHY OF RISK .................................. 9
3 THE EMERGING MARKET RESPONSE ............................. 25
4 LESSONS FROM THE FIELD: SUSTAINABILITY IN ACTION .... 45
5 CONCLUSIONS AND RECOMMENDATIONS .................. 57

ANNEXES
A) LIST OF BOXES, FIGURES AND TABLES .................. 65
B) SURVEY METHODOLOGY, QUESTIONNAIRE PRO-FORMA, UPTAKE OF ENVIRONMENT INITIATIVES ......... 69
C) LIST OF SITE VISITS ........................................ 79
D) CEA WORKSHOPS AND PARTICIPANTS .................... 83
E) REFERENCES, LINKS AND FURTHER INFORMATION SOURCES .......... 93
1. INTRODUCTION

“A successful bank can no longer just look at the commercial performance of a customer. It has to consider its broader performance in environmental and social issues.”

Roberto Dumas Damas
Banco BBA Creditanstalt, Brazil
Since mid-1997, as part of a two-phased program funded by the Japan/IFC Comprehensive Technical Assistance Trust Fund, IFC has collaborated with regional, multilateral and bilateral development banks in running the Competitive Environmental Advantage (CEA) workshop program. The workshops, part of a program designed to build environmental appraisal capacity in private financial institutions from developing and transitional economies, aim to equip participants to complete three tasks:

1. Assess the strategic rationale for environmental management for their financial institutions
2. Perform cost-effective environmental risk management of investments
3. Implement value-adding environmental techniques institution-wide

Since 1997, over 375 managers from 275 financial institutions and 45 nations have participated in the workshops, with institution types including commercial banking, project finance, leasing and private equity. Annex D provides details of the workshops held to date, together with a list of the participant institutions & partner development banks.

Under the second phase of the program IFC set out to complete three tasks:

- A website on environmental management for the financial sector
- Development of a Trainer’s Manual
- Publication of a casebook on environmental management in the emerging markets financial sector.

OBJECTIVES

This casebook, the first of its kind to focus exclusively on the emerging markets financial sector, aims to capture the lessons of experience of IFC’s participating institutions.

Chapter 1 provides background and summaries objectives.
Chapter 2 summarizes major sustainability-related business drivers for the financial sector.
Chapter 3 provides illustrative examples of leading financial institutions that have responded strategically to these business drivers, including examples from commercial banking, leasing, private equity and project financing institutions.
Chapter 4 examines good practice in implementing a cost-effective management system to respond to these risks and opportunities.
Chapter 5 presents summary conclusions and a series of recommendations.

Chapter 8
What is the relevance of sustainability to the emerging markets financial sector?

METHODOLOGY

For this casebook IFC used a three-part approach designed to capture the experiences and expertise of the workshop participants:

- IFC conducted a series of in-depth interviews with senior management participants of the CEA workshops.
- IFC conducted a detailed questionnaire survey of a representative sample of 60 institutions from different regions.
- In addition, IFC reviewed current best practice among institutions in the international financial sector.

Annex B presents a more detailed review of the methodology.
THE SIGNIFICANCE OF ENVIRONMENTAL AND SOCIAL ISSUES FOR FINANCIAL INSTITUTIONS HAS, IN GENERAL, BEEN CONSIDERED LIMITED.

WHAT IS THE RELEVANCE OF ENVIRONMENT TO BANKS?

The emerging markets financial sector faces a growing number of competitive pressures; from economic integration to the rise of technology-enabled banks and non-bank competition (See Figure 2.1, left).

What is the relevance of environmental and social factors to the performance of a financial institution?

The significance of environmental and social issues for financial institutions has, in general, been considered limited. In a number of developed countries, where banks have been held directly liable for the clean up of contaminated collateral, environmental due diligence has begun to form a routine part of the due diligence process.

Direct Legal Liabilities

Between 1986 and 1996, a number of court rulings and well-publicized cases on environmental damage widened the focus of lenders: not only towards concern for pre-existing conditions on properties on which they foreclosed, but also onto their capacity to exercise influence on the daily operations of the company concerned. Box 2.1, left, summarizes a range of direct liabilities for financial institutions.

Source: Furrer, “Increasing a Company’s Value Through Environmental Management.”

BOX 2.1
SUMMARY OF FORMS OF DIRECT LIABILITY FOR FINANCIAL INSTITUTIONS

Liability for the clean up of any contaminated collateral (for example, asbestos, heavy metals, polybrominated biphenyls).

Liability for misrepresentation of environmental risks (e.g. if co-financing).

Liability for negligence in any failure to assess actual and potential environmental risks.

Direct liability if the financial institution is a principal, general partner or owner.
The Emergence of Indirect Liabilities

Are these legal liabilities also the prime risk drivers for emerging markets? To address the topic, IFC’s survey requested 65 emerging market institutions to identify what they considered to be the most significant sources of environmental risk both for their clients and for their own institutions directly. The results suggest evidence of a significantly different risk profile for emerging markets.

Survey Results: New Stakeholders

Figure 2.2, right, summarizes the most significant sources of environmental risk that institutions identified for their clients. The survey showed that all the respondents in the four groups identified the existence of significant risk drivers for their emerging market clients. While government is identified still as the key risk driver, new stakeholders have emerged. In particular, 58% of respondents cited the influence of export market regulators as a key risk driver for their customer base.

An example includes the past 5 years, the imposition of environmental standards requirements has been widely perceived as the major driver in a number of Asian export-dependent markets, particularly consumer electronic related. This appears to have been one of the main reasons for the rapid uptake of industry environmental management systems certified to the internationally recognized ISO14001 standard.

Summary of findings: A Range of Risk Drivers

Overall, the enforcement of national and export market regulations was the most frequently identified source of environmental risk for client organizations. Risk drivers were found to vary significantly according to the client base. For those institutions financing export-oriented industries the key risk driver to clients was identified as the loss of markets. Other major risks identified included the following: shutdown/fines, reputational risk, protests over critical resources and, loss of financing.

Risk of shutdown/fines was also identified as a key risk for infrastructure clients and domestic general manufacturing along with reputational risk, protests over critical resources and loss of market.

Primary sources of risk were found to vary according to the type of financial institution surveyed. Figures 2.3-2.7, pgs. 12-14, present the results for institutions that are financing sectors which subdivided into the following categories: a) export-oriented industries, b) infrastructure, c) domestic general manufacturing, d) high-tech industries and e) extractive industries.

FIGURE 2.2
SIGNIFICANT SOURCES OF ENVIRONMENTAL RISKS for clients identified by all financing institutions

FIGURE 2.3
EXPORT-ORIENTED INDUSTRIES

FIGURE 2.4
INFRASTRUCTURE

FIGURE 2.5
DOMESTIC GENERAL MANUFACTURING

FIGURE 2.6
DEFENCE INDUSTRIES

FIGURE 2.7
EXTRACTION INDUSTRIES
Beyond Risk

For general manufacturing, the primary risk driver was identified as export market regulation. After government and export market regulators: the risk of community action, the potential for adverse publicity in the media and possible action from financiers ranged among the top five overall risk drivers.

THE CHANGING GEOGRAPHY OF RISK

Several conclusions can be drawn from these results. Conventional wisdom suggests that environmental risk derives from the enforcement of national legislation with resultant civil and criminal penalties. Government, therefore, is held to be the key risk driver and where local or national government does not have the resources to enforce environmental regulation, there is thought to be no risk.

BEYOND COMPLIANCE

A more complex reality appears to be emerging. A decade ago, information was accessible by only parts of the international community. Distance separated a company with a poor environmental track record, or a proposed project with potentially significant environmental impacts, from key national and international stakeholders. But changes in information technology, including the growth in internet and fixed and cell phone usage appear to have lessened that distance.

The two Figures 2.8 and 2.9, left, show changes in international connectivity between 1991–1997.

Connectivity

New technology has enabled the rapid international flow of communications and in the process has begun to empower previously disenfranchised individuals and their spokespersons. In particular three changes have occurred:

I Stakeholders can readily acquire information about the impact on environmental resources.
I Stakeholders have a low-risk means of preparing a coordinated international response to these impacts.
I Finally, they have a cost-effective means to implement these campaigns.

Driven by this reduction of distance, a trend is emerging. A networked economy is developing in which governmental and non-government regulators can pose risks to a company’s operations at a number of stages in the business cycle, translating value reduction at the individual level into value reduction at the level of the firm.
Beyond Risk

These risks are presented in Figure 2.10, right.

In this networked economy, corporate performance depends not solely on regulatory compliance, but on the ability to understand and satisfy the expectations of a wide range of stakeholder groups. RISKS FOR THE EMERGING MARKETS FINANCIAL SECTOR

Having explored the changing demands on companies, drivers for these changes and the potential for company operations to be affected by the scrutiny from stakeholders, the survey asked participants to identify major sources of environmental risk for their financial institution. Figure 2.11, pg. 17, presents an overview of the responses. Overall, the prime risk was identified as non-performing assets. A number of other issues were also identified as significant, again varying by institutional type. Key risks identified include the following: devalued collateral, reputational risk and loss of international financial institution funding.

CONCLUSIONS: EMERGING MARKETS ENVIRONMENTAL RISK

The survey results suggest that the same change in the geography of risk that has affected their industrial client base is also beginning to affect the financial sector. Stakeholders that have the potential to affect the performance of financial institutions are beginning to emerge, adding environmental risk to the range of identified business risks, from interest rate risk, currency risk, and legal risk to operational risk.

Traditionally, where the primary environmental risk drivers for financial institutions have been restricted to the threat of direct legal risks, these new stakeholders, active in developed and emerging markets alike, are posing a wider range of indirect risks. If a bank borrower violates labor laws, that borrower can be penalized in ways that cause it to close down its operations. The borrower then goes into default and the bank is left with a non-performing loan. If an industry faces a sector-wide boycott or regulation, multiple companies in that industry can default on their loans, creating large losses for individual banks and the banking system. Allegations of poor corporate governance can undermine the reputational assets of the institution.

FIGURE 2.10
DRIVERS OF ENVIRONMENTAL RISK ACROSS THE CORPORATE VALUE CHAIN

SALES AND DISTRIBUTION

CONSUMER BOYCOTT
- Entry of substitute product
- Product liabilities
- Product replacement

MANUFACTURING

LABOR RECRUITMENT, RETENTION
- Productivity
- Unions or sabotage
- Start-down
- Fines, penalties
- Compensation for health
- Operating liabilities

AVAILABILITY OF WATER SUPPLY
- Raw materials access
- Raw materials price
- Retail regulation

PERMITTING DELAY OR REJECTION
- Insurance access or cost
- Construction delay
- Contract lost
- Labor supply
- Contract terms
- Infrastructure obligation
- Cost of capital access

Non-performing loans/leases/investments
Devalued collateral
Reputational risk/Pegging penalties
Loss of IFI funding
Reduced access to provision/alternative capital
Liability for cleanup of contaminated collateral
Cost or criminal liability for negligence
Increased central banks/MOF regulation
Loss of depositors
Other

FIGURE 2.11
ENVIRONMENTAL RISKS FOR FINANCIAL INSTITUTIONS

CONCLUSIONS: EMERGING MARKETS ENVIRONMENTAL RISK

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Indirect environmental and social risks, then, can affect a financial institution’s performance at three levels: at the level of the single non-performing loan, at the level of multiple non-performing loans, and at the level of operating license, driven by reputational risk.

**LEVEL 1: SINGLE NON-PERFORMING LOAN (NPL)**

At the level of the single non-performing loan, the operations of these diverse stakeholders have the potential to cause loan defaults across the manufacturing cycle of portfolio companies. Clearly, these impacts on portfolio companies may pose a risk of increased costs for a financial institution. However, the probability of these risks occurring during the lifetime of a short-term loan is relatively small. In addition, a number of factors may lower the risk of default:

- The company may have insurance.
- Debt service coverage ratios may be unaffected and payments may proceed on time.
- The financial institution may have collateral that is unaffected by environmental stigma.

More significant for the financial institution though is the potential for multiple non-performing loans.

**LEVEL 2: MULTIPLE NON-PERFORMING LOANS**

New stakeholders have the potential to cause not just single NPLs but multiple NPLs within a bank’s portfolio. A growing trend is for an industry sector to become the target of a coordinated campaign involving NGOs, consumers and the media. When these stakeholders act, they can affect numerous companies within the sector at once. These campaigns have the potential to result in a pattern of defaults, horizontally across the portfolio.

Key drivers of multiple NPL include the following:

- Government regulators may respond by invoking a change to regulations that can lead to a virtual closure of the sector, or the alternative of incurring prohibitive switching costs.
- Export market regulators may impose restrictions.
- NGOs may lead national or international product boycotts.
- Consumers may lead product or corporate boycotts, or enter into sector-focused class action lawsuits.
- In addition, NGOs, local communities and employees may adopt a project by project strategy that has the same effect of reducing the operating viability of multiple projects within a sector.

**LEVEL 3: REPUTATIONAL RISK**

Now stakeholders have the potential to cause not just single NPLs but multiple NPLs within a bank’s portfolio. A growing trend is for an industry sector to become the target of a coordinated campaign involving NGOs, consumers and the media. When these stakeholders act, they can affect numerous companies within the sector at once. These campaigns have the potential to result in a pattern of defaults, horizontally across the portfolio.

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**FIGURE 2.12**

**RISK TO THE EMERGING MARKETS FINANCIAL SECTOR**

**FIGURE 2.13**

**THE RISK MANAGEMENT GAP**

**BOX 2.2**

**FINANCIAL COSTS OF ENVIRONMENTAL NON-PERFORMANCE**

- Decreased quality of assets
- Increased need for provisioning
- Reduced capital adequacy
- Increased cost of funds
- Reduced liquidity
- Reduced profitability
- Reduced rating

**FIGURE 2.13**

**THE RISK MANAGEMENT GAP**
### LEVEL 3: REPUTATIONAL RISK

For deposit-taking financial institutions, reputation and brand image are of critical importance. In particular, a deposit-taking commercial bank’s operations are built on a borrower-lender relationship that depends on trust. Deposition failure that the bank has a critical mass of deposits to smooth over potential asset-liability mismatches. Mass trust among consumer base. Depositor belief that the bank has a dependable institution, with ethically sound corporate governance in its dealings with depositors and other stakeholders. Positioning the bank as a dependable institution, with ethically sound corporate governance in its dealings with depositors and other stakeholders.

#### Box 2.3

**PERFORMANCE SIGNALS**

- **HIGH QUALITY BRAND SIGNAL**
  - Customer satisfaction
  - Quality metrics and management
  - Positioning for long-term
  - Trustworthiness

- **LOW QUALITY BRAND SIGNAL**
  - Reputation
  - Manipulation of market perceptions
  - Lack of management capacity
  - Lack of resources
  - Short-sightedly
  - Untrustworthy

### Box 2.4

**OPPORTUNITIES FOR FINANCIAL INSTITUTIONS**

- Attracting improved terms of insurance
- Providing eco-efficiency and cleaner production advisory services to SME
- Providing loans for environmental projects
- Accessing SRI/Ethical investment funds
- Providing loans for environmental projects
- Accessing international funding
- Gaining market share in the growing environmental products sector
- Gaining market share in environmentally and socially complex sectors by providing high value consulting services that enable clients to manage complex social and environmental issues such as resettlement, supply chain management, and community relations
- Gaining market share in the mid and small cap client base, offering advisory services that boost client business including energy efficiency audits, cleaner production assistance, and exporter market opportunities
- Securing longer term capital available from IFIs with environmental and social performance criteria
- Using reduced social and environmental risk as a means for business purposes, a company’s operations, through risk for the company, through to risk for the financial institution holding the warrants. These direct, portfolio and reputational risks combined have the potential to

### Figure 2.14

**SUSTAINABILITY OPPORTUNITIES**

- Accessing international funding
- Providing loans for environmental projects
- Providing eco-efficiency and cleaner production advisory services to small and mid-sized clients
- Accessing international funding
- Attracting improved terms of insurance
- Attracting new depositors
- Accessing ethical investment funds

### Figure 2.15

**OPPORTUNITIES FOR COMMERCIAL BANKS**

- Attracting new depositors
- Accessing ethical investment funds
- Providing loans for environmental projects
- Accessing international funding
- Gaining market share in the growing environmental products sector
- Gaining market share in environmentally and socially complex sectors by providing high value consulting services that enable clients to manage complex social and environmental issues such as resettlement, supply chain management, and community relations
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- Securing longer term capital available from IFIs with environmental and social performance criteria
- Using reduced social and environmental risk as a means for business purposes, a company’s operations, through risk for the company, through to risk for the financial institution holding the warrants. These direct, portfolio and reputational risks combined have the potential to

### Beyond Risk

- Resource-based conflict can cause multiple fatalities within multiple sectors, impacting wholesale, retail and individual accounts.
- Levels 1, 2, 3: Deleterious Risk
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- Positioning the bank as a dependable institution, with ethically sound corporate governance in its dealings with depositors and other stakeholders.

### Figure 2.13

**FIGURE 2.13 PERFORMANCE SIGNALS**

<table>
<thead>
<tr>
<th>System failure</th>
<th>Quality metrics and management</th>
<th>Positioning for long-term</th>
<th>Trustworthiness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reputation</td>
<td>Manipulation of market perceptions</td>
<td>Lack of management capacity</td>
<td>Lack of resources</td>
</tr>
<tr>
<td>Short-sightedly</td>
<td>Untrustworthy</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Sustainable Business

- Accessing international funding
- Providing loans for environmental projects
- Providing eco-efficiency and cleaner production advisory services to small and mid-sized clients
- Accessing international funding
- Attracting improved terms of insurance
- Attracting new depositors
- Accessing ethical investment funds
produce a range of costs for the institution—from direct liability to single NPLs to multiple NPLs and reputational risk (see Figure 2.13, pg. 19).

Significantly, from the credit risk perspective, as these losses escalate conventional risk assessment and management techniques provide less guidance.

CURRENT TRENDS

Is this risk likely to grow? A number of emerging trends for the financial sector suggest that the relevance of sustainability issues will continue to increase:

I The growth of socially responsible investment (SRI): A growing number of investors are now conducting negative or positive screens to ensure the social responsibility of their investments. Assets in socially screened investment portfolios rose by more than one-third from 1999 to 2001 to top the $2 trillion mark for the first time ever. This represents just over 10% of the $19.9 trillion in professionally managed investment assets in the U.S. SRI analysis now evaluates financial institutions on their environmental and social performance, potentially impacting on the access to capital for these institutions as well as their portfolio companies (see Figure 2.19, pg. 23).

I The emergence of the sustainability analyst industry: A growing number of institutions now offer an analysis of corporate and financial sector practice in terms of sustainability. In 2002, Friends, Ivory & Sime released a benchmark report evaluating the sustainability performance of leading international banks. Additional leaders in the field include Innovest, and Bank Sarasin.

I Sustainable indices: Both the Dow Jones Group (Dow Jones Sustainability Index) and the Financial Times (FTSE4Good index) have introduced sustainable indices to enable SRI investors to invest in corporations having a superior performance on environmental and social issues.

I Financial sector standards and codes of conduct: In parallel with the development of more robust methodologies to evaluate corporate performance, a number of codes of conduct for banks are emerging that set out good practice on sustainability. While there is still no widely acknowledged template, current codes include ISO 14000, FORGE and the UNEP Statement on Banking and the Environment.
Figure 2.14, pg. 21, summarizes the results for all respondents. Overall, the results indicate that access to international funding, providing loans for environmental projects, providing advisory services to SMEs and accessing ethical investment funds are considered the main opportunities. These opportunities varied significantly by institution type. Figures 2.15–2.18, pgs. 21–23, present the results from commercial banks, leasing, project finance, and private equity institutions.

Key conclusions include the following:
1. Overall, the main opportunity identified by all institutions was access to IFI funding. Providing loans for environmental projects was seen as a key opportunity for project finance institutions and commercial banks.
2. For project finance institutions, providing risk management services to high-risk industries also featured highly along with provision of eco-efficiency and cleaner production services.
3. For private equity, accessing ethical investment was rated highly.

NGO and media campaigns: A number of NGOs are now directing coordinated campaigns towards the financial sector. Key drivers of recent campaigns include Friends of the Earth, the National Wildlife Federation, and Million Defense.

International Financing Institutions (IFI) conditions: Finally there is increasing demand from IFIs for the financial institutions they invest in to implement management systems that ensure the environmental performance of their portfolios. The procedures of these IFIs prohibit investment in institutions without adequate environmental management systems. IFIs actively addressing this through training and capacity building include IFC, IIC, Proparco, Cofes, EBRD, DEG, FMO, ADB, AfDB and CDC.

At the same time, a number of leading financial institutions are beginning to translate these risks into opportunity, by transforming these stakeholders from drivers of risk to drivers of reward. In the survey, the financial institutions were asked to identify what they consider to be the major environment-related opportunities for their business. Key opportunities identified are highlighted below.
To measure participants’ progress in implementing environmental change, IFC’s survey sought first of all to create a baseline of environmental management before the workshops.

Institutions were asked whether, prior to the CEA workshop, they had a formal management system in place to address the issue of environmental risk when considering investments/lending. Figure 3.1, left, summarises the results.

Overall, 22% of institutions surveyed reported that they had a formal procedure for environmental management before IFC’s workshop, with results varying slightly between commercial banks, private equity groups, leasing companies and project finance institutions.

IFC’s survey also asked institutions to identify enhancements they had made to their environmental and social management capability after the workshop. Figure 3.2, left, presents the overall findings of the survey.

100% of respondents reported that they had implemented measures to enhance their environmental and social management capability after the workshop.
Despite the possibility of selection and reporting bias, the results show significant uptake at the institutional level. The critical question, however, is the business value of the initiatives implemented. To explore the link between sustainability initiatives and business value, IFC carried out four more detailed case studies, aiming for representation across financial institution type and geographical region. Table 3.1, right, presents the four case studies by institution type and location. These case studies address the following questions:

- What is the institutional background?
- What initiatives did the institution implement?
- What are the business benefits?
- What are the lessons learned?

CASE 1: PROJECT FINANCE

CASE EXAMPLE: INFRASTRUCTURE LEASING AND FINANCIAL SERVICES LIMITED (IL&FS)

“The key issue now is moving beyond compliance towards the management of real social and environmental risks.”

Background
Infrastructure Leasing and Financial Services Limited (IL&FS) was incorporated in India in 1987 and is one of the country’s top non-banking financial companies. Initial shareholders were the Central Bank of India, Unit Trust of India, and Housing Development Finance Corporation Ltd. IL&FS has offices in Bangalore, Delhi, and Chennai where the organization provides asset management and retail operations services in the areas of commercialization of infrastructure projects and financial services.

Key risk drivers for IL&FS clients
Operating in the environmentally and socially complex Indian market, IL&FS identifies a number of potential sustainability driven risks for its client base. Key risk drivers for clients include the following:

- Export market regulators: Loss of markets, particularly the US and EU, for example, an industrial water supply project supplying export industries. Should these industries lose export market potential, this in turn would have a negative impact on the water supply project.
- Media: reputational risk
- International NGOs: issue-based campaigns
- Customers: loss of market share
- Government: shutdown, fines
- Community protest; user impacts on critical resources

Continued on page 30

CASE 1: PROJECT FINANCE
LESSONS LEARNED

The IL&FS case reveals a number of lessons for project finance institutions:

- For project finance clients, there is a critical need for assistance in managing these issues.

- The local consultant market does not fulfill this need.

- Banks can use their cross-sectoral risk management expertise to help clients address these needs.

- Financial institutions, and their clients, can have a range of national and international stakeholders. These various stakeholders can have different and sometimes conflicting performance standards that require extensive negotiation to resolve.

- The presence of a full-time manager can have a major impact on institutional uptake.
Consulting services represent a cost-effective way of establishing ability to handle complex projects.

The presence of a full time manager can have a major positive impact on institutional uptake.

For project finance institutions, this can be a significant selling point, enabling the institution to win mandates for more complex transactions.

The environmental management capacity that IL&FS has acquired has the potential to generate significant business benefits for the institution (see Box 3.1, pg. 31).

**BOX 3.1**

**PROJECT FINANCE OPPORTUNITIES**

**CASE 1 Continued**

The Emerging Market Response

Beyond Risk

Environmental risk management services

Since 1994 IL&FS environment and social issues were the responsibility of a part-time finance/project executive, helped by external consultants. In 1994 IFC provided introductory environmental risk management training in Bombay, followed by a workshop on environmental risk management in 1997. During 1996 IL&FS drew on a line of credit to fund private sector infrastructure projects. As part of the IFC requirements, in 1994 IL&FS developed and then adapted The ESR defined the environment and social policy framework for project development and implementation. In 1995, an in-house environmental and social management group (ESMG) was constituted to implement ESR requirements for all projects and investments. After successfully meeting the IFC requirements for the ESMG, IL&FS adopted the ESR in 2001. IL&FS is now a wholly-owned company—Ecosmart India Ltd (Ecosmart).

The expertise built-up by the ESMG is domiciled in the new company. Apart from providing environmental and social management services to IL&FS investments, Ecosmart provides strategic services to various external businesses including infrastructure projects. IL&FS has also undertaken a range of additional services as part of its environmental management activities.

**Additional IL&FS Initiatives following the ESR**

- Communications to clients and media events
- Rejecting projects with adverse environmental issues
- Working with clients to manage environmental impacts
- Hiring of internal environmental consultant staff
- Development of environmental and social procedures
- External reporting of EMS
- Experience sharing with other financial institutions

**Barriers for IL&FS**

IL&FS faced two key challenges in implementing its management system. Initially the lack of consulting expertise proved a major obstacle, but Ecosmart capitalized on this lack of skills and then entered the wider market. Furthermore, the varying policies and standards of different national and international stakeholders when handling the complex environmental and social issues of India, presented an additional hurdle. IL&FS stresses that case studies are needed to highlight the typical differences in IFC/WB policies compared with those of some developing countries, and to provide guidance on how to handle this conflict.

On the issue of barriers to implementation, IL&FS’s Vijay Joshi comments, “I strongly feel that we have overcome all the above barriers over the past 6 years. But the major constraint is the recognition of value of environmental and social risk mitigation by implementing an EMS is not, by and large, recognized by various stakeholders, including government agencies.”

**Results for ILFS**

Sustainability also provides a number of potential opportunities:

- Accessing IFI funding
- Providing loans for environmental projects
- Providing risk management services through Ecosmart to high-risk industrial sectors
- Cross-promoting IL&FS financing for Ecosmart clients
- Providing energy and cleaner production advisory services to small and mid-sized clients
- Activating improved terms of insurance
- Accessing ethical investment funds
- Identifying funding/financing opportunities in environmental improvement projects

**BAR R I T E R S FOR I L F S**

**BOX 3.1 PROJECT FINANCE OPPORTUNITIES**

**SUSTAINABILITY DRIVEN OPPORTUNITIES**

- Win new project finance business
- Lead and manage new complex transactions
- Gain access to high asset quality clients
- Develop fee-generating advisory services
- Successfully complete complex deals as a result of social and environmental due diligence

Results for ILFS

Sustainability also provides a number of potential opportunities:
IFIs provide a strong incentive for environmental performance. Positively, financial institutions are able to withhold funding at tenors critical to whole-mental credit line. Most significantly, IFIs can withhold funding from BNDES’s environmental conditions for environmental management and as a result was able to access the BNDES environment financing. BBA’s strategy as a bank is one of cost-effective risk management. BBA was also able to access more than US$100 million of additional funding from other multilateral agencies with environmental screening (including DEG, EIB, and FMO).

Key initiatives:

Following the CDA workshop, BBA has undertaken a number of initiatives to ensure environmental performance.

- Report to directors on environmental risks/opportunities
- Communication to client and media events
- Updating the operating policy of the institution
- Working with clients to manage environmental impacts
- Development of environmental guidelines
- Environmental reporting of EMS
- Training of internal staff
- Promoting environmental loans

Business benefits of EMS to BBA

- Lower credit risks. BBA has identified a number of sustainability-driven risks for its client base:
  - Multi-collateral risk
  - Customer loss of market share
  - Government default risk
  - Fiduciary loss of financing

Key risks for clients

In addition, BBA identifies potential sustainability-driven risks for commercial investment banks operating in Brazil:

- Non-performing loans/leases/tenants on environmental risks
- Loss of IFIs backing
- Reputation/risks to public opinion
- Liability for, fines, fees, and contaminated property/collateral
- Derailed service!

Implementation

In response to these risks, two BBA staff attended the CDA workshop in Washington. BBA has since established a comprehensive environmental management system, the primary objectives of which is to focus on environmental management that is environmentally sustainable, minimizing exposure to companies with poor environmental practices and facilitating access to multilateral and bilateral capital.

Key initiatives:

Following the CDA workshop, BBA has undertaken a number of initiatives to ensure environmental performance:

- Implementation

Key lessons in terms of implementation include the following:

1. Involve the key staff of the bank within the process.
2. Structure how environmental issues can lead to credit risks.
3. Establish clearly the roles and responsibilities of relevant staff members within the process.
4. Identify some projects that went wrong environmentally and the impacts suffered by the funding providers.
5. Bring environmental issues to the credit committee.
6. Follow environmental issues within approved projects through external consultancy.

**Case 2: Commercial Investment Banking**

**Case Example: Banco BBA Creditanstalt (BBA), Brazil**

Over the last few years, it has become increasingly clear that environmental perfor-
Case Example: Tuninvest Finance Group (Tuninvest)

Background
Tuninvest Finance Group, established in 1994, is the leading private equity and corporate finance firm in North Africa, with teams covering Tunisia, Morocco and Algeria. Tuninvest’s corporate finance team has expertise in mergers and acquisitions, privatization, leveraged buy-outs, initial public offering, and debt restructuring. Tuninvest is currently managing five funds totaling about USD 60 million with a diversified portfolio and a hands-on approach. Tuninvest seeks a 4 to 7 year holding period before exit.

Key risks to portfolio companies
Tunisia is a signatory to all the international environment conventions and has signed a free trade agreement with the EU. Tunisia’s environment regulations are based on EU guidelines, with environmental impact studies required for new projects and extensions. No project can be implemented without the go-ahead of the national environmental protection agency (ANPE).

Key risks to private equity groups
Most of Tuninvest’s exits have been and are planned to be through sales to strategic investors, usually from Europe. Compliance of investee companies with international and local environmental guidelines is an important factor in the company’s evaluation. This also affects the amount of the limited-term guarantee that Tuninvest will provide as sellers to the new owners to cover any future liability that could arise and that is related to the pre-exit period.

Implementation
Four members of Tuninvest staff attended the CEA workshops in Washington, Istanbul and Johannesburg. Following the workshops the company began the process of establishing an environmental management system. In July 1998, in collaboration with the IFC and SmArtConsult, a local environment consultancy, Tuninvest formalized its EMS.

Business benefits of EMS to Tuninvest
For the investee companies, having an EMS in place improved bargaining power with potential acquirers. This was the case in several examples of deals in Sweden (SOTUPA/SCA) and France (Interchem/CEVA).

Tuninvest’s environmental services have enabled the organization to add value to a number of portfolio companies. The cases of SOPAT and Vitalait (a milk producer) illustrate cost savings through improved productivity. The SOPAT slaughterhouse used water inefficiently in the process and managed to optimize the use of water, with substantial savings. Vitalait also managed to reduce the quantity of water used in the process and began recycling it for reuse.

Case 2 Continued

Case 3: Private Equity Lessons Learned
Key lessons of experience from Tuninvest for private equity groups include the following:

1. Undertake the environmental assessment during the due diligence necessary for making investment decisions.
2. Today, environmental assessment is a part of the investment proposal.
3. For export strategy purposes, do not assess compliance with local regulations alone. Aim, whenever possible, to comply with European and international standards.
4. Consider also the informal requirements imposed by key stakeholders, including the workforce, customers and neighborhood of the company.

Avoid projects with complex environmental issues where there is a high cost to bring them up to standard or where management is unaware of environmental issues and is not willing to change its stance.
BOX 3.4  
UPSIDE OPPORTUNITIES FOR PORTFOLIO COMPANIES

- Access to SRI funding
- Access to IFI funding
- Increased margins through process efficiency
- Access to new markets
- Enhanced branding
- Enhanced sales

SUSTAINABILITY DRIVEN OPPORTUNITIES

- Access to SRI funding
- Access to IFI funding
- Reflecting environmental risk in reduced portfolio company purchase price
- Reflecting superior environmental and social performance in enhanced liquidity and pricing of portfolio companies

BOX 3.3  
DOWNSIDE RISKS FOR PRIVATE EQUITY

- Reduced valuation through environmental stigma
- IPO brand impacts
- Trade sale stigma
- Incomplete warranties concerning contingent liabilities
- Liability for misrepresentation
- Liability for negligence
- Reputational risk for limited partners
- Directors liability
- Criminal liability

CASE 3 Continued

- Introduction of environmental covenants within shareholder agreements.
- Following investment, initiate a program with company management to deal with any major corrective actions, and review regularly (one internal review every six months and once a year by an external expert for verification).
- Inform all members of the fund management team of any significant environmental issues.
- Book any available financial subsidies, as there are many subsidized credit lines available, for example for water treatment units.
- Even though it is necessary for the investment officer to be knowledgeable of EMS and environmental issues, it proved beneficial having an external expert to follow and review the internally prepared EMS.
- Schedule training for both internal staff and the management of portfolio companies.

BOX 3.5  
UPSIDE OPPORTUNITIES FOR PRIVATE EQUITY GROUPS

- Access to SRI funding
- Access to IFI funding
- Increased margins through process efficiency
- Access to new markets
- Enhanced branding
- Enhanced sales

SUSTAINABILITY DRIVEN OPPORTUNITIES

The Emerging Market Response

Beyond Risk

Sustainability-driven risks can impact private equity groups directly. Key risks for private equity (see Box 3.3, pg. 36).

At the same time, sustainability provides a number of opportunities to add value at the level of the portfolio company. Value-driven opportunities (see Box 3.6, pg. 37).

Additionally, sustainability may add value at the level of the fund itself. Core opportunities for the fund (see Box 3.5, pg. 37).
As a result of these factors, the delivery of energy efficiency improvements has taken place slowly in the private sector. Energy efficiency in Hungary is still lower than in the EU27 countries, with opportunities existing across a range of sectors, ranging from the commercial household sector to the publicly owned sector including central government and local municipalities.

Raiffeisen Bank was established at Unicredit in December 1991, concurrently with the establishment of the two-tier banking system in Hungary. At the same time, Raiffeisen Bank was established in Hungary in 1999. The bank was interested in exploring the strategically important Small and Medium Sized Enterprises (SME) sector, a sector that was underserved by the major commercial banks, and where the margins reflected reduced competition compared to large corporate clients.

IFC, through the Global Environment Facility (GEF), offered guarantee funding as a pilot project for managing the risks associated with the loan to the bank to mitigate the risks associated with the loan to the bank. IFC also worked with Raiffeisen to structure the project to mitigate the risks associated with the loan to the bank.

In year 3, the bank began financing a number of projects without IFC guarantee, judging that it had built a strong client base and a proven ability to manage risks associated with the loan to the bank.

The project’s commercial success resulted in a number of banks following Raiffeisen into the sector, as well as IFC investing an additional $12 million from its own account into the Hungarian Guarantee Fund to further support energy efficiency investments.

Table 3, p. 41, presents a summary of current Raiffeisen portfolio projects and transaction size across a range of client segments.
Although they may appear to be the least likely to have the time or money to focus on business performance, the reality is that this group is likely to gain the most from environmental performance enhancement, as many SMEs use outdated and resource-inefficient technologies.

These SMEs, therefore, present opportunities to increase efficiency and reduce costs through cleaner production, productivity improvements, access to premium export markets and management system design.

**TABLE 3.2**

<table>
<thead>
<tr>
<th>PROJECT TYPE</th>
<th>TRANSACTION SIZE (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospital gas-fired heating system</td>
<td>115,707</td>
</tr>
<tr>
<td>Hospital heating project</td>
<td>518,369</td>
</tr>
<tr>
<td>Hotel heating gas heating system</td>
<td>10,745</td>
</tr>
<tr>
<td>Hotel posting plant fuel boiler system</td>
<td>175,260</td>
</tr>
<tr>
<td>Industrial region gas heating system</td>
<td>60,903</td>
</tr>
<tr>
<td>Street lighting projects (21)</td>
<td>276,258</td>
</tr>
<tr>
<td>Block house window changing</td>
<td>114,078</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>2,154,219</strong></td>
</tr>
</tbody>
</table>

**FIGURE 3.3**

**DRIVERS FOR SME BUSINESS**

**PUSH FACTORS**
- Growth of Bond Market
- Increased IPOs
- Internet Banking
- Loss of second tier market
- Margins reductions
- Global financial market

**PULL FACTORS**
- Retail market size
- Growth rate of market
- Local knowledge
- Under-served segments

**FIGURE 3.4**

**EVOLUTION OF BEST PRACTICE**

**COMPETITIVE ADVANTAGE**
- Environmental Value-Added

**RISK MANAGEMENT FAILURE**
- Environmental Compliance Procedures

**RISK ASSESSMENT FAILURE**
- Financial Compliance Procedures

**The SME Market**

SME clients form a key market segment. As Figure 3.3, right, presents, a number of factors are increasing the strategic importance of the SME market for commercial banks and leasing companies.

To what extent can sustainability enable a financial institution to boost market share in this strategically important segment? Conventional wisdom assumes that SMEs have no time or money to concern themselves with environmental issues. Typical SME characteristics include the following: that they are undercapitalized, facing global competitive threats, using antiquated, resource inefficient technologies, and operating in areas with lower enforcement levels of environmental regulations.
The Emerging Market Response

Providing these services can generate business benefits for the leasing company. Key business drivers include the following:

- Develop new SME business
- Cross-sell existing products to supply and distribution chain
- Deliver environmental product extensions
- Reduce client marketing costs
- Increase inter-client referrals
- Increase intra-client referrals
- Build low cost 'word of mouth' marketing addressing corporate and individual accounts
- Build media campaigns

CASE STUDY CONCLUSIONS: FROM COMPLIANCE TO VALUE-ADDED

The four cases above provide examples of financial institutions not only performing comprehensive financial and environmental due diligence, but complementing it by offering their clients a range of sustainability-based products and services that address the clients' business needs. These cases, then, suggest an evolution in approach: from financial compliance—where client creditworthiness is assessed primarily as a function of the balance sheet, through environmental compliance—where the institution imposes environmental conditions to secure client compliance and, to sustainability—where the financial institution ensures compliance as a core part of risk management. This approach also delivers environmental value-added to clients in a way that enhances its competitive position (see Figures 3.4, pg. 41). To what extent is the market capitalizing on these opportunities? Table 3.3, left, provides examples of current good practice in terms of sustainability initiatives that can increase business volume, increase business margins or enhance the long-term franchise of the institution.

**SUSTAINABILITY AS A BUSINESS DRIVER—ILLUSTRATIVE EXAMPLES**

<table>
<thead>
<tr>
<th>BUSINESS OBJECTIVE</th>
<th>BUSINESS DRIVER</th>
<th>GOOD PRACTICE EXAMPLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing business volume</td>
<td>Winning mandates for complex projects</td>
<td>U &amp; F, EDF</td>
</tr>
<tr>
<td></td>
<td>Bonding laws to SME clients</td>
<td>Banco Creditino, Banco Real</td>
</tr>
<tr>
<td></td>
<td>Winning microfinance market share</td>
<td>Banco Real, Citibank</td>
</tr>
<tr>
<td></td>
<td>Reducing environmental credit risk provision through quality process</td>
<td>Greenbank, Cooperation Bank</td>
</tr>
<tr>
<td></td>
<td>Offering finance to sustainable business</td>
<td>Triple Core, Total, GOV, IFAD</td>
</tr>
<tr>
<td></td>
<td>Increasing margins</td>
<td>Reducing environmental credits risk provision through quality process</td>
</tr>
<tr>
<td></td>
<td>Bonding fee-based advisory services</td>
<td>Triodos, S &amp; P, BB</td>
</tr>
<tr>
<td></td>
<td>Building long-term competitive position</td>
<td>Getting access to SRI finance</td>
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</table>

**TABLE 3.3**

**SUSTAINABILITY PRODUCTS**

- Environmental management systems
- Cleaner production audits
- Energy efficiency audits
- Energy efficiency products

**SME BUSINESS NEEDS**

- Revenue growth
- Decreased operating costs (labor, inputs, waste disposal etc)
- Increased productivity
- Enhanced quality control
- Enhanced customer security
- Access to funding

**CASE STUDY CONCLUSIONS: FROM COMPLIANCE TO VALUE-ADDED**

The four cases above provide examples of financial institutions not only performing comprehensive financial and environmental due diligence, but complementing it by offering their clients a range of sustainability-based products and services that address the clients' business needs.

These cases, then, suggest an evolution in approach: from financial compliance—where client creditworthiness is assessed as a function of the balance sheet, through environmental compliance—where the institution imposes environmental conditions to secure client compliance and, to sustainability—where the financial institution ensures compliance as a core part of risk management. This approach also delivers environmental value-added to clients in a way that enhances its competitive position (see Figures 3.4, pg. 41).

To what extent is the market capitalizing on these opportunities? Table 3.3, left, provides examples of current good practice in terms of sustainability initiatives that can increase business volume, increase business margins or enhance the long-term franchise of the institution.

**SUSTAINABILITY AS A BUSINESS DRIVER**

While this list is not exhaustive, it exemplifies the potential for sustainability strategies to enhance the core drivers of institutional performance as Figure 3.5, pg. 44, suggests.
Core opportunities in terms of increasing business volume include the following:

- Increasing business volume: to transform undoable deals into doable ones, and increase the bankable portfolio, to provide additional sustainability-driven financing that supplements existing loan products, to finance new sustainable sectors, to reduce attrition, increase client loyalty, and enhance loan renewal rates.

Core opportunities in terms of increasing business margins include the following:

- Increasing business margins: to reduce critical costs (losses, workout time, insurance costs, capital costs, legal liabilities and provisions), to retain fees from advisory services, syndications/underwriting services, to reflect value-added in premium loan pricing.

Core opportunities in terms of increasing business longevity include the following:

- Increasing business longevity: To leverage sustainable portfolio performance to access expansion capital (key sources include IFIs, long term institutional investors, bond markets, pension funds, depositors and SRI investors).
Chapter 3 has identified a range of potential sustainability-driven benefits for financial institutions. What are the key lessons of experience in terms of implementing sustainability initiatives? For an institution to achieve these sustainability business goals reliably, it needs a systematic approach. Priority business goals are identified and the institution’s formal and informal structure is then aligned to achieve them. Although these core components are integrated within the organization’s operating systems, a common term used to refer to these elements is an environmental management system (EMS). Where the management systems of the ISO14000 series focus on process conformance, the EMS outlined in this chapter focuses on business performance.

There is considerable literature available on the design and implementation of environmental management systems designed to secure process conformance, in particular the ISO14000 series, see Box 4.1, left.

**Box 4.1 ISO14000 Series**

The International Organisation for Standardisation (ISO) has published a standard on guidance for establishing an EMS (ISO14001). This standard is one in a series of voluntary standards (the ISO14000 series) concerning environmental management, environmental performance product life cycle assessment and product environmental labeling. Many organizations globally have undergone third party certification of their EMS and have attained certification to the standard. Others have opted for the EU’s EMAS scheme which sets out more demanding requirements. ISO14001 focuses on implementation of the EMS, while EMAS concentrates on actual environmental performance. Both standards are voluntary. Some of the largest banks, for example, Deutsche Bank, UBS,Credit Suisse, Sakura Bank, were among the first in the financial sector to achieve certification to ISO14001. For financing institutions, the most important advantage of certification is likely to be a wider public recognition that the bank’s position on environmental and social issues is sound.
The objective of this chapter is to examine experience based on creating an EMS that has three aims:

- To boost the business of core clients
- To generate a clear return for the financial institution
- To work with available resources and minimize the cost of implementation.

Customizing the System

The scope and structure of an EMS, therefore, varies according to a number of factors, including institution type, client base, and strategic focus. Figure 4.1, right, presents four types of EMS categorized according to strategic focus.

Type One focuses on the management of key environmental and social risks with a minimum of resources.

Type Two addresses comprehensive environmental and social due diligence to present the financial institution as world class in terms of credit risk management.

Type Three manages risk comprehensively but identifies specific value-added opportunities.

Type Four orients its business line towards sustainability.

### BOX 4.2 ELEMENTS OF AN ENVIRONMENTAL MANAGEMENT SYSTEM (EMS)

<table>
<thead>
<tr>
<th>A) Objectives and targets: setting the key business goals for the institution</th>
</tr>
</thead>
<tbody>
<tr>
<td>B) Applicable standards: identifying the standards acceptable to key stakeholders</td>
</tr>
<tr>
<td>C) Procedures: defining cost-effective processes to achieve those standards at the project level</td>
</tr>
<tr>
<td>D) Roles and responsibilities: allocating roles internally and externally implementing the procedures</td>
</tr>
<tr>
<td>E) Communications and reporting: periodic monitoring of the system and internal and external reporting against targets and objectives</td>
</tr>
</tbody>
</table>

**RISK REDUCTION**

- Reduced management workout time
- Reduced risk of project rejection at a late stage
- Reduced risk to reputation
- Reduced risk of defaults, and lower loss provisioning
- Reduced liability for environmental clean-up of collateral
- Reduced legal liability for misrepresentation/negligence
- Continued access to IFI capital

While the strategic choice will vary with the institution’s context, there are nevertheless a number of key elements that are consistent across EMS types. This chapter focuses on five central elements of the environmental management system—see Box 4.2, left.

A) **Objectives and targets**: Setting the key business goals for the institution.

B) **Applicable standards**: Identifying the standards acceptable to key stakeholders.

C) **Procedures**: Defining cost-effective processes to achieve those standards at the project level.

D) **Roles and responsibilities**: Allocating roles internally and externally implementing the procedures.

E) **Communications and reporting**: Periodic monitoring of the system and internal and external reporting against targets and objectives.

### BOX 4.3 POTENTIAL OBJECTIVES FOR RISK MANAGEMENT FOCUSED COMMERCIAL BANKS

**Risk Reduction**

- Reduced management workout time
- Reduced risk of project rejection at a late stage
- Reduced risk to reputation
- Reduced risk of defaults, and lower loss provisioning
- Reduced liability for environmental clean-up of collateral
- Reduced legal liability for misrepresentation/negligence
- Continued access to IFI capital

**Sustainability**

- Environmental and social opportunities prioritized within existing sectors
- New sectors

**Management of key environmental and social risks**

- Operational procedures
- Top management support

**Systematic management of environmental and social risk**

- Operational procedures
- Application to all relevant sub-projects

**Limited environmental and social value-added**

- Operational targets and objectives of EMS (enhanced portfolio quality, reduced provisions, reduced workout time)

**Systematic environmental and social value-added**

- Environmental and social opportunities prioritized within existing sectors
- New sectors

**Beyond Risk**

**TYPE ONE: DEFENSIVE—Core Elements of EMS in Place**

- Management of key environmental and social risks
- Top management support

**TYPE TWO: PROTECTIVE—Fully Operational EMS**

- Systematic management of environmental and social risk
- Application to all relevant sub-projects

**TYPE THREE: OFFENSIVE—Fully Operational EMS**

- Systematic management of environmental and social risk
- Limited environmental and social value-added

**TYPE FOUR: SUSTAINABLE—Strategic Focus on Environmental & Social Opportunities**

- Systematic management of environmental and social risk
- Systematic environmental and social value-added

**Environmental and social opportunities prioritized within existing sectors**

**Flow sectors**

**Sustainability in Action**

The objective of this chapter is to examine experience based on creating an EMS that has three aims:

- To boost the business of core clients
- To generate a clear return for the financial institution
- To work with available resources and minimize the cost of implementation.

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Type Two addresses comprehensive environmental and social due diligence to present the financial institution as world class in terms of credit risk management.

Type Three manages risk comprehensively but identifies specific value-added opportunities.

Type Four orients its business line towards sustainability.
For private equity groups, core goals may focus on both downside risk management and on creating business value for the investee company.

Key lessons include the following:

- The choice of objectives will depend on the competitive positioning and strategy of the institution.
- The organization should prioritize, naming the temptation to set too many goals and define the institution’s focus.
- Go for quick wins that may have a demonstration effect.
- Pick objectives that have a measurable financial impact.
- Pick growth client segments.
- Focus on early goals that minimize tension on the bank’s operating processes.

**APPlicable Standards**

Applicable standards are commonly assumed to be the national and local regulations set by government. While these standards apply for all investments, the global economy has started to introduce in addition a range of new stakeholders with their own standards, and potential to penalize companies for non-conformance. These international stakeholders include export market regulators, insurers, SRI investors, NGOs, local communities, and financial institutions.

**BOX 4.4 POTENTIAL OBJECTIVES FOR PROJECT FINANCE INSTITUTIONS that offer environmental advisory services to high environmental risk clients**

**VALUE CREATION**
- Increased access to long-term capital
- Reduced cost of capital
- Fees from environmental due diligence services
- Positioning for complex structured finance transactions
- Increased volume of bankable deals
- Business from new clients

**BOX 4.5 POTENTIAL OBJECTIVES FOR PRIVATE EQUITY INSTITUTIONS**

**VALUE CREATION**
- Increased access to long-term capital
- Reduced cost of capital
- Fees from environmental due diligence services
- Positioning for complex structured finance transactions
- Increased volume of bankable deals
- Business from new clients

**DOWNside AVOIDANCE**
- Reduced valuation through environmental stigma
-Incomplete warranties
- Legal liability to limited partners
- Liability for misrepresentation
- Liability for negligence
- Directors liability
- Criminal liability

**FIGURE 4.2 COMPLIANCE APPROACH**

**FIGURE 4.3 FROM COMPLIANCE TO VALUE-ADDED**

Identifying applicable standards, and ensuring compliance with them poses a number of challenges. Relevant stakeholders may be hard to identify. Stakeholders may claim the right to involvement in a project without any legal basis for jurisdiction. In addition, the standards of these stakeholders can conflict. Finally, they can evolve over time, leaving the financial institution with outdated criteria to judge acceptability.

In 2001, to address these issues, a number of banks based in the Netherlands began to implement corporate-wide forestry policies. A core step in the policy rollout was to identify key stakeholders, including NGOs and industry clients. Policy formulations were then forged in consultation with these stakeholders and have achieved broad consensus.

What are the elements of current good practice for financial institutions in setting applicable standards? Key lessons include the following:

- Identify local, national and international stakeholders whose support is critical.
- Identify the standards that they judge to be applicable (for example, national regulations, EU standards, WBG industry guidelines).
Beyond Risk

(see approach follows three broad phases processes differ, the standard compliance with applicable standards and processes designed to ensure project compliance with national legislation, occupational health and safety concerns)

Conditions: As a condition of investment, the financial institution requires the client to agree to a number of legal conditions designed to ensure compliance with applicable standards.

Supervision: Following investment, the financial institution monitors client compliance with applicable standards. Standard monitoring tools include client site visits and annual monitoring reports submitted by the client.

The performance-based EMS reverses the performance EMS focuses on delivering value to the client while renewing the relationship and generating additional business value for the financial institution.

Key lessons in terms of implementing the approach include the following:

i) Business needs assessment
   • Sustainability business needs of clients will vary with sector, region, site, and market conditions.
   • A key market driver for the client is the ability to mobilize co-financing to wholesale/project finance operations.

During the due diligence phase the financial institution identifies potential risk drivers, including non-compliance with national legislation, potential contamination of site or collateral, occupational health and safety concerns.

ii) Product and service delivery: Instead of issuing a set of legal conditions with which the client must comply as a condition of financing, the performance EMS focuses on delivering to the client a range of environmental products and services that help the client address those needs.

iii) Follow-up business needs assessment: Finally, instead of exclusively monitoring compliance with the bank’s standards, the performance-based EMS aims to track changing markets risks and opportunities. Follow-up products and services are then identified that may boost the client business while removing the relationship and generating additional business value for the financial institution.

The new stakeholders identified have the potential to transmit risk to portfolio companies and their financiers. In response to this risk, the standard compliance-based EMS focuses on a due diligence process designed to ensure compliance with applicable standards, identifying clearly the group’s concerns. To forge a consensus over conflicts in business needs, for example, conflict between EU market and national legislation, lateral, occupational health and safety concerns.

Business needs assessment: During the business needs assessment, instead of identifying risks to the financial institution as the focus is on looking at the business risks and opportunities facing the client.

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Within the institution, a number of business units monitor the environmental and social due diligence processes to increase its ability to mobilize co-financing for complex projects.

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Business needs assessment: During the business needs assessment, instead of issuing a set of legal conditions with which the client must comply as a condition of financing, the performance EMS focuses on delivering to the client a range of environmental products and services that help the client address those needs.

ii) Product and service delivery: Instead of issuing a set of legal conditions with which the client must comply as a condition of financing, the performance EMS focuses on delivering to the client a range of environmental products and services that help the client address those needs.

iii) Follow-up business needs assessment: Finally, instead of exclusively monitoring compliance with the bank’s standards, the performance-based EMS aims to track changing markets risks and opportunities. Follow-up products and services are then identified that may boost the client business while removing the relationship and generating additional business value for the financial institution.

Business needs assessment: During the business needs assessment, instead of issuing a set of legal conditions with which the client must comply as a condition of financing, the performance EMS focuses on delivering to the client a range of environmental products and services that help the client address those needs.
The performance EMS aims to use communications and reporting not as an end in itself but as a means to generate value for the institution. To achieve this, the performance EMS focuses on providing customized data to stakeholders that will generate specific records for the institution.

As identified in chapter one, there are a number of stakeholders with the potential to have a significant impact on the institution. will generate specific rewards for the institution.

Table 4.2, provides examples of the core elements of communications campaigns targeted or stakeholders. In each case, the campaign aims to meet the specific sustainability information needs of differing stakeholders, communicating them cost-effectively and securing a performance benefit for the institution.

Table 4.2, pg. 55, provides examples of the core elements of communications campaigns targeted or stakeholders. In each case, the campaign aims to meet the specific sustainability information needs of differing stakeholders, communicating them cost-effectively and securing a performance benefit for the institution.

### Table 4.1: MAINSTREAMING SUSTAINABILITY

<table>
<thead>
<tr>
<th>INTERNAL RESOURCES</th>
<th>VALUE ADDED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human resources</td>
<td>Use the institution’s good sustainability track record to recruit high-caliber business school graduates. Provide skills training to account officers that focus on sustainable management rather than regulatory approaches. Provide incentives and rewards for staff that achieve added value investments (flexibility, strategy and environmental high-performance investment).</td>
</tr>
<tr>
<td>Risk/credit review</td>
<td>Carry out environmental and social risk assessment of investments. Assist team officers in different risk profiling of loans.</td>
</tr>
<tr>
<td>Sustainability</td>
<td>Ensure direct management of sustainability for complex projects. Bring additional financing to complex projects on the opportunity for other lenders.</td>
</tr>
<tr>
<td>Marketing/Corporate Relations</td>
<td>Work with account officers and priority clients to identify client sustainability business opportunities. Develop market mapping and communications tools to approach target markets.</td>
</tr>
<tr>
<td>Retail relationship</td>
<td>Identify endclient face-to-face with sustainability (e.g., export-oriented agribusiness operations). Lead sustainable sourcing to client base (e.g., sourcing on process efficiency or on identifying export market opportunities for sustainable companies).</td>
</tr>
<tr>
<td>Wholesale relationship manager</td>
<td>Complete environmental risk and opportunity screening of the dual flow. Complete for complex transactions, using environmental value added as a differentiator. build a dialogue to retail market operations as part of community development for wholesale projects.</td>
</tr>
<tr>
<td>Treasury</td>
<td>Issue green guarantees based on the institution’s sustainable portfolio. Secure access to international funds.</td>
</tr>
<tr>
<td>Asset Management and private banking</td>
<td>Establish bond-fund concept for institutional investors and high net-worth private banking individuals.</td>
</tr>
<tr>
<td>Brand identity</td>
<td>Increase energy efficiency of holdings.</td>
</tr>
<tr>
<td>Environment and sustainability</td>
<td>Provide strategic communications. Provide detailed environmental and social advisory function.</td>
</tr>
</tbody>
</table>

### Table 4.2: STAKEHOLDER COMMUNICATION NEEDS

<table>
<thead>
<tr>
<th>STAKEHOLDER INFORMATION NEEDS</th>
<th>PERFORMANCE REWARD</th>
</tr>
</thead>
<tbody>
<tr>
<td>SRI</td>
<td>Access to SRI finance</td>
</tr>
<tr>
<td>NGOs</td>
<td>Information on progress in managing environmental credit risk.</td>
</tr>
<tr>
<td>SRI investors</td>
<td>Early warning on problem areas.</td>
</tr>
<tr>
<td>NGOs</td>
<td>Enhanced ratings leading to reduced costs of capital enhanced expansion opportunities.</td>
</tr>
<tr>
<td>IFIs</td>
<td>Support for client projects.</td>
</tr>
<tr>
<td>IFIs</td>
<td>Advisory support on complex policy teams.</td>
</tr>
<tr>
<td>NGOs</td>
<td>Early warning on problem areas.</td>
</tr>
<tr>
<td>NGOs</td>
<td>Access to IFI financing, access to long-term institutional investors.</td>
</tr>
</tbody>
</table>

**Sustainability in Action**

Key lessons for implementing a successful monitoring and communications program include the following:

- Identify those stakeholders who will reward sustainability information.
- Open a dialogue with key stakeholders to establish their information needs, including the level of detail required, preferred timing and format of reporting.
- Monitor institutional performance against the agreed data, rewarding compliance and diagnosing any systemic failings behind non-compliance.
- Provide customized data to key stakeholders in their desired format.
- Follow up with key stakeholders to confirm that the reports are providing credible data. Establish desired changes in communications and reporting format.
Implementing the EMS also depends on following a structured approach. Current good practice in implementing environmental management systems, as described in the ISO14000 series, uses a four-phase process covering ‘plan’, ‘do’, ‘check’ and ‘review’. Box 4.6, right, describes the central elements of the four phases.

**Box 4.6**

**FOUR BASIC PHASES OF EMS EXECUTION**

**PLAN**
- Determine strategy and obtain top management agreement and approval
- Set targets
- Develop implementation plan
- Internal communication of strategy

**DO**
- Prepare policy and objectives
- Develop and organize and write EMS procedures and working documents
- Incorporate procedures into company management practices
- Establish monitoring and measurement protocols
- Train personnel

**CHECK**
- Audit EMS and check performance regularly against targets set
- Prepare report

**REVIEW**
- Review report
- Evaluate performance and lessons learned
- Receive feedback on success and failures
- Set new (improved) targets

5. Conclusions and Recommendations

For the financial sector in general, the emergence of a new class of stakeholders with sustainability expectations has presented a series of challenges and business opportunities.
The sector’s response is evolving, ranging from the adoption of a purely defensive stance in terms of managing risk, to integrating sustainability into business operations. At the same time, significant barriers to implementation remain, within both developed and emerging markets.

### Overcoming Barriers to Implementation

CEA workshop participants were asked to state whether they had environment-related risk issues and a system in place to manage them. Prior to the workshops, 22% of those surveyed indicated that they had a formal system in place. Subsequently, all respondents reported an enhanced environmental management capability.

For commercial banks, project financing and leasing, the two initiatives most frequently reported actions taken were training of environmental staff and updating the environmental policy.

### Figure 5.1

Main Enhancements Undertaken to Environmental and Social Issues following the CEA workshop

<table>
<thead>
<tr>
<th>Enhancement</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training of environmental staff</td>
<td>34%</td>
</tr>
<tr>
<td>Updating operating policy</td>
<td>33%</td>
</tr>
<tr>
<td>Development of environmental policies</td>
<td>32%</td>
</tr>
<tr>
<td>Replacing projects with environmental issues</td>
<td>31%</td>
</tr>
<tr>
<td>Working with clients</td>
<td>30%</td>
</tr>
<tr>
<td>Reporting to Directors on opportunities</td>
<td>29%</td>
</tr>
<tr>
<td>Communication to clients</td>
<td>28%</td>
</tr>
<tr>
<td>External reporting of EMS</td>
<td>27%</td>
</tr>
<tr>
<td>Providing environmental loans</td>
<td>27%</td>
</tr>
</tbody>
</table>

### Figure 5.2

Barriers to Implementing an EMS

<table>
<thead>
<tr>
<th>Barrier</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>It’s not standard banking practice</td>
<td>36%</td>
</tr>
<tr>
<td>Clients don’t want it</td>
<td>35%</td>
</tr>
<tr>
<td>Lack of reward from financial markets</td>
<td>33%</td>
</tr>
<tr>
<td>Lack of best practice information</td>
<td>32%</td>
</tr>
<tr>
<td>No qualified staff</td>
<td>29%</td>
</tr>
<tr>
<td>Lack of specific experience available</td>
<td>21%</td>
</tr>
<tr>
<td>Lack of time</td>
<td>15%</td>
</tr>
<tr>
<td>No qualified consultants</td>
<td>13%</td>
</tr>
<tr>
<td>Lack of internal support</td>
<td>12%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
</tr>
</tbody>
</table>

### Conclusions and Recommendations

It should be noted that the results may have been affected by selection bias. While IFC sought to minimize this bias by keeping the survey anonymous, participants who had implemented systems to manage environmental risk may have been more likely to respond to the survey, biasing survey results upwards.

**OVERCOMING BARRIERS TO IMPLEMENTATION**

- The sector’s response is evolving, ranging from the adoption of a purely defensive stance in terms of managing risk, to integrating sustainability into business operations. At the same time, significant barriers to implementation remain, within both developed and emerging markets.

**Conclusions and Recommendations**

- CEA workshop participants were asked to state whether they had environment-related risk issues and a system in place to manage them. Prior to the workshops, 22% of those surveyed indicated that they had a formal system in place. Subsequently, all respondents reported an enhanced environmental management capability.

- For commercial banks, project financing and leasing, the two initiatives most frequently reported actions taken were training of environmental staff and updating the environmental policy.
Respondents from leasing companies and commercial banks identified current banking practices as the key barrier to implementation. Other factors included a perceived lack of reward in the marketplace and a view that their clients were unresponsive. This was also a major factor for project finance and private equity groups.

Significantly, a lack of best practice materials was also cited as a key factor across all the categories.

**Conclusions and Recommendations**

- For private equity, the major action reported was working with clients to help them manage their environmental issues, followed by development of environmental and social procedures.
- For leasing, the next key initiatives reported were reporting to the board and communications with clients.
- For project finance institutions, development of environmental and social procedures and working with clients, both featured highly.

The survey went on to ask respondents to identify what, if any, key barriers were there to implementing a system. Figure 5.2, pg. 59, presents an overview of results across all institution categories surveyed, indicating that a number of significant barriers were identified.

Overall, the most common barriers identified were the following:
- It is not standard practice in the financial sector
- There are insufficient incentives in the marketplace
- Clients don’t want it
- Lack of best practice materials

**Figures 5.3–5.6, pg. 60–61, highlight the key barriers to implementation identified by each of the four institution categories.**

**Beyond Risk**

- For commercial banks, the main problem identified was that sustainability does not form part of standard banking practice.
- For project finance companies, equally, the main issues identified were current standard practice and the related lack of best practice materials.
- For private equity institutions fewer overall obstacles were identified, with potential client resistance highlighted.
- For project finance institutions, client resistance was identified as the major barrier.
CONCLUSIONS

Four major conclusions emerge:

1. New classes of stakeholder are transmitting both risk and reward to companies and financial institutions as a result of their environmental and social performance.

2. A number of financial institutions are responding rapidly to these market drivers, implementing sustainability initiatives strategically across a range of internal and external operations.

3. Barriers to implementation, however, do remain. One key issue identified is the absence of up to date information in the form of industry risk and opportunity.

4. While supply-side initiatives such as the CEA workshops play a critical role in helping to establish best practice, significant additional barriers include the perceived low market incentives for sustainability and as a consequence, financial sector practices that do not integrate sustainability systematically into operations.

63

Recomendations

The development community should explore opportunities to complement capacity building initiatives with strategic demand-side initiatives that enhance market incentives for sustainable performance.

A number of market players have the potential to provide critical incentives for sustainable financial sector performance. Performance drivers identified include insurers, analysts, raters, co-financiers, central banks, SRI investors, and long-term institutional investors.

An innovative range of capacity building programs is necessary to activate these potential market reward mechanisms—from new methodologies for raters and analysts to assess and reward financial institution performance to sustainability criteria for central bank oversight as a component of prudential bank management.
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BOXES, FIGURES, & TABLES

BOXES

Box 2.1 Summary of forms of direct liability for financial institutions ............... 11
Box 2.2 Performance signals .................................................. 18
Box 2.3 Financial costs of environmental non-performance .......................... 18
Box 2.4 Opportunities for financial institutions ..................................... 20
Box 2.5 Sustainability business drivers for risk management focused commercial and investment banks .................................................. 34
Box 2.6 Upside opportunities for portfolio companies ................................. 37
Box 2.7 Upside opportunities for private equity groups ............................... 37
Box 2.8 Providing environmental value added to SME clients ........................ 42
Box 2.9 Extractive industries .................................................................. 47
Box 2.10 Elements of an environmental management system (EMS) ............... 49
Box 2.11 Potential objectives for project finance institutions that offer environment advisory services to high environmental risk clients .......... 50
Box 2.12 Potential objectives for risk management focused commercial banks 49
Box 2.13 Potential objectives for project finance institutions that offer environment advisory services to high environmental risk clients .......... 50
Box 2.14 Potential objectives for private equity institutions ............................. 50
Box 2.15 Four basic phases of EMS execution ......................................... 56

FIGURES

Figure 2.1 Competitive threats to the financial sector ..................................... 11
Figure 2.2 Significant sources of environmental risks for clients identified by all financing institutions .................................................. 12
Figure 2.3 Export-oriented industries ....................................................... 12
Figure 2.4 Infrastructure ..................................................................... 13
Figure 2.5 Domestic general manufacturing .............................................. 13
Figure 2.6 High-tech industries ............................................................... 14
Figure 2.7 Connectivity in 1991 ............................................................... 15
Figure 2.8 Connectivity in 1997 ............................................................... 15
Figure 2.9 Drivers of environmental risk across the corporate value chain .... 16
Figure 2.10 Environmental risks for financial institutions .............................. 17
Figure 2.11 Risk to the emerging markets financial sector ............................ 19
annex B

Survey, methodology, questionnaire pro-forma, uptake of environment initiatives
COMPETITIVE ENVIRONMENTAL ADVANTAGE WORKSHOP: QUESTIONNAIRE

(Please photocopy and complete the following questionnaire on finance and environment. This data, which will be used only at the aggregate level, will help shape IFC’s program for financial markets capacity-building in environment. Please return to statsfeedback@ifc.org, or fax to 1-202-974-4348 by October 8th. Many thanks for your help.)

PART 1: INSTITUTIONAL PROFILE

1. Main operations of institution
   - Leasing
   - Insurance
   - Project finance
   - Private equity
   - Commercial banking
   - Other (please specify)

2. Main sectors financed
   - Extractive industries
   - Export-oriented industries
   - Domestic general manufacturing
   - Hi-tech
   - Other (please specify)

3. Main countries financed

4. Employees
   - 1–20
   - 20–300
   - 300+

5. Branches
   - 1–20
   - 20–300
   - 300+

6. New transactions a year
   - 1–20
   - 20–300
   - 300+

7. Average US$ deal size
   - <$50k
   - $50k–$500k
   - $500k–$2 m
   - $2 m+

8. Max US$ deal size
   - <$50k
   - $50k–$500k
   - $500k–$2 m
   - $2 m+

9. Max term of transactions
   - <1 yr
   - 1yr–3 yrs
   - 3 yrs+

10. Current IFC Financial Institution (FI) partners
    - Please list (FMO, EBRD etc.)

11. Which of these officers deal with environmental social issues at your institution? (Please check)
    - None
    - Full-time envt. manager
    - Top management
    - Environmental consultant for environment part-time
    - Corporate relations
    - Other (please specify)

12. What level of staff attended the IFC/Partner workshop?
    - Top manager
    - Senior manager
    - Account officer
    - Designated envt. manager
    - Other (please specify)

13. What level of staff attended the IFC Partner/other workshop?

14. Which of these officers deal with environmental social issues at your institution?

Continued on page 72

100% OF RESPONDANTS REPORTED MEASURES TO ENHANCE THEIR ENVIRONMENT AND SOCIAL MANAGEMENT CAPABILITY AFTER THE WORKSHOP
PART I: LESSONS OF EXPERIENCE

1. What are the major potential environmental costs for financial institutions of your type?
   - Non-performing loans/investments/leases from environmental/social risks
   - Liability for clean up of contaminated property/collateral
   - Cost or creditability for negligence
   - Reluctance to capital from private financial institutions/international bodies
   - Loss of IFI funding
   - Reputation risk/negative publicity
   - Other (please specify):

2. Before the IFC workshop, did your institution have a procedure for managing environmental risk?
   - Formal
   - Informal
   - None

3. What are the major environmental-related opportunities for your financial institution?
   - Accessing new financial institution funding
   - Providing advice for environmental projects
   - Providing risk management services to high risk industrial sectors
   - Providing efficiency and cleaner production advisory services to small and mid-sized clients
   - Avoiding new deposits
   - Avoiding imprudent forms of insurance
   - Accessing ethical investment funds
   - Other (please specify):

PART II: FOLLOW UP & RECOMMENDATIONS

1. What are the most significant long-term sources of environmental/social risks for clients in your country?
   - Non-performing loans/investments/leases from environmental/social risks
   - Loss of IFI funding
   - Reputation risk/negative publicity
   - Other (please specify):

5. Following the workshops, have your institution enhanced its environmental and social management?
   - Reporting to Director/Board on environmental risks/opportunities
   - Providing projects with environmental safeguards
   - Communications to clients
   - Media events
   - Devising innovative policies to encourage participation
   - Training of internal staff
   - Providing environmental loans
   - Other (please specify):

6. What are the greatest barriers for your financial institution in implementing an EMS?
   - Lack of support internally
   - Lack of reward from financial markets (analysts, raters etc)
   - Clients don’t want it
   - Lack of time
   - Other (please specify):

Many thanks for all your input.
Structured interviews were carried out with representatives from over 30 institutions who had participated in the CEA workshops. Annex C presents a list of those institutions visited. For the selection process, three criteria were applied:

- A focus on regional diversity: covering Africa, Europe, Middle East, Latin America and Asia
- A focus on diversity of financial institution type, covering commercial banking, project finance, private equity and leasing.
- For cost-effectiveness, a focus on countries where there are a number of IFC client institutions.

---

**FIGURE B1**

Type of Financing Institution Surveyed

- Commercial Banking
- Project Finance
- Leasing
- Private Equity
- Other

**FIGURE B2**

Main Business Sectors Most Commonly Financed by the Institutions

- Manufacturing
- Hi-tech
- Infrastructure
- Extractive Industries
- Other

**FIGURE B3**

Regional Distribution of Institutions

- Africa
- Asia
- Latin America & Caribbean
- Middle East & North Africa
- Europe
- World

**FIGURE B4**

Commercial Banks

- Domestic
- Export-oriented
- Hi-tech
- Extractive Industries
- Infrastructure
- Manufacturing
The objective of the interviews was to build on the information generated by the questionnaires and that provided by the participants during the course of the workshops. In particular they addressed the following issues:

- The institution’s background and operations
- Potential environment-driven risks to the institution, and its clients
- Any identified opportunities for the institution
- The major barriers, if any, for implementation of environmental management measures and how they have been overcome and,
- The role potentially that IFC could play in supporting the process.

Figures B4-7, pgs. 75–77, provide a breakdown according to institution type. Specific initiatives varied across institutions as indicated.
In addition to the survey a representative list of FIs were visited.

### List of Field Interviews

<table>
<thead>
<tr>
<th>Country</th>
<th>Organization</th>
</tr>
</thead>
</table>
| Philippines | 1. BPI  
|           | 2. BPI  
|           | 3. DBP  
|           | 4. Walden  
|           | 5. H & Q  |
| Brazil    | 6. Itau  
|           | 7. UniBanco  
|           | 8. Banco Real  
|           | 9. Bradesco  |
| Argentina | 11. Banco Roberts  
|           | 12. Banred  
|           | 13. BGN  
|           | 14. Latin American Enterprise Fund  |
| Hungary   | 15. OTP  
|           | 16. Budapest Bank  
|           | 17. Raiffeisen Bank  |
| Czech Republic | 18. CSOB  |
| Bulgaria  | 19. CoralB  
|           | 20. BACB  
|           | 21. Black Sea Fund  |
| Turkey    | 22. Garanti Bank  
|           | 23. Garanti Leasing  
|           | 24. ABYX Bank/Leasing  
|           | 25. TEB Bank  
|           | 26. Ottoman  
|           | 27. YIL  
|           | 28. Rent Leasing  
|           | 29. Future Leasing  
|           | 30. Demir Bank  |
| India     | 31. IL & PS  
|           | 32. IDFC  
|           | 33. IndiAsia  |

Annex C
Annex D

WASHINGTON DC, USA, November 1997

Banamex
Banca Avant S.A.
Banca Buenos Aires
Banca Ica
Banca Mercantil
Citibank
ICATU Equity Partners
Interbank
Larico Leasing S.A.
Rent-a-Leasing
Sumitomo
Seikou Leasing Internacional S.A.
Unifinance
Zepfer Management Lp
Advent International plc.

WASHINGTON DC, USA, June 1998

Banco Bilbao Vizcaya
Banco del Sigado
Banco Roberto
Citimere Leasing
Georgia Microenterprise Bank
Honeywell Inc.
IBDC
Russian Technology Fund
Shortterm Merchant Services
TCW/JIC India Private Equity Fund
Transamerica Private Equity Fund

CAPE TOWN, SOUTH AFRICA, October 1998

Accuro AG
Banco de Galicia
Brait Capital Partners
Development Bank of Southern Africa
Medical Bank Transnational Inc.
PKO—Netherlands Development Finance Company
Galicia Capital Markets S.A.
Garanti Leasing
Groundwork Environmental
INCA—Infrastructure Finance Corporation Ltd.
International Bank of Southern Africa Limited
Santiago del Puerto y Asociados
Swaziland Industrial Development Company Ltd.
Zepfer Leasing
Zader Financial Services

UP TO THE END OF 2002, SINCE 1997 21 CEA WORKSHOPS
HAVE BEEN HELD IN THE U.S., SOUTHEAST ASIA, EUROPE AND AFRICA
<table>
<thead>
<tr>
<th>Bank Name</th>
<th>Location</th>
<th>Year</th>
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</thead>
<tbody>
<tr>
<td>Advar International</td>
<td>Athens, Greece</td>
<td>2000</td>
</tr>
<tr>
<td>Asia Specialised State Share-Stock</td>
<td>Commercial Bank</td>
<td></td>
</tr>
<tr>
<td>Banco BRASIL Credicard S.A.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banco Credicard</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banco del ISTMO, S. A.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank of Shanghai</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Alliance Nigeria</td>
<td></td>
<td></td>
</tr>
<tr>
<td>E &amp; Co</td>
<td></td>
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</tr>
<tr>
<td>EIF Group</td>
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<tr>
<td>Energy Global International Ltd.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FEFAD Bank</td>
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<tr>
<td>Garanti Leasing</td>
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<tr>
<td>Guyana Bank for Trade and Industry</td>
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</tr>
<tr>
<td>Hussein Choucri Investment Bank</td>
<td></td>
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<tr>
<td>NAL Merchant Bank</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SEF Kreditversicherung</td>
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<tr>
<td>Trust Merchant Bank</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**WASHINGTON DC, USA, November 1998**

*Anex C: Environmental Quality International* [EQI]

**WASHINGTON DC, USA, May 1999**

*ANZ Investment Bank* [ANZ]
*Asian Infrastructure Fund* [AIF]
*Banco de la Exportación* [BEX]
*Banco General de Negocios (BGN)*
*Banco Mecanizado* [BMC]
*Banco Monetario* [BMO]
*Bylon Bank Syndicated* [BYS]
*CAL Merchant Bank Ltd.* [CAL]
*Cambram Loan Facility* [CLF]
*Demirbank (Romania) S.A.* [DEM]
*Environmental Quality International (EQI)* [EQI]
*Finance leasing* [FIN]
*FINARCA—Financiers Attendez* [FIN]
*Generale de Banque de Mauritanie* [GBM]
*Guaranty Trust* [GT]
*HC Securities & Investment Company* [HC]
*Homer Choucri Investment Bank* [HC]
*NAM Merchant Bank* [NAM]
*SEF Kreditversicherung* [SEF]
*Trust Merchant Bank* [TRM]

**WASHINGTON DC, USA 1999**

*Banco de la Exportación* [BEX]
*Bank Austria Creditanstalt Slovakia A.G.* [BACS]
*CEAT Financial Services* [CEAT]
*Ecobank Transnational Inc.* [ETC]
*Far East Bank & Trust Co.* [FEB]
*Hanabici & Quinto Filipino Ventures* [HAN]
*K&V Ventures Corporation Limited* [K&V]
*Mercantile Leasing Limited* [ML]
*Midway Infrastructure Holdings Ltd.* [MI]
*Nations Trust Bank* [NTB]
*Pt Rabobank Duta Indonesia* [PRD]

**WASHINGTON DC, USA 2000**

*Bank Austria Creditanstalt Slovakia A.G.* [BACS]
*CEAT Financial Services* [CEAT]
*Ecobank Transnational Inc.* [ETC]
*Far East Bank & Trust Co.* [FEB]
*Hanabici & Quinto Filipino Ventures* [HAN]
*K&V Ventures Corporation Limited* [K&V]
*Mercantile Leasing Limited* [ML]
*Midway Infrastructure Holdings Ltd.* [MI]
*Nations Trust Bank* [NTB]
*Pt Rabobank Duta Indonesia* [PRD]

**WASHINGTON DC, USA, March 2000**

*Advar International* [AI]
*Asia Specialised State Share-Stock* [ASS]
*Commercial Bank* [CB]
*Banco BRASIL Credicard S.A.* [BCC]
*Banco Credicard* [BC]
*Banco del ISTMO, S. A.* [BDI]
*Banco de la Exportación* [BEX]
*Banco General de Negocios (BGN)* [BGN]
*Banco Mecanizado* [BMC]
*Banco Monetario* [BMO]
*Bylon Bank Syndicated* [BYS]
*CAL Merchant Bank Ltd.* [CAL]
*Cambram Loan Facility* [CLF]
*Demirbank (Romania) S.A.* [DEM]
*Environmental Quality International (EQI)* [EQI]
*Finance leasing* [FIN]
*FINARCA—Financiers Attendez* [FIN]
*Generale de Banque de Mauritanie* [GBM]
*Guaranty Trust* [GT]
*HC Securities & Investment Company* [HC]
*Homer Choucri Investment Bank* [HC]
*NAM Merchant Bank* [NAM]
*SEF Kreditversicherung* [SEF]
*Trust Merchant Bank* [TRM]

**WASHINGTON DC, USA, March 2000**

*Advar International* [AI]
*Asia Specialised State Share-Stock* [ASS]
*Commercial Bank* [CB]
*Banco BRASIL Credicard S.A.* [BCC]
*Banco Credicard* [BC]
*Banco del ISTMO, S. A.* [BDI]
*Banco de la Exportación* [BEX]
*Banco General de Negocios (BGN)* [BGN]
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Annex D

Nordic Investment Bank
MarocInvest Finance Group
Middle East Investment Bank
Muslim Commercial Bank Ltd.
ORIX Leasing Egypt S.A.E.
JSCB “Parvina-Bank”
Small Enterprise Assistance Funds
Neftebank Plc.
SREI International Finance Limited
Tuninvest Finance Group
VUB Vseobecna Uverova Banka

Led by IFC in partnership with the Black Sea Trade & Development Bank, the German Investment and Development Company, the European Bank for Reconstruction and Development, the Netherlands Development Finance Company, the Nordic Investment Bank, and the United Nations Environment Programme-Division of Technology, Industry and Economy.

Akbank
American Bank of Albania
Baltic American Enterprise Fund
Banca Romaneasca S.A.
Banque Saradar, sal.
Baring Vostok Capital Partners Limited
CSOB Ceskoslovenska Obchodni Banka
Demirbank (Romania) S.A.
Energy House Capital Corporation, a Subsidiary of E&Co
ECO Solutions Co. Ltd.
Global Finance S.A.
ICICI Limited
IDLC Industrial Development Leasing Company of Bangladesh Limited
Industrial Promotion and Development Company of Bangladesh Limited
ILFC International Leasing and Finance Co. Ltd.
IBTC Investment Banking & Trust Co. Ltd.
Kenya Commercial Bank Ltd.
Kocbank Azerbaijan Ltd.
Lebanese Leasing Company

Beyond Risk

Led by the IFC in partnership with the Giordano Dell’Amore Foundation
Agricultural Credit Corporation
Agricultural Development Bank
Amity Bank Cameroon Plc.
Bank of Eritrea
Banque de l’Agriculture et du Developpement
Banque due Liban
Central Bank of Egypt
Central Bank of Jordan
Commercial Bank of Eritrea
ElNilein Bank for Industrial Development
Housing and Commerce Bank of Eritrea
Metropolitan & Allied Bank (Ghana) Ltd.
Ministry of Finance, Ethiopia
Ministry of Finance, China
National Bank for Development
National Bank of Ethiopia
Nile Bank
Palavra Monetary Authority
T.C. Invest Bankaktii
Tanzania Investment Bank
The Treasury, Kenya

Washington, D.C., USA, June 1990

American Bank of Atlanta
Credit Lyonnais
Rathbone Bank
IL&FS Infrastructure Leasing and Financial Services Ltd.
Energo Global International Ltd.
HH&Q Asian Pacific
IndiaFund Advisors Pvt. Ltd.
BTMC Investment Banking & Trust Co. Ltd.
Komerzbank Banka a.d.
Korea Development Leasing Corporation
Oyak Bank A.S.
Pluton Development Bank
ScomaBank
Procredit Bank

Buenos Aires, Argentina, October 2000

Led by the IFC & IIC
ABN AMRO
Banco Ahmad Paraguay
Banco de Credito y Buenas Aires
BANCO DEL DESARROLLO
Banco del Istmo, S.A.
Banco Ficensa
Banco General de Negocios
Banco de Galicia y Buenos Aires
Banco del Desarrollo
Banco Nacional de Desarrollo Economico e Social
Banco Suquia, S.A.

Istanbul, Turkey, November 2000

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Tuninvest Finance Group
VUB Vseobecna Uverova Banka

Dakar, Senegal, March 2001

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ACEP
Arab Banking Corporation
BBM Banque de l’Habitation du Mali
BENX Banque Internationale du Commerce pour l’Hygiène et le Credit
BMCI Banque Mauritanienne pour le Commerce International
Banco de Africa
CFAO Compagnie Bancaire de L’Afrique Occidentale
Ecobank—Senegal
Generale di Banca e Miniere
Ministero dell’Economia e delle Finanze, Senegal
Environmental Tropicana Consultants
SODIDA Societe de Gestion du Domaine Industriel de Dakar

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Ministero dell’Economia e delle Finanze, Senegal
Environmental Tropicana Consultants
SODIDA Societe de Gestion du Domaine Industriel de Dakar
Annex D

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AIF Asian Infrastructure Fund Management Ltd
Asia Opportunity Fund L.P.
Bank NISP
Bank of South Pacific (BSP)
BNP Paribas Asset Management Asia Ltd.
Dragon Capital
Hambrecht & Quist Philippine Ventures
J.P. Morgan Partners Asia
Liberty Pacific Direct Investments Ltd.
Lombard/APIC (HK) Limited
Muslim Commercial Bank Ltd.
Oman Orix Leasing Company SAOG
Prudential Asia Infrastructure Investors Limited
SME Loan Hong Kong Ltd.
The Vysya Bank Limited
United Bank For Africa Plc.
United Leasing Company Limited


Banco de Microfinance de Mozambique
BHM Banque de l’Habitat du Mali
Boulevart
Bras Merchant Bank Ltd.
Citibank
DFCU Bank
DFCU Leasing Company Limited
Diamond Bank Limited
Ecobank Ghana Ltd.
Ecobank Nigeria Plc.
Ecobank Togo
EFG-Hermes Holding-SAE
First City Monument Bank
First Merchant Bank of Zimbabwe Limited
FRB/RMBID
Fugrokleinbank
Grameen Bank
Investment Banking & Trust Co. Ltd.
Neo Banco
ORIX Leasing Egypt S.A.E.
Rand Merchant Bank
The Maritime Commercial Bank Ltd.
TimeInvest Finance Group

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Advest International
Avison-Young
Banque Post S.A.
Banca Romaneasca S.A.
Biarritz
Croatian Bank for Reconstruction and Development
Demir Romlease S.A.
Finansbank A.S.
Hipoteca—Latvian Mortgage and Land Bank
Kvintas Bank
EFM (Slovak Post Privatization Fund)
TBC Bank
Türk Vakitser Pazarı
VVB Všeobecná Uverova Banka

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Ecobank Togo
EFG-Hermes Holding-SAE
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Fugrokleinbank
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Annex E

In addition to the sources listed we are very grateful to all the individuals and companies that have contributed to this casebook.

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Beyond Risk

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Beyond Risk

LEO J. JOHNSON
Principal author, Consultant

FOREWORD

The concept and practice of sustainability, and in particular the role banks can play in promoting environmental sustainability, have captured the interest of financial markets, governments, regulatory agencies, and the public. This book is based upon a study sponsored by the World Bank and undertaken by the Ethos Institute, United Nations, and the Finance Watch Initiative. It addresses the role of financial institutions in the development of a sustainable world economy.

The book is intended for financial institution leaders and stakeholders, policy makers and regulators, environmentalists, opinion leaders, and other interested parties. It seeks to provide a comprehensive, balanced, and forward-looking analysis of the issues involved.

The book is organized into four parts:

I. THE CONTEXT
II. THE MAINSTREAM
III. THE BANKS
IV. THE FUTURE

Each part includes a series of chapters, focusing on specific aspects of the topic. The chapters are designed to be read in any order, but they are structured to provide a logical progression from general concepts to specific applications.

The book is based on extensive research and analysis, drawing on a wide range of sources, including academic literature, government reports, and industry best practices.

The Ethos Institute is an independent research and consulting organization based in New York City. It specializes in the development of sustainable business strategies and is committed to advancing the role of the business community in promoting environmental sustainability.

The Finance Watch Initiative is a global network of civil society organizations that work to promote sustainable finance. It is committed to ensuring that financial institutions play a positive role in promoting environmental sustainability.

The World Bank is a global organization that is dedicated to reducing poverty and promoting development around the world. It provides financial and technical assistance to developing countries and works to promote sustainable development. I wish to thank the World Bank for its support and for allowing me to pursue this important work.

The Ethos Institute
New York City, May 2003