Banking on Sustainability:
Risk Management and
Growth Opportunities

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Massive flows of cash both in developed and emerging markets fueling a world economic boom:
- Relatively easy access to (cheap) finance
- Many stock markets at their heights
- Boosted prices of commodities, real estate, etc.
- Record mergers and acquisitions

Increased awareness among growing number of governments and societies on sustainability issues:
- Awareness is high in economies that are globally integrated
- Effective NGO campaigns around the world
- Distinct country differences are emerging
Top Factors in a Company’s Social Responsibility Focus

Subsample: Asked of 100 respondents in each country

Data from Globescan
Drivers of Sustainability in the Financial Sector

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

- Risks and Opportunities as drivers
New Initiatives on Sustainability

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

## PROMOTING SUSTAINABILITY

<table>
<thead>
<tr>
<th>OPPORTUNITIES</th>
<th>ENERGY EFFICIENCY</th>
<th>RENEWABLE ENERGY</th>
<th>CLEANER PRODUCTION</th>
<th>BIODIVERSITY CONSERVATION</th>
<th>SUPPORTING UNDERSERVED SOCIAL GROUPS</th>
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<tbody>
<tr>
<td>PRODUCTS AND SERVICES ON THE DEPOSITORS' SIDE</td>
<td>✓</td>
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<td>LEASING with a sustainability focus</td>
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<tr>
<td>CARBON FINANCE</td>
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| MICROCREDIT | ✓     |
| HOUSING FINANCE | ✓     |

| SUSTAINABLE SUPPLY CHAIN FINANCE | ✓     |
| SECURITIZATION IN SUSTAINABLE AREAS | ✓     |
| ENVIRONMENTAL/SOCIAL LIABILITY INSURANCE | ✓     | ✓     | ✓     | ✓     |
| ADVISORY SERVICES | ✓     | ✓     | ✓     | ✓     | ✓     |

| COMMUNITY PROGRAMS | ✓     | ✓     |
IFC – A Decade of Experience in Managing E&S Risks

- Built its environmental and social sustainability policy framework over a decade
  - Sustainability Policy & Disclosure Policy
  - 8 Performance Standards
  - 56 sector-specific Environmental, Health and Safety Guidelines
  - Environmental and Social Review Procedure
  - Guidance Materials

- Management System and Quality Assurance
- Internal technical expertise
- Mainstreaming E&S issues in core operations
The Equator Principles in a nutshell

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

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

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

Equator Debt in Emerging Markets H2 2006

- US$60bn (66%)
- US$31bn (34%)
- US$4bn (12%)
- US$10.5bn (35%)
- US$16.5bn (53%)

- High-income Countries
- Non-Equator
- Non-EPFs in Equator Projects
- Non-OECD & non High Income OECD
- EPFs

Source: Infrastructure Journal R&A
Convergence of International Standards

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

- From project finance to other types of financing...  
  - Corporate loans, trade financing, bond issues...  

- From lending to investing...  
  - Investment screens in use by SRIs  
  - PRI for institutional investors  

- To capital markets  
  - BOVESPA Sustainability Index  
  - India’s first Sustainability Index launched yesterday  

- Huge opportunities for innovation in emerging markets