

Environmental and Social Policy Management Systems for Financial Institutions (FI)

February 2016



European Bank
for Reconstruction and Development

- Welcome & Introduction
- What is an Environmental & Social Management System (ESMS)
 - Including: Elements of an ESMS, E&S aspects and impacts on customers on FIs, optimising performance
- Example: Thinking about Strategy
- Summary of EBRD E&S Requirements
- Building an ESMS
 - Including: Principles of Good Reporting
- Examples of Management Systems
- Successful Environmental and Social Management Systems
- Session Conclusion & Questions

Welcome & Introduction to Panellists

Anne Maria Cronin – *Associate Director, EBRD*

Kate Guscott – *Principal Environmental Adviser, EBRD*

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Emma Farthing – *Partner, ERM*

Webinar purpose

- Support FI understanding importance of an ESMS and what it is
- Present practical elements of an ESMS
- Note the importance of requirement for EBRD

What is a management system?

A management system is the organisation of process and procedures in place to assist a business to meet particular objectives – in this case environmental and social objectives.

Used well as part of your business routine it can support:

- Appropriate management of risks (and adaptation to changing circumstances)
- Continuous performance improvement

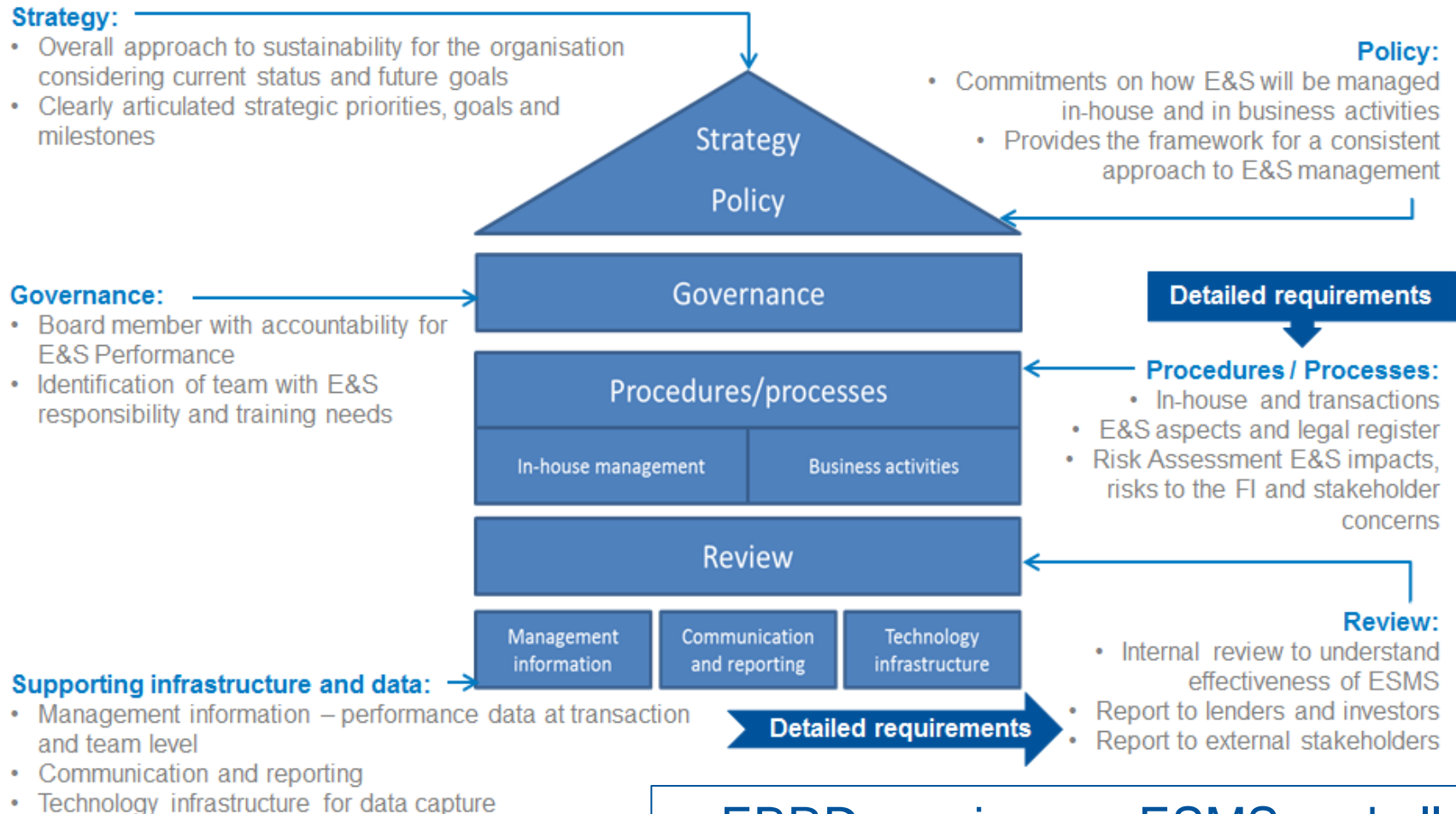


An environmental and social management system should be integral to FI business processes and may also be used to enhance the performance of investments

Elements of an Environmental and Social Management System (ESMS)



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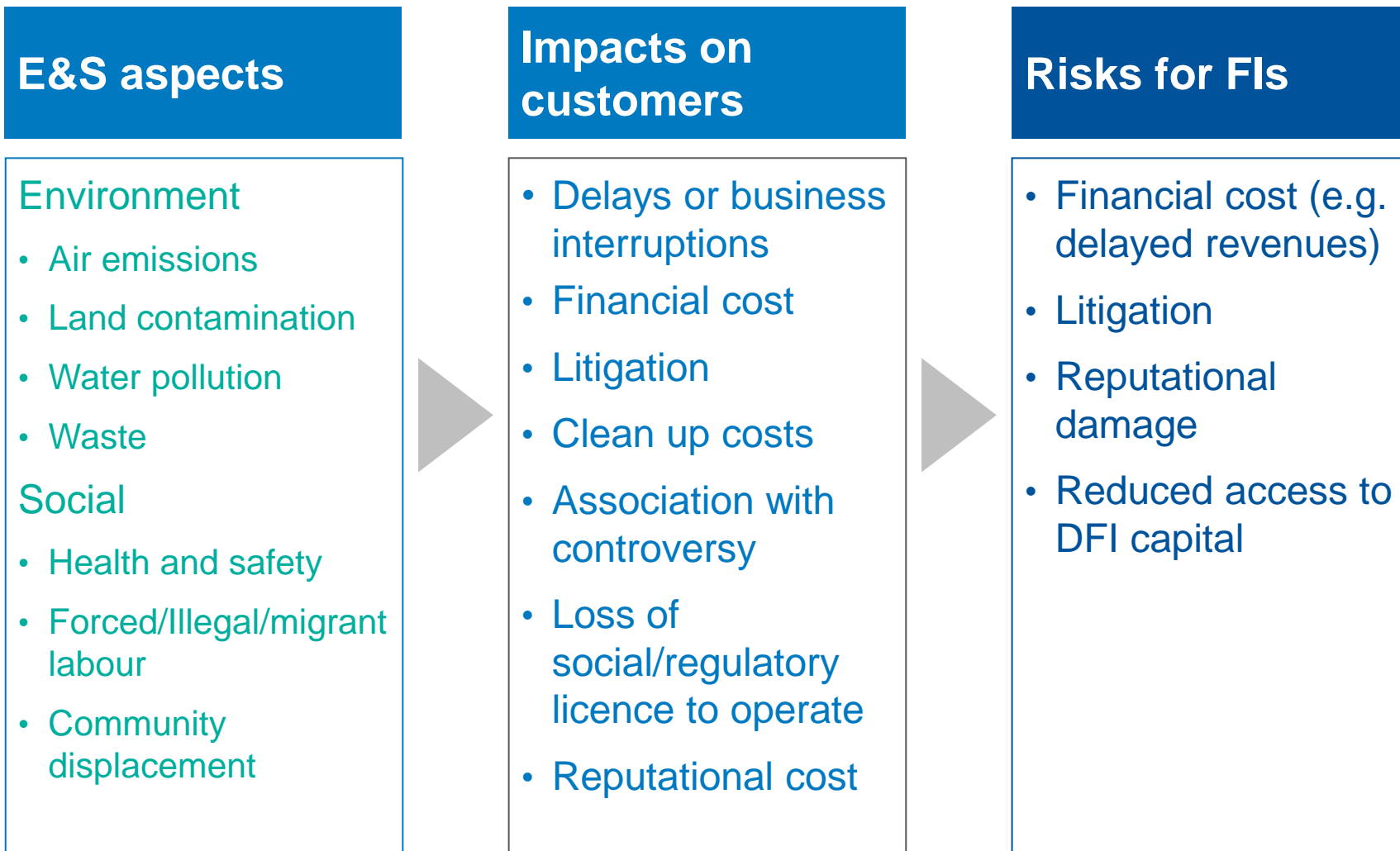


EBRD requires an ESMS and all its elements but one size does not fit all

E&S aspects and impacts on customers and FI



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Improve business performance by reducing and managing costs:

Environmental

- Minimise waste, re-use or recycle
- Energy efficiency/resource-efficiency
- Process efficiency – reducing emissions and raw material use



Social

- Good health and safety practices and working conditions reducing business interruption
- Positive labour relations minimise lost production time and improve productivity
- Effective community engagement minimises disruption

All can lead to lower compliance costs, operational savings and productivity increases

Examples: Thinking about Strategy

Increasingly E&S issues are material to the overall risk (and opportunity) exposure of a portfolio and therefore need to be considered in an FI's strategy to maintain / grow sustainable revenue

Subproject/loan risk

Client / project \Rightarrow

- Credit risk
- Reputation risk
- Litigation risk

Portfolio risk
multiplies subproject
risk

Client / project \Rightarrow	<ul style="list-style-type: none">• Credit risk• Reputation risk• Litigation risk	Client / project \Rightarrow	<ul style="list-style-type: none">• Credit risk• Reputation risk• Litigation risk
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- Credit risk
- Reputation risk
- Litigation
- Reduced access to capital
- Strategic risk
- [Opportunity]

Environmental and social issues and dynamics (e.g. policy / regulatory changes; consumer trends) can underlie portfolio risks and also opportunity e.g. water scarcity or other resource conflict risks, energy efficiency opportunity

COP 21 – Intended Nationally Determined Contributions (INDCs)



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- Set out national GHG emissions targets; more than 150 countries, comprising more than 80 percent of global GHG emissions, have now submitted their INDCs to the United Nations
- Examples of potential impacts that could lead to portfolio risk and opportunity:
 - Cost of carbon emissions will become more material through the 2020s
 - Renewables will become a growing source of power, backed by quotas and targets
 - Forestry and land use will be in the spotlight to halt deforestation that has become a major source of GHG emissions

National pledges ahead of COP21 suggest business will face political pressure to act

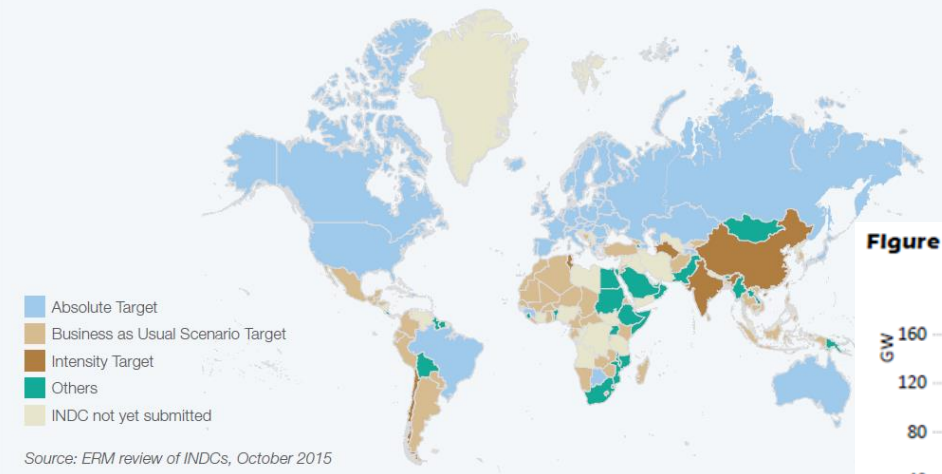
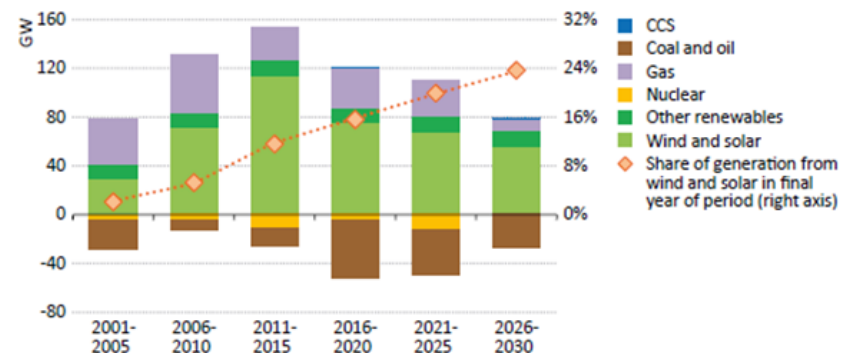


Figure 2.9 ▶ European Union net capacity additions by type and share of electricity from variable renewables in the INDC Scenario



Source: International Energy Agency

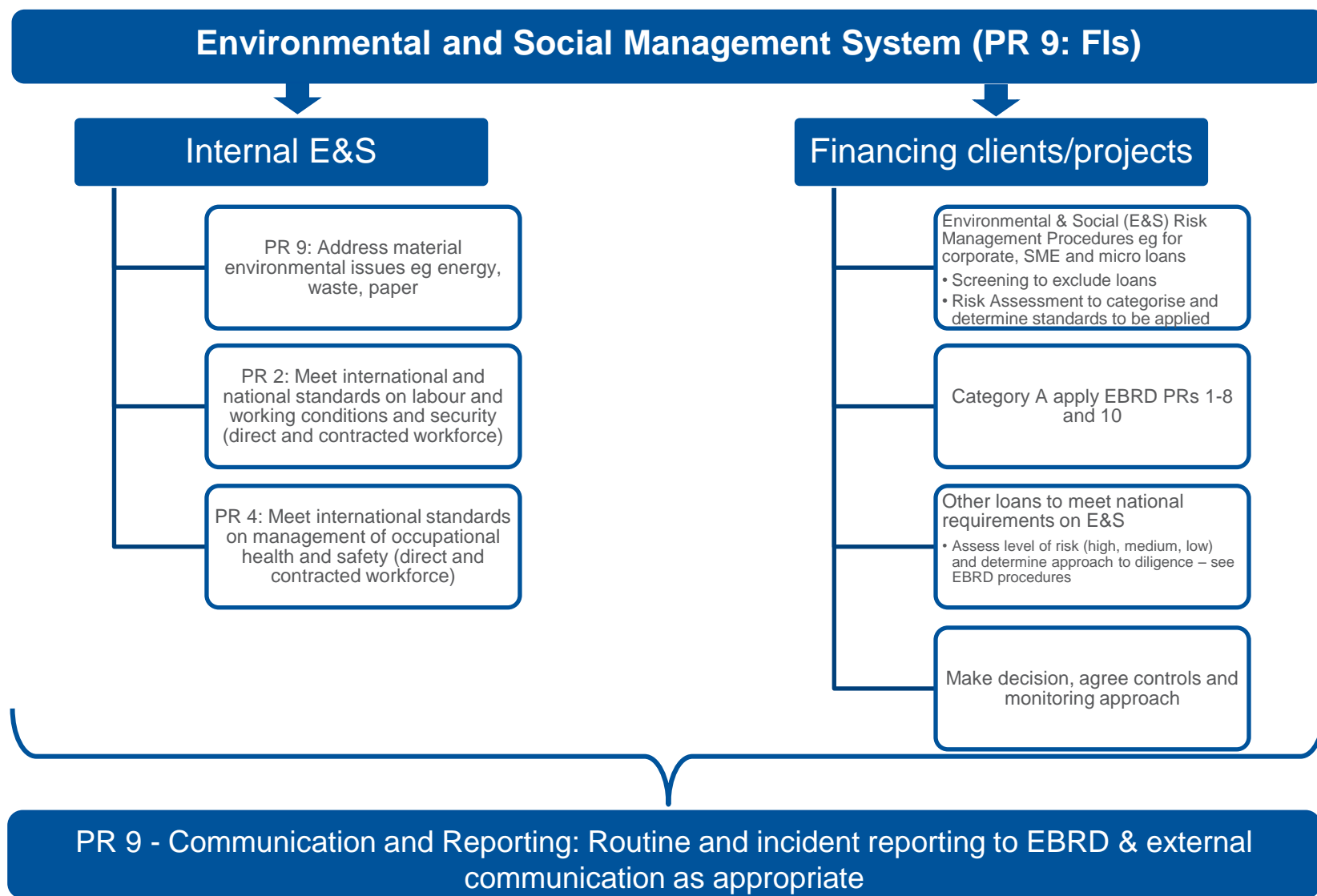


The EBRD E&S Policy can be found at:
<http://www.ebrd.com/news/publications/policies/environmental-and-social-policy-esp.html>

EBRD has defined 10 Performance Requirements

- | | |
|-------------|---|
| PR1 | Assessment and Management of Environmental and Social Impacts and Issues (Management Systems) |
| PR2 | Labour & Working Conditions |
| PR3 | Resource Efficiency and Pollution Prevention and Control |
| PR4 | Health and Safety |
| PR5 | Land Acquisition, Involuntary Resettlement & Economic Displacement |
| PR6 | Biodiversity Conservation & Sustainable Management of Living Natural Resources |
| PR7 | Indigenous Peoples |
| PR8 | Cultural Heritage |
| PR9 | Financial Intermediaries |
| PR10 | Information disclosure & stakeholder engagement |

EBRD Requirements for FIs



EBRD E&S Risk Management

Can be found at: <http://www.ebrd.com/who-we-are/our-values/environmental-emanual-risk.html>



This section contains E&S Risk Management Procedures recommended by the EBRD for partner FIs. Almost all financial transaction types require some attention to environmental and social issues. The EBRD has specific environmental and social requirements for all the activities listed on this page which are carried out by any organisation using EBRD funding, whether through loan, equity or fund management agreements.

Corporate, SME and Micro Lending (English)	➤
Corporate, SME and Micro Lending (French)	➤
Active Equity Investments	➤
Passive Equity Investments	➤
Leasing	➤
Factoring	➤
Mortgage Lending	➤
Insurance	➤
Trade Finance	➤
EBRD E&S Eligibility Criteria for Hydro Power Projects	➤
EBRD E&S Eligibility Criteria for Wind Power Projects	➤

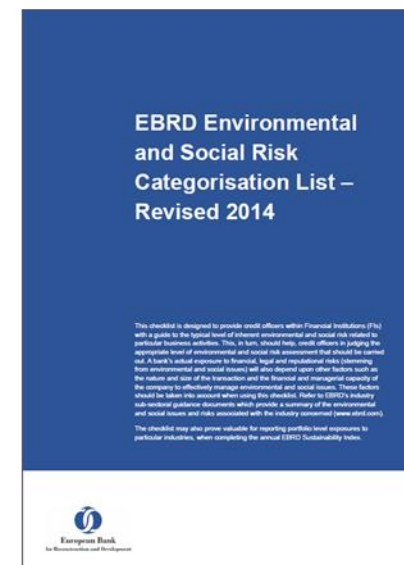
◀ Information & Guidance
◀ E & S risk management procedures
◀ Supporting tools and toolkit
◀ Education

Contacts

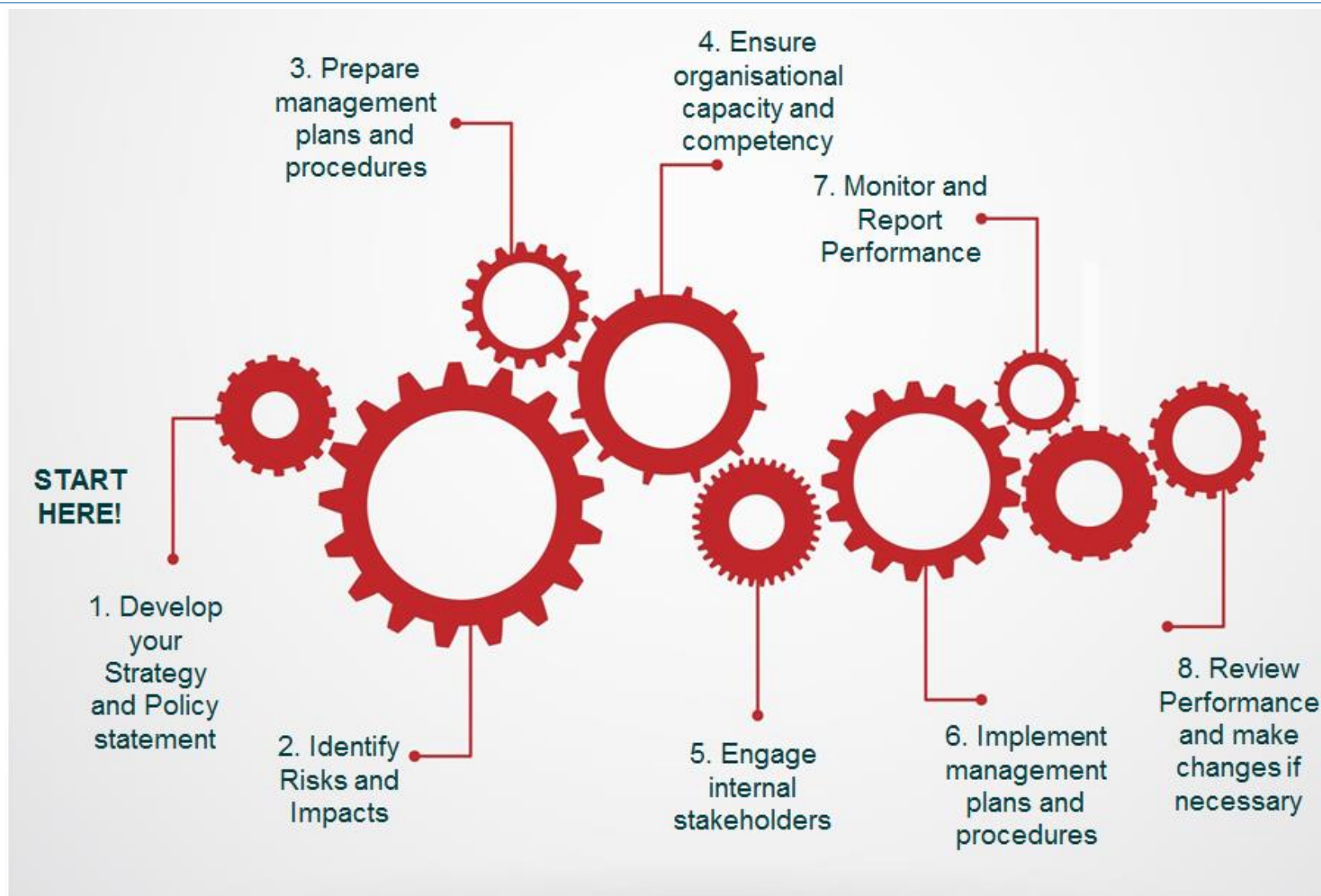
EBRD Sustainability Index for FIs:
ebirdsusindex@ebrd.com

EBRD E&S E-learning: ESFITraining@ebrd.com

Environmental and Sustainability Department:
environmentandsocial@ebrd.com



Building and Implementing an ESMS



Relevant for reporting and communication with both EBRD and other external stakeholders:

- Report on **material issues**; ensure that these include issues material to **stakeholders**
- Set **performance targets**. Report the agreed **performance indicators** that track performance on these
- Ensure reporting is **balanced** and reflects positive and negative results – it is important to be transparent to maintain trust
- Be **consistent** – select, compile and report information consistently
- Report **accurately** to allow **consistent evaluation** and therefore improvement of performance

Alpha Bank Greece – reporting on FI performance



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Energy and Water Consumption	2013	2014
Electricity consumption (MWh) ¹	76,208	64,294
Office space for which electricity consumption is measured (m ²)	519,136	487,064
Office space for which electricity and heating fuels consumption is measured, as a percentage of total office space (%)	95.6%	91.8%
Annual electricity consumption per m ² of office space (KWh)	146.8	132.0
Natural gas consumption (m ³)	261,886	250,934
Annual natural gas consumption per m ² of office space (m ³)	2.71	2.68
Office space heated using heating oil (m ²)	96,652	93,556
Heating oil consumption (litres)	103,409	57,500
Annual heating oil consumption per m ² of office space (litres)	1.26	0.88
Office space heated using heating oil (m ²)	82,316	65,249
Pollutant emissions		
Total carbon dioxide emissions (tons) ²	65,385	55,436
Carbon dioxide emissions per m ² of office space (kg)	0.126	0.185
Water consumption		
Drinking water consumption from public utility (m ³)	65,521	66,613
Office space for which drinking water consumption is measured (m ²)	262,349	297,353
Office space for which water consumption is measured, as a percentage of total office space (%)	48%	56%
Groundwater utilisation (m ³)	22,137	19,866
Office space for which groundwater consumption is measured (m ²)	55,679	55,679

“During 2014, the Bank continued its significant social and environmental work, through its social contribution initiatives and its support for programmes focusing on education, culture, sports and healthcare.”

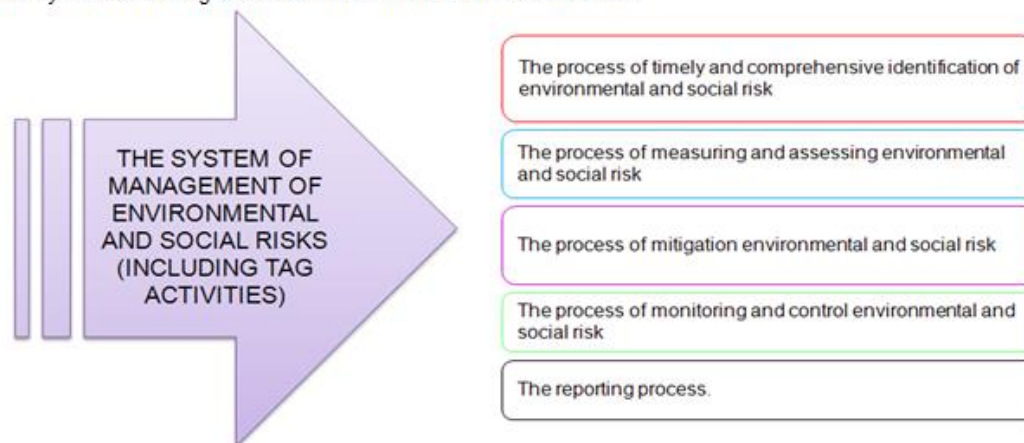
-Demetrios P. Mantzounis,
Managing Director - CEO

Reference:
<http://www.alpha.gr/page/default.asp?id=7771&la=2>

Health and Safety Indicators	Number of incidents		Days lost to these incidents	
	2013	2014	2013	2014
Number of incidents involving injury	5	2 (1 male, 1 female)	111	14
Fatalities	-	-	-	-
Occupational illnesses	N/A	N/A	N/A	N/A
Other illnesses *	5,718	4,409	46,932	39,854
Absenteeism rate (AR)	1.8%	1.8%		

Serbian FI - process and clarity on roles and responsibility

The System of Management of Environmental and Social Risks



On the operational level, the Procedure is applied by:

- ❖ Organisational units undertaking the risk,
- ❖ Organisational units managing risk,
- ❖ Organisational units with the support function.

Organisational units undertaking the risk are:

- ❖ Corporate Operations Department
- ❖ Retail Operations Department
- ❖ Bank's branch offices

Organisational units managing risk are:

- ❖ Credit Risk Assessment Department
- ❖ Risk Management Department

Organisational units with the support function:

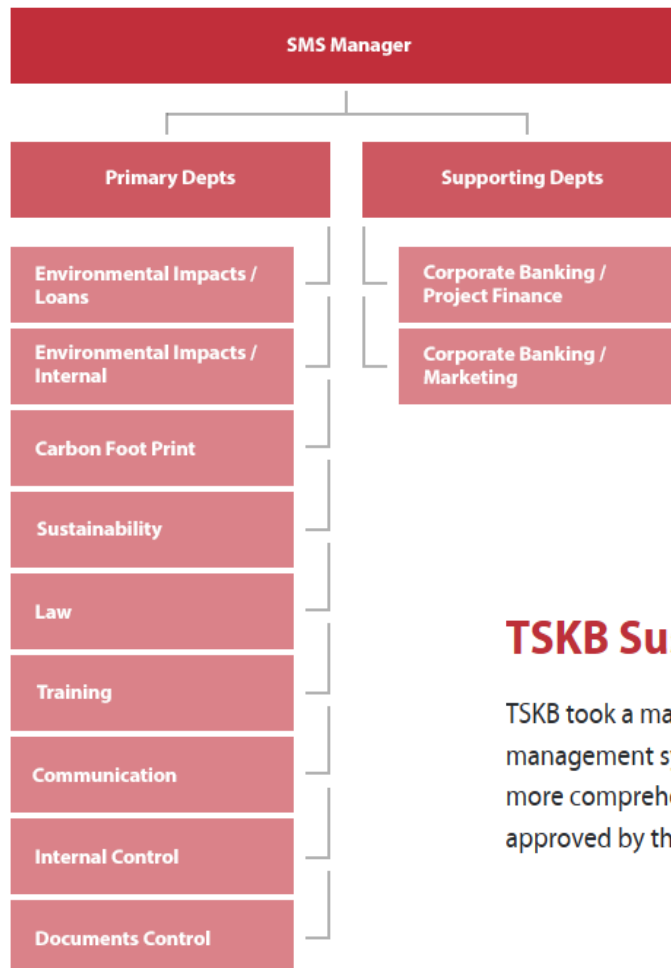
- ❖ Accounting Department,
- ❖ IT Department,
- ❖ Legal Affairs Department

The control over the process of environmental and social risk management is performed by:

- ❖ Business Compliance Department
- ❖ Internal Audit Department

TSKB Turkey Sustainability management System and improvement

TSKB Sustainability Management System Organizational Chart



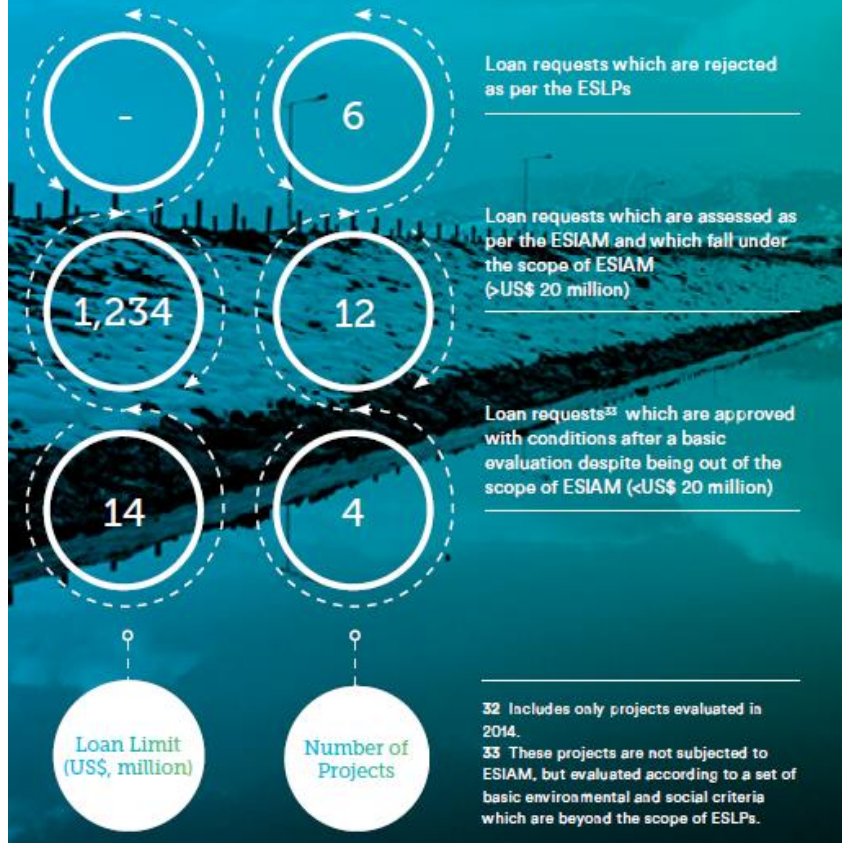
TSKB Sustainability Management System

TSKB took a major step in the direction of sustainable banking when it set up its own environment management system in 2005. In 2012 the bank elevated the effectiveness of this system by converting it into a more comprehensive Sustainability Management System. The TSKB Sustainability Management System was approved by the bank's Board of Directors in November 2012.

Reference:
<http://www.tskb.com.tr/en/sustainable-banking/tskb-sustainability-management-organization/tskb-sustainability-management-system>

Garanti Bank Turkey – reporting on subprojects

Table 14: Breakdown of Greenfield Investments which are Subjected to ESIAP in 2014³²



“We are committed to contributing to sustainable growth in the communities in which we operate, conducting our business in a responsible manner and increasing the value we provide for all our stakeholders.”

-Ergun Özen
President & CEO,

Table 15: Assessment Results for Greenfield Investments³⁴ which are Subjected to ESIAM in 2014

		Number of Projects
Category	Category A	3
	Category B	9
	Category C	0
Risk Rating	R1	2
	R2	0
	R3	10
	R4	0

Garanti Bank Turkey – setting targets and reporting on issues



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Table 17: Progress in Environmental and Social Risk Assessment (continued)

Target	Explanation	Progress and New Target
Expanding the Environmental and Social Risk Assessment System to Subsidiaries	During 2013, Garanti has targeted to expand its E&S Risk Assessment System to at least three of its subsidiaries by the end of 2014.	<p>In 2014, Garanti Factoring put its own Environmental and Social Loan Policies in place and Garanti Asset Management has started implementing the first step of its environmental and social risk management process after creating its Responsible Investment Policy.</p> <p>In addition, Garanti Moscow has established its Human Rights Declaration in 2014.</p> <p>Garanti aims to continue expanding its environmental and social risk assessment approach to the remaining of its subsidiaries in the coming years.</p>

Management of Indirect Water Footprint

Target	Explanation	Progress and New Target
Expanding the EMS to Customers	By the end of 2015, Garanti Bank will review its loan portfolio and will draft plans to expand the Environmental Management System (EMS) to its customers for the following years.	The target is in progress.

In order to manage our indirect water footprint, we ensure, request and monitor that appropriate measures are taken to minimize environmental impacts and to reduce the consumption of water and other resources, ensure recycling is undertaken and that negative impacts on water quality are minimized.

One of the first issues we consider when determining whether to provide financing is whether the project is located in a RAMSAR area. In accordance with our Environmental and Social Loan Policies, Garanti Bank does not finance projects and/or activities that are in RAMSAR zones, without any monetary limitations or undertaking any further E&S impact assessment.

Furthermore, based on our ESIP, we pay regard to the environmental and social impact of the projects we finance and



Niksar Hydroelectric Power Plant

in Choice of location and project

works, studies to measure and

Annual E&S reporting to EBRD: The Sustainability Index



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Section 1 iPear LTD. EBRD Sustainability Index - Annual Performance Report

This report provides a statistical summary to enable you and EBRD to understand how your Financial Institution is responding to Environmental and Social (E&S) risks and opportunities.

FI Name:	iPear LTD.	Date Completed:	2014-08-25 14:17:39
FI Address:	44 Portstewart Road, Portrush	Reporting Period:	01/01/2014 - 31/12/2014
No. of branches:	100+	No of employees:	1000+
International Operations:	Yes (Operates in more than one country)	Date of signing loan agreement:	12 Jan 2012
Currency used:	Euro (€)		

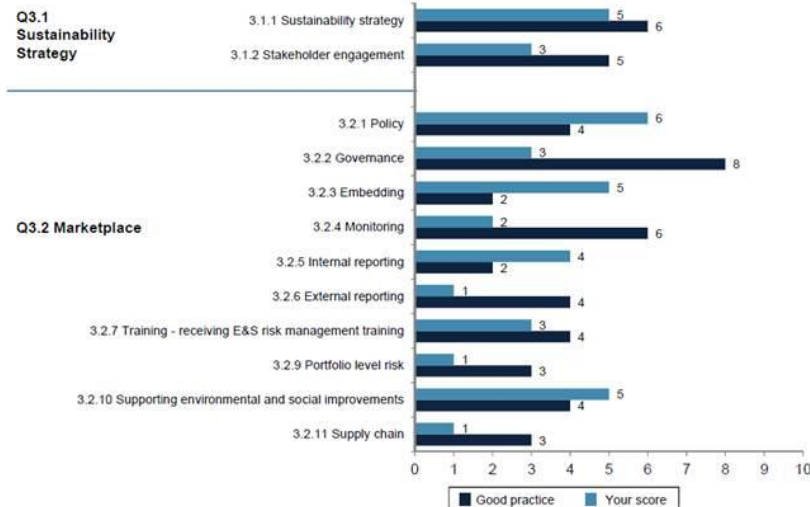
Summary – Environmental and Social Risk Management Scores



The maximum and good practice scores are based on good international practice and EBRD's knowledge and experience within the Financial Institution community.

Section 3 iPear LTD. EBRD Sustainability Index - Annual Performance Report

Q3.0 Detailed breakdown of E&S risk management scores



For access to the index e-mail: ebrdsusindex@ebrd.com

What makes a good ESMS?

- ✓ Relevant to those that use them, and developed with users to make it simple, understandable and user friendly
- ✓ Sets realistic targets, but encourages learning and realises continuous improvement over time
- ✓ Clearly identifies areas of risk and articulates the business case to maintain buy-in at all levels
- ✓ Aligns with or is supported by incentives (performance targets/rewards) to ensure appropriate integration, resource, time, responsibility and accountability across levels and functions
- ✓ Is backed by investment in building capacity and competency of employees to implement requirements
- ✓ **Focuses on performance not paper**

Making an ESMS Work and Add Value

Co-design (get end users involved)

Have Board level accountability

Ensure leadership support beyond the Board

Make responsibilities and accountabilities clear

Integrate it into the business and across functions

Make it a visible part of company culture

Train all staff on how they are to implement the ESMS in their daily activities

Review ESMS and E&S performance regularly and adjust where necessary

Articulate value to the Bank

Any questions?