

Environmental and Social Risk Management – Guidance for Leasing Companies



EBRD's environmental and social objectives:

- Ensure compliance with EBRD's environmental and social exclusion list in their leasing and investment operations
- Review commercial policy applicants to comply with applicable health, safety and environmental and labour regulations and standards
- Encourage leasing companies, clients to improve their overall environmental and social performance.



EBRD Performance Requirements (PRs) for clients

Performance Requirements are in order to:

- Move from procedures to outcomes
- Adopt risk adjusted and proportional approach
- Remove all procedural elements from Policy
- Allow for flexibility regarding timing
- Clarify Bank's and clients' responsibilities
- Accommodate and address new developments
- Tailor requirements for EBRD region of operation



PR 2: Labour and working conditions

– FI human resource management

- The Aim of PR2 is:
 - (1) to promote good HR management; and
 - (2) to require compliance with ILO core labour standards and national labour laws
- Relative to other sectors, FIs can shine under PR2 as this is a comparatively low risk area
- Main issues for FIs are:
 - Non-discrimination and equal opportunity (have clear policies in place);
 - Grievance mechanism
 - Checking labour policies of contractors (cleaners, caterers)
 - Having retrenchment plan in case of collective redundancies



PR 9: Overview

- PR 9 summarises EBRD's existing approach on FIs, thus little change between older and new FIs
- PR9 = Environmental and social risk management system:
 - Internal issues
 - Human resources management (apply PR 2 to FI workforce)
 - Environmental (e.g. energy saving, recycling (in best practices section of PR 9)
 - Issues related to lending and investment
 - E&S Procedures, including capacity, resources and oversight within the FI
 - E&S standards for borrowers/ investees
- Best practices section in PR 9 picks up some of the guidance included in E-Manual



Environmental commitments made by the Leasing Company

In order to meet EBRD's requirements, the Leasing Company agrees to:

- Comply with the EBRD's "Environmental and Social Guidelines for Leasing"
- Conduct activities with due regard to environmental and social factors and the principle of sustainable development
- Clients / Investments must comply with National Environment, Health, Safety and Labour Regulations
- Report to EBRD on the Environmental and Social Performance of your business
- Appoint a member of management to have overall responsibility for environmental and social risk management and implementation of EBRD's procedures



Aims of environmental and social risk management guidelines

- Provide an accurate, balanced view of environmental and social risks and opportunities affecting the potential client
 - Control and minimise the Leasing Company's exposure to environmental and social risk - financial, legal, reputational
 - Identify and develop environmental opportunities
- Add to the Leasing Company's understanding of the company's business
- Comply with EBRD Performance requirements
- Screen out any environmental/socially unsuitable transactions



How environmental and social issues affect Leasing Companies



Why do environmental and social issues matter for Leasing companies

Leasing company

Claims



Legal



Reputation



Environmental and social risks for leasing companies

Financial



- Lessee's business may impact on its capital and operating costs, asset or share value; this may affect lessee's ability to make leasing payments
- Misuse or inappropriate operation and maintenance of the leased asset by the lessee
- property which is contaminated by past or current activities may lose value

Legal



- Joint or direct liability
- Legal action
- Legal action from third parties over claim.

Reputational



- Association with customers that are causing unacceptable environmental damage
- Damage to reputation through ownership of a highly visible asset. (machines that can be used to cause environmental damage – eg earth moving and logging equipment)
- Substandard or faulty equipment may result in damage to human health, property or the environment.



Environmental and Social Risk Management Procedures for Leasing

Step 1 - Environmental and Social Screening

Step 2 – Assessing the transaction risk

Step 3 - Regulatory Compliance check on customers operations

Step 4 - Check on proposed use of leased assets

Step 5 - Inspection/valuation of land

Step 6 - Regulatory compliance of asset to be leased

Step 7 - Draft Terms of the leasing agreement and collateral duties

Step 8 - Environmental and Social Risk Monitoring/Reporting



EBRD Environmental and Social Requirements

- There are no environmental and social requirements for leases where the customer is a private individual and the leased assets are non-specialist vehicles (cars, vans, light trucks) or office equipment (computers, copiers, printers)



Step 1: - Environmental and Social Screening

(desk based - carry out for **all** potential leasing transactions)

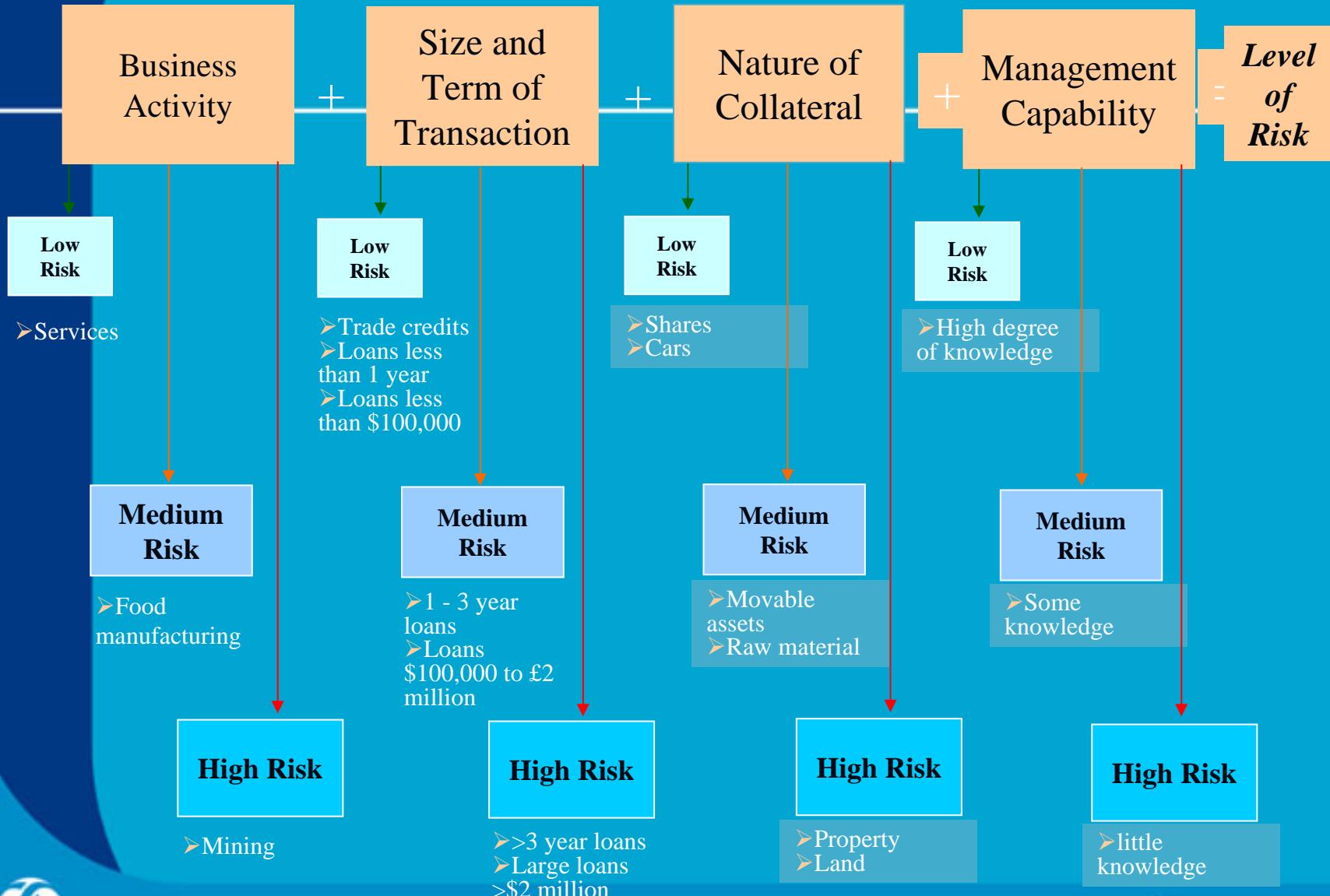
- Screen potential customers as well as the assets to be leased against the EBRD's Environmental and Social Exclusion and Referral Lists

Supporting tools

- EBRD's Environmental and Social Exclusion and Referral Lists



Assessing environmental risk - the environmental risk meter



Step 2: Assessing the transaction risk

- The level of environmental and social risk can be initially classified as Low, Medium or High depending on a number of factors, including:
 - the business activity carried out by the potential customer;
 - the type of leased asset
 - the nature of the transaction with the customer

Supporting tools

- Business Activity Risk List



Guide to E&S risk associated with the leased asset

Low environmental risk	<ul style="list-style-type: none">• Non-specialised vehicles (cars, vans, light trucks)• Office/computer equipment (computers, printers, copiers)
Medium environmental risk	<ul style="list-style-type: none">• Manufacturing/process equipment, for storage or transport of bulk materials• Conventional construction and agricultural machinery (eg tractors/JCB, excavators)• Buildings, land with non industrial use
High environmental risk	<ul style="list-style-type: none">• Equipment with potential to cause environmental damage (eg. storage tanks, earth moving/logging equipment, large scale quarrying/mining equipment)• Equipment for extraction, manufacturing, transport or storage of hazardous substances (eg. oil platforms, gasoline tankers)• Property, land with previous industrial use.



Step 3: Regulatory compliance check on customer operations (corporate customers only)

- Ensure the customer is in compliance with all relevant environmental and labour permits and regulations;
- In cases of high environmental and social risk, lease appraisal staff should visit the company site;
- For significant environmental and social problems consider employing independent environmental/social experts to conduct an environmental/social audit of the site.



Step 4: Check on the proposed use of leased assets (corporate customers only)

- Lessees should operate the leased equipment in accordance with applicable local and national health, safety, labour and environmental regulations and standards.
- Leased goods should not be used for
 - Activities included in the EBRD Environmental Exclusion and Referral Lists
 - Purposes likely to lead to significant environmental degradation (env sensitive or protected areas, or threaten endangered or protected species)
- Other areas for concern include:
 - Earthmoving or construction equipment or equipment used in forestry or logging;
 - Equipment intended for use in hunting or agriculture – if used to apply chemicals
 - Equipment to be used for transport or storage or hazardous substances (including fuel)
 - If land is leased – must be covered by applicable planning/land use and other relevant regulations



Step 5: Inspection/valuation of land (leased asset or security)

- If buildings or land are leased or taken as security – lease appraisal staff should:
 - Visit the relevant site
 - Consider the previous uses of the site to ensure that any contamination from previous or current uses is reflected in the valuation for the proposed transaction.
 - Avoid contaminated assets – clean up costs could exceed the value of the asset.



Step 6: Regulatory compliance of asset to be leased

- The asset compliance check is an essential part of ensuring that leased assets comply with applicable EH&S regulations and product standards
- The check should consider, among others, the following areas of compliance that may be required by national regulations:
 - Structural strength or integrity
 - Emissions to air and water
 - Safety in operation
 - Use of scarce or harmful materials in the asset



Step 7: Drafting the Terms of the leasing agreement and collateral duties – issues to consider

- Customer information and disclosure:
 - Leased assets must be:
 - Suitable for their intended purpose
 - Safe, and;
 - Without hazards when correctly operated for intended purpose
- Maintenance and insurance of leased asset



Step 8: - Environmental and Social Risk Monitoring (medium and high risk transactions)

- Monitoring should focus on the following aspects:
 - Condition of the leased asset and the use to which it is being put.
 - Lessee's ongoing compliance with environmental and labour legislation and with any environmental and social conditions included in the lease agreement.
 - Regulatory trends: introduction of new standards.
 - Changes in the business activities or processes carried out by the customer.

Supporting tools

- Regular contact with EBRD through periodic reporting



Annual environmental and social reporting to the EBRD

- A table of leases approved during the period, listing the types of assets leased and the industry sector of the lessees;
- A summary of environmental risk management findings for any leases in sectors identified as high environmental risk;
- How Leasing Company verifies compliance with the environmental clauses of its operating policies, with national environmental, health & Safety legislation and with the EBRD's Environmental and Social Exclusion and Referral list;
- Details of any lease rejected due to environmental health & safety or social reasons;
- Details of any material fines, penalties or excess fees imposed on clients for non-compliance with EH&S regulations
- Details of any environmentally positive effects associated with particular leases
- Summary of health, safety and environmental management at the Leasing Company site, including e.g. waste management, prevention of oil/chemicals spillages and other hazardous substances handling, inspection and disposal of leased assets.

