

International Finance Corporation

Environmental Risk Management in Lending and Investment: Introduction to Concepts



How does business affect the environment?

INPUT



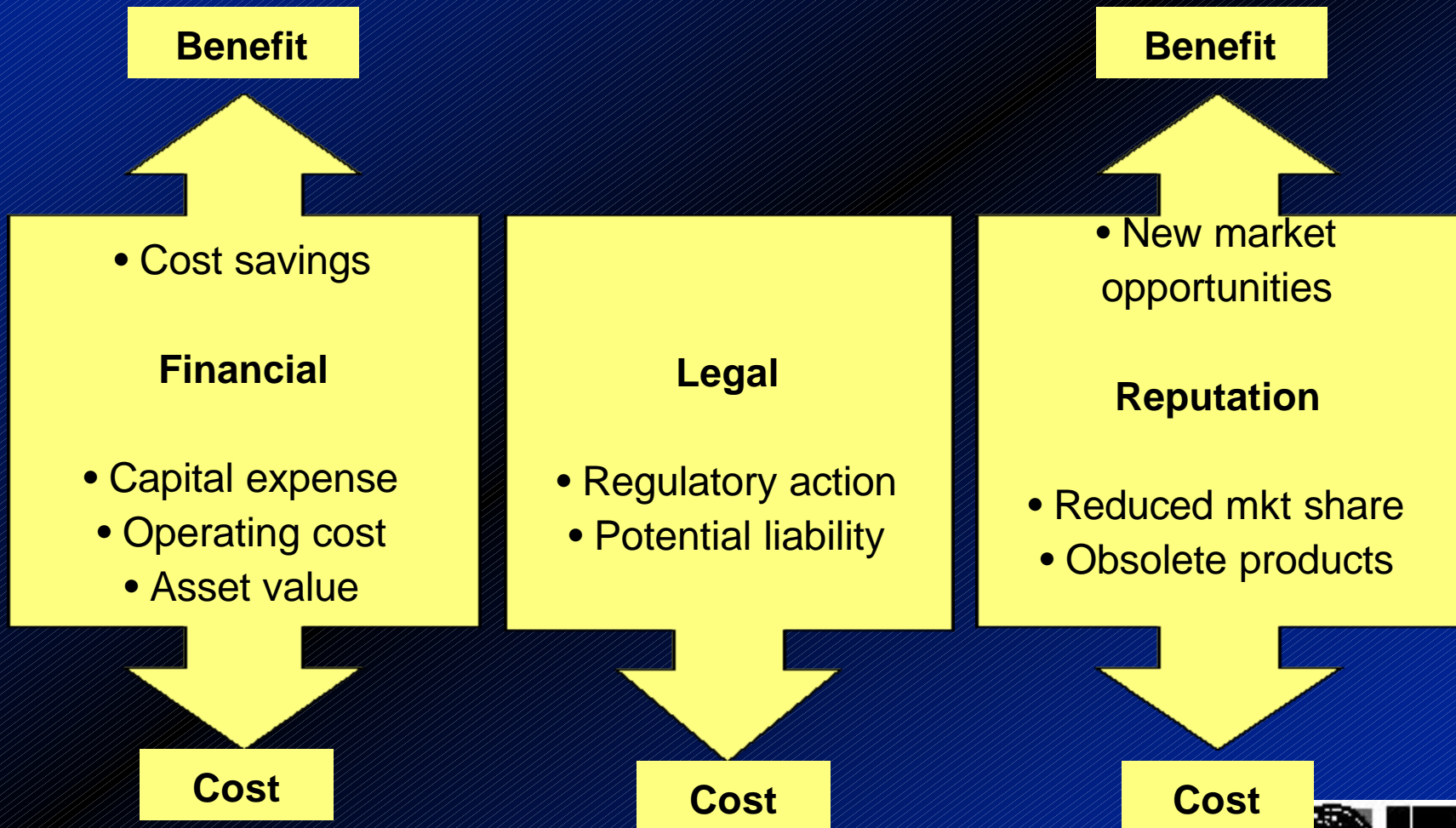
**PRODUCT
OUTPUT**



**NON-PRODUCT OUTPUT
(WASTE)**



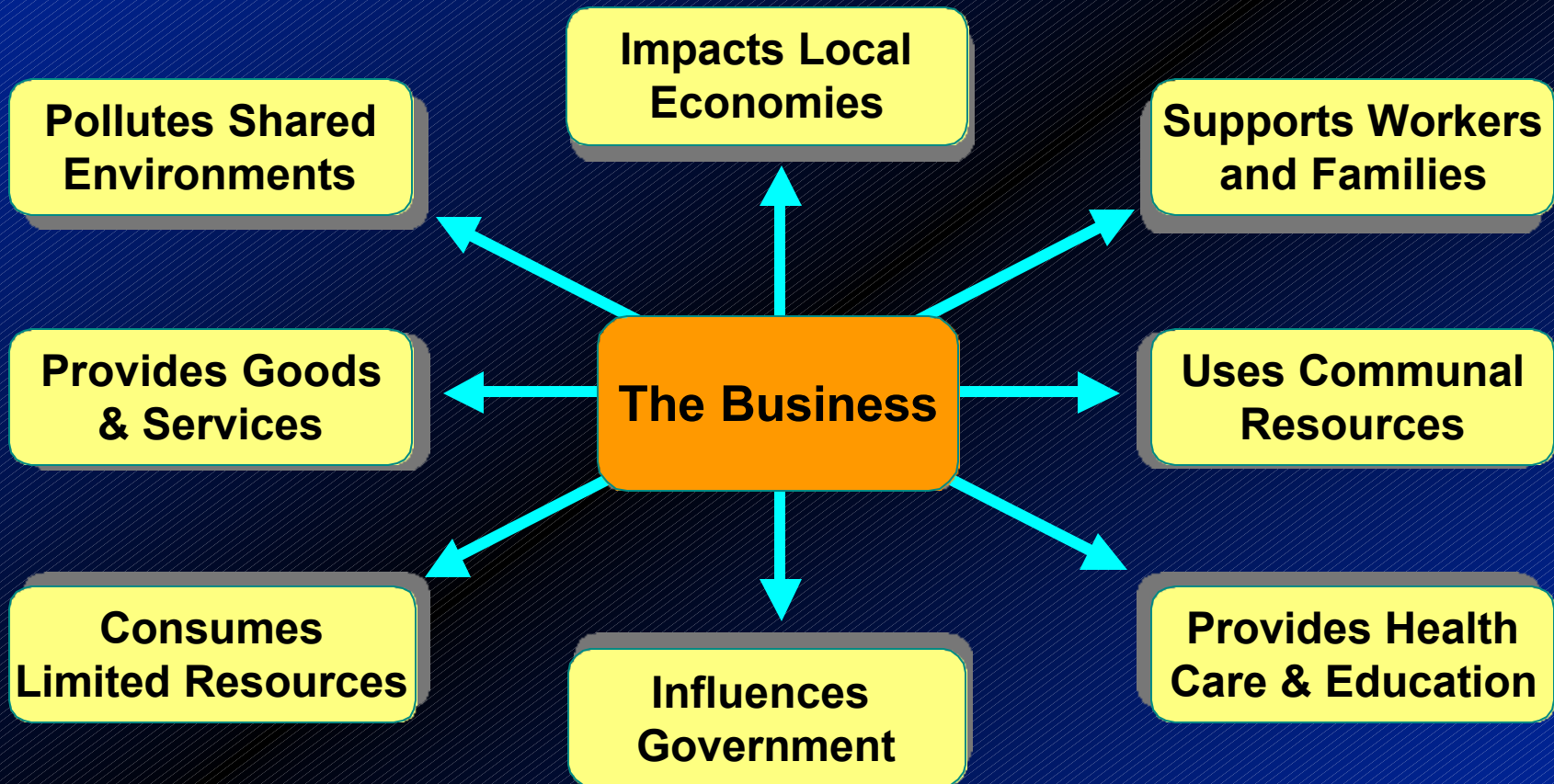
What risks do environmental issues create for companies?



The New Global Business Environment



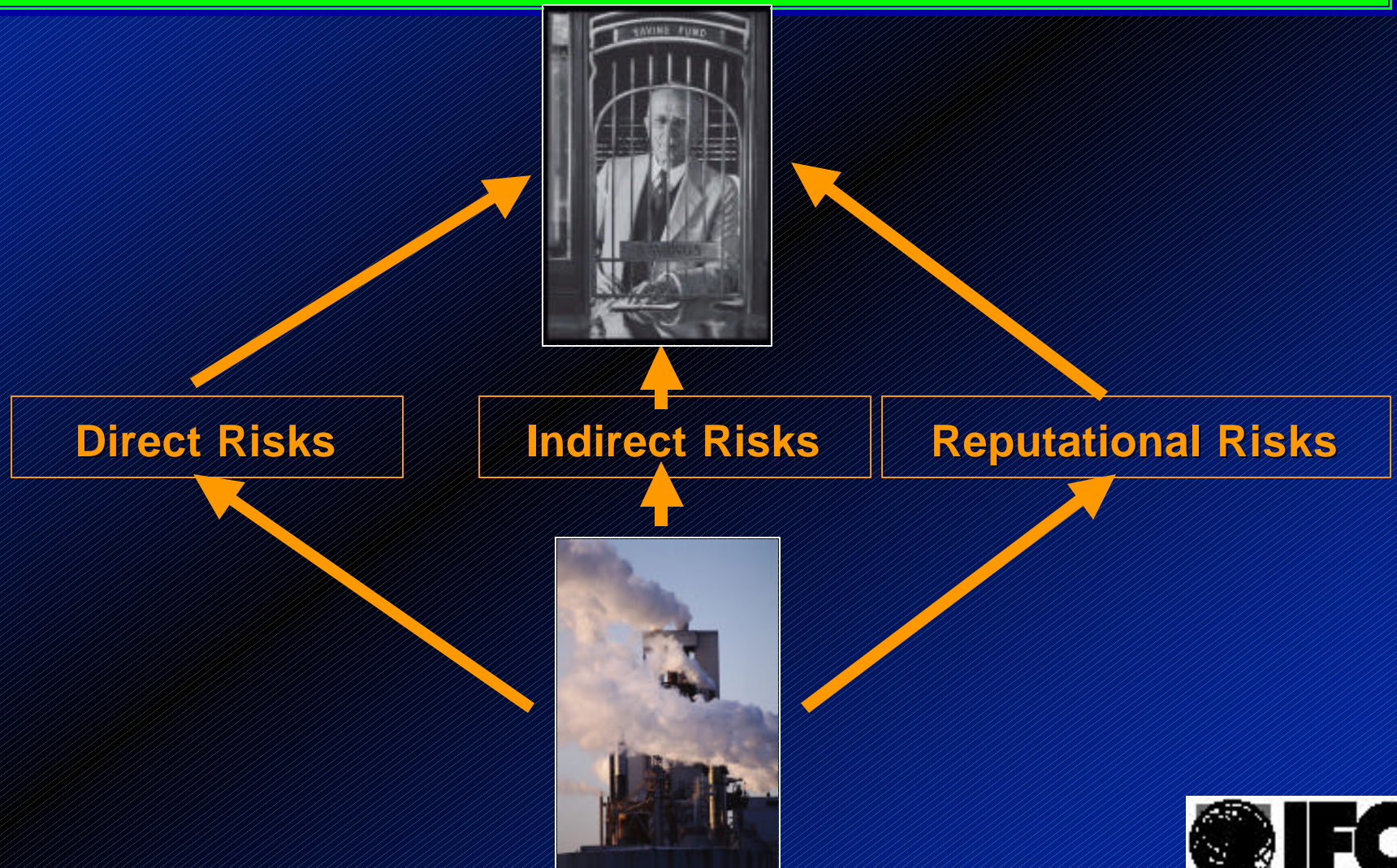
The Company in a Societal Context








The Stakeholder Based View









What risks do environmental issues create for financial institutions?



Direct Environmental Risks in 'Live Lending' Situations

-  Bank as company officer/shadow director
-  Environmental clausuring in facility letters
-  Assignments/charges over rental agreements
-  Instructing environmental consultants
-  Multibank lending

Workout/recovery situations

-  Power of sale
-  Taking possession
-  Land use/planning conditions
-  Foreclosure
-  Appointment of receiver
-  Administration/liquidation

Indirect Risks







-  Weakening of a borrower's ability to repay lender as a result of environmental costs

Environmental Impacts on Borrower's Finances

- ★ Clean-up liability
- ★ Environmental fines
- ★ Production downtime
- ★ Environmental permit requirements & fees
- ★ Capital investment for environmental compliance
- ★ Increased environmental operating costs
- ★ Environmental taxes
- ★ Consultancy fees
- ★ Environmental staff
- ★ Environmental monitoring
- ★ Environmental management systems
- ★ Switching to greener raw materials
- ★ Switching to greener products
- ★ Market preferences and competition



Asset Management

-  Contaminated real property
-  Environmentally obsolescent technology
-  Poor maintenance
-  Lack of staff development
-  Lack of R&D
-  Reduced intangible value

Reputational Risks



citigroup campaign

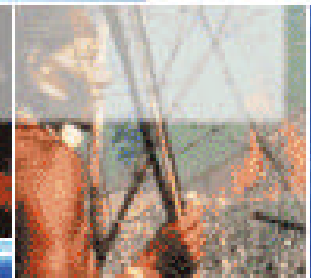
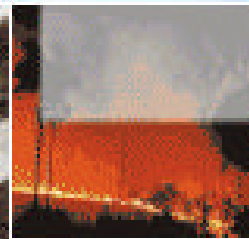
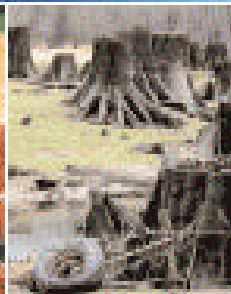
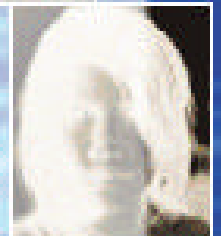
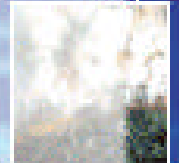


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money is?





...the ... the ...
WESTERN BANKS
 ... the ...
A SERIOUS PROBLEM
 ... the ...
TO KEEP IT UP
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FORIEGN AID
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CRISIS IN THE 1980's
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COLAPSING
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The Rating Agency View





 “From the global perspective, grasping the subtleties and at the same time the vast scope of environmental issues as they impinge upon finance is going to demand all our intelligence and all our application”



John Bohn, Moody's Investors Service



Workshop Objectives

-  Understanding environmental risk
-  Assessing and mitigating environmental risk
-  Incorporating environment into existing management systems
-  Using environmental risk management to identify upside opportunities