



UNEP **Finance Initiative**  
Innovative financing for sustainability

## Environmental and Social Risk Analysis (ESRA)

### Introductory Workshop

28<sup>th</sup> May, 2010

Athens, Greece

[www.unepfi.org](http://www.unepfi.org)

Introduction

# ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT



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# Lessons Learned

- Risk does not always come from obvious sources
- Environmental and social risks can be a financial risk and not just a reputational risk
- Reputation is hard to price until you have lost it



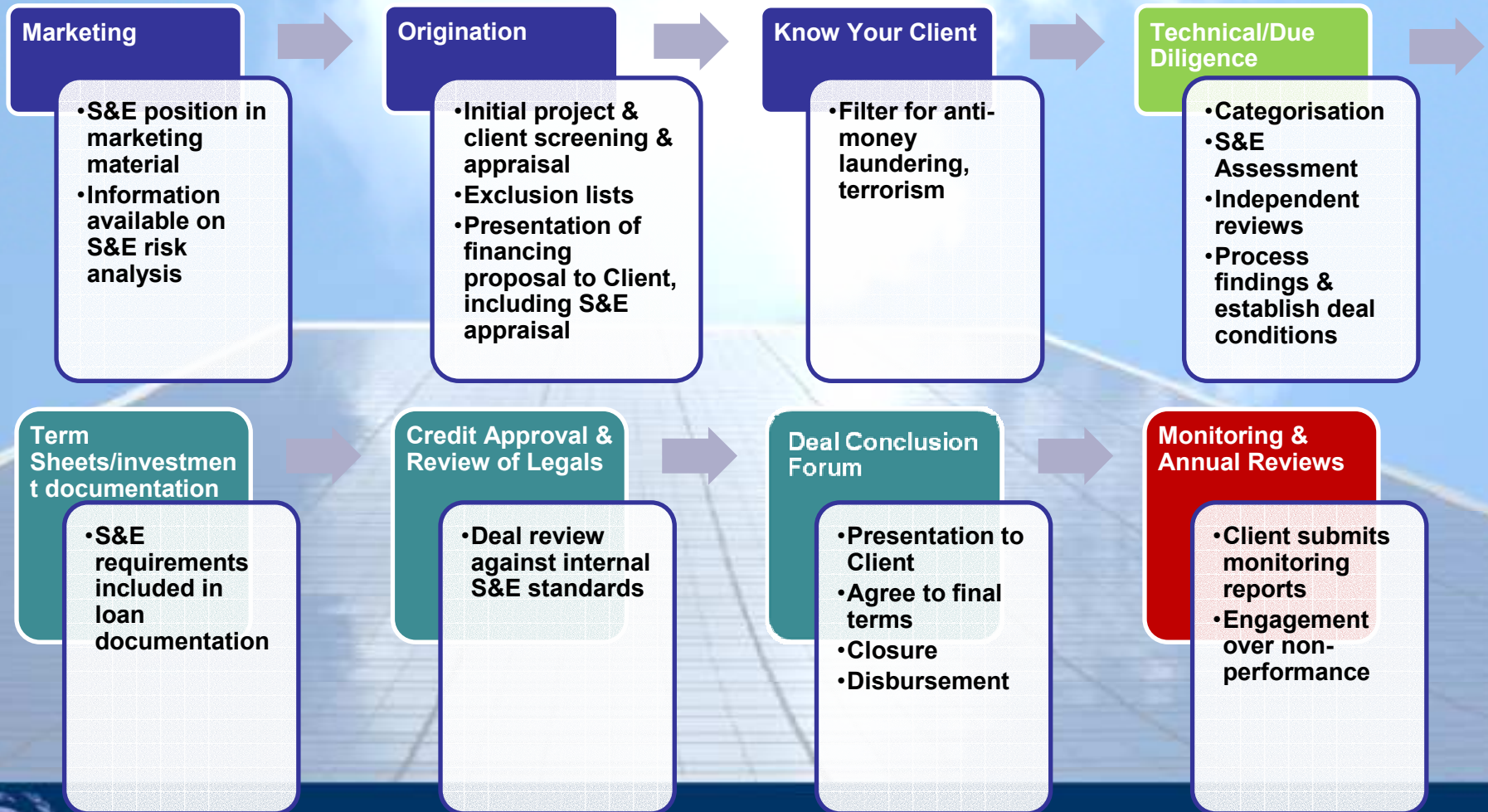
# S&E Risk Management

- I. Identification of S&E risks
- II. Categorisation
- III. Assessment of social and environmental risks
- IV. Managing client compliance





# Process Integration



# S&E Risk Management

Technical/ Due Diligence

- **Categorisation**
- **S&E Assessment**
- Independent reviews
- Process findings & establish conditions

Loan documentation Approvals & Disbursement

- S&E requirements included in loan documentation
- Credit review & approval
- Presentation to Client
- Agree to final terms
- Closure
- Disbursement

Monitoring & Annual Reviews

- Client submits monitoring reports
- Independent verification
- Engagement over non-performance



Group Work

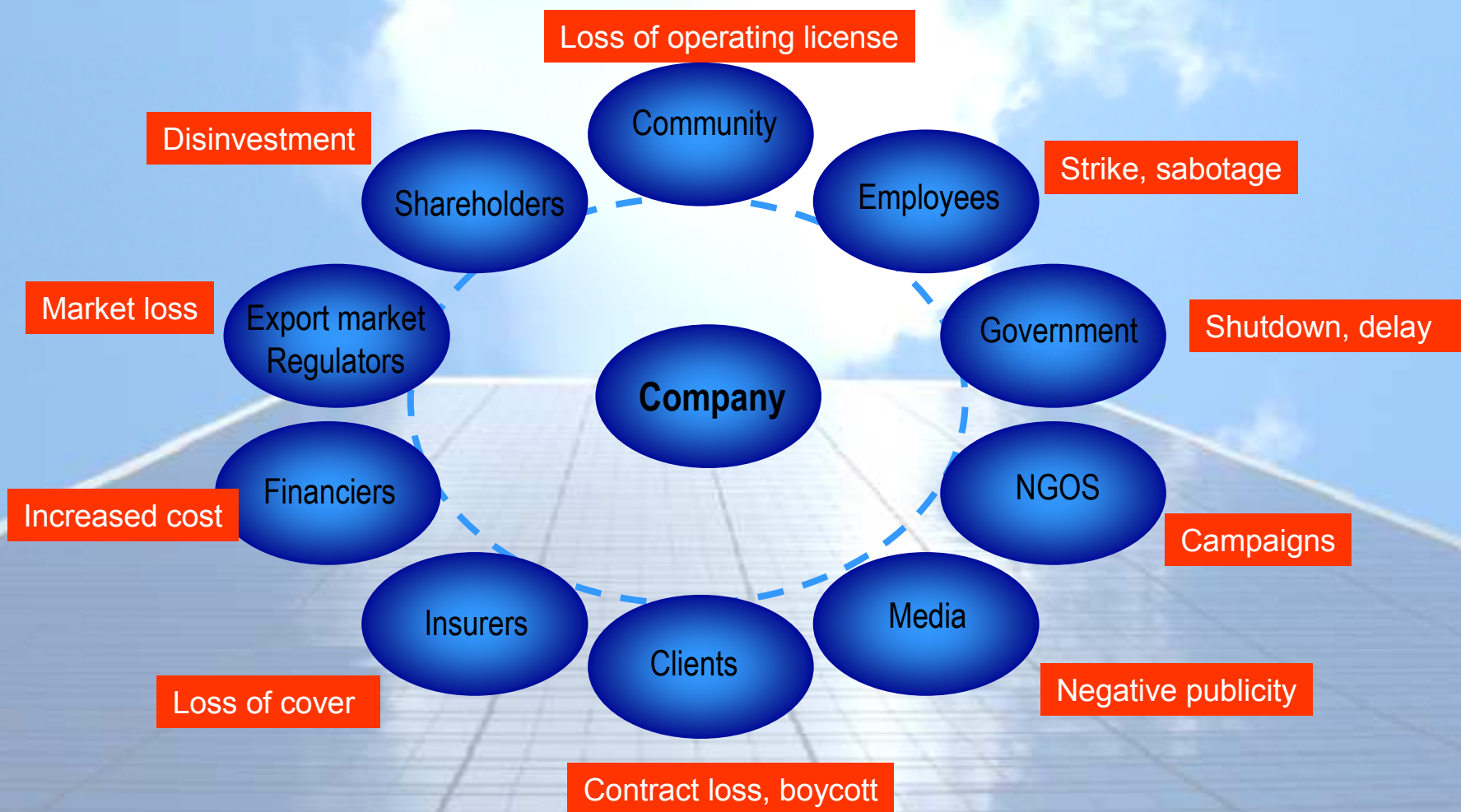
# ANALYSING THE CONTEXT



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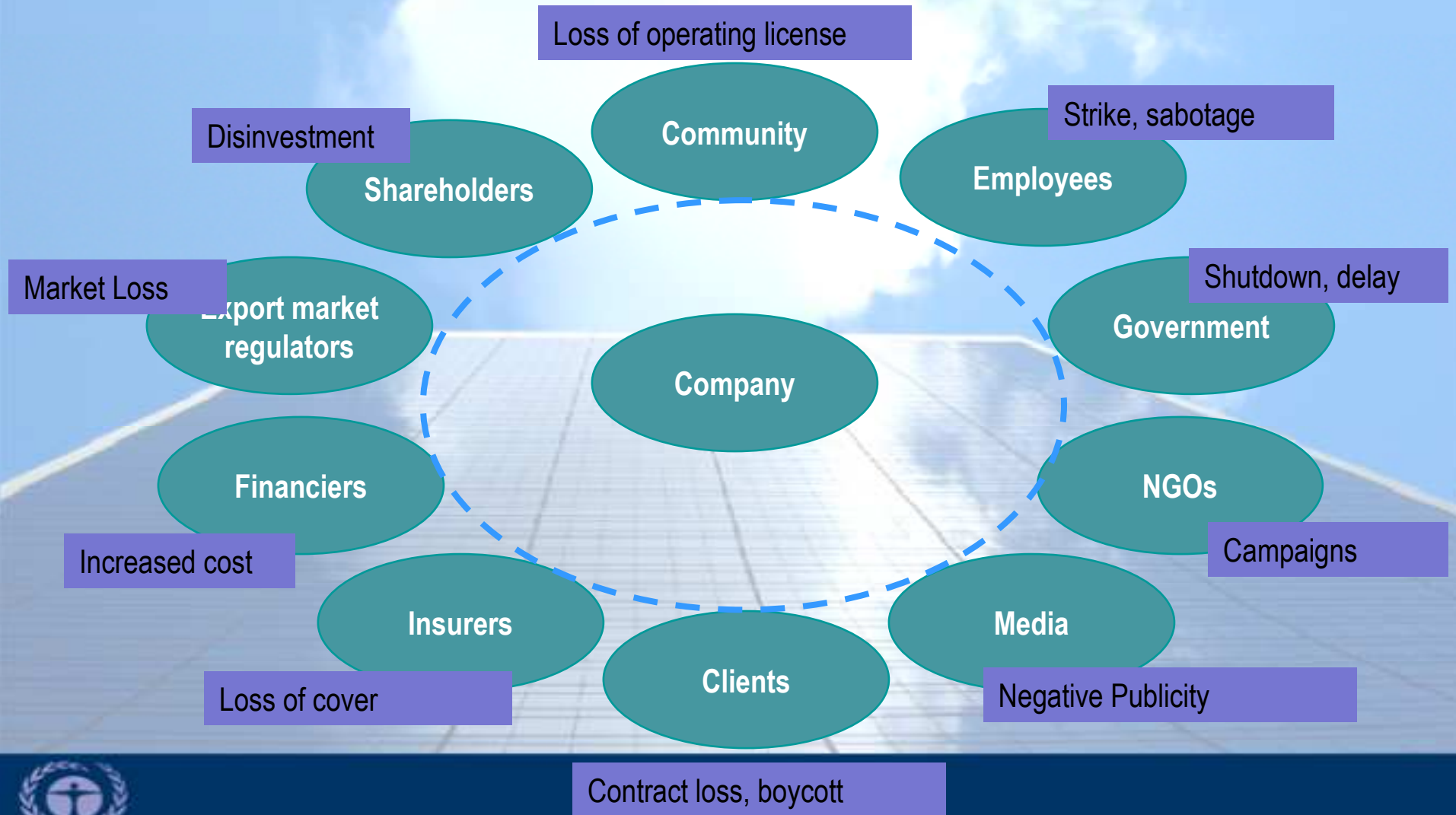


# Risks to the Client





# Risks to the Client



# Risks to the FI

- Credit Risk
  - Defaults
  - Payment rescheduling
- Market Risk
  - Sector wide practices
  - Market devaluation
- Guarantee Risk
  - Defunct/devalued collateral
- Legal Risk
  - potential transfer of liability from borrower to lender
- Funding Risk
  - Access to capital
  - Cost of funds
- Reputational Risk
  - National
  - International



# Risks to the Client







Implementation I

# ANALYSING THE CONTEXT



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# Aspects to Analyse

- Type and scope of the project - associated & related facilities
- Sector risk
- Market
- Location
  - Policy & regulatory framework, capacity to regulate, governance
  - Prevailing natural and social environment, trends
  - Levels of stakeholder activity in the sector
  - Existing/past impacts on environment
  - Impacts associated with inputs and raw materials, supply chain
- Third party risk
- Client commitment & capacity



# Challenges

- Access to information
- Client willingness, resistance
- Reliability of information
- Benchmarks for performance
  - National standards
  - EU directives and standards
  - IFC Performance Standards and EHS Guidelines





Group Work

# ANALYSING AND MANAGING RISKS



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Implementation II - Categorisation

# ANALYSING AND MANAGING RISKS



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# Categorisation

- A screening process to categorise a project based on the nature and magnitude of its potential impacts
  - sector, location, scale, type, related & associated activities, supply chain,
- For the purpose of determining level of social and environmental risk assessment and management required





# Definitions

| Category  | Characteristics   |
|-----------|---|
| A         | Potential significant adverse social or environmental impacts that are diverse, irreversible or unprecedented   |
| B         | Potential limited adverse social or environmental impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures |
| C         | Minimal or no adverse social and environmental impacts  |
| Reference | <i>IFC Policy on Social and Environmental Sustainability, April 2006</i>  |



Group Work – Categorisation Tool

# ANALYSING AND MANAGING RISKS



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Implementation III – Due Diligence, S&E Assessment

# **ANALYSING AND MANAGING RISKS**



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# E&S Assessment

- The duration, depth and type of E&S assessment required depends on the nature, scale and potential impact of the project, company activities.
- Area of influence
- Alternatives
- Avoid, minimise, mitigate and compensate
- Increase positive impact



# S&E Assessment

| Category | Assessment   | ESRA Form                          |
|----------|--|------------------------------------|
| A        | SEIA and/or Audit, Action Plans, Public Consultation & Disclosure<br><br>Independent Review                    | ER006, ER007,<br>ER008A,<br>ER010A |
| B        | Environmental Audit or internal Environmental Management Analysis, Evaluation of Risks, Corrective Action Plan | ER008, ER009                       |



Group Work – Risk Evaluation Tool for Category B Project

# **ANALYSING AND MANAGING RISKS**



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Implementation IV – Managing Client Compliance

# **ANALYSING AND MANAGING RISKS**



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# Managing Client Compliance

- Action plans
- Identify conditions for financing
  - approvals, disbursements
- Inclusions into loan documentation & provisions
- Monitoring
  - all category A and B should be monitored
  - independent verification of compliance

