

Annex VI
ASIAN BACKGROUND REPORT

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Environmental Governance Standards for DFIs in Asia
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EU ASIA PRO ECO PROGRAMME
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1.0 INTRODUCTION

This documentation report is intended to serve as a background material for the development phase of the study on “Environmental Governance Standards for DFIs in Asia”, a project initiated and organized by the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) with the support of the European Commission.

The primary objective of the development phase is to promote the discussion on and foster the awareness of issues and concerns related to Environmental Governance Standards (EGS) among development financing institutions in the region. In this first phase, scientific basics and the methodical approach are carried out for ensuring a smooth adaptation and implementation process.

As provided for under the project’s terms of reference, the development phase will provide inputs for the process of development of the Environmental Governance Standards for DFIs. These standards will make references to the responsibilities of DFIs to their main stakeholders, their core activities (i.e., strategic management, management of operations, and communication with internal and external stakeholders), business case for DFIs in addressing environmental responsibilities, priority identification procedures and performance evaluation methods.

In order to formulate the above content of the standards, two main issues are being reviewed and assessed by the project team, and these are:

- Environmental performance monitoring (EPM) for internal application, and
- Environmental rating standards (ERS) for loan appraisal and project finance.

2.0 OBJECTIVES AND SCOPE OF THE REPORT

The Asian Background Report provides a review study on Asian experiences in the field of environmental governance at the corporate level among the member-institutions of ADFIAP.

This short preliminary study has been undertaken by ADFIAP in order to review and analyze Asian perspectives as well as demonstrate Asian experiences on the “greening” of the financial sector as we move along further towards project implementation.

This study will present ‘best case’ applications from the region, including the well known Development Bank of Japan and two development banks in the Philippines; namely, the Development Bank of the Philippines (DBP) and Land Bank of the Philippines (LBP), that have set up specific units tasked with environmental analysis of financing proposals and the incorporation of

environmental factors into lending operations, learnings from country specific situations, and challenges and opportunities for improvement.

3.0 FINDINGS AND OBSERVATIONS

3.1. Highlights of ADFIAP Survey Results

UNEP/ FI Sustainability Finance Survey

A survey was recently conducted by the United Nations Environment Programme Finance Initiative (UNEP/FI) last March 2005 to determine the state of sustainability finance practices amongst ADFIAP members. A total of 19 ADFIAP member-DFIS participated as respondents.

As a background information, the UNEP/FI is a unique global partnership between UNEP and 177 financial institutions worldwide. ADFIAP, represented by its Secretary General, Mr. Octavio B. Peralta, was designated to co-chair with the Japan Bank for International Cooperation (JBIC), represented by its Deputy Director General for International Finance Department I (Asia and Oceania) Mr. Toshiro Nishizawa, the United Nations Environment Programme Finance Initiative's (UNEP/ FI) Outreach Group which is part of the Asia Pacific Task Force (APTF). Please refer to Annex A for more on UNEP/FI.

The APTF started in 2005 with the aim of supporting and expanding sustainable practices in financial institutions in the Asia-Pacific region. In order to set 'sustainability' priorities for the Asia Pacific financial sector, importance has been placed on the creation of a critical mass of Asia-Pacific member-signatories that are able to exchange ideas and best practice facilitated by a UNEP/ FI network.

The main objective of the UNEP/FI survey abovementioned was to understand the state of sustainable finance in the Asia Pacific region, in terms of level of awareness, implemented areas (products and services, policy and management, public reporting), drivers and barriers, and areas of interest for UNEP/FI assistance. The term "sustainable finance" was defined as linking operations of financial institutions with environmental protection and sustainable development.

Based on survey results, 18 out of 19 ADFIAP members agree that the importance of sustainability in the finance sector will grow in the next five years. Their reasons for adopting sustainable finance are:

Table 1. Drivers of Sustainable Finance

| | | |
|---|----|-------|
| Social responsibility | 13 | 68.4% |
| Enhanced reputation | 9 | 47.4% |
| Direction of industry | 7 | 36.8% |
| Competitive advantage | 6 | 31.6% |
| <ul style="list-style-type: none"> • Efficiently reacting to changes in business environment | | |

- Reducing sustainability risk
- Early entry into new socio- environmental markets

Source: UNEP/FI Survey, March 2005

Sustainability issues are increasingly regarded as part of risk management. About 69% of the respondents consider the relevance of sustainability as a business risk. On the other hand, about 63% of ADFIAP respondents regard relevance of sustainability as a business opportunity. The new socio-environmental business opportunities are identified as follows:

- Environmental loan (already undertaken by 7 survey respondents), i.e., loans for investment in reduction of raw material inputs for production, and waste minimization and clean technology;
- Microfinance (already undertaken by 5 respondents).

US AEP Survey

In cooperation with the U.S-Asia Environmental Partnership (US-AEP), a USAID initiative, the “Greening of DFIs” project was implemented in July, 2000 with an international training-of-trainers seminar on environmental risk management in Manila. The cost of the seminar was US\$ 22,000 which was co-financed by ADFIAP (US\$20,000) and US-AEP (US\$ 2,000). Eighteen (18) participants from fourteen (14) member-banks in China, India, Malaysia, Philippines, Samoa, Thailand and Turkey, attended the seminar. After this initial year of cooperation, ADFIAP conducted regional seminars each year onwards with the US-AEP and working with its member-banks and partner-organizations. (Please refer to Annex B, Project Brief).

By leveraging its extensive network of 55 member-institutions in 26 countries in the region and its affiliation with government agencies and the private sector, as well as its relationship with the Asian Development Bank that helped form the Association in 1976, ADFIAP raised the needed funds to run the project on a co-financing scheme with the US-AEP. ADFIAP also worked with its members which provided voluntarily their staff and training facilities as well as resource persons.

The ADFIAP survey conducted in February 2001 under the US- AEP project was designed with the premise that environmental risk is one of the most critical concerns of banks today because of its impact on the banks’ development loans as well as on the viability of the clients of the bank and its corporate image.

To evaluate the environmental roles and challenges of DFIs in the 21st century, questions were raised around 2 subject areas; namely: 1) corporate policy and 2) corporate delegation and procedures. The survey results are summarized in the following tables.

Table2. Corporate Policy and Practice

| Features / Elements | Yes | % | No | % |
|--|------------|----------|-----------|----------|
| Corporate environmental policy declared | 16 | 47.05 | 18 | 52.95 |
| Formally approved by the Board | 11 | 47.83 | 12 | 52.17 |
| Widely disseminated and known internally | 13 | 59.09 | 9 | 40.91 |
| Willing to install one during 2001 | 11 | 52.38 | 10 | 47.62 |
| Environmental risk management policy | 20 | 58.82 | 14 | 41.18 |
| Part of credit policies and procedures | 21 | 70.00 | 9 | 30.00 |
| Would have ERM policy and SOPs soon | 3 | 37.50 | 5 | 62.50 |
| Annual report carries section on environment | 6 | 18.00 | 27 | 82.00 |
| Would consider doing one | 19 | 79.16 | 5 | 20.84 |
| Have environmental risk factors in credit criteria | 23 | 69.70 | 10 | 30.30 |
| Have a Special Environmental Loan Fund | 8 | 24.24 | 25 | 75.76 |
| Have a Special Environmental Program | 8 | 26.67 | 22 | 73.33 |

Source: ADFIAP Survey, US-AEP Greening of Finance Project, February 2001

As shown in the table above, it will be noted that about 70 % have environmental risk factors integrated in credit policy. However, only 24% of DFIs have established a Special Environmental Loan Fund and 26% have a special environmental program.

3.2. Assessment of Preparedness of DFIs for a Full Installation and Execution of EPM and ERS

As discussed earlier, this documentation report apart from providing an overview of Asian perspectives on environmental governance in the finance sector will attempt to present the current state of environmental governance and sustainable finance policy and practice as demonstrated by the member-institutions of ADFIAP.

In so far as corporate policy is concerned, it was already mentioned earlier that the growing importance of sustainability is increasingly being felt in the finance sector and will continue to grow in the next 5 years. This is attributed to the fact that social responsibility of DFIs will become important as there is a shift of mandate toward sustainable development. At the same time, technical experts have advanced the idea that sustainable development in Asia is a major center of global development as it is becoming important for global sustainability.

Table 3. Corporate Delegation and Procedures

| | Yes | % |
|--|-----|-------|
| Responsible for environmental issues | | |
| • Environmental risk committee | 1 | 02.94 |
| • Special environmental officer | 3 | 08.82 |
| • An officer with other tasks | 14 | 41.18 |
| • No one | 13 | 38.24 |
| • Others | 3 | 08.82 |
| How responsibilities are assigned | | |
| • By written job description | 10 | 34.48 |
| • By delegation | 11 | 37.93 |
| • Informally | 8 | 27.59 |
| Rank of officer responsible for environmental issues | | |
| • President | 11 | 29.73 |
| • Department head | 8 | 21.63 |
| • Vice President | 5 | 13.51 |
| • Others | 13 | 35.14 |
| Regular reviews of environmental issues | | |
| By the CEO/Board | | |
| • Yes | 8 | 25.00 |
| • No | 24 | 75.00 |
| Environmental issues related to credit extension are analyzed | | |
| • Internal Environmental Monitoring Unit | 9 | 24.32 |
| • Third-party consultants | 18 | 48.65 |
| • None | 10 | 27.03 |
| Green companies with good credit standing are rewarded | | |
| • Yes | 8 | 28.57 |
| • No | 20 | 71.43 |
| Periodic review of technologies that the bank finance | | |
| • Yes | 21 | 72.41 |
| • No | 8 | 27.59 |
| Who trains frontline staff | | |
| • Internal auditors | 12 | 27.91 |
| • External auditors | 9 | 20.93 |
| • None | 12 | 27.91 |

Source: ADFIAP Survey, US –AEP Greening of Finance Project

3.2.1 Corporate Policy and Review Process

Based on the US-AEP survey, about 47% of the respondents have instituted their corporate environmental policy, 58% for environmental risk management policy, and 70% have integrated environmental risk factors into their credit policy. This record has improved further as a result of the series of awareness seminars conducted from 2001 to 2003 as manifested in the recent Technical Experts Conference Asia held in Manila in November 2005; 100 percent of the participating DFIs in the conference have already installed their corporate environmental policy while they are at various stages of implementation of systems development and improvements in environmental governance.

About 48% of the respondents say that their corporate environmental policy has been approved by the Board and only 25% says that regular reviews of environmental issues are being made by the Board.

3.2.2 EMS and Continuing Improvement Process

According to the UNEP/FI survey, 6 DFIs or about 11% of ADFIAP member-DFIs have installed Sustainability Management Systems (SMS), 2 of which are large DFIs that have obtained ISO 14001 certification.

3.2.3 Extent of How Accountability for Environmental Performance is Organized

Results of the ADFIAP survey sponsored by US-AEP showed that responsibility for environmental issues is being performed by an officer with other tasks and responsibilities (41%); by the President (30%), by a Department head (21.6%); and a Vice President (13.5%).

3.2.4 Handling of Environmental Compliance Decisions

The same US-AEP survey showed that responsibilities are usually assigned through a written job description (34.5%), by delegation (37.9%), and informally (27.6%).

Environmental issues related to credit extension are being handled and analyzed by third- party consultants (24.32%), an internal monitoring unit (48.65%), and none (27.03%).

3.2.5 Internal and external evaluation processes for environmental performance

As the UNEP/ FI survey has indicated, only 3 DFIs have installed and currently operating sustainability reporting systems, of which internal and external evaluation processes for corporate environmental performance are an integral part.

However, the same survey says that there are 13 out of 19 respondents that undertake quantitative environmental record keeping as one of their noted sustainable finance practices.

3.2.6 Research Devoted to Environmental Technology

According to the US-AEP survey conducted by ADFIAP, 21 out of 29 respondents or 72% undertake regular reviews of technologies financed by the bank.

3.2.7 Stewardship and Education of Bank Officers with Environment-related Responsibilities

About 27.9% of the respondents say that their frontline staff are trained by internal auditors while 20.9% say their people are trained by external auditors

3.2.8 Bank Environmental Loan Facility

Environmental products are currently being undertaken by 15 out 19 respondents based on the UNEP/FI survey. These products include environmental loans, micro credit, environmental leasing, and environmental advice.

3.2.9 Corporate Environmental Programs

Internal environmental activities (e.g., corporate environmental policy dissemination, quantitative environmental record keeping, etc.) are being undertaken by 13 out of 19 respondents while external environmental outreach programs (e.g., community investment, community outreach, corporate charities and foundations, etc.), are being undertaken by 17 out of 19 respondents.

4.0 Best Case Applications in the Region

4.1 Development Bank of Japan (DBJ)

In terms of its sustainable finance policy, the program thrust of the Development Bank of Japan provides for the operation of a long-term funding facility for projects focusing on 3 areas of concern; namely: environmental protection, revitalization of local area, and technology innovation and venture business. As far back as the 1960s, the DBJ has been offering loans for environmental protection, including among others, water pollution control, smoke and soot control, waste disposal, recycling, energy saving, etc..

The DBJ is committed to creating a sustainable society through loans and investments. These are demonstrated in its program lending thrusts:

- “Building a sustainable society through assistance in 3 priority sectors: 1) community development, 2) environmental conservation and sustainable societies; and 3) new technologies and industries;
- Loans Promoting Environmentally Conscious Management: the World’s First Loans Using Environmental Ratings;
- Supporting Local Environmental Management Projects with Loans Based on Environmental Ratings;
- Creating a Society and Economy Protected Against Disasters: Loans for Disaster Prevention Measures;
- Establishment of Japan GHG Reduction Fund (JGRF) : Support for prevention against global warming;
- Creating New Industries by Fostering New Technologies with Commercial Potential: DBJ Technology Loans.”

Since 1960, a total of three trillion yen have been lent to environment-related projects. More specific examples include:

- General Lending for Cement and Eco Power
- Funding for Land Solution
- Loans for Promoting Environmental Conscious Management
- Japan Carbon Finance (launched in 2004)

As early as 2002, the DBJ has obtained its ISO 14001 certification and started publishing its Environmental Report in 2003.

The world’s first loans using environmental ratings were introduced by DBJ. As contained in its Sustainability Report 2005, one of the highlights of DBJ’s environmental performance is its success in implementing Loans for Promoting Environmentally Conscious Management Program. (Please refer to Annex C.)

“Of the many companies that applied for DBJ’s Loans for Promoting Environmentally Conscious Management program in fiscal 2004, DBJ extended financing to 32, for a total of approximately 40 billion yen. This year was marked by several exciting developments. For one, DBJ expanded the range of industries eligible for its loans, weighing environmental aspects for each industry. DBJ received applications from a wider range of industries than initially expected, encouraging DBJ to adjust the screening questions and ratings originally devised with the manufacturing industry in mind to reflect each industry’s characteristics. As a result, DBJ prepared a new scoring sheet with ten patterns, primarily for the non-manufacturing industry. The leasing industry’s inclusion is particularly significant in DBJ’s attempt to raise the sophistication of measures promoting the efficient use of resources.” (Source: DBJ Sustainability Report 2005, p. 19)

4.2 Development Bank of the Philippines (DBP)

Another best case application in the region of environmental governance in the finance sector and sustainable finance is the Development Bank of the Philippines. It is the second large financial institution in Asia that has successfully obtained an ISO 14001 certification. (Please see Annex D) But even before getting an ISO certification, DBP has been undertaking sustainable finance practices, specifically the assessment of environmental risk factors of business loans, operating an Environmental Management Unit and conducting internal environmental activities as far back as 1994.

DBP is one of the first Philippine banks to integrate environmental considerations in all aspects of its operations. DBP provides financing as well as technical assistance to projects that are environmentally sound. The Bank also plays an active role in encouraging clients, and its participating financial institutions (PFIs) under its wholesale lending program to include environmental considerations in their business and thrusts.

DBP's financing for sustainability is demonstrated in the types of projects being financed by the bank as shown in the table below:

Table 4. Examples of DBP Financing for Sustainability

| Types of Projects Financed | |
|-----------------------------------|---|
| ❖ Public Utilities | <ul style="list-style-type: none"> ❖ Land, air and water transportation ❖ Telecommunications ❖ Power generation and distribution ❖ Water supply and distribution |
| ❖ Community development | <ul style="list-style-type: none"> ○ Housing ○ Hospitals ○ Schools ○ Infrastructure |
| ❖ Agro-industrial | <ul style="list-style-type: none"> ❖ Post harvest facility ❖ Agribusiness |
| ❖ Focused lending Programs | <ul style="list-style-type: none"> ❖ Environmental lending products <ul style="list-style-type: none"> ● Industrial Pollution Control ● Credit Line for Solid Waste Management ● Cleaner Production for Businesses ● DBP Forest ● Occupational Health/ Safety ● Establishing EMS and certification for ISO 14000 ● Environmental Infrastructure Support Credit Program |

| | |
|--|---|
| | <ul style="list-style-type: none"> ❖ Micro financing ❖ New and renewable energy ❖ Technology development and commercialization ❖ Lending for ISO 9000 certification ❖ LGU Financing ❖ Sustainable logistics development program |
|--|---|

Source: DBP URL: <http://www.devbankphil.com.ph>

4.3 Land Bank of the Philippines (LBP)

Following the example of DBP, the Land Bank of the Philippines (LBP) which is envisioned to be the dominant financial institution in countryside development, has worked hard for its ISO 14001 certification. Just like all other ISO certified institutions, Landbank is committed to support environmental protection and sustainable development and shall ensure implementation of effective environmental management practices in its banking operations and services. One of its significant mission statements is to deliver innovative products and services that are consonant with ecological enhancement and effectively address clients' needs.

Although its corporate environmental policies and procedures were not yet properly installed and declared in the 1990s, the LandBank created an Environmental Unit (EU) in September 1994 primarily to perform 3 mandated functions: namely; 1) to render technical assistance for WB-funded ALF/CLF projects; 2) handle Montreal Protocol – WB Ozone Depleting Substances Phase-out Project; and 3) review environmental compliance of Landbank funded and foreign-funded projects.

Over the years, however, the LBP Environmental Unit' functions have been transformed to perform more significant responsibilities as part of its regular tasks, including among others:

Functions of Environmental Unit

- Project assessment: pre-release assessment of loans and preparation of environmental compliance report to ensure compliance of all projects for funding under LBP and foreign-funded projects to environmental laws and regulations;
- Post environmental compliance monitoring: ensuring that all projects financed are environmentally sound through environmental audit and monitoring;
- EMS development and implementation consistent with the ISO 14001 certification and continuing improvement of EMS;
- Conduct of environmental training and awareness programs for the Bank;
- Enhancing partnerships/linkages with DENR, other government and private agencies, local and international funding institutions;
- Develop the Unit's MIS;
- Recommend and implement environmental programs/projects.

Source: LBP Environmental Unit

Reaffirming its strong commitment to its social mandate, the Landbank continues to provide financing and other initiatives focusing on the needs of the agricultural sector and microenterprises, small and medium enterprises.

Table 5. Noted Examples of LBP Sustainable Finance Products

| Types of Lending according to source of funds | LandBank Credit Programs |
|--|---|
| Foreign Funded Programs | <ul style="list-style-type: none"> • JBIC Rural Farmers and Agrarian Support Program • JBIC-AJDF Small Farmers Credit Program • ADB Small Farmers Credit Program • JBIC Local Government Units Support Credit Program (low cost housing, health sector, water systems, flood control and sanitation, waste disposal, forestry) • WB Water District Development • WB Retail Countryside Fund • WB Countryside Loan Fund (SMEs) • WB Agricultural Loan Fund (SMEs) • KFW-LBP-PBSP Small, Micro and Cottage Enterprise Credit Project (Credit for microenterprises) • ADB Air Pollution Control Credit Project |
| LBP Lending Programs | <ul style="list-style-type: none"> • Support to Agriculture and Fisheries Modernization Act Program • Integrated Rural Financing Program • Cooperative Strengthening Assistance for Agrarian Reform Beneficiaries • LBP-LGUs Coop Strengthening Partnership Program • Technology Promotion Centers and Enterprise Capability Building • Loans to Microenterprises and SMEs |

Source: LBP Annual Report 2004

Although for the past decade the LBP has been considering environmental risk factors in its credit criteria and loan appraisal, the bank formally declared its Environmental policy relative to credit delivery through its Credit Policy Issuance (CPI) No. 2004-002 on March 16, 2004.

5.0 Conclusion and Recommendations

5.1 Priorities and Challenges

It was no less than Mr. Takejiro Soeyoshi, Special Advisor to UNEP to the Asia Pacific region who presented at the ADFIAP Annual Meeting held at Nadi, Fiji he results of the UNEP Finance Initiative which highlighted 2 new socio-economic business opportunities for growth identified by the ADFIAP member-institutions. These are environmental loans and micro finance.

The perceived benefits to be derived from environmental loans by the respondents were 1) ***“development of new products and services, 2) enhanced reputation, and 3) increased competitive advantage.”*** On the other hand, microfinance is seen as an opportunity for ***“gaining access to untapped and underdeveloped market with few competitors, obtaining access to foreign funding facilities and capital for microfinance projects, empowerment of SMEs and reduced exposure to black economy risks”***.
(Source: UNEP/FI PPT presentation materials)

Having recognized these business opportunities presented by environmental lending, the ADFIAP member-DFIs themselves recognize that environmental loans will form part of sustainable finance products that will continue to grow in the next 5 years and dominate the challenges confronting the development finance sector.

In view of these pressing challenges, more and more DFIs will strive to work at their own ISO 14001 certification and continuing development and improvement of their environmental credit program offerings relevant to the specific needs of their clients.

Furthermore, opportunities for technical and financial assistance from UNEP Finance Initiative have been identified and requested by ADFIAP member-institutions, including among others: 1) education and training (capacity building and skills development); 2) knowledge exchange through events and publications; and 3) continuous information sharing via interactive e-learning programs.

5.2 Suggested Areas for Further Research

One of the more significant findings/observations gained from interviews conducted with key officers of the DBP and the LandBank is the recognition by the operating heads of environmental management units that they attribute their success in EMS development and implementation and getting ISO certified to the determination and full support given by top management officials (from the Chairman of the Board, President and senior executives) to their undertakings.

This particular lesson learned from Philippine best case applications of corporate environmental governance and sustainable finance will point to the importance of provisions for adequate orientation, motivation and active involvement of top management executives in the process of educating bank officers on EGS development and installation.

Other recommended areas for further research are as follows:

- Need for customization of ERS instruments to be used for project assessment and loan appraisal (which is brought to our attention by the DBJ experience re: coming up with 10 patterns according to industry classification of borrowers, see Annex C) in order to approximate the different and unique characteristics and operational concerns of the various industry sectors/ clientele groups of the DFIs;
- Facilitating and hindering factors to EGS installation and implementation;
- Reward and incentive schemes for recognition of DFI clients with ERS good standing as well as for bank employees of DFIs with EPM good standing;
- Knowledge management processes to be installed to support the continuing education process of bank EGS implementors;
- Logical framework for rationalization of EGS formulation, benefits to be derived from EGS adoption and installation, and continuing improvement and redesign of EPM and ERS systems.

ANNEX A THE UNEP FINANCE INITIATIVE

Background: Launching the UNEP Finance Initiatives

The concept of the UNEP Finance Initiatives was launched in 1991 when a small group of commercial banks, including Deutsche Bank, HSBC Holdings, Natwest, Royal Bank of Canada, and Westpac, joined forces with UNEP to catalyse the banking industry's awareness of the environmental agenda. In May 1992, in the run up to the Rio Summit that year, the [UNEP Statement by Banks on the Environment and Sustainable Development](#) was launched in New York, and the Banking Initiative was formed. This Initiative, which operated under the auspices of the United Nations Environment Programme, engaged a broad range of financial institutions, including commercial banks, investment banks, venture capitalists, asset managers, and multi-lateral development banks and agencies - in a constructive dialogue about the nexus between economic development, environmental protection, and sustainable development. The Initiative promoted the integration of environmental considerations into all aspects of the financial sector's operations and services. A secondary objective of the initiative was to foster private sector investment in environmentally sound technologies and services.

About UNEP FI

The United Nations Environment Programme Finance Initiative (UNEP FI) is a unique global partnership between the [United Nations Environment Programme \(UNEP\)](#) and the private financial sector. UNEP FI works closely with over [200 financial institutions](#) who are signatories to the [UNEP FI Statements](#), and a range of partners organizations to develop and promote linkages between the environment, sustainability and financial performance. Through [regional activities](#), a comprehensive [work programme](#), training programmes and research, UNEP FI carries out its mission to identify, promote, and realize the adoption of best environmental and sustainability practice at all levels of financial institution operations.

Services and support

UNEP FI provides its [signatories](#) with practical research, capacity building, action oriented [publications](#), as well as hosting international conferences and [events](#) that bring together professionals from around the globe. UNEP FI provides quality support for your organisation. In addition to its dedicated team, UNEP FI opens up a vast network of sustainable development contacts, information and networking services that are dedicated to helping organizations make a difference.

The UNEP FI currently has over 230 [signatory institutions](#) from over 45 countries.

ANNEX B

“Greening of DFIs” Project

The “*Greening of DFIs*” Project is ADFIAP’s collective & responsive effort to pursue sustainable development through its adherence to the principles of a safe and clean environment, not only as part of good corporate citizenship, but more importantly, as an integral part of sound management practice.

The Project has its beginnings in October, 1998 in Washington, D.C. when ADFIAP members and its regional counterpart organizations (from Africa, Latin America, Europe and the Middle East) attending the annual CEO Seminar signed the “*Washington Declaration on the Environment and Sustainable Development*”.

Then, in cooperation with the U.S-Asia Environmental Partnership (US-AEP), a USAID initiative, the project was implemented in earnest in July, 2000 with an international training-of-trainers seminar on environmental risk management in Manila. The cost of the seminar was US\$ 22,000 which was co-financed by ADFIAP (US\$20,000) and US-AEP (US\$ 2,000). Eighteen (18) participants from fourteen (14) member-banks in China, India, Malaysia, Philippines, Samoa, Thailand and Turkey, attended the seminar.

After this initial cooperation, each year onwards with the US-AEP and working with its member-banks and partner-organizations, ADFIAP conducted regional seminars using ‘best-of-breed’ environmental member-banks like the Development Bank of the Philippines and the Industrial Finance Corporation of Thailand, both of which have ISO 14001 certifications. In September 2003, ADFIAP conducted a regional seminar on environmental governance in DFIs in Bangkok, Thailand.

For the “*Greening of DFIs*” Project (which had two phases), the US-AEP provided financial support in two tranches of US\$ 25,000 each year while ADFIAP contributed US\$ 75,215 for implementing these programs. Details of the project are explained below.

The twin objectives of the project are to institutionalize in each member: (a) a set of environmental policies and practices approved by the Board of Directors and incorporated into its overall business philosophy and (b) an environmental monitoring unit to look after environment issues and concerns in its day-to-day operations. To achieve these, the following activities were undertaken by ADFIAP:

- 1) did a survey to its membership to determine the extent of corporate environmental policy, practices and procedures in each member-bank;
- 2) promoted the project through its regular publications and website;
- 3) made presentations in various forums and organize missions in selected member-banks in the region;

- 4) provided a venue for presentations and discussions of the project during ADFIAP's annual conferences in different countries;
- 5) assisted members in their respective institutions in coming up with environmental policies and procedures and in setting up environmental monitoring units; and
- 6) undertook necessary follow-through activities, e.g., executive briefings, roundtables, etc.

By leveraging its extensive network of 54 member-institutions in 26 countries in the region and its affiliation with government agencies and the private sector, as well as its relationship with the Asian Development Bank that helped form the Association in 1976, ADFIAP raised the needed funds to run the project on a co-financing scheme with the US-AEP. ADFIAP also worked with its members which provided voluntarily their staff and training facilities as well as resource persons. ADFIAP has conducted four (4) international training events with participants from Japan, the Philippines, Malaysia, Indonesia, China, Mongolia, India, Pakistan, Sri Lanka, Thailand, Fiji and Vietnam benefiting from the program.

As a result of the project, there is now a more evident and broad-based insight on and conduct of environmental governance practices across members, judging from their annual reports and other publications given to the Association. Almost all members now have either or both their environmental policies and codes approved by their respective Board of Directors and have environmental monitoring units in their organizations minding and implementing environmental programs and activities. The other tangible outputs of the project are:

- A total of 71 participants from 12 countries in the region attended the training events.
- A total of around 300 CEOs and senior staff have gained insights on the project in ADFIAP annual conferences.
- A total of 60 institutions – ADFIAP members, affiliates and other networks – participated under the project.
- A new ADFIAP publication, *Greenbank*, was developed and produced for dissemination to members and other networks.
- An Environmental Category has been included in the annual ADFIAP Awards program for outstanding achievements of member-banks.
- A new project to develop an environmental governance 'scorecard' for DFIs and their clients is being developed.

The issue of environmental governance has been and will always be in the forefront of ADFIAP's activities. From the Association's point of view, the practice and institutionalization of environmental due diligence in DFIs is one such undertaking that it is proud to have and has provided its member-institutions a chance to become model "environmental banks" as its contribution to "*make a better world*". ADFIAP's efforts in the environmental field have been recognized by the United Nations Environmental Programme (UNEP).

ANNEX C

The World's First Loans Using Environmental Ratings

DBJ established its Loans for Promoting Environmentally Conscious Management Program in the belief that supporting the efforts of environmentally conscious companies accelerates the creation of a society that works to reduce global warming and actively recycles. Through this program, DBJ provides financial assistance for companies' CSR activities.

Comprehensive evaluation is based on approximately 120 questions. The Loans for Promoting Environmentally Conscious Management Program assesses a company's environmental performance and gives it a score. This environmental rating determines which of three interest rates the company is eligible for. The approximately 120 screening questions comprehensively assess the company's endeavors in three areas:

- (1) environmental performance, quantitatively measuring the company's efforts to reduce greenhouse gases and waste;
- (2) overall management, assessing compliance and information disclosure; and
- (3) business activities, evaluating the company's entire supply chain from procurement and manufacturing to distribution and sales.

In addition, DBJ continues to monitor the environmental performance of the companies receiving its loans. Expanding range of eligible businesses and augmenting support of medium-sized, community-oriented companies. Of the many companies that applied for DBJ's Loans for Promoting Environmentally Conscious Management program in fiscal 2004, DBJ extended financing to 32, for a total of approximately 40 billion yen.

This year was marked by several exciting developments. For one, DBJ expanded the range of industries eligible for its loans, weighing environmental aspects for each industry. DBJ received applications from a wider range of industries than initially expected, encouraging DBJ to adjust the screening questions and ratings originally devised with the manufacturing industry in mind to reflect each industry's characteristics. ***As a result, DBJ prepared a new scoring sheet with ten patterns, primarily for the non-manufacturing industry.*** The leasing industry's inclusion is particularly significant in DBJ's attempt to raise the sophistication of measures promoting the efficient use of resources (refer to pages 6-7).

Another exciting development is that DBJ made new advances with schemes to support community-based medium-sized companies promoting the environment.

DBJ's Loans for Promoting Environmentally Conscious Management

Composition of Loan Amounts, by Industry, for Loans for Promoting Environmentally Conscious Management (fiscal 2004)

| | |
|-----------------------|-----|
| Finance and insurance | 25% |
| Real estate | 2% |
| Wholesale and retail | 2% |
| Manufacturing | 66% |
| Electricity and gas | 3% |
| Construction | 2% |

Source: <http://www.dbj.go.jp/japanese/environment/finance/program.html>

ANNEX D

DBP Retains ISO 14001 Certification

January 25, 2005

For the second year, the Bank has retained its ISO 14001 certification for its continuing commitment and efforts to sustain the implementation of its environmental management system (EMS) in all areas of its banking, lending and investment operations.

The Bank's EMS was found to be consistently compliant with the standards of ISO 14001 based on the results of a verification audit conducted by AJA Registrars, Inc. The re-certification audit, which was conducted on December 14, 2004, entailed a review of the declared procedures for the Bank's EMS elements vis-à-vis the employees' environmental practices and records

The on-site re-audit process aimed to determine the levels of implementation conformance with the Bank's EMS documentation requirements, as well as the effectiveness of such implementation in achieving and supporting the Bank's environmental policy and objectives; and levels of compliance with applicable environmental legislation and other external requirements.

AJA Audit Team Leader Edward Afable discussed the results of the audit during the closing meeting attended by the Bank's Environmental Management Representative, SEVP Edgardo F. Garcia, and the EMS champions. He cited DBP's sustained compliance with environmental legal requirements and consistent monitoring of environmental objectives in their recommendation for the Bank's continued certification against the requirements of ISO 14001: 1996.

Mr. Afable, however, identified specific areas that need to be addressed in order to ensure the continuing conformance of the Bank's EMS with the requirements of the ISO 14001 standard. These areas cover aspect identification as well as procedures and practices involving document control and emergency and response.

ANNEX E

LBP Environmental Lending

SPECIALIZED LENDING PROGRAMS AND GUARANTEE FACILITIES

ENVIRONMENTAL PROGRAMS

ADB-AIR POLLUTION CONTROL CREDIT FACILITY

Project Description

The Air Pollution Control Credit Facility (APCCF) is a Y3,057,375,000 credit facility from the Asian Development Bank available in Pesos to provide financing to private enterprises (sub-borrowers) for projects that will improve the air quality or reduce air emissions in the Metro Manila Air Shed (NCR, Rizal, Batangas, Cavite, Laguna, Quezon, Bulacan, Pampanga, Bataan) and other key cities (Cebu, Davao, etc.)

Eligible Projects

The APCCF Credit Facility funds are available for:

1. Purchase/installation of air quality monitoring equipment
2. Purchase/installation of pollution control equipment
3. Procurement of new processes and other source equipment
4. Procurement of new and rehabilitation of an existing public transport fleet

Eligible Sub-borrowers

The fund may be accessed by any of the following:

1. Sole Proprietorship
2. Partnership
3. Corporation (70% Filipino-owned)
4. Multi-purpose Cooperative

Eligible Expenditures

Project related expenses not exceeding 75% of the total costs shall be eligible for financing. The fund will be available for:

1. Fixed asset acquisition
2. Working capital (initial and/or incremental)

Financing Mix Based on Project Cost

Sub-borrower (minimum) 25%
LANDBANK (maximum) 75%
Total Project Cost 100%

Loan Size

Loans are available up to a maximum of Y611,475,000 or its equivalent in Pesos

Interest Rate

- Variable rate with a one-time option to convert into a fixed rate
- Fixed rate which is the prevailing variable rate plus premium, with no option to convert

The on-lending rate to the sub-borrower will be negotiated between LANDBANK and the sub-borrower.

Repayment Terms

Maximum repayment of 12 years with a maximum grace period of 2 years and 3 quarters on principal payment

Sub-borrowers Qualifying Criteria

Sub-borrowers must initially meet the standard risk asset acceptance criteria set by LANDBANK which shall include the following:

1. A debt equity ratio within the 75:25 benchmark
2. A profitability track record of at least three (3) years, although start-up enterprises are also eligible
3. No ownership or labor disputes for the past three (3) years
4. An acceptable account profitability ratio of at least 3%
5. A satisfactory result in the credit, trade and background investigation
6. Fully secured by tangible collaterals as required by LBP
7. Debt service cover of 1.25 times on an average basis over the term of sub-loan with a minimum of 1.00 time in any year
8. Each qualified project generating an annual positive cash flow equivalent to at least Y12,296,000 shall have a Financial Internal Rate of Return of at least equal to the cost of capital

Environmental Protection

Sub-borrowers must comply with all Philippine rules and regulation regarding environmental protection.

Environmental Technical Services

The Environmental Unit (EU) of the LANDBANK and United States Trade and Development Agency (USTDA) consultants are available to provide the following technical assistance to sub-borrowers to ensure that the projects are environmentally sound.

1. Review the project description of the proposed loan to determine the environmental effects.
2. Coordinate with the DENR-EMB on behalf of the sub-borrower for environmental approval of proposed projects.
3. Maintain a list of reputable equipment suppliers to assist the sub-borrower in selecting the right equipment for their needs.

Commitment Fee

$\frac{3}{4}$ of 1% or 0.75% per annum

Prepayment Penalty Fee

0.125% of the principal amount of loan to be prepaid

Process Flow

1. Prospective sub-borrower files application with the nearest LANDBANK – Lending Unit (LU).
2. LU identifies projects for APCCF funding; pre-clears eligibility with Special Programs Management Department (SPMD).
3. LU evaluates loan application, secures SPMD's clearance on the technical feasibility/acceptability of project.
4. LU secures management approval on the project.
5. LU submits Notice of Withdrawal and other loan documents to SPMD.
6. SPMD requests Loans Implementation Department or Lending Centers through memo to release/transfer loan funds to sub-borrowers.
7. A post-audit survey/impact assessment of assisted projects shall be conducted by SPMD and/or ADB, if necessary.

For more details, please call the:
Special Programs Management Department
Telephone Nos.: 405-7339, 551-2200, 522-000 locals 7339, 2448, 2582 & 7238
Fax No.: 528-8523
Email: vcalderon@mail.landbank.com

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