

RESOURCE & TRAINERS' GUIDEBOOK



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ASIA PROECO



ENVIRONMENTAL RISK SCAN

*A tool for integrating environmental aspects
in bank lending decisions*

STEP 6

How can we deal with the environmental risk?

STEP 5

How can we structure the decision tree?

STEP 4

What are the issues/questions?

STEP 3

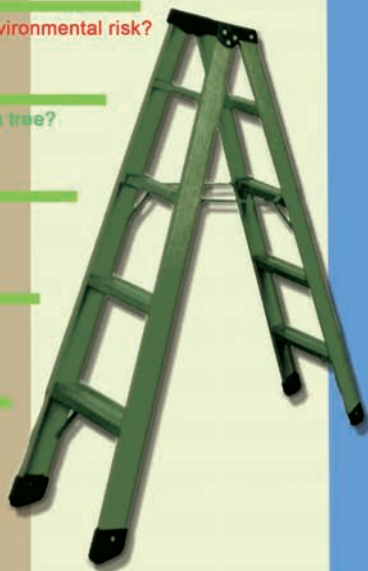
Where are the overlaps?

STEP 2

What is environmentally relevant?

STEP 1

What is economically relevant?



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ENVIRONMENTAL RISK SCAN

PREFACE

Banks are in the business of taking risks. Consequently, managing these risks is the bank's first and foremost task. This resource book, however, focuses on environmental risks, among other risks that a bank is confronted with in its lending decisions. The book also provides a methodology that is contextual to a development finance institution (DFI). But banks and other financial institutions may find this book useful to them as well.

With the issue of the environment hugging today's headlines and the concomitant pressure coming from almost all sectors to do something on environmental concerns, there is now, more than ever, no argument whether DFIs and their borrower-clients should be responsible for the environmental consequences of their actions. The degree of responsibility to take may however vary, and in fact, may be minimal in some cases. But the DFI should start, one way or the other, to fulfill basic responsibilities of mitigating environmental risks in its transactions and go further over time with greater impetus on overall environmental governance in its organization.

Each DFI has its own guiding principles and approach to environmental risk management (ERM). But two things seem to emerge though, at least based on the experience of the Project Team during its conduct of a series of workshops in the Asia-Pacific region: (a) that ERM is a function of prevailing national environmental regulations, and (b) that it is the responsibility of the lending officer to see to it that the DFI and the client comply with the minimum requirement of these regulations.

These two present "mindsets" in DFIs are the main reason this Environmental Risk SCAN (Systematic Credit Analysis) or ERS Resource and Trainers' Guidebook was conceived.

Its aim is to give a fresh perspective and approach on the issue of ERM and provide lending officers with a systematic tool to filter, analyze and make an informed decision whether or not to grant a loan to a credit proposal submitted to them for evaluation.

The book is one of the deliverables of the “Environmental Governance Standards for Development Finance Institutions (DFIs) in Asia,” an 18-month grant project under the EU-Asia Pro Eco Programme. This project (www.egs-asia.com) aims to develop and support the initial application of Environmental Governance Standards (EGS) for financial institutions in Asia.

This book has three parts:

PART I consists of readings that were taken from an earlier publication under the EGS project, entitled *Background Research on Environmental Aspects in Bank Lending Decisions*, to familiarize the reader on environmental risks in bank lending, what banks (mostly in Europe) do about environmental risks and how they analyse these risks as well as additional sources of information that are relevant.

PART II provides the conceptual framework of the ERS tool through the suggested six-step screening and analytical process.

PART III is the trainer’ guidebook that provides suggested training modules on the ERS.

We hope this resource cum trainer’s guidebook and its accompanying CD-ROM will enrich your institution’s loan policy and enhance responsibility-taking as far as environmental risk management is concerned.

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ABBREVIATIONS & ACRONYMS

ADFIAP	Association of Development Financing Institutions in Asia and the Pacific
DFI	Development Finance Institution
EGS	Environmental Governance Standards
ERS	Environmental Risk SCAN
IEMS	Internal Environmental Management System

SYMBOLS & WHAT THEY MEAN



This symbol indicates that here are references and links to find out more.



This magnifying glass symbol indicates that there are hard facts and information described in this part of the publication. It includes suggestions and recommendations that might help in achieving better results.

QUOTABLES

This box contains testimonials of organizations that have shown exemplary actions related to environmental risk management.