

Environmental Governance Standards for Development Finance Institutions in Asia

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Unlike traditional 'smokestack' industries, for many years banks were unaffected by the 'greening' of industry. They usually generated less controversy on environmental issues, since they were considered to be part of the non-polluting service sector.

However, from the early 1990's, the situation changed. With legal and stakeholder concerns like lender liability on environmental 'miscues' and a growing social and ethical focus on investments, the banking sector moved toward embracing the principles and practices of environmental risk management.

Development finance institutions (DFIs) are no exception. DFIs are involved in financing projects that have inherent environmental considerations, since they are set up by governments as specialized financial institutions providing long-term financing and technical assistance to industrial sectors that promote the country's economic development and growth.

In October 1998, the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) started its *Greening of DFIs* Project in Washington DC.

By leveraging its network of 64 member-institutions in 32 countries and its affiliations with government agencies, the private sector and the Asian Development Bank, ADFIAP raised the funds to run the capacity-building project on a co-financing scheme with the US-Asia Environmental Partnership.

As a result of the project, more DFIs have a broader insight into the environmental governance practices of members. Judging from the annual reports and other publications given to ADFIAP, almost all members now have their environmental policies and/or codes approved by their Boards of Directors. They also now have environmental monitoring units in their

organisations that are in the process of developing and implementing environmental programs.

Other outcomes of the project, which had a total of 70 participating institutions (ADFIAP members, affiliates and other networks) include:

- Around 300 CEOs and senior staff heard about the project in ADFIAP annual conferences;
- A new ADFIAP publication called *Greenbank* was developed and produced for dissemination to members and other networks; and
- An Environmental Category has since been included in the annual ADFIAP Awards program for outstanding achievements of member banks.

In July 2005, ADFIAP received a Euro 346,446 grant for its new initiative, *Environmental Governance Standards for DFIs in Asia* (EGS). The grant was provided by the European Commission through its EU-Asia Pro Eco Programme.



The 1st Working Conference on Environmental Governance Standards held on March 20-22, 2006 in Hanoi, Vietnam.

The main target group of this project is the 64 member-development finance institutions of ADFIAP that are located in 32 countries spread across Asia and the Pacific region.

The EGS have two dimensions.

1. An *Environmental Performance Monitoring Program* (EPM), which will comprise specialist management tools and instruments aimed at the institutional level, and will be for staff of ADFIAP member-DFIs (including the CEO, CFO, designated environmental officers, heads of lending and investment operations, bank loan appraisers/evaluators, investment portfolio managers and the bank's human resources and public relations managers).
2. An *Environmental Rating Standard for Loan Appraisal and Project Finance* (ERS), which will be developed for integrating environmental issues in established risk assessment procedures. This will be developed for use by clients of DFIs (mainly loan borrowers, investor-clients, and trade and industry associations).

Both the EPM and ERS will be summarised for broad application and dissemination and a resource book, “*Environmental Governance Standards for Development Financing Institutions*” and a trainer's guidebook “*Introducing Environmental Governance Standards in Development Financing Institutions*”, will be developed and applied.

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For more information on the ADFIAP Environmental Governance Standards Initiative please visit:

www.egs-asia.com/



During the Environmental Governance Standards event in Manila (from left): Mr. Luc Vandebon, Charge d'affaires, European Delegation to the Philippines, ADFIAP Chair, Ambassador Jesus P. Tambunting, and ADFIAP Secretary General, Octavio B. Peralta.