



**Environmental, Social and Governance  
risks and opportunities:  
the ‘new normal’ of financial decision-making**

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**UNEP Finance Initiative**  
Changing finance, financing change

# UNEP Finance Initiative & the global sustainable finance agenda

**Since 1992:** United Nations – Finance Institutions partnership on understanding, integrating and promoting environment, social and governance issues in business decision-making

**Today** - More than 220 members from banking, investment and insurance sectors

A finance community increasingly aware of sustainability challenges, risks and opportunities and its role in contributing to the well-being of society



## UNEP Statement by Financial Institutions on Sustainable Development

“ We recognize that sustainable development depends upon a **positive interaction between economic and social development, and environmental protection**, to balance the interests of this and future generations. We further recognize that sustainable development is **the collective responsibility** of government, business, and individuals. We are committed to **working** cooperatively with these sectors **within** the **framework** of market mechanisms toward common environmental goals. ”

“ We recognize that **identifying and quantifying environmental and social risks** should be part of the **normal process of risk assessment and management**, both in domestic and international operations. ( § 2.3) ”



# How does ESG risk management fit in the sustainability approach?

Financing sustainable development is about:

- **NOT ONLY Financing Change:** mobilizing new capital for sustainability projects (clean energies, affordable housing, proper water treatment, etc.)
- **BUT ALO Changing Finance:** integrating sustainability in traditional projects – making sure that finance operations are conducted in accordance with the principles for sustainable development
  - For **banks:** applying environment, social and governance filters in loan decision-making



# The ESG Risk Management System: part of the corporate culture change

- **Commitment:** sustainable business = good business
  - ⊙ Vision, standards & internal policies forged and backed by top management
- **Scope** of ESG risk analysis system defined
- **Teams** to implement the system set up
- **Tools** available for the teams to implement
- **Consistency vis-à-vis clients** ensured: active engagement for delivery of sustainability value & reporting to clients



# UNEP FI tool – a common playing field on ESG risks & opportunities for banks

## ❑ 'Guide to Banking and Sustainability' (2011):

*a common language on the meaning of sustainability in banks, including ESG risks*

## ❑ Online tool on Sustainable Banking (2013) :

*What can your bank / department do to incorporate sustainability? What are the benefits of including environmental and social lenses in the way of doing business ? What do other banks do about it?*

<http://www.unepfi.org/bankingguide/>





1. BOARD & CEO

2. MANAGEMENT

3. COMMUNICATION

4. SUSTAINABILITY

5. LEGAL

6. RISK

7. BUSINESS

8. TREASURY

9. HUMAN RESOURCES

## LATEST NEWS

"A POWERFUL TOOL FOR BOTH EXTERNAL AND INTERNAL  
COMMUNICATION OF BANKS ON SUSTAINABILITY ISSUES" -



### RISK

This section is intended for those teams responsible for managing and highlighting risks on issues that are significant to all business lines across all locations.



FACT SHEET

Q&A

TOOLBOX

UNEP STATEMENT

## OF SUSTAINABILITY AND ENVIRONMENTAL & SOCIAL RISK MANAGEMENT SYSTEMS

ESRM systems come in different hues and colors, however a beginner's guide to ESRM might look as follows:

### ES Risk Identification & Categorization

What are the potential risks associated with the client/ the client's undertaking? What are the potential risks associated with the client/ the client's undertaking? How real are these potential risks and how might they impact the bank? Have a process in place to ensure that new clients/projects are screened for any excluded activities and potential E&S risks. In order to keep things manageable, the screening may exclude

## WHY IS SUSTAINABILITY RELEVANT TO RISK?

CURRENT PRACTICES

### THE RISKS OF INACTION

- Appearance or increase in environmental and social liabilities
- Loss of reputation, credibility, and brand recognition
- Opportunities to benefit from certain financing and business options forfeited (e.g. lines of credit from multilateral banks).
- Reduced profits as clients seek safer financial services.

### OPPORTUNITIES

### WHAT YOU CAN DO

# UNEP FI capacity-building on ESG risks analysis

## Environmental and Social Risk Analysis Training :

- Online Course (E,S,F)
- Introductory Training Workshop
- Advanced Training Workshop
  - *In-person training focused on middle-market projects in emerging / developing economies*



## ESG Risk training since 2005:

- 3,300 professionals trained
- 115 countries
- 3 languages



# Collaborative approaches on ESG risk management – a tour around the world

- **Nigeria Banking Principles:** Central Bank stewardship; all banks required to manage & mitigate Environmental & Social risks; sectoral guidance developed for banks
- **China's Green Credit Policy:** launched by the Ministry of Environment, the China Banking Regulatory Commission and the People's Bank of China; credit support and E&S risk management to allow transition to green economy
- **Green Protocol Brazil:** at the initiative of the Banks Association in collaboration with the Ministry of Environment; Central Bank requires banks to report on E&S risks management.

**Other countries:** Bangladesh, Indonesia, Mongolia, Peru, Vietnam, Japan, Kenya, etc.



## Conclusion:

- Sustainability risks & opportunities: relevant now more than ever
- Pool of peer knowledge exists & expanding
- Tools available
- **Time to act!**





# Thank you!

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