

'Doing more with... SEA'

*How SEA can inform bankers about potential
environmental risks*

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Do banks care about environmental and social impacts?

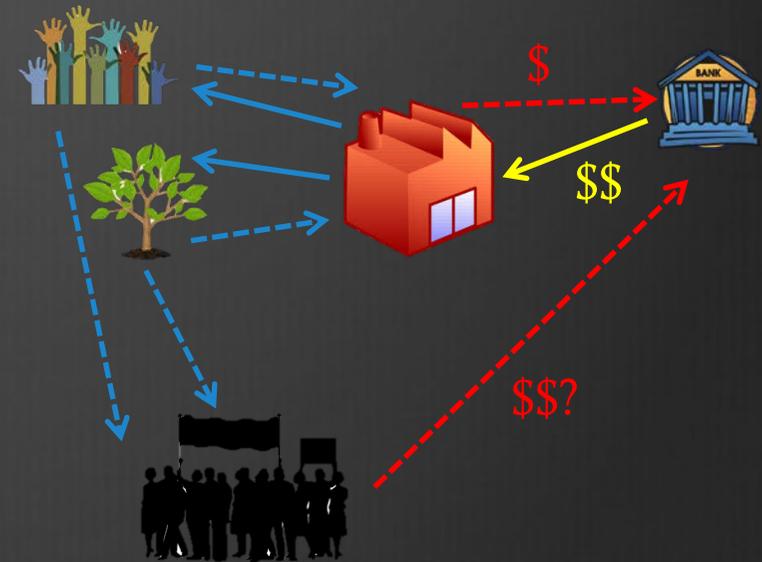


Yes...

- ✧ Impacts can represent financial risks and opportunities to banks (called 'environmental risk')

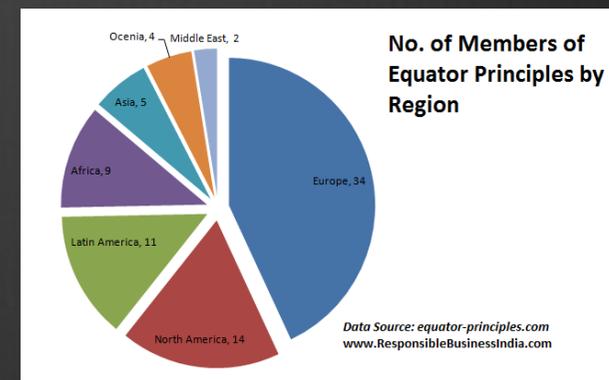
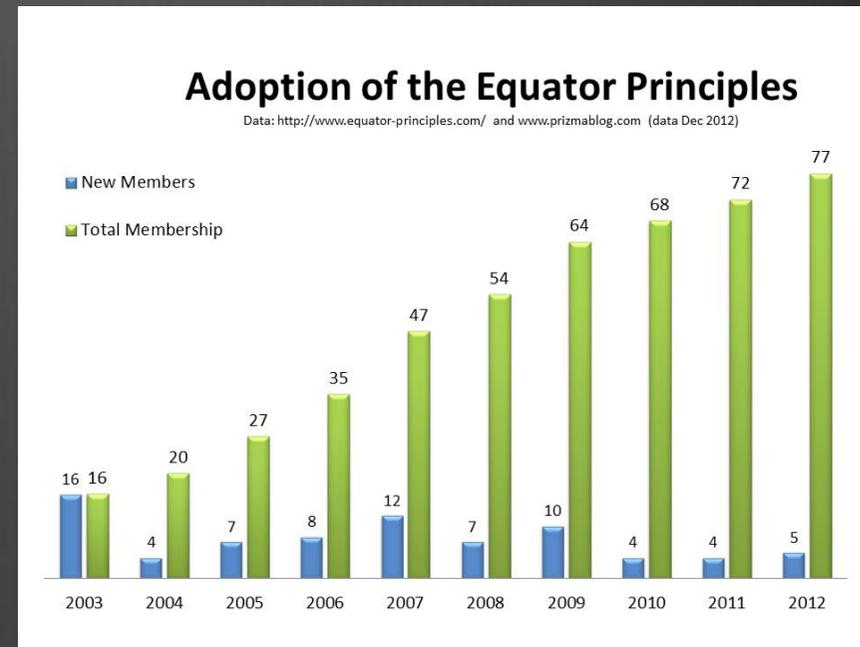
Types of risks:

- ✧ Direct
 - ✧ Indirect
 - ✧ Reputational
- ✧ Voluntary initiatives – Corporate Responsibility
 - ✧ UNEP FI
 - ✧ Equator Principles
 - ✧ Sustainability/CR reporting
 - ✧ Etc.



Banks use IA?

- ✧ Multilateral development banks
- ✧ Commercial banks: 'Equator Banks' as per 'Equator Principles'
- ✧ Research study: 'average' banks to ensure compliance (2006-2007) – no different to Equator Banks



Equator Principles and IA

- ✧ Operates at 'project level' for projects >US\$10 million, 80 banks have adopted
 - ✧ EP links finance services with projects
 - ✧ IA links projects with impacts
- ✧ Emphasis on host country compliance
 - ✧ Use IFC Env and Social Performance Standards to categorise projects (A/B/C) and WB Group EHS Guidelines
- ✧ Requires Assessment, Management System, Management Plan, Stakeholder Engagement, Independent Review, Reporting
- ✧ Equator Banks can make 'own demands'

Principle 1: Review & Categorisation
Principle 2: Social & Environmental Assessment
Principle 3: Applicable Social & Environmental Standards
Principle 4: Action Plan & Management System
Principle 5: Consultation & Disclosure
Principle 6: Grievance Mechanism
Principle 7: Independent Review
Principle 8: Covenants
Principle 9: Independent Monitoring & Reporting
Principle 10: EPFI reporting

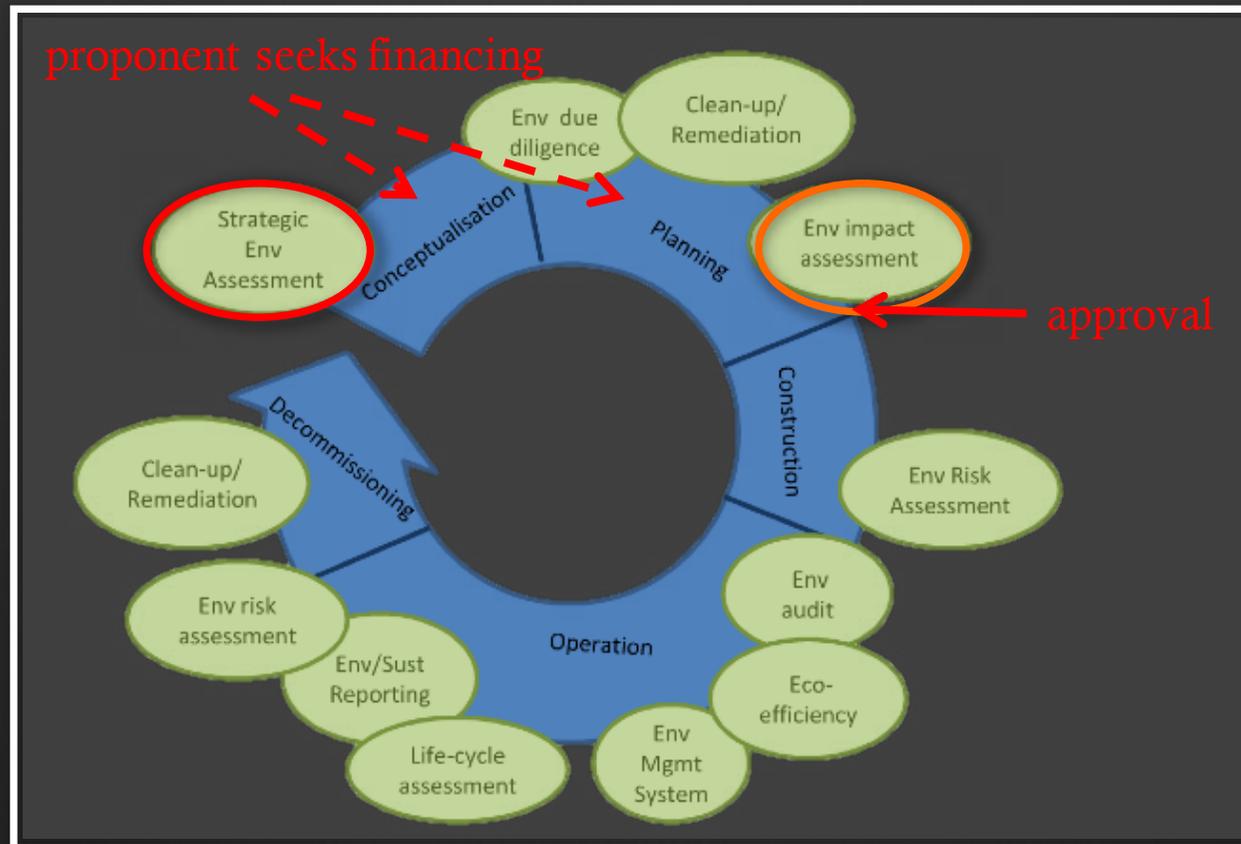
How could banks use SEA?

'Sectoral SEA'

- ✧ Can inform sector-specific credit policies (agriculture, water, oil and gas, spatial planning, etc.)
- ✧ Many banks classify sectors as **target**, **restricted** or **excluded**
- ✧ Can help identify possible **reputational risks** of public controversy in a given area or with financing projects in certain sectors
- ✧ Identify **risk of possible approval issues** (through 'hearing' in some SEA systems)

'Land-use plan SEA'

- ✧ Banks often lend in geographical areas of 'expertise' (bank and clients)
- ✧ Can help identify env and social risks associated with financing local government clients



The timing of SEA and bank finance

Project proponents negotiate and secure financing prior to completion of EIA and approval from authorities

As a result, banks employ several safeguard mechanisms (e.g. loan covenants)

Conclusions and Questions

- ✧ SEA could be a useful tool for banks based on the nature and timing of the information needs of lenders
- ✧ Particularly it can be effective in informing banks about reputational risks and forecast regulatory issues
- ✧ Ultimately this would contribute to the purpose of SEA
- ✧ Banks need to be aware of the weaknesses of SEA
 - ✧ Inability to always 'get in early'
 - ✧ Public are not as engaged with SEA as with EIA
 - ✧ Others...
- ✧ Should banks commission SEA for specific sectors?
- ✧ What parts of SEA are most useful for banks in making sustainable lending/investment decisions?



Thank you

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Images:

Saltstrategies.com, Psdgraphics.com, Centene.com, Iconshock.com,
galerirumahminimalis.info/equator-principles/, gofossilfree.org, Theguardian.com,
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Abbot point coal terminal



Protesters opposing the Abbot Point coal terminal hold up a sign as shareholders arrive for the National Australia Bank's annual general meeting in Brisbane in December 2014.



Key Questions

- i. How does an SEA carried out by a bank differ from an agency SEA carried out on a bank's lending program?
- ii. How would it help us "do more with less"?
- iii. Would a bank driven SEA avoid projects with potentially significant environmental impacts - e.g. ports in the Great Barrier Reef Marine Park – getting past the pre-feasibility stage?
- iv. What other types of institutions could adopt the same approach?