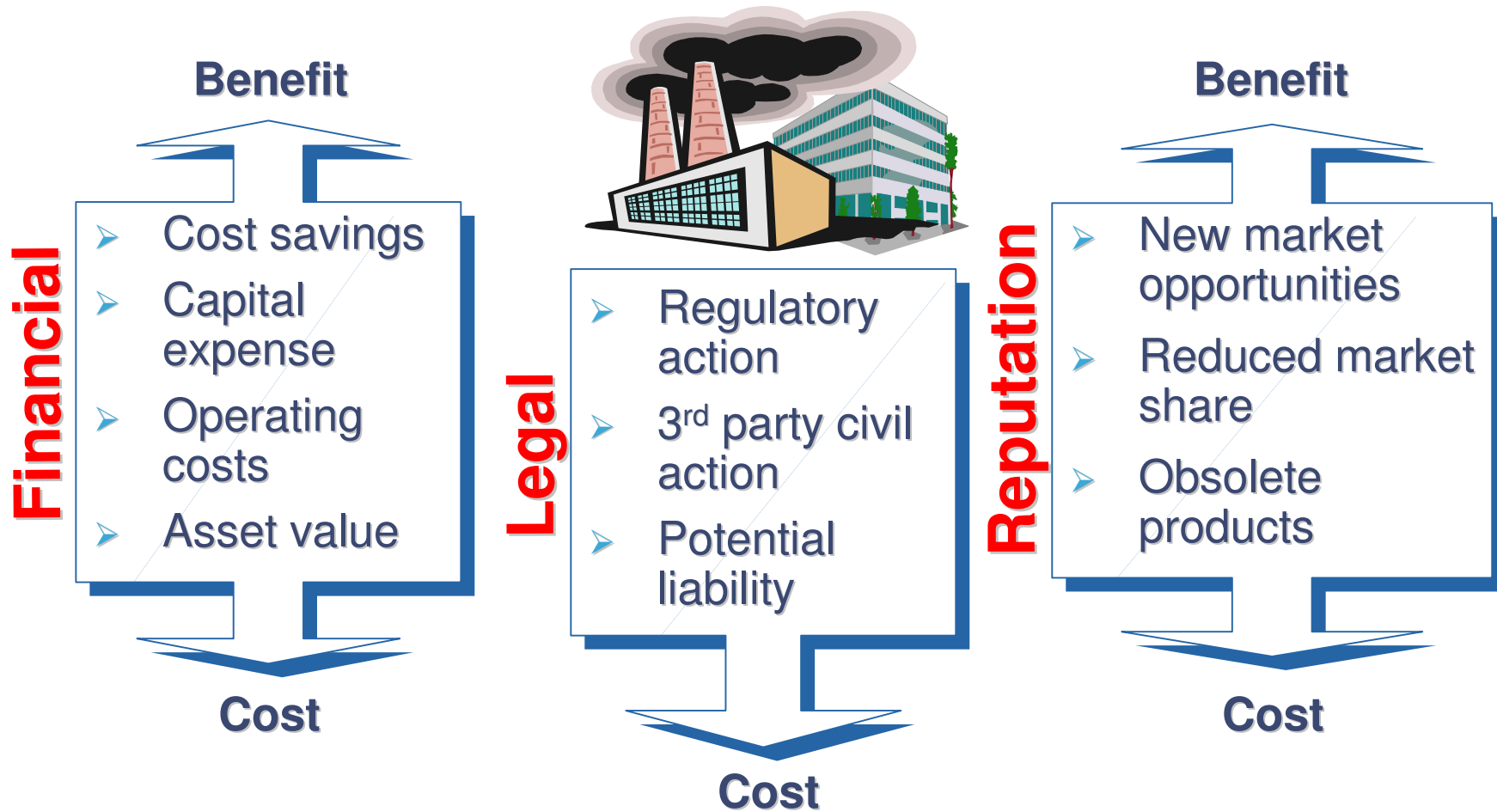




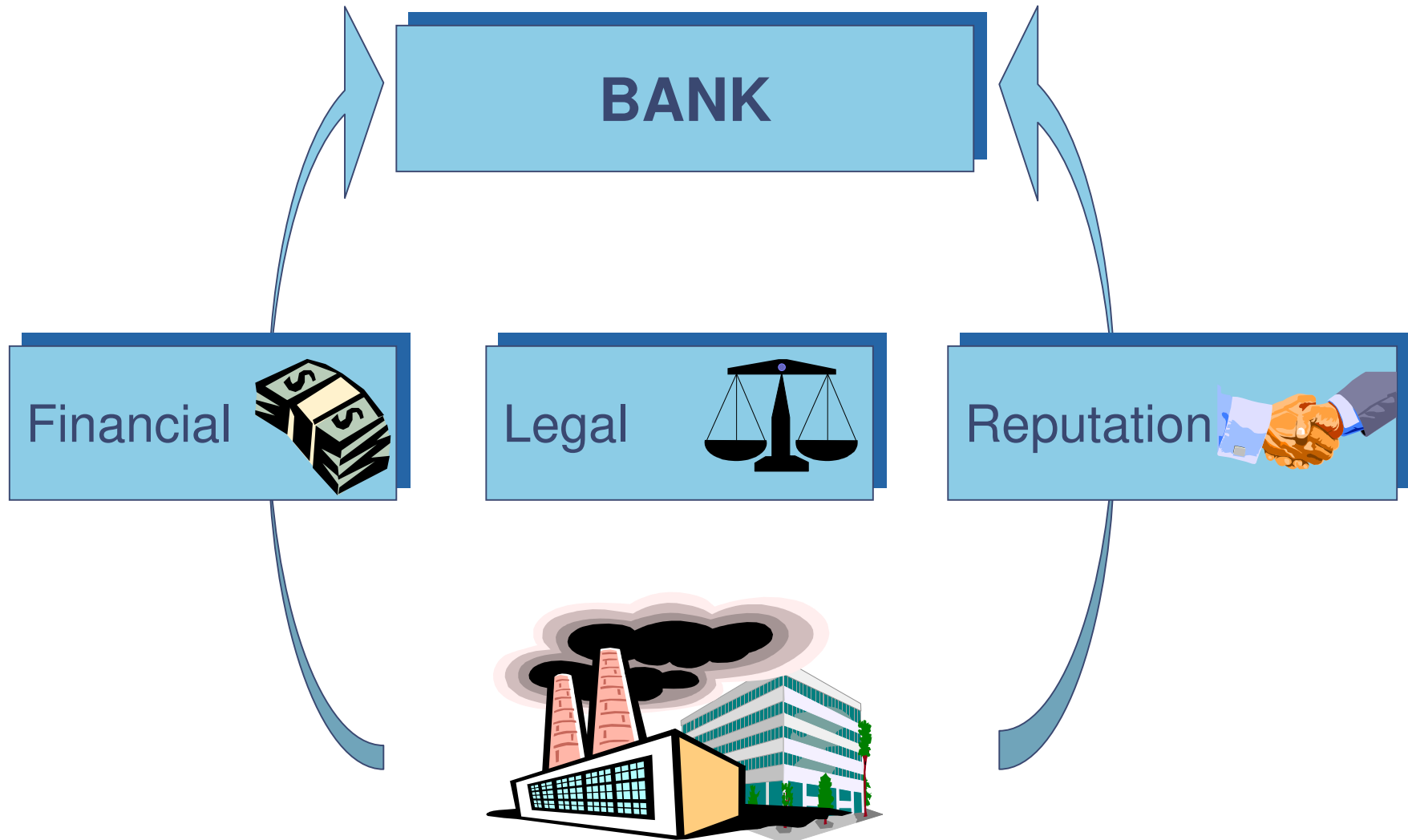
UNEP Finance Initiative
Environmental & Social Risk Management
in Banks

Mark Thompson,
Director

Direct Impacts of Environmental Issues on Businesses



Why Environmental & Social Issues Impact on Banks



Risks for Banks

Financial



- Inability to make repayments due to environmental costs
- Loss of value of collateral/assets as a result of contamination or non-compliance

Legal



- Potential direct liability for bank (to pay for clean-up of contamination caused by a customer) through control of client company or possession of assets

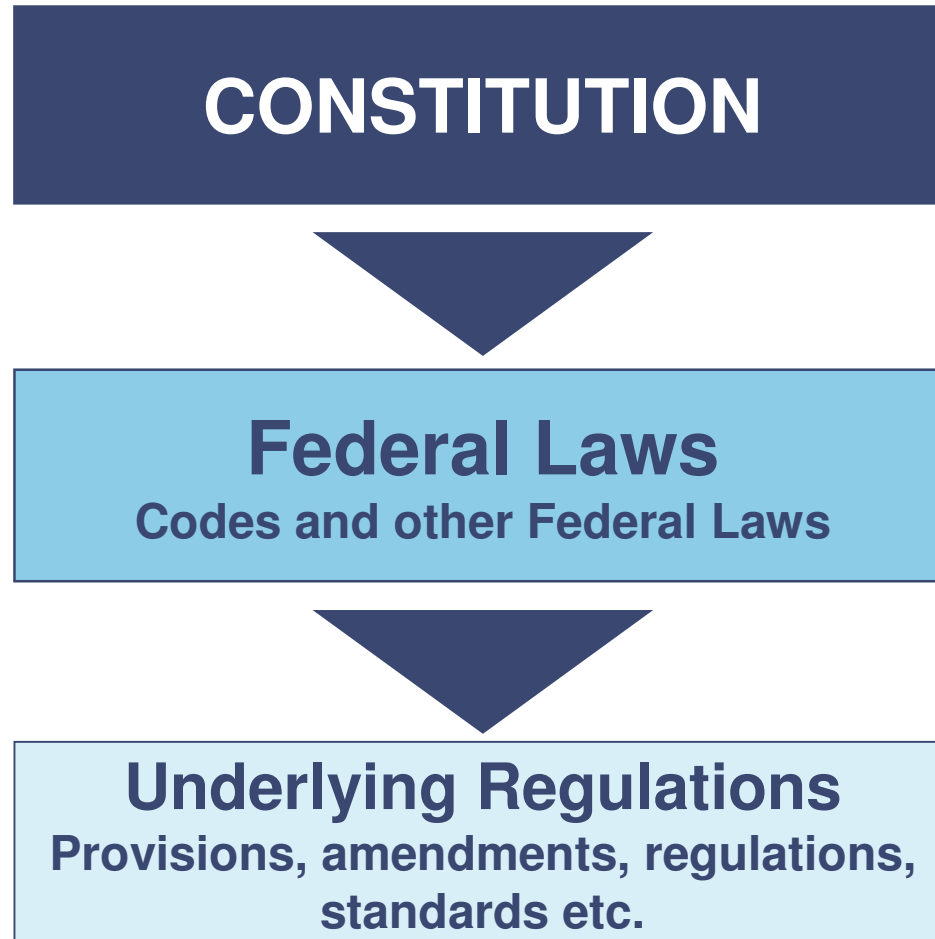
Reputation



- Damage to reputation through association with polluting or 'unethical' customers

- Environmental risk should also be considered at a portfolio level
- A bank should avoid overexposure to particular industries sensitive to environmental pressures

Structure of Legislative Framework



Key Environmental Bodies

Two main bodies at the federal level responsible for environmental matters:

- Ministry of Natural Resources of Russia with Federal Service for Environmental and Nature Management Supervision (RosPrirodNadzor)
- Federal Service for Ecological, Technological and Nuclear Supervision (RosTekhNadzor)

Future Trends

- Polluter pays principle
- New versions of some federal laws (The Forest Code, the Law on Subsoil Use) – in process of being adopted
- New federal law – the RF Environmental Code – second half 2006 and beyond
- Foundation of The Federal Agency for Environmental Protection (FAEP) - Amending current federal laws
- Restructuring of authority and responsibilities between federal, regional and local levels of government

International Law

Major international conventions that Russia has signed include:

Marpol Convention
- Marine pollution convention controlling shipment of oil in tankers

Montreal Protocol
- banning major ozone depleting substances such as CFCs

Basel Convention
- Controls international trade in hazardous waste

CITES
- Bans international trade in endangered species

Biodiversity Convention
- Protecting natural biological diversity

Forced Labour Conventions
- ratification of child labour conventions anticipated this year.

Impact on Business

Failure to follow environmental regulatory requirements may result in:

- limiting or closing down of the operation;
- Penalties and fines;
- criminal responsibility;
- clean-up costs.

Environmental Opportunities:

- to reduce costs (such as those for waste or effluent disposal);
- improve the quality and reputation of products.

Permitting regime – Project Development and Approval

New project approvals require the following steps:

- Feasibility study
- Project planning (Impact Analysis of the projected activity (OVOS) + Public Hearings/Discussions)
- State Environmental Review

Permitting regime – State Environmental Review (SER)

Two Federal Bodies responsible for SER:

- RosTekhNadzor
- RosPrirodNadzor

SER is the final key step for project approval

Objectives:

- Preventive control
- Assessment of the proposed activity for compliance with environmental and safety regulations

Permitting regime – Operational Aspects

- Maximum permissible emissions and relevant permit;
- Maximum permissible discharges and relevant permit;
- Waste generation and disposal limits and relevant permit;
- Hazardous waste management license;
- Water Use Licenses.

Regulatory Enforcement

Key bodies:

- Ministry of Natural Resources of Russia (MNR RF);
- The Federal Service for Environmental and Nature Management Supervision (RosPrirodNadzor);
- Federal Agency of Subsoil Use (RosNedra);
- Federal Agency of Water Resources (RosVodResources);
- Federal Agency of Forest Resources (RosLesKhoz);
- Federal Service for Ecological, Technological and Nuclear Supervision (RosTekhNadzor);
- Sanitary and Epidemiological Service of the Ministry of Health Protection.

These organizations have the power (within their responsibility) to:

- set up standards and norms
- inspect enterprises,
- monitor pollution,
- require information,
- impose sanctions including fines,
- shut down or suspend industrial activities.

In general, industrial companies are required to monitor their emissions to air and water, and waste generation and regularly report on their performance.

5 April 2006 r.

Public Participation

Public participation practice includes:

- Participation in Environmental Impact Assessment through Public Hearings and Public Discussions (organization of public hearings and discussion is an obligatory procedure for any new project);
- Public Environment Expert Review;
- NGOs role increasing in promoting public awareness and assisting citizens in exercising their rights.

Key ILO Conventions

Forced Labour

- C29 Forced Labor Convention - 23-06-1956
- C105 Abolition of Forced Labour Convention - 02-07-1998

Freedom of Association

- C87 Freedom of Association and Protection of the Right to Organise Convention – 10-08-1956
- C98 Right to Organise and Collective Bargaining Convention –10-08-1956

Discrimination

- C100 Equal Remuneration Convention –10-08-1956
- C111 Discrimination (Employment and Occupation) Convention – 04-05-1961

Child Labour

- C138 Minimum Age Convention – 03-05-1979
- C182 Worst Forms of Child Labour Convention – 25-03-2003

Case

Description of the situation

The Center for recycling of radioactive materials Production Association “Mayak”, located in Ural Region has discharged 60 mln. m³ of pollutants onto Techa river in 2001-2004

Damage

30 mln. rubles

Actions taken

No actions were taken

Results/Outcomes

Court decided to institute criminal proceedings against the General director

