FINANCING AND THE ENVIRONMENT

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Would you invest for profit in the Chernobyl, or Kozlodoui, nuclear plants? Would you buy shares in a company that manufactures products from depleted uranium? Would you lend money to a project that has been sued for polluting the Danube, or a good part of the sea and coastline?

Nobody in their right mind would do any of the above, irrespective of their environmental sensitivities. Therefore, environmental issues should be taken into consideration when participating in or financing any project.

In the short run, a company investing without consideration for environmental protection measures has a comparative financial advantage. In the longer term, however, the financial burden to the project, the holders and the bank financing the project is going to be substantial. As society and laws become stricter, the cost to repair the initial indifference to environmental issues is going to be huge.

The environment has been deteriorating and development is endangered. Our only hope is that our "bio-awareness" has increased. Bio-awareness can save the environment and provide development. Financing is undertaken by banks and international organisations. If we compare the projects financed that have substantially burdened the environment to those projects that are environmentally friendly the conclusion is not encouraging. Today's global society is neither as civilised as we imagine nor as healthy as we think.

For many decades we have financed our "bio-destruction." International organisations have been more responsive in respect to the bio-environment than commercial banks. Realising the dangers of financing today's development patterns, all international organisations require environmental compliance and assurances for every project financed.

The World Bank Group has increased its environmental programme substantially. All the projects are subject to stringent environmental standards. The International Finance Corporation (IFC) requires environmental assessment reports. EBRD integrates environmental policy priorities into all stages of its appraisal process. Procedures include screening, investigations, such as environmental assessments, and audits undertaken by the sponsor of the project.

Environmental awareness developed among a group of 93 banks that formulated and signed a Declaration on the Environment and Sustainable Development in 1997. This Declaration begins as follows: "We, the undersigned, believe that human welfare, environmental protection and sustainable development depend on the commitment of governments, businesses and individuals. We endeavour to ensure that our policies and business actions promote sustainable development meeting the needs of the present without compromising those of the future." Further, the Declaration states: "We recognise that environmental risks should be part of the normal checklist of risk assessment and management." If this principle is really adhered to by banks, our environment will be sustained. Unfortunately, we have a long way to go to implement this Declaration.

Banks, like all other enterprises, should first carefully review their own waste recycling, energy rationing and other environmental issues, as well as educate their personnel. Then, banks should review their profit/benefit definition versus the risks taken concerning both loans and investments. The minimisation of exposure to financial, as well as environmental, risks is desirable. The environmental risks should be identified, evaluated, controlled and monitored.

The are four categories of investment projects according to environmental risk:

- Low Risk: Projects whose environmental impacts are expected to be negligible. With regard to environmental concerns, these projects should be free to be financed and are desirable.
- Intermediate Risk: Projects with environmental impacts that can be readily identified and avoided and where their is no need for extensive environmental assessments and audits. An example is light industry.
- High Risk: Projects with highly significant, negative and/or long-term environmental impacts. Examples include the chemical, oil, ore and cement industry. Environmental assessments and audits are required. Those are financed by the borrower.
- Exclusion list: Projects that are regulated or prohibited by international agreements, or by national law. Examples involve radioactive products, restricted pesticides, asbestos, etc. This category is especially important for economies in transition because, usually, their legislation is more lenient.

The employment of environmental specialists and environmental consultants, on a continuous or periodic basis, is very important for all of the above.

Economy and ecology have the same prefix: eco. It comes from the Greek word for "home." Therefore, economy deals with the laws (nomy) of our home and ecology deals with the logic that should govern it. Our home, today, is our Earth. I would like to conclude by stating the obvious: There is no economy and ecology without life – *bios* – and there is no life without economy and ecology.

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