

How financial institutions create sustainable finance

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RECENTLY, we saw a lot of newspaper coverage about fires in garments factories, pavilions crashing down in International Trade Fair, indiscriminate land grabbing and filling of water bodies along Buriganga, Turag and other rivers, discharge of toxic dyes into rice fields, burning of logs in brick kilns, dumping of industrial waste, lack of safety in ship breaking yards -- the list is quite long. There has been a lot of discussion about who should be responsible -- owners, government or public pressure.

Industrial pollution and how it can be stopped has long been debated worldwide. Every single industry, small or big, polluting or otherwise has some links with Financial Institutions (FI). FIs provide wide range of services to the industries, starting from working capital, heavy investments, trade services, deposit facilities, insurance to advisory services in many cases. Since FIs hold the money without which no business can progress, then do they have a responsibility of ensuring that their money is not being used to destroy the environment of a country? **Sustainable finance** I feel that FIs are extremely strategically placed in ensuring that businesses operate in an environmentally and socially compliant way. One might argue that saving the Buriganga cannot be the responsibility of FIs. I agree, but FIs surely have the right to

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safeguard their own investments, their reputation and their public commitment to do things right. I am not talking about Corporate Social Responsibility (CSR) -- though CSR is important. A bank can set up an eye camp or schools, or conduct tree planting campaigns. I am not talking about the Footprint initiative (reducing energy, water use in own offices, introducing solar powered ATM machines). These are all excellent efforts but I am talking about hard core business, I am talking about sustainable finance whereby, FIs can actually safeguard their profits by managing environmental and social (E&S) risks in their day-to-day operations. Sustainable finance can be defined as the provision of financial services (lending, insurance, advisory) in ways that promote, or do not harm, economic prosperity, the ecology and community well-being. Sustainable finance does not mean saving the environment just for the sake of saving it. Sustainable finance means good business for FIs.

Why should FIs think about environment?
FIs should care about the environment

and the society for the following reason:

- Litigation, shut down leading to increase in Non Performing Loan (NPL). For example, a loan to an RMG factory without considering compliance issues can lead to order loss, financial crunch and ultimately loss of the FI;
- Decrease in the value of collateral and additional cost of cleaning up. Land contaminated say by toxic waste, acid, dye will never fetch a premium price in the market;
- Reputational risk and damage to brand promise. In many countries FIs are held directly responsible for their client's environmentally harmful activities;
- There are pressures from investors, government and NGO, Media for FIs to be more responsible in their financing.
- International Commitments: Equator Principle, Climate Principles are commitments made by FIs, which prompts them to be responsible financiers.

Challenges faced by the FIs

Though there are compelling reasons for FIs to be more conscious about E&S risks, they face a lot of challenges.

- Perceptual barrier: Bankers at times feel

E&S issues are not important.

Investment is safe as long as financial risks are managed. Some sceptics feel climate change is a myth and media propaganda;

- Institutional barrier: NPL due to E&S reasons is not captured in the FI's database. There is a misalignment between the frontline sales staff's target and E&S requirements. When the person knows that his bonus is linked directly to the target, he will try to reach his target at any cost, at times ignoring vital compliance related shortcomings;
- Policy and regulatory barrier: In some countries the policies are not clear-cut, laws have not been enacted and even if there are laws, implementation is slow;
- Skill, knowledge, information barriers: Managing E&S risks and understanding climate change and its financial intricacies is a very new topic for FIs, thus there is lack of understanding, training and severe lack of internal processes and tools to ensure robust E&S risk management framework.

Current scenario and way forward

Given the challenges faced by the FIs and considering the contemporary nature of the topic sustainable finance the FIs have come a long way. What started as mere environmental reporting in the past decade has now evolved into sustainable finance. FIs are taking a comprehensive approach

which includes mitigating their E&S risks in transactions, reducing their own ecological footprint, CSR and at the same time financing green projects like solar, biomass, energy efficiency etc. Bangladesh Bank played a crucial role in introducing the concept of sustainable finance in partnership with different development agencies in Bangladesh. It has developed an Environmental and Social Risk Management guideline for FIs, which is currently being rolled out. Some multinational banks follow international standards in managing E&S risks. Local banks have developed innovative products like green credit card and green loan. However, the procedures for managing E&S risks require a lot of improvement, starting from setting standards specific to Bangladesh, to developing internal risk identification and mitigation procedures, monitoring progress, developing internal resources to ultimately public reporting. FIs are into the business of taking calculated risk, why leave out E&S risk which is going to become more and more important and the cost of ignoring it will be significantly high in the coming years, specially for Bangladesh, which is highly vulnerable to climate change. FIs need to intensify efforts in making sustainable finance a reality for Bangladesh.

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Pros and cons of Nuclear Power Plants

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Bangladesh may soon be building a nuclear power plant (NPP) to meet its energy needs. This article gives an outline of how NPPs work and the dangers associated with them.

Hydro, coal, gas and nuclear plants use different means of spinning large turbines that cause an electro-magnet inside coils of wire in a generator to spin, putting electrons in motion inside the wires and thereby creating electricity. Thermal plants use coal or gas for the heating process that spins the turbines while NPP uses uranium in a nuclear reactor. At a typical NPP, the nuclear reactor core -- rods of uranium arranged in bundles -- is immersed in a pressurised water tank called the vessel. As the nuclear reaction is spurred, neutrons strike and split the uranium atoms, which release energy and more neutrons that go on to split other uranium atoms. The energy in turn heats up the water that is channelled to a steam generator. To avoid overheating, the cooling process places control rods made of neutron absorbing material into the reactor. To prevent radiation, the vessel is encased in a thick concrete shield.

Environmental impact: The most prominent advantage of NPP is that it avoids the environmentally adverse greenhouse gas emission (GHG) of coal or gas based thermal plants. This consideration has been a key factor in driving the growth of NPP in developed countries from the 1950s to the 1990s.

Recent NPP trends: At least three parallel trends about NPP can be observed in the

world. First, according to the IAEA 2012 Report, worldwide there is a clear downward trend in the number of construction starts since 1979 (highest: 42) and connections to the grid since 1986 (highest: 33). Second, recent rise in construction starts is in the high growth economies (China, Russia, India and South Korea). Third, despite greater efficiency and safety of NPP technology, most of the important and long-time users (like USA, Japan, UK, Germany, and Canada) seem to be phasing out their previously built NPP capacity. For example, out of the 435 reactors in operation worldwide in 2011, 104 were in the USA, but the country has only one plant under construction and has not commissioned any new NPP in the new millennium. Japan, UK, Germany and Canada have none under construction. In recent decades, the global momentum seems to have shifted to alternative technologies such as wind and solar along with clean coal (reduced emission).

NPP risks: Spread/slippage of radioactivity from the vessel area of NPP and from the uranium fuel or the waste (from NPP production) into the open can cause severe health and environmental hazards. This may occur, for example, due to faults in the NPP design and construction, human errors in operating and servicing the NPP, natural forces/disasters damaging the NPP or the waste repositories, accidents during transportation of the fuel and the waste, and access to and malicious use by terrorists and other rogue users. According to *The Guardian*, there were 33 known accidents at



NPPs worldwide between 1952 and 2011.

The most damaging incident at the highest International Nuclear Event Scale (INES), (0 to 7, each increment is roughly ten times more severe) level of 7 took place in 1986 at the Chernobyl NPP in Ukraine (then part of USSR) when a reactor exploded, and according to the IAEA, released into the atmosphere 400 times the radioactive contamination of the Hiroshima bomb. While the long-term effects are still being studied, the immediate human fatalities were limited since only 116,000 people lived in the 30 kilometers radius around the Chernobyl plant, who were relocated after the accident. Radioactivity, however, is believed to have spread to a far greater area of 28,000 square kilometers with 830,000 residents.

Since 2000, there were six incidents (INES rating between 2 to 5), with the latest incident (INES of 5) taking place at the Fukushima NPP in Japan in 2011 when the

Sandai earthquake and tsunami led to failure of the emergency cooling system.

Some important observations from the history of the NPP incidents are as follows. First, despite extensive control measures, hazardous incidents do happen. Second, even with experience and sophisticated technologies, the frequency of hazardous incidents did not decline much over time. Third, even the most experienced, technologically advanced and rich countries experience such events and have enormous difficulty in managing a higher INES scale event, most amply illustrated by the 2011 Fukushima experience. Fourth, the potential health and ecological hazard of any higher INES event is expected to be more devastating if the NPP site is located in a region of high population density and the surrounding ecological system features connected water bodies, plantation and cropping areas. Fifth, the disaster could spread further in the absence of a well-

planned, resourced (human, financial and physical) and rehearsed system of event and disaster management in place.

Economics of NPP: Generally speaking, the initial construction cost of a NPP is higher than that of coal, gas, wind or solar installation. NPP also involves significant costs for managing radioactive used fuel and waste and ultimate decommissioning (9% to 15% of capital cost). However, NPPs have long physical life and low fuel and operating costs. The main construction cost component is the overnight engineering, procurement and construction (EPC) cost of the power system, followed by owner's cost, roughly 20% of EPC cost representing ancillary facilities including land. The overnight EPC cost is principally affected by the sophistication of the technology, local proportion of construction, and the labour and materials cost levels. As such, the overnight construction cost can vary widely across the globe, generally in the range of \$2 billion to \$8 billion, for a 1,000 MW NPP. Even with high end estimate of the construction cost as in the USA, it seems that NPP can be cost competitive.

In summary, NPP offers clean electricity at a relatively low fuel and operating cost. However, deadly NPP accidents do happen and can have severe health and ecological effects, especially in densely populated and agrarian countries. Many long-term NPP using countries are also shifting toward alternative clean technologies.

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Healthy workplace and productivity

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A HEALTHY workplace complements productivity by supporting the health and wellbeing of employees.

A workplace health programme refers to activities undertaken in the workplace. Public health strategies place increasing emphasis on opportunities to promote healthy behaviour within the workplace setting. The workplace directly influences the physical, mental, economic and social well-being of workers and in turn the health of their families, communities and society.

The World Health Promotion Program (WHPP) deals with various factors affecting employee health, such as poor and stressful working conditions, unclear work roles, lack of career development and conflicts between work, family and leisure. Currently, nearly all public sector organisations have WHPP in many countries.

Wellness programmes are linked to greater productivity, less absenteeism, and a reduction of long-term health care costs. Offer your employees healthy meal and snack options that help fuel their performance while also meeting their nutritional

needs. Review the cafeteria menu in organisations to replace unhealthy food with healthier choices. Consider replacing sodas with milk and juice and stocking snack machines with nuts, dried fruit and other healthy options, and be sure the office cafeteria has plenty of healthy meal options.

Productivity at work can get greatly affected by your physical and mental health. Many people suffer symptoms such as anxiety, depression, stress, and confused thinking, which influence them in all areas of life including work. When a person is sick, it affects productivity.

This is particularly relevant to the NHS, where many employees are involved directly in advising the general public about health. The success of any company depends heavily on the productivity and performance of its employees and it may also help create a positive corporate image.

Regular or continuous stress weakens the immune system and slows the healing pro-

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cess. Foods that are fresh, whole, naturally colourful and rich in nutrients increase your vitality and energy levels, and improve physical, mental, and emotional health. But far, far less energy has been spent on the relationship between diet and productivity or performance in the workplace.

Many of us have to take care of elderly parents and children, so when the demands of dealing with an ill family member begin to affect workplace performance we must seek help and support. Stress is often not avoidable, but health and fitness are factors which can be controlled.

The business community needs the medical community to integrate wellness into the workplace. However, the medical community also needs the business community. Business-medical partnership opens a new path to achieving a greater balance between

health and workplace productivity.

Barriers to creating healthy workplaces and major knowledge gaps must be addressed if we are to successfully advance a healthy workplace

agenda. Many companies offer help to employees through medical insurance, sick days and leaves of absences. If the work environment takes into consideration that people can and do get ill, it shows that companies are responsive to their employees and regard them as people, not robots.

We should share an understanding that a healthy work environment not only benefits employees through improved health and wellness but also benefits customers, shareholders and communities through a comprehensive approach to promoting health and wellness. Both corporations and employees have a responsibility for creating a healthy workplace. Bringing employer-sponsored health promotion to national attention can be accomplished in several

ways.

We need more attention to be directed at understanding the value of workplace health promotion programmes in achieving long-term improvements in the health and well-being of Bangladeshis.

At first, though, the major knowledge gaps need to be identified. There needs to be a clear alignment of goals and incentives among the diverse players in the health reform landscape, including employers, providers, health plans, pharmaceutical companies, health device manufacturers, public entities, communities, and government. All of these stakeholders essentially seek to promote public health and prevent disease, and accomplish this in a cost-effective way.

Personal well-being and a stress-free work atmosphere are important aspects for achieving success and productivity at the workplace. Governments can play an important role by serving as a clearinghouse for such information, treating it as a 'public good' and freely disseminating it.

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