***DRAFT***

# *AN ASSESSMENT OF FINANCIAL INCENTIVES*

# FOR

# ENVIRONMENTAL PROJECTS

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Industrial Initiatives for a Sustainable Environment (IISE) Project
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# I. Introduction

The on-going efforts for awareness-raising on environmental issues at both national [1/] and international [2/] arena call for more concrete action for institutions to aggressively push for more development activities that take into account less damage to the environment. There is an increasing pressure to assess the environmental impact of our economic activities in our pursuit for economic progress. The pressing concern is for the environmental issues to co-exist side-by-side with development and ensure that resources of the planet are to be utilized in a manner that protects the interest of all including the future generation. Major economic players, particularly the banking industry more than the others, are tasked to support environmentally friendly development activities. The call of the times have increased the banking industry's role to go beyond its traditional function as a provider of financial resources and services but also as protector of the environment as well, even as it fuels economic growth. The banking industry as a vital player has to encourage investments on environment and push to a greater extent this concern for environmentally sound economic progress.

With its revitalized and expanded role to play, the banking industry through its lending power henceforth should only make accessible its funds to economic agents that integrate the environmental concerns of the public within the core of their private business activities. Banks can accomplish this by supporting and providing the industries planning their environmental-related programs with a conducive atmosphere for such investments. Furthermore, banks should promote the institutionalization of concerns on environmental protection and resource conservation to its clientele and within its own operations. Likewise, the banking industry should be watchful among its ranks not to be part of any activity that achieve only its own preservation at the interest of environment. It is exactly these reasons that significant initiatives should be offered by the banking industry for a given period to encourage companies to comply with the environmental soundness of their operations under the allowable environmental settings imposed by the government. Given these added roles, the influential position of the banking industry will be used to the limit in pushing effectively the co-existence of development and environment as the country pursue its sustainable growth. The willingness of the industries to contribute to nature conservation is supported by an affordable environmental lending program provided by the banking industry that produce benefits accruing beyond the boundaries of their own businesses.

Given this agenda, the paper will look at the existing lending programs for environmental-related investments being offered by the banking sector. It will try to assess the level of utilization of each lending program per industry sector and geographical region. In its assessment, the paper will identify hurdles impeding the utilization of these lending programs and recommend ways to promote more acceptance of these programs. The paper will likewise identify the responsible agencies that can address these concerns.

Corollary to the purpose of providing financial assistance to environmental-related investment is a look at Natural Resources Development Corporation (NRDC). This government-owned and controlled corporation (GOCC) can function, given proper support and within the bounds of the law, as a possible conduit for financing the Environmental Management Systems Pollution Prevention and Cleaner Production (EMS/P2/CP) initiatives of the industries.

## II. Present Lending Programs and Their Utilization

Government as the primary mover for pushing for more conscious efforts to integrate environmental concerns in economic activities had initiated lending programs through the government financial institutions namely the Development Bank of the Philippines (DBP) and the Land Bank of the Philippines (LBP). With financial and technical assistance from various multilateral agencies such as Japan Bank for International Cooperation (JBIC), the US Trade and Development Agency (USTDA), International Bank for Reconstruction and Development (IBRD), Asian Development Bank (ADB) and World Bank (WB), DBP and LBP have several lending programs aimed at environmental protection and sustainable development.

Among the environmental lending programs of DBP and Landbank are:

- *Development Bank of the Philippines*
  - Industrial Pollution Control Loan Project (IPCLP) - funded by Kreditanstalt fur Wiedenraufbau
  - Environmental Infrastructure Support Credit Program (EISCP), Phases I and II- funded by Japan Bank for International Cooperation

- *Land Bank of the Philippines*
  - Countryside Loan Fund (CLF), Programs I, II and III - funded by the International Bank for Reconstruction and Development - World Bank (IBRD-WB)
  - Retail Countryside Fund (RCF), Programs I and II - funded by IBRD-WB
  - ADB - Air Pollution Control Credit Facility (AAPCCF)
  - WB-RP Ozone Depleting Substance Prevention Investment Project
  - WB-Integrated Protected Areas System
  - UNDP-Global Environment Facility
  - WB-Urban Sewerage, Sanitation & Drainage Component
  - JBIC-LGU Support Credit Project
  - ADB-Industrial Forest Plantation Project

Despite the availability of foreign funds with corresponding technical assistance, environmental lending programs by the country's banking industry still leaves much to be desired. Even with the awareness of some bankers and the availability of financing windows for environmental projects, these banks have not availed of such resources. Moreover, banks have not institutionalized measures to integrate environmental concerns into their lending programs. A scan of the country's leading banks reveal that no environmental units have been set up except for LBP and DBP. In the recently concluded conference of the Finance Initiatives of the United Nations Environment Programme (UNEP-FI), eight Philippine banks expressed support for environmental programs. Joining the original signatories of UNEP-FI, Bank of the Philippine Islands, DBP and LBP are Global Business Bank, Metropolitan Bank and Trust Company, Philippine Bank of Communications, Planters Development Bank and Rizal Commercial Banking Corporation [3/]. These banks, among other banks, are already involved albeit in a limited capacity as conduits for environmental lending as participating financial institutions (PFIs) of LBP and DBP’s wholesale credit facilities for environmental projects.

It is to be noted that only LBP and DBP since the early 1990s have consciously integrated environmental concerns in their lending programs basically because they are the main conduits for the funds being provided by international funding agencies. Part of their commitment in accepting these funds is to provide technical assistance by conducting information campaigns on environmental concerns of the government.

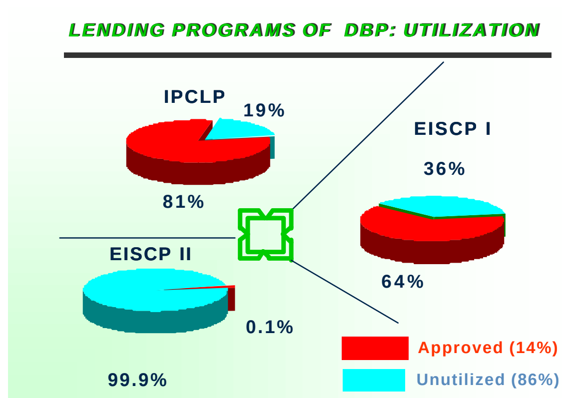
Noteworthy to mention at this point is the result of a recent survey conducted by Laaksonen[4/] on Philippine commercial banks wherein only 13 out of the 45 banks surveyed responded to questions on environmental due diligence (EDD). The survey showed that only three banks require environmental clearances other than the mandated environmental compliance certificate (ECC) needed by DBP and LBP for their wholesale lending facilities. Eight of the thirteen banks recognize the importance of conducting an EDD as a means to reduce credit risk and regard good ecology as good business. All the respondent-banks cited the difficulty in obtaining ECCs from the DENR. These findings indicate that banks still need to be made aware of the importance of taking into account environmental concerns in their lending activities.

In looking closely at the utilization of funds of DBP and LBP, discussions will be limited only to the IPCLP and EISCP programs and CLF and RCF programs, respectively, due to data limitations.

*DBP's Lending Programs*. The IPCLP can be availed of by new and existing small and medium-sized enterprises (SMEs) in the Philippines with pre-funding asset size not exceeding P60 million. Particular emphasis is given to enterprises belonging to the lower end of the SME sector. Among the eligible projects for this lending program include: a) investments in pollution reduction including improvement in occupational safety and/or reduction of raw material inputs for production to cover waste minimization/clean technology in industrial processes; b) installation of costeffective end-of-pipe treatment facilities and other waste disposal options; and c) investments in equipment to monitor emissions or effluents and other equipment to measure values for specific physical parameters as well as pollutants in effluent charges. The priority sectors include, among others: metal working, jewelry making, food processing, textile and dyeing, battery/automotive manufacturing, electronic components and appliances, etc.

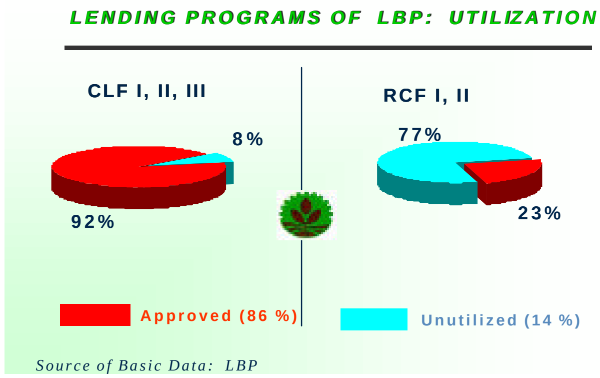
The EISCP meanwhile that was started in 1996 is already on its second phase. The primary goal of this program is to encourage industrial enterprises to adopt necessary pollution control measures. As a policy-based lending program, EISCP has the following policy statements: a) to promote the protection and enhancement of the quality of the environment; and b) to mobilize, encourage and support activities and investments in environment-friendly projects. The priority projects for this lending program are those that substantially reduce pollution and have greater socio-economic impact. As such, the priority projects include common waste treatment facilities, projects adopting innovative and environmentally clean technologies, facilities for the treatment and disposal of toxic and hazardous wastes, projects that promote efficient use and/or management of natural resources, projects which improve occupational health and safety, and environmental infrastructure projects under Build-Operate-Transfer arrangement or its variants. The target sectors for this program are industry, mining and services.

For the above-cited lending programs of DBP that has a cumulative total available funds of about ₱10 billion, only ₱1.5 worth of projects have been approved for funding under the programs as of March 2001 or a utilization rate of only 14% since 1997. Of the three lending programs of DBP, the IPCLP has



the highest utilization rate of 81%, followed by the EISCP I with 64% and only one project has been approved for EISCP II or a utilization rate of 0.1%. The wide disparity in utilization rates among these lending programs may be due, at least, to the varying dates at which they started, ie. the IPCLP was implemented starting in 1997, the Phase I of the EISCP was started in 1996, while the EISCP II started only in 2000. The sectoral distribution of loan availments also indicate that a greater majority of the borrowers (95%) are in the manufacturing sector wherein the loan proceeds were used primarily for the acquisition of machinery or equipment and waste water plant treatment facilities. By geographical distribution, a greater portion of the borrowers is from Luzon including Metro Manila denoting for one the greater awareness on the environmental issues of manufacturers in the National Capital Region and Luzon. Manufacturing firms in these areas are also closer to the monitoring and enforcing agents on environmental concerns, hence the higher utilization of environmental loans in these areas.

*LBP's Lending Programs.* The major lending programs of LBP for environmental projects are the CLF and RCF. The CLF (Phases I, II and III) of the Fund is a credit facility administered by LBP to participating financial institutions (PFIs) for on-lending to private investment enterprises. The use of the Fund shall cover sub-projects that will create a socio-economic impact in the countryside. Eligible projects include: a) agriculture-related productive activity such as production of crops and livestock, aqua-culture, plantation projects, farm mechanization; b) food or agro-processing venture, e.g. canning, packaging, ricemilling, oil milling, feed milling and meat curing; c) countryside-based manufacturing activity that generates employment/exports such as garments, ceramics, textile, embroidery and furnitures; d) projects for environmental protection, e.g. wastewater treatment facility, bio-gas facility, etc; e) countryside-based tourism-related project or property development project. Loan applications are evaluated by the Bank’s environmental unit to ensure that projects are environmentally sound and comply with environmental laws and regulations.




The CLF and RCF lending programs of LBP have an estimated cumulative total available funds of about ₱18.5 billion. As of March 2001, about ₱15.9 billion worth of projects have been approved or a utilization rate of 86% since 1991. Specifically, only a small portion (8%) of the CLF funds or about ₱1.4 billion of the total estimated ₱17 billion facility remain uncommitted. On the other hand, about ₱1.1 billion is still available out of the ₱1.45 billion facility of the RCF program which is equivalent to a utilization rate of 23%. The lower utilization rate of the RCF program may be due to the fact that it started only in April 1996 compared to the CLF program that started in 1991.

Due to data constraints, the discussion on the sectoral and geographical distribution of the environmental accounts of LBP was limited only to projects with environmental clearance certificates (ECC). As of the first quarter of 2001, a little more than the majority (55%) of the CLF projects are located in Luzon while a bigger portion (64%) of the borrowers under the RCF program is based in Mindanao. By sector, about one-third (36%) of the borrowers from both programs are in the services sector and another one-third (32%) from the food and agro-sectors.

## III. Evaluation/Hurdles/Obstacles to Utilization of Funds

The varying rate of availments of the different lending programs may also be traced, aside from the factors mentioned above, to the prevailing macroeconomic condition in the country. It is to be noted that in 1996 and 1997, the country was enjoying economic expansion as investor and consumer sentiments were upbeat as reflected in the relatively high growth in production and bank loan availments. As the country felt the impact of the 1997 Asian financial crisis sometime in 1998, industrial production became sluggish and manufacturers postponed industrial activities and expansion plans. More significantly, with the high interest rates and volatile foreign exchange rate, banks became more cautious in their lending and bank lending slumped from the high growth experienced earlier. Information and educational campaign on the environment may also have taken a backseat temporarily as reviving economic activities were the primary concerns. Nevertheless, there are still significant factors that can be identified as the reasons for the limited use of available resources for environmental projects, viz:

- Most banks have not imposed standard requirements on environmental concerns in their lending programs. As banks often compete for loans they deem desirable, borrowers can still opt to go to banks where no environmental factors are considered. In the competitive banking industry, it is likely that firms that have been denied a loan to a financially viable project, but has a negative environmental impact, can reasonably expect to be financed by another bank less considerate of the environmental consequences. Competition dictates that borrowers can always go to a bank that has more lenient requirements and therefore can finance project without environmental impact assessments.

  Corollary to the lack of standard application of the environmental concerns that need to be integrated to the bank's lending program is the absence of due diligence examination by the Bangko Sentral ng Pilipinas (BSP) on environmental compliance by the banks under its supervision. Presently, the BSP do not require banks to integrate environmental concerns in their operations and lending; as such they are not being examined in this aspect. Banks compliance on anything to do with the environmental concerns of the government at presently is not part of the periodic bank examination being done by BSP.

- The conventional approach of financial institutions to lending is one of the major hindrances why the current lending program is not being tapped by industries particularly the heavy pollutant type such as mining, chemicals, steel, cement, plastics and electronics. Such approach focuses at the most on the financial returns and very least, if not at all, on the economic and social impact of the project to be financed. The rigorous approach to project financing by the banks - based on standard risk analysis - undauntedly discourages companies to make an investment on projects that result to positive spillover effect on the general public rather than just on the primordial profit-making goal of the private investor for its own private benefit. This mindset however may be due to the difficulty in quantifying environmental benefits and has led to problems in justifying profitability of environmental projects. Since banks are primarily concerned with financial rates of return, environmental projects have been relegated to the lower rungs of the priority ladder.

- Present interest rates being charged by the banks are mostly commercial rates, given at least to prime clients. This may have discouraged borrowers from undertaking environmentally friendly projects. One should consider that undertaking an environmental investment does not purely benefit the company that is doing the investment. In fact, it is the general public who is more to benefit from this private endeavor.

- The required financial hurdles imposed by the LBP for their Retail Credit Facilities (RCFs) and Countryside Lending Facilities (CLFs) lending are quite high. The Financial Rate of Return (FRR) for all sub-projects of US $2 billion and its equivalent should be greater than the pass-on rate to sub-borrowers or weighted average interest rate (WAIR). Likewise, the Economic Rate of Return (ERR) to be computed for all sub-projects of US $1billion and its equivalent is required to be equal or greater than 15%. The hurdle rate of return is difficult to attain because of the high interest rate which is almost commercial rate imposed on environmental lending. For instance, the initial high cost of capital equipment against limited contribution to profit over time will surely prevent a rational fund-manager to invest on such an endeavor.

- The pre-payment fee requirement demanded by LBP should likewise be re-assessed. The financial institution charges this fee because the best use of their funding is affected by the early retirement of its use by the borrower. However if the borrowers are required instead to give advanced notice of the pre-termination to the bank, then the bank can eliminate such need for a fee since banks can realign their funds ahead accordingly.

- Investments in environmental projects are perceived to be ill-timed. The financial crisis have led both investors and bank lenders to be prudent in their activities. With future economic prospects still so uncertain, investors may have viewed environmental projects to be inappropriate at this time. Consequently, environmental concerns both by investors and bankers may have been relegated to the background. However, banks are influential in its position to significantly influence the direction or the kind of investments that should be made. Banks need to be sensitive to the issues involved and with their potent role through conducive lending, they can persuade investors to positively make the decision for environmental investments now.

  The decision for companies, in any particular industry, to invest is mainly for financial returns and not for economic returns that environmental investments will generate more than the former. Although at present some industries are getting conscious of their image among their peers in their role in the conservation of the environment rather than due to environmental regulations, the industries' due diligence to promote cleaner environment is still disappointingly sluggish.

- Poor implementation or leniency in the enforcement of environmental laws and regulations. Despite the existence of laws and institutional framework for environmental protection and conservation of natural resources, these have not been strictly implemented and thus are largely being ignored by the polluting industries. Unless government takes a strong stand and strictly enforce environmental regulations, polluting industries will not be compelled to make a business decision for environmental investment. Likewise, although there are existing fines and penalties, these have not been high enough to discourage continuance of environmentally damaging practices by the industry since it is more affordable for the polluting company to pay the low fees than to operate with the costly pollution control devices. Otherwise, the company will be forced to upgrade their processes rather than be penalized heavily.

- Enterprises are not aware nor are interested in undertaking environmental projects. There is still lack of understanding that environmental projects particularly those that use cleaner production will eventually redound to more efficient use of resources and reduce operational costs which will result in savings on raw materials, energy, etc. Moreover, conservation and use of less-damaging technologies will ensure that the supply of natural resources or inputs for production will last for a longer time for the use of future generations.

## IV. Recommendations

In order to encourage more banks to avail of the present wholesale lending facilities for environmental projects of the DBP and LBP, as well as promote these environmental-lending programs to the private decision-makers, the following initiatives/recommendations are put forth:

- Banks should have an Environmental Unit (EU)

To discourage continued funding for environmentally damaging projects (EDP), an EU must be set-up by banks whose main task is to see to it that no EDPs are funded by the bank. The EU will be requiring its loan applicants that will likely have negative impact on the environment or are in areas classified as ecologically, socially or geographically sensitive to have in its core operations a concrete environmental management program. In this procedure, all banks will require these kind of borrowers to submit an environmental compliance certificate to assure the banks that their borrowers have an environmentally friendly operations, on top of the usual requirements of the 5Cs of credit , viz: character, collateral, capacity, condition and capital.

By explicitly reviewing the endeavors of borrowers under an environmental impact assessment, the activity is prevented to continue if found unacceptable because of its negative environmental impact. Hence an EDP even at the early stages of procuring financial resources is already disallowed from being implemented. It is the bank's EU that will be tasked to assess the environmental soundness of a project to be funded by the bank as part of the regular evaluation of projects to be financed.

Furthermore, the EU will be mandated to address the bank's internal and external environmental concerns. Its creation will effectively integrate environmental concerns of the government into the full range of the bank's operations. The unit will also recommend to bank management the appropriate bank policy on the environmental standards that the government had set, guide the bank on its environmental rules and procedures and principles for environmental improvement needed for its internal environmental management systems (EMS). Last but not the least, the EU will be tasked to continuously conduct information, education and communication (IEC) campaigns regarding environmental protection and resource conservation to all of its clientele. To be led by DBP and LBP as the direct beneficiaries of the funds sourced from the government and/or foreign institutions, the banking sector can continue its awareness-raising activities by regularly conducting IEC seminars and training for bankers and other lending institutions on environmental considerations. In order to institutionalize these concerns, existing regular training programs of banks should contain a module or segment on environment to emphasize the point that the environment should always be part of bankers' consciousness as they proceed with their regular activities.

- Environmental lending programs should have lower interest rates

The present interest rate is fixed at a certain level as prescribed by DBP and LBP for its wholesale lending programs. Revaluation is semi-annual in the case of DBP. It is being proposed that the interest rate to be charged by the private financial institution to its clients be a floating rate to be pegged at the prevailing 91-day Treasury bill rate plus a spread of 100 to 200 basis points at the time that the loan is contracted. While it may be more attractive to use the LIBOR rate as the benchmark rate inasmuch as the funds are internationally sourced or that the rate to be used is based on the multilateral funding agencies’ rates, the guidelines issued last March 2000 by the National Credit Council, the government inter-agency body tasked to oversee the implementation of the various credit or lending programs, specifies that the interest rate to be used is the 91-day Treasury bill rate weighted average interest rate (WAIR) prevailing at the time of availment by the borrower.

In some countries, the interest rates charged are significantly lower than commercial rates. For instance, in the Pollution Prevention & Abatement Handbook prepared by World Bank Group in July 1998, it reported that interest rates being imposed for direct credit funds from various sources are as follows:

a) the IBRD loan by Russia for Pollution Abatement loan facility for waste recovery purpose by public and private industrial enterprises are based on IBRD rate + 400 basis points;

b) Slovia imposed an interest rate of LIBOR rate + 200 basis points for those applying for Urban Pollution abatement loan facility that are sourced from their own budget allocation and IBRD loan available for households, cooperatives, commercial and industrial enterprises including local government;

c) China offers for their industrial enterprises an Industrial Pollution Control Loan facility for waste reduction and recovery, and adoption of cleaner technology at market-rate loans plus grant of about 10-30% of total cost of project.

Moreover, the proposed Green Investment Fund designed by China for selected sectors were structured to have three types of financing, namely:

1) Grant for non-profit activities, e.g. business advisory and fund management with capital sourced primarily from private foundations, international agencies or corporation donations;
2) Concessional finance for commercial activities that generate below-market rate of returns with funds from strategic investors who expect lower rates of return on their investment in pursuit of environmental social goals;
3) Normal commercial rate that generate market rates of return, where funds are coming from private equity investors who are interested in environmental business but expect market rates of return on their investments [5/.]

The objective is to offer environmental loans with interest rates that are lower than the commercial rates to induce private sector to invest more on environment. The distortive effect created on the market is justified by the fact that improving the environment initiated by the private sector is beneficial not only to the private sector itself but to the general public as well. The impact of such an environmental project is its positive externalities effect on the community where the project is located. It is difficult to place a price tag on such endeavors that benefit not only the target clientele but also spillovers to other entities. The producer of this positive external effect should be compensated through lower interest rates. By the same argument, the source of pollution must be fined commensurately because of its negative effect on others.

As highlighted from the start, financial institution should encourage these types of investment through lower interest rates. The higher the benefit generated by the environmental investment, the lower should be the cost to the investor. Such distortion on the market forces on lending is obviously meritorious.

Private companies should be given premium for electing to undertake projects that would benefit majority of the populace in the form of a lower interest rate. Reducing the components of the interest rate to be charged to borrowers of the environmental lending program for a certain period of time will be a much welcome move to entice borrowers to prioritize adopting a greener technology as soon as possible within the time set by the lenders. A socialized rate of interest therefore should be charged to socially responsible investments or projects.

- Financial hurdles should be liberalized

Corollary to the reduction of interest charges is the flexibility in setting the financial hurdles should also be considered. Quantifying the transgenerational social benefit of a positive externality gained by the environmental investment in the point of view of the general public may prove that an environmentally friendly investment is without question worthy to be financed by banks. As banks have been primarily concerned with financial returns of the project, a different kind of analysis such as cost-benefit analysis (CBA) or environmental impact assessment (EIA) may have to be employed. Currently, there is no standard methodology as yet that can be singled out that will include environmental factors for evaluating the proponent's project for the review process of bank lending. Nonetheless, banks should employ a different approach in the problem of environment degradation. To account for the environmental project's viability, banks should focus on the effects of the project on a broader sense, that is, there is more to it than just the financial returns of the project since there are costs and benefits that are generated by this type of investments on the environment and the society at large.

The bank must employ a system of evaluation that permits more intuitive qualitative and quantitative assessment of the impact of the project on the major areas of the environment. They should incorporate in its operational procedures a process that should mollify the intrinsic clash between commercial gain and social need. While projects in the public sector should self-evidently be assessed according to the goals and objectives of the society at large, projects by the private sector will be evaluated from the shareholders' perspective or based on financial gains. The private investor, in his role as a profit-maximizer, will limit investments that will increase costs but not the financial gains. The investor will not assume the role of a real caretaker of the environment if it will cost more than what it will earn for him. In other words, to entice the private sector to have environmental-related investments, they should be enjoined by the banks with conducive financial support over the duration of their investment loan for adopting greener technology.

With this, the banking industry should be able to offer funds at easy terms to projects that will result to higher social benefits over private cost realized over time. Unless the private individual is not encouraged financially to take such endeavor through lower hurdle rates, the social benefit could not be realized over time. Through the socialized cost of funding made available by the financial institutions vis-a-vis the standard commercial cost to finance environmental expenditure is justified when private economic agent is more efficient than government in ensuring the greening of the environment. The industry will not mind if their pollutants were made to internalize the social cost of pollution but only in an affordable way. Industries are in a better position to accelerate environmental improvements and can adjust faster to behavior of clear environmental regulations, even if investment returns are low, if financial constraints to do it are within their means and bounds. Environmental investments will significantly improve therefore in a situation where there are clear objectives for environmental quality improvements and strong links of financing these improvements.

- Pre-payment fees should be abolished

The removal of the pre-payment fees and other charges on environmental lending programs reinforces the effect of lower interest rate such that it encourages companies to choose such types of investments. Private companies are enticed further by the reduction of the components of the costs to be charged to borrowers of environmental loans for a certain period of time. Such a move will be a boost for companies to prioritize investments that deal with environmental friendly technology over other undertakings.

Unless the government through its financial institutions offers the industries a more liberal lending requirement to adapt “greener” technology, better end-of-pipe abatement measures, point-source pollution control devices, etc., pollution prevention, investments by the industries in environmental concerns will only be a drop-in-the bucket decision for them. In other words, given all the other financial and other concerns by the company, the decision to invest for the environment is the last among their priorities. With the present situation being compounded by the 1997 financial crisis in Asia, it is but expected that a status-quo situation on pollution control by industries will still prevail. As long as the other company cannot afford to think now for the environment much more than preserving their market share, there will be industries that will not make an environmental investment for itself at these trying times.

On the whole, in order to push to a greater extent the concerns for a sound environment, the banking sector needs to be sensitive to the issue involving environmental investment. The agenda for the day is to bring to the attention of the bankers its vital role in encouraging investment on environment. Bankers need to have a new mindset that will incorporate environmental concerns in the regular banking operations. They have to change their standard order of making sound lending decision by learning to access specialized knowledge requiring appropriate methodology in ensuring that resources of the planet are to be utilized in a manner that protects the interest of those as yet unborn.

## V. Institutions / Agencies Responsible

To make all banks conform to the creation of an environmental unit, the Bangko Sentral or the Monetary Board may have to be part of the institutional framework that deals with environmental concerns. The Bangko Sentral provides policy directions in the areas of money, banking and credit. It also has supervision over the operations of banks and exercises regulatory powers as provided by law. The powers and functions of the Bangko Sentral are exercised by the Monetary Board (Board) that is composed of seven members appointed by the President of the Philippines. The Board Members are the Governor of the Bangko Sentral, a member of the Cabinet and five members from the private sector. The monetary authorities have to be included in the whole network that will enforce environmental regulations as it has supervisory powers over banks that will provide the financial resources for environmental and natural resources protection and conservation. The BSP may have to include in their annual bank examination an environmental due diligence to enjoin all banks to create a dedicated unit that will supervise for the bank its environmental compliance and provide guidance to the bank in addressing issues on the environment.

As the institution responsible for the government's directed credit programs under which most of DBP and LBP's environmental lending programs are part of, the National Credit Council (Council) should also be part of the institutional set-up to encourage more lending activities to environmental projects. Organized in 1994, the National Credit Council is mandated to rationalize directed credit programs with the government providing a supportive and appropriate policy environment and institutional framework towards a viable and sustainable financial market. The Council is chaired by the Department of Finance and co-chaired by the Land Bank of the Philippines and has the Chairman of the Presidential Commission on Countryside Development and the President of the Bankers' Association of the Philippines as Vice-Chairmen. The members include some government agencies as well as bankers' association and organizations of the country, viz: Departments of Agriculture, Agrarian Reform, Environment and Natural Resources, Trade and Industry; Bangko Sentral; DBP; Philippine Deposit Insurance Corp.; Presidential Council on Countryside Development; Presidential Commission to Fight Poverty; Cooperative Development Authority; Congress Planning and Budget Office; Bankers' Association of the Philippines; Rural Bankers Association of the Philippines; Chamber of Thrift Banks / Development Banks Association; BANGKOOP; and representatives of the Cooperative Federation/Association and the Social Pact Alliance. The ex-officio members are the Government Service Insurance System; Social Security System; and Home Developmental Mutual Fund / PAG-IBIG.

Since part of the Council's mandate is to ensure the adoption of market-oriented financial and credit policies, particularly market-oriented interest rates on loans and deposits for the government's credit programs, the review of interest rates, pre-payment fees, financial rate of return and other fees attendant to government's directed credit programs on environmental projects should take into account both the Council's guidelines on prevailing market rates and the recovery of the financial and operational costs of the wholesale/retail financial conduit as well as the government's mandate to ensure that the environment and the country's natural resources are protected and preserved for future generations. The operating guidelines of Executive Order 138 [6/] defined the 91-day Treasury bill weighted average interest rate as the benchmark for determining market interest rates. As such, there is a need to reconsider this provision since environmental lending programs does not only take into account financial rates of return but more importantly the economic and social benefits that as yet cannot be quantified. Preferential interest rates that give premium to investors in environmentally friendly projects may be befitting as the benefits do not only accrue to the present generation but to future generations as well. The LBP and DBP as the main conduits of foreign funds for environmental projects may take the lead in advocating to the Council the importance of the role of financial institutions in environmental protection and call for a review of the rates, fees and other charges for environmental lending programs. Since the Council provides the policy and program guidelines on the government's directed credit programs, it is deemed one of the most appropriate institutions that can take the lead in directing lending programs for more environmental friendly projects.

## VI. The Natural Resources Development Corporation: An Alternative Source of External Financing

A possible option for industries looking for an alternative source of external funding for environmentally friendly projects is the Natural Resources Development Corporation (NRDC). In this section, NRDC will be assessed and alternative ways and means will be explored to tap the NRDC as conduit for financing EMS/P2/CP initiatives of industries that could not be accommodated by the banking sector. Inherent in the study of NRDC is a look at their internally generated funds, principally the EIS Review Support Fund (EIS Trust Fund), a trust fund for the review of the Environmental Impact Statement of the project proponent.

At the onset, the study is governed by the operating procedures issued by the National Credit Council (NCC) that directs government entities involved in the implementation of credit programs to adopt the Credit Policy Guidelines. The guidelines issued in March 2000 cover all direct credit programs (DCPs) implemented by government non-financial agencies (GNFAs), government financial institutions (GFIs) and government-owned and -controlled corporations (GOCCs). Under the DCP Rationalization Program, GNFAs and GOCCs will no longer initiate new DCPs starting in year 2000. If there are any ongoing DCPs implemented by

GNFAs and GOCCS, they are to be phased out by February 2001. GOCCs that are authorized by their own charters to undertake lending activities can continue their lending programs/projects, provided that such are internally generated funds. Such lending programs/projects should neither draw funds from national government appropriations nor from loans guaranteed by the national government.

*The Natural Resources Development Corporation (NRDC)*

The NRDC is an attached agency of the Department of Environment and Natural Resources (DENR) that is tasked, per EO 192 issued in June 10, 1987, primarily for the promotion of natural resource development and conservation. Since its creation in 1982, NRDC relied and delimited its operations in the marketing of confiscated forest and mineral products, drilling operations and mining exploration. In 1996-1997, it streamlined its organizational structure and reduced its workforce from 143 plantilla positions to only 16. Under the Estrada administration (1998-2000), NRDC was revitalized by a series of presidential proclamations (PD), executive orders (EO) and administrative orders (AO). Only with these new mandates did NRDC recover profitably in 1999. As of June 30, 1999, NRDC's gross income is ₱72.587 MM significantly from the above-cited collections. With this, NRDC was given approval to increase its manpower complement from 16 to 79 (38 permanent and 41 contractual positions).

A closer look at the funds generated by NRDC for its own disposal at the moment reveals that these have been limited to: a) 15% management fee as fund manager of the EIS Review Support Fund; and b) other management fees generated by NRDC either in joint venture with other government agencies, local government units, donor agents and other endeavors. Some of the projects where NRDC generates income include, among others: the Stumpage Project and Confiscated Forest Product Disposal with DENR; the sales of crocodile from Crocodile Farming with Crocodile Farm Institute and PAWB; fees generated from the Special Minerals Extraction Permit under EO200 & 153, and AO No. 99-03; the Lahar Trust Fund; management fee from the National Training Center at Carranglan, Nueva Ecija, a training center developed by JICA for the development of natural resources and environmental managers; profits from operating an Ecological Food Service Management Project within Ninoy Aquino Parks and Wildlife Nature Center; Operation and management of Water Center Project, a drinking water refilling station; fees from managing and developing parks for eco-destination sites, environmental rest area park and eco-roads designated by DENR (e.g. Ninoy Aquino Parks & Wildlife Nature Center, Mt. Arayat National Park, and Palawan National Wildlife Rescue and Conservation Center); and rental fees from mining equipment of MIEP Dinagat Chromite Mining Project in Surigao del Norte.

The funds generated by NRDC from the abovecited projects are used for the administration and development of new income-generating projects and for other special projects, such as: biosolids/disludging projects that will DENR identify sites for the disposition of sludges from domestic and industrial wastes to address the destruction of river ecosystem in all regions of the country; sponsorship of TV Production talk show cum tele-magazine entitled “Green Talk” to give full exposure to the public of the environmental issues of DENR and its attached agencies projects and accomplishments; Watershed Management Conservation Project that aims to regenerate and promote proper utilization of the country’s watersheds; and other endeavors that are still in its pre-earning stage.

*The Environment Impact Statement (EIS) Review Support Fund*

Sometime in 1998, the NRDC entered into a Memorandum of Agreement (MoA) with the Environment Management Bureau to act as a fund manager for the Environment Impact Statement Review Fund. This is an amount paid by the private and government entities for the review and evaluation of their project proposals in order to secure an environmental compliance certificate.

The EIS Review Support Fund shall serve as the source of funds to be used for the expenses incurred during the review of the EIS. Each proponent shall be properly identified within that trust fund including the amount indicated in the approved EIS RWFP. Upon completion of the EIS review process, NRDC shall notify the proponent of the excess (if any) of payment made based on the utilization report of expenditures. The proponent shall then request NRDC for the refund of the excess payment within 30 days.

NRDC being the fund manager charges twenty percent (20%) as its management fee (MF) in which twenty-five percent (25%) of said MF is to be held in trust for the account of EMB for purposes of enhancing its capability, improving or strengthening of the EIS review process. The EMB may request for the release of their share provided that they submit a work and financial plan corresponding to the amount of their share.

As information on the estimated total funds that have been managed by NRDC is not available, we cannot as yet completely give a comprehensive insight on whether NRDC at present can be used as possible source of financial assistance for projects on EMS/P2CP initiatives of the industry that could not be financed under the lending program of LBP & DBP.

However, there are other possible direct public sector involvement in financing projects on EMS/P2/CP initiatives that NRDC may offer. This may take the form of giving guarantees to borrowings classified as noteworthy projects of the industry that may fail to get financial approval from the banks. Other forms of direct public sector involvement in financing project can be through leasing of capital equipment and /or capital venture.

It is important to emphasize however that all of said fund-generating endeavors of NRDC need to be studied closely to optimize the usefulness of this government corporation as a financial arm of DENR; more particularly as a source of financial assistance for EMS/P2/CP projects of the industry that could not be supported financially by LBP & DBP. It is important to assess if NRDC has the means and resources in its hands to finance in whatever form it can said initiative projects. With its present involvement in the numerous projects previously mentioned, NRDC should be evaluated if its generated funds can still sustain EMS/P2/CP projects either through direct lending, guaranteeing, and/or leasing. However based on the above-cited income generating projects, NRDC does not have sufficient funds to financially support EMS/P2/CP initiatives. At present, the fund NRDC is handling is insufficient and unavailable since these funds were already earmarked for projects in the pipeline. Moreover, with the general powers provided in the corporation law of NRDC, this agency needs the adequate manpower with business and finance background to implement its vital role as a financial arm of DENR.

The present organizational set-up reflects the scope of the present activities of NRDC that are limited to operations and administrative functions. The functions of the finance division in particular are limited to collection, budgeting and bookkeeping activities. The specific functions of the officers and staff of the finance department comprise mainly of cash/funds management, accounting and budgeting, cashiering, processing of disbursing claims, etc. These present functions do not include the technical skills and knowhow that are needed in implementing a financing program.

Meanwhile, the trust fund or the EIS Support Review Fund are funds from project proponents entrusted to the NRDC for the sole purpose of funding the expenses incurred in the review of the EIS by the EMB. As such, these funds cannot be tapped by anybody except by the proponents and cannot be used for a different purpose other than those stated in the MoA. In other words, the trust fund has a very limited scope and purpose. The disbursements made are strictly in accordance to the approved EIS RWFP. Other expenses incurred not related to the review or conduct of EIS cannot be charged to this fund. In fact, even excess funds not utilized during the review should be reimbursed to the proponent within 30 days after the completion of the review process. This is specifically stated in the Memorandum of Agreement signed by the proponent and NRDC upon the receipt of the fund as specified in the approved EIS RWFP.

Only the 75% of the 20% management fee of NRDC is available for NRDC for its own disbursement. The remaining 25% is being held in trust by NRDC for the account of EMB for the latter's own EIS review process. Said trust account, together with the portion received by NRDC, are most likely used as funding sources of government projects that are likewise subjected to EIS studies.

In general, NRDC will demand for a different kind of manpower skills and capabilities in order for it to effectively undertake financing activities. The present manpower complement of NRDC may not be up to task given the rigors of formulating financing policies which includes the formulation of the appropriate type of financing including pricing requirements, processing of applications according to the fundamentals of the financing process that includes financial risk assessments, administering and monitoring financed projects. The specific functions of the officers and staff of the finance department comprise mainly of cash/funds management, accounting and budgeting, cashiering, processing of disbursing claims, etc. These present functions do not include the technical skills and knowhow that are needed in implementing a financing program.

NRDC’s core business and projects indicate that so far no lending activities or other forms of financial assistance have been undertaken by the NRDC. As such, there is a need to beef up NRDC’s manpower complement with technical people who have the knowledge and skills necessary for lending activities or other forms of financial assistance.

Moreover, in order to further enhance the mandate and authority of NRDC to promote natural resources development and conservation through financing natural resources development projects undertaken by the private sector, and to obtain or arrange for financing or credit or create any kind of assistance on its own, secure and /or provide guarantees and accepts grants, there is a need for the corporation's manpower to be technically capable of evaluating environmental projects which are worthy but failed to get financing from the banking sector and can instead be financially assisted by the NRDC. In this regard, the NRDC should first create an adhoc advisory panel of multidisciplinary experts who will formulate the set of guidelines to be used for the selection process in identifying potential environmental projects to be funded by NRDC. This independent group of scientists to be formed, with NRDC as its technical secretariat, should develop criteria that are clear and transparent that will be NRDC's procedural guidelines to follow in evaluating funding applicants requesting for financial assistance. In this way, the NRDC staff would be technically prepared to assume the role of provider / guarantor / co-participant to an environmental project. However, financial assistance by the NRDC should only be limited to a certain portion of the total costs, the incremental costs or should only be a supplement to funds obtained from traditional sources.

In general, a more in-depth evaluation of the capability or a comprehensive job and management audit of NRDC is needed and significant skills upgrading and capability- building support is imperative with the end in view of making NRDC a primary support agency of DENR for providing financial assistance to its EMS/P2/CP program.

NOTES:

*1/ The Philippines through Pres. Gloria Macapagal-Arroyo acknowledged the need to strike a balance between economic development and ecological integrity. In the run-up to the 2002 Earth Summit, she called on the financial sector to play a major role and to explore creative and innovative financing for sustainable development within the country and the region. Speech as delivered by DENR Sec. Heherson Alvarez in the UNEP FI Asia-Pacific Regional Conference on Developing a Sustainable Performance Development Programme (SPDP) for the Financial Sector in Asia-Pacific 2001 held in Manila, April 5-6, 2001.*

*2/ The Manila-based Association of Development Financial Institutions in Asia and the Pacific (ADFIAP) signed on August 4, 1999 a Memorandum Of Agreement with the United States-Asia Environmental Partnership (US-AEP) designed to promote the concept of 'environmental due diligence' in bank lending". Published in Manila Bulletin, August 5, 1999*.

*3/ Published-----*

*4/ Laaksonen, Sari A., 2001. "Environmental Due Diligence as an Environmental Credit Risk Management Tool for the Financial Institutions: Case of the Philippines", Paper Presented at The Financial Sector in Asia Pacific, The Business Case for Sustainability Performance, held on April 5-6, 2001 at Manila, Philippines.*

*5/ Briefing notes of Dr. Changjin Sun of Chinese Research Center of Ecological & Environmental Economics, Beijing presented in the UNEP Conference on Finance Initiative at Manila held on April 5-6, 2001.*

*6/ EO 138: Directing Government Entities Involved in the Implementation of Credit Programs to Adopt the Credit Policy Guidelines Formulated by the National Credit Council signed August 10, 1999.*

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**ANNEX A**

# A LOOK AT THE NATURAL RESOURCES DEVELOPMENT CORPORATION (NRDC) AS A POSSIBLE CONDUIT FOR FINANCING EMS/P2CP INITIATIVES OF INDUSTRY

*The Natural Resources Development Corporation*

The NRDC is an attached agency of the Department of Environment and Natural Resources (DENR) which is tasked, per EO 192 issued in June 10, 1987, primarily for the promotion of natural resource development and conservation through: (i) direct involvement in pioneering but practically viable production, use, and marketing ventures or projects using new/innovative technologies, systems, and strategies such as but not limited to stumpage sales system, industrial forest plantations or logging operations, rattan tissue, culture, provided however, that activities which compete with the private sector shall be avoided except in specific cases where the revenues of NRDC are earmarked for specific local developmental or social service; and (ii) financing natural resource development projects undertaken by the private sector such as establishing industrial tree plantations, agro-forestry, small-scale mining and retooling of the natural resource-based processing industries to improve their efficiency and competitiveness, by generating funds through debt instrument from various sources, and innovative income-generating strategies.

It was originally created on March 16, 1982 under EO No. 786 to engage in the production of charcoal pig-iron making and small and/or medium scale steel mills as well as necessary support fuel wood plantations, participate in and/or encourage private sector to engage in reforestation and industrial forestry operations through stumpage sale system and other means, ensure a stable market for natural resources-based products by coordinating the production and marketing activities and or by engaging in the production and/or local/international marketing of critical natural resources-based industries by providing financial, technical and/or management support/assistance so with the production marketing of minor forest, aquatic and marine products.

*The Environment Impact Statement (EIS) Review Support Fund*

Sometime in 1998, the NRDC entered into a Memorandum of Agreement (MoA) with the Environment Management Bureau to act as a fund manager for the Environment Impact Statement Review Fund. This is an amount paid by the private and government entities for the review and evaluation of their project proposals in order to secure an environmental compliance certificate.

A project proponent with an undertaking that will significantly affect the quality of the environment and/or is in an environmentally critical area will have to acquire an Environmental Compliance Certificate (ECC). The project will be studied and reviewed through the EIS System by the Environmental Management Bureau (EMB). EMB undertakes the processing of ECC applications in any part of the country.

Upon submission of the proposed undertaking with its Environmental Impact Statement (EIS), the proponent together with EMB prepare the EIS Review Work and its Financial Plan (RWFP). This covers the tentative schedule of the review activities and the estimated cost of such activities. The proponent shall then enter into a MoA with NRDC prior to the start of the review process. The review process shall take about 120 calendar days. An approved Environmental Impact Statement (EIS) shall be the basis for the issuance of the ECC is the approval of the proponent's Environmental Impact Statement (EIS).

Upon the signing of the MoA, the Environmental Impact Assessment Review Committee (EIARC) shall start the review process. The NRDC shall establish a funding facility to support the requirements of the EIS review process per submitted EIS RWFP. This funding facility will be in the form of a trust fund known as "EIS Review Support Fund' and to be managed by NRDC.

The EIS Review Support Fund shall serve as the source of funds to be used for the expenses incurred during the review of the EIS. Each proponent shall be properly identified within that trust fund including the amount indicated in the approved EIS RWFP. Upon completion of the EIS review process, NRDC shall notify the proponent of the excess (if any) of payment made based on the utilization report of expenditures. The proponent shall then request NRDC for the refund of the excess payment within 30 days.

NRDC being the fund manager charges twenty percent (20%) as its management fee (MF) in which twenty-five percent (25%) of said MF is to be held in trust for the account of EMB for purposes of enhancing its capability, improving or strengthening of the EIS review process. The EMB may request for the release of their share provided that they submit a work and financial plan corresponding to the amount of their share.

*Evaluation and Recommendation*

Historically, the NRDC has gone from near death to resurrection as far as its existence is concerned. Since its creation in 1982, NRDC relied and delimited its operations in the marketing of confiscated forest and mineral products, drilling operations and mining exploration. In 1996-1997, it streamlined its organizational structure and reduced its workforce from 143 plantilla positions to only 16. Under the Estrada administration (1998-2000), NRDC was revitalized by a series of presidential proclamations (PD), executive orders (EO) and administrative orders (AO), viz:

a) PD No. 66 dated January 11, 1999 allowed NRDC to engage in the management of quarry sites and processes in the riverbanks of Pampanga, Tarlac and Zambales or along riverbanks of lahar-affected areas of Central Luzon. This authorized NRDC through DENR to collect fees on the hauling of lahar materials from quarry operators;
b) EO 200 dated January 17, 1999 authorized NRDC to issue permits for onshore Special Mineral Extraction that allows the corporation to collect management & other fees from small-and-medium enterprise operators and/or contractors/sub contractors;
c) EO 153 dated September 30, 1999 likewise authorized NRDC together with the Public Estate Authority to undertake quarrying operations in the identified offshore borrow areas as sources of dredgefill materials for government reclamation projects, and to collect fees from offshore areas quarrying operators and/or contractors/sub contractors; and

d) AO 99-03 dated February 1999 authorized NRDC to manage critical aspects of extraction, transportation, and quarry site rehabilitation in compliance with DENR.

Only with these new mandates did NRDC recover profitably in 1999. As of June 30, 1999, NRDC's gross income is ₱72.587 million (MM) significantly from the above-cited collections. With this, NRDC was given approval to increase its manpower complement from 16 to 79 (38 permanent and 41 contractual positions).

A closer look at the funds generated by NRDC for its own disposal at the moment reveals that these have been limited to: a) 15% management fee as fund manager of the EIS Review Support Fund; and b) other management fees generated by NRDC either in joint venture with other government agencies, local government units, donor agents and other endeavors. The latter include, among others:

a) 80% share or less than ₱10 million/year income on the Stumpage Project and Confiscated Forest Product Disposal with DENR;
b) 20% share on the sales of crocodile from Crocodile Farming with Crocodile Farm Institute and PAWB;
c) Fees generated from the Special Minerals Extraction Permit under EO200 & 153, and AO No. 99-03;
d) 73% share on the Lahar Trust Fund that averages ₱13 MM/mo of which 27% goes back to the LGU on lahar-affected areas for its lahar quarrying management;
e) Close to ₱1 MM profit generated in little over six months as management fee from the National Training Center at Carranglan, Nueva Ecija, a training center developed by JICA for the development of natural resources and environmental managers;
f) Close to ₱6 MM in less than a year profit from operating an Ecological Food Service Management Project within Ninoy Aquino Parks and Wildlife Nature Center;
g) Operation and management of Water Center Project, a drinking water refilling station;
h) Fees from managing and developing parks for eco-destination sites, environmental rest area park and eco-roads designated by DENR (e.g. Ninoy

Aquino Parks & Wildlife Nature Center, Mt. Arayat National Park, and Palawan National Wildlife Rescue and Conservation Center); and

i) Rental fees from mining equipment of MIEP Dinagat Chromite Mining Project in Surigao del Norte.

The funds generated by NRDC from the above-cited projects are used for the administration and development of new income-generating projects and for other special projects, such as:

a) Biosolids / Disludging projects that will DENR identify sites for the disposition of sludges from domestic and industrial wastes to address the destruction of river ecosystem in all regions of the country;
b) Sponsorship of TV Production talk show cum tele-magazine entitled “Green Talk” to give full exposure to the public of the environmental issues of DENR and its attached agencies projects and accomplishments;
c) Watershed Management Conservation Project that aims to regenerate and promote proper utilization of the country’s watersheds; and
d) Other previously mentioned endeavors that are still in its pre-earning stage.

As information on the estimated total funds that have been managed by NRDC is not available, we cannot as yet completely give a comprehensive insight on whether NRDC at present can be used as possible source of financial assistance for projects on EMS/P2/CP initiatives of the industry that could not be financed under the lending program of LBP & DBP.

However, there are other possible direct public sector involvements in financing projects on EMS/P2/CP initiatives that NRDC may offer. This may take the form of giving guarantees to borrowings classified as noteworthy projects of the industry that may fail to get financial approval from the banks. Other forms of direct public sector involvement in financing project can be through leasing of capital equipment and /or capital venture.

It is important to emphasize however that all of said fund-generating endeavors of NRDC need to be studied closely to optimize the usefulness of this government corporation as a financial arm of DENR; more particularly as a source of financial assistance for EMS/P2/CP projects of the industry that could not be supported financially by LBP & DBP. It is important to assess if NRDC has the means and resources in its hands to finance in whatever form it can said initiative projects. With its present involvement in the numerous projects previously mentioned, NRDC should be evaluated if its generated funds can still sustain EMS/P2/CP projects either through direct lending, guaranteeing, and/or leasing. However based on the above-cited income generating projects, NRDC does not have sufficient funds to financially support EMS/P2/CP initiatives. At present, the fund NRDC is handling is insufficient and unavailable since these funds were already earmarked for projects in the pipeline. Moreover, with the general powers provided in the corporation law of NRDC, this agency needs the adequate manpower with business and finance background to implement its vital role as a financial arm of DENR.

The present organizational set-up reflects the scope of the present activities of NRDC that are limited to operations and administrative functions. The functions of the finance division in particular are limited to collection, budgeting and bookkeeping activities. NRDC's main departments and divisions are as follows:

I. Operations and Special Projects Department
    A. Special Projects Division
    B. Operations Division
II. Finance and Administrative Department
    A. Administrative Division
    B. Finance Division
        i) Cash Management
            Ia) Credit and Collection Section
            Ib) Cash Section
        ii) Budget Section
        iii) Accounting Section
            Iiia) Cost Accounting Unit
            Iiib) General Accounting Unit

Meanwhile, the trust fund or the EIS Support Review Fund are funds from project proponents entrusted to the NRDC for the sole purpose of funding the expenses incurred in the review of the EIS by the EMB. As such, these funds cannot be tapped by anybody except by the proponents and cannot be used for a different purpose other than those stated in the MoA. In other words, the trust fund has a very limited scope and purpose. The disbursements made are strictly in accordance to the approved EIS RWFP. Other expenses incurred not related to the review or conduct of EIS cannot be charged to this fund. In fact, even excess funds not utilized during the review should be reimbursed to the proponent within 30 days after the completion of the review process. This is specifically stated in the Memorandum of Agreement signed by the proponent and NRDC upon the receipt of the fund as specified in the approved EIS RWFP.

Only the 75% of the 20% management fee of NRDC is available for NRDC for its own disbursement. The remaining 25% is being held in trust by NRDC for the account of EMB for the latter's own EIS review process. Said trust account, together with the portion received by NRDC, are most likely used as funding sources of government projects that are likewise subjected to EIS studies.

In general, NRDC will demand for a different kind of manpower skills and capabilities in order for it to effectively undertake financing activities. The present manpower complement of NRDC may not be up to task given the rigors of formulating financing policies which includes the formulation of the appropriate type of financing including pricing requirements, processing of applications according to the fundamentals of the financing process that includes financial risk assessments, administering and monitoring financed projects. The specific functions of the officers and staff of the finance department comprise mainly of cash/funds management, accounting and budgeting, cashiering, processing of disbursing claims, etc. These present functions do not include the technical skills and know-how that are needed in implementing a financing program.

NRDC’s core business and projects indicate that so far no lending activities or other forms of financial assistance have been undertaken by the NRDC. As such, there is a need to beef up NRDC’s manpower complement with technical people who have the knowledge and skills necessary for lending activities or other forms of financial assistance.

Moreover, in order to further enhance the mandate and authority of NRDC to promote natural resources development and conservation through financing natural resources development projects undertaken by the private sector, and to obtain or arrange for financing or credit or create any kind of assistance on its own, secure and /or provide guarantees and accepts grants, there is a need for the corporation's manpower to be technically capable of evaluating environmental projects which are worthy but failed to get financing from the banking sector but can instead be financially assisted by the NRDC. In this regard, the NRDC should first create an adhoc advisory panel of multidisciplinary experts who will formulate the set of guidelines to be used for the selection process in identifying potential environmental projects to be funded by NRDC. This independent group of scientists to be formed, with NRDC as its technical secretariat, should develop criteria that are clear and transparent that will be NRDC's procedural guidelines to follow in evaluating funding applicants requesting for financial assistance. In this way, the NRDC staff would be technically prepared to assume the role of provider / guarantor / co-participant to an environmental project. However, financial assistance by the NRDC should only be limited to a certain portion of the total costs, the incremental costs or should only be a supplement to funds obtained from traditional sources.

A more in-depth evaluation of the capability or a comprehensive job and management audit of NRDC is needed with the end in view of making NRDC a primary support agency of DENR for providing financial assistance to its EMS/P2/CP program.

**ANNEX B**

PROPOSED RESOLUTION FOR NATIONAL CREDIT COUNCIL -

REVISING THE TERMS FOR THE AVAILMENT OF THE CREDIT FACILITIES FOR ENVIRONMENTAL PROJECTS BY PARTICIPATING FINANCIAL INSTITUTIONS

WHEREAS, it is the policy of the state to ensure the sustainable use, development, management, renewal and conservation of the country's forest, mineral, land, off-shore areas and other natural resources, including the protection and enhancement of the quality of the environment, and the equitable access of the different segments of the population to the development and use of the country's natural resources, not only for the present generation but for future generations as well. It is also the policy of the state to recognize and apply a true value system including social and environmental cost implications relative to their utilization, development and conservation of our natural resources.

WHEREAS, directed credit programs refer to those programs implemented by the government that are funded out of budgetary allocation, special funds from the government, loans or grants from donor agencies and are lent out at subsidized rates;

WHEREAS, the National Credit Council is mandated to adopt market-oriented financial and credit policies. Specifically, a) market-oriented interest rate is defined as the prevailing 91-day Treasury bill weighted average interest rate; b) financial institutions engaged in lending should consider the recovery of financial and operational costs of wholesale/retail lending in interest rate setting; and c) the 91-day T-bill will be used as the benchmark rate in determining the market interest rates.

WHEREAS, present interest rates charged for environmental lending programs may have discouraged borrowers from undertaking environmentally friendly projects. However, it should be considered that investments in environmental-friendly projects do not only benefit the company that is doing the investment but the general public who is more to benefit from this private endeavor and for future generations.

WHEREAS, recent research findings indicate that the utilization of funds for environmental projects have been somewhat limited due to the commercial interest rates charged, high financial hurdles and other fees,

NOW THEREFORE, it is resolved that the Council in order to increase the awareness of banks on environmental concerns and to encourage the availment of the wholesale lending facilities for environmental projects by providing premium or preferential rates to projects for environmental and natural resources protection and conservation adopts the following:

1. To revise the pass-on rate of participating financial institutions to its clients to be a floating rate to be pegged at the prevailing 91-day Treasury bill rate plus a spread of 100 to 200 basis points at the time that the loan is contracted; and

2. To waive pre-payment fees and liberalize the financial hurdles for environmentally friendly projects.

All Council resolutions, rules, regulations and other issuances or parts thereof that are inconsistent with this Council Resolution are hereby repealed or modified accordingly.

This Council resolution shall take effect immediately.

APPROVED in the City of Manila, Philippines this _____ day of __________ in the year of our Lord, thousand and one.

The National Credit Council Executive Board

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**ANNEX C**

PROPOSED MONETARY BOARD RESOLUTION -

MANDATING BANKS TO SET UP ENVIRONMENTAL UNITS AND OTHER PROVISIONS TO MAKE BANKS ACTIVE PARTICIPANTS IN THE GOVERNMENT'S PURSUIT OF SUSTAINABLE DEVELOPMENT

WHEREAS, it is the policy of the state to ensure the sustainable use, development, management, renewal and conservation of the country's forest, mineral, land, off-shore areas and other natural resources, including the protection and enhancement of the quality of the environment, and the equitable access of the different segments of the population to the development and use of the country's natural resources, not only for the present generation but for future generations as well. It is also the policy of the state to recognize and apply a true value system including social and environmental cost implications relative to their utilization, development and conservation of our natural resources;

WHEREAS, the government acknowledged the need to strike a balance between economic development and ecological integrity and called on the financial sector to balance their commercial interests with long-term sustainable projects and building environmental capital;

WHEREAS, with the present global concerns on environmental issues there is a need for financial institutions to expand its role of providing financial resources and services to fuel the country's economic development to include the protection of the environment as it promotes development;

WHEREAS, only a few banks have consciously integrated environmental concerns in their lending programs and only a handful have set up their own environmental units within the organization notably the DBP, LBP, Metrobank and Planters Development Bank, among others, to date;

NOW THEREFORE, it is resolved that the Board, in order to increase the awareness of banks on environmental concerns and to ensure that environmental concerns are integrated into the full range of bank's operations, hereby requires all banks to set up an environmental unit (EU) and appoint/designate an environmental compliance officer (ECO) to oversee its implementation according to the following:

Section I. Environmental Unit

1. The environmental unit shall have the following basic functions:

2. To assess the environmental soundness of projects to be financed by the bank.

3. To require loan applicants to have an environmental compliance certificate.

4. To conduct environmental due diligence on loan applications. Environmental due diligence (EDD) is a procedure developed to protect the profitability of banks, by identifying potential sources of future environmental credit risks and liabilities at an early stage of the appraisal process.

5. To address the bank's internal and external environmental concerns which include, among others:

    a) Formulate bank's principles and policies in line with government initiatives
    b) Prescribe bank rules and regulations for its environmental management system (EMS) and monitor its compliance
    c) Conduct seminars / training on environment for the bank and clients
    d) Advocate and take the lead in community-oriented environmental programs

1. An environmental compliance officer shall head the EU.

    The environmental compliance program may operate parallel to or as part of the bank's lending, internal control and auditing programs.

Section 2. The Environmental Compliance Officer

1. The principal function of the environmental compliance officer is to oversee and coordinate the implementation of the environmental unit.

2. The ECO should have the skills and expertise to provide appropriate guidance and directions to the bank on the implementation and maintenance of the environmental unit.

3. A full-time ECO shall be appointed by every commercial bank.

Banks are given ____ months from the issuance of the corresponding Circular within which to comply with the above requirements.

APPROVED in the City of Manila, Philippines this _____ day of __________ in the year of our Lord, thousand and one.

MONETARY BOARD:

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