CERISE+SPTF

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Environmental Risk Assessment and Management Model

Appendix B to the Environmental Policy Model for Financial Service Providers (FSPs)

This appendix provides an **operational model for assessing and managing environmental risks**: it structures **the identification** of risks (institutional and customer-related), **classifies** them according to their level of risk and **decision-making** (impact × management level), and then guides the follow-up actions to be taken (awareness-raising/training or **action plan** with mitigation measures and monitoring). This appendix will enable you to **standardize** practices, reduce environmental risks, and **equip credit teams** (roles, internal audit, training). To use it, first check **Appendix A – Exclusion List Template,** then identify and classify environmental risks, formalize actions (responsible parties/deadlines), and finally **ensure** regular **monitoring** and updating of the mapping.

Environmental risk management is carried out in several stages:

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1. Identification of environmental risks

Risks are identified based on the FSP's activities, such as gas emissions, pollution, or impact on biodiversity. Each risk is positioned in the matrix, allowing risks to be classified as critical or acceptable. Risks with a high probability and high impact require priority management, while those with a low probability and low impact can be monitored.

Risks are assessed based on their potential impact on the Environmental and the community in which the activity is carried out.

Classification matrix that groups environmental risks into four levels

CRITICAL RISK	Activities or projects with serious environmental impacts that may be irreversible or complex to mitigate, and that require rigorous assessment before any financing decision is made or may be excluded from financing.
MAJOR RISK	Activities or projects likely to have significant impacts, requiring in-depth analysis and the implementation of a detailed management plan.
MODERATE RISK	Activities or projects with limited potential impacts that can be controlled by simple mitigation measures.
MINOR RISK	Activities or projects with negligible or non-existent environmental impacts, requiring no specific measures (approval without specific measures).

The risk mapping of [name of the FSP] should be updated to identify environmental risks in all [name of the FSP] processes and their mitigation measures. The internal audit department should be responsible for systematically verifying the effective implementation of the identified mitigation measures.

[Name of the FSP] must provide training for all credit staff on procedures and tools for identifying environmental risks in credit applications.

Classification table for internal and external environmental risks

Risks	Risk Description	Probability of Occurrence	Comments	Recommendations
Institutional Level – Vulnerabilities (Environmental risks faced by the FSP)				
Risk of vulnerability to natural disasters	The occurrence of natural disasters such as flooding can hinder the normal functioning of activities.	**Average (M)**	Heavy rainfall due to climate change and the location of branches and service points in flood-prone areas expose the FSP to the effects of flooding.	**Mitigation:** Development and implementation of a plan to prepare Branches and service points to deal with flooding.
Reputational risk	Negative public perception, withdrawal of partners due to non-compliance with environmental protection standards and regulations.	**High (H)**	Environmental issues have become cross-cutting, and taking them into account is now a requirement at the country level as well as for certain Partners.	**Prevention:** Develop and implement a plan to comply with environmental protection standards and requirements.
Financial risks	Loss of revenue due to an increase in unpaid bills as a result of the effects of global warming on the FSP's customers, who are agricultural producers.	**High (H)**	The consequences of global warming disrupt the seasons and the yields of agricultural producers and their incomes.	**Prevention and mitigation:** • Training agricultural customers in best sustainable agricultural practices • Analysis of environmental risks in agricultural loan applications and implementation of mitigation measures

Risk of customer loss	The segment of customers affected by the effects of global warming, such as farmers, are no longer attractive to Financial Service Providers	**Average (M)**	Due to recurring defaults by farming customers, the FSP decides to stop financing them and abandons this segment of its market	**Prevention and mitigation**
				• Training farming customers in best sustainable agricultural practices.
				  ○ Regular monitoring of agricultural loan performance according to the growing of crop and speculations
				  ○ Development of the agricultural loan portfolio according to the performance of different growing of crop and speculations.

Institutional Level - Negative Impacts (Environmental risks generated by the FSP)				
Risk of deforestation	Excessive paper consumption contributing to deforestation	**Low (L)**	The FSP does not have paper-saving practices in place	**Mitigation:** Adoption of practices to reduce paper consumption

Risk of greenhouse gas emissions	Excessive consumption of thermal energy, which contributes to greenhouse gas emissions	**Low (L)**	The FSP does not have practices in place to reduce energy consumption from thermal sources	**Mitigation:** Adoption of energy consumption reduction practices and installation of solar energy devices at Branches and service points
Risk of environmental destruction	Financing of activities that harm the Environmental	**Medium (M)**	The FSP does not have specific procedures for analyzing environmental risks and does not raise awareness among its customers about environmental issues.	**Prevention and mitigation:** • Establishment of an exclusion list • Implementation of environmental risk management procedures in credit applications • Raising customer awareness of environmental issues and environmentally friendly practices
Client/Portfolio Level – Vulnerabilities (Environmental risks faced by the FSP's clients)				
Risk of crop loss	Climate change is disrupting seasonal cycles, which are not evolving in line with farmers' knowledge and practices	**High (H)**	Agricultural producers are seeing their growing of crop destroyed or yields reduced because they are unable to control the changing seasonal cycles.	**Mitigation:** Agricultural producer clients are equipped and have mastered techniques for adapting to climate change.
Risk of income loss	Disruptions to seasonal cycles reduce expected yields of the growing of crop, leading to income losses for agricultural producers.	**High (H)**	Agricultural activities do not provide producers with the expected income.	**Prevention and mitigation:** • Customers are made aware of sustainable agricultural practices. • Customers are made aware of the need to build up savings to cope with income losses due to climate change.
Risk of exposure to environmental shocks	Longer droughts and heavier rainfall expose people to episodes of stifling heat and more severe flooding	**Medium (M)**	Customers face additional constraints in their activities and households due to the consequences of global warming	**Mitigation**: Customers are made aware of the environmental shocks to which they are exposed and how to respond to them.
Risk of disease	Air and water pollution due to greenhouse gas emissions and the use of chemical fertilizers and pesticides.	**Medium (M)**	The persistence of environmentally unfriendly practices in agricultural production affects customers' health.	**Prevention and mitigation:** • Raising customer awareness of poor production practices that are harmful to their health and motivating them to adopt new practices that protect the Environmental and their health • Raising customer awareness about protecting themselves from the effects of air and water pollution
Risk of greenhouse gas emissions	Thermal energy sources are responsible for greenhouse gas emissions and are the main sources of energy in [country]	**Low (L)**	Access to renewable energy sources is expensive and does not facilitate customers' energy transition	**Mitigation:** Introduction of credits for the acquisition of renewable energy sources for customers.

Risk of financial exclusion	Loss of income due to climate effects renders agricultural producers insolvent, limiting their attractiveness to Financial Service Providers.	**Medium (M)**	Customers are unable to generate income or meet their credit commitments to the FSP	**Mitigation:** Customers are encouraged to change activities or engage in secondary activities other than agriculture.
Customer/Portfolio Level - Negative Impacts (Environmental risks generated by customers)				
Deforestation risks	Activities and practices that contribute to deforestation, such as the sale of charcoal and wood and their use as cooking fuel.	**High (H)**	The high cost and inaccessibility of gas mean that charcoal and firewood are still used by the households of the FSP's customers as their main sources of cooking energy.	**Mitigation:** • Raising customer awareness about replacing charcoal and firewood as cooking fuel sources. • Offer credit savings products for the purchase of gas kits and improved cooking stoves.
Risk of soil degradation	Unsustainable agricultural practices	**High (H)**	Common course practice, particularly among agricultural producers with the widespread use of chemical fertilizers	**Mitigation:** Raising awareness and training customers to adopt sustainable agricultural practices
Risk of water and air pollution	The use of chemical fertilizers and pesticides in agriculture and the lack of waste management from artisanal activities and households affect air and water quality.	**Medium (H)**	Agriculture is still dependent on chemical fertilizers and pesticides. Waste management is not yet a concern for artisans and households.	**Mitigation:** Raising customer awareness and training them in sustainable agricultural practices and waste management.
Risk of biodiversity loss	Soil degradation, loss of yield and income lead to the expansion of agricultural activities to other areas, including protected areas.	**Medium (M)**	The search for new land and new growing of crop for new sources of income may lead to overexploitation of natural resources	**Mitigation:** • Raising customer awareness of sustainable agricultural practices • Encouraging agricultural customers to diversify into non-agricultural activities

2. Different stages of environmental risk assessment for customers

The first step is to check whether the activity to be financed is on the exclusion list (see Appendix A. Environmental exclusion list template). If it is, the application is immediately rejected and the member or customer is notified. This initial analysis is carried out by the credit officer and validated by the Credit Committee. In other words, any decision to reject a financing application on the grounds of exclusion is made by the elected Credit Committee.

If the activity or project is not on the exclusion list, the credit officer assesses its environmental impact (see list of commercial activities) and analyzes the environmental risk management system put in place by the customer.

Template for assessing clients' environmental risk management systems

Client name:			
Address:			
Activity:			
Amount requested:			
Rating: 1 = low risk; 2 = slight risk; 3 = medium risk; 4 = high risk; 5 = major risk			
Comments:			
1. **Commitment and regulatory compliance**			
The client's activity is not on the list of activities excluded by the FSP.			
The customer has all the necessary authorizations and certifications to carry out its activity.			
The customer has a good understanding of the environmental and social risks associated with its business.			
2. **Waste management and pollution**			
The client has implemented a structured waste management system.			
The client has adopted practices that reduce air pollutant emissions.			
The client has adopted practices that reduce water pollution emissions.			

The customer uses substances or products that pose an environmental risk.			
3. **Use of natural resources**			
The customer's activity is based on the responsible use of natural resources.			
The customer implements water-saving practices.			
The customer implements energy-saving practices.			
4. **Protection of biodiversity**			
The customer's activity leads to deforestation or destruction of natural habitats.			
The activity affects endangered or protected species			
The client's activity generates pollution that impacts biodiversity (chemicals, plastics, etc.) The customer's activity is located near protected areas and may affect the biodiversity of these areas			
Average rating			
Proposed actions to be implemented (moderate-major-critical risk)			

Criteria for assessing the client's environmental risk management system

High risk	*When the client has no system in place to detect, prevent, and manage the environmental risk associated with its activities/projects, and to comply with environmental laws, regulations, and societal standards.*
Medium risk	*When the customer has a system in place to detect, prevent, and manage environmental risks related to its activities and projects, and to comply with environmental laws, regulations, and societal standards, but it does not function in all respects.*
Low risk	*When the client has a system in place to detect, prevent, and manage environmental risk related to its activities and projects, and to comply with environmental laws, regulations, and societal standards, and this system works in all respects. Or when the activities do not involve environmental risks.*

The assessment of environmental risk management among [name of the FSP]'s customers is based on a decision matrix that takes into account two key variables: the impact of the activity on the environment and the effectiveness of the environmental risk management system put in place by the member or customer.

This matrix helps to prioritize management actions, allocate resources, and implement prevention or mitigation measures. It is regularly updated for proactive risk management.

It enables the most significant risks to be identified, their effects to be understood, and the actions to be taken to manage them effectively to be determined. This tool is essential for making informed decisions and taking proactive action for high-value financing (or financing exceeding *[...]*).

It consists of two main elements:

- **Potential impacts**: This measures the possible consequences if the risk materializes. Impacts can be financial, social, health-related, environmental, or affect the organization's reputation. For example, a data leak could result in high costs and undermine the trust of members and customers. A list of **business activities** and their environmental impact is established and regularly updated based on the country's climate realities.
- **Assessment of the environmental risk management system**: This assesses the system put in place by the member or client to reduce the impact of its activity or project on the environment, or to adapt to climate shocks. The average score for all criteria is used here to assess the system.

Customer environmental risk assessment matrix

Potential impact	Very high					
	Strong					
	Average					
	Low					
	Insignificant					
		Totally satisfied	Very satisfactory	Satisfactory	Moderately satisfied	Not very satisfactory
		Assessment of the customer's environmental risk management system				

The analysis phase of the customer's environmental risk management system may result in one of the four major actions below:

- Commend and encourage consideration of environmental risks;
- Raise the customer's awareness of environmental impacts;
- Train/educate the customer on potential environmental improvements;
- Develop an environmental action plan to mitigate environmental risks.

Credit officers are primarily responsible for raising customer awareness. To this end, they must be sufficiently equipped to provide the best advice to customers. **All customers should receive a fact sheet summarizing best practices to adopt when an action plan is not required.**

Decision matrix (environmental actions with customers)

Potential impact	Very high	*Action plan (+key actions included in the contract)*	*Explain and raise awareness of potential environmental improvements*	*Commend and encourage consideration of environmental risks*
	Insignificant	*Raise environmental awareness*	*Explain and raise awareness of potential environmental improvements*	*Praise and encourage consideration of environmental risks*
	Assessment	Unsatisfactory	Moderately satisfactory	Satisfactory
		Assessment of the level of environmental risk management		

3. Mitigation measures and monitoring

Thus, depending on the amount of credit and the level of risk (moderate, major, or critical), specific mitigation measures will be required before or after the credit is granted. [Name of the FSP] will support its members, customers, and project promoters in implementing these measures, in particular through technical advice and partnerships with external experts. The effectiveness of these measures will be monitored regularly to ensure that they meet the objectives set and to make adjustments if necessary.