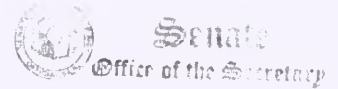


NINETEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
First Regular Session)



23 MAY -4 P6:34

SENATE
S. No. 2134

RECEIVED BY: _____

Introduced by Senator Loren B. Legarda

**AN ACT
ESTABLISHING ENVIRONMENTAL UNITS IN EVERY BANKING
INSTITUTION TO ASSESS THE ENVIRONMENTAL COMPONENT OF LOAN
APPLICATIONS**

EXPLANATORY NOTE

The Asian Development Bank Institute (ADBI) reports that a growing number of financial and monetary authorities across Asia started to consider how to integrate climate and environmental considerations into their policy frameworks or were encouraged to adopt environmental and social risk management (ESRM) practices.

Recognizing that environmental hazards and climate change could pose significant threats to the safety and soundness of individual financial institutions and the entire financial system, the Bangko Sentral ng Pilipinas issued a Sustainable Finance Framework, Environmental and Social Risk Management (ESRM) Framework, and the Guidelines on the Integration of Sustainability Principles in Investment Activities of Banks. These issuances encourage effective risk mitigation and management arising from climate change and environmental hazards as well as promote financing to green or sustainable projects.

To bolster the role of financial institutions in promoting sustainable financing and protecting the environment, this bill seeks to establish an environmental unit in public and private lending institutions that will guarantee that any loans or related funding applications are in compliance with environmental laws.

The environmental unit in every lending institution shall (1) assess if any loan or funding application has complied with the Environmental Impact Statement System under Presidential Decree No. 1586 as well as look at external cumulative impacts not considered in the project EIA; (2) monitor continuous compliance of projects and collaterals conform to environmental laws; and (3) prepare an environmental assessment report for all projects and loans with environmental impact.

The current environmental laws shall be supplemented by this proposed policy, helping to ensure that the laws are better implemented. The enactment of this measure will help facilitate sustainable corporate governance and sound business management.

In view of the foregoing, the urgent passage of this bill is sought.



LOREN LEGARDA

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Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

1 Section. 1. *Short Title.* - This Act shall be known as the "Environmental Unit in
2 Every Banking Institution Act."

3 Sec. 2. *Declaration of Policy.* - It is hereby declared the policy of the State to strike
4 a balance between socioeconomic development and environmental protection. In this
5 regard, lending institutions are encouraged to adopt a corporate environmental policy
6 to support environmental protection and sustainable development and to mitigate
7 credit risks arising from the adverse impact of loans and other projects for financing
8 in the environment. Pursuant to this policy, loan evaluation, approval, and release
9 shall take into consideration the borrower's compliance with applicable
10 environmental laws.

11 Sec. 3. *Creation of In-House Environmental Unit.* - There shall be created an in-
12 house environmental unit in every lending institution tasked to ensure that any loan
13 or related funding applications of any natural or juridical entity have complied with
14 the Environmental Impact Statement System under Presidential Decree No. 1586, if
15 applicable to the purpose intended for the loan application, and require a Risk
16 Assessment to ensure that issues and projects external to the project to avoid
17 cumulative and synergistic impacts that may lead to ecological or economic losses.

1 Sec. 4. *Functions of In-House Environmental Units in Lending Institutions:*

2 1. *Compliance with Environmental Laws as the Basis for Approval of Loan Accounts.*

3 - Lending institutions shall ensure that projects subject to financing
4 applications and collateral offered as security shall conform to
5 environmental laws. Compliance of projects and collaterals with
6 environmental laws shall be among the basis for approval of environmental
7 units of loan accounts with environmental impact.

8 2. *Continuous Monitoring of Compliance.* - Lending institutions shall encourage
9 continuous compliance with environmental laws. Account officers (AOs)
10 shall continue to monitor compliance with projects and collaterals until
11 such time that the account is fully paid, or the collaterals are released or
12 substituted. The AOs shall look into reported complaints against the client's
13 projects/collateral.

14 Borrowers covered under this law shall be required to submit copies of the
15 periodic monitoring reports of their projects/collateral to the Department
16 of Environment and Natural Resources (DENR) even after the account is
17 fully paid or the collaterals are released or substituted to ensure continuous
18 compliance with environmental laws.

19 3. *Environmental Assessment Report.* - The environmental unit of every lending
20 institution shall prepare an environmental assessment report for all projects
21 and loans with environmental impact and assess overall portfolio
22 cumulative impact. The report shall be integrated into the decision-making
23 procedure of the bank's portfolio development and all project proposals
24 and/or loan application.

25 Sec. 5. *Composition of Environmental Unit.* - The environmental unit shall be
26 composed of three (3) functional units, wit:

- 27 a) Environmental Review and Assessment Unit, which is tasked to ensure the
28 environmental soundness of the project and the account's compliance with
29 environmental laws, including matters external to the project but need to be
30 considered to avoid environmental risks;

- 1 b) Environmental Policy, Planning, and Systems Management Unit, which is
2 tasked to develop/enhance the lending institution's internal policy to
3 effectively implement the above corporate environmental policy; and
4 c) Environmental Program Management Unit, which is tasked to
5 develop/manage grant-assisted environmental programs and assist project
6 management units in developing environment-related lending facilities
7 that will provide services/support to the bank and its clients.

8 Sec. 6. *Non-Compliance of Borrowers.* - The non-compliance of borrowers with
9 applicable environmental laws and with the submission of the periodic monitoring
10 reports of their projects/collateral to the DENR shall be considered a condition for
11 *default*. As such, the borrower must pay the full loan balance immediately, including
12 the total interest amount, penalties, and other charges. Otherwise, the lender will
13 begin the process of seizing collateral.

14 Sec. 7. *Separability Clause.* - If any provision of this Act shall be held
15 unconstitutional, the remainder of this Act not otherwise affected shall remain in full
16 force and effect.

17 Sec. 8. *Repealing Clause.* - All laws, executive orders, presidential decrees, rules,
18 and regulations, or parts thereof inconsistent with any provisions of this Act are
19 hereby repealed, amended, or modified accordingly.

20 Sec. 9. *Effectivity.* - This Act shall take effect fifteen (15) days after its
21 publication in the Official Gazette or in a newspaper of general circulation.

Approved,