



*Addis Ababa University*  
*College of Law and Governance Studies*



ENVIRONMENTAL PROTECTION REQUIREMENTS DURING  
ADVANCEMENT OF LOAN FOR PROJECTS: THE CASE OF COMMERCIAL  
BANK OF ETHIOPIA

THESIS

Submitted in partial fulfillment of the requirement for the degree of Masters of  
Laws /LL.M/ in Business Law at the school of Law, Addis Ababa University

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## **APPROVAL SHEET**

This thesis report on a theme “**ENVIRONMENTAL PROTECTION REQUIREMENTS DURING EXTENTION OF LOAN FOR PROJECTS: THE CASE OF COMMERCIAL BANK OF ETHIOPIA**”, prepared and submitted by Mr. Tarekegn Amare in partial fulfillment of the requirements for the degree of Master of Law in Business Law compiled with the regulations of the college and meets the adopted standards with respect to originality and quality.

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## **DECLARATION**

I, Mr. Tarekegn Amare hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person nor material which to a substantial extent has been accepted for the award of any other degree of a university or other institution of higher learning, except where due acknowledgement is made in the acknowledgement.

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**Signature**

**Date**

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## **Lists of abbreviations**

EA- Environmental Assessment

EIA-Environmental Impact Assessment

ESS-Environmental and Social Standards

WB- World Bank

ADB- Africa Development Bank

CBE\_ Commercial Bank of Ethiopia

GEF- Global Environmental Facility

OMS- Operational Manual Statement

OD- Operational Directive

GP- Good Practices

OP-Operational Process

BP-Bank Process

NGO- Non Governmental Organizations

SEA- Strategic Environmental Assessment

SD- Standard Deviation

EPE- Environmental Policy of Ethiopia

CSR- Corporate Social Responsibility

ESMS- Environmental and Social Management System

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## **Abstract**

The objective of this study is to offer some understanding on what the policy and legal landscape of Ethiopia look like when it comes to governing the issue of protecting the environment especially during execution of investment or some other developmental projects with financial support of Banks. The safety and sustainable management of the environment is not only one but at the heart of ensuring sustainable development, development which ensures both inter- and intra-generational aspirations. This means that it's one of important factors affecting decision making processes of financial institutions whenever they happen to assess loan proposals for a given project. The thesis tries to shed some light on how this makes its way in to the arrays of laws and policy schemes meant to govern viability of proposals for advancement of loans for projects. Ensuring the sustainability and environmentally- friendly nature of projects seeking bank loans is, just one of numerous tools used to assess credit worthiness of projects. The paper is focusing on the availability of both legal and policy instruments to ensure the safety of the environment before loans are advanced for a given project work. And it also tries to shed some light on how seriously banks are supposed or expected to abide by such legal and policy schemes. Environmental Impact Assessment has now become one of the buzz words whenever and whenever there is an agenda or discourse about sustainable development. Ethiopia is one of numerous least emerging economies in the world and one of poorly performing states in the Sub-Saharan Africa in terms of achieving comprehensive development: both the legal and policy environment is quite known to be underdeveloped. Both the government and other institutions involving in the process adopt and apply deregulatory schemes which are ever projecting downwards so as to attract as many investors as they manage. The race is down to the bottom, where there are hardly any encumbrances on operating any developmental endeavor. In light of this general framework of understanding that the research tries to give some clue over the general stature of the topic by employing both primary and secondary resources as a guiding design and methodology and both descriptive and explanatory designs blended together. The research approach utilized, are both qualitative and quantitative. The study finds out that majority of the respondents/interviewees are dissatisfied or satisfied by either on the availability and efficacy of legal and policy instruments to govern the affair or by the level of commitments that banks display to operate in conformity with regulatory mechanisms while they entertain loan applications. Future researchers have many issues to delve into, especially by enlarging the topic to embrace other banks and possibly by diversifying variables. The researcher commends further steps should be taken to ensure maximum results to ensure the safety of the environment which is quite likely affected by developmental efforts having adverse spillover impacts. CBE is showcased to breathe some soul onto the topic.

**KEY WORDS:** EIA, CBE, Policy Instruments, Legal Mechanism, Project Loan, banks

# Chapter One

## 1. Introduction

### 1.1. Background of the Study

Under this section, the historical coming up of the concept and practice of EIA and execution of projects on loan, in general and the case of CBE in particular will be discussed; historical scenarios, the genesis of the concept of EIA Ethiopia with general reference to international scenarios and regimes mainly starting from the time of the establishment of the Briton woods institutions in 1945, i.e., WB and IMF.<sup>1</sup> Banks play a key role in the development of the economy of a country. They play key factors in the realizing of sustainable development. By their corporate nature Commercial Banks are profit seeking and are conscious of risk mitigation. With regard's to Environmental issue CBE will be facing internal and external chalanges mainly due to in adecuate Environmental Managemnt system. This my affect directly or indirectly the banks performance as the result of environmental driven factors.

### 1.2. Description of the study Area

The study area of the research spans only discussion of the availability and efficacy of both legal and policy instruments providing for the need to apply EIA scheme while financial institutions advance loans to projects and the case of CBE is showcased. In doing so, the researcher will try to analyze different perspectives forwarded by scholars on the subject matter; both locally and at international level. Federal laws and policies will be paid with due consultation to see how they have been heeding to the pressing need to ensure environmentally sustainable projects implemented with loans from banks. The practice and track record of CBE will be used to indicate how the issue of EIA has been treated all along the way to now.

Thus, the context of the study area is bounded to discussing both legal and policy instruments meant to govern EIA in relation with execution of projects with bank loans and the roles that CBE has been playing to confirm with these instruments.

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<sup>1</sup> Todd Roessler, "World Bank's Lending Policy and Environmental Standards," *North Carolina Journal of International Law*, Vol. 26(2000), P. 105-106

### **1.3. Statement of the Problem**

It is quite many, who are from either the academics or practicing the profession in real life situations who argue that there are enough legal and policy instruments foreseeing the ever pressing issue of maintaining both the safety and livability of the environment. These people contend that the aforementioned instruments are sufficient enough to secure sustainable development through the application of operational standards safeguarding the environment where developmental endeavors are undertaken. If there is any gap or inaction or even limitation during implementing these instruments, such is because of inability of people or institutions who/which are supposed to implement or get the same put in force, not because that the laws and policies are deficient in their own right.

In contrary to the above assertion and claim, there are another people who sternly argue that there is not enough law or policy instrument or if there is some at all, they lack the necessary gut and stick to force the supposed-enforcers and subjects abide by them. They laws are scant or lacks force of law and even at times, they don't look to have regulatory scheme or watchdog to ensure their implementation properly.

There is no clarity as to how the Ethiopian legal fraim work regulate financial institution in general and commercial bank of Ethiopia in particular with regards corporate social responsibility at the time of conducting loan to projects. In addition there is no clarity as to the legal environmental requarirement that oblige CBE to consider EIA during provisioning of lon.

Therefor the Resurch study will asses the law and practice regarding the above mensioned issues and how CBE Considers environmental aspet in lending decisions will be assesed and their by providing recommendation based on finding of the research.

The scholastic views and views from people encountering this very issue in their daily activity is what the researcher finds interesting to shed some light on. Is it because of gaps or limitations in the laws and policies that the EIA is under-considered while banks advance loans for projects? Or, is the limitation is on the implementation?

### **1.4. Research Objectives**

#### **1.4.1. General objective**

The research envisions helping the general audience to have some understanding if the laws and policy instruments in Ethiopia are putting encumbrance on banks to make sure project proposals submitted for loan carry on prior studies on possible or even potential environmental impacts, before they disperse their cash. The role of CBE is showcased to see how well the regime is functioning.

#### **1.4.2. Specific objectives**

- To understand what constitutes EIA mechanism and its place in Ethiopian laws and policy instruments;
- To indicate how the scheme of EIA implemented while banks extend loans for projects;
- To identify gaps either in the laws and/or policy instruments hindering effective implementation of EIA scheme during bank loans are dispersed for projects and
- To show whether the gap is in the laws and policies or the implementation at the CBE.

#### **1.5. Research Questions**

- Does Ethiopia have law or policy for EIA consideration during bank loan processing for projects?
- Are banks required to consider EIA when entertaining loan applications for projects?
- What are the legal and policy gaps that hinder application of EIA during bank loan processing?
- Does CBE consider EIA during loan processing for projects and what are the practical gaps?

#### **1.6. Scope of the Study**

The study area of this research embraces: geographically, covers only CBE in Addis Ababa, Ethiopia. Generally, the scope of the study is limited to analyzing the status laws and policies over EIA.

#### **1.7. Limitations of the Study**

The most important limitation is that the findings of this particular study cannot be extrapolated or applied to banks or other financial institutions generally, or the finding is highly squeezed to indicate what the CBE looks like when it comes to the topic under study.

Also there could be gap in the necessary information due to various reasons. At some instants information can be either unattainable or unavailable or unobtainable for different reasons.

### **1.8. Significance of the Study**

The researcher would never imagine that his work bears no fruit or gone unnoticed by the audience that the study targets. Of course, it will be adding some value to the already existing stock of knowledge in the area of the study. It gives an eye-opening clue both to the academia and practitioners who are happening to address the issue in so many different degrees and level of concerns.

The research will also, if not shut, but narrows the existing gap within the local literatures on the subject matter treated.

### **1.9. Organization of the Study**

The research paper is composed of five major chapters which include the following chapters, content and structure:

Chapter one commences with introduction. This chapter mainly focuses on the background of study, significant for study, research objectives, research questions, hypothesis, scope, limitations, significance, statement of the problem and this very sub-title. Chapter two is about literature review and works previously done by numerous researchers will be reviewed and analyzed so as to put a guiding roadmap for the next venture that the researcher is going to delve into. This chapter covers some theoretical issues and conceptual issues relating with the topic and tries to indicate the existing gaps and limitations within available literature. Due care is employed to devote the chapter only to discussing relevant works having relationship over the topic; no wandering is contemplated here. Chapter three is discussing the research methodology and it gives the some idea about different methods, designs and approaches of research blended together to get one of dependable and reliable research findings. Both primary and secondary sources of data will be properly consulted with application of relevant analytical techniques. Chapter four is devoted to discussing data presentations and analysis. Under this chapter, there is presentation of relevant data, and analysis of those data with relevant and appropriate technique. And finally, under chapter five, conclusion will be drawn from the whole journey and recommendation will be suggested, if such is helping at all..

## **Chapter Two**

### **2. REVIEW OF RELATED LITERATURE**

#### **2.1 Introduction**

The aim of this chapter is to conceptualize definitions and key terms related to environmental protection requirements by project owners to get loans from Ethiopian banks to summarize and apply the ideas, hypotheses and findings of other researchers to the objectives of this study by analyzing academic literature applicable to the concepts extracted from the research question.

Theories, conceptual frameworks, synthesis, treatises and other scholastic contributions will be discussed to have better insight over the issue from different perspectives.

Theories are supposed to shed light on the potential existence of correlation, cause and effect and nexus between variables and such is proved to have gone through trials and tests in the social life of people credited for such contributions.

Concepts relating with the EIA either found in international legal instruments, conventions, resolutions and framework agreements are duly consulted to have how the issue is treated globally. The laws and policy instruments in Ethiopia, either adopted locally or imported from abroad, will be assessed to see how much attention they pay to the topic under study.

Finally, after reviewing similar works of various scholars, this paper will summarize the practice of CBE in light of those legal and policy environments, local and international experiences and see if any issue seeks further intervention as this might have been recommended by scholars and practitioners.

## 2.2 Concepts and Definitions

### 2.2.1 Definition and Nature of Environmental Impact Assessment

Environmental impact assessment, sometimes known as EIA, or occasionally just "environmental assessment,"<sup>2</sup> refers to the process of evaluating potential projects or activities for their environmental impact before they are implemented.<sup>3</sup> On the basis of the data to be gathered and reviewed, the impacts of a proposed project or program can be evaluated. As a result, preparations are made before projects are implemented in order to considerably reduce risks and harm.<sup>4</sup> One of the primary steps in the process to determine if a project should receive authorization or approval from the relevant regulatory authority is the evaluation, which is often carried out in a thorough manner.<sup>5</sup>

Ethiopian law relates the definitions of impact, EIA, and project to the prevalent perceptions held in the research area. In Ethiopian law, "impact" is defined as "any change to the environment or to its component that may have an adverse effect on human health or safety, flora, fauna, soil, air, water, climate, natural or cultural heritage, other physical structure, or in general, have an adverse impact on subsequent environmental, social, economic, or cultural conditions."<sup>6</sup> The definition of EIA goes on to say that it is "the methodology of identifying and evaluating in advance any affect, be it positive or negative, which results from the implementation of a proposed project or public instrument."<sup>7</sup> According to Ethiopian legislation, a "new development activity under any category listed in any directive issued pursuant to [the EIA] proclamation, major expansion or alteration of any existing undertaking, or any resumption of work that had been ceased" is referred to as a project."<sup>8</sup>

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<sup>2</sup>Susan Wolf & Anna White, Environmental Law (1995), p.344

<sup>3</sup>Ravi Jain, Environmental Assessment (2<sup>nd</sup> ed., 2002), p. 5

<sup>4</sup>Cited above at note 2, p. 346

<sup>5</sup>Id.

<sup>6</sup> Environmental Impact Assessment Proclamation, 2002, Art. 2(4), Proc. No. 299, Fed. Neg. Gaz., Year 9<sup>th</sup>, No. 11

<sup>7</sup>Id., Art. 2(3)

<sup>8</sup> Id., Art. 2(8)

"A policy, a strategy, a program, a law, or an international agreement" is a "public instrument."<sup>9</sup> So the government is obliged to conduct an EIA when crafting any project and ratifying an international agreement. This concept does not imply that a project is rejected if it would not have a detrimental impact on the environment, nor does it address whether a project should be granted authorization. The precautionary and preventative principles can be used by investors to conduct socially responsible investments (SRI). The precautionary principle focuses on managing environmental dangers that are currently unknown. Therefore, when the implementation of a development project would cause environmental harm, either anticipatory or preventative action is necessary.<sup>10</sup> Because it is better to prevent harm than to remedy it, the prevention principle enables the environment to be protected at an early stage.<sup>11</sup> Both the precautionary principle and the prevention principle require EIA.

### **2.2.2 Environmental and Social Standards (ESSs)**

Tools called ESSs are created to avoid, eliminate, decrease, or mitigate projects' negative environmental and social risks and repercussions. In compliance with this Environmental and Social Policy for Investment Project Financing Policy, Bank may support Borrowers in their implementation of the ESSs to projects supported by investment project financing.<sup>12</sup> Each ESS's objectives include a description of the project's desired results as well as precise requirements that will help the borrower meet these goals.<sup>13</sup>

## **2.3 Theoretical Literature Review**

### **2.3.1 The World Bank's Environmental Policies and Practices**

The World Bank was established in an effort to raise money for post-conflict reconstruction and development projects that had been hampered by the Second World War.<sup>14</sup> In order to achieve

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<sup>9</sup>Id., Art. 2(10)

<sup>10</sup> Jhon Brady, Environmental Management in organizations, (2022), p.35

<sup>11</sup> Id

<sup>12</sup> World Bank Environmental and Social Policy for Investment Project Financing

<sup>13</sup> Id

<sup>14</sup> Catherine Gwin, U.S. Relations with the World Bank 1945-1992 (1994), p.3

global economic expansion, the World Bank was founded on the premise that natural resources were limitless.<sup>15</sup>

This historical perspective contributes to the founding Articles of Agreement of the Bank, which establish its guiding principle: loans will typically only be made for specific development projects (such as dams, highways, power plants, etc.), and lending decisions will be made without regard to politics and solely on the basis of economic considerations.<sup>16</sup> However, despite the fact that the bank has prioritized certain areas of interest, it is hardly reasonable to assume that the bank has imposed any restrictions on how loans are given to projects before those projects have submitted their report regarding the effects of their activity on the environment.<sup>17</sup>

However, despite the fact that the bank has prioritized certain areas of interest, it is hardly reasonable to assume that the bank has imposed any restrictions on how loans are given to projects before those projects have submitted their report regarding the effects of their activity on the environment.<sup>18</sup> Over the past ten to fifteen years, a new environmental agenda has emerged. Examples include the 1984 adoption of an environmental operation directive, the 1987 restructuring of the World Bank with the creation of a new Environment Department, the 1991 establishment of the Global Environment Facility (GEF), and the 1993 establishment of the World Bank Inspection Panel.<sup>19</sup> The Bank's structural adjustment, implemented in 1992, added new measures that companies should follow when they carry out initiatives to protect the safety of the environment. This time, the environment wasn't more economically important; rather, it was a crucial component of the human rights agenda and a necessity to address the planet's deteriorating climate so that interests representing even the future generation would eventually be maintained fairly with the current generation.<sup>20</sup>

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<sup>15</sup> Bruce Rich, Foreclosing the future: Examining 20 years of the World Banks Environmental Performance, (2013), p. 55.

<sup>16</sup> Ibid. at 57-58.

<sup>17</sup> Ibid.

<sup>18</sup> World Bank, Environmental Assessment Sourcebook, (vol. 1, 2013) available at <http://doi.org/10.1596/0-8213-1843-8>

<sup>19</sup> Ibid.

<sup>20</sup> Ibid.

## **A. Environmental Policies and Procedures**

The World Bank consolidated its environmental guidelines and policies into an Operational Manual Statement, or OMS 2.36 in 1984.<sup>21</sup> In order to inform staff and borrowers on the World Bank's lending policy and the steps that must be taken to preserve environmental and social interests, the World Bank adopted Operational Directive 4.00, Annex A, in 1989.<sup>22</sup> For all projects that could have significant environmental implications, the borrower is required by OD 4.00, Annex A to do an environmental assessment (EA).<sup>23</sup> Two years later, the operational directive was updated to increase its applicability and breadth, and OD 4.01, Annex A, took the place of OD 4.00.<sup>24</sup> The previous operational directive's guidelines were merged into OD 4.01, which also introduced a new classification scheme.<sup>25</sup> Additionally, OD 4.01 "provided more detailed guidance to staff regarding public consultation and information disclosure."<sup>26</sup>

The World Bank made yet another revision to its environmental policies. In January 1999, three distinct categories were established.<sup>27</sup> to provide "clearer guidance on the Bank's policy to its staff."<sup>28</sup> While the Good Practices (GP) are simply advisory, the Operational Policies (OP) and Bank processes (BP) are mandatory processes.<sup>29</sup> OP/BP/GP 4.01 establishes the foundation for the Bank's environmental policy and regulates the applicability of environmental assessments and studies.<sup>30</sup>

## **B. Environmental Assessment**

In order to ensure that the proposed projects are environmentally sound and sustainable, the World Bank requires borrowers to carry out EAs for proposed Bank projects that potentially

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<sup>21</sup> world Bank, implementation of operational directive 4.20 on indigenious peoples: an independent desk review, (2003), p.

<sup>22</sup> supra note 18.

<sup>23</sup> Ibid.

<sup>24</sup> Ibid.

<sup>25</sup> Ibid.

<sup>26</sup> Ibid.

<sup>27</sup> World Bank, Operational Policies, Bank Procedures, And Good Practices 4.01, (Jan. 1999), available at <http://www.worldbank.org> (Jan. 1999)

<sup>28</sup> Ibid.

<sup>29</sup> Ibid.

<sup>30</sup> Ibid.

have negative environmental implications.<sup>31</sup>The scope, complexity, and kind of an environmental impact assessment (EA) procedure depend on the project's nature, size, and possible environmental impact. To improve project selection, siting, planning, design, and implementation by preventing, minimizing, mitigating, or compensating for adverse environmental impacts and enhancing positive impacts, an environmental assessment (EA) evaluates a project's potential environmental risks and impacts in its area of influence, examines project alternatives, and includes the process of mitigating and managing adverse environmental impacts throughout project implementation.<sup>32</sup>

As a result, the EA policy makes it easier for the World Bank and the borrower to work together to make sure that economic, social, and environmental factors are taken into account. The World Bank includes "the natural environment (air, water, and land); human health and safety; social aspects (involuntary resettlement, indigenous peoples, and cultural property); and Trans boundary and global environmental aspects" in its definition of "environmentally sound and sustainable" at paragraph 3 of OP 4.01.<sup>33</sup> As in OD 4.01, the borrower assumes responsibility for implementing the EA.<sup>34</sup>

### **2.3.2 Environmental risks as environment induced economic risks**

Climate change and CO2 emissions are two examples of environmental dangers that business activities have on the environment.<sup>35</sup>Businesses produce CO2, which exacerbates the environmental issue of climate change. The unclear environmental impact is not typically the focus of lenders' consideration. In general, they are concentrating on the financial damages brought on by environmental dangers. However, this is an economic risk rather than an

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<sup>31</sup> World Bank, World Bank Operational Manual, Operational Policies, Op 4.01, 11 1, 4, 8, available at [http://www.wbln0018.worldbank.org/institutional /manuals/opmanual.nsf/](http://www.wbln0018.worldbank.org/institutional/manuals/opmanual.nsf/) (1999)

<sup>32</sup> Id. 2.

<sup>33</sup> Id. 3.

<sup>34</sup> Id. 4.

<sup>35</sup> J. Hancock, Environmental risk management and your business. Cost effective compliance. (London, The Stationery Office, 2001)

environmental risk that is brought on by environmental factors. This type of risk can be categorized as an environmental risk brought on by the environment.<sup>36</sup>

### **2.3.2.1 Systematic vs. unsystematic environmental risks**

Additionally, it is crucial to distinguish between systematic and random environmental dangers.<sup>37</sup> The lenders' identification type can diversify some of the risks associated with their lending selections. Unsystematic risks are typically defined as hazards that can be diversified. Diversifiable risks become meaningless at the portfolio level. Diversifiable risks are predictable at the level of the entire portfolio even though they cannot be forecast with certainty at the level of an individual.

The possibility of an unintentional release of a pollutant is an excellent illustration of an unsystematic environmental risk. It is difficult to determine with certainty if a specific company would likely emit a pollutant. However, it is more certain to predict the likelihood that each company in the portfolio will release a pollutant. Systematic potential risks are another type of risk that cannot be varied. Both at the level of the individual and the portfolio, systematic risks are important. Systematic hazards typically arise when all borrowers have a same trait, such as energy. As a result, when energy prices vary, all businesses are impacted. Giving loans to numerous different businesses does not sufficiently diversify the risk of future changes in energy costs.<sup>38</sup>

### **2.3.2.2 Environmental risks as social constructs**

For a bank, environmental dangers are not only a natural occurrence. Environmental impacts can't always be automatically translated into economic hazards, yet they can nevertheless result in economic problems. Stakeholders may respond to environmental impacts in a way that first puts the borrower at risk for environmental damage, then the lender. As a result, there is no assurance that environmental risks and impacts are related for banks. If and how stakeholders

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<sup>36</sup> M Fenchel, "Empirical analysis of the integration of environmental risks in to credit risk management process of European banks" business strategy and the environment. ( March 2008)

<sup>37</sup> F Figge, Environment induced systematisation of economic risks , ( Greenleaf, 2001), p.268-279.

<sup>38</sup> F Figge, (1998): Systematisation of Economic Risks through Global Environmental Problems - A Threat to Financial Markets, (Basel, WWZ/Sarasin , 1998)

interpret environmental consequences into environmental hazards are still up for debate.<sup>39</sup> Or, put in a more provocative way, environmental risks are social constructs!<sup>40</sup> The stakeholders a borrower has will consequently have a significant impact on the environmental risk. Thus, it is necessary to examine the relationships between a borrower and his stakeholders.

### **2.3.4 Different kinds of environmental risks**

Various types of threats, including direct risks, indirect risks, and reputational risks, can be seen from the perspective of banks.<sup>41</sup>

#### **2.3.4.1 Direct risks**

One could argue that banks bear exclusive responsibility for the effects of environmental incidents. This might happen, for instance, if a bank seeks to seize collateral from a defaulting borrower and discovers that the collateral is tainted. The bank might be required to clean up the pollution as the new owner of the collateral. The accompanying expenses may be greater than the collateral's nominal value. The bank can decline to accept tainted collateral as one option. However, as a result, the loan will no longer be secured.

A "shadow directorship" is another option for a bank to take direct responsibility. The management of a firm may occasionally be entrusted to banks, particularly in times of financial difficulty. Banks anticipate being able to secure a company's financial viability and, as a result, anticipate not losing money by taking the lead. However, by taking the lead, the bank may assume the de facto management function rather than the formal management already in place, which would result in a transfer of responsibilities associated with a management post. Due to the company's conduct, especially its environmental concerns, banks might be held responsible.

Another scenario is where a financial organization legally retains ownership of a piece of equipment or anything similar that is financed by it and is subsequently held accountable for its

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<sup>39</sup> Jackson, T.O, "Surveys, market interviews, and environmental stigma", The Appraisal Journal, (2004) p. 300-310.

<sup>40</sup> Macgill, S.M. and Y.L. Siu, "A new paradigm for risk analysis ", Futures , (2005) , p. 1105-1131.

<sup>41</sup> P. Monaghan, "Risk premiums and lending criteria", The Sustainable Enterprise. Profiting from Best Practice. ( London: Kogan 2005), Page. 414-423.

failure.<sup>42</sup>The laws that are in existence have a significant impact on direct dangers and the circumstances under which they manifest. Because of this, direct dangers aren't covered in this paper in great length.

#### **2.3.4.2 Indirect risks**

According to the standpoint of bank lending, borrowers receive funds. The ability of a borrower to repay a loan, as well as the value of the collateral or guarantee, may be adversely affected by environmental risks to which the borrower may be exposed.

In these situations, environmental concerns will indirectly affect the lending bank through the bank's customers. Direct environmental dangers are significantly less frequent and less significant than indirect risks.<sup>43</sup>.

#### **2.3.4.3 Reputational risks**

Reputational risks are a third category of risk. Banks are becoming more closely associated with the types of companies or projects that they assist in financing. Although the management or owners of the borrower may be legally responsible, stakeholders increasingly view the funding of environmentally hazardous firms or projects as illegal.<sup>44</sup>

The case of West LB's funding of an oil pipeline in Ecuador serves as a good illustration. The building of this pipeline would, for the most part, travel parallel to another pipeline; however, a piece of the pipeline will be rerouted to pass through Andean cloud forest inside the Mindo-Nambillo reserve.<sup>45</sup>

Due to landslides, oil has leaked from Ecuador's current state-owned oil pipeline [18]. Given these environmental dangers and the fact that ecotourism employs more than 70% of the people

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<sup>42</sup> Frye, R.S. "The role of private banks in promoting sustainable development, from outside counsel's perspective", Law and Policy in International Business, (1998), p.481-499.

<sup>43</sup> P. Case, Environmental risk management and corporate lending - a global perspective. (Boca Raton: CRC Press., 2000)

<sup>44</sup> Ibid.

<sup>45</sup> Ibid.

living in the Mindo-Nambillo reserve, it is evident that there are significant concerns with the pipeline's proposed route.<sup>46</sup>

The bank ultimately chose to embrace the Equator Principles in 2003 as a result of the significant negative publicity that West LB encountered from NGOs and environmental pressure groups in respect to its financing of the Ecuadorian pipeline. The Equator Principles at West LB review projects requiring more than US\$50 million in financing today to prevent reputational risks.<sup>47</sup>

### **2.3.5 What can banks do in the lending process to mitigate environmental risks?**

Environmental risks can be handled by banks in a variety of ways. The following are some of the most crucial tools:<sup>48</sup>

- Risk-adjusted Pricing
- Monitoring
- Covenants
- Loan denial
- Portfolio management

#### **2.3.5.1 Risk adjusted pricing**

Since all bank lending choices often involve some level of risk, banks are accustomed to managing hazards. The problem for banks is to appropriately price loans.<sup>49</sup> There are numerous components that make up the negotiated interest on a loan. The most crucial elements are<sup>50</sup>

The risk-free rate of interest

- Other costs
- Profit margin
- Expected net loss (on a portfolio level)

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<sup>46</sup> Anonymous, Oil and cloud-forests don't mix: poor countries need economic development, but, like rich countries before them, increasingly dislike the pollution it brings, The Economist, 2001, p. 34.

<sup>47</sup> LB West, New Thinking. Sustainability Report 2005.

<sup>48</sup> University of Leeds, Environmental Aspects in Bank Lending Decisions, Sustainability Research Institute, page 10 (<http://www.leeds.ac.uk>)

<sup>49</sup> Id, page 10

<sup>50</sup> Id, page 10

- Unexpected loss (on a portfolio level)

The temporal worth of money is reflected in the risk-free rate. The risk-free rate shows investors' preference for having money sooner rather than later, which is a prevalent assumption among investors. Obviously, banks are responsible for paying any costs associated with the lending decision (other than those associated with refinancing). Furthermore, banks frequently seek to turn a profit, which is demonstrated by the profit margin.<sup>51</sup>

Environmental risks can have an influence on the two components

- Expected net loss (on a portfolio level)
- Unexpected loss (on a portfolio level)

Banks are aware that some of their loans won't be fully repaid. In other words, they anticipate suffering a financial loss. They must factor in the amount of money they anticipate losing. From the perspective of the bank, this is not strictly speaking a risk. This is related to the distinction between systematic and unsystematic risk once more.<sup>52</sup> A bank will increase the rate it agrees with its borrowers by 1% if it knows that it will lose 1% on average of the loans it makes owing to environmental reasons. Whether specific loan losses 1% or the entire loan portfolio loses 1% is meaningless in this context.

Environmental risks, however, cannot completely be diversified away because some environmental factors have a systematic nature. As a result, it is impossible to anticipate the performance of the loan portfolio with certainty; there is a chance that there could be unforeseen losses. Banks are nonetheless vulnerable to this systematic risk even if they diversify.<sup>53</sup> It is a frequent misconception that banks and investors both dislike risk. Therefore, banks will demand payment for taking on this risk. When there are systemic environmental risks, this risk will occur.<sup>54</sup>

Two of the five aforementioned components can be connected to environmental concerns. Correctly estimating risks when making lending decisions is both essential and challenging. It is crucial to realize that there are two quite distinct ways in which environmental hazards might

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<sup>51</sup>Id, page 10

<sup>52</sup> Id, page 10

<sup>53</sup> Id, page 10

<sup>54</sup> Id, page 10

affect loan pricing.<sup>55</sup> Risk-adjusted pricing needs to take into account predicted losses, or the amount of money banks anticipate losing on average, on the one hand. You can carry out this step for every loan separately. On the other hand, risk-adjusted pricing must take into account the amount of non-diversifiable risk that a loan adds to the bank's loan portfolio. Performing this is notoriously challenging.<sup>56</sup> As a result, it is possible to analyze loan applications by looking at both individual loan applications and the loan portfolio. It's vital to remember that risk-adjusted loan pricing does not actually lower environmental risk.<sup>57</sup> However, banks can help ensure that businesses have the right incentives to decrease environmental risks by providing the appropriate price signals.

### **2.3.5.2 Monitoring**

Environmental dangers can sometimes grow over time. A bank can lessen its exposure to environmental hazards by responding quickly to an impending crisis. For instance, it may be helpful to periodically verify that a borrower who engages in ecologically sensitive activity continues to adhere to all applicable laws and regulations after the loan has been issued.<sup>58</sup>

### **2.3.5.3 Covenants**

Loans might be accepted in principle with some restrictions. Covenants are the traditional name for these conditions, which can include environmental issues.<sup>59</sup> For instance, a bank can insist that a borrower provide environmental risk training for his staff. Using covenants, banks can help to lower environmental hazards.<sup>60</sup>

### **2.3.5.4 Refusal of loan**

Banks can also decide not to make a loan in reaction to environmental issues. Since most loans are susceptible to at least some risk, it is obvious that this cannot be done every time there is a risk. In cases where risk-adjusted pricing cannot be used, a loan may not be granted.<sup>61</sup>

## **2.3.6 Africa's Sustainable Development Challenge**

### **2.3.6.1 Overview of Environmental Concerns and Opportunities**

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<sup>55</sup> Id, page 10

<sup>56</sup> Id, page 11

<sup>57</sup> Id, page 11

<sup>58</sup> Id, page 11

<sup>59</sup> Id, page 11

<sup>60</sup> Id, page 11

<sup>61</sup> Id, page 11

In fact, there is broad agreement on the need for a comprehensive strategy that covers the continent of Africa's top priorities. These have been named as trade and market access, industrial development, human development, and agriculture and food security.<sup>62</sup> Prior to making any significant progress, it is also acknowledged that a number of environmental issues need to be resolved, and those issues have already been thoroughly documented.<sup>63</sup> Numerous analyses have been conducted in relation to the Africa Regional Environment Strategy (ARES) of the World Bank, the Global and Africa Environment Outlooks published by UNEP, as well as the evaluation report created for the Expanded Joint Secretariat.<sup>64</sup>

### **2.3.6.2 Major Environmental Concerns**

Despite being one of the world's most endowed regions, Africa has continued to be the poorest continent. One of the main issues that the African continent is dealing with is the growing environmental deterioration.<sup>65</sup> The Assessment highlights a number of environmental issues, including air pollution, soil erosion, and the degradation of natural ecosystems and resources (including forests, water, and marine and coastal resources).<sup>66</sup>

### **2.3.7 Bank's Experience in Environmentally Sustainable Development**

By funding programs and projects for development, the African Development Bank Group is committed to fostering the economic growth of its Regional Member Countries (RMCs).<sup>67</sup> The main factors used to determine if a project was viable in the past were technical and financial ones. The technical and financial success of these investment initiatives was seen to be implicit in their environmental soundness.<sup>68</sup> However, since the 1980s, the Bank has taken a more proactive approach to environmental management in response to growing worries about the continuous degradation of Africa's natural resources and the emergence of environmental issues at the top of the world political agenda.<sup>69</sup>

The Bank has created a number of environmentally focused policy documents and guidelines since the publication of its Environmental Policy in 1990, which provide helpful guidance on

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<sup>62</sup> UNEP Global Survey: Environmental Policies and Practices of the Financial Services Sector. (United Nations, New York, NY, USA, January 1995), p. 7

<sup>63</sup> *Id.*, page 8

<sup>64</sup> *Id.*, page 12

<sup>65</sup> *Ibid*

<sup>66</sup> *Ibid*

<sup>67</sup> *Ibid*

<sup>68</sup> *Ibid*

<sup>69</sup> *Ibid*

how to implement the policies.<sup>70</sup> These are regarded as crucial documents that inform project designers, staff members, RMCs, and the general public about environmental concerns. They do this to ensure environmental sustainability.<sup>71</sup>

The Bank has made significant advancements and gained experience over the past ten years in the field of environmental management, according to an environmental evaluation of its portfolio conducted in 1985 to evaluate the effectiveness of the implementation of the environmental policy from 1993 to 1998.<sup>72</sup> This evaluation was later supplemented by an assessment of environmental management of Category I and II projects in RMCs 6. It also contained a number of insightful observations that might significantly affect the new policy.<sup>73</sup> To address environmental concerns at the policy plan and program stage, the use of strategic environmental assessment (SEA) was advised. It was also emphasized how important it is to improve the ESMPs' design, implementation, monitoring, and regular update. Additionally, more funding was required to oversee the implementation of the environmental management plan and conduct post-evaluation missions.<sup>74</sup>

### **2.3.8. Ethiopian Environmental Laws and Institutional Frameworks**

#### **A. Introduction**

Through the development of practical policies, the adoption of legislation, and the implementation of strategies and processes, Ethiopia has been trying its best to conserve the environment. "To improve and enhance the health and quality of life of the people of the country and to promote sustainable social and economic development through sound management and use of the natural, human-made, and cultural resources and the environment as a whole," was the stated goal of the environmental policy from 1996. This is accomplished through the application of sectorial and cross-sectorial policies.<sup>75</sup>

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<sup>70</sup> Ibid

<sup>71</sup> Ibid

<sup>72</sup> Ibid

<sup>73</sup> Ibid

<sup>74</sup> Ethiopian environmental policy, Preamble, (1996).

<sup>75</sup> Federal Democratic Republic of Ethiopia Constitution 1995, Art. 92(3)

## **B. The Constitution**

The Ethiopian constitution, in Articles 43 and 44, respectively, provides "the right to a clean and healthy environment" and "the right to sustainable development." Articles 89 and 92 further stipulate that national policies and government initiatives must be in harmony with environmental health.<sup>76</sup>The government is also required by Article 89 to promote women's participation in national development policies and programs, ensure sustainable development, and work for the community's overall benefit. Additionally, Article 91 states that the government has a responsibility to safeguard and promote cultures, customs, natural resources, historical sites, and artifacts.

These significant clauses being part of the highest law of the land has elevated environmental concerns to the status of basic human rights. To actualize these rights, nevertheless, efficient implementation mechanisms (such as laws, regulations, and institutions) are required. For instance, the Constitution emphasizes consultation and community involvement as essential components of development activities numerous times, yet these still require subordinate legislation to set up functional systems.

## **C. Environmental Policy**

The Environmental Policy of Ethiopia ("EPE")<sup>77</sup> prioritizes improving the well-being and quality of life of Ethiopians and the promotion of sustainable development.<sup>78</sup> One implementation strategy is the effective management of natural and environmental resources from the federal level down to the woreda and community levels. Another strategy envisaged within the Policy is to assign resource management to one organization and protection, regulation, and monitoring to another.<sup>79</sup>

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<sup>76</sup> Supera Note at 74

<sup>77</sup> Id, page 50-51.

<sup>78</sup> Id, page 72.

<sup>79</sup> Ibid.

The EPE also discusses specific principles meant to guide development activities. Some of these are briefly discussed below, illuminating the links between international environmental principles and Ethiopian policy statements.<sup>80</sup>

- a. Right to a Healthy Environment: - as with the Constitution, the EPE guarantees every person's right to live in a healthy environment.
- b. Community Participation and Decision-making – acquisition of power by communities to make their own decisions on matters affecting their lives and environment.
- c. Renewable and Nonrenewable Resources: - use of renewable resources should be sustainable, while use of nonrenewable resources shall be minimized and, where possible, their availability should be extended (e.g., through recycling). This is the Principle of Inter-Generational Equity, and is related to the Principle of Sustainable Use of Natural Resources.
- d. Technology: - it is about adoption and dissemination of technologies that use resources efficiently, and support for communities and individuals to use and manage such technologies.
- e. Precaution: - it is about carefulness when a compromise between short-term economic growth and long-term environmental protection is necessary.
- f. Cost-Benefit Analysis: - full environmental and social costs (or benefits forgone or lost) shall be incorporated into public and private sector planning, as well as accounting and pricing of resources. This is similar to the Polluter (and User) Pays Principle.
- g. Social Equity and Equality of Women: - social equity shall be assured, particularly in resource use, and women shall be empowered and treated equally with men in all activities. This would be included in the Principle of Intra-Generational Equity.
- h. Environmental Assessment and Monitoring: - regular, accurate assessment and monitoring of environmental conditions, along with publication of all data, in keeping with the Duty to Assess Environmental Impacts.

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<sup>80</sup> Ibid.

i. Awareness and Information: - increased awareness and understanding of environmental and resource issues, as in the Principle of Public Awareness and Participation.

j. Land Security and Preservation of Species: - uninterrupted access for people to their own land and resources, and recognition of other species' right to exist. These are parts of the Principle of Sustainable Use of Natural Resources.

The EPE further stipulates detailed environmental policies for sectoral and cross-sectoral activities, together with implementation policies.<sup>81</sup> The original draft version, as an annex, also included draft interpretation guidelines, standards for specified industrial sectors, general standards for all other industrial effluents, standards for gaseous emissions, and standards for noise limits.<sup>82</sup>

In addition to the EPE, other sectoral policies have an indispensable role in the improvement of Ethiopia's environmental quality. The Ethiopian Water Sector Policy<sup>83</sup> and Ethiopian Water Sector Strategy<sup>84</sup> are good examples. The Water Policy provides specific policy directions for environmental and water resource protection and conservation; use and management of technology and engineering in the sector; water cost and pricing; groundwater utilization; disaster, emergency, and public safety management; "equitable and reasonable" use of trans-boundary water; and participation of stakeholders in the sector.<sup>85</sup> The Water Strategy contains detailed guidelines for implementing the above policies, along with guidelines on the development of hydropower, guaranteeing water supply, sanitation, and exploitation of agricultural irrigation potentials.<sup>86</sup>

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<sup>81</sup> Id, Page 6-25.

<sup>82</sup> Id, Page 26

<sup>83</sup> Ministry of Water Resources, Ethiopian Water Sector Policy (2001).

<sup>84</sup> Ibid

<sup>85</sup> Id, 8-18.

<sup>86</sup> Id, 2-23.

## **D. Environmental Laws**

Many laws have been enacted and treaties adopted for the protection of different segments of the Ethiopian environment. Due to the large volume of these federal laws and treaties, this part will only list some of them instead of thoroughly discussing each one.<sup>87</sup>

- a. Awash National Park Establishment Order No. 54/1969, Simien National Park Establishment Order No. 59/1970, and similar other establishment documents;
- b. Institute of Biodiversity Conservation and Research Establishment Regulation No. 291/2013 (later renamed EBI) the Institute of Biodiversity Conservation by Proclamation No 381/2004);
- c. Water Resource Management Proclamation No. 197/2000;
- d. Food and Medicine Administration Proclamation No. 1112/2019;
- e. Proclamation on the Establishment of Environmental Protection Organs No. 295/2002;
- f. Environmental Impact Assessment Proclamation No. 299/2002, Directive Issued to Determine Projects Subject to Environmental Impact Assessment (“EIA”) No. 2/ 2008, EIA Guideline Document (May 2000), EIA Procedural Guideline Series 1 (2003), Guideline Series Documents for Reviewing EIA Reports (2003), EIA Guidelines on Irrigation (2004) and on Pesticides (2004);
- g. Environmental Pollution Control Proclamation No. 300/2002, Regulation and Directives for Emission Standards of Selected Industries (2008);

Administration of these treaties is, however, fragmented by various loosely coordinated federal sectoral offices. At the federal level, implementation of environmental treaties is the responsibility of the Environmental Protection Authority (“EPA”), the Ministry of Agriculture (“MoA”), the Ministry of Water and Energy, and the Ministry of Culture and Tourism.<sup>88</sup>

## **E. Institutional Frameworks**

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<sup>87</sup> Mellese Dantie & Mesfin Bayou, Melca Mahiber, Overview Of Environmental Impact Assessment In ETHIOPIA: Gaps And Challenges, (2008) p. 31.

Various agencies are given responsibility for "environmental and natural resource development and management activities on the one hand, and environmental protection, regulation, and monitoring on the other, under the EPE.".<sup>88</sup> As the top federal environmental agency, the EPA develops policies, strategies, laws, and regulations to make sure that social and economic development activities sustainably improve environmental safety and human welfare.<sup>89</sup> In addition, EPA is responsible for evaluating the environmental impact assessment reports of federal and inter-regional projects, as well as auditing and regulating their implementation.<sup>90</sup> EPA is also in charge of providing technical support for environmental management and protection to regional offices and sectorial institutions.<sup>91</sup>

In managing Ethiopia's environment, government agencies share importance with private individuals, communities, and (to a lesser degree) companies. Before the enactment of the new law on civil organizations (which may shrink their quality of service, number, and capacity),<sup>92</sup> such organizations in Ethiopia were maturing in their quality of service, geographical coverage, and creation of policy dialogue.<sup>93</sup> Recently the role of nongovernmental organizations is increasing in both national and international environmental negotiation and implementation.<sup>94</sup> He notes that Forum for Environment, a local nongovernmental organization ("NGO") active in environmental concerns, is a member of the EPA's Environmental Council. In addition, EPA is working closely with other NGOs on various issues.<sup>95</sup>

## **2.4 Environmental Safety as a part of Corporate Social Responsibility**

### **Corporate Social Responsibility- Defined**

Corporate social responsibility, or CSR for short, is one of the theoretical frameworks that Francesco Testa et al. Use to explain the place of business in society.<sup>96</sup> The first definition of

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<sup>88</sup>Supra note 49, p. 27.

<sup>89</sup> Environmental Protection Organs Establishment Proclamation, 2002, Art. 6, Proc. No. 295, Fed.Neg.Gaz. year 9<sup>th</sup>, No, 11.

<sup>90</sup>Id.

<sup>91</sup>Supra note 61.

<sup>92</sup>Ibid.

<sup>93</sup>Id, p. 58.

<sup>94</sup>Ibid.

<sup>95</sup>Ibid.

<sup>96</sup>

CSR was provided by Bowen in the mid-1950s; obligations of businesses to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society. Since then, the concept of CSR has significantly evolved thanks to concepts like firm citizenship, corporate philanthropy, and stakeholder theory.<sup>97</sup> The last 20 years have seen a growing emphasis on corporate strategy, which is strongly related to financial and competitive performance objectives. CSR is now seen as a strategic resource to be used to boost a corporation's bottom line performance in a cutthroat market, rather than corporate managers' moral obligation to work for the greater good of society or executives' discretionary spending that could harm a corporation's profitability.<sup>98</sup>

In addition to the points above covered, Carroll defines "the social responsibility of business" as including "the economic, legal, ethical and discretionary expectations that a society has of organizations at a given point in time."<sup>99</sup>

**Mallenbaker Definition:** "CSR is about how companies manage the business processes to produce an overall positive impact on society,"<sup>100</sup>

**The World Business Council for Sustainable Development (WBCSD):** "Corporate Social

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According to Michael Hopkins, "Responsibility is the ongoing commitment by business to act morally and promote economic growth while enhancing the standard of living for the workforce, their families, the local community, and society as a whole."<sup>101</sup>

### **Theories related to the Corporate Social Responsibility**

CSR philosophies in the United States and Europe are very dissimilar. CSR is usually understood in the USA to be a philanthropic model in which businesses donate a portion of their profits to nonprofit organizations.<sup>102</sup> On the other hand, the European model is more concerned with conducting all essential company operations in a way that is more considerate of society and the environment.<sup>103</sup> According to Bergkamp, CSR is a concept in which businesses actively choose to contribute to the betterment of society. According to the context of the business and the society in which it operates, the definition of CSR has been developed and modified.<sup>104</sup> The following are the study hypotheses that are most crucial to comprehending corporate social responsibility.

### **CSR Pyramid**

Archie Carroll developed the notion of a CSR pyramid after years of discussion about a corporation's legal and financial responsibilities.<sup>105</sup> This pyramid also incorporated the company's ethical and discretionary (philanthropic) responsibilities. The basic idea behind Carroll's approach was that businesses needed to address the whole range of commitments they

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<sup>102</sup> CSaba L. and etal, Corporate Social Responsibility in the Banking Sector, Public Finance Quarterly January 2015, Page 6 (Available at <https://www.Resurchgate.net/pulication>)

<sup>103</sup> Ibid

<sup>104</sup> Ibid

<sup>105</sup> Ibid

had to the shareholders they are obligated to as well as the society in which they operate.<sup>106</sup>



Figure 2.1: pyramid of CSR; adopted from Carroll (1979).

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<sup>106</sup> Ibid

## **The Economic Responsibility**

Making money is a company's top priority when it comes to its stakeholders. A company must first focus on achieving its fundamental and most significant objective, which is to create financial prosperity for its shareholders, before putting forth any other objectives. Without economic duty, the firm will undoubtedly die. All other obligations of a corporation depend on the outcomes of this one task.<sup>107</sup>

## **The Legal Responsibility**

Although a company's primary duty is to maximize profits, upholding the law while doing so is its soundest and most significant duty. Firms are obliged to abide by the law at all times, and they are not permitted to circumvent, limit, or violate it, even if the consequences would be significantly less severe than the potential profits. Businesses must uphold their half of an unwritten social compact that requires them to pursue their economic objectives within the bounds of the law.<sup>108</sup>

## **The Ethical Responsibility**

A firm's ethical obligation specifies that it has a duty to uphold moral principles even when doing so is not required by law. In some nations and situations, it is not required by law to treat employees morally or dispose of hazardous waste, but businesses are nonetheless expected to act ethically and responsibly.<sup>109</sup> This has become a significant CSR component as a result of business ethics movements, and it now has a complex interaction with a company's legal obligations.<sup>110</sup>

## **The Philanthropic Responsibility**

Even when a project does not align with a company's objectives, firms are nonetheless obliged to contribute to the initiative. In this situation, businesses must act as good corporate citizens by taking part in activities that benefit society as a whole rather than just the business community that they interact with.<sup>111</sup>

The pyramid is arranged from bottom to top. A company that is unable to make a profit or earn an income cannot be expected to support charitable demands of the community.

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<sup>107</sup> Mathias Nigatu, Corporate Social Responsibility in the Ethiopian Banking Sector, a case study on Commercial Bank of Ethiopia.. Nile Journal of Business and Economics, page

<sup>108</sup> Ibid

<sup>109</sup> International Journal of Business and Management Review Vol. 8 No. 2 page 42-44

<sup>110</sup> Ibid

<sup>111</sup> Ibid

## **Triple Bottom Line Theory**

In the middle of the 1990s, Elkington (1990) first used the phrase triple bottom line. The phrase fits well with a framework that was created to gauge sustainability.<sup>112</sup> It includes the social and environmental effects of the firm's operations in addition to the economic side of things. The 3Ps (Profit, Planet, and People) have come to represent the three components of the triple bottom line (TBL).<sup>113</sup>

### **Economic Sustainability**

Long-term earnings should be prioritized by businesses over risky and temporary gains. Larger companies owe it to society to create business plans that allow for steady investments and actions.<sup>114</sup>

### **Social Sustainability**

Businesses must appreciate the harmony between their operations and how those operations impact societal life.<sup>115</sup> Long-term stability of a business depends on the distribution of opportunities and wealth among a sizable portion of the population. Social responsibility encompasses more than simply the money that is given out or redistributed; it also involves how individuals are treated and valued. The fair-trade movement is a fantastic illustration of how social sustainability is put into practice.<sup>116</sup>

### **Environmental Sustainability**

The majorities of the natural resources we have at our disposal to build wealth are limited and will eventually run out. Future generations won't be able to enjoy the same standard of living as us if the pace of depletion is high. Therefore, it has become a responsibility of a business to operate in environmentally friendly ways and to engage in activities that promote environmental protection.<sup>117</sup>

This strategy has faced criticism in recent years for being constrained and having deceptive metrics. It is still employed as a metric for corporate social responsibility.<sup>118</sup>

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<sup>112</sup> Amos A. and Uniam I. Igbidion University Journal of Accounting .. Sustainability and Tripple Bootom Line an over view of two intereleted Concepts Vol. 2 August 2016, Page 103

<sup>113</sup> Ibid

<sup>114</sup> Ib, Page 104

<sup>115</sup> Ib, Page 104

<sup>116</sup> Ib, Page 104

<sup>117</sup> Ib, Page 105

<sup>118</sup> Ib, Page 105

## **Commercial Bank of Ethiopia**

One of the first public banks, Commercial Bank of Ethiopia (CBE), was founded in 1942 as a State Bank. It has more than 1800 branches spread around the nation, it has more than 37.9 million account holders and the number of mobile and internet banking users reached more than 6.6 million. The largest bank in the nation to have a substantial impact on the national economy is a result of its reach to individual depositors, small and medium-sized firms, and private and public mega-investment projects. Through the provision of environmentally friendly credit lines, CBE has the ability to reach millions of people in its effort to be a part of the solution to environmental degradation and its subsequent effects on individual citizens and businesses.

In addition, CBE has the responsibility, as a responsible corporate institute, to develop Environmental and Social internal policies that take into account the effects of local and global climate change, particularly on its business partners and customers across the nation.<sup>119</sup>

CBE strongly believes and understands that there is an impact on communities and the environment due its business activities which in turn will have a significant risk on its credit lines and the overall economic growth of the country. There need to be a comprehensive policy and guidelines that incorporates the bank's direct and indirect activities which creates impact on economies, communities and the environment in which it operates. There is also a common consensus among the executive management, if these impacts are not timely addressed in a systematic and comprehensive way, there could be a significant question on the sustainability of the bank's finance and reputation not to mention its contribution to the economic growth of the country.<sup>120</sup>

Therefore, this Environmental and Social Policy is stipulated in anticipation of the current Environmental and Social risks while contributing its fair share towards the national agenda of building the resilient capacity of the climate change victim communities, businesses and projects. Furthermore, CBE would like to be a pioneer and role model for other public and private institutions in creating awareness of its internal activities and reducing its environmental carbon footprints.<sup>121</sup>

The stipulated Environmental and Social Policy will be fundamental component of CBE's Environmental and Social Management System (ESMS), which will be led by pool of experts

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<sup>119</sup> Commercial Bank of Ethiopia, Draft Environmental and Social Policy, 2020, Page 5 - 9

<sup>120</sup> Ibid

<sup>121</sup> Ibid

after it gets approval by the board of the bank. The framework of ESMS will incorporate the specific Environmental and Social policy and it'll also sets the pace for suitable procedures and work.<sup>122</sup>

### **Scope of the Policy**

The scope of Environmental and Social Policy of CBE is outlined on the basis of the bank's Environmental and Social issues. These activities could be seen from two angles, where CBE itself has a direct impact on the environment it operates Commercial Bank of Ethiopia Environmental and Social Policy in the usage of resources such as electricity, oil, lighting, paper, toners, logistics, own waste treatment and others. The other angle can be considered as indirect impacts related to all kinds of activities through which CBE can secondarily have influence on the society and environment through its business interactions.<sup>123</sup>

Environmental and Social Policy of CBE also implies the incorporation of Environmental and Social indicators in the risk assessment and control process of its credit lines. Incorporated within this policy, requires the creation of an appropriate environmental risk management procedures, where the following important guidelines will be defined:

- Environmental and Social risk assessment procedures and strategies;
- Importance of Environmental and Social risk assessment outcome for the loan approval;
- Environmental and Social risk follow-up upon loan disbursement;
- Measures that are going to be taken by the bank in case the client proves to fall out of compliance with the Environmental and Social requirements of the bank related to the risk performance;
- Roles and responsibilities related to Environmental and Social risk management in the bank; and
- Reporting to the top management on the exposure of the loan portfolio has to this risk and etc.

By the implementation of such a procedure, CBE, even if it does not support a full line of green services and products, actually act as a green bank, because it places specific requirement on its

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<sup>122</sup> Ibid

<sup>123</sup>

client to abide by certain Environmental and Social criteria. In such a way, depending on the strictness of these criteria, CBE has the power to restrict access to finance to polluting industries and to give preferential terms to businesses that are socially just and environmentally-friendly.<sup>124</sup> Therefore, CBE's Environmental and Social Management Systems (ESMS) has two major components, which are "Internal Environmental and Social Management system" and "Environmental and Social Risk Management in Lending"; which ascertains that CBE will be pushing towards more sustainable changes in its daily business activities and operations gradually offsetting its Environmental and Social footprints; and CBE's credit lines and lending will be more towards projects or business initiatives that are commercially viable, socially acceptable and environmentally friendly providing a fertile ground for a sustainable development of the country.<sup>125</sup>

### **Objectives of the Policy**

The main objectives of Environmental and Social Policy of Commercial Bank of Ethiopia are the followings:<sup>126</sup>

- ✓ Be the avant-garde of Environmental and Social issues among financial institutions in East African region implementing environmental treaties and conventions and leading by example;
- ✓ Understand its entire carbon footprint and create an internal mechanism and external auditing system to significantly reduce it;
- ✓ Establish an environmental department to oversee the bank's social and environmental management systems, both direct and indirect;
- ✓ Assess companies and projects for their adherence to environmental and social standards with the help of internal specialists, giving financial, environmental, and social sustainability equal weight;
- ✓ Increase employee comprehension and awareness of environmental and social issues to enable them to make wise decisions regarding internal environmental footprints and interactions with external clients;

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<sup>124</sup> Ibid

<sup>125</sup> Ibid

<sup>126</sup> Ibid

- ✓ Ensure that the management and personnel at all levels of CBE are appropriately accepting responsibility for carrying out the policy by choosing wisely.
- ✓ Environmental and Social Risks and its Associated Management

As mentioned earlier, Ethiopia as a signatory to international conventions and treaties pertaining to environment and climate change, it's also the first country in Africa in having its own strategic plan that stipulates clear strategy that incorporates climate resilience, sustainable development and zero net emission by the year 2025. This goes in line with CBE 2025 vision of becoming a world class bank by 2025. In this age of tough competition from internal and external financial institutions, it's impossible to excel regionally and/or globally without having clear Environmental and Social policies with a strong institutional capacity to implement it. Further CBE critically believes the reputation risk that will come across in being reluctant for the environmental and social agendas will be beyond measure. Thus, CBE will manage the risk associated with Environmental and Social issues in the following manner;<sup>127</sup>

- ✓ Pertinent to the international treaties and conventions on environment and the subsequent ratification of Ethiopia to these treaties, CBE would confirm its full acceptance of these conventions. The Environmental and Social policies and its related management including risk management will be treated within reference to these conventions;
- ✓ Cognizant of international treaties and conventions and their local ratifications, CBE will not provide any of its services or products that are not in line with the globally agreed and locally ratified conventions and treaties on the basis of clear knowledge and understanding;
- ✓ CBE is aware of the significance of national, regional, and local environmental and social policies and the effects of deviating from them on its projects. Therefore, CBE attests to its adherence to these policies by funding various degrees of initiatives within the nation's jurisdiction. If the project design deviates from the established parameters and standards, CBE will designate a specific organ that carefully examines the Environmental and Social consequences of the project design and makes recommendations. Before moving on to the project's financial components, CBE advises

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<sup>127</sup> Ibid

that the project be redesigned if it deviates from the established norm; CBE has working relationships with a number of international financial institutions having different standards and guidelines. CBE will make sure that these external guidelines are sufficiently incorporated within its Environmental and Social Policies and any necessary amendments will also be done depending on the engagement of the bank with these financial institutions;

- ✓ CBE would use its Environmental and Social policies for lending to businesses and projects beyond Ethiopia as part of its ambitious ambition to thrive in the region. In any case, CBE shall adhere to the rules and laws of the host nation;
- ✓ A strong team at CBE will conduct an environmental and social impact assessment and provide recommendations on the project's funding based on the findings. CBE will not commit to any project that is destined to have harmful environmental and social effects or that will have a long-term detrimental influence on the natural habitat or social and cultural values without the full approval of the expert team;
- ✓ CBE always aims to set an exemplary standard; it will thoroughly research its environmental and social carbon footprints and put into practice effective solutions that will reduce its environmental carbon footprint and progressively its expenditure. In order to give its consumers with services and goods that are in keeping with its environmental goals, CBE will also develop an environmental procedure and brand;
- ✓ Potentials for development as a "Green" bank and as a measure of corporate social responsibility. The threat posed by climate change is well understood, and measures for adaptation and mitigation have to be developed in order to build resilient communities. CBE is willing to do so by offering financial incentives for projects that clearly demonstrate both adaptation and mitigation.

In accordance with its basic eligibility requirements for loan approval, CBE mandates environmental reporting, which is one of the responsibilities expected of every financial institution.<sup>128</sup>

### **Implementation Strategies**

CBE is adamant that for the policy to be implemented effectively there needs to be a suitable institutional setup, capacity, and resource allocation. The following tasks are recognized as primary ones that should be given priority as a result.<sup>129</sup>

- ✓ Constantly educate the bank's senior management on social, environmental, and climate change issues to help them comprehend the bank's risk management and environmental and social management systems; For proper and smooth implementation of the Environmental and Social Risk Assessment, CBE will establish a set of guidelines, tools and procedures;
- ✓ Update and improve the CBE's current training facilities to reflect the environmental and social agendas;
- ✓ construct a hotline to assist clients and accept their comments and concerns, as well as develop an online dynamic digital system such as websites;
- ✓ Give all of its employees, particularly credit performers, branch managers, marketing, and public relations professionals, substantial training and capacity-building;
- ✓ Develop closer ties with local and international financial institutions that operate in related fields in order to exchange information and expertise and eventually build a network of green banks for broader environmental and social impacts; and
- ✓ Ensure that the various stakeholders in the sector work together, coordinate, and work together effectively.

### **Monitoring and Evaluation**

Through the appropriate internal human resource allocation and the selection of external independent auditors for annual auditing purposes, CBE will pay attention to the monitoring and evaluation of the Environmental and Social Policy. Regular data collecting on the policy will be done, and this data will comprise administrative data, qualitative data, and quantitative data that

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<sup>128</sup> Ibid

<sup>129</sup> Ibid

will give feedback on how effective and efficient the policy information is. The policy's aims and goals will be continuously monitored and evaluated to make sure that funded projects are consistently in conformity with local regulatory requirements, international standards, and any other applicable principles.<sup>130</sup>

The Environmental and Social Policy will be examined annually as part of monitoring and assessment, as is the custom during CBE's annual review meetings. The bank's board of directors will be assigned this obligation in addition to the duty of creating, incorporating, and implementing new policies.<sup>131</sup>

### **Transparency Act**

The yearly reports will represent CBE's environmental and social policy performance as well as the Bank's lending activities' transparency and social and environmental risk measurement. Additionally, this document will be posted on the official website of CBE so that all pertinent parties will be informed in this way.<sup>132</sup>

### **Codes of conduct of the Bank**

Principle No. 9 of the bank's code of conduct, which came into effect in 2021, calls for adhering to the laws and regulations put forth by the legislative body in order to conserve the environment.<sup>133</sup> Again, this same document's 9th principle stipulates that projects must be managed for risk and risk awareness before a loan is approved for their execution.<sup>134</sup>

Every employee and/or member of the managerial staff is required by the bank to follow all compliance-related procedures while doing their duties. This implies that they are also required to carry out legal requirements to ensure that procedures are followed when loans are issued for projects with some environmental impact. The Board of the bank, the institution's top governing body, is entrusted with monitoring compliance with laws and regulations throughout the bank's operations.<sup>135</sup>

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<sup>130</sup> Ibid

<sup>131</sup> Ibid

<sup>132</sup> Ibid

<sup>133</sup> Id, p. 22.

<sup>134</sup> Ibid.

<sup>135</sup> Commercial Bank of Ethiopia, Corporate Governance Framework of Commercial Bank of Ethiopia, (2021), p. 10.

Under principle no. 10 of the bank's consumer's management policy, it is necessary to determine the acceptability of goods and services whose production necessitates a loan.<sup>136</sup>

## Chapter Three

### 3. Research Design and Methodology

#### 3.1. Introduction

The study undertakes to discuss both primary and secondary sources of data available and about the subject matter of EIA in relation with the practices of financial lending institutions. The experts working at loan departments, RD divisions and those working at foreclosure units, will be interviewed to have practical clue over the issue under study. The sampling technique will be systematic in order to reach those respondents who are believed to have rich experience and ample exposure to handling and entertaining loan applications for projects. Those people/professionals at managerial level or below, who have decision making power during extension of loans shall be included within the interview or questionnaire. The researcher may also conduct in-depth interview so as to get credible and sufficient information regarding the topic, if situation allows at all so that he can squeeze the number of participants down to manageable size.

The reliability and accuracy of the data collected will be measured in terms of tools relevant to this type of research.

The chapter particularly covers key concepts and notes with regard to the methodology of the study. Research design, approach observed in the process of doing the research, sampling design which is also related with the size of population, method of sampling, sampling procedure, sample size, data type and sources, will be discussed in the coming sections.

Method of data collection, data analysis, validity and reliability of data collected and ethical considerations will also be briefly stated.

#### 3.1. Research Design

This study is not purely doctrinal or desktop type; rather, it will be employing both qualitative and quantitative approach. The data will be gathered both from primary and secondary sources. Relevant literature or written documents will be properly consulted which could be accessed from sources as: books, library visits, websites, journals, periodicals, financial reports, strategic

documents, policy instruments, legal instruments, mission/vision/value statements of CBE and etc.

### **3.2. Research method**

The study will be using mixed method; mainly focusing on qualitative method with slight application of quantitative one gathered through the above mentioned data collection instruments, i.e., questionnaire and interview. Once data is collected via the prescribed methods, they will be described by using applicable tools relevant for the type of instrumentation used. Explanations will also be made on the basis of laws and policy instruments consulted.

### **3.3. Sources of data**

The study will be using both primary and secondary sources of data. Primary data will be generated from interviews and questionnaires. On the other hand, data from literatures, relevant website, articles, journals, books, legal and policy instruments, and other relevant sources will be consulted.

### **3.4. Data collection tools/methods**

Apart from literatures used as sources of data as contemplated above, Navia S. Murthy (2011)<sup>137</sup> advises to employ tools as interview (be it structured, semi-structured or open-ended) and questionnaires of relevant type to measure tests of people towards a particular state of affairs and assess their feelings. It's from this scholastic recommendation that the researcher will employ two devices to collect the required data for the study. And these devices will be questionnaire and interview (a combination of structured, semi-structured and unstructured formats were used) will be included. These tools are chosen mainly due to the fact that nominal data, data describing feelings of the people involved are better accessed through the application of questionnaire and interview/in-depth interview.

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<sup>137</sup> Navia S. Murthy, a review of the current scenario of corporate social responsibility in it business sector with the special reference to infosys, (2011), p. 27.

### **3.5. Population**

The general population of this research is the managers, experts, personnel and professionals working at CBE at positions having relation with loan application and considerations. But this population will be sieved by applying purposive sampling technique to get those respondents on the basis of their work experience. And those working at the head-quarter and other three districts will be involved in the process.

### **3.6. Sample Size**

In this research the total population is 49 and the whole population will be used in the process of collecting data via questionnaire. Thus, there is no need to employ a scientific formula to get a representative sample.

### **3.8. Reliability and validity**

The result of the study is expected to be consistently reproduced and the issue of validity is entertained by ensuring that the researcher is actually doing what he intends to do, i.e., doing the study with a view of showing how the issue of EIA is treated while banks extend loans for projects.

Validity refers to how well a measurement truly represents characteristics that exist in the phenomenon being investigated. In order to assure external validity, measures are taken to collect a sample that is as representative of the population as possible. To maximize content validity, a comprehensive literature review will be undertaken.

Reliability means that the scores of an instrument are stable and consistent (Creswell, 2005).<sup>138</sup> Or it refers to the correlation of an item, scale or instrument with a hypothetical one which measures what it is supposed to. Mean is a well known type of measure of central tendency to measure and know how feelings are positioned when there are multiple scales involved.

### **3.9. Pilot testing**

The researcher will design and dispatch 10 questionnaires and conduct interview before delving in to the major process so as to have a chance to refine the questions and see how better the respondents are approached. This will be done with a view of having the right research report, to

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<sup>138</sup>Mimi Mohaffyza Mohamad *et al*, Measuring the Validity and Reliability of Research Instruments, *Social and Behavioral Sciences*(2015), p. 165.

decide to continue forward with the questionnaires already prepared without any further changes or make some adjustments according to the result of the pilot test.

### **3.10. Data Analysis Method**

After gathering all the questionnaires from the respondents and interviewees, excel will be used to analyze the data. Total responses collected from the respondents will be coded on the basis of their similarity and tabulated accordingly. Graphical representation will also be used to indicate the composition of the respondents on the basis of their response to factors included in the scales. The validity of the questions under the questionnaire will be measured as to the fact that whether or not they are fit to answer the research questions and ultimately help to achieve the objectives indicated under chapter one.

### **3.11. Ethical Consideration**

The researcher will follow all the necessary ethical requirements expected of him. Rules of citations, confidentiality, plagiarism, acknowledgment and etc are going to duly be accepted and fully used in the process. For example, when the situation requires so, the researcher will conduct the interviews keeping the identity of the interviewees participated anonymous.

## CHAPTER FOUR

### RESULTS AND DISCUSSION

#### **Introduction**

This chapter presents the research findings which were originated from the presentations, analysis and interpretation of the entire survey data. The primary focus of this study is to present findings of Environmental; protection requirements during advancement of loan for project; the case of commercial bank of Ethiopia. This chapter has two parts; the first part deals with the characteristics of the respondents, and the second part presents the analysis and interpretation of the main data.

To this end, both quantitative and qualitative data were gathered to assess in this Study. Quantitative data were obtained through a close-ended questions and interviews analysis provided qualitative data for the research. With respect to the quantitative data, 49 questionnaires were distributed to 49 respondents Out of the 49 copies, Therefore, 49 copies considered for the study.. Quantitative data were entered to SPSS version 25 for the statistical analysis. Distribution and frequency tables and percentages were used for data presentation. A 3 Likert scale ranging was used to measure the adequacy of the data.

#### **Demographic Characteristics of Respondents**

This section deals with the demographic analysis and interpretation of primary data collected through questionnaires. The analysis of demographic profile is done by the interpretation of the responses collected. Respondents profile was categorized according to their sex, age, education level of the respondent, monthly income and the position in the bank. The respondents of the research were those people who are working in Ethiopian Commercial Bank at four different departments; which are of course related with extension of loans for projects.

A total of 49 employees were selected for this study and the questionnaires were distributed to them through personal visit and collected their response in the same way. Out of the 49 questionnaires, all the valid responses were collected, i.e., all the questionnaires are found to be valid. Hence, the response rate was 100 percent. The following table gives a general overview of the demographic diversity of the respondents in terms of their frequency and percentage.

NO	Characteristics	Category	Frequency	Percentage
1	<b>Sex of Respondents</b>	Male	28	57.1%
		Female	21	42.9%
		Total	49	100.0 %
2	<b>Age of Respondents</b>	18-25		%
		26-35	5	10.2 %
		36-45	39	79.6 %
		46+	5	10.2 %
		Total	49	100.0%
3	<b>Your position in the bank</b>	Employee		
		Supervisor	5	10.2%
		Middle level manager	35	71.4%
		Top manager	5	10.2%
		Executive director	4	8.2%
		Other	-	- %
		Total	49	100.00 %
4	<b>Your monthly income, please</b>	5001-10000	-	- %
		10001-15000	5	10.2%
		15001-20000	37	75.5%
		>20000	7	14.3%
		Total	49	100.00%
5	<b>Educational level of Respondents</b>	Under degree	-	-%
		First degree	8	16.3%
		Masters level	41	83.7%
		PhD		%

		Total	49	100.00%
	<b>Total Population</b>	<b>49</b>		

Table 4.1: demographic characteristics of the respondents

The table gives a general clue on the demographic characteristics of the respondents in terms of their sex/gender, age, income level, educational background, and job position in the bank.

**Gender of Respondents**

The gender of respondents consists of male and female. The aim was to determine the percentage of distribution of respondents by gender. The frequency and percentage of the gender of the respondents is depicted in Figure 4.2.



Figure 4.2: Gender of the respondents

The above figure indicates that out of the total number of respondents involved in the questionnaire, 28 of them or 57.1 % were male and the remaining 21 or 42.9% were female. This means that the majority of the respondents are male.

**Age of the Respondents**

Age distribution of the respondents was categorized in to four blocks: age from 18 to 25; age from 26 to 35; age from 36 to 45 and lastly above 46 years of age. This categorization was meant to give a clue on age distribution of the respondents working in the bank, at different departments having a role with loan disbursement for projects. The following table indicates the distribution of the respondents in terms of their age.

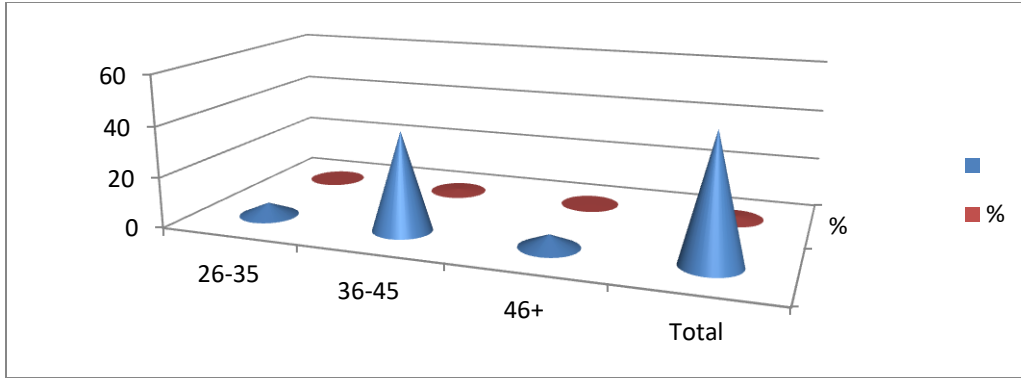


Figure 4.3: Distribution of the respondents in their age

The above figure indicates that out of the total of 49 respondents, 5 of them or 10.2% of them are between the age of 36 and 35; the other respondents between the age of 36 and 45 are 39 or 79.6 %; 5 or 10.2 % of the total respondents are age above 46 years.

This means that out of the total respondents, the majority of them were aged between 36 to 45 years. And the least age group is between 26 to 35 and above 46 years

#### **Distribution of the respondents on the basis of their position in the bank**

The following table/bar graph shows the distribution of the respondents on the basis of their job position the bank, especially within those departments having to do with loan applications and disbursement.

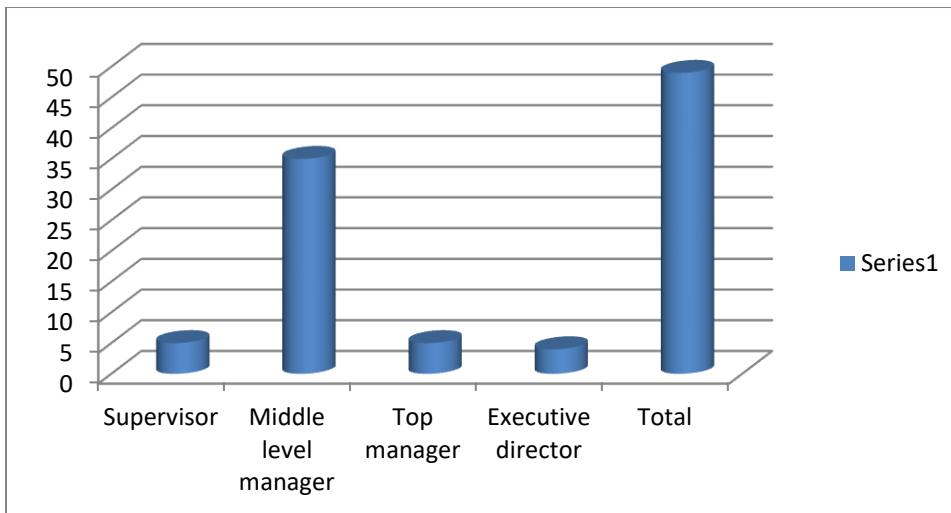


Figure 4.4: Distribution of the respondents based on their job position

The figure indicates that out of the total of 49 respondents, 35 or 71.4 % of them are Middle level manager; whereas equaling 5 respondents or 10.2 % are either supervisors or top manager

and the other 4 respondents or 8.2 % are executive director and none of the respondents are employee. This means that the largest number of respondents is Middle level manager.

### **Distribution of the respondents on the basis of their monthly income level**

The forthcoming pie indicates the distribution of the respondents on the basis of the amount of income they receive in a month.

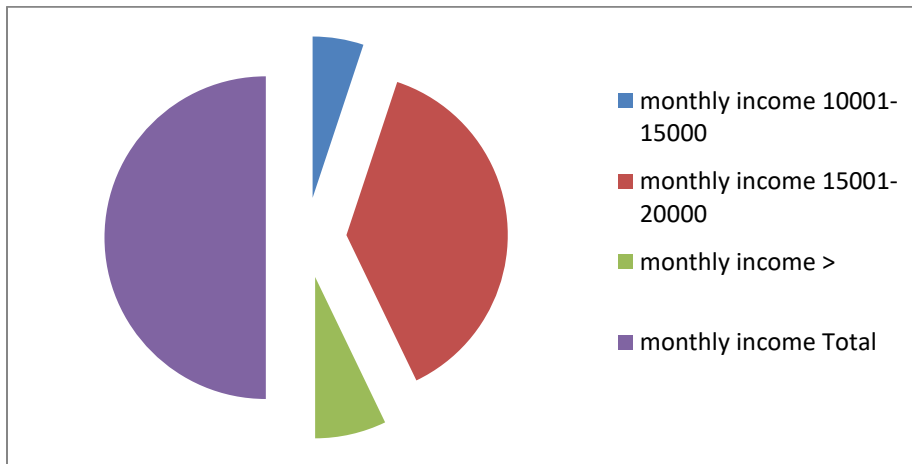


Figure 4.5: distribution of the respondents on the basis of their income

The above pie indicates that out of the total of 49 respondents, 5 or 10.2 % of them receive income in terms of birr ranging from 10 thousand to 15 thousand a month; 37 or 75.5 % of the respondents are paid an amount ranging between 15001 to 20,000 birr a month; 7 or 14 % of the respondents get an income above 20000 birr a month.

This means that the largest number of respondents are getting an income amounting or between 15001 to 20,000 birr and the least number of respondents' income is between-10,001- 20000 birr.

### **Distribution of the respondents on the basis of their educational background**

The figure below is indicating the distribution of the respondents on the basis their educational achievements.

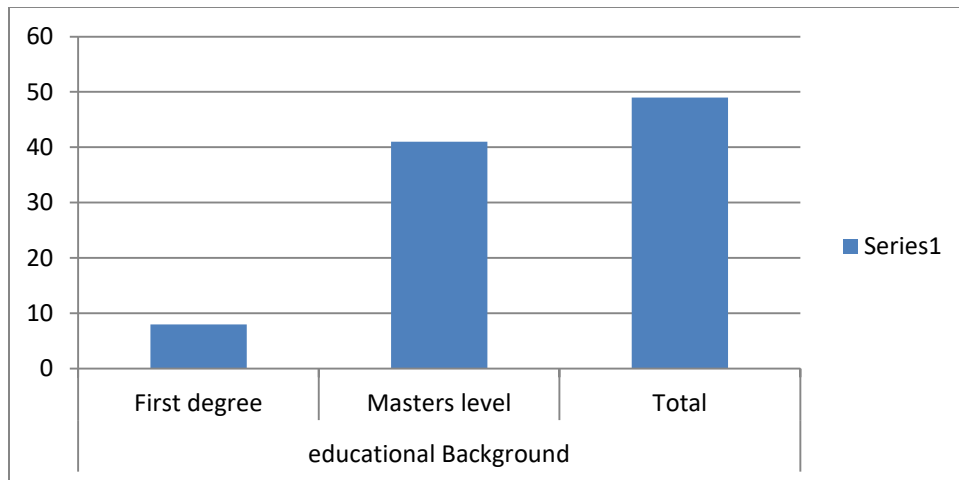


Figure 4.6: distribution of the respondents on the basis of their education level

The figure indicates that 8 or 16.3 % of the total respondents are degree holders; the other 41 or 83.7 % of the respondents have master’s level educational achievement and there is no a PhD holder. This means that the majority of the respondents are a master’s holder.

### Analysis of responses for questions stated under part II of the questionnaire

#### Part II

NO	Item		Yes	No	Total	SD	Mean
1	Have you ever heard about EIA , in relation to your position/career?	F	31	18	49	0.48	1.36
		%	63.3	36.7	100%		

Table 4.7: Frequency of the respondents on the basis of the given item

The table indicates that out of a total of 49 respondents, 31 or 63.3.% said “yes” while answering the item; this means that they have heard about the concept of EIA while they carry their duty on. And the other 18 or 36.7 % of the respondents said “no” while answering the same question. Except for the practice, majority of the respondents are aware of the concept of EIA.

It is logical to conclude that they are using the term in their operation. Furthermore, interviews made to three CBE top managers revealed that CBE considers EIA requirements for selecting eligible project owners.dq

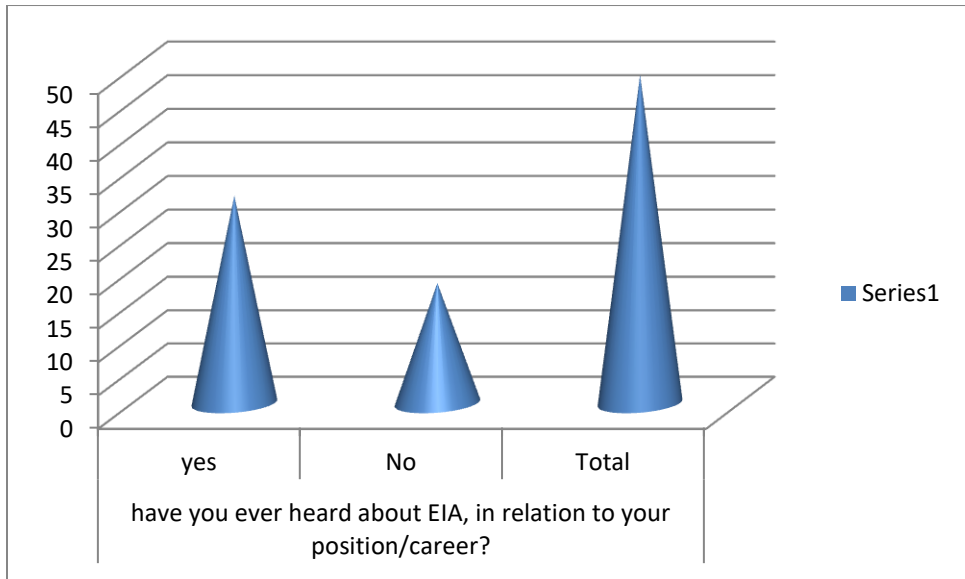


Figure 4.7: Frequency of the respondents on the basis of the given item

The figure, quite similarly indicates what is concluded under table 4.7 above.

NO	Item		Yes	No	No sure	Total	SD	Mean
2	Do you know that there are legal and policy regimes meant	F	29	15	5	49	0.680	1.51

	to govern EIA?	%	59.2	30.6	10.2	100%		
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Table 4.8: frequency of the respondents for the 2<sup>nd</sup> item

The table indicates that out of a total of 49 respondents, 15 or 30.6 % said “No” while answering the item; this means that they don’t know that there is either legal or policy regime guiding the EIA and about the concept of EIA while they carry their duty on. And the majority other 29 or 59.2 % of the respondents said “yes” while answering the same question. This means that the majority of the respondents out of the 49 respondents said there is laws and/or policy guiding the loan process while forwarding loan for projects and such factor is considered in the process as well.

Despite the presence of laws and policy tools available to govern the issue, as responded by the majority of the respondents, the practice and compliance aspect of the work is quite insignificant.

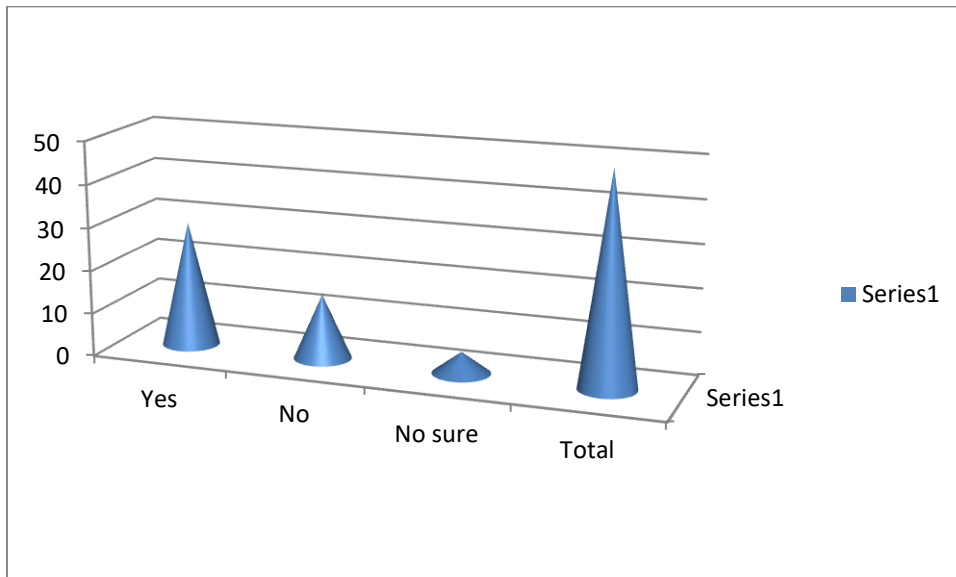


Figure 4.8: frequency of respondents on the 3<sup>rd</sup> item

The figure indicates data which is analyzed as per the forthcoming table.

NO	Item	Yes	No	No sure	Total	SD	Mean
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3	Does CBE apply EIA as a factor to accept or reject loan applications for projects?	F	31	14	4	49	.64	1.44
		%	63.3	28.6	8.2	100%		

Table 4.9: frequency of the respondents on the 3<sup>rd</sup> item

The table indicates that out of a total of 49 respondents, 31 or 63.3 % said “yes” while answering the item; this means that they have information whether or not their bank uses the issue EIA as a factor to weigh the feasibility of loan application either to accept or reject it while they carry their duty on. And the other 14 or 28.6 % of the respondents said “No” while answering the same question; the remaining 2 or 8.2 % of the respondents are not sure what on the ground is going on.

This means that the majority of the respondents know what the role of EIA is in terms of accepting or rejecting loan application made to the bank for projects.

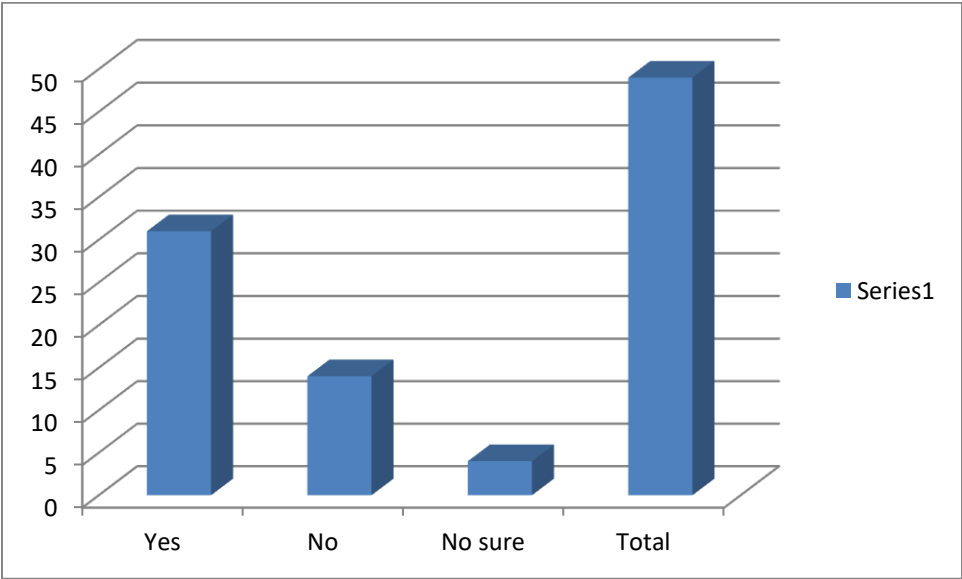


Figure 4.9: frequency of respondents on the 4<sup>th</sup> item

This data is analyzed in the below table.

NO	Item		Yes	No	No sure	Total	SD	Mean
4	Does the bank require submission of EIA reports before considering loan applications mandatorily?	F	28	19	2	49	.58	1.46
		%	57.1	38.8	4.1	100%		

Table 4.10: frequency of the respondents on the 4<sup>th</sup> item

The table indicates that out of a total of 49 respondents, 28 or 57.1 % said “yes” while answering the item; this means that the bank requires submission of EIA studies by loan appliers. And the other 19 or 38.8 % of the respondents said “no” while answering the same question. The remaining 2 or 4.1 % of the respondents are not sure about the issue.

This means that the majority of the respondents answered that the bank really care and consider EIA as a tool to weigh viability of loan applications. The least number of respondents are not aware of the situation, they claimed.

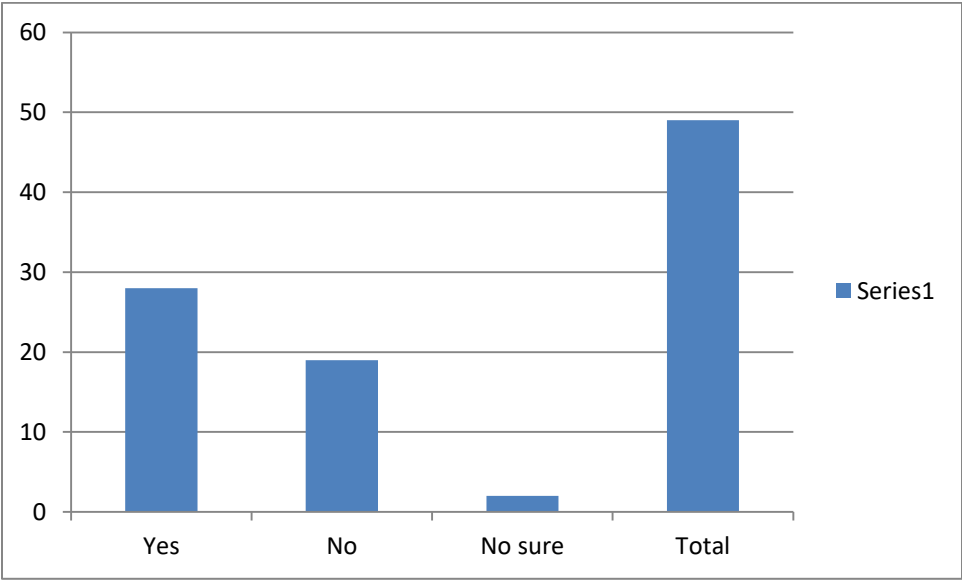


Figure 4.10: frequency of respondents on the 5<sup>th</sup> item

This data is analyzed in the following table.

NO	Item		Yes	No	No sure	Total	SD	Mean
5	Have you ever known when the bank rejected loan application/s because of adverse impacts that the contemplated projects have on the environment?	F	17	31	1	49	.515	1.67
		%	34.7	63.3	2.0	100%		

Table 4.11: frequency of the respondents on the basis of their answer for item number 5.

The table indicates that out of a total of 49 respondents, 31 or 63.3 % said “No” while answering the item; this means that they have never known their bank rejecting any loan application because such project is found to be environmentally unfriendly or hazardous. And the other 17 or 34.7 % of the respondents said “yes” while answering the same question but without indicating when and how. The other 1 or 2 % of the respondents are clueless over the incident.

This means that the majority of the respondents are aware of the fact that the bank never rejected any project based loan application because of EIA studies indicating adverse impacts on the environment that such project might pose. The least number of respondents are not aware of the scenario.

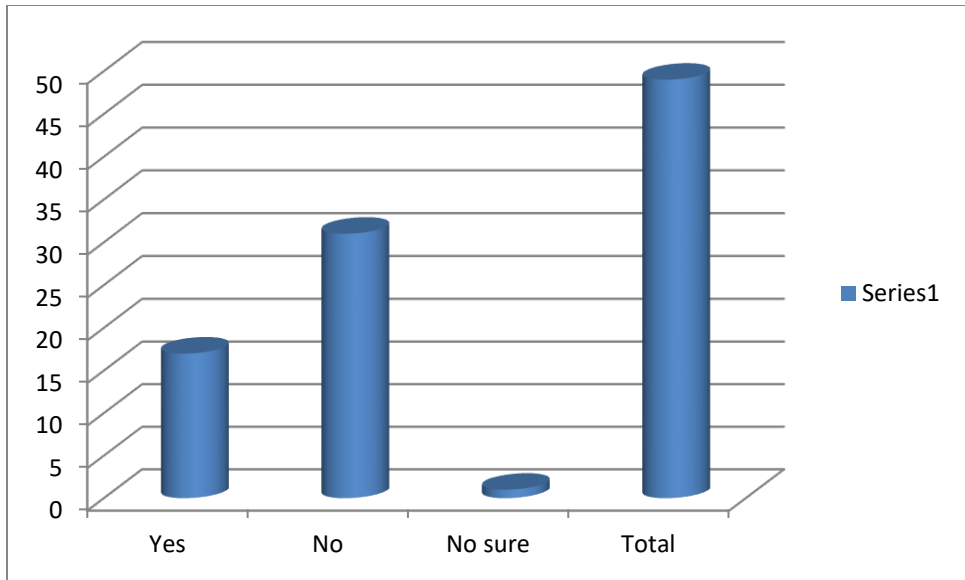


Figure 4.11: frequency of respondents on the 6<sup>th</sup> item.

This data is analyzed in the following table.

NO	Item		Yes	No	No sure	Total	SD	Mean
6	Do you know the bank has legal obligation to assess EIA reports to accept or reject loan application for project/s?	F	37	12	-	49	.434	1.24
		%	75.5	24.5	-	100%		

Table 4.12: frequency of the respondents on the basis of their response for the 6<sup>th</sup> item

The table indicates that out of a total of 49 respondents, 37 or 75.5 % said “yes” while answering the item; this means that the bank requires to observe legal obligations while entertaining loans. And the other 12 or 24.5 % of the respondents said “no” while answering the same question. There were no respondent unsure about this item.

This means that the majority of the respondents answered that the bank really has legal obligation to assess EIA of projects while analyzing the viability of loan applications. The least number of respondents are not aware of the situation, they claimed.

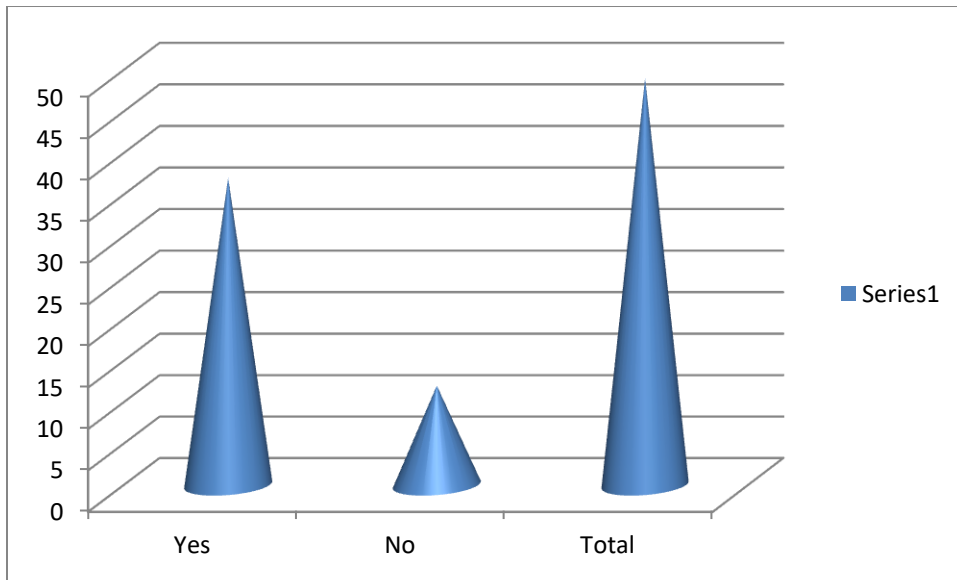


Figure 4.12: frequency of respondents on the 7<sup>th</sup> item

This same data will be analyzed in the upcoming table.

NO	Item		Yes	No	No sure	Total	SD	Mean
7	Do you know that the bank is liable over its mishandling of loan application and such is found to be environmentally hazardous?	F	9	6	34	49	.79	2.51
		%	18.4	12.2	69.4	100%		

Table 4.13: frequency of the respondents on the basis of their answer for the 7<sup>th</sup> item

The table indicates that out of a total of 49 respondents, 9 or 18.4 % said “yes” while answering the item; this means that the employees are aware of legal repercussions if the bank fails to fulfill its obligation under the law over EIA. And the other 6 or 12.2 % of the respondents said “no” while answering the same question. The remaining majority, i.e., 34 or 69.4 % of the respondents are not sure about the issue.

This means that the majority of the respondents answered that they don’t know if there is legal consequence or accountability in case the bank fails to abide by the legal requirements of loan applications. The least number of respondents said “no” of the situation. The mean value of 2.51 is closer to 3.0 and in such cases, the majority of the respondents answered “not sure” and the standard deviation is 0.79 and this indicates how the remaining answers align with the mean value or by the fact that the SD is closer to 1.0, and this means that almost all respondents are not aware of the situation.

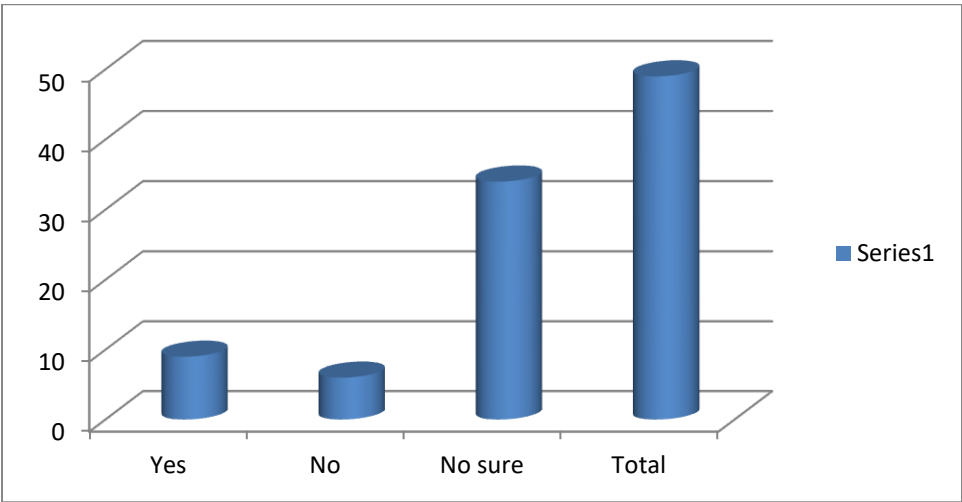


Figure 4.14: frequency of the respondents on the 8<sup>th</sup> item.

The same data will be analyzed on the basis of the following table.

NO	Item		crim inal	civ il		All	Total	SD	Mean
8	What liability do you think/know the bank has because of and it fails to undertake its responsibility over loan advancements for projects which are environmentally unfriendly? You can give multiple answers.	F	-	25	24	-	49	.055	2.48
%		-	51.0	49.0	-	100%			

Table 4.14: frequency of the respondents on the basis of their responses on the 8<sup>th</sup> item

The table indicates that out of a total of 49 respondents, 25 or 51 % said “civil” while answering the item; this means that the bank has civil liability in case of failures. And the other 24 or 49 % of the respondents said “administrative” while answering the same question. The remaining 0 or 0 % of the respondents are either criminal or all the three.

This means that the majority of the respondents answered that the bank is civilly responsible if the EIA as a tool to weigh viability of loan applications not followed. The least number of respondents are in favor of “administrative” responsibility, they claimed. The mean value of 2.28 is closer to 4.0 and in such cases, the majority of the respondents answered “civil” and the standard deviation is 0.055 and this indicates how the remaining answers align with the mean value.

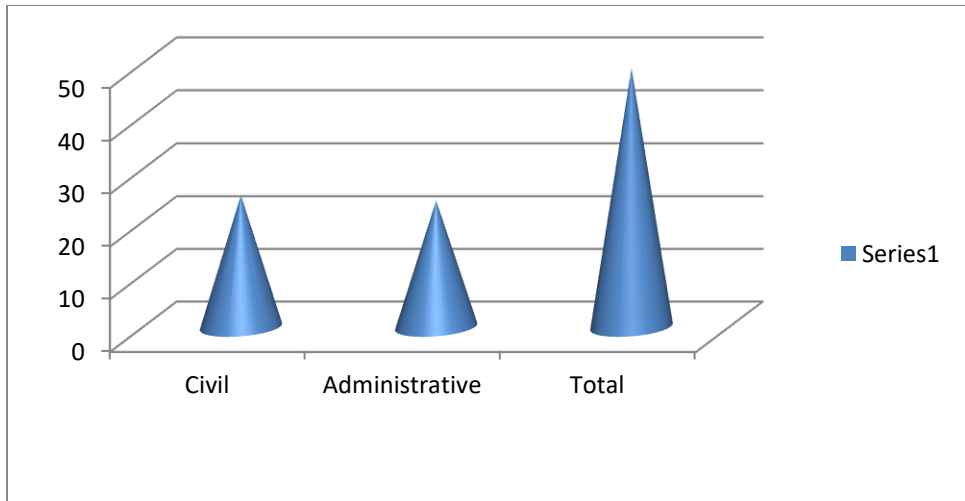


Figure 4.14: frequency of the respondents on item no. 9.

This same data will be analyzed in the following table.

NO	Item		Yes	No	Not Shure	Total	SD	Mean
9	Has he bank ever been held responsible in relation with the above issue?	F	12	10	27	49	.84	2.30
		%	24.5	20.4	55.1	100%		

Table 4.15: frequency of the respondents on the basis of their answer for the item given.

The table indicates that out of a total of 49 respondents, 12 or 24.5 % said “yes” while answering the item; this means that the bank was held responsible because of its failure to handle the EIA. And the other 10 or 20.4 % of the respondents said “no” while answering the same question. The remaining 27 or 55.1 % of the respondents are not sure about the issue.

This means that the majority of the respondents answered that they don’t know if the bank ever held responsible due to failure to address the EIA as a tool to weigh viability of loan applications. The least number of respondents said “no”. The mean value of 2.30 is closer to 3.0

and in such cases, the majority of the respondents answered “not sure” and the standard deviation is 0.84 and this indicates how the remaining answers align with the mean value.

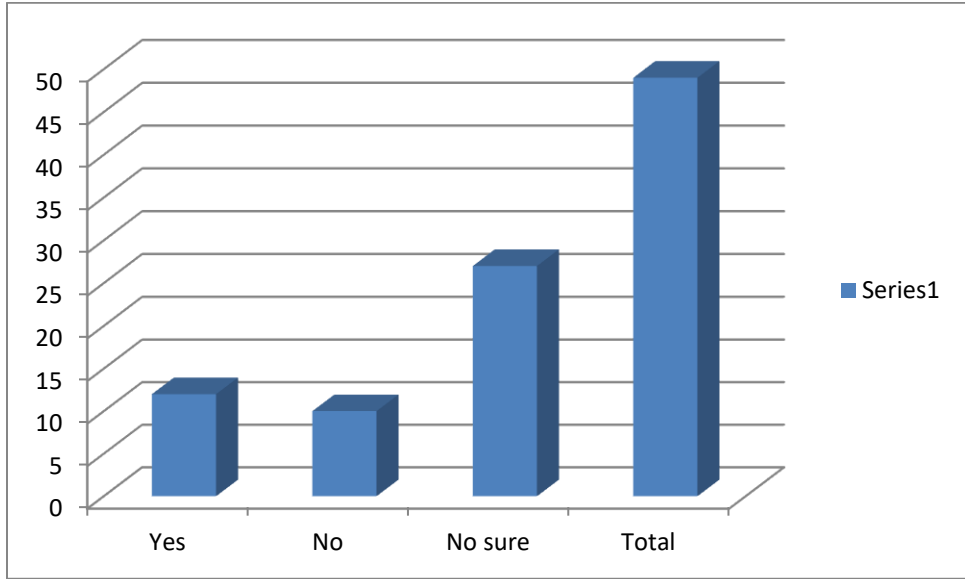


Figure 4.15: frequency of the respondents on the 10<sup>th</sup> item.

This same data is analyzed in the following table.

NO	Item		Yes	No	No sure	Total	SD	Mean
10	Do you think there is a gap either in the law or the practice/regulation/control?	F	34	6	9	49	.793	1.48
		%	69.4	12.2	18.4	100%		

Table 4.16: frequency of the respondents on the basis of their answer for the item given

The table indicates that out of a total of 49 respondents, 34 or 69.4 % said “yes” while answering the item; this means that the respondents felt there is a gap between the regulatory measures and the steps taken in light of EIA application for loan applicants. And the other 6 or 12.2 % of the

respondents said “no” while answering the same question. The remaining 9 or 18.4 % of the respondents are not sure about the issue.

This means that the majority of the respondents answered that they felt there is a gap either in the law, or the regulation or even the controlling aspect. The least number of respondents said “no” while answering this same item. The mean value of 1.48 is not closer to 3.0 and in such cases, the majority of the respondents answered “yes” and the standard deviation is 0.793 and this indicates how the remaining answers align with the mean value.

## **CHAPTER FIVE**

### **Summary of the Finding and Recommendation**

This chapter gives a brief overview of findings and conclusion of the study. It draws the inferences from the findings which lead to make the generalization. This chapter consists of three sections: summary of the findings, conclusion of the study and suggestion for further research or study.

#### **5.1 Summary of Findings**

In this study, the main purpose was to understand and analyze the practice of the banking sector in light of the issue of the EIA while they extend loan for projects; the availability of laws and policy frameworks, regulatory schemes, and self-regulating work environments especially at the CBE which has been show cased in the study. Based on the literature review, various relevant topics were identified. Specifically, this study sought to examine whether there is legal or/and policy instruments are there so that banks may require EIA study reports before they allow loans. The study focused on the practice of the Commercial Bank of Ethiopia. The conceptual framework of the study was developed on the basis of concepts and notes identified through literature review.

The overall plan of a research study was presented in third chapter. Convenience sampling was used as data collection procedure. The data was collected with the help of self-administered questionnaire and in-depth interview. The study was conducted based on the sample size 49. The questionnaire was made available to the respondents through direct distribution of questionnaire in different locations. This was done as per ease of respondents as well as the researcher. Before conducting the survey for the research, pilot test was conducted with the help of 10 respondents. This was done to identify the reliability of the research as well as the questionnaire developed. The participants were asked to comment on the format and appropriateness of questions, and to suggest any items that they believe to be included in the questionnaire. This was done to check the validity of research and questionnaire. In view of their suggestions, several amendments were incorporated into some questions that improved the clarity.

This was tested with the help of Cronbach's alpha which resulted that the research to be reliable. But by the mere fact that the researcher involved all the people working the loan and risk departments of CBE, there is no need of applying the formula to generate the sample size for a population of totaling 49. Because of the purposive sampling technique adopted and largely due to the small size of the population of the study, the entire people working in the bank having direct relation with project-based loan extension were included.

The pilot test conducted before the major one had assured the reliability and validity of the research which had important role to decide whether to carry the study further or not.

The research is descriptive and explanatory in nature. The overall research method is conducted through the collection of primary data with modest application of secondary data as well. With reference to the demographic profile, the study focused on five components: gender, age, occupation, number of service years, and educational background. The gender of respondents consists of male and female. The aim was to determine the percentage of distribution of respondents by gender. Under this analysis, only respondents whose responses were valid are considered. Fortunately every of the 49 questionnaires were found to be valid. The frequency and percentage of the gender of the respondents is indicated as male and female. Based on the gender/sex distribution of respondents, the data collected show that the participation of male respondents was more than that of female respondents in the sample size of 49. Out of the total number of respondents involved in the questionnaire as discussed under the preceding section, 28 of them or 57.1 % were male and the remaining 21 or 42.9 % were female. This means that the majority of the respondents are male.

Age distribution of the respondents was categorized in to four blocks: age from 18 to 25 is 0; age from 26 to 35; age from 36 to 45 and lastly above 46 years of age. The categorization was meant to give a clue on age distribution of the respondents working in the bank, at different departments having a role with loan disbursement for projects. Out of the total of 49 respondents, 5 of them or 10.2% of them are between the age of 26 and 35; the other respondents between the age of 36 and 45 are 39 or 79.6 %; and lastly 5 or 10.2% of the total respondents are age above 46 years. This means that out of the total respondents, the majority of them were aged between 36 to 45 years. And the least age group is above 46 years.

Out of the total of 49 respondents, 35 or 71.5 % of them are middle level managers; whereas equaling 5 respondents or 10.2 % are either supervisors or top level managers and the other 4 respondents or 8.2 % are Executive director and none of the respondents are Employee. This means that the largest number of respondents is middle level managers and the least number of respondents are Executive director.

Out of the total of 49 respondents, 8 or 16.3% of them receive income in terms of birr ranging from 5 thousand to ten thousand a month; 5 or 10 % of the respondents are paid an amount ranging between 10001 to 15000 birr a month; 37 or 75.5 % of the respondents are paid with birr in between 15001 to 20000 birr and the remaining 7 or 14.3 % of the respondents get an income above 20000 birr a month. This means that the largest number of respondents are getting an income amounting or between 15001 to 20000 birr and the least number of respondents' income is 10001 to 15000 birr. 3 or 6.1% of the total respondents have educational background of under degree level; 8 or 16 % of the total respondents are degree holders; the other 41 or 83.7 % of the respondents have master's level educational achievement. This means that the majority of the respondents are a master's holder and there no respondent with a PhD and under degree.

The average or mean value of the responses of the respondents were presented to indicate how many of the respondents are either agreeing or disagreeing or even have not decided over the items presented.

## **5.2. Conclusions and Recommendations**

### **Conclusions**

Ethiopia has been making an effort to preserve the environment through the creation of useful policies, the passage of legislation, and the execution of strategies and procedures. Ethiopia's 1989 Conservation Strategy was the country's initial attempt to impose environmental regulations. Although the right to a clean and healthy environment is guaranteed by article 44 (1) of the constitution, enterprises are not specifically mentioned as having a responsibility. Everyone's responsibility to conserve the environment is generally outlined in Article 92 of the constitution. The environmental policy was introduced in 1997 along with various environmental CSR. This policy makes a specific effort to increase state regulation. As a result, more comprehensive legal frameworks were created in 2002 with the introduction of the Environmental Pollution Control Act and the EIA Proclamation.

According to the EIA Proclamation, anyone planning to conduct a project that is likely to have a harmful impact on the environment must first obtain EPA approval. A company should, at its

own expense, conduct an EIA for every project that is likely to have an impact, in conjunction with the communities who are likely to be impacted.

The law mandates that companies conducting an EIA identify potential negative effects of the project, mitigation strategies, backup plans, self-auditing arrangements, and monitoring throughout implementation in advance. Additionally, acceptance of a report on an environmental impact study does not absolve a company of responsibility for damage based on the polluter pays concept.

All of these legal frameworks relate to the person or business who obtained a bank loan to start the project. These laws do not impose the same obligations on the loan-taking institutions as they do on the project owners. This makes it possible to claim that banks' compliance with EIA legislation during the loan delivery process is not clearly established. When it comes to the issue of processing bank loans for projects, it is not directly possible to get provisions that oblige banks to consider EIA issues for the authorization of loan.

Banks are incorporating EIA authorization into their loan procedures to ensure that some projects comply with EIA regulations, even though laws do not directly obligate banks to take EIA consideration into account when processing loans for projects. Large-scale development projects in the nation frequently receive financing from the Development Bank of Ethiopia and the Commercial Bank of Ethiopia. Their loan processing documentation and policy instruments now include EIA. For loan approval from either bank, borrowers must demonstrate EIA authorization from authorized agents. This is due to the fact that projects must submit EIA documentation before they can begin their activities under EIA legislation.

After the projects were completed, there were restrictions on the EIA's attendance and follow-up. Banks do not implement follow-up procedures. This is so that banks are not required by law to continue monitoring the results of EIAs after the loan application procedure is complete.

Today's business sectors are more competitive, which forces corporations like CBE to place more emphasis on their responsibility to protect the environment as part of their overall role or duty of CSR, in addition to their more conventional and traditional single-minded focus on making profit. The importance of the EIA issue has increased since earlier times. This is mostly due to the urgent worry that the harm to the environment has almost become serious and dangerous as well.

The respondents to the questionnaire were CBE employees working in departments related to loan disbursements to projects implemented in a wider environment. They were asked if they felt that the bank's use of EIA was in line with laws, policies, or even international standards, or if they thought it fell short of those standards. The study's core survey's results show that most respondents firmly agree that commercial bank staffs are aware of environmental impact assessments for loan projects. It also exhibits Based on the study's quantitative findings, it can be

concluded that respondents generally concur with the bank's level of effort in handling loan requests for projects.

Additionally, it demonstrates how seriously the bank takes loan application legitimacy and how it uses EIA as a tool. According to the study's overall analysis, the respondent indicated that they utilize EIA reports to evaluate loan applications and that they are aware of projects that have been rejected due to their negative environmental effects.

In spite of the fact that there are laws and policy tools, the bank is not seriously taking the EIA as a mandatory factor to accept or reject loan applications on the basis of their risk levels. The aim of this study was to understand the level of commitment by the CBE when it disburses loans for projects as part of its legal corporate responsibility from the perspective of the safety and integrity of the environment and ultimately ensuring sustainable development. The results of the study are believed to put significant contribution to practice and literature since EIA in cases of operations of banks can be defined as a new, but rapidly growing platform for relationships building with various stakeholders and forming positive image of the companies in the eyes of their stakeholders.

EIA is one of the developing ideas and practices pressuring the financial sector to set strong and environmentally conscious policy tools governing their loan operation as are true for any philanthropically/ethically motivated actions carried out by CBE. Research is therefore necessary and timely to provide some direction for this endeavor. The study's findings indicate that CBE is doing about as well as it can give the rules and policies that require it to check projects for environmental friendliness before approving them for loan funding.

## **Recommendations**

Commercial Bank of Ethiopia needs:

- To establish and implement compliance mechanisms that ensure that EIA rules and procedures are properly followed and any violations should result in administrative penalties in addition to civil and criminal ones for those found to be processing loans in a way that is harmful to the environment.
- To promptly put into effect the proposed policy on the EIA and project-based loan extension so that its use can support efforts to uphold environmental standards and safety.
- To make sure that professionals working in the loan department are extremely familiar with the environmental criteria they must take into account while entertaining loan-for-projects, and finally,

- To ensure long term financial stability to significantly change its attitudes and actions in promoting more responsible and sustainable business practice by setting clear selection criteria for environmental friendly projects.
- To bring and incorporate the greatest lessons learned from comparable financial institutions outside in the area.

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