

# **Sustainable Planning and Financing - The Equator Principles**

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# TABLE OF CONTENTS

1

- What is meant by “Sustainable Financing” ?
- Why is Sustainable Financing relevant to Financiers?
- What are the Applicable Standards for Sustainable Financing?
- How are the standards measured ?
- What are the implications for parties ?
- Concluding comments ?

# What is meant by “Sustainable Financing” ?

2

- Sustainable Financing is an approach that connects **Corporate Social Responsibility (“CSR”)** and **Social Responsible Investing (“SRI”)** and which promotes **Sustainable Development**
  - **CSR** is a business model that contributes to the social and economic development of a stakeholders
  - **SRI** is a business model that invested in transactions that meet specific ethical criteria
  - Sustainable Development is defined as
    - “development that meet the needs of the present without compromising the ability of future generations to meet their own needs” (Brundtland Commission)
    - “an economic development theory that calls for raising living standards without destroying the earth’s ecosystems or causing environmental problems such as climate changes, water scarcity, or species extinction” (Webster’s New World Finance and Investment Dictionary)
    - “financial sustainability is not only about the amount of money, but also about how effectively money is spent, how well benefits are provided to local stakeholders, and other factors” (Convention on Biological Diversity)
    - Sustainable Financing must meet the generic requirements of Sustainable Development to be relevant
- Sustainable Financing is not by itself the financing of “Green Energy” Technology or “Green Energy” Projects eg s hydropower project that does not take into account affected / relocated stakeholders would not be regarded as sustainable financing

# Why is Sustainable Financing relevant to Financiers - The Internal View

- Banks are an important intermediary between sources of capital demand and capital supply and exist to transform money by size, duration, time, place and risk
- Banks play a crucial role financing transactions and have the ability to influence clients to achieve high degrees of compliance with sustainability requirements
- Increasingly Financiers are implementing both global policies (eg Equator Principles) and bank-specific policies to ensure compliance with CSR requirements
- Embedding CSR and SRI within decision making process allows for consistent approach for financing allows for
  - efficient risk management
  - effective pricing of risk
  - pro-active selection of transactions
  - greater understanding of client requirements
  - greater understanding of stakeholder issues
- Provides for opportunity to work alongside customers to achieve more sustainable practices
  - selective withdrawal from clients opposed to sustainability initiatives
  - selective withdrawal from transactions that are unlikely to meet sustainability requirements



“We want to work with clients to understand the social and environmental risks and opportunities in their business. The conversation quickly turns to what we can do to help them mitigate these risks and ensure their business and projects are successful and sustainable over the long term.”

— ALEX THURSBY, CHIEF EXECUTIVE OFFICER, ASIA PACIFIC



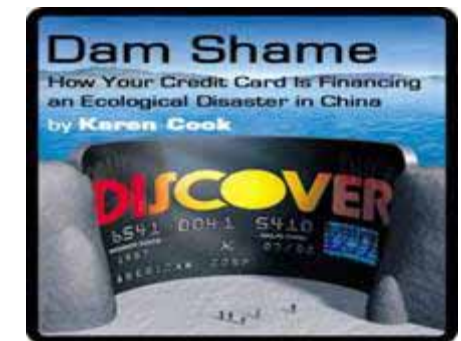
OUR SOCIAL AND ENVIRONMENTAL POLICIES – AT A GLANCE				
POLICY	FORESTS	GREENHOUSE AND ENERGY	WATER	MINING AND MINERALS
What does it say?	ANZ to avoid support of logging in high conservation value and protected areas and will encourage clients to seek certification of their practices	ANZ to assess emissions intensity of client against industry and sector benchmarks and identify potential for improvement	Client to develop water management plans according to international standards	Client to demonstrate best practice control of social and environmental mine legacies and establish community engagement plans
What type of businesses does it apply to?	Forestry, logging and related primary production companies	Power generation companies and high-emission manufacturers	High-use customers including irrigators, food processors and manufacturers	Mining and mineral processing companies
Applies to existing customers?	Yes	Yes	Yes	Yes
When did it commence?	March 2008	September 2008	September 2008	September 2008

More information: [www.anz.com/policies](http://www.anz.com/policies)



# Why is Sustainable Financing relevant to Financiers – The External View

- An Environmental Risk can very quickly become a Financial Risk
  - Poorly managed projects can have serious environmental and social impacts
  - Serious impacts will need to be mitigated at a cost
  - Reputational Risks are an increasing concern for Banks
  - Banks are increasingly held responsible for their clients' actions and activities
  - Significant impact on senior management time
  - Disruption to business
- Civil Society keeps a close watch on transactions that could trigger sustainability issues
  - Active and high professional campaigns by NGOs against Banks has raised profile of "ethical investments"
  - Focused campaigns against certain industries and investments
  - Constant monitoring of some projects by NGOs may be expected
  - The ability to engage with NGOs can vary significantly depending on their philosophy and willingness to open dialogue with stakeholders



# What are the Applicable Standards for Sustainable Financing ?

5

- From 2004, in order to standardise international financial best practice, International Financial Institutions have adopted the Equator Principles
- The Equator Principles comprise a set of rules and guidelines that assist Banks to identify and manage a common and consistent assessment of environmental and social issues across industries and geographies
- The Equator Principles requires the Banks to ensure compliance with all the obligations under the Principles
- The Equator Principles are referenced to the Performance Standards of the International Finance Corporation (part of the World Bank Group)
- The Equator Principles are also broadly in line with the similar policies of the Asian Development Bank, the European Investment Bank and OECD Export Credit Agencies
- The Equator Principles have been adopted by 67 International Financial Institutions (ANZ in 2006)
- Equator Principle Banks will not provide loans to projects where the borrower will not or is unable to comply with the Equator Principles
- Other standards ANZ applies for the Mekong Region include the International Commission on Large Dams and International Hydropower Association Protocols



## Equator Principle Performance Standards

PS 1	Social & Environmental Assessment and Management System
PS 2	Labour and Working Conditions
PS 3	Pollution Prevention and Abatement
PS 4	Community Health, Safety and Security
PS 5	Land Acquisition and Involuntary Resettlement
PS 6	Biodiversity Conservation and Sustainable Natural Resource Management
PS 7	Indigenous Peoples
PS 8	Cultural Heritage



# How are the Standards Measured ?

Equator Principle	Statement of Principles
<b>EP1: Review &amp; Categorisation</b>	Each Project is categorised in respect of the magnitude of its environmental and social impact (referenced to IFC Environmental and Social Screening Criteria): <ul style="list-style-type: none"> <li>• <b>Category A:</b> Potential significant adverse social or environmental impacts that are diverse, irreversible or unprecedented</li> <li>• <b>Category B:</b> Potential limited adverse social or environmental impacts that are few in number, site specific, largely reversible and readily addressed through mitigation measures</li> <li>• <b>Category C:</b> Minimal or no social or environmental impacts</li> </ul>
<b>EP2: Social and Environmental Assessment</b>	For Category A and B projects, the Borrower must conduct a Social and Environmental Assessment, prepared by the Borrower or by suitably skilled independent third parties, to identify any impacts caused by the project
<b>EP3: Applicable Standards</b>	For most countries, the Assessment is referenced to the IFC Performance Standards
<b>EP4: Action Plan / Management System</b>	For most countries, for all Category A and B projects, the Borrower must complete an Action Plan to describe, prioritise and implement mitigation measures, corrective actions for any impacts identified in the Social and Environmental Assessment
<b>EP5: Consultation and Disclosure</b>	For all Category A and most Category B, timely consultation of the non-technical findings is to be made available in the local language to encourage early dialogue with stakeholders
<b>EP6: Grievance Mechanism</b>	For all Category A and most Category B, procedures to be implemented to allow affected stakeholders the ability to raise and resolve issues of concern
<b>EP7: Independent Review</b>	For all Category A and most Category B, an independent third party review is required for the Assessment, Action Plan and other documentation
<b>EP8: Covenants</b>	The Borrower will covenant (a) to comply with all local social and environmental laws, permits and standards, (b) to implement the Action Plan, (c) to provide periodic reports to the Banks confirming compliance with required standard, and (d) to decommission the project (where applicable) in accordance with a decommissioning plan
<b>EP9: Independent Monitoring and Reporting</b>	For all Category A and most Category B, an independent third party review is required to verify the Action Plan and other obligations
<b>EP10: Public Reporting</b>	Each Bank must provide annual updates of its own compliance with the Equator Principles

# How are the Standards Implemented ?

- Equator Principles permit a balanced approach towards decision making, taking into account the views of **all** stakeholders, not just the Borrower
- The Equator Principles are used at all phases of a project’s evaluation and implementation, including before formal evaluation (ie client screening)
- Potential Borrowers are informed of the need and requirements of the Equator Principles before signing any mandate
- The Equator Principles apply to both Advisory and Financing phases of projects above US\$10m in size (ANZ applies to **all** projects)
- In larger deals, one Bank will be appointed to co-ordinate the environmental and social aspects of the transaction
- Most Equator Principle Banks have dedicated Sustainability teams and “Toolkits” to allow for in-house decision-making to complement external advice
- Outcomes from assessment are shared with clients to identify areas needing mitigation
- Outcomes are embedded into the Finance Documents and monitored at least annually

“The Equator Principles have sharpened our focus on social and environmental issues – we now take a more holistic approach to the question of whether we should even begin discussions about a project or not.”  
 — CHRISTINA TONKIN,  
 GLOBAL HEAD OF  
 SPECIALISED LENDING

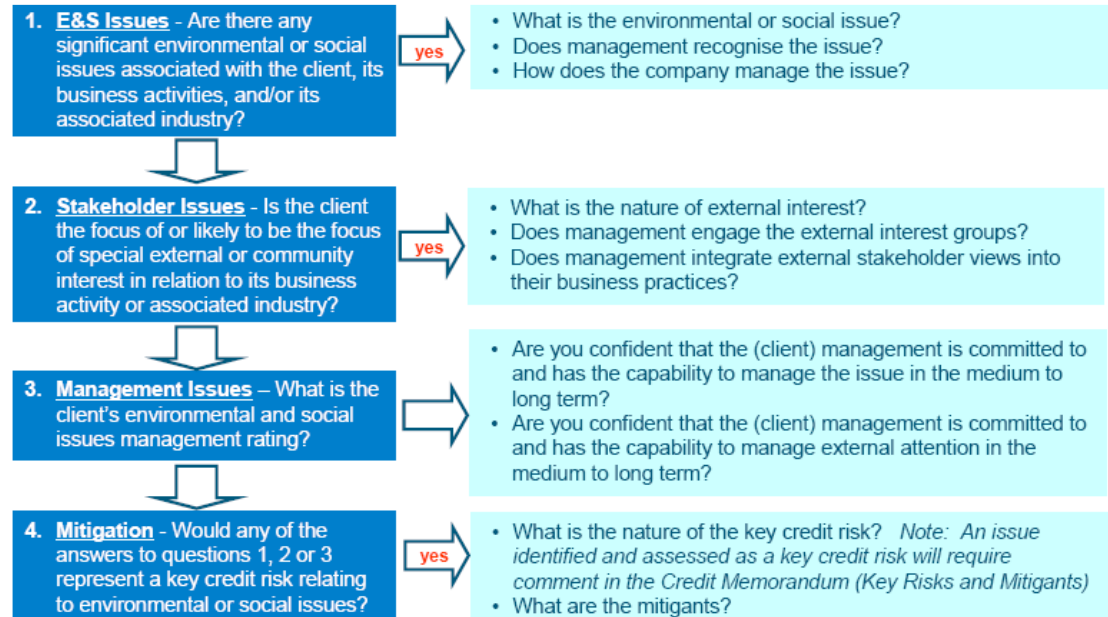
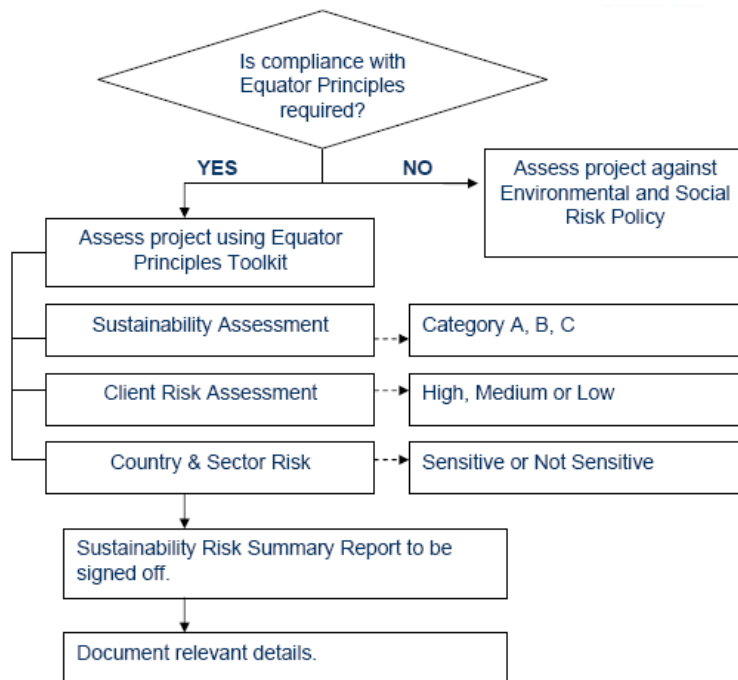
EQUATOR PRINCIPLES PROJECTS REVIEWED 2008			
	REVIEWED	CONFORM TO EP	FINANCED
High Impact	3	2	0
Medium Impact	16	16	14
Low Impact	14	14	10
<b>Total</b>	<b>33</b>	<b>32</b>	<b>24</b>

“Our approach is not all about declining clients or deals. Instead, we will measure our success in this area based on how many businesses we help to transform.”  
 — CHRIS PAGE, CHIEF RISK OFFICER

Decision Frameworks	Engagement & Innovation	Knowledge & Perspectives
<b>Wholesale Credit Env. &amp; Social Policies</b> - screen, client rating, mitigation - based on ANZSIC classification	<b>Stakeholder Engagement</b> - alignment with CEO Agenda - Business & Sustain. Forums	<b>Sensitive &amp; Controversial Issues</b> - effective issues management - decision-making criteria
<b>Sector &amp; Issue Management Policies</b> - social/environmental guidelines - forests, energy, water, mining	<b>Product &amp; Service Innovation</b> - environmental markets - carbon, water, biodiversity	<b>Global Trends &amp; Emerging Risks</b> - portfolio exposure analysis - climate change adaption
<b>Equator Principles</b> - Asia focus – known-use of funds - Sustainable Finance Ltd Toolkit	<b>Stewardship Model</b> - Value/Impact (V/I) model - industry/sector benchmarks	<b>External Alliances</b> - WWF-Australia partnership - multi-bank initiatives?



# How are the Standards Implemented ?



# What are the Implications for Parties ?

## For Equator Principle Banks

- Ranking of Environmental and Social Considerations as Important as Economic Considerations
- Consistent Assessment Methodology for Environmental and Social Issues
- All Stakeholder Issues are Taken into Account
- Active Ongoing Monitoring Requires Dedicated Teams
- Engagement with NGOs to provide transparency and accountability for actions
- Rejection of Non-Compliant Projects

## For Non-Equator Principle Banks

- Less Competition for Projects
- Local Laws the only Applicable Requirements
- Increased Exposure to Reputational Risk Possibilities

## Investors

- Early decision whether to follow or reject compliance with Equator Principle
- Lack of Compliance will reduce access to capital
- Lack of Compliance will lead to Reputational Risk issues
- Cost

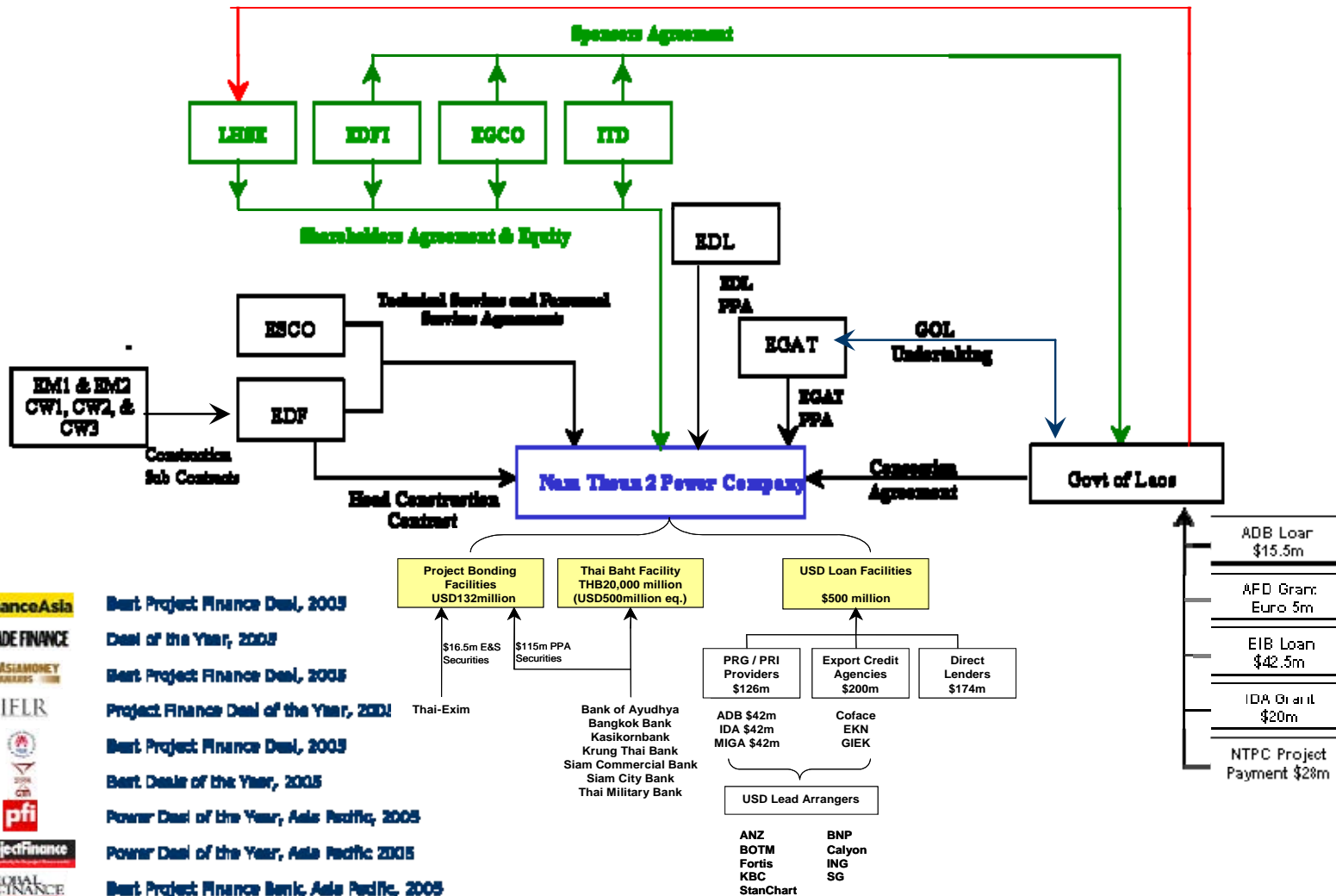
## Governments

- Ability to attract investment



# Nam Theun 2, 1,070MW Hydropower Project Lao PDR

## Environmental Standards



- FinanceAsia** Best Project Finance Deal, 2005
- TRADE FINANCE** Deal of the Year, 2005
- ASIAMONEY AWARDS 2005** Best Project Finance Deal, 2005
- IELR** Project Finance Deal of the Year, 2005
- Best Project Finance Deal, 2005**
- Best Deal of the Year, 2005**
- Power Deal of the Year, Asia Pacific, 2005**
- ProjectFinance** Power Deal of the Year, Asia Pacific 2005
- GLOBAL FINANCE** Best Project Finance Bank, Asia Pacific, 2005
- pfi** Advisor of the Year, Asia Pacific, 2005

# Concluding Comments

- Equator Principles are the industry standard for most International Financial Institutions
- Adoption of the Equator Principles provides greater ability to access capital and finance projects
- The Equator Principles do no more than enshrine and embed good corporate governance and CSR in transactions
- Projects adopting the Equator Principles will generally be more successful in managing potential environmental and social issues than those that do not adopt them
- Projects adopting the Equator Principles will generally be more successful in managing reputational risk issues (and management time) than those that do not adopt them
- Projects that adopt the Equator Principles will generally be economically viable in the long term as there is less chance of delays associated with environmental and social issues
- A fundamentally sound (in terms of economic, social and environmental issues) large hydropower project that is developed with regard to all stakeholders should have no difficulty in being Equator Principle compliant
- The choice to follow the Equator Principles is one for Governments and investors need to consider at an early stage of a project's development

Thank You