



<http://www.equator-principles.com/principles.shtml>

Some information put together by the IMIA Breakout Session Group 4 of the annual IMIA conference and Michael Spencer, Zurich UK

A financial industry benchmark for determining, assessing and managing social & environmental risk in project financing

PREAMBLE

Project financing, a method of funding in which the lender looks primarily to the revenues generated by a single project both as the source of repayment and as security for the exposure, plays an important role in financing development throughout the world.¹ Project financiers may encounter social and environmental issues that are both complex and challenging, particularly with respect to projects in the emerging markets.

The Equator Principles Financial Institutions (EPFIs) have consequently adopted these Principles in order to ensure that the projects we finance are developed in a manner that is socially responsible and reflect sound environmental management practices. By doing so, negative impacts on project-affected ecosystems and communities should be avoided where possible, and if these impacts are unavoidable, they should be reduced, mitigated and/or compensated for appropriately. We believe that adoption of and adherence to these Principles offers significant benefits to ourselves, our borrowers and local stakeholders through our borrowers' engagement with locally affected communities. We therefore recognise that our role as financiers affords us opportunities to promote responsible environmental stewardship and socially responsible development. As such, EPFIs will consider reviewing these Principles from time-to-time based on implementation experience, and in order to reflect ongoing learning and emerging good practice.

These Principles are intended to serve as a common baseline and framework for the implementation by each EPFI of its own internal social and environmental policies, procedures and standards related to its project financing activities. We will not provide loans to projects where the borrower will not or is unable to comply with our respective social and environmental policies and procedures that implement the Equator Principles.

Mike Spencer comments

The Equator Principles are voluntary guidelines for Project Finance institutions. As these guidelines are little known among Insurers, so I thought it may be useful for IMIA members to be aware of them, and I attach a short description of the guidelines and my view of their relevance to engineering lines underwriters (see last page of the Enclosure). It is clear that many entities (including customers of IMIA members - since they will provide insurance for Project Financed projects worldwide) do not use these guidelines and those that do may not meet all of these guidelines, depending on how they are interpreted and enforced. This situation does not detract from the value of the Equator Principles, rather, it affirms that if enforced they would have risk management value. The attached document may, I hope, provide an introduction that shows how that risk management value interacts with the interests of a CAR/EAR underwriter - as contrasted with benefits of the overall project and society.

Whilst I doubt that any engineering lines underwriters will include the guidelines as part of his core underwriting process due to the much greater breadth of the guideline subject matter than the coverage afforded under a traditional CAR cover, my personal view is that application of the Equator Principles will result in projects that are more likely to be sustainable and have lower socio-economic impacts. A project that accepts these guidelines is likely to have controls and governance in place which promote risk management in general. This means such projects are much more likely to be amenable to the other risk management systems that engineering underwriters would like to see and the projects are likely to have a lot of underwriting information about projects that the engineers may find useful in their normal underwriting process.

Overall, provided that compliance with the Equator Principles can be verified, my view is that the acceptance by a project of the Equator Principles should be considered a positive marker for the CAR/EAR underwriter.

Enclosure

THE EQUATOR PRINCIPLES

SCOPE

They apply to project financed projects with capital costs of US\$10,000,000 or more.

They are aimed at measuring the social and environmental impact of new capital projects. Institutions that use these principles are known under the acronym of EPFI (Equator Principles Financial Institutions)

There are 9 basic principles which are summarised here

1. Review and Categorisation

Projects are categorised for environmental and social impacts and risks according to the criteria of the IFC.

2. Social and Environmental Assessment

Three categories are assigned to projects A,B & C *each must have a social and environmental assessment process which should include mitigation and measurement measures appropriate to the project.

3. Applicable Social and Environmental Standards

IFC Performance standards are mainly used for non 'high income' OECD members on the basis high income OECD countries already have processes in place that meet the standards.

4. Action Plan and management System

For applicable countries (see 3) an Action Plan and Management System should be in place to manage the application of the principles. For countries where there is already a regulatory environment which satisfies Equator Principles this Plan should meet local requirements.

5. Consultation and Disclosure

Communities likely to be affected by a project should be consulted and in a structured and culturally appropriate manner.

6. Grievance Mechanism

There should be a grievance mechanism which allows borrowers to receive and facilitate resolution of concerns and grievances about a project.

7. Independent review

An independent review of certain categories of project should be carried out by an expert independent of the borrower.

*Categories of Project

- A. High Impact diverse, irreversible unprecedented
- B. Medium limited few in number site specific reversible and manageable impacts
- C. Minimal Impact

8. Covenants

Covenants to comply with the principles will be incorporated into financing documents.

9. Independent Monitoring and Reporting

An independent expert (employed by financiers or borrowers) will ensure monitoring and reporting of the ongoing project.

10. EPFI Reporting

EPFI will report their experience about the Equator Principles

Issues Addressed in the Social and Environmental Assessment

This is a summary of the kind of issues addressed

1. Local existing social and environmental conditions, laws and regulations
2. Feasible and preferable alternatives to those existing
3. Protection of human rights, cultural property and heritage
4. Protection of the environment in general and pollution prevention
5. Health safety and security
6. Use of sustainable natural resources and efficient use of energy
7. Fire prevention and life safety
8. Consultation of affected parties in the design, review and implementation of the project.
9. Labour and working conditions

The principles also use

1. IFC Performance Standards on Social and Environmental Sustainability
2. Industry specific World Bank and IFC Environmental and Health and Safety Guidelines

There are industry specific guidelines for a wide range of industries.

Relevance for EAR/CAR underwriters

1. A typical EIA assessment will include a lot of information CAR /EAR underwriters will find useful.

General description of the project including it's location , climate , natural hazards geology and physical environment, a description of the various processes involved, location of third parties, economic benefits of the project. Access to basic amenities of the local population Disclosure plans and meeting with the local stakeholder groups.

2. Projects accepting to conform to Equator principles are more likely to accept the high standards of workmanship and for the actual project.

Here is a typical extract from an Environmental Impact Assessment Plan following IFC guidelines .This shows how CAR/ EAR underwriter interests may be aligned with the aims of an environmental impact assessment study.

Plant Layout should follow fire prevention and safety guidelines established by NFPA or equivalent. Spacing between processing units or tanks should follow the distances recommended by the Oil Insurance Association, the American Petroleum Institute or the NFPA. Processing units should keep a distance from the borders of the property as established by NFPA. Control rooms should be constructed without windows, with no less than two doors and explosion resistant : should be located at no less than 15m from the closest equipment, should be pressurized and if having air conditioning be located no less than 12m from the soil and upwind from the plant facilities.