

“EQUATOR PRINCIPLES”

The Gold Standard in Sustainable Project Finance

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by

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Equator Principles: Origins

- The Equator Principles (EPs) are a set of voluntary guidelines developed and adopted by financial institutions for assessing and managing environmental and social issues in project lending.
- Recognizing that the role of international banks affords significant opportunities to promote responsible environmental stewardship and socially responsible development, the International Finance Corporation (a member of the World Bank Group) convened a meeting of banks in London in October 2002 to discuss Environmental & Social (E&S) issues in project finance.
- As a result of these meetings, the Equator Principles were developed in 2003 to serve as a common global baseline and framework for the implementation of E&S procedures and standards for project financing activities across all industry sectors.

Amendments to the Equator Principles

- After 3 years of implementation, the Equator Principles Financial Institutions (EPFIs) engaged in a substantive review of the Equator Principles (Principles) in May 2006. The revisions 1) implemented learning from the past 3 years, 2) incorporated input from various stakeholders received during this period, and 3) ensured integration of, and consistency with, IFC Performance Standards (which had also been revised since 2003).
- The engagement and review process included outreach to key stakeholders (including clients, NGOs and various Official Agencies) on the proposed revisions and facilitated receipt of feedback from all stakeholder groups. The newly revised Principles, which came into effect on July 6, 2006, are publicly available via the EP website.
- Key changes included: (1) lowering the capital cost cap from USD 50M to USD 10M, (2) providing project financing advisory opinions, (3) retrofitting and project upgrade, and (4) streamlining application of Principles in countries where high environmental and social standards already exist.

Adopting Institutions

67 financial institutions (as of April 2009) have adopted the revised Equator Principles:

ABN AMRO Bank, N.V. (RBS)
ANZ

Arab African International Bank
Banco Bradesco
Banco de la Republica Oriental del Uruguay
Banco do Brasil
Banco Galicia
Bancolumbia S.A.
Banco Itaú
BankMuscat
Bank of America
Bank of Tokyo-Mitsubishi UFJ
BMO Financial Group
Barclays plc
BBVA
BES Group

BNP Paribas

Caja Navarra
Calyon
CIBC
CIFI
Citigroup Inc.
CORPBANCA
Credit Suisse Group
Dexia Group
DnB Nor
Dresdner Bank
E&Co
EFIC
EKF
Export Development Canada
Financial Bank
FMO

Fortis
HBOS
HSBC Group
HypoVereinsbank
Industrial Bank Co., Ltd.
ING Group
Intesa Sanpaolo
JPMorgan Chase
KBC
KfW IPEX-Bank
La Caixa
Lloyds TSB
Manulife
MCC
Mizuho Corporate Bank
Millennium bcp
National Australia Bank

Nordea
Nedbank Group
Rabobank Group
Royal Bank of Canada
Scotiabank
SEB
Societe Generale
Standard Bank Group
Standard Chartered Bank
SMBC
TD Bank Financial Group
The Royal Bank of Scotland
Unibanco
Wachovia
Wells Fargo
WestLB AG
Westpac Banking Corporation

21 Signatories have branches or Affiliates in Thailand (marked in **Bold**)

Why has no Thai bank adopted the Equator Principles?

Growth and Development of Equator Principles

- Membership has grown steadily from 10 institutions at their inception in 2003, to over 60 today
- In the last three years, over 30 new institutions have adopted the Principles
- EPFIs include most of the world's major banks as well as insurance companies, bilateral development agencies, and export credit agencies
- According to infrastructure journal, about 71% of total global project finance in emerging markets was subject to the Principles.
- An Outreach Committee has been formed and is actively engaged with banks in China, Russia, India and other key emerging markets.
- In October 2008, Industrial Bank Co., Ltd. became the first Chinese bank to announce the adoption of EP.
- The EP website is being developed to provide greater transparency

Scope of the Equator Principles

The Equator Principles Apply to:

- All project financings with capital costs above USD 10 million.
- The Principles cover upgrades or expansions of existing projects where the additional environmental or social impacts are significant.
- The Principles also cover project finance advisory activities. The advising institution will require the client to communicate its intention to adhere to the Principles in its implementation of the project.

Statement of Principles

Loans will only be provided by EPFI institutions to borrowers who are willing and able to meet the following 9 criteria:

1. Categorization

The lender must categorize the project risk in accordance with the E&S screening criteria of the IFC (described in Exhibit 1 to the Principles).

- **Category A:** Projects with potential significant adverse social or environmental impacts that are diverse, irreversible or unprecedented;
- **Category B:** Projects with potential limited adverse social or environmental impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures; and
- **Category C:** Projects with minimal or no social or environmental impacts.

2. Project Assessment (listed in Exhibit 2 to the Principles)

For all Category A and Category B projects, the borrower must complete a Social and Environmental Assessment ("SEA"), which addresses the relevant E&S issues.

Statement of Principles (contd.)

E&S issues may include:

- a) assessment of the baseline environmental and social issues;
- b) requirements under host country laws and regulations, applicable international treaties and agreements;
- c) sustainable development and use of renewable natural resources;
- d) protection of human health, cultural properties, and biodiversity, including endangered species and sensitive ecosystems;
- e) use of dangerous substances;
- f) major hazards;
- g) occupational health and safety, and other labor-related issues;
- h) fire prevention and life safety;
- i) socioeconomic impacts;
- j) land acquisition and land use;
- k) involuntary resettlement;
- l) impacts on affected communities, and vulnerable groups (including indigenous peoples);
- m) cumulative impacts of existing projects, the proposed project, and anticipated future projects;
- n) consultation and participation of affected parties in the design, review and implementation of the project;
- o) consideration of feasible environmentally and socially preferable alternatives.
- p) efficient projection, delivery and use of energy;
- q) pollution prevention and waste minimization, pollution controls (liquid effluents and air emissions) and solid and chemical waste management.

Statement of Principles (contd.)

3. Performance Standards

For all projects, the SEA must establish compliance with local laws and regulations. Projects in non-OECD countries and low income OECD countries must also meet additional standards set out in the exhibits to the Equator Principles. In this case, the SEA must establish compliance with such standards or justify its deviation from them.

4. Action Plan (AP)

For Category A and Category B projects in non-OECD countries and low income OECD countries, the borrower must prepare an Action Plan and a Social and Environmental Management System that allow the borrower to mitigate the impacts and risks identified in the SEA.

5. Consultation and Publication

For all Category A projects and certain Category B projects, there must be structured and culturally appropriate consultation with affected groups, and the SEA must be publicly available in the local language for a minimum time period. The borrower must take such consultation into account before and during project construction. The assessment documentation and AP must be made available to the public

Statement of Principles (contd.)

6. Grievance Mechanism

The Principles establish a grievance mechanism whereby the borrower will receive and facilitate resolution of concerns and grievances from individuals or groups affected by the project.

7. Independent Review

As necessary, borrowers must have an independent social or environmental expert review the SEA, AP and consultation documents to assist in due diligence and assess compliance.

8. Covenants

The borrower must covenant to:

- a) comply with all relevant host country social and environmental laws;
- b) comply with the AP in the construction and operation of the project;
- c) provide annual reports on compliance with the AP; and
- d) where applicable, decommission the facilities in accordance with an agreed plan.

Where a borrower is not in compliance with its E&S covenants, other EPFIs will engage the borrower to seek solutions to bring it back into compliance.

Statement of Principles (contd.)

9. Independent Monitor

As necessary, lenders have appointed an independent environmental expert to provide additional monitoring and reporting services.

10. Retrospective reporting

EPFIs are required to publicly report their EP implementation experience. These reports are available online for 51 of the EPFIs through the EP website at www.equator-principles.com.

Frequently Asked Questions

1. What does it mean to "adopt" the Equator Principles? Do financial institutions sign an agreement of some kind?

Financial institutions do not sign an agreement. Each institution adopting the Equator Principles individually declares that it has or will put in place internal policies and processes that are consistent with the Equator Principles. They may do this at any time.

2. Do the Equator Principles hurt the adopting banks' business?

Not at all. By adopting a banking industry standard, the adopting institutions are better able to mitigate and monitor the credit and reputation risk associated with financing development projects. Furthermore, the implementation of EPs allows the adopting EPFIs to exchange knowledge, learn and develop best practice methods.

3. What steps must an Adopting Institution take and does it have to change its business procedures?

The EPs recognize that signatories are organized differently, so discretion is left to each institution to implement EPs in a manner that best suits its structure. In addition to adopting EPs in its projects, the EPFI must submit an annual report showing its implementation of EPs and the results.

Frequently asked Questions

4. Why were changes made to the EPs and what do they mean for future Adopting Institutions?

The Principles are based upon Standards that the IFC and the World Bank had originally developed. To take into account the experience EPFIs had gathered using IFC Standards, these lenders decided to update their environmental and social policies to modify the IFC policies for application to the private sector. The Principles were changed in 2006 to implement the suggested improvements of the Adopting institutions and NGOs after three years of operating under Equator Principles.

Annual EPFI meetings are held and experiences and best practices are exchanged. As more sophisticated funding is undertaken, and application of EPs broadens it is likely that the EPs will continue to evolve.

Advantages for Adopting Institution

Advantages for project sponsors of having a broad group of lenders adopt the Equator Principles include:

- Standardization of lender policies saves sponsors the burden of producing different environmental assessments for different financial institutions and from trying to meet different standards among lenders
- Implementation of transactions happen more quickly by getting it right the first time
- More certainty in project implementation
- More secure, long-term investment
- Gaining reputational advantage

Advantages for financial institutions in adopting the Equator Principles include:

- Using common terminology in assessing environmental and social issues
- Using a common framework for implementation and documentation
- Increasing productivity through reduced transaction time (getting it right the first time)
- Having more certainty in closing project financials
- Mitigating project loan risk
- Gaining reputational advantage

Conclusion

The Equator Principles have enabled the financial institutions to better assess, mitigate, document and monitor the potentially adverse social and environmental risks associated with financing projects. The development and application of the Equator Principles have been a huge step forward for the industry, in terms of having a common framework and language for environmental and social issues in the project finance industry.

Sources of further information:

- www.equator-principles.com – includes current version of the Equator Principles
- Lawrence and Thomas, "The Equator Principles and Project Finance: Sustainability in Practice?", ABA NR&E Fall 2004
- Financial Institutions that would like to learn more about how to adopt the Equator Principles should contact secretariat@equator-principles.com