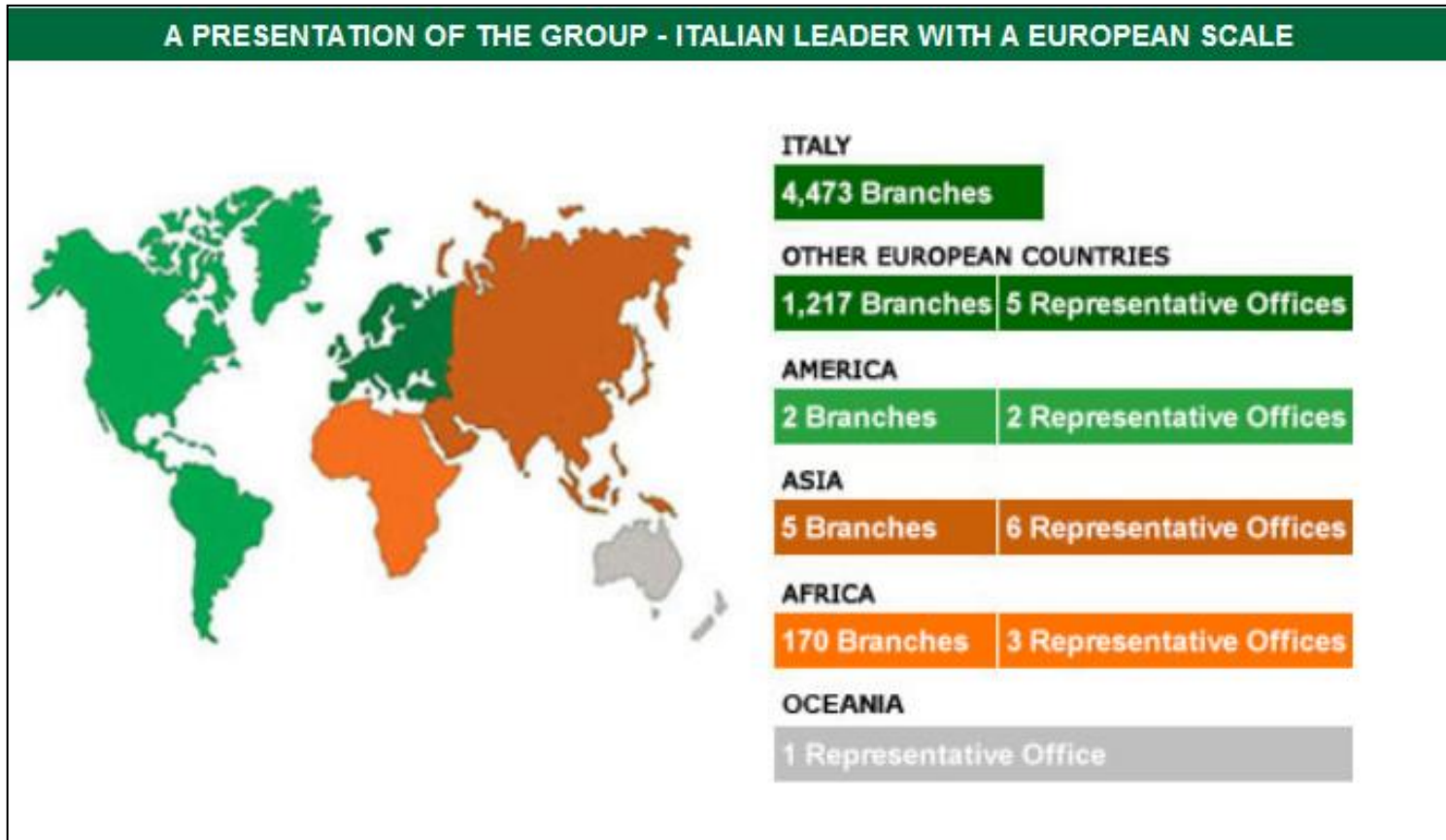


# Managing E&S risks through the Equator Principles: Intesa Sanpaolo's view

IAIA – Florence, April 2015



# The Intesa Sanpaolo Group: who we are



# Managing Environmental and Social risks: why should banks worry?



## Reputational risk:

- Damage to the reputation deriving from being associated with the client that is exposed to environmental or social risk



## Financial risk:

- Uncertainty of the return if the client has to bear high costs due to e.g. environmental damages
- Loss of asset and collateral value due to contaminations or environmental penalties



## Legal risk:

- Direct responsibility of the bank if it controls the client or directly owns the assets
- If the bank is deemed jointly liable for environmental damages caused by the client



## CREDIT RISK

- block of activities or heavy administrative sanctions due to failure to abide by antipollution laws
- change in cash flow trend of the borrower that jeopardizes its solvency

## The Equator Principles: risk level identification

When a client proposes a project for financing, the bank must assess all the risks potentially deriving from it, amongst which **environmental and social** risks.

The main requirement of the Equator Principles is the assignment of a **risk level category** to the projects. The three levels are **A, B and C, where A is the highest**.

This categorization is based on:

- the **magnitude** of potential risks and social and environmental impacts of the project
- The International Finance Corporation (IFC)'s **social and environmental criteria**
- nature, size and level of achievement of the project



Last updated  
release: June  
2013



# What are the Equator Principles ?



- The Equator Principles (EP) are a financial industry benchmark for **determining, assessing and managing** environmental and social risk in large infrastructure and industrial Projects. They apply **globally and to all industry sectors**.
- They are primarily intended to **provide a minimum standard** for due diligence to support responsible risk decision-making.
- Implementing the EP implies respecting also the **IFC Performance Standards on Environmental and Social Sustainability** (Performance Standards – PS), on which the EP are based, and the World Bank Group **Environmental, Health and Safety Guidelines** (EHS Guidelines).



# The IFC Performance Standards and their impact areas - 1

**1** Assessment and Management of Environmental and Social Risks and Impacts



The Social and Environmental Management System entails a **methodological approach** to managing environmental and social risks and impacts in a **structured way** on an **ongoing basis** and through a business management process of “plan, do, check, and act”.

**2** Labour and Working Conditions



The pursuit of economic growth through employment creation and income generation should be accompanied by **protection of the fundamental rights of workers**. Failure to establish and foster a sound worker-management relationship can undermine worker commitment and retention, and can jeopardize a project.



**3** Resources efficiency and Pollution Prevention



Increased economic activity and urbanization often generate increased levels of **pollution to air, water, and land, and consume finite resources** in a manner that may threaten people and the environment

**4** Community Health, Safety, and Security



Project activities, equipment, and infrastructure can increase **community exposure to risks and impacts**.

## The IFC Performance Standards and their impact areas - 2

### 5 Land acquisition and Involuntary resettlement



Project-related land acquisition and restrictions on land use can have **adverse impacts on communities and persons** that use this land. Involuntary resettlement refers both to **physical displacement** (relocation or loss of shelter) and to **economic displacement** (loss of assets or access to assets that leads to loss of income sources or other means of livelihood)

### 6 Biodiversity Conservation and Sustainable Management of Living Natural Resources



Protecting and conserving **biodiversity**, maintaining **ecosystem services**, and sustainably managing **living natural resources** are fundamental to sustainable development.

### 7 Indigenous Peoples



**Indigenous Peoples**, as social groups with identities that are distinct from mainstream groups in national societies, are often among the **most marginalized and vulnerable segments** of the population. In many cases, their economic, social, and legal status **limits their capacity to defend their rights**.

### 8 Cultural Heritage



Cultural heritage is **crucial for current and future generations**. The client will consider potential project impacts to cultural heritage and will apply this PS throughout the project development.

# The Equator Principles

*Principle 1* **Review and Categorization**

*Principle 2* **Environmental and Social Assessment**

*Principle 3* **Applicable Environmental and Social Standards**

*Principle 4* **Environmental and Social Management System and EP Action Plan**

*Principle 5* **Stakeholder Engagement**

*Principle 6* **Grievance Mechanism**

*Principle 7* **Independent Review**

*Principle 8* **Covenants**

*Principle 9* **Independent Monitoring and Reporting**

*Principle 10* **Reporting and Transparency**



# Transactions within the scope of the Equator Principles



The Equator Principles apply **globally** and to **all industry sectors**, in the following cases:

1. **Project Finance** and **Project Finance Advisory Services** when the total capital expenses of the project are equal to or greater than **10 million US \$**
2. **Project-Related Corporate Loans\*** (corporate loans intended for one or more projects), including Export Finance in the form of Buyer Credit, when the following conditions occur at the same time:
  - the majority of the loan (more than 50%) is related to a single project over which the client has effective operational control (either direct or indirect)
  - the overall amount of the loan is equal to or greater than **100 million US \$**
  - the bank's loan is equal to or greater than **50 million US \$**
  - the loan tenor is at least 2 years
3. **Bridge loans** with a tenor of less than 2 years which are expected to be re-financed with financial instruments for which the above criteria are valid.

\*PRCL exclude Export finance in the form of Supplier Credit as the client has no effective operational control.

# Equator Principles implementation in Intesa Sanpaolo - 1

**Adoption is voluntary but adopting Institutions** are expected to introduce and implement internal social and environmental risk management policies, procedures and standards to comply with the Equator Principles.

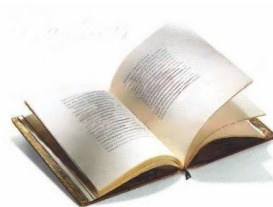
## Adoption

The Group adopted the Equator Principles in 2007 – EPII second version



## Operating Guide for the implementation of EPII

June 2010 - Operating Guide was issued and integrated into the Bank's regulations



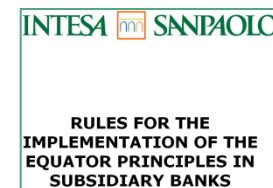
## Training activities in Italy and abroad

- Banca IMI Milan and London
- Hong Kong and New York Hubs
- BIIS Milan and Rome
- Workshops in 4 Banks of the Group



## Rules for the implementation of the EP in the Subsidiary Banks

August 2012 - Rules for the implementation of the EP for the Subsidiary Banks abroad were issued and integrated into the Bank's regulations



# Equator Principles implementation in Intesa Sanpaolo - 2

## Re-adoption

The Group confirmed adoption of the Equator Principles in 2013-EPIII third version



## Set-up of a cross-functional Working Group

Multi-functional Working Group deriving from the broadened scope of the Equator Principles



## Update and publication of the new Operating Guide

August 2014 - New Operating Guide was issued and integrated into the Bank's regulations



## Training activities

- In-person training in the Parent Company about how to implement the Equator Principles and to use the Operating Guide
- Webinar (IT and EN) on the same subjects
- **Training sessions abroad**
- **Updating the Rules for the Subsidiary Banks abroad**



# The Operating Guide for the implementation of the EP

The Operating Guide for the implementation of the Equator Principles reflects the two different roles of the Bank



*In order to facilitate the detection of a project that goes under Equator Principles screening a reference to the EP scope was included in the main Operating Guides dedicated to lending processes*

# Key steps of the Operating Guide

Matured Loan Opportunity			
N.	ACTOR	ACTIVITY	CSR SUPPORT
1	• Product desk • <b>Relationship function</b>	Request preliminary information on the project, verifying that the Equator Principles in fact apply and, if this is the case, inform the Client regarding their adoption by the Bank	
2	• Product desk • <b>Relationship function</b>	Effect the preliminary classification of the project and identify the applicable standards	
3	Corporate Social Responsibility	Verify reputational risks and applicable standards	
4	Corporate Social Responsibility	Draw up CSR preliminary Memo	
5	• Product desk • <b>Relationship function</b>	Inform the client about the implementation of the EP's	
6	• Product desk • <b>Relationship function</b>	Carry out through an independent consultant or when appropriate directly a revision of the documentation produced by the client (due diligence), including the Management System, the Management Plan and possibly the Action Plan concerning the project	
7	External consultant	Carry out Due Diligence	
8	• Product desk • <b>Relationship function</b>	Send the Due Diligence	
9	Corporate Social Responsibility	Update preliminary Memo if necessary	
10	• Product desk • <b>Relationship function</b>	Prepare the Memo for the Deliberative Bodies	
11	Deliberative body	Inform the Product Desk and/or the Relationship Function and Corporate Social Responsibility on the outcome of the resolution	
12	• Product desk • <b>Relationship function</b>	Define covenants	
13	• Product desk • <b>Relationship function</b>	Inform CSR as to the outcome of the Financial Close	
14	• Product desk • <b>Relationship function</b>	Monitor conformity to the fulfilment of socio-environmental requirements	
15	Corporate Social Responsibility	Draw up periodical information (Sustainability Report)	

Are highlighted in bold actors belonging to the network structures

Before applying for financing, either the client, a consultant or an external expert will have already conducted the Assessment process on the project

Classification of the project and identification of the applicable standards – PRINCIPLE 1

Verification of reputational risks and the assigned category. Drawing up of the CSR Memo

Implementation of an Independent review – PRINCIPLE 7

Drawing up of the Memo for the Deliberative body. In case of category A projects the credit competency is at a higher level

Definition of covenants – PRINCIPLE 8

Implementation of monitoring activities - PRINCIPLE 9

# Expertise required on specific E&S issues and available resources

## Themes

## EP required activities

## Available resources (examples)

### EP application

- E&S Impact Assessment Process
- Independent E&S Due Diligence and monitoring activities

- EP Implementation Note (EP Association)
- Guidance for consultants on the contents of a report for an independent E&S due diligence review (EP Association)

### Climate Change

- Alternative analysis for GHG reduction
- Quantification and reporting of GHG

- IFC's Climate Accounting Tools (e.g. CEET calculator)

### Human Rights

- Specific HR Due Diligence in limited high risk circumstances
- Review on cultural heritage impact
- Review on resettlement impact

- Forthcoming IFC's Guidance Note 'Addressing HR issues through IFC's Performance Standards'
- UNEP FI HR Guidance Tool

### Stakeholder Engagement

- Informed Consultation and Participation Process
- Obtaining of indigenous People's Free Prior and Informed Consent (FPIC)

- IFC's Good Practice Handbook on Stakeholder Engagement
- Performance Standard 7

### Biodiversity

- Review on Critical habitat impacts
- Biodiversity Assessment

- CSBI (Cross Sector Biodiversity Initiative) tools

### Loan covenants

- Incorporation of E&S Covenants into loan documentation

- Guidance for EPFIs on incorporating E&S considerations into loan documentation (EP Association)

# Lessons learned

## Strengths

- Raising internal and external awareness towards E&S issues beyond Equator Principles scope
- Gap analysis between PS and Italian legislation (e.g. stakeholder engagement, public consultation,....)
- Influence in case of leadership in a syndication over E&S good practices

## Weaknesses

- Limits of the Equator Principles' scope
- Non applicability of Equator Principles to government bodies
- Lower degree of leverage in case of participation in a syndication

# Thank you!



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