RAISING THE BAR AND LOWERING THE RISK

35TH ANNUAL CONFERENCE IAIA 2015 FLORENCE

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AGENDA

- Raising the Bar
- Implementing IFIs
- Why Take this Approach
- IFC Performance Standards
- Equator Principles
- Areas Exceeding Host Country Requirements
- Critical Success Factors

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RAISING THE BAR

- International financial Institutions (IFIs) have developed environmental and social risk management practices and policies.
- These practices and policies can, and frequently do, exceed the legal regulatory requirements established by host country governments.
- Through this process, financial institutions have essentially "raised the bar" on the level of environmental and social review and performance for many international projects.
- This presents new opportunities and challenges for project developers, financial institutions and consultants.

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RAISING THE BAR CONTINUED

- These practices and policies do not replace the host country laws and regulations.
- Augment them with a set of widely accepted standards and guidelines.
- Different FIs implement various forms of these practices and policies, with many following the lead of:
  - IFC Performance Standards on Environmental and Social Sustainability
  - World Bank Group Environmental Health and Safety Guidelines
  - Equator Principles

IMPLEMENTING IFIs

The types of financial institutions who are implementing environmental and social reviews into their business practices include:

- Multilateral Development Banks
    - World Bank Group
    - Inter-American Development Bank (IDB)
    - European investment Bank (EIB)
    - Asian Development Bank (ADB)
    - European Bank for Reconstruction and Development (EBRD)

- Equator Principles Financial Institutions (80)
    - Commercial Banks
    - Export Credit Agencies
    - Other investment groups

- Other Commercial Investors

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WHY
MANAGEMENT OF RISKS

There are three types of risk a financial institution could be exposed to arising from the environmental and social issues of their clients.

Credit risk: Client is not able to repay loan on account of environmental and social issues.

Liability Risk: A financial institution may face legal complications, fees, and/or fines in rectifying environmental and social damage by virtue of taking possession of collateral.

Reputational Risk: Negative aspects of a project harm a financial institution's image — in the media, with the public, with the business and financial communities, and even with its own staff.

Source: IFC Sustainability Training and E-learning Program

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WHY SUSTAINABLE FINANCE

"**Sustainable Finance** is defined as a decision by financial institutions to provide products and services only to customers who take into consideration social and environmental impacts of their activities."

An IFC client FI

"**Sustainable Finance** is the integration of social and environmental considerations into the operations of a bank or financial institution to better manage social and environmental risks in the portfolio as well as identify new social or environmental business opportunities."

International Finance Corporation

Source: IFC Sustainability Training and E-learning Program

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IFC PERFORMANCE STANDARDS

PS1 - Assessment and Management of Environmental and Social Risks and Impacts

PS2 - Labor and Working Conditions

PS3 - Resource Efficiency and Pollution Prevention

PS4 - Community Health, Safety, and Security

PS5 - Land Acquisition and Involuntary Resettlement

PS6 - Biodiversity Conservation and Sustainable Management of Living Natural Resources

PS7 - Indigenous Peoples

PS8 - Cultural Heritage

Applicability of individual Performance Standards depends on:

- Characteristics and size of project
- Site-specific characteristics of project settings, economic and social conditions

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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 Equator Principles 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

AREAS EXCEEDING HOST COUNTRY REQUIREMENTS

Areas where requirements of the Performance Standards typically exceed those of developing countries include:

- Environmental and Social Impact Assessment
- Gender and Human Rights
- Indigenous People
- Involuntary Resettlement
- Workers Health and Safety (HR Policies and workers rights)
- Public Disclosure and Consultation
- Biodiversity (Ecosystems Services)
- Community Health and Safety (grievance Mechanisms)
- Resource Utilization and Pollution Prevention

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CRITICAL SUCCESS FACTORS

Institutional Strength and Knowledge

- Financial institutions must have strong commitment to their E&S policies and practices
- Financial institutions and their consultants must have a strong knowledge and understanding of both the host country requirements as well as those of the FI.
- There needs to be a focus on results and not just process when implementing the FI's E&S policies and practices
- Adaptive risk management and implementation of continuous improvement practices

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CRITICAL SUCCESS FACTORS CONTINUED

Performance

- Preparation of comprehensive ESIA following host country and FI's requirements
- Appropriate stakeholder engagement
- Thorough Environmental and Social Due Diligence
- Focused Environmental and Social Action Plan
- Effective Environmental and Social Management System
- Accurate and timely monitoring and reporting
- Appropriate project technology and resource utilization

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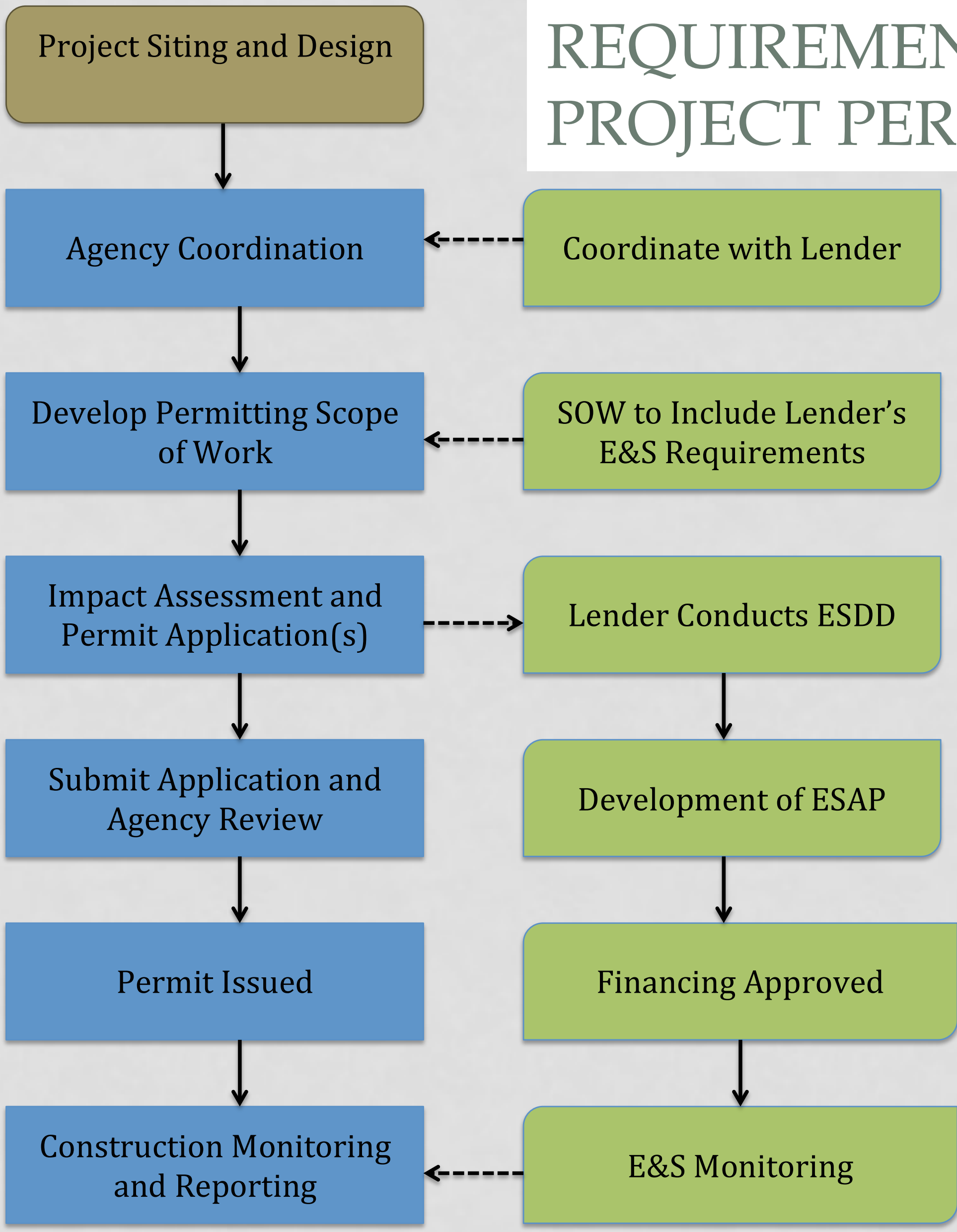
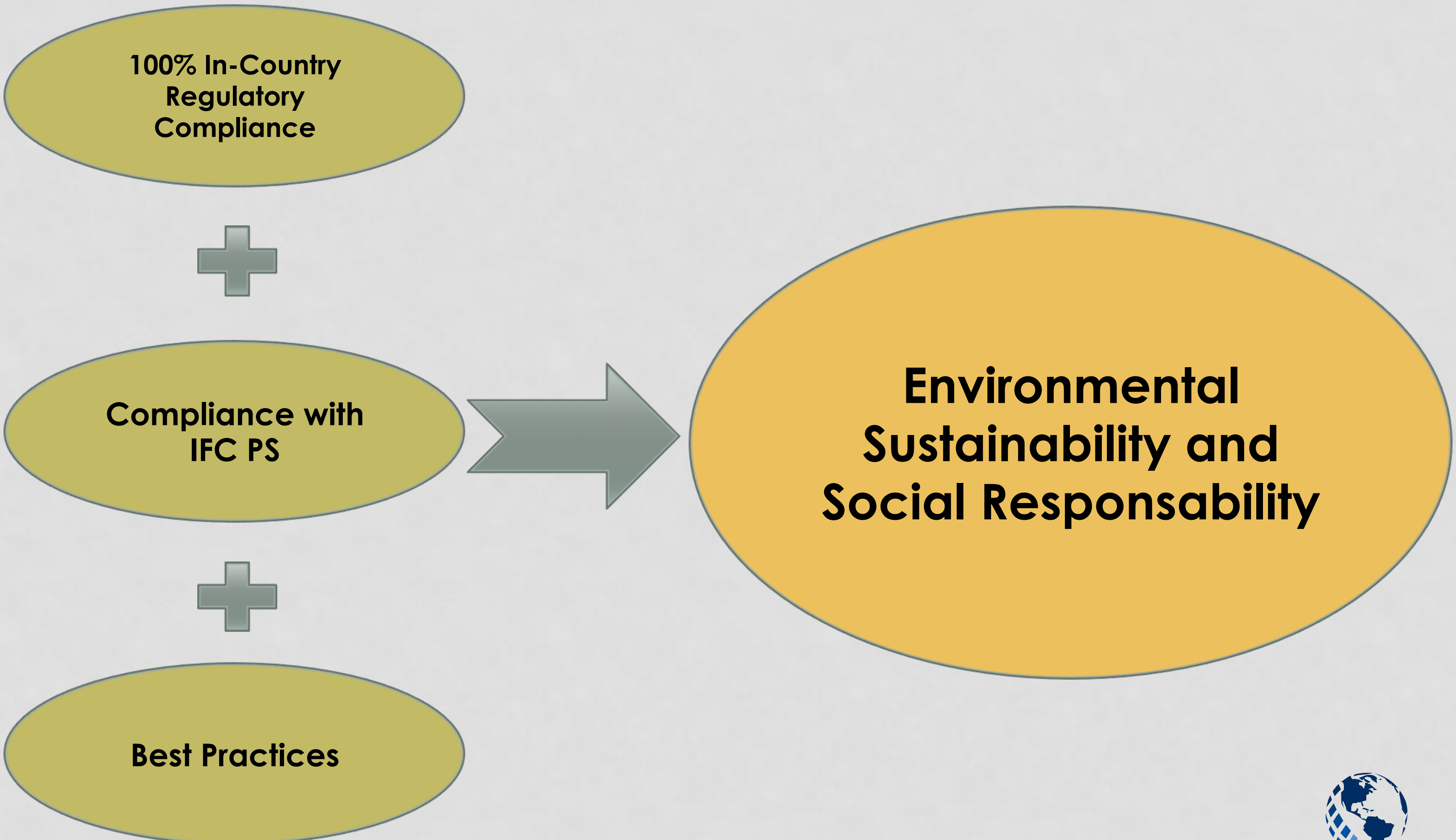
IMPLEMENTATION OF LENDERS REQUIREMENTS CAN IMPROVE PROJECT PERFORMANCE



- Lenders requirements can best be met through early project planning and coordination.
- While not always possible depending upon entry of financial institution into the process, this approach can save valuable development time and resources.
- The early integration of the lenders requirements can minimize the need to revise ESIA, public disclosure and consultation process and other critical items.

COMPONENTS OF A SUCCESSFUL PROJECT/ACTIVITY



QUESTIONS

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