RAISING THE BAR AND LOWERING THE RISK

35TH ANNUAL CONFERENCE IAIA 2015 FLORENCE
AGENDA

• Raising the Bar
• Implementing IFIs
• Why Take this Approach
• IFC Performance Standards
• Equator Principles
• Areas Exceeding Host Country Requirements
• Critical Success Factors
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.
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**
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
"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
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
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
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
CRITICAL SUCCESS FACTORS

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
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

- 100% In-Country Regulatory Compliance
- Compliance with IFC PS
- Best Practices

Resulting in: Environmental Sustainability and Social Responsibility
QUESTIONS

Cleone Botelho
Randy Schulze
CBX International
303-601-4349
Cleone@cbxinternational.net