The Role of the IESC in the Project Finance Cycle
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Illustrative Project Finance Lifecycle

Feasibility studies

Project Concept

ESIA

Local permit approvals

ESDD/ESAP

Sustainable Finance secured

ESMS development

Project Finance application

Monitoring

Project approval

Project Construction

End of life of loan

Project operational

Project Closure

ESMS development

Ongoing project appraisal

ESDD/ESAP

2-4 years

1-2 years

Ongoing

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Concern over E&S Risks is Growing

- Increased project scrutiny by Civil Society and NGOs
- NGOs and local communities are getting more sophisticated
  - Protests
  - Direct action
- Results
  - Project delays
  - Retro-active design changes
  - (Can also result in project improvements)
Purpose of the IESC – Risk Management

• Working for the Lenders
  • Required per Equator Principles for all Category A Projects

• Objectives
  • Independently assess a Project’s ability to conform with applicable lender standards
  • Identify project risks
  • Advise how the project could be brought into conformation
  • Inform lender’s decision making process
Role of the IESC – Due Diligence

• Environmental and Social Due Diligence (ESDD)
  • Review Project documentation (e.g., ESIA, RAP, ESMP, ESMS, extent of stakeholder engagement)
  • Conduct site visit/audit
  • Assess conformance of proposed project to applicable lender standards and host country regulations
  • Assess adequacy of impact management/mitigation/monitoring
  • Assess the Project’s (and the Project Sponsor’s) capacity and resources to manage project risks and impacts

• Produce ESDD report
  • Identify key Project risks
  • Identify gaps
  • Develop ESAP
Typical Lender Standards

Environmental and Social Policy

EQUATOR PRINCIPLES
JUNE 2013

IFC Sustainability Framework
POLICY AND PERFORMANCE STANDARDS ON ENVIRONMENTAL AND SOCIAL SUSTAINABILITY ACCESS TO INFORMATION POLICY
Effective January 1, 2013

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## Typical Subject Areas Assessed

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IESC – Common Technical Issues

• Area of Influence
• Baseline studies
• Associated Project Facilities
• Mitigation hierarchy
• Cumulative impacts
• Resettlement and livelihood restoration
• Stakeholder engagement and BCS
• Indigenous Peoples and FPIC
Role of the IESC – Compliance Monitoring

- IESC role can extend to include construction and early operation compliance monitoring
  - Also a risk management measure

- Responsibilities
  - Provides “boots on the ground” oversight for lenders
  - Conduct regular monitoring visits (typically 2 – 4/year)
  - Track conformance with ESAP and other project commitments
  - Produce monitoring reports
  - Issue IESC Certificates for lender disbursements
  - Can help Lender and the Project Sponsor identify and manage emerging risks
Project Sponsors & Lenders Share E&S Risk

Issues
- Resettlement / land acquisition
- Biodiversity
- Community Unrest
- Pollution
- Water scarcity
- Child labour/forced labour

Risks for Developers
- Reputational risk
- Project delays and/or loss of government approval
- Additional development costs
- “License to operate” compromised (operational shutdowns)
- Financial risk (difficulty in raising capital, legal fees, fines, vandalism)

Bank risk
- Reputational risk
- Non-performing loans/investments
- Regulatory repercussions
- Breach of own “standards and ethics”
- Need to provide/find additional debt
IESC – Process Challenges

• Avoid Conflict of Interest
• Sometimes IESC is lumped under the IE
• Lender consortium’s may not be aligned in terms of their E&S expectations and objectives
• Project Sponsor’s understanding of IESC role
  • Can be perceived as someone looking over their shoulder
  • Try to hide poor performance
• Maintaining “independence”, while providing direction to Project Sponsor
IESC Opportunities

- IESC should be more than an auditor, but also an advisor
- Provide value-added to both Lender and Project Sponsor by reducing schedule, reputational, delayed disbursement, and other risks
- Instill a culture of continuous improvement in Project Sponsor and/or their construction contractor/operator
Success Story

- Chacayes (111 MW) Hydropower Project, Chile
- $450M CAPEX, $212M loan,
- Credit Agricole as Administrative Agent
- Pacific Hydro saw ESDD and compliance monitoring as a value added process
- Renewable Energy News “Best Hydro Project of 2012”