

# E&S Consideration in Private Sectors – Implementation of the Equator Principles

October 1, 2018

Social and Environmental Risk Assessment Office (SERAO)

Solution Products Division

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# I. Overview

## Summary

- MUFG Bank adopted [the Equator Principles \(“EP”\)](#) in December 2005 as a framework to confirm the project developer’s environmental and social considerations when providing finance to large-scale development projects.
- EP is a set of framework to determine, assess and manage environmental and social risks and impacts in large-scale projects.
- Developed and adopted by four private-sector banks in 2003, the framework is currently adopted by 94 financial institutions globally.

Date	# of EPFIs	Event
Jun-03	10	EP established
Jun-06	26	1st revision
Jul-10	67	EP Association formed
Jun-13	79	2nd revision
Sep-18	94	In the midst of 3rd revision



(Source: Data taken from “A practitioners’ guidebook on the Equator Principles” in Japanese published in March 2016)

■ **MUFG Bank is a member of the Steering Committee of the Equator Principles Association**

■ **Other Members of the Steering Committee (as of September 28, 2018) are shown in blue**

94 Signatories (as of September 28, 2018)					
<b>Argentina</b>	<ul style="list-style-type: none"> <li>■ Banco de Galicia y Buenos Aires S.A.</li> </ul>	<b>India</b>	<ul style="list-style-type: none"> <li>■ IDFC Bank</li> </ul>	<b>Sultanate of Oman</b>	<ul style="list-style-type: none"> <li>■ Bank Muscat S.A.O.G.</li> </ul>
<b>Australia</b>	<ul style="list-style-type: none"> <li>■ Australia and New Zealand Banking Group Limited (ANZ)</li> <li>■ <b>Commonwealth Bank of Australia</b></li> <li>■ Efic</li> <li>■ National Australia Bank Limited</li> <li>■ Westpac Banking Corporation</li> </ul>	<b>Italy</b>	<ul style="list-style-type: none"> <li>■ Intesa Sanpaolo SpA</li> <li>■ UniCredit SpA</li> </ul>	<b>Sweden</b>	<ul style="list-style-type: none"> <li>■ Nordea Bank AB (publ)</li> <li>■ Skandinaviska Enskilda Banken AB</li> <li>■ Svenska Handelsbanken AB (publ)</li> <li>■ Swedish Export Credit Corporation (SEK)</li> </ul>
<b>Belgium</b>	<ul style="list-style-type: none"> <li>■ KBC Group N.V.</li> </ul>	<b>Japan</b>	<ul style="list-style-type: none"> <li>■ <b>MUFG Bank, Ltd.</b></li> <li>■ <b>Mizuho Bank, Ltd.</b></li> <li>■ The Norinchukin Bank</li> <li>■ Sumitomo Mitsui Banking Corporation</li> <li>■ Sumitomo Mitsui Trust Bank, Limited</li> </ul>	<b>Switzerland</b>	<ul style="list-style-type: none"> <li>■ Credit Suisse Group</li> </ul>
<b>Brazil</b>	<ul style="list-style-type: none"> <li>■ Banco Bradesco, S.A.</li> <li>■ Banco do Brasil</li> <li>■ Banco Votorantim SA</li> <li>■ CAIXA Econômica Federal</li> <li>■ <b>Itaú Unibanco S.A.</b></li> </ul>	<b>Kingdom of Bahrain</b>	<ul style="list-style-type: none"> <li>■ Ahli United Bank B.S.C.</li> </ul>	<b>Taiwan R.O.C</b>	<ul style="list-style-type: none"> <li>■ Cathay United Bank Co., Ltd.</li> <li>■ E. SUN Commercial Bank, Ltd.</li> <li>■ Taipei Fubon Commercial Bank</li> </ul>
<b>Canada</b>	<ul style="list-style-type: none"> <li>■ <b>Bank of Montreal</b></li> <li>■ Bank of Nova Scotia</li> <li>■ Canadian Imperial Bank of Commerce (CIBC)</li> <li>■ Export Development Canada</li> <li>■ Manulife</li> <li>■ Royal Bank of Canada</li> <li>■ TD Bank Financial Group</li> </ul>	<b>Mauritius</b>	<ul style="list-style-type: none"> <li>■ Mauritius Commercial Bank Ltd.</li> </ul>	<b>The Netherlands</b>	<ul style="list-style-type: none"> <li>■ ABN Amro</li> <li>■ ASN Bank N.V.</li> <li>■ Coöperatieve Rabobank U.A.</li> <li>■ FMO (Netherlands Development Finance Company)</li> <li>■ ING Bank N.V.</li> <li>■ NIBC Bank N.V.</li> </ul>
<b>China</b>	<ul style="list-style-type: none"> <li>■ Bank of Jiangsu</li> <li>■ Industrial Bank Co., Ltd</li> </ul>	<b>Mexico</b>	<ul style="list-style-type: none"> <li>■ Banco Mercantil del Norte S.A.</li> <li>■ CIBanco S.A.</li> </ul>	<b>Togo</b>	<ul style="list-style-type: none"> <li>■ Ecobank Transnational Incorporated</li> </ul>
<b>Colombia</b>	<ul style="list-style-type: none"> <li>■ Bancolombia S.A.</li> </ul>	<b>Morocco</b>	<ul style="list-style-type: none"> <li>■ BMCE Bank</li> </ul>	<b>UK</b>	<ul style="list-style-type: none"> <li>■ Barclays plc</li> <li>■ Green Investment Group Limited</li> <li>■ HSBC Holdings plc</li> <li>■ Lloyds Banking Group Plc</li> <li>■ <b>Standard Chartered PLC</b></li> <li>■ <b>UK Export Finance</b></li> </ul>
<b>Denmark</b>	<ul style="list-style-type: none"> <li>■ Eksport Kredit Fonden</li> </ul>	<b>Nigeria</b>	<ul style="list-style-type: none"> <li>■ Access Bank Plc</li> <li>■ Fidelity Bank Plc</li> </ul>	<b>United Arab Emirates</b>	<ul style="list-style-type: none"> <li>■ First Abu Dhabi Bank (FAB)</li> </ul>
<b>Egypt</b>	<ul style="list-style-type: none"> <li>■ Arab African International Bank</li> </ul>	<b>Norway</b>	<ul style="list-style-type: none"> <li>■ DNB</li> <li>■ Export Credit Norway</li> </ul>	<b>Uruguay</b>	<ul style="list-style-type: none"> <li>■ Banco de la República Oriental del Uruguay</li> </ul>
<b>Finland</b>	<ul style="list-style-type: none"> <li>■ OP Financial Group</li> </ul>	<b>Panama</b>	<ul style="list-style-type: none"> <li>■ CIFI (Corporacion Interamericana Para El Financiamiento de Infraestructura S.A.)</li> </ul>	<b>United States</b>	<ul style="list-style-type: none"> <li>■ Bank of America Corporation</li> <li>■ Citigroup Inc.</li> <li>■ Ex-Im Bank</li> <li>■ JPMorgan Chase &amp; Co.</li> <li>■ <b>Wells Fargo Bank, N.A.</b></li> </ul>
<b>France</b>	<ul style="list-style-type: none"> <li>■ BNP Paribas</li> <li>■ Crédit Agricole Corporate and Investment Bank</li> <li>■ Natixis</li> <li>■ Société Générale</li> </ul>	<b>Peru</b>	<ul style="list-style-type: none"> <li>■ Banco de Crédito</li> </ul>		
<b>Germany</b>	<ul style="list-style-type: none"> <li>■ DekaBank Deutsche Girozentrale</li> <li>■ DZ Bank AG</li> <li>■ KfW IPEX-Bank GmbH</li> </ul>	<b>Scotland</b>	<ul style="list-style-type: none"> <li>■ Royal Bank of Scotland</li> </ul>		
		<b>South Africa</b>	<ul style="list-style-type: none"> <li>■ <b>Absa Group Limited</b></li> <li>■ <b>FirstRand Limited</b></li> <li>■ Nedbank Limited</li> <li>■ <b>Standard Bank of South Africa Limited (Chair)</b></li> </ul>		
		<b>South Korea</b>	<ul style="list-style-type: none"> <li>■ Korea Development Bank</li> </ul>		
		<b>Spain</b>	<ul style="list-style-type: none"> <li>■ Banco Bilbao Vizcaya Argentaria, S.A. (BBVA)</li> <li>■ Banco Popular Español</li> <li>■ Banco Sabadell</li> <li>■ Banco Santander S.A.</li> <li>■ Bankia</li> <li>■ Bankinter</li> <li>■ CaixaBank</li> <li>■ Instituto de Crédito Oficial (ICO)</li> </ul>		

## II. The Equator Principles

## ■ EP applies to four financial products.

Four Applicable Products			
	Project Finance (PF) and Project Finance Advisory Services (FA)	Project-Related Corporate Loans (PRCL)	Bridge Loans (BL)
<b>Definition</b>	<ul style="list-style-type: none"> <li>Method of financing in which the lender looks primarily to the revenues generated by a single project, both as the source of repayment and as security for the exposure</li> </ul>	<ul style="list-style-type: none"> <li>Corporate loans made to business entities (including buyers' credit)</li> <li>The majority of the loan is related to a single project over which the client has effective operational control</li> </ul>	<ul style="list-style-type: none"> <li>Loans intended to be refinanced by PF or PRCL</li> </ul>
<b>Amount</b>	<ul style="list-style-type: none"> <li>Project costs of USD 10 million or more</li> </ul>	<ul style="list-style-type: none"> <li>Total aggregate commitment of USD 100 million or more</li> <li>MUFG Bank's individual commitment of USD 50 million or more</li> </ul>	<ul style="list-style-type: none"> <li>Amount applicable to PF or PRCL after refinance</li> </ul>
<b>Tenor</b>	–	<ul style="list-style-type: none"> <li>At least 2 years</li> </ul>	<ul style="list-style-type: none"> <li>Less than 2 years</li> </ul>
<b>Applicable Projects</b>	<ul style="list-style-type: none"> <li>New project, and the expansion or upgrade of an existing project where changes in scale or scope may create significant environmental and social risks and impacts, or significantly change the nature or degree of an existing impact</li> </ul>		
<b>Region/ Sector</b>	<ul style="list-style-type: none"> <li>Globally and to all industry sectors</li> </ul>		
<b>Not Applicable</b>	<ul style="list-style-type: none"> <li>Loans to national, regional or local governments, governmental ministries and agencies</li> <li>Export finance in the form of supplier credit, asset finance, acquisition finance, hedging, leasing, letters of credit, general corporate purposes loans, and general working capital expenditures loans used to maintain a company's operations</li> </ul>		
<b>Target</b>	<b>Detail</b>		
<b>FA and BL</b>	<ul style="list-style-type: none"> <li>Advise clients on contents and application of EP, including merits of application</li> <li>Support clients in order to fulfill EP requirements</li> </ul>		

# Categorisation

## Principle 1



- Based on the information received from the client, the EPFI will categorise projects based on the magnitude of potential E&S risks and impacts before any mitigations are in place.
- The EPFI will determine the level of due diligence based on project category.

\* Icons:

**PF** = Applicable products

**A** = Applicable category

**(B)** = Applicable, as appropriate

## Requirements

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

Environmental and social risks and impacts





# Applicable Environmental and Social Standards

## Principle 3



- Environmental and social standards applicable to the projects differ by the host country.
- Designated Countries** are the countries deemed to have robust environmental and social governance, legislation systems and institutional capacity designed to protect their people and the natural environment. The EPFI will check whether the projects comply with the relevant host country laws, regulations and permits.
- Non-Designated Countries** are the countries and the regions not found on the list of Designated Countries. The EPFI will additionally confirm whether the projects comply with the international standards.

Applicable Environmental and Social Standards				
	Designated Countries <sup>1</sup>			Non-Designated Countries
<b>Countries</b>	<ul style="list-style-type: none"> <li>Australia</li> <li>Austria</li> <li>Belgium</li> <li>Canada</li> <li>Chile</li> <li>Czech Republic</li> <li>Denmark</li> <li>Estonia</li> <li>Finland</li> <li>France</li> <li>Germany</li> <li>Greece</li> </ul>	<ul style="list-style-type: none"> <li>Hungary</li> <li>Iceland</li> <li>Ireland</li> <li>Israel</li> <li>Italy</li> <li>Japan</li> <li>Republic of Korea</li> <li>Latvia</li> <li>Luxemburg</li> <li>Netherlands</li> <li>New Zealand</li> </ul>	<ul style="list-style-type: none"> <li>Norway</li> <li>Poland</li> <li>Portugal</li> <li>Slovak Republic</li> <li>Slovenia</li> <li>Spain</li> <li>Sweden</li> <li>Switzerland</li> <li>United Kingdom</li> <li>USA</li> </ul>	<p>Countries and regions other than the Designated Countries</p>
<b>Applicable standards</b>	<ul style="list-style-type: none"> <li>Relevant host country laws, regulations and permits that pertain to environmental and social issues</li> </ul>			<ul style="list-style-type: none"> <li>Relevant host country laws, regulations and permits that pertain to environmental and social issues</li> <li>IFC Performance Standards</li> <li>World Bank Environmental, Health, and Safety (EHS) Guidelines</li> </ul>

(Note) 1. Please refer to the Equator Principles Association's website for the latest list: <http://equator-principles.com/designated-countries/>

# (For Reference) IFC Performance Standards

## Principle 3

- **For projects in Non-Designated Countries, the EPFI will confirm whether or not the projects comply with the international standards.**
- **Performance Standards provide guidance on how to identify environmental and social impacts and risks, and help avoid, mitigate, and manage those risks and impacts.**

### IFC Performance Standards (2012 Edition)

#### Key points of the IFC Performance Standards

PS	Key points
1. Assessment and Management of Environmental and Social Risks and Impacts	Summary of the environmental and social considerations required of the project developers and the management system of their environmental and social performance
2. Labor and Working Conditions	Considerations for the project workers' rights
3. Resource Efficiency and Pollution Prevention	Avoidance or minimization of air, water quality and soil contamination
4. Community Health, Safety and Security	Avoidance or minimization of impacts on the local community around the project site
5. Land Acquisition and Involuntary Resettlement	Appropriate process of project site acquisition and social and economic support and reasonable compensation for the relocated residents
6. Biodiversity Conservation and Sustainable Management of Living Natural Resources	Protection and conservation of biodiversity
7. Indigenous Peoples	Avoidance or minimization of social, cultural and economic impacts on indigenous peoples and reasonable compensation
8. Cultural Heritage	Protection and conservation of cultural heritage

■ **For projects in Non-Designated Countries, the EPFI will confirm whether or not the projects comply with the international standards.**

■ **EHS Guidelines are technical reference documents with examples of good international industry practice.**

World Bank Group EHS Guidelines	
Key points of the EHS Guidelines	
Guidelines	Key points
<b>General Guidelines</b>	General and cross-sectional performance levels and measures and good practice regarding 1) environment, 2) occupational health and safety, 3) community health and safety, and 4) construction and decommissioning
<b>Industry-specific Guidelines</b>	<ul style="list-style-type: none"> <li>■ Sector-specific environmental and social impact analysis and evaluation indicators regarding the 62 sectors in 8 industries (Agribusiness/Food Production, Chemicals, Forestry, General Manufacturing, Infrastructure, Mining, Oil and Gas, and Power):                             <ul style="list-style-type: none"> <li>● Agribusiness/Food Production: Aquaculture, Food and Beverage Processing, Vegetable Oil Production and Processing etc.</li> <li>● Chemicals: Petroleum Refining, Nitrogenous Fertilizer Manufacturing, Large Volume Petroleum-based Organic Chemicals Manufacturing, etc.</li> <li>● Forestry: Forest Harvesting Operations, Pulp and Paper Mills, etc.</li> <li>● General Manufacturing: Base Metal Smelting and Refining, Integrated Steel Mills, etc.</li> <li>● Infrastructure: Airports, Ports, Harbors and Terminals, Crude Oil and Petroleum Product Terminals, etc.</li> <li>● Mining: Mining</li> <li>● Oil and Gas: Oil and Gas development (Onshore/Offshore), Liquefied Natural Gas (LNG) Facilities</li> <li>● Power: Electric Power Transmission and Distribution, Geothermal Power Generation, Thermal Power and Wind Energy</li> </ul> </li> </ul>

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### III. Implementation of The Equator Principles

## How MUFG implements the EP

- At MUFG, all the projects subject to EP application are reviewed at Social & Environmental Risk Assessment Office (SERAO) in Tokyo. SERAO currently consists of 7 members.
- The number of projects reviewed by SERAO is roughly 70 per year.
- The rough breakdown by Categories:
  - Category A: 15%
  - Category B: 71%
  - Category C: 14%
- EP is a framework. EP does not give prescriptions on implementation. Each EPFI has to work out its own set of rules for implementation. This is where difficulty comes in.
- SERAO conducts EP review in accordance with the “Implementation Guidelines for the Equator Principles”. The “Guidelines” is posted on [MUFG website](#).
- There are also internal tool kits:
  - Procedural Manual, Checklist, etc....., but this may not be enough.
- How do we confirm whether we are doing the right thing in a right way?



## Sharing of Knowledge and Experience

- Environmental and social considerations in banking business is still 'something new' in Japan.
- In order to improve upon the skills in EP implementation, sharing of knowledge and experience has proved to be very effective.
- Full utilisation of workshops and seminars, and discussions with other institutions are the key.
  - IAIA Special Symposiums (like this one)
  - Community of Learning by IFC
  - Seminars and Events by UNEP Finance Initiative, etc.
  - Discussions with various institutions including the Japanese Export Credit Agencies (JBIC, NEXI), Japan International Cooperation Agency, other Japanese EPFIS, and environmental consultants.
- You will soon find that there is no unique way to implementing E&S considerations. Every institution is allowed to establish its own bespoke set of rules and procedures.
- This is a never-ending process. You learn from others, and others will learn from you.

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## IV. What's Next?

## Paradigm changing events in 2015

### ■ Sustainable Development Goals (SDGs)

17 Goals and 169 Targets

(Source: UN Information Centre Website)



### ■ Paris Agreement (COP21)

Article 2:

*“Holding the increase in the global average temperature to well below 2° C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5° C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change”*

(Source: Ministry of Foreign Affairs of Japan Website)



## Challenging Issues to be addressed

- EP has come a long way since its inception in 2003.
- What happened after 2013, especially two paradigm-changing events, hurled new challenging issues at EP, which EP is to address in the coming revision.

- New issues to be addressed.

Climate Change

Human Rights Issues

Scope Expansion

- When the new draft EP will come out?

End of this year, or early next year?

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