Equator Principles – Past & Present

First Group Workshop for the
UNEP FI Biodiversity & Ecosystem Services Workstream

April 5, 2007
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WestLB New York, Sustainability Management
Project Finance at WestLB in 2001

- Sustainability Management Department did not exist
- No sustainability global communications strategy
- Equator Principles had not yet been established
- No support network with IFC and the other leading Equator Banks
- No affiliation with United Nations Environment Programme FI (UNEP FI)
- No contact with the International NGOs
- No track record for environmental and social risk management
Eye Openers for WestLB – OCP
The Death of Distance
The Death of Distance

- Before – Government as regulator
- Now – New regulators and stakeholders
  - Ministry of the Environment
  - Ministry of Energy & Mines
  - Ministry of Health
  - Local Communities
  - NGOs and Media
  - Insurers
  - Customers
  - Employees
  - …
Eye Openers for WestLB – BTC
"For environmentalists the soy farmer is like a red flag ..."
The Triple Bottom Line

WestLB’s goal in managing sustainability is to strike a balance between ...

... economic,

... environmental

... and social interests.
Equator Principles – Implementation at WestLB

EP as part of internal decision making for client and WestLB

Client:

Identification
- Environment Social & Ethnic Health
- Environmental & Social Impact Assessment (ESIA)
- Environmental Risk Assessment

Quantification

Structure
- Environmental Management Plan (EMP)
- Resettlement Action Plan

Evaluation & Control
- Environmental Audit
- Contingency Plan

WestLB:

Project Screening Process

Undertaken parallel to client’s own environmental & social due diligence
Equator Principles – Implementation at WestLB

Systematic project categorization

Preclusion

Category A

Category B

Category C

IFC Performance Standards
PS 1: Social and Environmental Assessment and Management System
PS 2: Labor and Working Conditions
PS 3: Pollution Prevention and Abatement
PS 4: Community Health, Safety and Security
PS 5: Land Acquisition and Involuntary Resettlement
PS 6: Biodiversity Conservation and Sustainable Natural Resource Mgmt.
PS 7: Indigenous Peoples
PS 8: Cultural Heritage

IFC (Sector) Guidelines

World Bank Project Guidelines
Harmful and toxic substances, etc.
Project Categorization

**Precluded Investments:**
- Conversion or degradation of a critical natural habitat
- Utilization of forced labour or harmful child labour
- Major/direct suppliers utilize forced labour or harmful child labour

**Category A:**
- Negatively/materially impacts a vulnerable indigenous community
- Converts or degrades a natural habitat
- Impacts non-replicable cultural property
- Results in involuntary resettlement of more than 50 people through physical relocation or economic displacement
- Involves diverse or unprecedented environmental or social impacts
- Involves forestry operations in a low or middle-income country
Project Categorization

Category B:

- Involves construction of a dam in excess of 15 m in height or 10-15 m in height with unusual design complexities
- Utilizes synthetic chemical pesticides
- Procures or formulates any synthetic chemical pesticides
- Impacts a waterway which forms a boundary between or runs through 2 or more countries
- Impacts one or more environmental (i.e. air or water quality) or social matters

Category C:

- By default all other projects should be categorized as a C
Equator Principles – Implementation at WestLB

**Project Screening**

1. Project details
2. EP relevance
3. Checklists
4. Categorization

**Sponsor Screening**

1. Environmental & Social competence
2. "Rating"

<table>
<thead>
<tr>
<th>Category</th>
<th>Sponsor’s capability</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
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</tr>
<tr>
<td>B</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td></td>
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EP – Risk Management for Project Finance in Latin America

- New Deal Committee
- Preliminary assessment- prepare the EP Form and determine Category
- EP Form signed by Originations and SuMa is included in credit application

**For Category A & “Big B” projects:**
- Senior management approval required prior to taking reputation risk
- Review financing proposal and term sheet
- Assist in selection of external consultants
- Communicate directly with the project’s sponsors and consultants
- Perform on-site environmental and social due diligence: pre-closing, during construction and operations phases
- Review project company’s and consultants’ periodic reports
- Support syndication efforts
- Perform on-going monitoring for the life of the facility
Equator Principles – Implementation at WestLB

The application of the Equator Principles along with close involvement by Sustainability Management enables WestLB to lead sensitive, high profile, complex transactions.