



Equator Principles

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Objectives

- **Why the Equator Principles?**
- **How do the Principles apply?**
- **What business drivers lead banks to adopt?**
- **What are the implications for project financing?**
- **How are the Principles implemented?**



Why the Equator Principles?

- **Commercial banks have played an increasing role in financing development and infrastructure projects**
- **Such projects frequently have environmental or social impacts**
- **Lender has a role in ensuring environmental and social impacts are identified, managed and mitigated appropriately**
- **The Principles provide a consistent and visible mechanism for engaging with project sponsors in addressing these impacts**



What business drivers lead banks to adopt?

- **Banks under increasing scrutiny regarding their CSR credentials**
- **'Equator' is a means to enhance or protect brand/image**
- **Consistent and comprehensive environmental and social due diligence, improving effectiveness and efficiency in transaction**
- **Common framework/terminology, transparent to banks, project sponsors, legal and technical advisers**
- **Greater certainty regarding whether a project will find finance as a project finance transaction**



How do the Equator Principles apply?

- **Equator Principles are a consistent framework for establishing a robust understanding of environmental and social impacts**
- **Projects are categorised according to the perceived degree of risk/impact**
- **Environmental Assessments are undertaken**
- **IFC Performance Standards provide the basis for the management standards expected in the project**
- **For more sensitive projects, an Environmental Management Plan (EMP) will be required addressing impacts raised in the Environmental Assessments**
- **Adherence to the EMP by the project sponsor will be covenanted in the loan documentation**



What are the implications for project financing?

- **60+ financial institutions have now adopted the Equator Principles, collectively representing the significant majority of this market**
- **The Principles have become a recognised industry standard**
- **The Principles apply to projects with a cost >US\$10m**
- **Provide the basis for more structured engagement with project sponsors and stakeholders**
- **Not all projects are financed through project finance lendings**



How are the Principles implemented?

- Individual adopting banks will apply the Principles in developing their own internal policies and procedures
- Policies and procedures will be implemented both in business development and internal risk management teams
- Different organisational structures and corporate cultures mean there can be no consistent mechanism for implementation across adopting banks
- Adoption may send a signal internally regarding a bank's CSR aspirations, thereby extending influence to non-project finance areas