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