

# **Environmental and Social Risk Assessment: A Practitioner View**

**June 2011**



**Australian Government**



Export Finance  
& Insurance Corporation

Overcoming financial barriers for exporters

# Topics

- What is an Export Credit Agency
- EFIC's Policy and Procedure
- Practical Example
- Dilemma

## What is EFIC?

- Australia's Export Credit Agency
- Wholly owned and guaranteed by the Government
- Self-funding statutory Corporation with a private board
- Works directly with exporters, financiers and overseas buyers
- Operates beyond the limits of the commercial market

# Products

- Direct Loan
- Export Finance Guarantee
- Political Risk Insurance
- Medium-term export credit insurance
- Documentary credit guarantee/finance
- Bonds – Advance Payment or Performance Bond
- Variety of alliance products

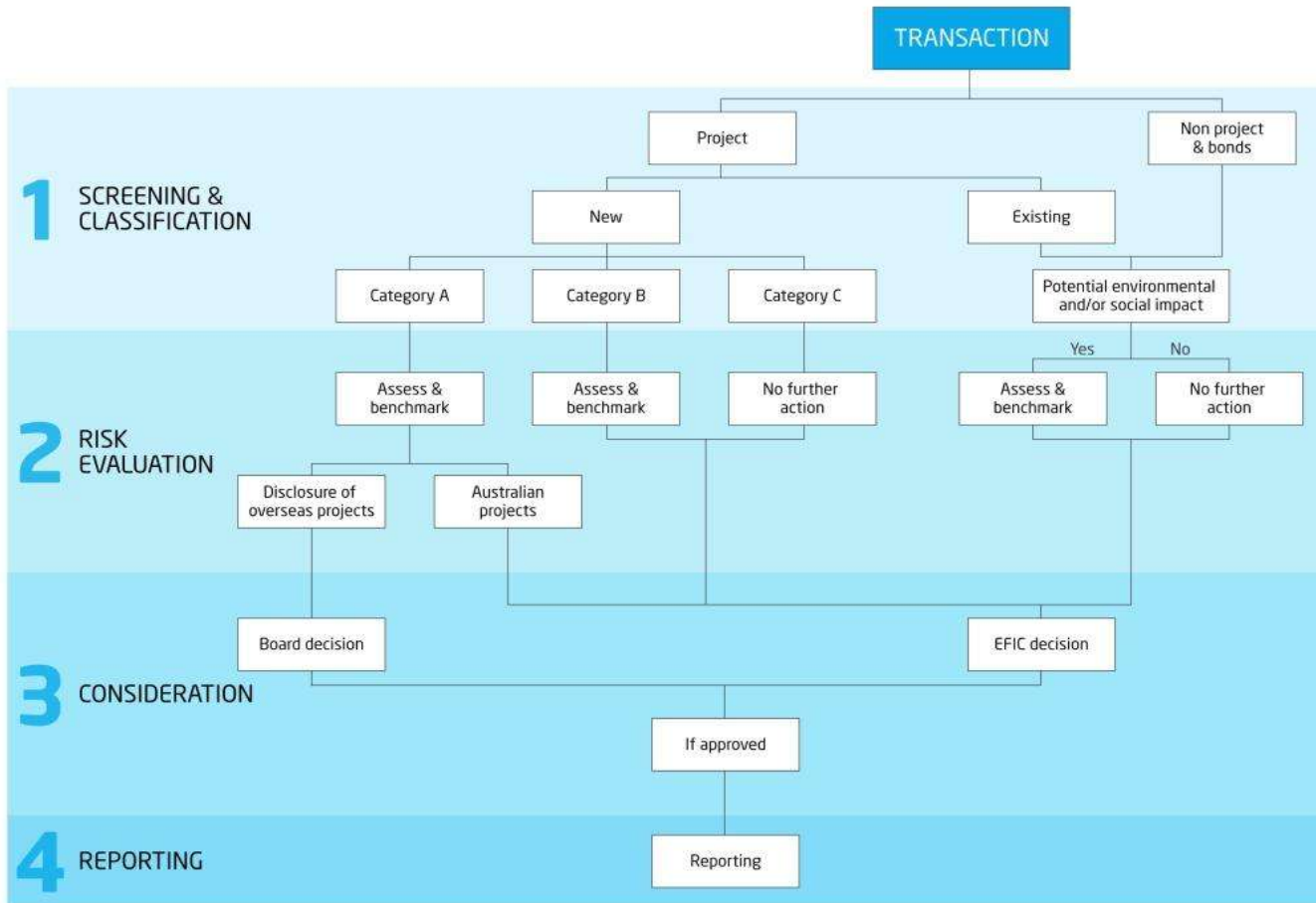
# Policy Settings

- Policy for environmental and social review of transactions
- Procedure for environmental and social review of transactions

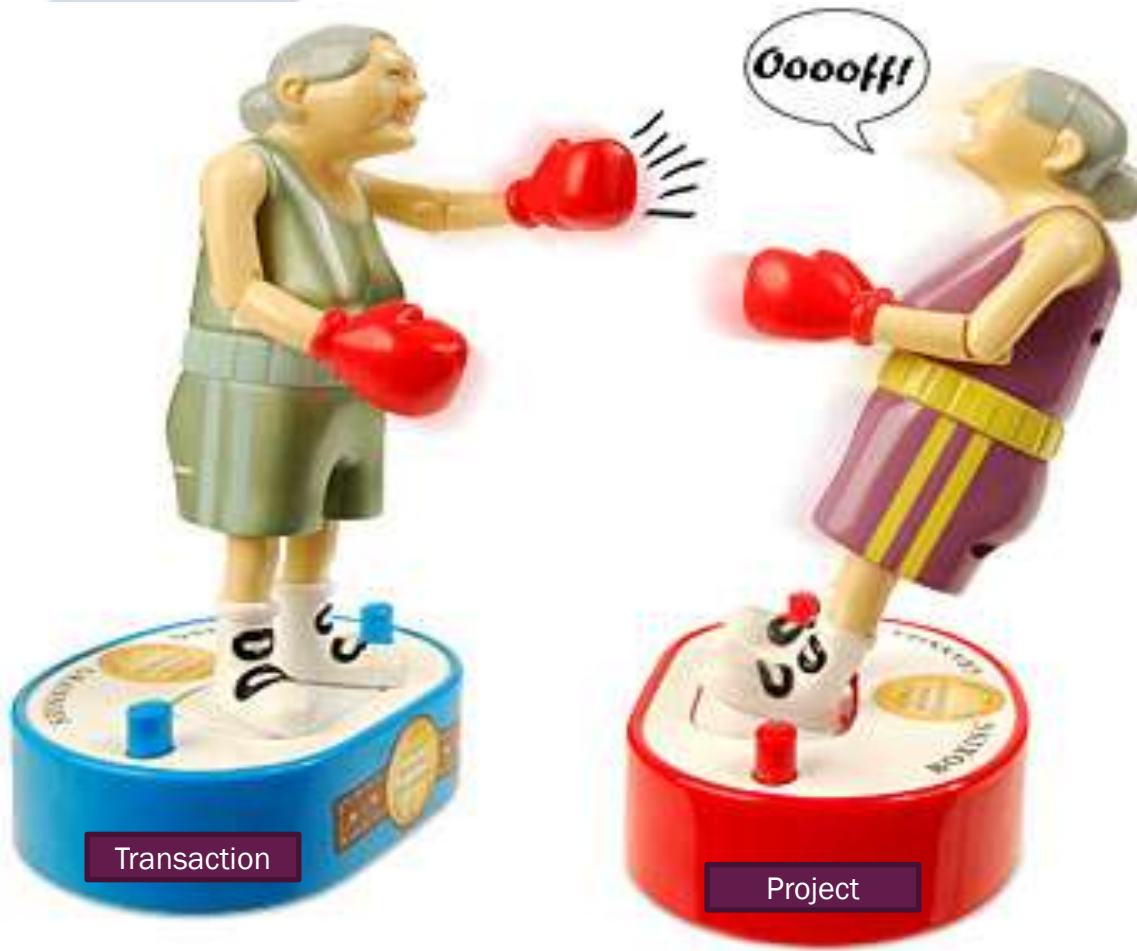
# Fundamentals

- Applies to all transactions.
- OECD Common Approaches the basis
- EFIC's voluntary adoption of the Equator Principles
- IFC Performance Standards EFIC's preferred benchmark.
- Disclose potential involvement in Category A projects located outside Australia.

# Policy and Procedure - Methodology



# Transaction v Project



Transaction

Project



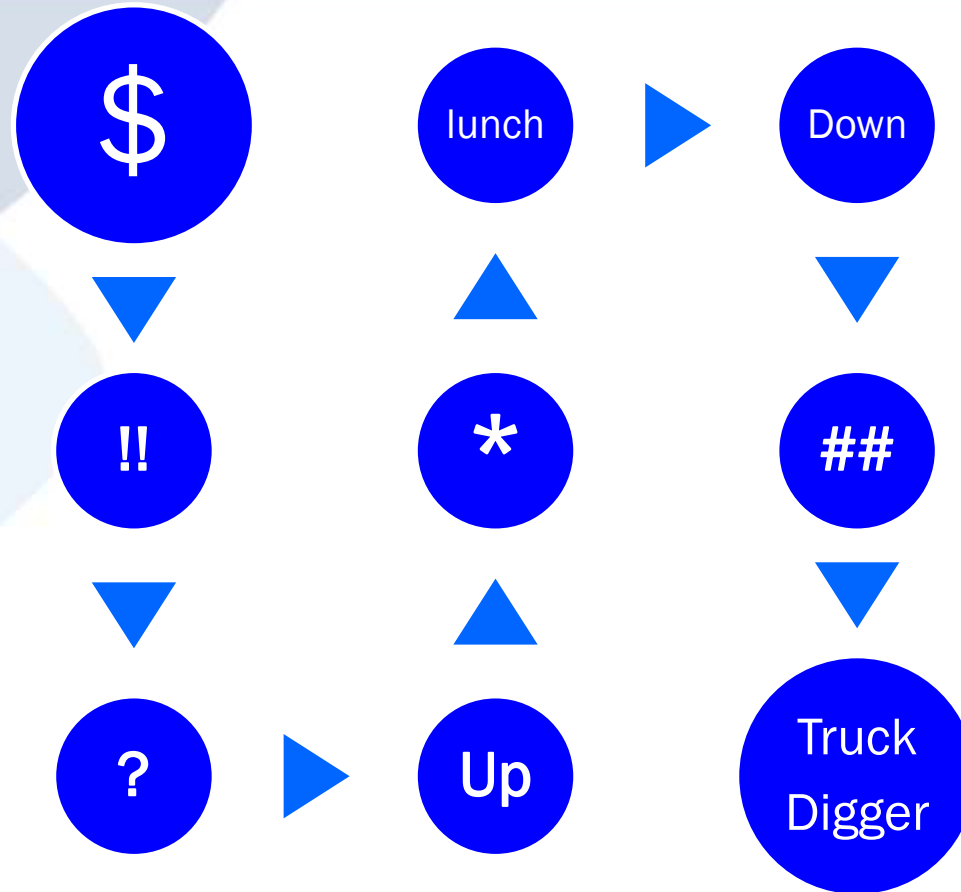
# Risk Evaluation - Indonesian Coal Mining

- Ultimate client - Leighton Holdings Limited
- Project development and contracting group
- One of the 30 largest contractors in the world
- World's largest contract miner

# Indonesian Coal Mining - Transaction

- EFIC's client role - mining contractor
- Direct loan of USD\$150m for leasing arrangement
- Expand mining fleet and equipment
- Multiple mine projects
  - *Long-term existing mines*
  - New mines
  - Existing mines undergoing expansion

# Indonesian Coal Mining – Finance Structure



# Mining





# Mining





# Mining





# Mining



# Mining



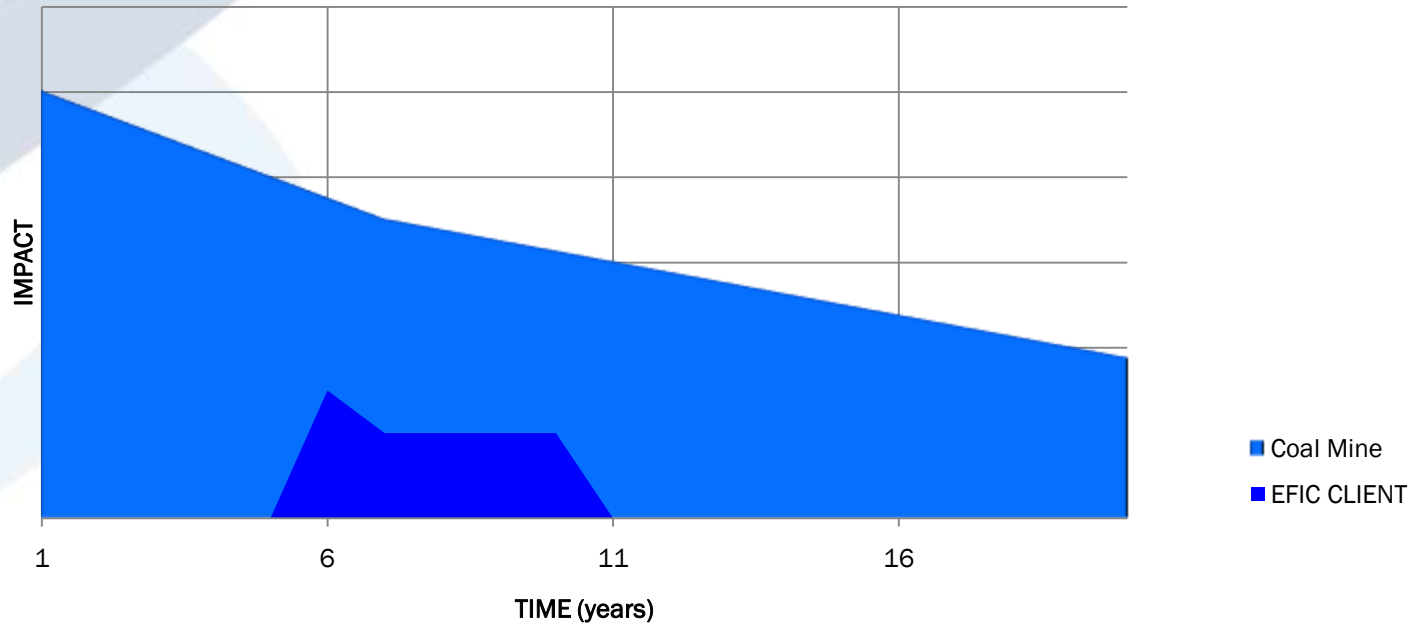


# Mining

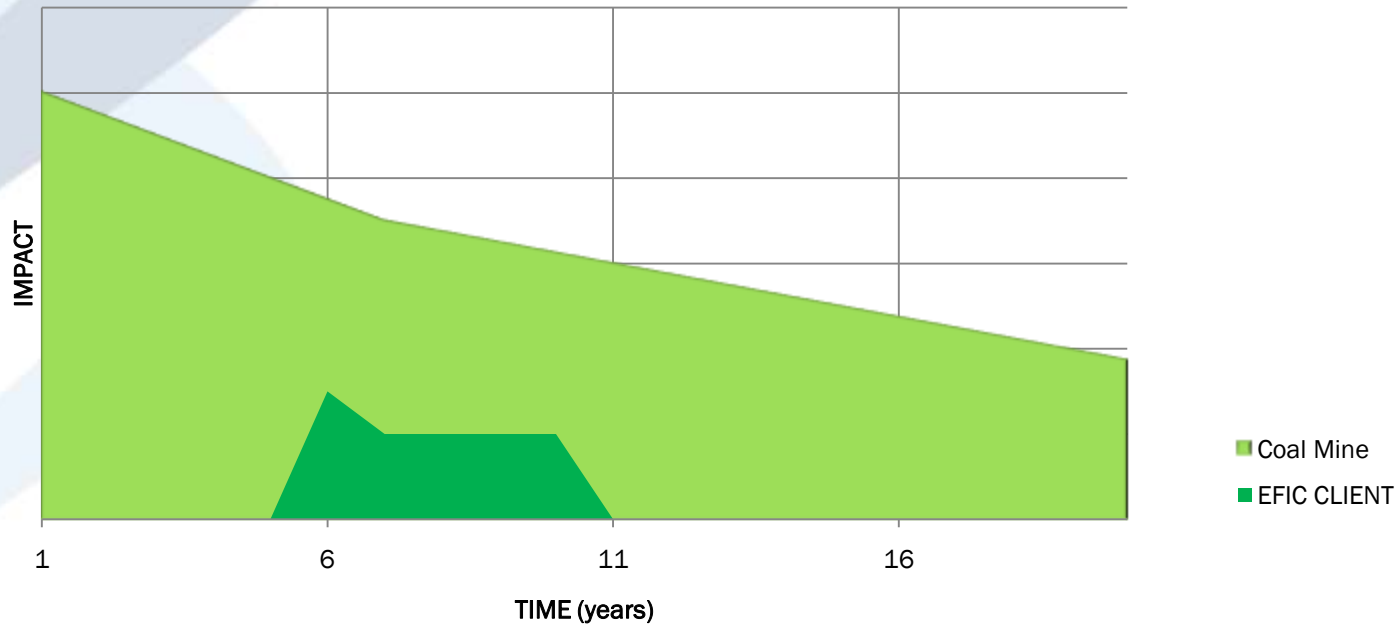


# What is the Project?

## PROJECT IMPACT



# Ability to Influence



# E & S Risk Assessment

- Two review projects
  - contract mining
  - client
- Used *relevant* Performance Standards
- Typically for mining contractor – PS1, 2, 3 and 4
- Reputation Risk assessment for overall project, PS as a basis

# Possible Dilemma

Labour Rights

# Country Characteristics

## *Freedom of association and the effective recognition of the right to collective bargaining*

- law does not permit workers to form or join unions, and no unions exist
- law does not prohibit strikes but allows employer to suspend an employee for striking
- workday is eight hours and the workweek six days; however, these standards were not enforced



# Country Characteristics

## *Elimination of all forms of forced or compulsory labour*

- trafficking in persons a serious problem
- illegal but customary for employers to take custody of workers' passports
- some employment agents bring foreign workers to the country to work under forced or compulsory conditions
- increasing incidence of employees prevented from changing jobs

# Country Characteristics

## *Elimination of discrimination in respect of employment and occupation*

- discrimination against noncitizens is prevalent in most areas of daily life
- no established minimum wage, much of the workforce earning only minimal subsistence
- low-skilled, foreign workers face substandard living conditions,
- legal and societal discrimination against women pervasive



# Country Characteristics

MAIN AREAS OF CORE LABOUR PRINCIPLES	COUNTRY CHARACTERISTICS
<i>freedom of association and the effective recognition of the right to collective bargaining</i>	<ul style="list-style-type: none"> <li>• law does not permit workers to form or join unions, and no unions existed</li> <li>• law does not prohibit strikes but allows employer to suspend an employee for striking</li> <li>• workday is eight hours and the workweek six days; however, these standards were not enforced</li> </ul>
<i>elimination of all forms of forced or compulsory labour</i>	<ul style="list-style-type: none"> <li>• trafficking in persons a serious problem</li> <li>• illegal but customary for employers to take custody of workers' passports</li> <li>• some employment agents bring foreign workers to the country to work under forced or compulsory conditions</li> <li>• increasing incidence of employees prevented from changing jobs</li> </ul>
<i>elimination of discrimination in respect of employment and occupation</i>	<ul style="list-style-type: none"> <li>• societal discrimination against noncitizens is prevalent in most areas of daily life</li> <li>• no established minimum wage, much of the workforce earning only minimal subsistence</li> <li>• low-skilled, foreign workers face substandard living conditions,</li> <li>• legal and societal discrimination against women pervasive</li> </ul>

# The End & Thanks for Listening

Jan Parsons

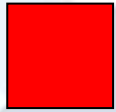
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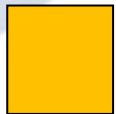


## Ability to Influence

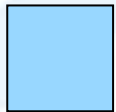
Performance bonds worth ~ \$28 million



Project supported by the bonds worth ~ \$500 million



Overall Project worth \$18,000 million



# Ability to Influence 2

