

Managing Risk, Creating Opportunity: Equator Principles & Citi's Environmental & Social Risk Management Policy

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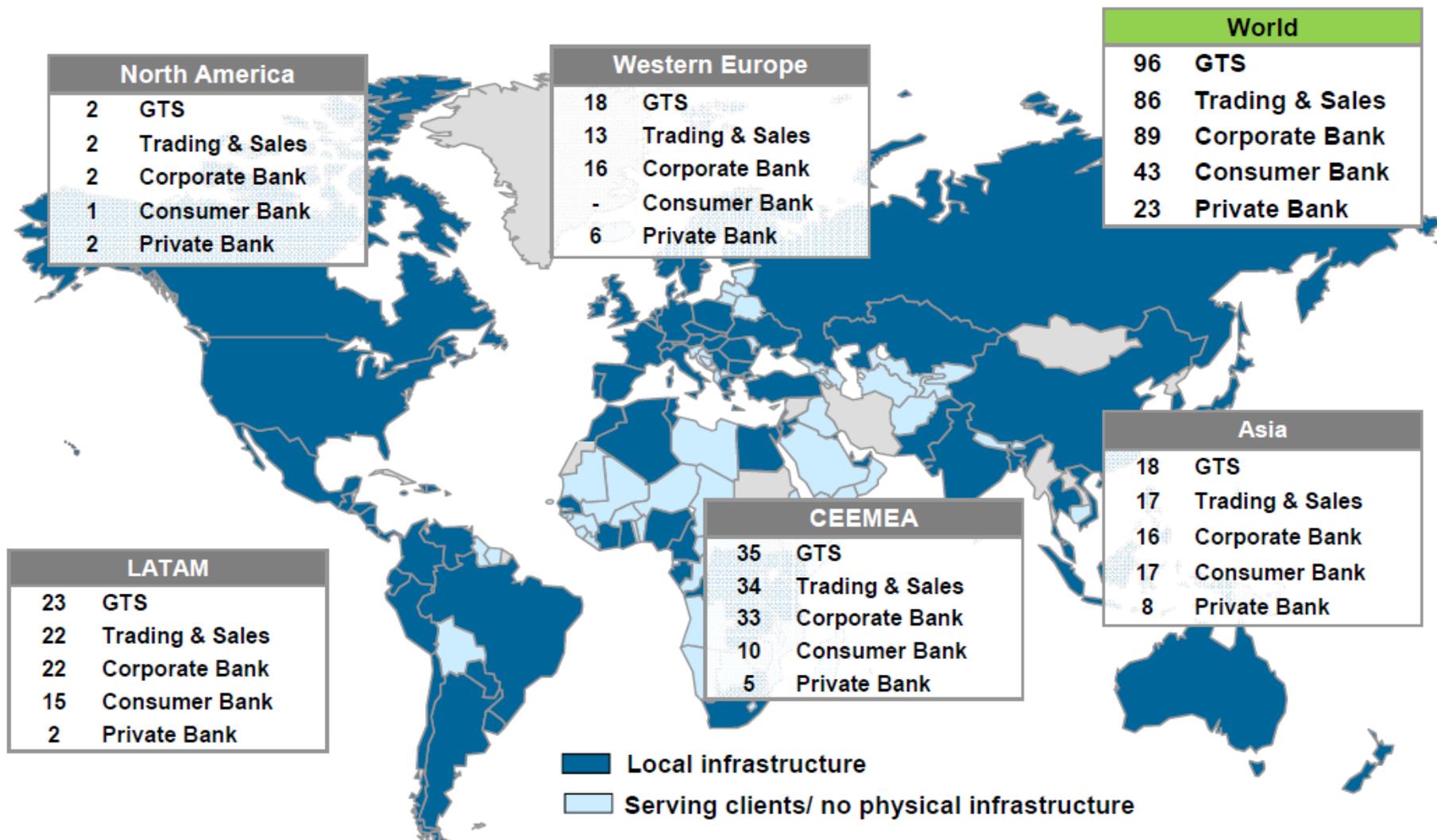
Citi Kenya

September 23, 2011



Citi is Uniquely Global

Physical Presence in over 100 Countries and Client Service in ~160 Countries



Citi's Environmental and Social Risk Management Policy

- Citi has a comprehensive Environmental and Social Risk Management Policy (developed in 2003 following adoption of original Equator Principles), which includes Sector Policies on Nuclear Power and Forestry
- Citi's ESRM Policy covers a wide range of financial products that go beyond Project Finance
- Citi's ESRM Policy covers transactions with **known use of proceeds directed to a specific physical project or asset**, that **meet financial thresholds**

Citi's Environmental and Social Risk Management Policy

- All ESRM Covered Transactions are reviewed by Citi's ESRM Unit and categorized according to the IFC screening criteria of A, B or C (high, medium or low risk)
- Category A Transactions require elevated review by an ESRM Approver, in consultation with the ESRM Director, or designate
- Project Finance Transactions and Corporate Loans in emerging markets are reviewed utilizing the IFC Performance Standards
- Last year, Citi's ESRM Unit reviewed 536 transactions subject to this Policy globally

Citi's ESRM Policy: Covered Transactions

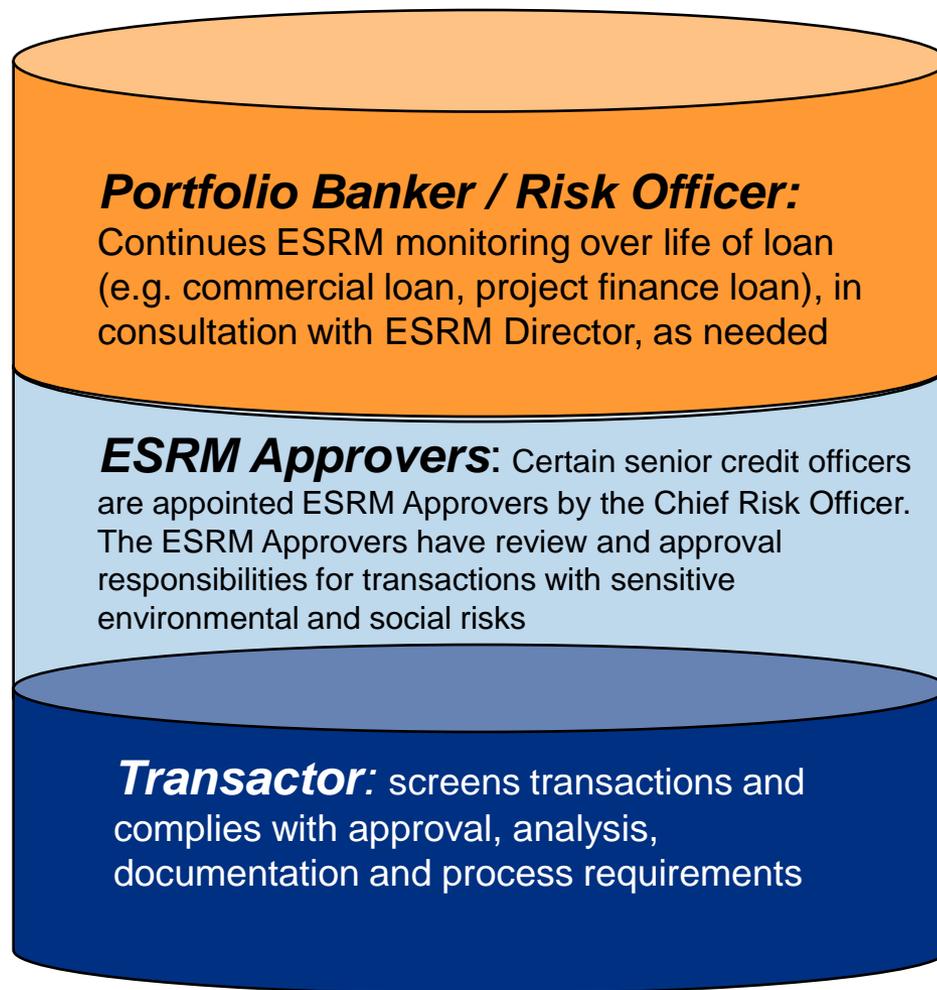
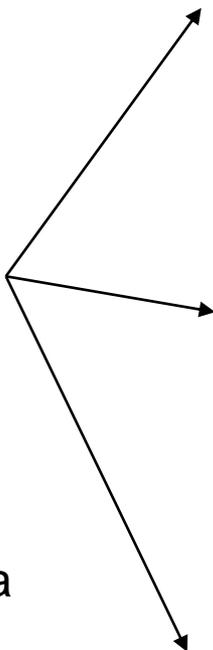
TRANSACTION / PRODUCT TYPE	REQUIRED THRESHOLD AMOUNT
—Project Finance Transactions (subject to the Equator Principles)	—Project capital costs: Above USD 10 million
—Project Finance Advisories (subject to the Equator Principles)	—Estimated project capital costs: Above USD 10 million
—Project Finance for Existing Projects and Refinancings	—Project capital costs: Above USD 10 million
—Corporate and Government Loans	—Total facility amount: USD 50 million (in aggregate)
—Official and Export Agency Loans	—Total facility amount: Above USD 50 million
—Acquisition Finance	—Total facility amount: USD 50 million (in aggregate)
—Debt Securities Placements or Underwritings (Bonds)	—Underwriter or arranger of debt securities placements or underwritings in excess of USD 50 million (in aggregate value)
—Equity Investment or Equity Underwriting Transactions	—Firm (Citi) equity investment in excess of USD 5 million —Underwriter, arranger or placement agent for the selling of equity securities in excess of USD 50 million (in aggregate value)
—LCs, Bid Bonds and Performance Bonds	—Relevant instruments in excess of USD 50 million (in aggregate)

ESRM Policy Responsibilities

ESRM Unit:

- ESRM Managing Director, Director and VP (New York)
- ESRM Champions (London, Sao Paulo, Singapore)

The ESRM Unit serves as a technical resource and counsel for ICG.



Portfolio Banker / Risk Officer:

Continues ESRM monitoring over life of loan (e.g. commercial loan, project finance loan), in consultation with ESRM Director, as needed

ESRM Approvers: Certain senior credit officers are appointed ESRM Approvers by the Chief Risk Officer. The ESRM Approvers have review and approval responsibilities for transactions with sensitive environmental and social risks

Transactor: screens transactions and complies with approval, analysis, documentation and process requirements

Overview of the Equator Principles (EPs)

- The Equator Principles (EPs) are a voluntary set of standards for determining, assessing and managing social and environmental risk in project financing.
- The EPs are considered the financial industry ‘gold standard’ for sustainable project finance.
- Citi was one of the founding members in 2003 and currently serves as Chair of the EP Steering Committee
- There are currently 72 EP banks globally, including signatories not only from Europe and North America but also from China, Japan, Brazil, Egypt, South Africa, Nigeria, etc – but none yet from Kenya
- Projects in emerging markets must comply with the (IFC) Performance Standards on social and environmental sustainability and the IFC Environmental, Health and Safety Guidelines.
- Citi and other foreign banks apply these standards in Kenya.
- However, each institution that adopts the Equator Principles commits to integrate the Principles into its own institution’s internal credit policies and procedures, and without recourse to the IFC or any other institution.

The Principles

- Principle 1: Review and Categorization
- Principle 2: Social and Environmental Assessment (Process)
- Principle 3: Applicable Social and Environmental Standards
 - High-income OECD countries vs. Emerging Markets
- Principle 4: Action Plan and Management System
- Principle 5: Consultation and Disclosure
- Principle 7: Grievance Mechanism
- Principle 8: Independent Review
- Principle 9: Covenants
- Principle 10: EPFI Implementation Reporting

Environmental and Social Action Plan (ESAP)

- **What is in an Environmental and Social Action Plan (ESAP)?**
- The ESAP is the real “teeth” of the Equator Principles and Citi’s ESRM Policy – it is how we ensure clients follow-through with the environmental and social commitments identified during the due diligence phase, and is covenanted to loan documentation
- The Action Plan will:
 - describe the actions necessary to comply with the Performance Standards and EHS Guidelines
 - range from a brief description of mitigation measures to a set of specific management plans
 - prioritize these actions
 - include the timeline for implementation, and
 - be covenanted to loan documentation

Case Study

The Project

- Citi received an RFP to structure a loan for a \$100MM (9.5 billion KES) sugar plantation expansion project:
 - Land preparation and planting of 10,477 hectares of estate
 - Construction of two irrigation canals
 - Factory upgrade, including new cane preparation line
- The loan was syndicated with 4 other banks, only one of which was an EP signatory
- The Equator Principles provided a systematic process for assessment and management of environmental risk associated with the financing

Environmental and Social Impacts of Project

- ▶ Deal team requested the EIA to screen for environmental and social risks
- ▶ New plantings would be made on cleared land owned by the company
- No land acquisition or physical resettlement would be necessary
- The factory upgrade was within the existing fence line
- Primary risks and impacts included
 - Increased water requirements for irrigation but still within industry average of 0.9 m³/ton of cane processed
 - Use of chemical pesticides and fertilizers
 - Wastewater from cane washing and sugar production
 - Air emissions from factory boilers
- ▶ Citi's ESRM Unit determined this was a Category B project subject to the Equator Principles

Equator Principles / ESRM Requirements

- Under the Equator Principles and Citi's ESRM Policy, the following was required:
 - An environmental and social assessment process appropriate to the nature of the project to evaluate the project's compliance with International standards including:
 - IFC Performance Standards (which covers biodiversity, resettlement and other topics):
<http://www.ifc.org/ifcext/enviro.nsf/Content/PerformanceStandards>
 - IFC EHS Guideline for Plantation Crops:
[http://www.ifc.org/ifcext/sustainability.nsf/AttachmentsByTitle/gui_EHSGuidelines2007_PlantationCropProd/\\$FILE/Final+--+Plantation+Crop+Production.pdf](http://www.ifc.org/ifcext/sustainability.nsf/AttachmentsByTitle/gui_EHSGuidelines2007_PlantationCropProd/$FILE/Final+--+Plantation+Crop+Production.pdf)
 - IFC EHS Guideline for Sugar Manufacturing:
[http://www.ifc.org/ifcext/sustainability.nsf/AttachmentsByTitle/gui_EHSGuidelines2007_SugarManufacturing/\\$FILE/Final+--+Sugar+Manufacturing.pdf](http://www.ifc.org/ifcext/sustainability.nsf/AttachmentsByTitle/gui_EHSGuidelines2007_SugarManufacturing/$FILE/Final+--+Sugar+Manufacturing.pdf)
 - An Environmental Management Plan (or Action Plan if gaps are identified), which draws on the findings of the environmental and social assessment (usually included as part of the EIA or NEMA certificate)
 - Covenants to comply with applicable local and national law, as well as the Environmental Management Plan (or Action Plan if gaps are identified)

Findings

- The client was very open and responsive - and were willing to answer any questions which greatly helped successfully complete an EP review in a short period of time.
- Following review of the EIA, few gaps were identified, and the only requirement was to include a covenant in the loan documentation to comply with the Environmental Management Plan
- Overall, the Equator Principles process strengthened our client engagement and facilitated the credit approval of other EP banks entering the facility as participants

Thank you!

Questions?
