Mining

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# THE EQUATOR PRINCIPLES - WORTH THE RISK

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The finance sector has endorsed corporate social responsibility through the Equator Principles (EPs) and project developers must be prepared to provide comprehensive evidence of the environmental and social impacts of their proposals when seeking project finance.

The EPs ensure socially and environmentally responsible financing of large scale (over US$10 million) infrastructure, mining and energy projects through a set of standards developed by the International Finance Corporation (World Bank) and a group of concerned commercial banks. Equator Principles Financial Institutions (EPFIs) commit to not providing loans to projects where the borrower will not or is unable to comply with their respective social and environmental policies and procedures.

In 2002 there were nine banks who voluntarily signed up to the EPs and there are now 74 EPFIs from all regions of the globe, including Westpac and ANZ in Australia. In 2011, EPFIs accounted for about 70 percent of international project finance debt in emerging markets (US$213 billion).

EPFIs apply the EPs to all new project finance transactions as well as to any significant expansions of existing facilities. Projects classified as having moderate to high risks are required to conduct environmental and social impact assessments, conduct community consultation, prepare appropriate monitoring, mitigation, decommissioning and remediation plans and establish a grievance mechanism. Following financial approval, independent project monitoring and reporting must be provided to the EPFI.

For a potential project developer, compliance with the technical and legal requirements under the EPs is a significant task and requires specialised management. The EPs should be viewed as a business tool to help manage risks and identify opportunities. Good corporate social responsibility improves the reputation of a business and strengthens trust between businesses and the wider community, including investors.

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The EPs are currently undergoing their second major review and a revised draft of the EPs was released for stakeholder consultation and public comment in August. The changes, if implemented, will expand the scope of the EPs to also cover certain project-related corporate loans, certain bridging loans and project finance advisory services.

Where projects emit more than 100,000 tonnes of carbon dioxide equivalent per year the revised draft requires annual public reporting of the projects carbon emissions and an assessment of alternative fuel sources and technologies. The revised draft requires EPFIs to report significantly more information to the public such as publishing environmental and social impact assessments and project-specific data reporting requirements online and also places a greater emphasis on human rights considerations.

The EPs are a framework for sustainable development and offer financial institutions the ability to adopt a globally accepted industry standard for the evaluation and management of environmental and social risks within project developments. If the revised EPs are adopted in their current form EPFIs obligations for financing projects will significantly increase. Project developers need to be fully aware of their technical and legal obligations to comply with the EPs, however, if utilised appropriately, the EPs can become an additional analytical tool to ensure that a project can operate successfully within its social and environmental parameters.

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