

Sustainability Guideline

Guideline of KfW IPEX-Bank GmbH For environmentally and socially sound financing

July 2015

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0. Preamble

0.1. On the basis of the declaration it made before the German Parliament (Bundestag) on environmental protection and sustainable development, the KfW Group introduced environmental and social guiding principles in the year 2000, which became the sustainability guidelines in 2012. These guidelines set out its environmental and social principles as a means of contributing to sustainable development in line with the German Federal Government's sustainability strategy. The following Guideline specifies these principles as they apply to the financial services provided by KfW IPEX-Bank and incorporates the requirements of the KfW Group's voluntary commitment of 2008 to consider human rights in connection with its business activities.

0.2. The objective of this Guideline is to ensure realistic and practicable procedures that meet not only ecological and social concerns but also the demands of our clients and the host countries.

0.3. The present Guideline describes the procedure to be applied in the appraisal and the standards which are designed to ensure that

- the environmental and social impacts of the projects financed by KfW IPEX-Bank are analysed appropriately and that the results of this analysis flow into the financing decisions,
- conclusions drawn, are applied and documented in the implementation of the project.

0.4. With this Guideline KfW IPEX-Bank also intends to contribute:

- to encouraging suppliers, project sponsors, borrowers and other stakeholders to consider environmental and social aspects at an early stage when planning the project and its financing ("guidance"),
- through studies required by KfW IPEX-Bank to fostering a better understanding in the host country of the significance of environmental and social risks, but also of the advantages of taking protective measures in time and raising public awareness, and to causing these aspects to be given more weight in development planning,
- to encourage clients/project sponsors to implement sound and economically viable improvements after discussing the results of environmental and social impact assessment (ESIA) procedures, other assessments and requirements for environmental and social impact assessment studies (ESIS), and
- to the international debate directed at attributing more importance to ecological and social concerns in decisions taken by financing institutions and applying uniform standards wherever possible so as to create a level playing field.

0.5. This Guideline follows internationally recognised rules in their current version such as the ones set forth in the Equator Principles (EP) and the environmental and social requirements of the OECD Common Approaches (Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence). It regards such principles as a framework for an environmental and social appraisal procedure designed in accordance with KfW IPEX-Bank's own specific requirements and needs.

0.6. The Sustainability Guideline of the KfW Group for responsible procurement and the Sustainability Guideline of the KfW Group for in-house environmental management also apply in their current version to the procurement processes and the relevant locations of KfW IPEX-Bank.

1. Functions of KfW IPEX-Bank

KfW IPEX-Bank manages the commercial and competitive project and export finance activities of the KfW Group; since 1 January 2008 it has been operating as a legally independent subsidiary. It operates in Germany and abroad and provides financing for exports by German and European enterprises, it provides project and object financing as well as financing for corporate investments and infrastructure projects around the world. In accordance with the legal mandate of the KfW Group it thus finances projects that are in the German and European interest.

2. Contributions to environmental protection and social development

2.1. One of the main business principles of KfW IPEX-Bank is its particular commitment to projects that protect the environment and promote social development.

3. Applicability of this Guideline

3.1. This Guideline generally applies to all financings of KfW IPEX-Bank.

3.2. The following financing products are governed by the Equator Principles in their respective current version, which are included in this Guideline as Appendix III:

- Project finance advisory services (cash flow-based) where total capital costs are USD 10 million or more.
- Project finance (cash flow-based) with total project capital costs of USD 10 million or more.
- Project-related corporate loans, where
 - The majority of loan is related to a single project over which the client has effective operational control (either direct or indirect), and
 - The total aggregate loan amount least USD 100 million, and
 - the financing volume provided by KfW IPEX-Bank under the operation is at least USD 50 million, and
 - the loan tenor is at least two years.
- Bridge loans with a tenor of less than two years that are to be refinanced or redeemed by a project finance or project-related corporate finance operation with the above criteria.

3.3. Project-related corporate loans include export finance; buyer loans fall under the Equator Principles, while supplier loans are appraised against the environmental and social requirements of the OECD Common Approaches.

3.4. In this case the object of the appraisal consists in new projects or projects that provide for a material modification (expansion or fundamental rehabilitation of existing projects). A modification is material if the project may cause negative environmental and/or social impacts or if the modification is so significant that it would require an environmental and social impact assessment study of its own. The object of appraisal continues to be the client's or sponsor's environmental and social management, their portfolio and their previous conduct in environmental and social matters.

3.5. In corporate financing operations which are not project-related, the object of the appraisal under the credit analysis is the enterprise's environmental and social management, its portfolio and its previous conduct in environmental and social matters.

3.6. In all financing transactions the object and depth of the appraisal as well as the scope of reporting to the approval authorities are decided on a case-by-case basis. Doubts must be clarified with the Sustainability Officer of KfW IPEX-Bank and the Competence Center for Environment and Climate (LGc3) of the KfW Group.

4. Appraisal of the environmental and social compatibility of projects

4.1. Project screening and categorisation

4.1.1. The officers of the departments in charge of acquisition and structuring appraise all planned financing operations for their environmental and social risks at an early stage, where appropriate together with the Sustainability Officer of KfW IPEX-Bank, the technical experts and the experts of the Competence Center for Environment and Climate (LGc3) of the KfW Group.

4.1.2. In the first appraisal, the so-called **screening**, the project is categorised according to the IFC (International Finance Corporation) Performance Standards into category A, B or C. Appendix I lists the relevant project examples.

4.1.2.1. Category A applies to projects with potential environmental and/or social risks and possible significant negative impacts on the environment and/or the social conditions. Projects at newly developed sites (greenfield) in particular fall into this category. Impacts have the potential to be considerably negative if they are complex, irreversible or unprecedented. These risks and impacts can affect a wider area than just the facility under construction, the immediate vicinity of the facility or any associated facilities or the project area in the stricter sense. Category A also includes projects that are considered sensitive as a matter of principle in that they

- Have the potential to impact important protected assets (e.g. rainforests, coral reefs, nature reserves, wetlands, natural/near-natural forests, important cultural assets and historical sites)

- Could have significant impacts across international borders, or could be relevant for the purposes of international treaties (e.g. conventions on international legislation governing waste, protecting the oceans or preserving biodiversity)
- Consume a significant amount of resources, especially land or water
- Involve heightened risks to public health or safety (e.g. industrial or transport facilities near residential areas, significant emissions during construction and/or operation, handling of hazardous substances, noise or harmful emissions etc.)
- Require extensive resettlement or result in the significant loss of livelihoods, or
- Are expected to negatively impact any indigenous populations

4.1.2.2. For Category "A" projects an analysis of the environmental and social impacts is compulsory. The necessary information must be provided by an environmental and social impact assessment (ESIA) study and an environmental and social action plan (ESAP) which KfW IPEX-Bank expects the client to provide. The ESAP is to show the measures which are necessary to prevent, mitigate, correct and monitor the negative impacts identified in the ESIA study; it also must show who is responsible for implementing the measures and for their costs. In these projects KfW IPEX-Bank also expects the client to have an environmental and social management system. Such a system must have the following elements:

- (a) adequate organisational capacities,
- (b) an environmental and social assessment procedure,
- (c) management programme,
- (d) training measures,
- (e) a structured relationship with the community/functioning communication with stakeholders,
- (f) monitoring and
- (g) reporting.

Project managers must clarify any doubts with the Sustainability Officer of KfW IPEX-Bank and the experts of the Competence Center for Environment and Climate (LGc3) of the KfW Group.

4.1.2.3. Category "B" comprises projects that may also have negative impacts on the environment or social conditions but which are less severe and can usually be mitigated with state-of-the-art countermeasures or by standard solutions. Appendix I "Category B" lists examples of such projects. For projects of this kind the scope, priorities and depth of an impact assessment must be defined on a case-by-case basis in the meaning of this Guideline. Category "B" may also mean projects from Appendix I "Category A" that are to be implemented on a site that used to be or is currently being used for a similar purpose (such as a former or existing industrial estate/commercial area).

4.1.2.4. Category "C" comprises projects that cause no or only minor strain and adverse effects. These include supplies of capital goods such as mechanical or electrical engineering products, the use of which usually does not cause any significant negative environmental or social impacts. Here it can be assumed that plants or equipment supplied by German manufacturers meet German environmental and safety standards (relating to power consumption, noise abatement, etc.). Other projects that belong in this category are: telecom systems, ships, aircraft and other means of transport intended for use in existing infrastructure networks as these are governed by international standards that also apply to safety and pollutant emissions. Projects in this category usually do not require an analysis in the meaning of this Guideline unless their purpose cause them to harbour substantial environmental and social risks.

4.1.3. The scope of the appraisal is determined by the project country; see also section 4.4.

4.1.4. As a matter of principle KfW IPEX-Bank does not conduct any assessments of its own on nuclear facilities and military goods. In these areas it follows the requirements of the German Federal Government and the applicable export regulations.

4.2. Collecting relevant information

4.2.1. In principle, information has to be provided and analysed or arranged by the party requesting advisory services or financing from KfW IPEX-Bank (exporters, project developers, sponsors, borrowers). Appendix II lists important aspects of such analyses.

4.2.2. If information is incomplete or inexistent, clients are asked to commission an environmental and social impact assessment study or an assessment of individual environmental and social aspects. KfW IPEX-Bank can provide professional assistance if needed.

4.2.3. Where financing operations are carried out in a consortium or done in parallel with other Equator Principles Financial Institutions (EPFIs), or in which other banks are involved, qualified environmental and social due diligence (ESDD) documents are available (e.g. environmental and social review summary of the IFC, or assessment reports by an independent consultant within the meaning of EP Principle 7), it is normally sufficient to assess the plausibility of said due diligence documents. However, this does not rule out the possibility of examining specific aspects in more depth.

4.2.4. Additionally, an analysis of alternatives must be performed for all projects where annual emission exceeds 100,000 t of CO₂ equivalent per annum (scope 1 and 2 emissions as per EP Principle 2). The purpose of this analysis is to prompt the client to choose the technically and financially most efficient alternative that makes the project emit the lowest possible amount of CO₂ equivalent p.a.

4.2.5. If the project is to be implemented in a region or context in which the situation with respect to human rights is known or expected to be critical, KfW IPEX-Bank may require the client to conduct a detailed Human Rights Impact Assessment and implement measures aimed at ensuring that human rights are upheld.

4.3. Analysing and evaluating information

4.3.1. In Category "A" projects and, as appropriate, in Category "B" projects structured according to Section 3.2, an independent environmental and social consultant (IESC) who was not directly involved in preparing the project on behalf of the client reviews the ESIA study, the environmental and social management plan (ESMP) and the stakeholder engagement activities and assesses whether the procedures and results meet the requirements that result from the Equator Principles (independent review). An independent review is always performed if negative impacts on indigenous peoples, protected areas or cultural heritage sites are expected or if extensive resettlement will be necessary.

4.3.2. The analysis of the documents submitted is performed by the project or contract manager who is familiar with the specific aspects of the project in consultation with the Sustainability Officer of KfW IPEX-Bank. In the processing of Category A and B projects the Competence Center for Environment and Climate (LGc3) and the technical experts of the KfW Group are called to contribute their expertise and support the project from an early stage. The Competence Center for Environment and Climate (LGc3) can perform the tasks of an independent expert.

4.3.3. With regard to the assessment procedure applied it must be determined whether an ESIA procedure was applied that follows generally accepted standards, including disclosure of the documents and stakeholder engagement. Projects with potential negative impacts on the indigenous peoples must obtain their Free Prior Informed Consent (FPIC). In addition, it has to be verified whether the ESIA study has been accepted by the competent public authority of the project country. It also needs to be examined whether the planned expenditure on environmental and social mitigation measures is included in the cost calculations for the projects.

4.3.4. When drawing its conclusions, KfW IPEX-Bank must observe the following principles:

- The most important results of the ESIA are constructive proposals for improvement in the form of an environmental and social management plan (action plan within the meaning of EP Principle 4), which provide solutions to unresolved questions or suggest additional measures to limit negative impacts.
- The project must follow the maxim of seeking commercially viable solutions for reasonable protective measures; if this cannot be achieved, it will not be financed.
- Local operators must be technically capable of managing highly sophisticated pollution control systems to ensure proper operation of their facilities.
- It must be ensured that the funds needed to implement protection measures identified as being necessary to mitigate or compensate adverse social impacts are available. It must be clarified what expenditure must be borne by the project and what contributions must be made by competent authorities.

4.4. Appraisal standards

4.4.1. In the case of investments in countries with well-developed environmental and social regulations that are also enforced, the national standards will be used as the benchmark for the appraisal. This applies in the high-income countries of the OECD as well as the "Designated Countries" in accordance with EP Principle 3. In all other countries, IFC Performance Standards 1–8 and the Environmental, Health and Safety Guidelines (EHS Guidelines) published by the World Bank Group are used alongside local standards as the benchmark for the appraisal. In case of doubt, the Sustainability Officer of KfW IPEX-Bank and the Competence Center for Environment and Climate (LGc3) of the KfW Group can determine the extent to which the relevant legal and institutional framework conditions meet international requirements. Standards derived from European Union environmental legislation may also be applied.

4.4.2. If the goods to be financed meet German environmental standards, it will still be necessary to assess their use and/or the project.

4.4.3. Any permanent or temporary deviations from these regulations have to be justified. In case of a temporary deviation the client will have to give credible evidence of how the target standard will be met. KfW IPEX-Bank may make its approval of the project dependent on its acceptance of the justification.

4.4.4. Where relevant, KfW IPEX-Bank may also consider the results of international initiatives such as the World Commission on Dams.

5. Disclosure obligations for the client

5.1. In financing services under Section 3.2 for Category "A" projects and, where necessary as appropriate, Category "B", the client must be required to publish online a summary of the ESIA. The greenhouse gas emissions caused by projects under Section 3.2 must also be published by the client (as in ECAs under Common Approaches) if the project causes emissions of more than 100,000 t of CO₂ equivalent per annum. In projects that release at least 25,000 t of CO₂ equivalent per annum the client will also be encouraged to publish the amount of emissions caused.

- In project financings as described in Section 3.2 the client is additionally to be requested to agree to the disclosure of the project name to the Equator Principles Association. The Association will publish the project on its website provided
 - the project financing has reached financial close,
 - the client has agreed to the publication,
 - the publication complies with local legislation and
 - the publication does not create any additional obligations for the participating credit institutions.

6. Decision and monitoring

6.1. Informing the decision-making bodies

6.1.1. The decision makers in charge of approving loans in accordance with the responsibilities defined within KfW IPEX-Bank must be informed of the results of the appraisal. This information is provided in the form of a statement which is reasonably summarised in the loan application for financing approval.

6.1.2. If a financing operation requires approval by the Loan Committee (LC) or the Credit Risk Committee (CRC) or the Board of Supervisory Directors, the information is furnished to the LC, CRC or Board of Supervisory Directors as part of the corresponding submission for approval.

6.2. Refusal of financing / approval with covenants

6.2.1. If the appraisal under Section 4 reveals that the project fails to comply with reasonable environmental and social regulations of the host country by international standards or relevant provisions of international law, or that unacceptable environmental risks or unacceptable social disadvantages remain despite possible protection or compensation measures, KfW IPEX-Bank will not participate in the financing.

6.2.2. KfW IPEX-Bank makes its readiness to finance the project contingent on the fulfilment of environmentally and socially relevant covenants.

- Fulfilment of all relevant environmental and social laws, regulations and approvals of the host country in all material areas;
- Fulfilment of the action plan (where applicable) in the construction and operation of the project in all material areas;
- Reporting on the legal conformity and fulfilment of the action plan in reasonable intervals (at least annually) and in an agreed format;
- Decommissioning of facilities, where applicable and reasonable, in accordance with an agreed decommissioning schedule.
- KfW IPEX-Bank expects the client to disclose any additionally agreed mitigation measures to the local stakeholders as part of the covenants in an understandable manner.

6.2.3. Covenants should be worked out in cooperation with the clients and, where applicable, other banks participating in the financing.

6.3. Monitoring and reporting

6.3.1. Financing agreements for environmentally and socially relevant projects must stipulate the obligation to monitor and report the implementation of the mitigation measures. The client appoints an independent expert and - in consultation with KfW IPEX-Bank - commissions said expert to perform the monitoring, or to assess the client's own monitoring. The overall monitoring is also conducted in close cooperation with the Competence Center for Environment and Climate (LGc3) of the KfW Group.

6.3.2. If any unusual adverse environmental or social impacts occur KfW IPEX-Bank will use its influence as far as possible to help overcome the problem.

6.3.3. The client must establish a procedure for the duration of the project (preparation and operation) under which it receives and addresses complaints submitted by employees and the affected population. Cases and results of the procedure must be documented and are part of the reporting.

6.4. Transparency and disclosure

6.4.1. As a general rule, providing project information is primarily the duty of the client who is responsible for a project (see Section 5). KfW IPEX-Bank may not pass on to third parties any project information that is not publicly accessible without the prior consent of the parties involved.

6.4.2. For projects that have undergone an ESIA, public disclosure and stakeholder engagement are carried out by the local competent authorities, the sponsor or third parties as part of this ESIA.

6.4.3. KfW IPEX-Bank reports briefly on the implementation of this Guideline in its annual report and in the Sustainability Report of the KfW Group. The Board of Supervisory Directors is also informed accordingly in the annual report on the environmental and social activities of the KfW Group. Reporting to the Equator Principles Association is conducted in the framework of the annual Equator Principles reporting.

7. Revision of this Guideline

7.1. This Guideline is reviewed annually for necessary revisions.

Appendix I Examples of environmentally and socially relevant sectors/project types (including substantial negative impacts)

Category A:

Projects that have complex impacts which partly cannot be compensated:

- Infrastructure projects such as roads, railway lines, bridges, pipelines, tourism facilities (land consumption, nature conservation, resettlement)
- Forestry and plantation management (land consumption, nature conservation)
- Large-scale hydraulic engineering, such as reservoirs, coastal protection, port facilities, river and channel construction (nature conservation, resettlement, changes in the water balance)
- Mining and processing of mining products (transformation of the landscape, water pollution, resettlement)
- Processing of coal and mineral oil (plant safety, air emissions)
- Natural gas and mineral oil extraction (groundwater pollution, methane emissions)
- Non-ferrous metallurgic works and foundries (air emissions, dust)
- Iron/steel works (air emissions, dust)
- Basic chemical industry (plant safety, air emissions, water pollution, hazardous waste)
- Pulp and paper production (water pollution)
- Airports (land consumption, noise, groundwater pollution)
- Thermal power stations (land consumption, air emissions, water pollution, ash disposal)
- Food and fodder industries (water pollution)
- Building materials industry, glass industry (dust, air emissions)
- Mineral oil processing, distribution and storage (plant safety, air emissions, groundwater pollution)
- Intensive livestock farming (water pollution, waste) resettlement, encroachment on the habitats of indigenous peoples, impacts on traditional rights (such as land titles and land use rights), threats to cultural heritage, privatisation of social services
- Projects with integral social aspects such as a large number of unskilled, temporary employees and/or migrant workers, labour-intensive production processes, dangerous working conditions (e.g. hazardous substances, emissions); projects in special economic zones with limited social standards

Category B:

Projects that may have environmental and social impacts which are usually manageable by state-of-the-art technology or with standard solutions:

- Metal processing (pickling and degreasing agents, waste, noise)
- Wood processing (dust, chemical agents, noise)
- Textile manufacturing (dyeing effluents, noise)
- Chemical and pharmaceutical industry (air and water pollution)
- Liquid and solid waste disposal facilities (sludge disposal, safety of waste disposal sites, air emissions where applicable)
- No or only minor impact on third party social concerns
- Working conditions that do not deviate significantly from acknowledged standards

Appendix II Examples of potential ecological and social concerns to be addressed if relevant in the environmental and social impact assessment study

- a) assessment of the baseline environmental and social conditions
- b) consideration of feasible environmentally and socially preferable alternatives
- c) requirements under host country laws and regulations, applicable international treaties and agreements
- d) protection and conservation of biodiversity (including endangered species and sensitive ecosystems in modified, natural and critical habitats) and identification of legally protected areas
- e) sustainable management and use of renewable natural resources (including sustainable resource management through appropriate independent certification systems)
- f) use and management of dangerous substances
- g) major hazards assessment and management
- h) efficient production, delivery and use of energy
- i) pollution prevention and waste minimisation, pollution controls (liquid effluents and air emissions), and solid and chemical waste management
- j) viability of project operations in view of reasonably foreseeable changing weather patterns/climatic conditions, together with adaptation opportunities
- k) cumulative impacts of existing projects, the proposed project, and anticipated future projects
- l) respect of human rights by acting with due diligence to prevent, mitigate and manage adverse human rights impacts
- m) labour issues (including the four core labour standards), and occupational health and safety
- n) consultation and participation of affected parties in the design, review and implementation of the project
- o) socio-economic impacts
- p) impacts on affected communities, and disadvantaged or vulnerable groups
- q) gender and disproportionate gender impacts
- r) land acquisition and involuntary resettlement
- s) impacts on indigenous peoples, and their unique cultural systems and values
- t) protection of cultural property and heritage
- u) protection of community health, safety and security (including risks, impacts and management of project's use of security personnel)
- v) fire prevention and life safety

(see Equator Principles, Exhibit II)



THE EQUATOR PRINCIPLES

JUNE 2013

A financial industry benchmark for determining, assessing
and managing environmental and social risk in projects

www.equator-principles.com



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PREAMBLE

Large infrastructure and industrial Projects can have adverse impacts on people and on the environment. As financiers and advisors, we work in partnership with our clients to identify, assess and manage environmental and social risks and impacts in a structured way, on an ongoing basis. Such collaboration promotes sustainable environmental and social performance and can lead to improved financial, environmental and social outcomes.

We, the Equator Principles Financial Institutions (EPFIs), have adopted the Equator Principles in order to ensure that the Projects we finance and advise on are developed in a manner that is socially responsible and reflects sound environmental management practices. We recognise the importance of climate change, biodiversity, and human rights, and believe negative impacts on project-affected ecosystems, communities, and the climate should be avoided where possible. If these impacts are unavoidable they should be minimised, mitigated, and/or offset.

We believe that adoption of and adherence to the Equator Principles offers significant benefits to us, our clients, and local stakeholders through our clients' engagement with locally Affected Communities. We therefore recognise that our role as financiers affords us opportunities to promote responsible environmental stewardship and socially responsible development, including fulfilling our responsibility to respect human rights by undertaking due diligence¹ in accordance with the Equator Principles.

The Equator Principles are intended to serve as a common baseline and framework. We commit to implementing the Equator Principles in our internal environmental and social policies, procedures and standards for financing Projects. We will not provide Project Finance or Project-Related Corporate Loans to Projects where the client will not, or is unable to, comply with the Equator Principles. As Bridge Loans and Project Finance Advisory Services are provided earlier in the Project timeline, we request the client explicitly communicates their intention to comply with the Equator Principles.

EPFIs review the Equator Principles from time-to-time based on implementation experience, and in order to reflect ongoing learning and emerging good practice.

¹As referenced in the "Guiding Principles on Business and Human Rights: Implementing the United Nations 'Protect, Respect and Remedy' Framework"



SCOPE

The Equator Principles apply globally and to all industry sectors.

The Equator Principles apply to the four financial products described below when supporting a new Project:

1. **Project Finance Advisory Services** where total Project capital costs are US\$10 million or more.
2. **Project Finance** with total Project capital costs of US\$10 million or more.
3. **Project-Related Corporate Loans**² (including Export Finance in the form of Buyer Credit) where all four of the following criteria are met:
 - i. The majority of the loan is related to a single Project over which the client has Effective Operational Control (either direct or indirect).
 - ii. The total aggregate loan amount is at least US\$100 million.
 - iii. The EPFI's individual commitment (before syndication or sell down) is at least US\$50 million.
 - iv. The loan tenor is at least two years.
4. **Bridge Loans** with a tenor of less than two years that are intended to be refinanced by Project Finance or a Project-Related Corporate Loan that is anticipated to meet the relevant criteria described above.

While the Equator Principles are not intended to be applied retroactively, the EPFI will apply them to the expansion or upgrade of an existing Project where changes in scale or scope may create significant environmental and social risks and impacts, or significantly change the nature or degree of an existing impact.

² Project-Related Corporate Loans exclude Export Finance in the form of Supplier Credit (as the client has no Effective Operational Control). Furthermore, Project-Related Corporate Loans exclude other financial instruments that do not finance an underlying Project, such as Asset Finance, acquisition finance, hedging, leasing, letters of credit, general corporate purposes loans, and general working capital expenditures loans used to maintain a company's operations.



APPROACH

Project Finance and Project-Related Corporate Loans

The EPFI will only provide Project Finance and Project-Related Corporate Loans to Projects that meet the requirements of Principles 1-10.

Project Finance Advisory Services and Bridge Loans

Where the EPFI is providing Project Finance Advisory Services or a Bridge Loan, the EPFI will make the client aware of the content, application and benefits of applying the Equator Principles to the anticipated Project. The EPFI will request that the client communicates to the EPFI its intention to adhere to the requirements of the Equator Principles when subsequently seeking long term financing. The EPFI will guide and support the client through the steps leading to the application of the Equator Principles.

For Bridge Loans categorised A or B (as defined in Principle 1) the following requirements, where relevant, apply. Where the Project is in the feasibility phase and no impacts are expected during the tenor of the loan, the EPFI will confirm that the client will undertake an Environmental and Social Assessment (Assessment) process. Where Environmental and Social Assessment Documentation (Assessment Documentation) has been prepared and Project development is expected to begin during the tenor of the loan, the EPFI will, where appropriate, work with the client to identify an Independent Environmental and Social Consultant and develop a scope of work to commence an Independent Review (as defined in Principle 7).

Information Sharing

Recognising business confidentiality and applicable laws and regulations, Mandated EPFIs will share, when appropriate, relevant environmental and social information with other Mandated Financial Institutions, strictly for the purpose of achieving consistent application of the Equator Principles. Such information sharing shall not relate to any competitively sensitive information. Any decision as to whether, and on what terms, to provide financial services (as defined in the Scope) will be for each EPFI to make separately and in accordance with its risk management policies. Timing constraints may lead EPFIs considering a transaction to seek authorisation from their clients to start such information sharing before all other financial institutions are formally mandated. EPFIs expect clients to provide such authorisation.



STATEMENT OF PRINCIPLES

Principle 1: Review and Categorisation

When a Project is proposed for financing, the EPFI will, as part of its internal environmental and social review and due diligence, categorise it based on the magnitude of its potential environmental and social risks and impacts. Such screening is based on the environmental and social categorisation process of the International Finance Corporation (IFC).

Using categorisation, the EPFI's environmental and social due diligence is commensurate with the nature, scale and stage of the Project, and with the level of environmental and social risks and impacts.

The categories are:

Category A – Projects with potential significant adverse environmental and social risks and/or impacts that are diverse, irreversible or unprecedented;

Category B – Projects with potential limited adverse environmental and social risks and/or impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures; and

Category C – Projects with minimal or no adverse environmental and social risks and/or impacts.

Principle 2: Environmental and Social Assessment

For all Category A and Category B Projects, the EPFI will require the client to conduct an Assessment process to address, to the EPFI's satisfaction, the relevant environmental and social risks and impacts of the proposed Project (which may include the illustrative list of issues found in Exhibit II). The Assessment Documentation should propose measures to minimise, mitigate, and offset adverse impacts in a manner relevant and appropriate to the nature and scale of the proposed Project.

The Assessment Documentation will be an adequate, accurate and objective evaluation and presentation of the environmental and social risks and impacts, whether prepared by the client, consultants or external experts. For Category A, and as appropriate, Category B Projects, the Assessment Documentation includes an Environmental and Social Impact Assessment (ESIA). One or more specialised studies may also need to be undertaken. Furthermore, in limited high risk circumstances, it may be appropriate for the client to complement its Assessment Documentation with specific human rights due diligence. For other Projects, a limited or focused environmental or



social assessment (e.g. audit), or straight-forward application of environmental siting, pollution standards, design criteria, or construction standards may be carried out.

For all Projects, in all locations, when combined Scope 1 and Scope 2 Emissions are expected to be more than 100,000 tonnes of CO₂ equivalent annually, an alternatives analysis will be conducted to evaluate less Greenhouse Gas (GHG) intensive alternatives. Refer to Annex A for alternatives analysis requirements.

Principle 3: Applicable Environmental and Social Standards

The Assessment process should, in the first instance, address compliance with relevant host country laws, regulations and permits that pertain to environmental and social issues.

EPFIs operate in diverse markets: some with robust environmental and social governance, legislation systems and institutional capacity designed to protect their people and the natural environment; and some with evolving technical and institutional capacity to manage environmental and social issues.

The EPFI will require that the Assessment process evaluates compliance with the applicable standards as follows:

1. For Projects located in Non-Designated Countries, the Assessment process evaluates compliance with the then applicable IFC Performance Standards on Environmental and Social Sustainability (Performance Standards) and the World Bank Group Environmental, Health and Safety Guidelines (EHS Guidelines) (Exhibit III).
2. For Projects located in Designated Countries, the Assessment process evaluates compliance with relevant host country laws, regulations and permits that pertain to environmental and social issues. Host country laws meet the requirements of environmental and/or social assessments (Principle 2), management systems and plans (Principle 4), Stakeholder Engagement (Principle 5) and, grievance mechanisms (Principle 6).

The Assessment process will establish to the EPFI's satisfaction the Project's overall compliance with, or justified deviation from, the applicable standards. The applicable standards (as described above) represent the minimum standards adopted by the EPFI. The EPFI may, at their sole discretion, apply additional requirements.



Principle 4: Environmental and Social Management System and Equator Principles

Action Plan

For all Category A and Category B Projects, the EPFI will require the client to develop or maintain an Environmental and Social Management System (ESMS).

Further, an Environmental and Social Management Plan (ESMP) will be prepared by the client to address issues raised in the Assessment process and incorporate actions required to comply with the applicable standards. Where the applicable standards are not met to the EPFI's satisfaction, the client and the EPFI will agree an Equator Principles Action Plan (AP). The Equator Principles AP is intended to outline gaps and commitments to meet EPFI requirements in line with the applicable standards.

Principle 5: Stakeholder Engagement

For all Category A and Category B Projects, the EPFI will require the client to demonstrate effective Stakeholder Engagement as an ongoing process in a structured and culturally appropriate manner with Affected Communities and, where relevant, Other Stakeholders. For Projects with potentially significant adverse impacts on Affected Communities, the client will conduct an Informed Consultation and Participation process. The client will tailor its consultation process to: the risks and impacts of the Project; the Project's phase of development; the language preferences of the Affected Communities; their decision-making processes; and the needs of disadvantaged and vulnerable groups. This process should be free from external manipulation, interference, coercion and intimidation.

To facilitate Stakeholder Engagement, the client will, commensurate to the Project's risks and impacts, make the appropriate Assessment Documentation readily available to the Affected Communities, and where relevant Other Stakeholders, in the local language and in a culturally appropriate manner.

The client will take account of, and document, the results of the Stakeholder Engagement process, including any actions agreed resulting from such process. For Projects with environmental or social risks and adverse impacts, disclosure should occur early in the Assessment process, in any event before the Project construction commences, and on an ongoing basis.

EPFIs recognise that indigenous peoples may represent vulnerable segments of project-affected communities. Projects affecting indigenous peoples will be subject to a process of Informed Consultation and Participation, and will need to comply with the rights and protections for indigenous peoples contained in relevant national law, including those laws implementing host country obligations under international law. Consistent with the special circumstances described in



IFC Performance Standard 7 (when relevant as defined in Principle 3), Projects with adverse impacts on indigenous people will require their Free, Prior and Informed Consent (FPIC)³.

Principle 6: Grievance Mechanism

For all Category A and, as appropriate, Category B Projects, the EPFI will require the client, as part of the ESMS, to establish a grievance mechanism designed to receive and facilitate resolution of concerns and grievances about the Project's environmental and social performance.

The grievance mechanism is required to be scaled to the risks and impacts of the Project and have Affected Communities as its primary user. It will seek to resolve concerns promptly, using an understandable and transparent consultative process that is culturally appropriate, readily accessible, at no cost, and without retribution to the party that originated the issue or concern. The mechanism should not impede access to judicial or administrative remedies. The client will inform the Affected Communities about the mechanism in the course of the Stakeholder Engagement process.

Principle 7: Independent Review

Project Finance

For all Category A and, as appropriate, Category B Projects, an Independent Environmental and Social Consultant, not directly associated with the client, will carry out an Independent Review of the Assessment Documentation including the ESMPs, the ESMS, and the Stakeholder Engagement process documentation in order to assist the EPFI's due diligence, and assess Equator Principles compliance.

The Independent Environmental and Social Consultant will also propose or opine on a suitable Equator Principles AP capable of bringing the Project into compliance with the Equator Principles, or indicate when compliance is not possible.

Project-Related Corporate Loans

An Independent Review by an Independent Environmental and Social Consultant is required for Projects with potential high risk impacts including, but not limited to, any of the following:

- adverse impacts on indigenous peoples

³There is no universally accepted definition of FPIC. Based on good faith negotiation between the client and affected indigenous communities, FPIC builds on and expands the process of Informed Consultation and Participation, ensures the meaningful participation of indigenous peoples in decision-making, and focuses on achieving agreement. FPIC does not require unanimity, does not confer veto rights to individuals or sub-groups, and does not require the client to agree to aspects not under their control. Process elements to achieve FPIC are found in IFC Performance Standard 7.



- Critical Habitat impacts
- significant cultural heritage impacts
- large-scale resettlement

In other Category A, and as appropriate Category B, Project-Related Corporate Loans, the EPFI may determine whether an Independent Review is appropriate or if internal review by the EPFI is sufficient. This may take into account the due diligence performed by a multilateral or bilateral financial institution or an OECD Export Credit Agency, if relevant.

Principle 8: Covenants

An important strength of the Equator Principles is the incorporation of covenants linked to compliance.

For all Projects, the client will covenant in the financing documentation to comply with all relevant host country environmental and social laws, regulations and permits in all material respects.

Furthermore for all Category A and Category B Projects, the client will covenant the financial documentation:

- a) to comply with the ESMPs and Equator Principles AP (where applicable) during the construction and operation of the Project in all material respects; and
- b) to provide periodic reports in a format agreed with the EPFI (with the frequency of these reports proportionate to the severity of impacts, or as required by law, but not less than annually), prepared by in-house staff or third party experts, that i) document compliance with the ESMPs and Equator Principles AP (where applicable), and ii) provide representation of compliance with relevant local, state and host country environmental and social laws, regulations and permits; and
- c) to decommission the facilities, where applicable and appropriate, in accordance with an agreed decommissioning plan.

Where a client is not in compliance with its environmental and social covenants, the EPFI will work with the client on remedial actions to bring the Project back into compliance to the extent feasible. If the client fails to re-establish compliance within an agreed grace period, the EPFI reserves the right to exercise remedies, as considered appropriate.



Principle 9: Independent Monitoring and Reporting

Project Finance

To assess Project compliance with the Equator Principles and ensure ongoing monitoring and reporting after Financial Close and over the life of the loan, the EPFI will, for all Category A and, as appropriate, Category B Projects, require the appointment of an Independent Environmental and Social Consultant, or require that the client retain qualified and experienced external experts to verify its monitoring information which would be shared with the EPFI.

Project-Related Corporate Loans

For Projects where an Independent Review is required under Principle 7, the EPFI will require the appointment of an Independent Environmental and Social Consultant after Financial Close, or require that the client retain qualified and experienced external experts to verify its monitoring information which would be shared with the EPFI.

Principle 10: Reporting and Transparency

Client Reporting Requirements

The following client reporting requirements are in addition to the disclosure requirements in Principle 5.

For all Category A and, as appropriate, Category B Projects:

- The client will ensure that, at a minimum, a summary of the ESIA is accessible and available online⁴.
- The client will publicly report GHG emission levels (combined Scope 1 and Scope 2 Emissions) during the operational phase for Projects emitting over 100,000 tonnes of CO₂ equivalent annually. Refer to Annex A for detailed requirements on GHG emissions reporting.

EPFI Reporting Requirements

The EPFI will report publicly, at least annually, on transactions that have reached Financial Close and on its Equator Principles implementation processes and experience, taking into account appropriate

⁴ Except in cases where the client does not have internet access.



confidentiality considerations. The EPFI will report according to the minimum reporting requirements detailed in Annex B.

DISCLAIMER

The Equator Principles is a baseline and framework for developing individual, internal environmental and social policies, procedures and practices. The Equator Principles do not create any rights in, or liability to, any person, public or private. Financial institutions adopt and implement the Equator Principles voluntarily and independently, without reliance on or recourse to the IFC, the World Bank Group, the Equator Principles Association, or other EPFIs. In a situation where there would be a clear conflict between applicable laws and regulations and requirements set out in the Equator Principles, the local laws and regulations prevail.



ANNEXES: IMPLEMENTATION REQUIREMENTS

Annex A: Climate Change: Alternatives Analysis, Quantification and Reporting of Greenhouse Gas Emissions

Alternatives Analysis

The alternatives analysis requires the evaluation of technically and financially feasible and cost-effective options available to reduce project-related GHG emissions during the design, construction and operation of the Project.

For Scope 1 Emissions, this analysis will include consideration of alternative fuel or energy sources if applicable. Where an alternatives analysis is required by a regulatory permitting process, the analysis will follow the methodology and time frame required by the relevant process. For Projects in high carbon intensity sectors, the alternatives analysis will include comparisons to other viable technologies, used in the same industry and in the country or region, with the relative energy efficiency of the selected technology.

High carbon intensity sectors include the following, as outlined in the World Bank Group EHS Guidelines: thermal power, cement and lime manufacturing, integrated steel mills, base metal smelting and refining, and foundries.

Following completion of an alternatives analysis, the client will provide, through appropriate documentation, evidence of technically and financially feasible and cost-effective options. This does not modify or reduce the requirements set out in the applicable standards (e.g. IFC Performance Standard 3).

Quantification and Reporting

Quantification of GHG emissions will be conducted by the client in accordance with internationally recognised methodologies and good practice, for example, the GHG Protocol. The client will quantify Scope 1 and Scope 2 Emissions.

The EPFI will require the client to report publicly on an annual basis on GHG emission levels (combined Scope 1 and Scope 2 Emissions) during the operational phase for Projects emitting over 100,000 tonnes of CO₂ equivalent annually. Clients will be encouraged to report publicly on Projects emitting over 25,000 tonnes. Public reporting requirements can be satisfied via regulatory requirements for reporting or environmental impact assessments, or voluntary reporting mechanisms such as the Carbon Disclosure Project where such reporting includes emissions at Project level.

In some circumstances, public disclosure of the full alternatives analysis or project-level emissions may not be appropriate.



Annex B - Minimum Reporting Requirements

The EPFI will report annually and as per the requirements detailed in all of the sections below.

Data and Implementation Reporting

Data and implementation reporting is the responsibility of the EPFI. It will be published on the EPFI's website, in a single location and in an accessible format.

The EPFI will specify the reporting period (i.e. start and end dates) for all data and implementation reporting.

Project Finance Advisory Services Data

The EPFI will report on the total number of Project Finance Advisory Services mandated during the reporting period. The total will be broken down by Sector and Region.

Data for Project Finance Advisory Services will be reported under a separate heading from Project Finance and Project-Related Corporate Loans. Project Finance Advisory Services data may exclude the Category and whether an Independent Review has been carried out because the Project is often at an early stage of development and not all information is available.

Project Finance and Project-Related Corporate Loans Data

The EPFI will report on the total number of Project Finance transactions and total number of Project-Related Corporate Loans that reached Financial Close during the reporting period.

The totals for each product type will be broken down by Category (A, B or C) and then by:

- Sector (i.e. Mining, Infrastructure, Oil and Gas, Power, Others)
- Region (i.e. Americas, Europe Middle East and Africa, Asia Pacific)
- Country Designation (i.e. Designated Country or Non-Designated Country)
- Whether an Independent Review has been carried out

Data for Project Finance transactions and Project-Related Corporate Loans should be shown separately.

Bridge Loans Data

Data for Bridge Loans, due to their nature, are not subject to specific reporting requirements.



Implementation Reporting

The EPFI will report on its implementation of the Equator Principles, including:

- The mandate of the Equator Principles Reviewers (e.g. responsibilities and staffing);
- The respective roles of the Equator Principles Reviewers, business lines, and senior management in the transaction review process;
- The incorporation of the Equator Principles in its credit and risk management policies and procedures.

For the first year of Equator Principles adoption, the EPFI will provide details of its internal preparation and staff training. After the first year, the EPFI may provide details on ongoing training of staff if considered relevant.

Project Name Reporting for Project Finance

The EPFI will submit project name data directly to the Equator Principles Association Secretariat for publication on the Equator Principles Association website.

Project name reporting is:

- applicable only to Project Finance transactions that have reached Financial Close,
- subject to obtaining client consent,
- subject to applicable local laws and regulations, and
- subject to no additional liability for the EPFI as a result of reporting in certain identified jurisdictions.

The EPFI will seek client consent at any time deemed appropriate but no later than Financial Close.

The EPFI will submit the following project name data directly or via a web link:

- Project name (as per the loan agreement and/or as publicly recognised),
- Calendar year in which the transaction reached Financial Close,
- Sector (i.e. Mining, Infrastructure, Oil and Gas, Power, Others),
- Host country name.

Individual EPFIs may want to publish the data as part of their individual reporting, but there is no obligation to do so.



EXHIBITS: SUPPORTING INFORMATION

Exhibit I: Glossary of Terms

Unless specified here, the Equator Principles use definitions as set out in the IFC Performance Standards.

Affected Communities are local communities, within the Project's area of influence, directly affected by the Project.

Assessment (see **Environmental and Social Assessment**).

Assessment Documentation (see **Environmental and Social Assessment Documentation**).

Asset Finance is the provision of a loan for the purchase of assets (such as airplanes, cargo ships, or equipment) in exchange for a security interest in those assets.

Bridge Loan is an interim loan given to a business until the longer term stage of financing can be obtained.

Buyer Credit is a medium/long term Export Finance credit where the exporter's bank or other financial institution lends to the buyer or the buyer's bank.

Critical Habitats are areas with high biodiversity value, including (i) habitat of significant importance to Critically Endangered and/or Endangered species; (ii) habitat of significant importance to endemic and/or restricted-range species; (iii) habitat supporting globally significant concentrations of migratory species and/or congregatory species; (iv) highly threatened and/or unique ecosystems; and/or (v) areas associated with key evolutionary processes.

Designated Countries are those countries deemed to have robust environmental and social governance, legislation systems and institutional capacity designed to protect their people and the natural environment. The list of Designated Countries can be found on the Equator Principles Association website.

Effective Operational Control includes both direct control (as operator or major shareholder) of the Project by the client and indirect control (e.g. where a subsidiary of the client operates the Project).

Environmental and Social Assessment (Assessment) is a process that determines the potential environmental and social risks and impacts (including labour, health, and safety) of a proposed Project in its area of influence.



Environmental and Social Assessment Documentation (Assessment Documentation) is a series of documents prepared for a Project as part of the Assessment process. The extent and detail of the documentation is commensurate with the Project's potential environmental and social risks and impacts. Examples of Assessment Documentation are: an Environmental and Social Impact Assessment (ESIA), Environmental and Social Management Plan (ESMP), or documents more limited in scale (such as an audit, risk assessment, hazard assessment and relevant project-specific environmental permits). Non-technical environmental summaries can also be used to enhance the Assessment Documentation when these are disclosed to the public as part a broader Stakeholder Engagement process.

Environmental and Social Impact Assessment (ESIA) is a comprehensive document of a Project's potential environmental and social risks and impacts. An ESIA is usually prepared for greenfield developments or large expansions with specifically identified physical elements, aspects, and facilities that are likely to generate significant environmental or social impacts. Exhibit II provides an overview of the potential environmental and social issues addressed in the ESIA.

Environmental and Social Management Plan (ESMP) summarises the client's commitments to address and mitigate risks and impacts identified as part of the Assessment, through avoidance, minimisation, and compensation/offset. This may range from a brief description of routine mitigation measures to a series of more comprehensive management plans (e.g. water management plan, waste management plan, resettlement action plan, indigenous peoples plan, emergency preparedness and response plan, decommissioning plan). The level of detail and complexity of the ESMP and the priority of the identified measures and actions will be commensurate with the Project's potential risks and impacts. The ESMP definition and characteristics are broadly similar to those of the "Management Programs" referred to in IFC Performance Standard 1.

Environmental and Social Management System (ESMS) is the overarching environmental, social, health and safety management system which may be applicable at a corporate or Project level. The system is designed to identify, assess and manage risks and impacts in respect to the Project on an ongoing basis. The system consists of manuals and related source documents, including policies, management programs and plans, procedures, requirements, performance indicators, responsibilities, training and periodic audits and inspections with respect to environmental or social issues, including Stakeholder Engagement and grievance mechanisms. It is the overriding framework by which an ESMP and/or Equator Principles AP is implemented. The term may refer to the system for the construction phase or the operational phase of the Project, or to both as the context may require.

Equator Principles Action Plan (AP) is prepared, as a result of the EPFI's due diligence process, to describe and prioritise the actions needed to address any gaps in the Assessment Documentation, ESMPs, the ESMS, or Stakeholder Engagement process documentation to bring the Project in line with applicable standards as defined in the Equator Principles. The Equator Principles AP is typically



tabular in form and lists distinct actions from mitigation measures to follow-up studies or plans that complement the Assessment.

Equator Principles Association is the unincorporated association of member EPFIs whose object is the management, administration and development of the Equator Principles. The Equator Principles Association Secretariat manages the day to day running of the Equator Principles Association including the collation of EPFIs project name reporting data. For more information go to the Equator Principles Association website.

Equator Principles Reviewers are EPFI employees responsible for reviewing the environmental and social aspects of transactions subject to the Equator Principles. They may be part of a distinct Equator Principles team or members of banking, credit risk, corporate sustainability (or similar) departments/divisions tasked with applying the Equator Principles internally.

Export Finance (also known as Export Credits) an insurance, guarantee or financing arrangement which enables a foreign buyer of exported goods and/or services to defer payment over a period of time. Export credits are generally divided into short-term, medium-term (usually two to five years repayment) and long-term (usually over five years).

Financial Close is defined as the date on which all conditions precedent to initial drawing of the debt have been satisfied or waived.

Informed Consultation and Participation is an in-depth exchange of views and information and an organised and iterative consultation that leads the client to incorporate the views of Affected Communities, on issues that affect them directly (such as proposed mitigation measures, the sharing of development benefits and opportunities, and implementation issues), into their decision-making process.

Independent Environmental and Social Consultant is a qualified independent firm or consultant (not directly tied to the client) acceptable to the EPFI.

Independent Review is a review of the Assessment Documentation including the ESMPs, ESMS and Stakeholder Engagement process documentation carried out by an Independent Environmental and Social Consultant.

Known Use of Proceeds is the information provided by the client on how the borrowings will be used.



Mandated Equator Principles Financial Institution or **Mandated Financial Institution** is a financial service provider that is contracted by a client to carry out banking services for a Project or transaction.

Non-Designated Countries are those countries not found on the list of Designated Countries on the Equator Principles Association website.

Operational Control (see **Effective Operational Control**)

Other Stakeholders are those not directly affected by the Project but have an interest in it. They could include national and local authorities, neighbouring Projects, and/or non-governmental organisations.

A **Project** is a development in any sector at an identified location. It includes an expansion or upgrade of an existing operation that results in a material change in output or function. Examples of Projects that trigger the Equator Principles include, but are not limited to; a power plant, mine, oil and gas Projects, chemical plant, infrastructure development, manufacturing plant, large scale real estate development, real estate development in a Sensitive Area, or any other Project that creates significant environmental and/or social risks and impacts. In the case of Export Credit Agency supported transactions, the new commercial, infrastructure or industrial undertaking to which the export is intended will be considered the Project.

Project Finance is a method of financing in which the lender looks primarily to the revenues generated by a single Project, both as the source of repayment and as security for the exposure. This type of financing is usually for large, complex and expensive installations that might include, for example, power plants, chemical processing plants, mines, transportation infrastructure, environment, and telecommunications infrastructure. Project Finance may take the form of financing of the construction of a new capital installation, or refinancing of an existing installation, with or without improvements. In such transactions, the lender is usually paid solely or almost exclusively out of the money generated by the contracts for the Project's output, such as the electricity sold by a power plant. The client is usually a Special Purpose Entity that is not permitted to perform any function other than developing, owning, and operating the installation. The consequence is that repayment depends primarily on the Project's cash flow and on the collateral value of the Project's assets. For reference go to: "Basel Committee on Banking Supervision, International Convergence of Capital Measurement and Capital Standards ("Basel II")", November 2005. Reserve-Based Financing in extractive sectors that is non-recourse and where the proceeds are used to develop one particular reserve (e.g. an oil field or a mine) is considered to be a Project Finance transaction covered under the Equator Principles.



Project Finance Advisory Services is the provision of advice on the potential financing of a development where one of the options may be Project Finance.

Project-Related Corporate Loans are corporate loans, made to business entities (either privately, publicly, or state-owned or controlled) related to a single Project, either a new development or expansion (e.g. where there is an expanded footprint), where the Known Use of Proceeds is related to a single Project in one of the following ways:

- a. The lender looks primarily to the revenues generated by the Project as the source of repayment (as in Project Finance) and where security exists in the form of a corporate or parent company guarantee;
- b. Documentation for the loan indicates that the majority of the proceeds of the total loan are directed to the Project. Such documentation may include the term sheet, information memorandum, credit agreement, or other representations provided by the client into its intended use of proceeds for the loan.

It includes loans to government-owned corporations and other legal entities created by a government to undertake commercial activities on behalf of the government, but excludes loans to national, regional or local governments, governmental ministries and agencies.

Scope 1 Emissions are direct GHG emissions from the facilities owned or controlled within the physical Project boundary.

Scope 2 Emissions are indirect GHG emissions associated with the off-site production of energy used by the Project.

Sensitive Area is an area of international, national or regional importance, such as wetlands, forests with high biodiversity value, areas of archaeological or cultural significance, areas of importance for indigenous peoples or other vulnerable groups, National Parks and other protected areas identified by national or international law.

Stakeholder Engagement refers to IFC Performance Standards provisions on external communication, environmental and social information disclosure, participation, informed consultation, and grievance mechanisms. For the Equator Principles, Stakeholder Engagement also refers to the overall requirements described under Principle 5.

Supplier Credit is a medium/long term Export Finance credit that is extended by the exporter to the overseas buyer.



Exhibit II: Illustrative List of Potential Environmental and Social Issues to be Addressed in the Environmental and Social Assessment Documentation

The list below provides an overview of the issues that may be addressed in the Assessment Documentation. Note the list is for illustrative purposes only. The Assessment process of each Project may or may not identify all of the issues listed, or be relevant to every Project.

The Assessment Documentation may include, where applicable, the following:

- a) assessment of the baseline environmental and social conditions
- b) consideration of feasible environmentally and socially preferable alternatives
- c) requirements under host country laws and regulations, applicable international treaties and agreements
- d) protection and conservation of biodiversity (including endangered species and sensitive ecosystems in modified, natural and Critical Habitats) and identification of legally protected areas
- e) sustainable management and use of renewable natural resources (including sustainable resource management through appropriate independent certification systems)
- f) use and management of dangerous substances
- g) major hazards assessment and management
- h) efficient production, delivery and use of energy
- i) pollution prevention and waste minimisation, pollution controls (liquid effluents and air emissions), and solid and chemical waste management
- j) viability of Project operations in view of reasonably foreseeable changing weather patterns/climatic conditions, together with adaptation opportunities
- k) cumulative impacts of existing Projects, the proposed Project, and anticipated future Projects
- l) respect of human rights by acting with due diligence to prevent, mitigate and manage adverse human rights impacts
- m) labour issues (including the four core labour standards), and occupational health and safety
- n) consultation and participation of affected parties in the design, review and implementation of the Project
- o) socio-economic impacts
- p) impacts on Affected Communities, and disadvantaged or vulnerable groups
- q) gender and disproportionate gender impacts
- r) land acquisition and involuntary resettlement
- s) impacts on indigenous peoples, and their unique cultural systems and values
- t) protection of cultural property and heritage
- u) protection of community health, safety and security (including risks, impacts and management of Project's use of security personnel)
- v) fire prevention and life safety



Exhibit III: IFC Performance Standards on Environmental and Social Sustainability and the World Bank Group Environmental, Health and Safety Guidelines

The Equator Principles refer to two separate parts of the IFC Sustainability Framework as “the then applicable standards” under Principle 3.

1. The IFC Performance Standards

As of 1 January 2012, the following Performance Standards are applicable:

- 1 - Assessment and Management of Environmental and Social Risks and Impacts
- 2 - Labor and Working Conditions
- 3 - Resource Efficiency and Pollution Prevention
- 4 - Community Health, Safety and Security
- 5 - Land Acquisition and Involuntary Resettlement
- 6 - Biodiversity Conservation and Sustainable Management of Living Natural Resources
- 7 - Indigenous Peoples
- 8 - Cultural Heritage

Guidance Notes accompany each Performance Standard. EPFIs do not formally adopt the Guidance Notes however EPFIs and clients may find them useful points of reference when seeking further guidance on or interpreting the Performance Standards.

The IFC Performance Standards, Guidance Notes and Industry Specific Guidelines can be found on the IFC website.

2. The World Bank Group Environmental, Health and Safety Guidelines

The World Bank Group EHS Guidelines are technical reference documents containing examples of Good International Industry Practice (GIIP) as described in the IFC Performance Standards. They contain the performance levels and measures that are normally considered acceptable for Projects in Non-Designated Countries, as well as being achievable in new facilities at reasonable costs by existing technology. Two sets of guidelines are used:

The General Environmental, Health and Safety Guidelines

These Guidelines contain information on cross-cutting environmental, health, and safety issues potentially applicable to all industry sectors. They are divided into sections entitled: Environmental; Occupational Health and Safety; Community Health and Safety; Construction; and Decommissioning. They should be used together with the relevant Industry Sector Guideline(s).



The Industry Sector Guidelines

These Guidelines contain information on industry-specific impacts and performance indicators, plus a general description of industry activities. They are grouped as follows:

Agribusiness/Food Production

- Annual Crop Production
- Aquaculture
- Breweries
- Dairy Processing
- Fish Processing
- Food and Beverage Processing
- Mammalian Livestock Production
- Meat Processing
- Plantation Crop Production
- Poultry Processing
- Poultry Production
- Sugar Manufacturing
- Vegetable Oil Processing

Chemicals

- Coal Processing
- Large Volume Inorganic Compounds Manufacturing and Coal Tar Distillation
- Large Volume Petroleum-based Organic Chemicals Manufacturing
- Natural Gas Processing
- Nitrogenous Fertilizer Manufacturing
- Oleochemicals Manufacturing
- Pesticides Formulation, Manufacturing and Packaging
- Petroleum-based Polymers Manufacturing
- Petroleum Refining
- Pharmaceuticals and Biotechnology Manufacturing
- Phosphate Fertilizer Manufacturing

Forestry

- Board and Particle-based Products
- Forest Harvesting Operations
- Pulp and Paper Mills
- Sawmilling and Wood-based Products

General Manufacturing

- Base Metal Smelting and Refining
- Cement and Lime Manufacturing
- Ceramic Tile and Sanitary Ware Manufacturing
- Construction Materials Extraction
- Foundries
- Glass Manufacturing
- Integrated Steel Mills
- Metal, Plastic, Rubber Products Manufacturing
- Printing
- Semiconductors and Electronics Manufacturing
- Tanning and Leather Finishing
- Textiles Manufacturing



Infrastructure

- Airlines
- Airports
- Crude Oil and Petroleum Product Terminals
- Gas Distribution Systems
- Health Care Facilities
- Ports, Harbors and Terminals
- Railways
- Retail Petroleum Networks
- Shipping
- Telecommunications
- Toll Roads
- Tourism and Hospitality Development
- Waste Management Facilities
- Water and Sanitation

Mining

- Mining

Oil and Gas

- Offshore Oil and Gas Development
- Onshore Oil and Gas Development
- Liquefied Natural Gas (LNG) Facilities

Power

- Electric Power Transmission and Distribution
- Geothermal Power Generation
- Thermal Power
- Wind Energy