

# **Corporate Social Responsibility and Sustainability Paper Awards**

Zev Greenfield MBA '05  
Citigroup Summer Associate

The Equator Principles:  
A New Industry Framework for  
Environmental and Social Standards  
in Global Project Finance Lending

An example of how Citigroup addresses  
CSR, sustainability, corporate citizenship,  
and social impact management issues

## Executive Summary

Last year, Citigroup joined nine other banks from around the world to adopt the "Equator Principles" (refer Appendix 1), a set of guidelines developed by banks for managing social and environmental issues related to the financing of development projects in all industries, including mining, oil and gas, and forestry.

The Principles are based on the policies and guidelines of the World Bank and International Finance Corporation (IFC), the private-sector investment arm of the World Bank, which provided extensive advice and guidance in drafting the new project finance principles for the banks. The adoption of the Equator Principles signified a major step forward by the financial sector to establish a standardized, common framework to address the environmental and social issues that arise from development projects.

There are now 23 banks that are signatories to the Equator Principles, which arranged approximately 75% of project financings done in the bank loan market in 2003.

As per the Equator Principles preamble<sup>1</sup>:

“We believe that adoption of and adherence to these principles offers significant benefits to ourselves, our customers and other stakeholders. These principles will foster our ability to document and manage our risk exposures to environmental and social matters associated with the projects we finance, thereby allowing us to engage proactively with our stakeholders on environmental and social policy issues. Adherence to these principles will allow us to work with our customers in their management of environmental and social policy issues relating to their investments in the emerging markets.”

The Equator Principles form a significant and crucial part of Citigroup’s overall Global Corporate and Investment Bank (GCIB) Environmental and Social Risk Management Policy.

---

<sup>1</sup> The “Equator Principles”: An Industry Approach for Financial Institutions in Determining, Assessing and Managing Environmental and Social Risk in Project Financing, *July 4, 2003* (refer Appendix 1)

## **What was the innovative approach undertaken?**

June 4<sup>th</sup>, 2003: Nine major banks from seven countries adopted guidelines for project finance in emerging markets, in the first industry-wide attempt to encourage socially responsible lending. On the day, Peter Woicke, Executive Vice-President of the IFC and Managing Director of the World Bank said, "The adoption of these principles by the private sector marks a profound victory for sustainable development."<sup>2</sup> The so-called "Equator Principles" (EP) were drafted by ABN Amro, Barclays, Citigroup and WestLB in collaboration with the International Finance Corporation (IFC), the private-sector arm of the World Bank. At the time, five other banks - Credit Lyonnais, Credit Suisse First Boston, Westpac Banking Corporation, Rabobank Group and HVB Group - also agreed to commit themselves to the principles. Modeled on the IFC's and the World Bank's environmental and social guidelines and policies, EP applies across all industry sectors for project finance loans of \$50 million or more and requires environmental management plans (EMPs) for sensitive projects to ensure that they protect natural habitats and rights of indigenous peoples while providing safeguards against child and forced labor. Specifically, the signatories will "not provide loans directly to projects where the borrower will not or is unable to comply with our environmental and social policies and processes."<sup>3</sup>

The announcement of EP was so significant due to:

- (i) The scale of global investment affected: Based on the initial adopting institutions, approximately \$14.5 billion in project finance investments worldwide annually were affected representing approx. 30-35% of the project loan syndication market globally. By the end of 2003, 23 of the now 25 signatories, who were located in 14 countries, arranged \$55.1 billion of project loans, representing more than 75% of \$73.5 billion project loan market volume<sup>4</sup>;
- (ii) The breadth and nature of investment affected: Unlike single industry codes of conduct, the adopting banks apply these standards across a wide array of sectors, ranging from manufacturing, infrastructure, oil,

---

<sup>2</sup> "Equator Principles Celebrate First Anniversary", Equator Principles web site: <http://www.equator-principles.com>

<sup>3</sup> The "Equator Principles": An Industry Approach for Financial Institutions in Determining, Assessing and Managing Environmental and Social Risk in Project Financing, *July 4, 2003* (refer Appendix 1)

gas, mining to information technology. Specifically, because many large and controversial projects such as oil pipelines and dams are often funded through project finance, EP has the potential to promote more responsible corporate behavior in an area of industry that has been widely criticized in the past; and

(iii) The rarity of such a move by financial institutions. Global private-sector financial institutions have traditionally kept a low profile with respect to the environmental and social aspects of their investments. Arguably, this was one of the largest collective responses by any group in the private sector to the concerns raised within the globalization debate over the past decade.

One year later, as EP celebrated their first anniversary, I found myself in the second week of my summer internship at Citigroup. On the 4<sup>th</sup> of June, 2004, Chuck Prince, CEO of Citigroup stated: "[The EP are] one of the most important things that the banking industry has done in the past couple of years."<sup>5</sup> To mark the anniversary, BankTrack, a consortium of global nongovernmental organizations (NGOs) that tracks the social and environmental impacts of the private financial sector, released a report that assessed the progress of EP. While the report praised the two US signatories, Citigroup and Bank of America, for making environmental commitments that exceed EP guidelines, the report found that "the 25 signatories' compliance with EP standards was sorely lacking". Specifically, the report, entitled *Principles, Profits, or Just PR? Triple P<sup>6</sup> investments under the Equator Principles*, criticized the EP banks for financing projects that violated EP standards, and for a lack of transparency about implementation of EP.

Do the principles actually mitigate potential risks, whether environmental, political or social? Do they have an impact, both from a financial perspective for the banks and sponsoring institutions and also from a social perspective for other stakeholders who, it is argued, seem to be neglected throughout the history of large-scale infrastructure projects? Or "Are the Equator Principles Sincere or Spin?"<sup>7</sup>

---

<sup>4</sup> "Equator Banks Arranged 75% of Project Loans in 2003": [www.dealogic.com](http://www.dealogic.com)

<sup>5</sup> "Equator Principles Celebrate First Anniversary", Equator Principles web site: <http://www.equator-principles.com>

<sup>6</sup> "Triple P" stands for the balancing of People, Planet, and Profits

<sup>7</sup> "Are the Equator Principles Sincere or Spin?" Socialfunds.com, June 2004

**What impact did CSR and sustainability issues have on the Citigroup's Project Financing business, and on the company's profitability?**

Quantifying the impact of EP on a bank's bottom line is incredibly difficult, especially after EP have only been in place a year. Chris Beale, Citigroup's Global Head of Project Finance and, at the time of the principles formation, a pivotal contributor in achieving their declaration, argues that even if it was possible to draw a conclusion as to the short-term financial impact of EP on Citigroup's project financing business, it would neglect the fact that the project financing products often lead banks into new markets and, therefore, develops relationships that enhance the bank's profitability over a longer time horizon. Even though a measurement of the profit upside is difficult, Mr. Beale believes that the risk mitigation is very real and adopting EP makes sound business sense for the banks involved. "Well defined environmental and social policies, such as EP, clearly make it less likely that we will find ourselves in trouble in the future, but there is no historical cost that we can quantify. We could take a view on default risk in the future but this too is difficult to measure. However, EP presents a framework for business risk reduction, primarily more quantifiable as reputational risk ... Banks face both credit and reputation risk when they finance development around the world. If sponsors adopt and follow EP for sensitive projects, they might well enjoy a faster implementation period, with the end result being that the project starts generating revenue streams earlier, avoiding the specter of costly interruptions, delays and retrenchments." The belief is, he says, that "EP will lead to more secure investments on the part of customers and safer loans on the part of banks." Mr. Beale implies<sup>8</sup> that the downside to not paying heed to EP concerns could be disastrous, "If banks finance something dirty or that harms people, it's possible the host government or local people will interfere with or even confiscate the private development project." In addition, implementation of EP can have benefits derived from enhancing business reputation, "In the past, newspapers and internet campaigns have accused us of such things as being 'the world's biggest polluter' ... Such negative publicity has a clear cost to our business. As a result of EP and our Corporate Policies, Citi is now rated, by a number of

---

<sup>8</sup> "A point of principle" Global Finance Magazine, July 2003

independent groups, at (or near to) the top of CSR business practices as it relates to environmental and social policies. We have shifted the bar from exaggerated criticisms to being viewed by the environmental community as being ‘less bad than anyone else’.”

**What is the link to community benefit achieved by the company and/or the project?**

It is a fundamental belief that EP appropriately is becoming the reference standard for financial institutions to ensure that the doctrine of responsible environmental stewardship and socially responsible development are embedded within project finance activities. Moreover, EP is seen to be an excellent example how the financial sector is able to self-regulate on high value issues. Mr. Woicke has stated, "The rapid growth of EP demonstrates that not only can institutions in the financial sector engage effectively on environmental and social issues, but they can also provide leadership in developing solutions that are global, credible, comprehensive, and inclusive.”<sup>9</sup>

In an interview I conducted on Aug 3<sup>rd</sup> with Chuck Prince, he agreed. “EP now covers more than 75% of the project financing funding, from the initial 35%. However, when we signed up, we took the risk that the 65% that did not initially sign on, who could operate more ‘aggressively’, would, in fact, take market share away from us. Some believed that we would be at a competitive disadvantage. I, however, thought that we were always better off taking the higher ground, and I think we have been proven correct. I believe that EP has been, almost, an unqualified success.”

Praise for the principles has come from both commercial and watchdog organizations, with some remarking that EP represents something the export credit agencies, hampered by a diverse set of political allegiances, have so far failed to accomplish. Private banks adopting EP places pressure on export credit agencies to be more vigilant about funding environmentally questionable projects. In an encouraging sign, Denmark’s Eksport Kredit Fonden became the first agency to sign up to EP (May 2004), with more export agencies expected to follow.

Many NGOs welcome the fact that EP recognizes that private banks have a role in and responsibility for

---

<sup>9</sup> “Equator Principles Celebrate First Anniversary”, Equator Principles web site: <http://www.equator-principles.com>

the social and environmental impacts of their transactions. In addition, EP represents an industry approach, in which a number of banks are working together. This collaboration helps reduce the ability for corporate clients to shop around for a bank that has lower environmental and social standards. However, NGOs are “holding their applause”<sup>10</sup> as EP only applies to direct lending for project finance. It is argued that many sensitive transactions, such as mining and forestry activities, are more likely to be funded through lines of credit or corporate loans, and thus are exempt from EP.

### **How does the company evaluate and/or measure its activities and community impact?**

Banks that endorse EP commit to categorize projects based on their social and environmental sensitivity. For the most sensitive projects, banks would require corporate clients to prepare environmental assessments, perform public consultations, and create mitigation plans. The banks would then require such mitigation as a part of its loan agreement with the client. While each bank is responsible for monitoring and enforcing compliance, the IFC acts as a consultant.

The first step in the process is to categorize projects A, B or C, with “A” projects having the highest risk for impact and the greatest need for mitigation and “C” projects being merely financial transactions. The “A” projects require both an environmental impact assessment and an EMP to be in place. In the EP preamble it states that sponsors who are unwilling or unable to comply with EP policies are not eligible for financing<sup>11</sup>. The whole process of developing the EPM involves a third-party consultant and public review by all the stakeholders.

Paul Mudde, ABN AMRO’s head of Reputation Management & Sustainable Development, says, “The arranger group will determine the deal’s conditions, and the other participants will follow its lead.”<sup>12</sup>

Mr. Beale added, “It’s the impact of the project that counts, not the project itself. A pipeline through a forest is likely to be an ‘A’. The same pipeline being built in an industrialized area would be a ‘B’.” EP applies only to direct project finance loans and not to corporate deals, says Mr. Beale, “because in a

---

<sup>10</sup> “Holding the Applause: The Equator Principles on Project Finance” Friends of the Earth – US *July 14 2003*

<sup>11</sup> The “Equator Principles”: An Industry Approach for Financial Institutions in Determining, Assessing and Managing Environmental and Social Risk in Project Financing, *July 4, 2003* (refer Appendix 1)

<sup>12</sup> “A Point of Principle” *Global Finance Magazine, July 2003*

corporate deal banks don't have the market power to impose covenants." Corporate loans are usually undefined for general corporate purposes. They're made on the good faith and credit of the corporation, eschewing specific covenants. It's through the covenant vehicle that EP shows its teeth. "Even in the case where a particular plant, financed by a 'corporate' loan, lost its operating permit," he says, "defaulting the loan might set in motion unwarranted repercussions to the total credit of the corporation. It could in effect bring the whole house down." Allocating responsibility between lenders and sponsors ends in a split decision. Banks set the process in motion by building into the language of covenants what is required of the sponsor. It's then up to the sponsor to live up to the terms of his contract. "If they don't comply," says Mr. Beale, "banks could default on the loan, which in turn could stop construction draw downs or cause the loan, if the project is in operation, to be accelerated."<sup>13</sup>

### **What are the project goals and deliverables and are these being achieved?**

Part of Citigroup's statement of Corporate Citizenship, as it pertains to the Environment, states that the company must "analyze the potential impact of our business activities and take action to reduce environmental risk or impact, or promote benefits, or do both." EP is a key component of such a policy. Mr. Beale elaborated that the goal of EP is more defined "ensuring that not only does Citi stay in the project financing business, but also driving the business and the execution by clients to a higher standard. The Banking industry, in the past, have said 'we are just the dumb money' but with EP, now a group of banks are stating that, in fact, this is not the case. While we [the banks] are not primary transactors, it is in our, and our clients', interests to do this business better. EP is a very strong risk management tool." According to the BankTrack report, there are three key tests as to whether EP achieves its goals: "exclude financing of projects which fail to meet certain minimum standards, set markers for improving projects' design and performance, and hold clients accountable for meeting environmental and social performance standards"<sup>14</sup>.

---

<sup>13</sup> "A Point of Principle" Global Finance, *July 2004*

<sup>14</sup> "Principles, Profits, or Just PR? Triple P investments under the Equator Principles" BankTrack *June 2004*

On the 1<sup>st</sup> of July 2004, sixteen EP adopting financial institutions met with representatives of 13 NGOs in London to review the progress of the Principles and to address issues of concern to NGOs. The tabled concerns, and the attempts at resolution, included:

(i) **lack of transparency and accountability.** The perceived lack of transparent requirements may prevent endorsing institutions, peer banks and the public to monitor implementation while also raising questions as to how environmental issues would be monitored after the initial financing is closed.

Mr. Prince, argues that Citigroup, a leader of the initiative, had been transparent and expected other banks to follow suit. "We are disclosing our progress on EP and I believe that eventually more and more institutions will do that, so that the issue of transparency will become more and more resolved," he said. "It's a constant dialogue [with environmental groups] over where the goalposts are."<sup>15</sup>

In addition, is argued that few banks have been open in revealing projects to which EP has been applied, making it hard to know how they are working in practice. Some activists have speculated that Royal Bank of Canada (RBC) turned down an application for funding for the Alburnus Maior mine in Romania because it failed to measure up to EP. However, Sandra Odendahl, Toronto-based senior manager in environmental risk management at the bank, says that "there are usually a lot of reasons why a deal doesn't go through and to put it down to just EP would be naïve in the extreme."<sup>16</sup> Furthermore, RBC has stated that EP "has been applied in three cases, a Canadian oil sands project and two developing country oil and gas projects".<sup>17</sup>

When questioned as to the apparent lack of transparency, Mr. Beale outlined Citigroup's experiences to date, "We have walked away from three deals where the primary reason was the controversial nature of the environmental and/or social risks associated with the projects. Even though there was a great potential for the projects, the reputational risk was simply too great ... In two instances, it was not that the potential clients were in any way negligent. In fact, one party asked what they could do to ensure compliance. However, we had to say 'no' as the projects were simply too hot to handle. In the third instance, the potential client's name was just too tarnished and we believed that it was best not to enter into financing;

---

<sup>15</sup> "Environment groups hold banks to their green promises" *Financial Times* June 4, 2004

<sup>16</sup> "Putting principles into practice" *Environmental Finance June 2004*

(ii) **perception of uneven implementation** by different banks, with some having done a lot while others had done little, although the NGOs highlighted that they had insufficient information about what most Equator banks were or were not doing. Actual enforcement of EP remains a gray area as they are a voluntary private initiative and, it is argued that, policing stipulations would be contrary to the spirit of the initiative. While acknowledging that each lead arranger is only as good as the syndicate's weakest link, it was noted, however, that banks can in effect police one another through peer pressure. Non-signatories will be under the scrutiny of lead arrangers given that reputations and financial risk are at stake.

(iii) **consistency in categorizing** projects as A, B or C. Standardized training is viewed as the best approach towards consistency of categorization and implementation. Representatives of the IFC have customized training for the adopting banks and in the first year, 365 bankers from 13 banks participated. Such training has been lauded given the benefits of the banks "mainstreaming" environmental and social processes in their business units versus the IFC's approach of a specialist environmental department; and

(iv) how environmental assessments on high risk projects would be **disclosed**. Chris Bray, head of Barclays environmental risk policy management team has stated that the private sector banks are in a rather different position to bodies such as the IFC: "We have a duty of confidentiality to our clients".<sup>18</sup> It is also argued that simply disclosing the number of projects passed and failed in reference to EP could be misinterpreted or misleading. Too many failed projects would suggest that initial screening procedures were not working, while too few might bring suggestions that the principles were being insufficiently rigorously applied. Environmental groups have lobbied the US Securities and Exchange Commission to force companies to increase disclosure of environmental risk. Mr. Prince said Citigroup would welcome dialogue with regulators about increasing environmental rules but did not expect changes in the short term.

In addition, critics of EP also argue that controversial projects will still be able to get funding unless there is a critical mass of banks adopting EP. "We were the only US bank to sign-on to the principles on

---

<sup>17</sup> "Putting principles into practice" Environmental Finance *June 2004*

<sup>18</sup> "Putting principles into practice" Environmental Finance *June 2004*

inception," said Mr. Prince "and I am a little disappointed that we have only had one other US bank (Bank of America) join. I strongly encourage other US financial institutions to sign on."<sup>19</sup>

In addition to IFC training, Citigroup and other signatories, have undertaken a number of initiatives in order to implement the principles. For example, the banks have attempted to improve implementation through changes to their credit policies and processes, further development of analytical tools, internal auditing procedures to ensure compliance with policies, shared learning, and undertaking further IFC workshops on the Safeguard Policies and on social risk assessment. Citigroup, as do most of the other signatories, also emphasize that EP is only one, albeit an important part, of their overall social and environmental and policies. To further strengthen Citigroup's efforts, the company recently named Shawn Miller as the GCIB Group Director of Environmental and Social Risk Policy. In this newly created position, Mr. Miller will provide counsel to GCIB Senior Credit Officers designated as Environmental and Social Risk Management Specialists. He will also play a major role in the Citigroup-wide training efforts to disseminate knowledge on environmental and social risk issues. Environmental groups, while welcoming such initiatives, still reserve judgment. "EP is something that potentially can be very significant," says Michelle Chan-Fishel, Friends of the Earth green investments project program manager.<sup>20</sup> "We do welcome it when banks have the guts to go on the record ... but the proof is in the implementation pudding." "Ultimately, banks will be judged not on the loftiness of their policies, but on the environmental and social impacts of the transactions they finance ... Endorsing banks must prove that they are serious about by taking actions such as rejecting projects that do not meet IFC environmental/social standards, dedicating adequate resources to implementation, disclosing their Environmental Management Systems (including how EP is implemented and monitored), and disclosing environmental/social loan covenants."<sup>21</sup> Mr. Beale stressed when evaluating projects for financing, EP provides a heightened awareness of what to, and what not to pursue. However, he argues against the assertion that serious implementation of EP can only be proven by the rejection of projects. "The idea of EP is not to stop deals but to do them better."

---

<sup>19</sup> "Greening' of financial sector gathering speed" *Financial Times*, 4 June, 2004

<sup>20</sup> "Greening' of financial sector gathering speed" *Financial Times*, 4 June, 2004

One of the first major tests of the principles was the \$3.6 billion Baku-Tbilisi-Ceyhan (BTC) oil pipeline (from the Caspian Sea in Azerbaijan, through Georgia, to the Turkish Mediterranean port of Ceyhan) as it was the first project treated as Category A under EP. Nine of the fifteen banks that made loans in February 2004 to the project, which is led by British Petroleum (BP), were EP signatories, including Citigroup. The BankTrack report cited the pipeline as an example of a transaction financed by equator banks in spite of concerns raised by NGOs that the project violated ethical, legal and human rights standards. The banks involved in the financing have stated that they evaluated the criticisms and conducted extensive due diligence on environmental and social issues with BP as well as with the IFC and other agencies involved in the financing. As a result of their evaluations the banks concluded that the project had complied with the principles and IFC Safeguard Policies. Suellen Lazarus, a senior IFC advisor, commented that "BTC was really the poster child for EP ... we think it was a real success for Equator because the banks were able to make themselves comfortable with the issues and deal with them."<sup>22</sup>

When I questioned Mr. Prince about BTC he stated, "The complaints [as to this project] were not centered in the mainstream of the environmental activist community. It is very important to be open to criticism and listen and talk to people who criticize you ... I am a firm believer that you will never satisfy 100% of a constituency, but it is important to be in the mainstream. My understanding is that there is a continuing dialogue. If I believed that [the project] violated EP, we would not do it ... before we finalize our participation in any project, people have to explain and convince me [that EP is not violated], because the company's reputation, and my reputation, are on the line."

After many discussions and much research both as to BTC and the broader impact of the principles, the consensus, is that it is not possible to judge the impact of EP on a long-term project and on the project financing and banking industry as a whole, after only one year. Mr. Prince concluded by stating, "Just because you have EP, doesn't necessarily mean that you are never going to have a dispute ... [our role is] to ensure that we are always creating and following best practices."

---

<sup>21</sup> Holding the Applause: The Equator Principles on Project Finance, Friends of the Earth - U.S. *July 14, 2003*

<sup>22</sup> "Putting principles into practice" *Environmental Finance June 2004*

# **Appendix 1: The "Equator Principles"**

4 June 2003

## **An industry approach for financial institutions in determining, assessing and managing environmental & social risk in project financing**

### ***PREAMBLE***

Project financing plays an important role in financing development throughout the world. In providing financing, particularly in emerging markets, project financiers often encounter environmental and social policy issues. We recognize that our role as financiers affords us significant opportunities to promote responsible environmental stewardship and socially responsible development.

In adopting these principles, we seek to ensure that the projects we finance are developed in a manner that is socially responsible and reflect sound environmental management practices.

We believe that adoption of and adherence to these principles offers significant benefits to ourselves, our customers and other stakeholders. These principles will foster our ability to document and manage our risk exposures to environmental and social matters associated with the projects we finance, thereby allowing us to engage proactively with our stakeholders on environmental and social policy issues. Adherence to these principles will allow us to work with our customers in their management of environmental and social policy issues relating to their investments in the emerging markets.

These principles are intended to serve as a common baseline and framework for the implementation of our individual, internal environmental and social procedures and standards for our project financing activities across all industry sectors globally.

In adopting these principles, we undertake to review carefully all proposals for which our customers request project financing. We will not provide loans directly to projects where the borrower will not or is unable to comply with our environmental and social policies and processes.

## ***STATEMENT OF PRINCIPLES***

*We will only provide loans directly to projects in the following circumstances:*

1. We have categorised the risk of a project in accordance with internal guidelines based upon the environmental and social screening criteria of the IFC as described in the attachment to these Principles ([Exhibit I](#)).
  
2. For all Category A and Category B projects, the borrower has completed an Environmental Assessment (EA), the preparation of which is consistent with the outcome of our categorisation process and addresses to our satisfaction key environmental and social issues identified during the categorisation process.
  
3. In the context of the business of the project, as applicable, the EA report has addressed:
  - a) assessment of the baseline environmental and social conditions
  - b) requirements under host country laws and regulations, applicable international treaties and agreements
  - c) sustainable development and use of renewable natural resources
  - d) protection of human health, cultural properties, and biodiversity, including endangered species and sensitive ecosystems
  - e) use of dangerous substances
  - f) major hazards
  - g) occupational health and safety
  - h) fire prevention and life safety
  - i) socioeconomic impacts
  - j) land acquisition and land use
  - k) involuntary resettlement
  - l) impacts on indigenous peoples and communities
  - m) cumulative impacts of existing projects, the proposed project, and anticipated future projects

- n) participation of affected parties in the design, review and implementation of the project
- o) consideration of feasible environmentally and socially preferable alternatives
- p) efficient production, delivery and use of energy
- q) pollution prevention and waste minimization, pollution controls (liquid effluents and air emissions) and solid and chemical waste management

Note: In each case, the EA will have addressed compliance with applicable host country laws, regulations and permits required by the project. Also, reference will have been made to the minimum standards applicable under the World Bank and IFC Pollution Prevention and Abatement Guidelines ([Exhibit III](#)) and, for projects located in [low](#) and [middle income](#) countries as defined by the [World Bank Development Indicators Database](#), the EA will have further taken into account the then applicable IFC Safeguard Policies ([Exhibit II](#)). In each case, the EA will have addressed, to our satisfaction, the project's overall compliance with (or justified deviations from) the respective above-referenced Guidelines and Safeguard Policies.

4. For all [Category A](#) projects, and as considered appropriate for [Category B](#) projects, the borrower or third party expert has prepared an Environmental Management Plan (EMP) which draws on the conclusions of the EA. The EMP has addressed mitigation, action plans, monitoring, management of risk and schedules.

5. For all [Category A](#) projects and, as considered appropriate for [Category B](#) projects, we are satisfied that the borrower or third party expert has consulted, in a structured and culturally appropriate way, with project affected groups, including indigenous peoples and local NGOs. The EA, or a summary thereof, has been made available to the public for a reasonable minimum period in local language and in a culturally appropriate manner. The EA and the EMP will take account of such consultations, and for [Category A](#) Projects, will be subject to independent expert review.

6. The borrower has covenanted to:

- a) comply with the EMP in the construction and operation of the project
- b) provide regular reports, prepared by in-house staff or third party experts, on compliance with the EMP and
- c) where applicable, decommission the facilities in accordance with an agreed Decommissioning Plan.

7. As necessary, lenders have appointed an independent environmental expert to provide additional monitoring and reporting services.

8. In circumstances where a borrower is not in compliance with its environmental and social covenants, such that any debt financing would be in default, we will engage the borrower in its efforts to seek solutions to bring it back into compliance with its covenants.

9. These principles apply to projects with a total capital cost of \$50 million or more.

The adopting institutions view these principles as a framework for developing individual, internal practices and policies. As with all internal policies, these principles do not create any rights in, or liability to, any person, public or private. Banks are adopting and implementing these principles voluntarily and independently, without reliance on or recourse to IFC or the World Bank.

**Exhibit I:** [Environmental and Social Screening Process](#)

**Exhibit II:** [IFC Safeguard Policies](#)

**Exhibit III:** [World Bank and IFC Specific Guidelines](#)

## **Exhibit I: Environmental and Social Screening Process**

Environmental screening of each proposed project shall be undertaken to determine the appropriate extent and type of EA. Proposed projects will be classified into one of three categories, depending on the type, location, sensitivity, and scale of the project and the nature and magnitude of its potential environmental and social impacts.

**Category A:** A proposed project is classified as Category A if it is likely to have significant adverse environmental impacts that are sensitive, diverse, or unprecedented. A potential impact is considered "sensitive" if it may be irreversible (e.g., lead to loss of a major natural habitat) or affect vulnerable groups or ethnic minorities, involve involuntary displacement or resettlement, or affect significant cultural heritage sites.. These impacts may affect an area broader than the sites or facilities subject to physical works. EA for a Category A project examines the project's potential negative and positive environmental impacts, compares them with those of feasible alternatives (including, the "without project" situation), and recommends any measures needed to prevent, minimize, mitigate, or compensate for adverse impacts and improve environmental performance. A full environmental assessment is required which is normally an Environmental Impact Assessment (EIA).

**Category B:** A proposed project is classified as Category B if its potential adverse environmental impacts on human populations or environmentally important areas-including wetlands, forests, grasslands, and other natural habitats-are less adverse than those of Category A projects. These impacts are site-specific; few if any of them are irreversible; and in most cases mitigatory measures can be designed more readily than for Category A projects. The scope of EA for a Category B project may vary from project to project, but it is narrower than that of Category A EA. Like Category A EA, it examines the project's potential negative and positive environmental impacts and recommends any measures needed to prevent, minimize, mitigate, or compensate for adverse impacts and improve environmental performance.

**Category C:** A proposed project is classified as Category C if it is likely to have minimal or no adverse environmental impacts. Beyond screening, no further EA action is required for a Category C project.

## **Exhibit II: IFC Safeguard Policies (Exhibit II of The Equator Principles)**

As of 4 June 2003, the following is a list of IFC Safeguard Policies:

### Environmental Assessment

OP4.01 (October 1998)

### Natural Habitats

OP4.04 (November 1998)

### Pest Management

OP4.09 (November 1998)

### Forestry

OP4.36 (November 1998)

### Safety of Dams

OP4.37 (September 1996)

### Indigenous Peoples

OD4.20 (September 1991)

### Involuntary Resettlement

OP4.30 (June 1990)

### Cultural Property

OPN11.03 (September 1986)

### Child and Forced Labor

Policy Statement (March 1998)

### International Waterways

OP 7.50 (November 1998)\*

---

\*Note: The principal requirements relate to the role of IFC as a multi-lateral agency and notification requirements between riparian states which are generally outside the remit of private sector operators or funders. It is referenced for the sake of completeness. The substantive elements of good practice with respect to environmental and social aspects therein are fully covered by OP 4.01.

### **Exhibit III: World Bank and IFC Specific Guidelines**

As of 4 June 2003, IFC is using two sets of guidelines for its projects.

1. IFC is using all the environmental guidelines contained in the [World Bank Pollution Prevention and Abatement Handbook](#) (PPAH). This Handbook went into official use on July 1, 1998.
2. IFC is also using a series of environmental, health and safety guidelines that were written by IFC staff in 1991-1993 and for which there are no parallel guidelines in the Pollution Prevention and Abatement Handbook. Ultimately new guidelines, incorporating the concepts of cleaner production and environmental management systems, will be written to replace this series of IFC guidelines.

When completed these new guidelines will also be included in the Pollution Prevention and Abatement Handbook.

Where no sector specific guideline exists for a particular project then the World Bank General Environmental Guidelines and the IFC General Health and Safety Guideline will be applied, with modifications as necessary to suit the project.\*

The table below lists both the World Bank Guidelines and the IFC Guidelines.

World Bank Guidelines (PPAH)

1. [Aluminum Manufacturing](#)
2. [Base Metal and Iron Ore Mining](#)
3. [Breweries](#)
4. [Cement Manufacturing](#)
5. [Chlor-Alkali Plants](#)
6. [Coal Mining and Production](#)
7. [Coke Manufacturing](#)
8. [Copper Smelting](#)
9. [Dairy Industry](#)
10. [Dye Manufacturing](#)
11. [Electronics Manufacturing](#)
12. [Electroplating Industry](#)
13. [Foundries](#)
14. [Fruit and Vegetable Processing](#)
15. [General Environmental Guidelines](#)
16. [Glass Manufacturing](#)
17. [Industrial Estates](#)
18. [Iron and Steel Manufacturing](#)
19. [Lead and Zinc Smelting](#)
20. [Meat Processing and Rendering](#)
21. [Mini Steel Mills](#)
22. [Mixed Fertilizer Plants](#)
23. [Monitoring](#)
24. [Nickel Smelting and Refining](#)
25. [Nitrogenous Fertilizer Plants](#)
26. [Oil and Gas Development \(Onshore\)](#)
27. [Pesticides Formulation](#)
28. [Pesticides Manufacturing](#)
29. [Petrochemicals Manufacturing](#)
30. [Petroleum Refining](#)
31. [Pharmaceutical Manufacturing](#)
32. [Phosphate Fertilizer Plants](#)

33. [Printing Industry](#)
34. [Pulp and Paper Mills](#)
35. [Sugar Manufacturing](#)
36. [Tanning and Leather Finishing](#)
37. [Textiles Industry](#)
38. [Thermal Power Guidelines for New Plants](#)
39. [Thermal Power Rehabilitation of Existing Plants](#)
40. [Vegetable Oil Processing](#)
41. [Wood Preserving Industry](#)

#### IFC Guidelines

1. [Airports](#)
2. [Ceramic Tile Manufacturing](#)
3. [Construction Materials Plants](#)
4. [Electric Power Transmission and Distribution](#)
5. [Fish Processing](#)
6. [Food and Beverage Processing](#)
7. [Forestry Operations: Logging](#)
8. [Gas Terminal Systems](#)
9. [Geothermal Projects](#)
10. [Hazardous Materials Management](#)
11. [Health Care](#)
12. [Life & Fire Safety](#)
13. [Occupational Health and Safety](#)
14. [Office Buildings](#)
15. [Offshore Oil & Gas](#)
16. [Polychlorinated Biphenyls \(PCBs\)](#)
17. [Pesticide Handling and Application](#)
18. [Plantations](#)
19. [Port and Harbor Facilities](#)
20. [Rail Transit Systems](#)
21. [Roads and Highways](#)
22. [Telecommunications](#)
23. [Tourism and Hospitality Development](#)
24. [Waste Management Facilities](#)
25. [Wastewater Reuse](#)
26. [Wildland Management](#)
27. [Wind Energy Conversion Systems](#)
28. [Wood Products Industries](#)

\* Exception (the following are World Bank Guidelines not contained in the PPAH and currently in use)

[Mining and Milling - Underground](#)

[Mining and Milling - Open Pit](#)