1. EQUATOR PRINCIPLES IN A NUTSHELL

2. THE FIRST 10 YEARS: OVERALL A SUCCESS

3. HOWEVER, SOME SOURCES OF TENSION

4. WHAT FUTURE FOR THE EQUATOR PRINCIPLES?

APPENDIX: ANZ HYDRO POWER CAPABILITIES
A set of environmental and social standards for infrastructure projects developed 10 years ago by the IFC and a group of concerned commercial banks

**What is the objective of the Principles?**
> Ensure socially and environmentally responsible financing (and thus development) of large scale infrastructure and energy projects

**Which projects should comply?**
> Projects (energy, power, infrastructure, etc) with significant impacts to the environment or nearby populations

**What is required of these projects?**
> At due diligence stage, prior to financial close:
  • Environmental and social impact assessment (which implies baseline studies)
  • Community information and consultation
  • Preparation of appropriate monitoring, mitigation and remediation plans
  • Establishment of a grievance mechanism
> After financial close, during construction and operations:
  • Covenants in financing documents
  • Independent monitoring and reporting to the financial institutions
The Equator Principles have been a success

The issues and concerns addressed by the EP are shared by a wide range of individuals and organizations worldwide

> Attuned to the global concern about the environment in the 2000s and the birth of a global public opinion on these matters
> The review leading to the 2006 update (EP II) gathered banks, developers, NGOs and civil society members alike

The success of the EP is measured by the number of institutions having joined

> Developed in 2002 by a group of 9 banks, mostly from Europe and the US
> Today, there are a total of 74 EPFIs from all the regions of the globe, plus 2 associate members
> In 2011, EPFIs accounted for about half of the global project finance bank market by volume of loans arranged (US$213BN)
Inconsistent application of the Equator Principles across EPFIs
> Implementation of the EP within financial institutions is very diverse as the Principles do not impose a specific implementation framework
> Even though some aggregate reporting is now required, there is no independent verification
> There is concern that some financial institutions may have joined for the label, but may not be entirely sincere about implementation

Competition with other standards
> Bilateral and multilateral financial institutions also have E&S standards: ADB, JBIC, KEXIM,…
> Even though the content is often similar to the Equator Principles, in loan documentation, each set of standards has its own implementation (covenants, reporting)
> From clients’ point of view, this leads to an inflation of covenants and reporting requirements, and increases transaction costs

Need for tightening of the Equator Principles?
> Some institutions have called for a tightening of the Principles, in particularly in relation to CO2 emissions
> The focal point of the debate has been on coal-fired power generation
> The EPFIs are seen divided on this issue
Tensions relating to the implementation of the EP and to the limited uptake in Asia could endanger the Equator Principles

**Asian financial institutions have mostly remained out of Equator Principles**
- Only four Asian banks have adopted the Equator Principles to date: BTMU, Mizuho, SMBC and ICBC
- Leading banks in Singapore, Thailand, Philippines are not members
- Asian-based governmental financial institutions are not EPFIs: JBIC, KEXIM, China EXIM,…

**Recent trends in the Asian project finance market leads to a retreat of Equator Principles**
- European banks are less active
- Domestic banks are gaining market share
- Asian governmental financial institutions retain a large market share

**In Asia, EPFIs account for a small portion of the project finance market**
- Many significant deals are not compliant
- EPFIs do not have the critical mass
- This could lead to a broader retreat of EP in Asia

*Source: Project Finance International (PFI) 2011 League Tables*
To remain relevant, Equator Principles will have to meet a number of challenges. ANZ has been a proponent of a pragmatic evolution towards greater acceptance.

**Addressing non-compliance by existing EPFIs**
- Raise disclosure requirements to monitor EP implementation
- More robust implementation requirements
- Potential to delist members that are non-compliant?

**Refrain from the temptation of tightening the standards**
- The Principles have to be practical and result-oriented; they should not an ideal or a utopia
- Standards have to acknowledge the needs of developing countries
- For many developing countries, coal-fired power generation is the only economically viable option to increase electricity production

"**Consensus on expanding membership in emerging markets to remain globally relevant**"
- Focus on emerging market financial institutions to join as members
- Particularly in Asia, which combines large project finance volumes with low EP penetration rate
- Potential for tiered membership to broaden base and accommodate the diversity and capacity of members
- Need for a better articulation with regional bilateral or multilateral institutions: ADB, JBIC, KEXIM, China Exim,…
- Should the EP Steering Committee better represent banks active in developing markets?
APPENDIX: ANZ HYDRO POWER CAPABILITIES
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ANZ is a recognized leader in Asia-Pacific hydropower with almost two decades of experience

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<thead>
<tr>
<th>Year</th>
<th>Project</th>
<th>Role</th>
<th>Description</th>
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<td>2005</td>
<td>Nam Theun 2 Hydropower Project</td>
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