



ABN·AMRO

# Beyond Carbon

Sustainable Development - The Equator Principles and their impact on Project Financing in Emerging Markets

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# Summary of Presentation

- **Introduction**
- **ABN AMRO and Sustainable development**
- **The Equator Principles and their implications for Project Finance business in the Emerging Markets**
- **Summary and conclusion**

# ABN AMRO and Sustainable Development

“Sustainable Development for ABN AMRO means to live our Values and Business Principles to meet the needs of the organisation and our stakeholders today, while protecting, sustaining and enhancing human, natural and financial capital needed in the Future.”

# ABN AMRO and Sustainable Development

## World Business Council for Sustainable Development

- ◆ To Integrate sustainable development into our business for continuous success of our companies and LT shareholder value
- ◆ To promote proactive sustainable development thinking
- ◆ Recognise our role as drivers for change, although the limits of “responsibility” and influence of the financial services industry need to be further explored
- ◆ To improve transparency as a matter of urgency and to increase mutual trust

WBCSD Financial Sector, Johannesburg, Sept 2002

# What does this mean to ABN AMRO ?

## 1. Integrate sustainability criteria in our key business processes

- |    |                      |   |        |
|----|----------------------|---|--------|
| a. | Financial / Economic | → | Profit |
| b. | Environmental        | → | Planet |
| c. | Social / Ethical     | → | People |

## 2. Take into account the effect of our business activities on all our stakeholders

- |    |   |  |   |                        |
|----|---|--|---|------------------------|
| a. | Employees   |  | → | Business<br>Principles |
| b. | Shareholders  |  |   |                        |
| c. | Clients   |  |   |                        |
| d. | Strategic Business Partners                             |  |   |                        |
| e. | Society as a Whole<br>(e.g. Governments, EU, UN, NGO's) |  |   |                        |

## 3. Transparency

# What is the added Value ?



# Is it Something Completely New ?

**NO**



- Internal Environmental Management
- Environmental & Social reports
- AA has refused to finance clients / transactions

**BUT** there are some new challenges:

- ◆ **Clients & Environmental / Social issues**
- ◆ **Environmental / Social issues in Emerging Markets**
- ◆ **Transparency**
  - Internal “Regulation”
  - Measure & Communicate Sustainability Performance
  - Dialogue with NGO’s

# Internal “Regulation”

- ◆ **Compliance Policies (e.g anti-money Laundering)**
- ◆ **Industry Sector Policies:**
  - **Forestry, Mining, Defence, Oil & Gas ...**
- ◆ **Equator Principles**
- ◆ **Environmental & Social Risk Filter (Clients & Transactions)**
- ◆ **Sustainability Criteria for Country Risk assessment**

# Internal “Regulation”

## Main Challenges:

- ◆ **ST Profit versus LT Value Creation**
- ◆ **Internal Policies versus Level Playing Field**
- ◆ **Balance Transparency & Business Confidentiality**
- ◆ **Adequate MIS to measure AA’s sustainability performance**

# Key Drivers for ABN AMRO's Sustainability Approach

- ◆ **Corporate Values & Business Principles**
- ◆ **MfV: Sustainable LT Shareholder value**
- ◆ **Risk Management & Costs Saving**
- ◆ **Top 5 Position**
- ◆ **ABN AMRO's Reputation**
- ◆ **Peers & other FI / non-FI players**
- ◆ **"Share of Mind" with Clients, Employees & other Stakeholders**
- ◆ **Demand for Transparency**
- ◆ **Issues & NGO Criticism**
- ◆ **Sustainability Rating Agencies**
- ◆ **SRI investment Funds & Shareholders**
- ◆ **New Business Opportunities**

# What are the Equator Principles?

- **Project Finance plays an important role in Financing Development**
- **Environmental & social policy issues are often encountered**
- **Opportunity to promote socially and economically responsible stewardship and development**
- **EPs allow us to work with our customers in their management of these issues**

## **How Do They Work?**

- **Create a common baseline and framework based on IFC and World Bank safeguard policies and guidelines**
- **Banks will categorise a project in terms of High, Medium or Low Risk (A,B or C)**
- **An Environmental Assessment (EA) will be prepared based on the categorisation**
- **An Environmental Management Plan (EMP) will have to be produced for higher risk projects**
- **The Borrower will covenant compliance with the Environmental Management Plan**

# What are the Key Drivers for Banks to adopt these Principles?

- **More consistent risk management leading to safer loans**
- **Using a common framework and terminology will create transparency**
- **Increased productivity through reduced transaction time**
- **Creating more certainty in closing Project Financings**
- **Gaining reputation advantage**

# What are the Implications for Project Finance Business in the Emerging Markets?

- **Project Financing plays a key role in financing development in the Emerging Markets**
- **17 Banks have now adopted EP representing a major share of that market.**
- **EP will be applied to all projects over US\$50m**
- **EP will create an industry market standard**
- **Will foster better risk management and engagement with stakeholders**
- **Some Projects may not be financed by Project Finance Market**

# What are the Implementation issues?

- **Adopting Banks will use the framework to develop individual, internal practices and procedures**
- **Need to embed this approach into both business line and internal risk management processes and policies**
- **Consistency of categorisation process is critical**
- **Creating standards in risk assessment, management, documentation and reporting**
- **Client and other stakeholder reaction**

# Conclusion

- ◆ **Sustainable Development is core to our future business**
- ◆ **All key players are on a learning curve**
- ◆ **Big challenges are posed for all Financial Sector players in particular in emerging markets.**
- ◆ **The Equator Principles are an important step within a broader approach to this sector**
- ◆ **Engagement and mutual learning will be critical to organisational development in this field**