

Financial Institutions and the Forestry Sector

Drivers for Change

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Content

- Understanding the development of the Equator Principles
- Wider implications of the initiative
- Forestry Sector Policies
- Observations



Understanding the development of EP

- Recognition of the growing implications of E & S risks in all credit
- Project Financing vulnerable particularly in Emerging Markets
- Recognition that the Financial Sector needed a more robust approach to risk management in this area
- Opportunity to work with our customers in their management of these issues in a more structured way
- Adoption of a common framework and terminology to create transparency
- More consistent risk management leading to safer loan portfolios



How do they work?

- Create a common baseline and framework based on the new IFC Performance Standards
- Banks 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

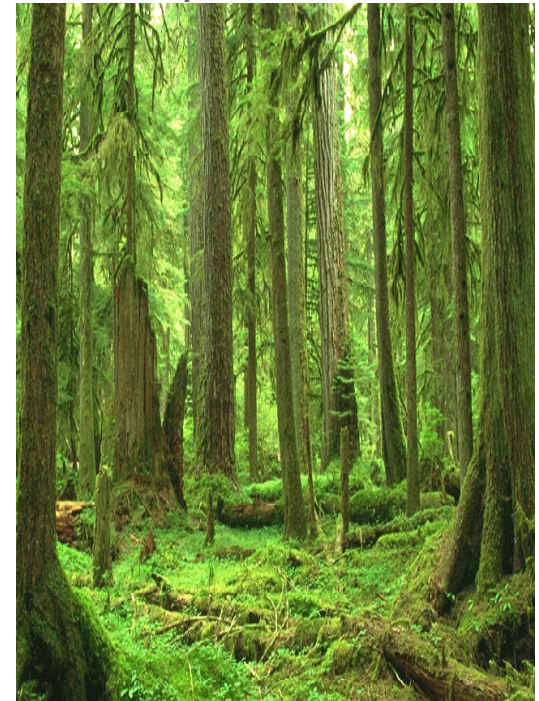


Current status of EP

- Around 40 Financial Institutions have adopted the framework since 2003 creating an Industry Market Standard
- Has fostered more transparent and consistent risk management and engagement with stakeholders
- Challenging ,complex transactions have closed since its introduction which have attracted NGO criticism
- A number of issues exist around early stage consultation, transparency and disclosure
- The Principles have been revised following the IFC's adoption of its new Performance Standards
- Expansion of EP into Developing Country Financial Institutions is a stated objective of the current Banks

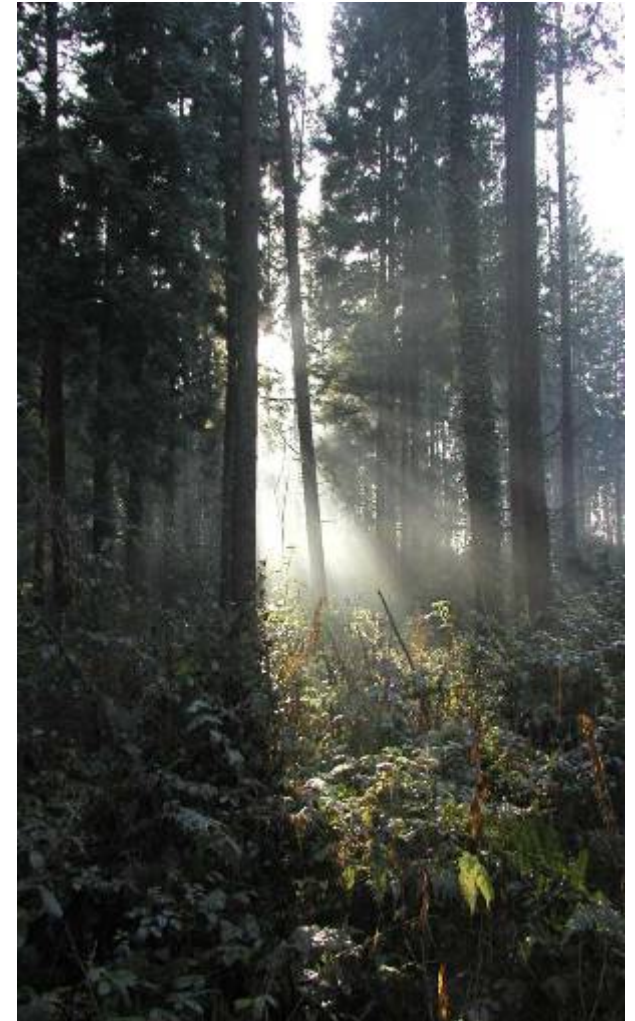
Wider implications of the Initiative

- Risk and reputation management issues receiving greater attention
- Recognition that the financial sector has a critical role as an intermediary of financial capital
- The financial sector has an opportunity to facilitate stewardship on these critical issues
- Engagement in sensitive industries and markets where risk levels are perceived to be high
- Forestry falls into that categorisation
- A number of the EP Banks including ABN AMRO, HSBC, Citigroup, JP Morgan Chase and Bank of America have created specific forestry policies



Forestry Sector Policies

- Typically prevent involvement in illegal or unsustainable resource extraction from primary or high conservation value forests
- Illegal logging
- Sustainable forest management planning
- Respect for human or indigenous rights
- Bio-diversity and soil and water management
- Supply chain management issues
- Extension to timber traders
- Increasing use of certification standards such as FSC in decision making tools
- Used to determine business engagement
- Also impacting the Banks' own procurement



Observations

- Understanding the new risk profile emerging from Sustainability issues
- Engaging with the sensitive industry areas
- Using Sector Based Initiatives such as EP as a driver for Change
- Adjust Risk Parameters to the new realities?
- Expansion to Developing Country FIs
- Not just limited to Project Financing
- Forestry Sector Policies are emerging
- Proof of responsible forest management
- Greater scrutiny of supply chain issues
- Certification being used as a screening tool
- Trend expected to intensify

