Procedure for environmental and social review of transactions

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Scope and Review Process

Overview

This Procedure for environmental and social review of transactions (Procedure) explains how Efic’s Policy for environmental and social review of transactions (Policy) is implemented. It applies to all transactions Efic assesses after commencing its credit assessment and due diligence processes.

Efic provides support to Australian companies exporting or investing overseas through the provision of finance (e.g. direct loans and guarantees) and insurance (e.g. political risk insurance). The type of support requested, the nature of the project associated with the transaction and the role of Efic’s client determine the type of environmental and social review that Efic undertakes. Some transactions require only a short, desk-top review while others require a detailed risk evaluation involving benchmarking and public disclosure.

The steps in the review process are:
1. Screening and Classification
2. Risk evaluation
3. Consideration
4. Reporting

The chart below summarises Efic’s environmental and social review process.

Efic uses a checklist in its Screening, Classification and risk evaluation process to ensure a consistent review approach and provide an audit record. The checklist template is available on Efic’s website.

[Diagram of the review process]
Global Standards

Efic’s corporate values include a commitment to uphold best practice environmental and social standards in the transactions we support. To meet that commitment, Efic incorporates two globally-recognised approaches in its environmental and social assessment of transactions.

Efic is bound by the Organisation for Economic Co-operation and Development (OECD) Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (the Common Approaches).

Efic also voluntarily applies the Equator Principles, a benchmark used by many financial institutions to manage environmental and social risks in projects.

The Common Approaches only apply to officially supported export credits, while the Equator Principles only apply to certain transaction types associated with projects. As a result, they apply to only some of the transactions that Efic could be asked to consider. Efic chooses to extend the principles the two approaches embody to all transactions it considers, so it applies the Policy and Procedure to all transactions.

Table 1 provides some examples of Efic’s business solutions and indicates whether the Common Approaches or the Equator Principles are relevant. Appendix 1 contains further detail on how the Common Approaches and the Equator Principles are incorporated into this Procedure.

Table 1: Efic’s solutions and the Common Approaches and Equator Principles

<table>
<thead>
<tr>
<th>Efic solution1</th>
<th>Do the Common Approaches apply?</th>
<th>Do the Equator Principles apply?2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Medium-long term finance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct loan (project finance)</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Direct loan (corporate)</td>
<td>Possibly</td>
<td>Possibly</td>
</tr>
<tr>
<td>Export finance guarantee</td>
<td>Yes</td>
<td>Possibly</td>
</tr>
<tr>
<td>Documentary credit guarantee</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td><strong>Insurance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export payments insurance</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Bond insurance</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Political risk insurance (any type)</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advance payment bond, performance bond or warranty bond</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Working capital guarantee</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

1 For more details of Efic’s solutions refer to Efic’s website: www.efic.gov.au
2 Several monetary limits apply to the Equator Principles
1 Screening and Classification

1.1 Screening

Screening and Classification determine the level of environmental and social risk evaluation for a transaction.

Screening identifies two types of transaction:

- **projects** which are further divided into:
  - **New Projects**, which involve a transaction at a new commercial, industrial or infrastructure undertaking at an identifiable location. They include transactions involved in an expansion or upgrade of an existing operation that results in a Material Change in output or function and
  - **Existing Projects** at an identifiable existing operation where the transaction does not result in a Material Change in output or function.

- **Non-projects**, where Efic’s transaction is not associated with an identified location or operation. An example is a loan to an equipment manufacturer where the equipment will have many different purchasers or users.

Transactions involving bonds (e.g. performance bonds, advance payment bonds or warranty bonds) are considered **Non-projects** for the purposes of this Procedure because:

- Efic generally has no direct link with the project associated with a bond.
- Efic’s client (and therefore Efic) may be unable to access environmental and social information on a project associated with a bond.
- Efic’s client (and therefore Efic) generally has no influence on, and no authority for, the environmental and/or social management of the project for which the export is destined.
- Bonds vary in duration from a few weeks to several years.

1.2 Classification of New Projects

Efic Classifies each New Project associated with a potential transaction as Category A, B or C, depending on the significance of its potential impacts. This Classification is consistent with the Common Approaches and the Equator Principles. Appendix 2 describes the categories used in those documents. In summary they are:

- **Category A**: potentially significant adverse environmental and/or social impacts
- **Category C**: minimal or no adverse environmental and/or social impacts and
- **Category B**: Categories A and C represent the two extremes of a project’s potential for significant environmental and/or social impacts. A Category B transaction falls in the broad spectrum between A and C.

Efic Classifies a New Project early in its involvement in a transaction. Classification has two purposes:

- it indicates to Efic the potential level of environmental and social impact and the type of risk evaluation necessary and
- it determines whether Efic’s potential involvement will require public disclosure, (see section 2.2.3).

The category of a project may change during the review process, depending on the results of the risk evaluation.
2 Risk Evaluation

2.1 Introduction

Two types of risk evaluation are undertaken, risk evaluation for transactions involving New Projects (see section 2.2) and risk evaluation for other transactions (see section 2.3).

2.2 Risk evaluation and benchmark standards – New Projects

Efic completes an environmental and social risk evaluation for transactions involving New Projects other than those Classified as Category C (where it has already been determined that there is minimal or no adverse environmental or social impact). Efic considers:

- information provided by Efic’s client, including their role and their environmental and social management arrangements
- where relevant, information available on a project’s environmental and social assessment and management, including engagement with project stakeholders (such as the host country government and affected communities)
- potential environmental and social issues associated with the industry and location of the project and
- information from other sources, including others involved in the project and Efic’s stakeholders (such as the Australian public and civil society organisations).

2.2.1 Category A and B project benchmarking

Efic benchmarks overseas Category A and B projects that are associated with its transactions against:

- relevant International Finance Corporation (IFC) Performance Standards and
- host country standards.

The benchmark Efic uses is the more stringent of the IFC Performance Standards or host country standards. The IFC Performance Standards that apply are generally those current at the date of the Policy or as subsequently amended.

When the benchmark is amended or revised there will be a transition period where either the original or revised benchmark may be relevant. This will be determined on a case-by-case basis.

The IFC Performance Standards were selected as Efic’s usual benchmark as they are a widely used and understood global standard. However, for a limited range of transactions, Efic may use as its benchmark other internationally recognised standards if they are more relevant to Efic’s transaction and are at least equivalent to the IFC Performance Standards.

Circumstances in which Efic may apply standards other than the IFC Performance Standards include:

- when the project associated with Efic’s transaction is located in a country where the environmental and social assessment and management requirements are more stringent than the IFC Performance Standards (for example a project subject to European Community Standards) and
- when the project associated with Efic’s transaction involves a multi-lateral financial institution (MFI) other than the IFC – here, Efic applies the MFI’s benchmark standards.

Where a transaction supports a project located in Australia, Efic Screens and Classifies the project. However, if relevant Australian government approvals have been obtained, Efic considers its benchmark met.

2.2.2 Information requirements

For Category A and B projects, Efic requires clients to provide sufficient information to enable Efic to undertake a reasonable evaluation of environmental and social risks and corresponding mitigation measures. The documentation expected from a client depends on the nature and scale of the project. The IFC Performance Standards provide that an assessment may comprise a full-scale environmental and social impact assessment, a limited or focused environmental or social assessment, or a straightforward application of pollution standards, design criteria or construction standards.

A Category A project generally requires a comprehensive environmental and social impact assessment consistent with both the requirements of the host country and the IFC Performance Standards (or other relevant benchmark).

A Category B project generally requires a narrower scope of assessment.

The information provided by a client for a Category C project must be sufficient to demonstrate minimal or no adverse environmental and/or social impact.

Information provided by a prospective client in support of a transaction is commercial-in-confidence information and Efic does not disclose this information to any third party except with the consent of the client and otherwise in accordance with Efic’s statutory confidentiality obligations. One such exception applies to an environmental and social impact assessment for a Category A project to which Efic’s public disclosure obligations apply (see section 2.2.3). Efic obtains the client’s consent for this disclosure.
2.2.3 Disclosure

Efic discloses on its website its potential involvement in transactions:

- associated with a Category A project and
- with a repayment term or policy length of two years or more and
- with a value of SDR10 million or more. The monetary limit does not apply to Category A projects located in Sensitive Areas.

Disclosure is for at least 30 calendar days before Efic makes a final decision to provide support. It involves Efic publishing a Category A register on its website that includes:

- the project name and description
- the country and location of the project
- the industry sector
- the facility requested
- an outline of the reasons for the categorisation
- links to an environmental assessment of the project associated with the transaction that has been provided to Efic and
- the disclosure period.

Anyone can register to receive email notification of updates to the Category A register. Efic’s website also includes an archive of all Category A projects considered.

Anyone can comment on Efic’s potential involvement in a transaction associated with a Category A project located outside Australia using the methods shown on Efic’s website. Efic acknowledges receipt of submissions and considers them in its due diligence for a transaction. We will include in the register the name of each organisation or individual that provides a submission unless asked to consider the submission confidential.

Efic does not invite comment on its potential involvement in a transaction associated with a Category A project located in Australia. This is to avoid potential confusion with the disclosure requirements of the various levels of Australian government.

In accordance with the Common Approaches, where a transaction involves Efic re-insuring another OECD export credit agency (ECA), Efic may rely on the disclosure undertaken by that ECA.

2.3 Risk evaluation and benchmark standards - transactions other than New Projects

Efic undertakes an environmental and social risk evaluation for transactions associated with Existing Projects, Non-projects and bonds. Efic’s information requirements for these transactions depends on the type of support requested and the role of Efic’s client and are discussed with a client early in the due diligence for a transaction.

The risk evaluation considers:

- information from Efic’s client, including their role in the transaction and their environmental and social management arrangements
- potential environmental and social issues associated with the industry and, where relevant, location of the transaction
- where relevant and available, information on the environmental and social assessment and management of the project associated with the transaction, including stakeholder engagement and
- information from other sources, including others involved in the project and internet searches.

Two levels of potential environmental and/or social impact are used: low or no potential, in which case no further action is necessary; and potential for environmental and/or social impact. Where a potential for environmental and/or social impact is identified, the benchmark will generally be the IFC Performance Standards. However, if more appropriate Efic may use:

- other internationally recognised standards
- host country standards and
- good international industry practice.

Where a transaction supports an Existing Project or Non-project located in Australia or is providing a bond for a project located in Australia, and if relevant Australian government approvals have been obtained, Efic considers its benchmark met.
3 Consideration

3.1 Approval process

Efic considers the findings of the environmental and social risk evaluation in deciding whether to support or decline a transaction. Efic declines a transaction if it determines that the environmental and/or social impact does not satisfy relevant benchmarks.

The approval of the Efic Board is required in order for Efic to support on its Commercial Account a transaction associated with a Category A project located outside Australia.

The Commonwealth Trade Minister is responsible for decisions to support transactions undertaken on the Australian Government’s National Interest Account and Efic then manages the exposure. However, the Screening, Classification, risk evaluation and disclosure process for these transactions is the same as for transactions on Efic’s Commercial Account.

Decisions on support for all other transactions are made in accordance with Board-delegated credit authorities.

3.2 Contractual terms

The contractual terms of Efic’s support for a transaction may include conditions covering environmental and social issues. Conditions may include:

- requirements for additional work
- compliance with environmental and social standards
- monitoring and reporting requirements and
- requirements for monitoring by independent environmental and/or social experts.

The Equator Principles website provides guidance on environmental and social conditions for loan documentation (see www.equator-principles.com).

Contractual terms are agreed on a case by case basis for each transaction. The terms of the contract are generally confidential between Efic and its client.

Occasionally a transaction may fail to comply with the terms of Efic’s contract regarding environmental or social issues. In these cases, Efic works with the client to make the transaction compliant once again. Efic may exercise its contractual remedies as it considers appropriate.

Efic’s ability to impose conditions on a project associated with a transaction or on the purchaser of an export depends on the role of Efic’s client and the type of support they request. For example:

- If Efic’s client has the ability and authority to directly manage the environmental and social impact of a project (e.g. the client is undertaking the project and seeking funding through project finance), Efic is generally well placed to impose conditions on its support.
- If Efic’s client has no ability or authority to directly manage the environmental and social impact of a project (e.g. where Efic provides a performance bond to an exporter providing a small piece of specialist equipment to a project), Efic is generally not in a position to impose conditions on the project.

The situations described above represent the extremes of Efic’s influence. Many transactions fall between these extremes.
4 Reporting

Efic publicly reports on:

- the types of transaction supported
- its implementation of the Common Approaches and
- its implementation of the Equator Principles.

4.1 Transaction reporting

Details of transactions associated with Category A projects disclosed by Efic since 2000 are published in the Category A archive on Efic’s website. Potential transactions associated with Category A projects that are currently being evaluated are disclosed on the Category A register (see section 2.2.3).

Efic also maintains an online register of transactions it supports. The register is updated as soon as practicable after a transaction is signed and contains the following information:

- the name of the exporter, investor or client supported
- the industry sector
- the goods or services
- the country that is the export destination or project location
- the facility type and value and
- the result of a transaction’s Screening and Classification.

Efic may omit some details if they or the fact of Efic’s support, are commercially sensitive for a client.

Efic publishes in its Annual Report a summary of all transactions it supports during a financial year.

4.2 Global standards reporting

Efic reports transactions involving officially supported export credits to the OECD. The OECD periodically makes publicly available information on Category A and B projects supported by its member ECAs.

Efic reports annually on its website according to the requirements of Principle 10 of the Equator Principles.

5 Review

Every two years Efic engages an independent environmental and social expert to audit the application of this Procedure. Audit reports are provided to Efic’s Board and to the public.

Efic reviews and amends this Procedure as and when necessary. Details of amendments are in Appendix 3.
6      Glossary

Classification
The process of categorising New Projects according to their potential for environmental and/or social impacts.

Common Approaches
Organisation for Economic Co-operation and Development (OECD) Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence (available on the OECD website www.oecd.org).

Equator Principles
A financial industry benchmark for determining, assessing and managing environmental and social risk in projects (see www.equator-principles.com).

Existing Project
A project at an identifiable existing operation where the transaction does not result in a Material Change in output or function.

IFC Performance Standards
A set of benchmarks developed by the International Finance Corporation (IFC) for the management of social and environmental risks and impacts, and Efic’s usual benchmark. The Standards are available on the IFC’s website, www.ifc.org.

Leverage
The ability of a business enterprise to effect change in the wrongful practices of the party that is causing or contributing to adverse impacts.

Material Change
Material Change in a project is difficult to define. Factors Efic considers in determining whether a Material Change occurs include:

- increases in production or capacity and their magnitude
- increases and/or alterations in pollutants discharged and their magnitude and
- any extensions into areas beyond existing boundaries.

New Project
A transaction at a new commercial, industrial or infrastructure undertaking at an identified location. Includes a transaction involved in an expansion or upgrade of an existing operation that results in a Material Change in output or function.

Efic is focused on supporting small to medium enterprises (SMEs). Where our client is an SME whose export is a minor component of a new undertaking, Efic considers that the “New Project” is the export rather than the undertaking.

Non-project
A transaction that is not associated with an identified location or operation. An example is a loan to an equipment manufacturer where the equipment will have many different purchasers or users.

Screening
The process of dividing transactions into New Projects, Existing Projects and Non-projects.

SDR
Special Drawing Right. An international monetary unit against which the Australian dollar fluctuates.

Sensitive Area
Includes national parks and other protected areas identified by national or international law and other locations of international, national or regional importance, such as wetlands, forests with high biodiversity value, areas of archaeological or cultural significance and areas of importance for indigenous peoples or other vulnerable groups.
Appendix 1: Common Approaches and Equator Principles processes

Efic’s application of the Procedure automatically includes consideration of the Common Approaches and the Equator Principles.

The following tables indicate how the Procedure, Policy and Efic’s actions incorporate the main requirements of those global approaches.

### Common Approaches and Efic’s Procedure:

<table>
<thead>
<tr>
<th>Common Approaches requirement*</th>
<th>Section of Procedure or other reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>II General principles</td>
<td>The general principles contain no specific requirements</td>
</tr>
<tr>
<td>III &amp; IV Screening and Classification</td>
<td>Section 1, Screening and Classification</td>
</tr>
<tr>
<td>V Environmental and Social Review</td>
<td>Section 2, Risk evaluation</td>
</tr>
<tr>
<td>VI Evaluation, Decision and Monitoring</td>
<td>Section 3, Consideration</td>
</tr>
</tbody>
</table>
| VII Exchange and Disclosure of Information | • Publication of Efic’s Policy and Procedure  
• Section 2.2.3, Disclosure  
• Section 4, Reporting |
| VIII Reporting and Monitoring of the Recommendation | • Section 4, Reporting  
• Section 5, Review  
• Participation in the OECD, in particular the OECD’s Working Party on Export Credit and Credit Guarantees and its environmental practitioner forums |

* Requirements are defined by the seven main sections of the Common Approaches

### Equator Principles and Efic’s Procedure:

<table>
<thead>
<tr>
<th>Equator Principles</th>
<th>Section of Procedure or other reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principle 1: Review and Categorisation</td>
<td>Section 1, Screening and Classification</td>
</tr>
<tr>
<td>Principle 2: Environmental and Social Assessment</td>
<td>Section 2, Risk evaluation</td>
</tr>
</tbody>
</table>
| Principle 3: Applicable Environmental and Social Standards | • Policy section 3  
• Section 2, Risk evaluation |
| Principle 4: Environmental and Social Management System and Equator Principles Action Plan | Section 2, Risk evaluation. These requirements are detailed in the IFC Performance Standards. |
| Principle 5: Stakeholder Engagement | Section 2, Risk evaluation. These requirements are detailed in the IFC Performance Standards. |
| Principle 6: Grievance Mechanism | Section 2, Risk evaluation. These requirements are detailed in the IFC Performance Standards. |
| Principle 7: Independent Review | Efic’s in-house environmental and social experts are independent reviewers. These staff operate independently of Efic’s underwriters (who arrange Efic’s support) and have a different internal reporting line. |
| Principle 8: Covenants | Section 3.2, Contractual terms |
| Principle 9: Independent Monitoring and Reporting | Section 3.2, Contractual terms |
| Principle 10: Reporting and Transparency | Section 4, Reporting |
Appendix 2: Classification

The Common Approaches and the Equator Principles both provide definitions, set out below, for Category A, B and C projects. Efic considers that the two definitions are similar in intent and, in applying the Policy and this Procedure, Efic does not distinguish between the two.

<table>
<thead>
<tr>
<th>Category</th>
<th>Common Approaches</th>
<th>Equator Principles</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Category A projects</strong></td>
<td>Potential to have significant adverse environmental and/or social impacts, which are diverse, irreversible and/or unprecedented. These impacts may affect an area broader than the sites or facilities subject to physical works. Category A, in principle, includes projects in sensitive sectors or located in or near Sensitive Areas.</td>
<td>Projects with potential significant adverse environmental and social risks and/or impacts that are diverse, irreversible or unprecedented.</td>
</tr>
<tr>
<td><strong>Category B projects</strong></td>
<td>Potential environmental and/or social impacts are less adverse than those of Category A projects. Typically, these impacts are few in number, site- specific, few if any are irreversible and mitigation measures are more readily available.</td>
<td>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.</td>
</tr>
<tr>
<td><strong>Category C projects</strong></td>
<td>Minimal or no potentially adverse environmental and/or social impacts.</td>
<td>Projects with minimal or no environmental and social risks and/or impacts.</td>
</tr>
</tbody>
</table>
## Appendix 3: Amendments to the Procedure

<table>
<thead>
<tr>
<th>Procedure version</th>
<th>Date and details</th>
</tr>
</thead>
<tbody>
<tr>
<td>A 10 March 2011</td>
<td>Implementation following Policy approval</td>
</tr>
<tr>
<td>B 29 August 2011</td>
<td>Section 4.1 amended: addition of RPA associated with multilateral institutions to list of transactions not reported in the online register of transactions</td>
</tr>
<tr>
<td>C 30 August 2012</td>
<td>Amendments following internal review and revisions to the Common Approaches.</td>
</tr>
<tr>
<td>D 27 June 2013</td>
<td>Amendments following the release of Equator Principles 3 (June 4 2013) and a decision to disclose Efic’s potential involvement in Category A projects located in Australia.</td>
</tr>
<tr>
<td>E 10 August 2015</td>
<td>Amendment of the definition of “New Project” and general housekeeping edits.</td>
</tr>
</tbody>
</table>