
SUMMARY RESPONSE BY EQUATOR PRINCIPLES ASSOCIATION TO THE EQUATOR PRINCIPLES STRATEGIC REVIEW REPORT

INTRODUCTION

The purpose of this summary is to provide an update on the Equator Principles (EP) Strategic Review process and how the EP Association is evaluating the recommendations in the Strategic Review Report for action in the short term, and further direction and strategy in the longer term.

It is important to emphasise that the Strategic Review is the first step in a longer term process to determine the future of the EPs. This will include an EP III Update Process¹ in the latter half of 2011 to reflect outcomes and recommendations coming out of the Strategic Review (if and when agreed by the EP Association), and to reflect planned changes in the IFC Performance Standards on which the EPs are based. The EP Association is committed to continuing to develop the EPs and therefore this summary and road map forward marks the beginning of a journey of improved action, engagement and communication with members and stakeholders alike. We welcome ongoing input from all stakeholders' now and moving forward.

BACKGROUND TO THE EP STRATEGIC REVIEW

The main purpose of the Strategic Review was to take stock of the current state of the EPs, to develop a better understanding of the challenges and successes to-date, and to help structure the EP III Update Process. During the Strategic Review, the EP Association engaged with its members and stakeholders (including clients and industry, civil society, and financial sector peers and partners) to identify recognised areas of strength and perceived shortcomings in the current EP framework.

The resulting Strategic Review Report, produced by the third party consultant, has provided recommendations on how the EP Association may improve, develop and evolve in the coming years. It is now the role of the EP Association to interpret the findings and assess the practicality, benefit, feasibility of the recommendations, taking into consideration the needs and requirements of the wider membership (the adopting institutions) and expectations of stakeholders.

¹ The EP III Update Process, which is planned to commence in Q3/4 2011, will include a separate public comment process that will incorporate engagement with all stakeholders, including clients, industry bodies, NGOs and civil society. A draft of the revised EPs will be provided to stakeholders for a minimum period of 60 days in order to maximise transparency and engagement. Further information on this process will be made available to stakeholders and the interested public later in 2011.

The Strategic Review Report has recommended the following strategic vision for the EPs:

“The Equator Principles Association needs to advance as an organization and create a sustainable platform for its success and continued development, and to assert its leadership role in environmental and social risk management in the financial industry. It must excel at delivering its core mission, as contained in its Preamble, of ensuring that the projects that its members finance are developed in a socially responsible manner and using sound environmental management practices. At the same time, it must expand its membership to encompass new entrants in the project finance market, broaden its scope to accommodate the greater ambitions of its members, and address evolving environmental and social risk management needs.”

The EP Association will now embark on a process of internal discussion and evaluation to assess whether this vision statement is appropriate and will provide a platform to fulfil the requirements and aspirations of the broader membership. Due to the potential impacts of the recommended vision on the Equator Principles and the Association’s membership and governance, the vision will be adapted and/or confirmed during the EP III Update Process.

CONTEXT

The Strategic Review has provided valuable insight on how to ensure the EPs remain the most effective tool for managing environmental and social risk in project finance and large infrastructure developments.

However, before considering potential development of the EPs, it is important to recognise and understand:

- the fundamental purpose and use of the EP - as a shared framework that is adopted voluntarily and used primarily as a risk management tool,
- the large and diverse group of EP Association members - representing different levels of experience, capacity and ambition operating in a variety of cultural, geographic and market contexts,
- the current mandate of the EP Association - which is to ensure the long-term viability and ease of management of the members and not to act as a ‘standard setter’, certification or accreditation body,
- the formal processes and voting procedures (as detailed in the EP Association [Governance Rules](#)) required for potential changes to the EPs and their management,
- the current changes and trends in the project finance market, and
- the increasing significance of global issues such as climate change and the increasing importance of management of project-related social risk.

Thus, our initial observations, comments and responses to the Strategic Review Report are at this point preliminary and will be further refined in the months ahead as we discuss the Strategic Review analysis and EP III Update Process.

Note: Many of the recommendations in the Strategic Review Report are interlinked or overlapping and many are also operational, tactical and administrative, and therefore may be agreed and implemented as part of a broader strategic action plan, and not specifically outlined or confirmed in this summary response. It is also important to note that all recommendations will be discussed within the EP Association and that some are already in progress or completed.

SETTING THE EP ASSOCIATION PRIORITIES AND ACTIONS: SHORT, MEDIUM AND LONG TERM

One of the most important and challenging tasks for the EP Association is to set a long-term strategic vision for the EPs, and in doing so, establish both short-term and long-term priority actions towards achieving the strategic vision – while balancing the varying expectations and requirements of the broad EP membership.

EP adopting institutions need to be fully supported so that the EPs can be applied in a consistent and robust way while also recognising different institutions have differing organisational structures, cultures, business objectives and risk appetites. Thus a key goal of the strategic vision is to ensure that the EPs remain relevant and applicable as a risk management tool for project finance and financing of large infrastructure developments. This is especially important in the context of the underlying IFC Performance Standards Update, as well as changing market trends such as the use of different financial products for project investment and the increased project finance and project finance type activity in some important and large emerging markets (e.g., India).

To begin mapping out the strategic vision, the EP Association Steering Committee has carried out an initial review of the Strategic Review Report's recommendations and conducted an evaluation of priorities, actions and potential resource requirements (where applicable) and divided them in to short, medium and long term time frames.

Note: Where a recommendation sits in the time frames does not necessarily indicate the level of priority allocated. A high priority recommendation may appear in a medium or long term time frame due to the requirement for further in-depth analysis, approval and resources.

SHORT TERM ACTIONS

The EP Association is committed to supporting its members in the application of the EPs, improving communication to the membership and to stakeholders, reporting in a robust way in order to increase transparency; and facilitating capacity building and knowledge sharing.

To support these set of priorities, the following actions will be undertaken in the immediate short term:

- Recommendation 18 – Improve general communication with our membership – Ongoing.
- Recommendation 22 – Develop a state of the art website (with a members’ only portal) for communication and information/knowledge sharing with stakeholders and members – Complete May 2011.
- Recommendation 3 – Develop a detailed reporting template/standard for consistent implementation reporting – Under development with a target launch in end of Q3 2011
- Recommendations 14 and 23 – Continue to engage with the IFC, as a de-facto strategic partner, on the IFC Performance Standards as these are the primary baseline standards for the EPs. We will also continue to be proactive in making our views known to the IFC on various priority issues - Ongoing.

MEDIUM TERM ACTIONS

Requiring Consideration by the Entire EP Association membership as part of the EP III Update Process

The EP Association is committed to ensuring the EPs remain relevant, applicable and robust and as such will consider some of the key development topics and recommendations found in the Strategic Review Report during the EP III Update Process (scheduled to commence in Q3/4 of 2011).

The following recommendations will be deliberated during the EP III Update Process and if found appropriate, applicable and feasible, will be considered for incorporation into EP III and/or the EP Association Governance Rules.

Note: All of these topics would require formal amendment to the EPs and/or EP Association Governance Rules and a voting process by the entire EP Association membership - the results of which cannot, at the time of this statement, be fully assured:

- Recommendation 7 – Extending the scope of the EPs to corporate loans with known use of proceeds (i.e., corporate loan tied to a defined specific asset). **Note:** There will be a full discussion to clarify the feasibility and practicality of extending the scope of the EPs and to explore any applicable alternative or adapted framework.
- Recommendation 5 – Developing a common EP Assurance Standard for auditing EPFIs’ internal EP implementation processes
- Recommendations 1 and 10 – Raising EPFI-specific disclosure, reporting and implementation standards
- Recommendations 4 and 11 – Revising EP adoption criteria and standards for new adopters

- Recommendation 24 – Improving outreach to a broad set of stakeholders, including industry associations which would include proactive engagement during the EP III Update Process
- Recommendation 13 – Explore the feasibility of a “tiered” membership approach (perhaps focused on enhanced disclosure); it should be recognized that this would be a major change to the membership criteria, and would require careful deliberation before advancing or finalizing.
- Recommendation 21 - Related to composition of the EP Association Steering Committee.

The EP Association also recognises there will be need to further strengthen capacity building and knowledge sharing (Recommendation 9) to support any new requirements in EP III, and the Association will develop a plan to do this post the EP III Update Process launch.

The EP Association is also acutely aware that there are barriers to adoption for interested financial institutions, carrying out project finance and large infrastructure financing, in priority markets like China and India. The EP Association is committed to developing a comprehensive outreach strategy targeted to China, India and other priority markets (Recommendation 12). The EP Association already has a structure in place (the Outreach Working Group) and it will explore how to best achieve this objective and whether additional resources will be required to support these activities.

The EP Association recognises that many of the above issues would require increased capacity at the EP Association level and the level of resources and appropriate fee structure (Recommendation 19) to support this will be discussed by the broader EP Association membership later in 2011.

LONG TERM ACTIONS

The EP Association has a diverse membership with differing perspectives, and therefore some of the recommendations in the Strategic Review Report will require further discussion and agreement before making any formal changes. This should not be perceived as a disregard for these further recommendations.

Additionally, some recommendations have not been deemed as immediate priorities by the membership and will be considered at a later date following the EP III Update Process.

For example, Recommendation 2 (EP League Table), Recommendation 8 (Guidance Notes for other financial products), Recommendation 16 (Gap analysis on select High-Income OECD country standards) are viewed as innovative ideas that may be explored further after the EP III process. Recommendation 25 (EP Advisory Group) is also an innovative idea, and may be potentially piloted during the EP III Update Process. The idea of an EP Forum (Recommendation 26) to discuss broader sustainability issues is a longer-term idea that the EP Association, or a subset of its membership, might consider as a convening mechanism.

Finally it must be reiterated that EP Association is committed to continuing to develop the EPs and therefore this summary and road map forward marks the beginning of a journey of improved action, engagement, revision and communication with members and stakeholders alike. We welcome ongoing input from all stakeholders' now and moving forward.

For further information about the EPs and/or the Strategic Review contact the EP Secretariat by email at secretariat@equator-principles.com or visit <http://www.equator-principles.com>