

Technical, Environmental & Social Risks A Lender's Perspective

Perth, October 2013



Australian Government



Overcoming financial barriers for exporters

Topic: Risk Management – a Lender's Perspective

Technical Risk



Topic: Risk Management – a Lender's Perspective

Environmental & Social Risk



Human Rights

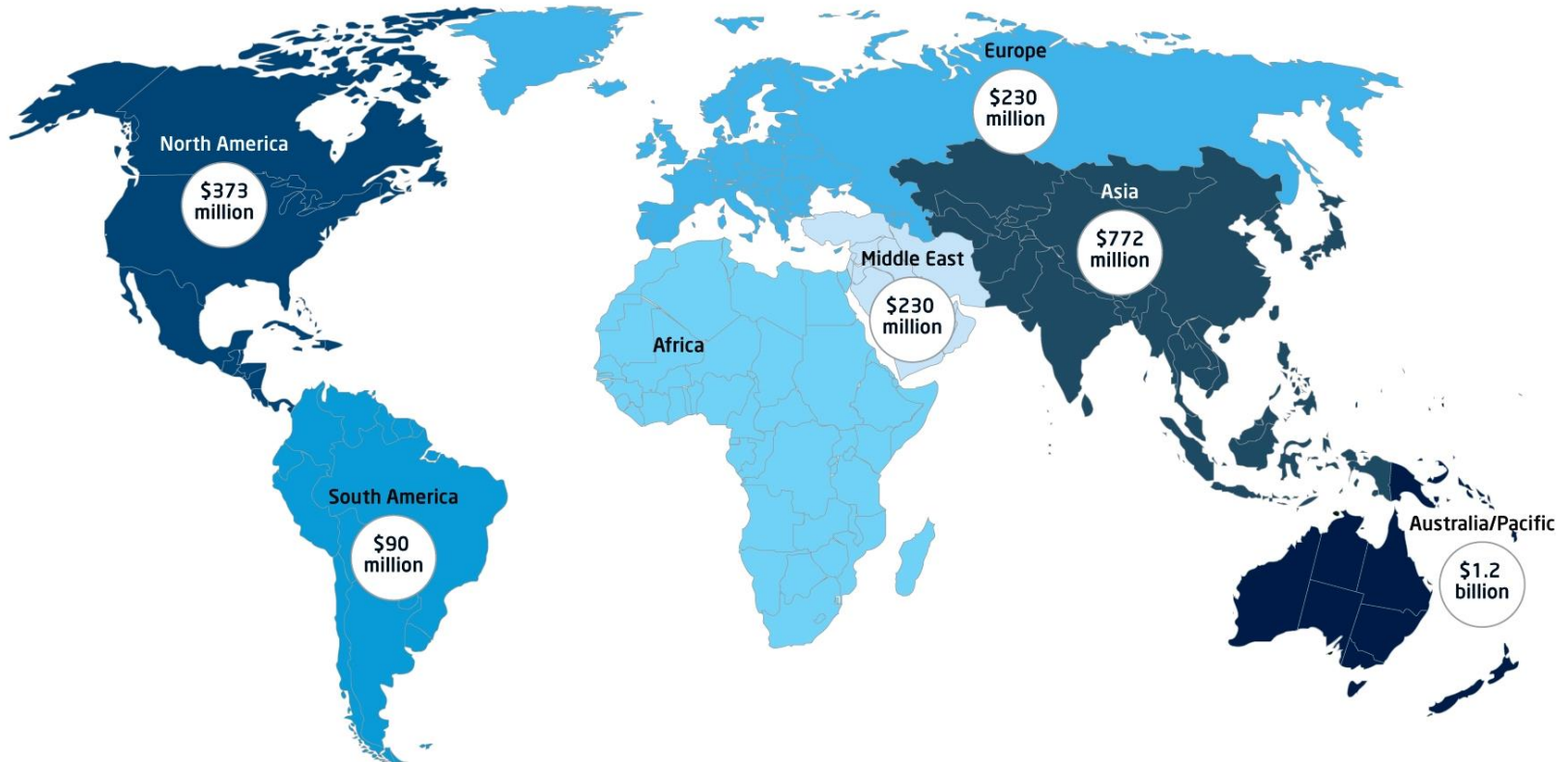
- At a project level most are covered by IFC Performance Standards
- EFIC has committed to broader examination where warranted
- Currently considering the need for a separate human rights policy



What is EFIC?

- Australia's export credit agency
- Wholly owned and guaranteed by the government
- Self-funding statutory corporation
- Mission: to support growth of Australian business
- Over 50 years' of finance & industry experience

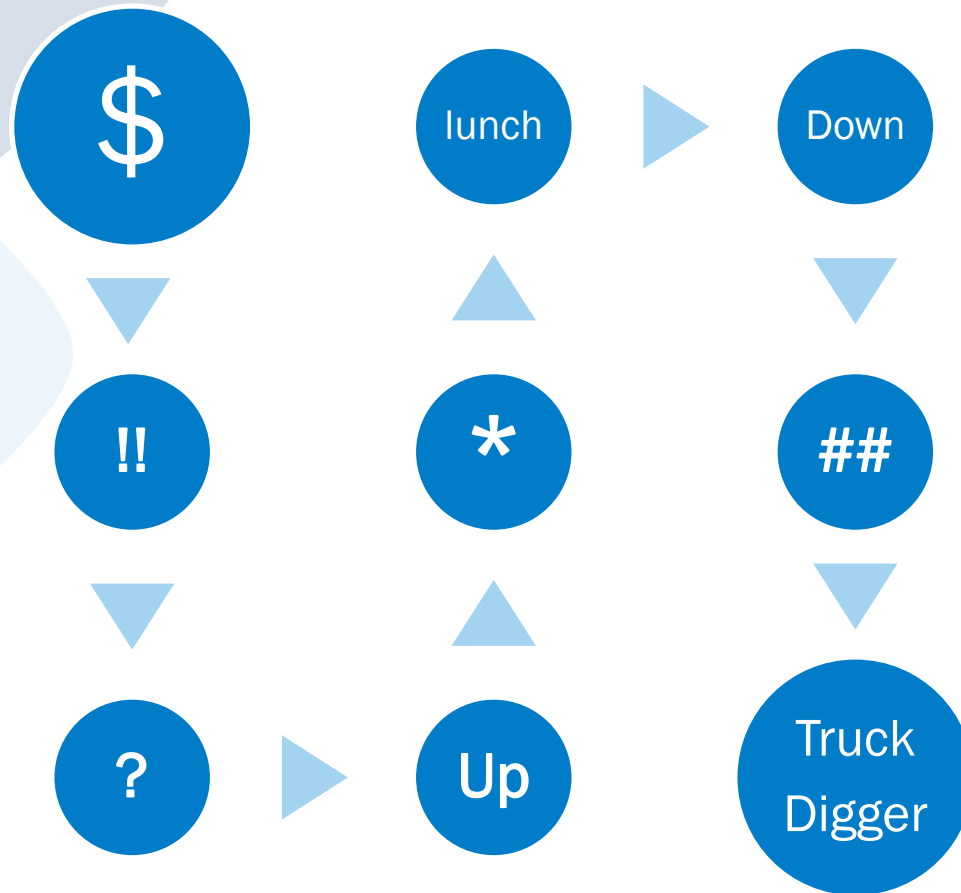
EFIC's exposures at 30 June 2012



EFIC's Solutions

- Buyer finance: direct loans and guarantees
- Bonds: advance payment, performance and warranty
- Export working capital guarantees
- Documentary credit guarantees
- Export payments insurance
- Bond insurance
- Political risk insurance
- Project finance

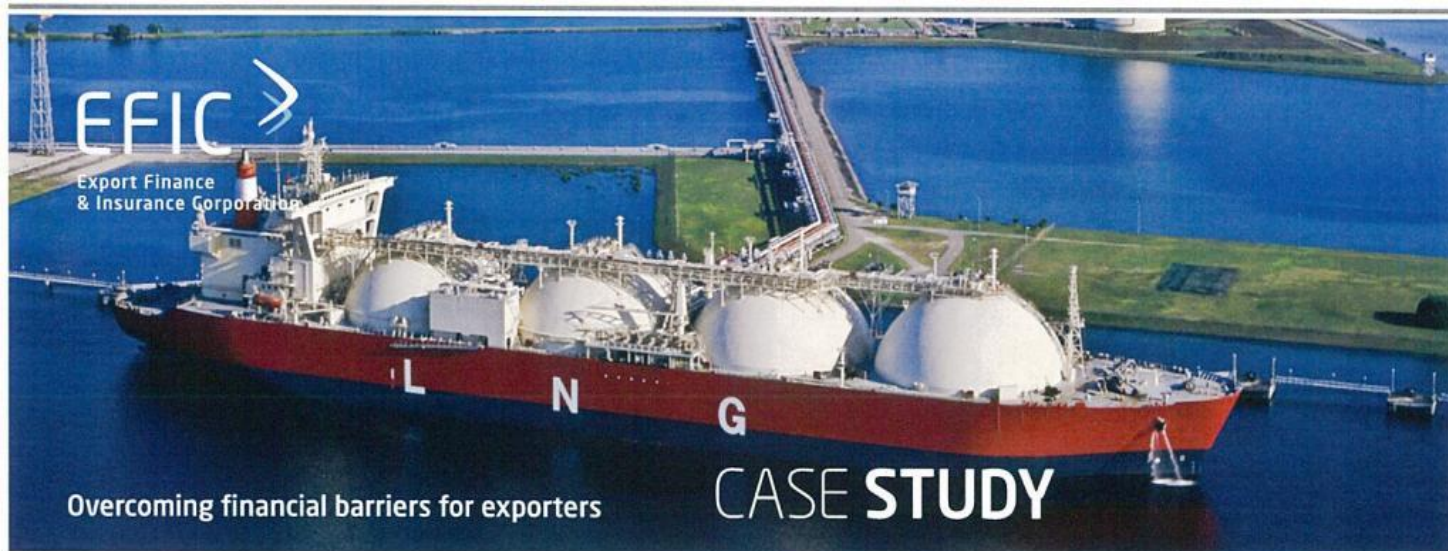
Financial arrangements



Why does EFIC undertake Due Diligence?

- Risk management – we pay our own way
- Government relationship
- Reputation risk – EFIC & Government
- Ensure projects apply environmental and social standards

Example 1

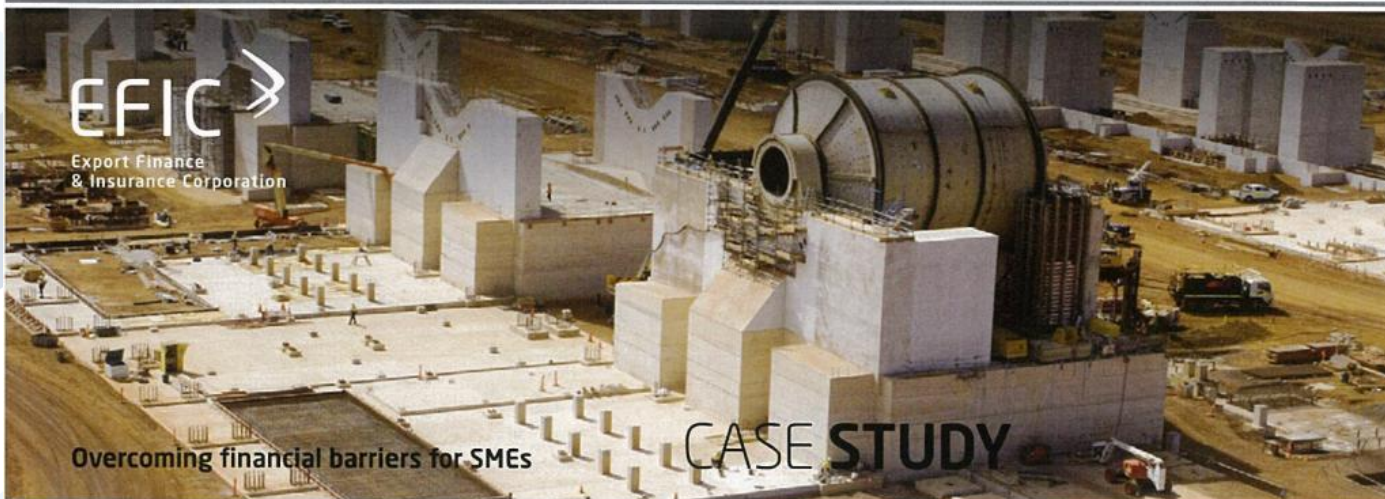


Binder Group

WARRANTY BOND
PROJECT LOCATION: WESTERN AUSTRALIA
EFIC SUPPORT: A\$574,000

Pipe suspension designer and manufacturer Binder Group Pty Ltd (Binder) needed to provide a warranty bond for the supply of pipe supports for the Gorgon liquefied natural gas (LNG) project, Australia's largest single resource project and one of the world's largest natural gas projects.

Example 2



Whittens Pty Ltd

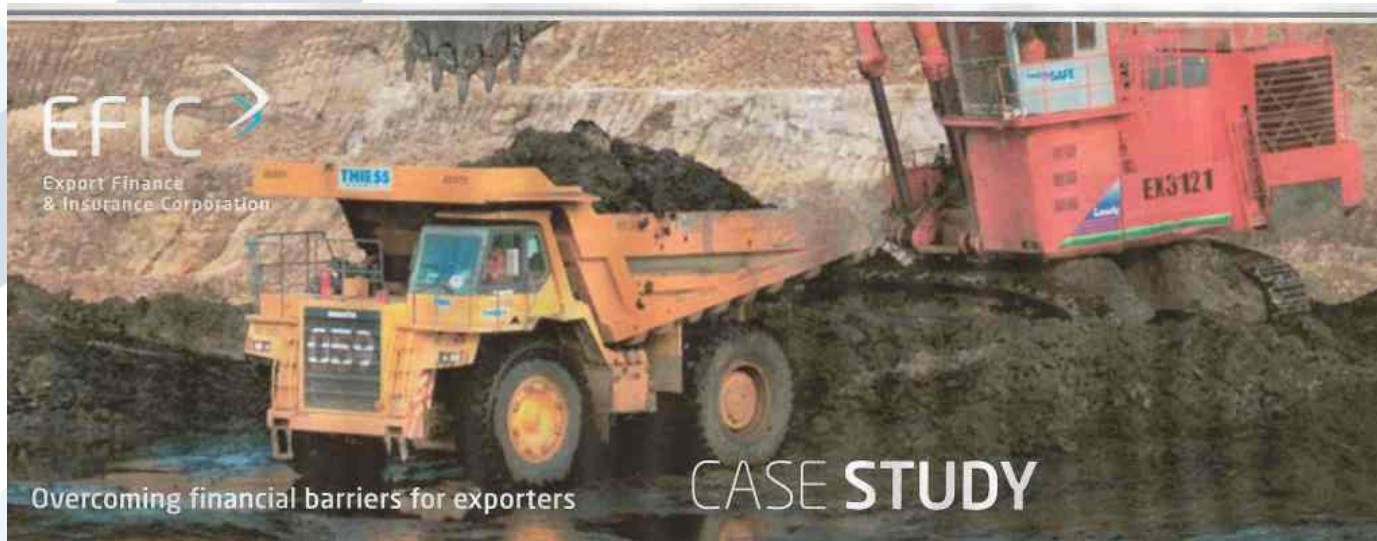
INDUSTRY: CONSTRUCTION
PRODUCT: PERFORMANCE BONDS AND
ADVANCE PAYMENT BONDS
EFIC SUPPORT: \$A4.8 MILLION

Whittens Pty Ltd needed to supply performance and advance payment bonds under a construction contract for a plant in Western Australia's Pilbara region which will produce ammonium nitrate for export.

Whittens bank, ANZ, recognised that its cash collateral requirements would have constrained the company's cashflow and hence its ability to tender for new contracts and introduced EFIC to the company.

EFIC provided Whittens with two performance bonds and two advance payment bonds totalling \$4.8 million to support the group's civil works contracts.

Example 3



Leighton Holdings

DIRECT LOAN
EXPORT DESTINATION: INDONESIA
EFIC SUPPORT: APPROX US\$150 MILLION

Export Finance and Insurance Corporation (EFIC), Australia's export credit agency, is supporting Leighton Holdings Limited (Leighton) with financing to assist Australia's largest construction and contract mining group in delivering a number of mining services contracts in Indonesia.

Due Diligence – What we do

- Ask for information, for example:
 - tender
 - contract
 - management systems
 - environmental/social studies
- Discussions
- Research
- Site visit
- Risk evaluation



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Due Diligence – site considerations

- Site organisation
- Documented management systems actually used on site
- Site methods for tracking and recording costs (plant, materials and labour)
- Selection/management of subbies
- Sourcing of labour, labour accommodation
- Source of plant and materials
- Site walk-around



Technical Risk – considerations


- Current business and management
- Export business proposed
- Organisation and resources
- Product and technology
- Project, product or service delivery
- Contract conditions
- Warranty, delivery and performance acceptance
- Payment terms and cash flow
- Delivery schedule and capability

Technical Risk – considerations

Organisation and Resources	N/A	L	C	R
People (experience of project staff, available in-house capacity)				
Plant and equipment (available in-house capacity, any substantial new plant and equipment required?)				
Materials (know-how, availability, items with long-lead times)				
Use and management of subcontractors – how sourced				
Organisational maturity (comprehensiveness of management or project systems for company operations)				
Resources (human, IT, sales, admin) dedicated to the export business/project				
Overall Rating				

NOTE: L = likelihood, C = consequence, R = risk

Risk determination

				Consequence 					
				Environmental & Social	No identified environmental or social impacts. Minor, short-term effect of no consequence. Minor licence non-compliance.	Some impacts but generally site specific and manageable Non-persistent, local damage that can be easily remediated. no social issues	Potential site impacts that can extend beyond project unless managed. Non-persistent but possibly widespread damage that can be remediated. Some habitat damage Some social issues possible.	Environmental issues that require specific treatment and management. Long-term damage to land and/or terrestrial or aquatic habitat. Major discharge of pollutant requiring extensive remediation Social impacts.	Significant environmental issues potential for uncontrolled releases. Permanent and widespread damage. Extensive discharge of persistent, hazardous pollutant. Significant loss of land and/or terrestrial or aquatic habitat. Social impacts that will not meet acceptable standards
				Reputational	No issues Minor complaint to operator or contractor, resolved at that level.	Scrutiny unlikely by external organisations, media or CSO Possible Adverse local media coverage.	Scrutiny likely by external organisations, media or CSO Adverse national media coverage.	Intense public, political and media scrutiny, e.g. front page headlines, TV, Repeated adverse national media coverage. Significant NGO mobilisation.	External inquiry or Commission of inquiry or Sustained adverse media (national and international). Sustained NGO mobilisation.
				Technical	No technical issues identified that will affect the company or completion of the contract or service. First aid injuries.	Minor issues in systems or processes that require corrective action. May cause minor delay without impact on overall schedule Potential medical treatment injuries	Issues with capability, capacity or experience that may affect completion of the contract or service. Poor quality control, hospital treatment injuries.	Issues with capability, capacity or experience that will impact on completion of the contract or service. Fatality or long term injuries	Company has limited or no experience or systems and are not capable of providing the contract or service. Unique and/or unproven commercially. Multiple injuries or fatalities
				Financial	1% of Turnover or <\$50K Company has capacity to absorb costs without impact	2.5% of Turnover or <\$500K Will have some financial impact on the company.	> 5% of Turnover or <\$1m Financial impact may result in default of the contract or service	> 10% of Turnover or <\$5M Will cause considerable financial loss for the company	>25% of turnover or >\$5M may result in financial failure of the company.
Likelihood	Numerical	Likelihood		Insignificant	Minor	Moderate	Major	Catastrophic	
	>1 in 10	Is expected to occur or	Almost Certain	H	H	E	E	E	
	1 in 10 - 100	Will probably occur in this project or service	Likely	M	H	H	E	E	
	1 in 100 – 1,000	Might occur at some time in the project or service	Possible	L	M	H	H	E	
	1 in 1,000 – 10,000	Could occur but doubtful	Unlikely	L	L	M	H	H	
	1 in 10,000 – 100,000	May occur but only in exceptional circumstances	Rare	L	L	L	M	H	

Technical Risk – common areas of difficulty

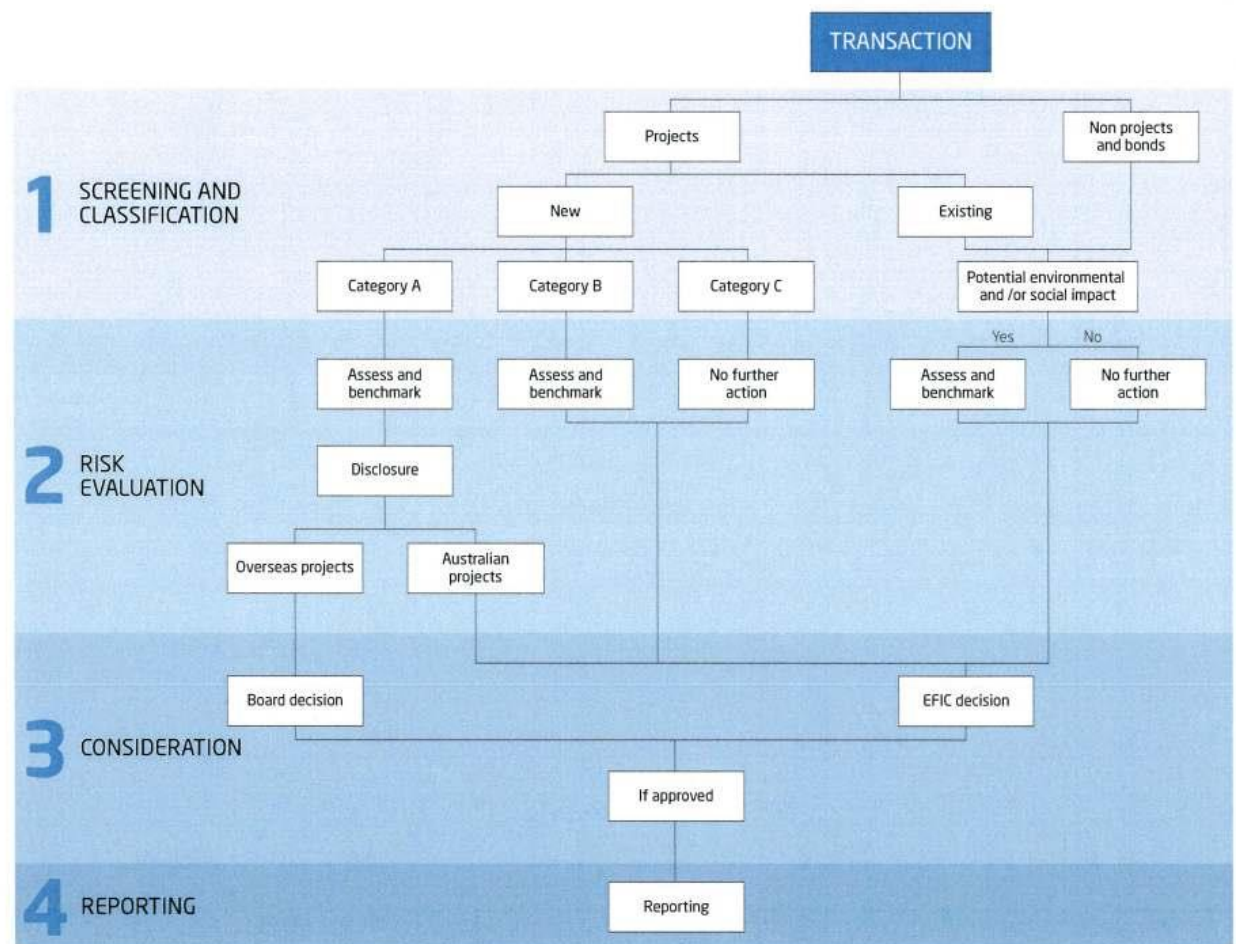
- Cashflow
- Trust in client “we have a good relationship”
- Poor tender, unclear contract
- Growth by acquisition



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Environmental & Social Risk – considerations

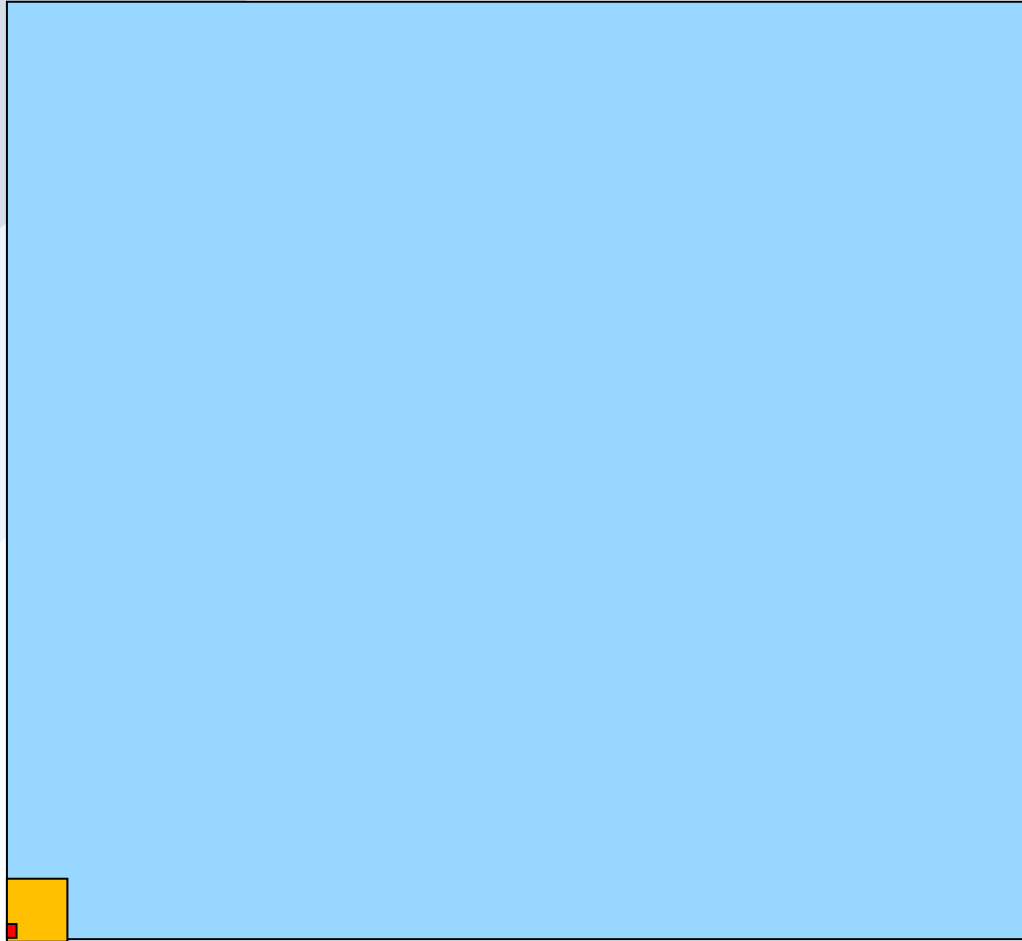
Environmental and social review flow chart



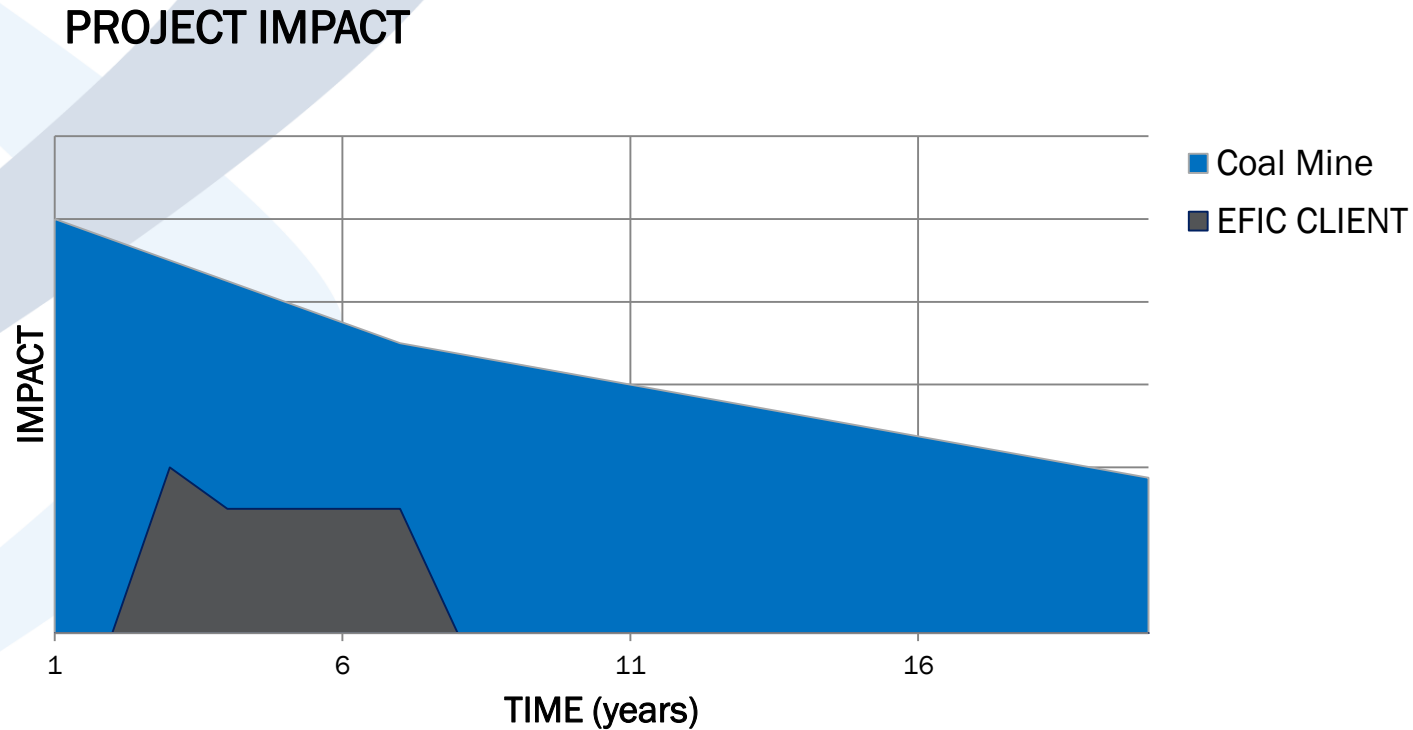
Environmental & Social Risk – IFC Performance Standards

PS 1	Assessment and Management of Environmental and Social Risks and Impacts
PS 2	Labour and Working Conditions
PS 3	Resource Efficiency and Pollution Prevention
PS 4	Community Health, Safety and Security
PS 5	Land Acquisition and Involuntary Resettlement
PS 6	Biodiversity Conservation and Sustainable Management of Living Natural Resources
PS 7	Indigenous Peoples
PS 8	Cultural Heritage

Due Diligence – Environmental & Social – ability to influence or leverage



Due Diligence – Environmental & Social – ability to influence or leverage 2

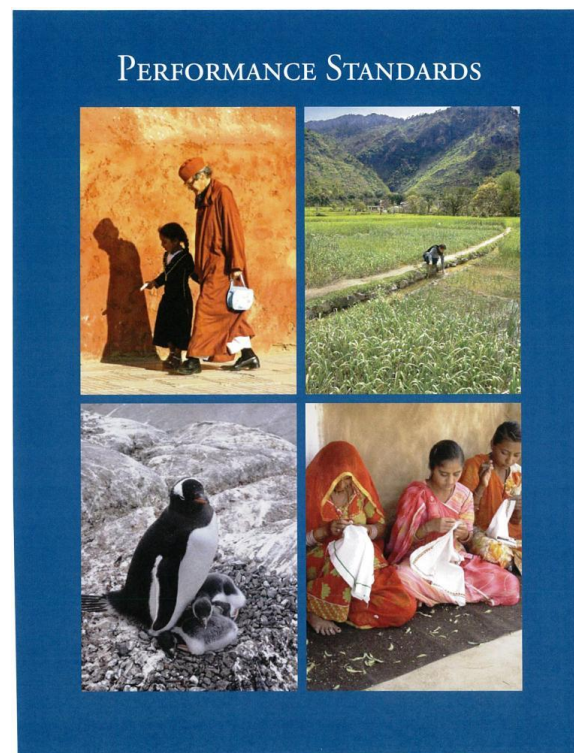


Environmental & Social – information difficulties

- Accessing information
- Original ESIA old and dated
- Country EIA process inadequate when benchmarked against the IFC PS
- Little public monitoring information
- EFIC unable to access the project owner

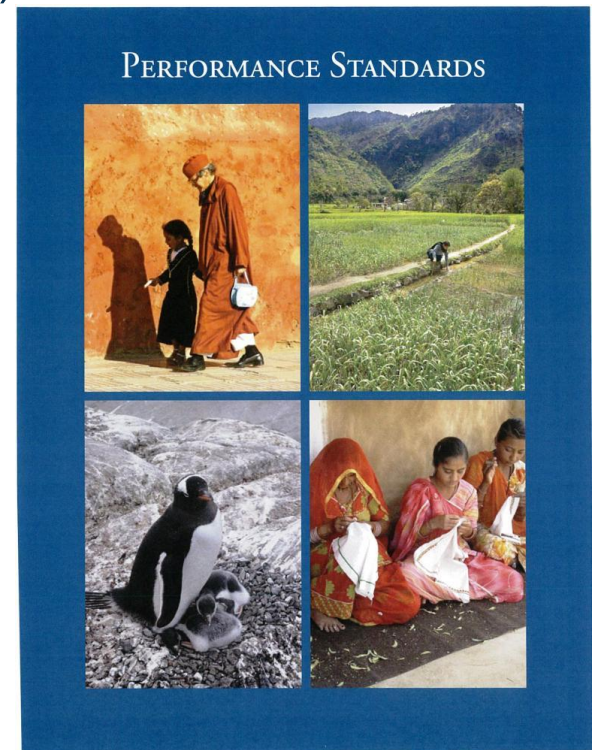
Environmental & Social – typical concerns for Australian Projects

- Water pollution (PS3)
- Biodiversity – land clearing (PS6)
- Indigenous people (PS7)



Environmental & Social – typical concerns for Overseas Projects

- Labour & working conditions (PS2)
- Resettlement (PS5)
- Biodiversity (PS6)
- Indigenous people (PS7)



Examples of Legal Covenants

- Compliance with local environmental and social laws
- Compliance with good industry practise
- Implementing management systems for quality, environment, OH&S
- Monitoring site visits
- Advice on incidents likely to adversely affect project
- Significant breach of environmental or social laws an event of default



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Example 3



African Underground Mining Services

DIRECT LOAN
PROJECT LOCATION: GHANA AND MALI
EFIC SUPPORT: US\$15 MILLION

Contract mining company African Underground Mining Services Limited (AUMS), a joint venture of Australian companies Barminto Limited and Ausdrill Limited, was expanding its business in West Africa with new contracts.

The company needed finance to acquire equipment, including mobile plant and equipment, to perform underground mining contracts at Red Back Mining Inc's Chirano gold mine and Newmont's Ahafo gold mine in Ghana and at Barrick Resources' Cora gold mine in Mali.

International obligations and voluntary standards

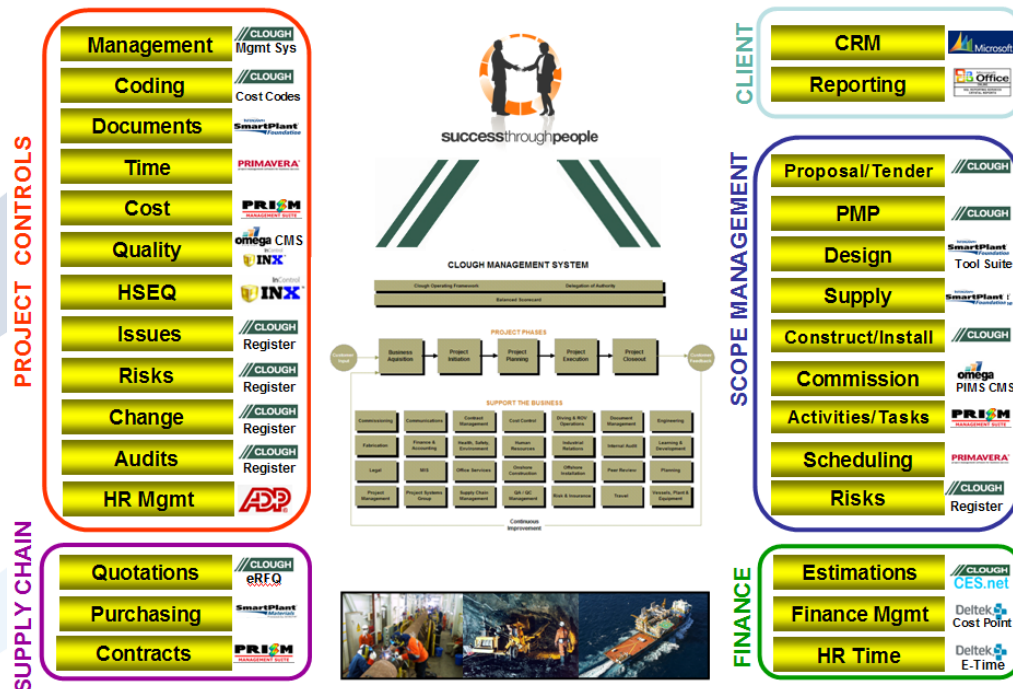
Obligations:

- OECD Common Approaches
- OECD Guidelines for Multinational Enterprises

Voluntary:

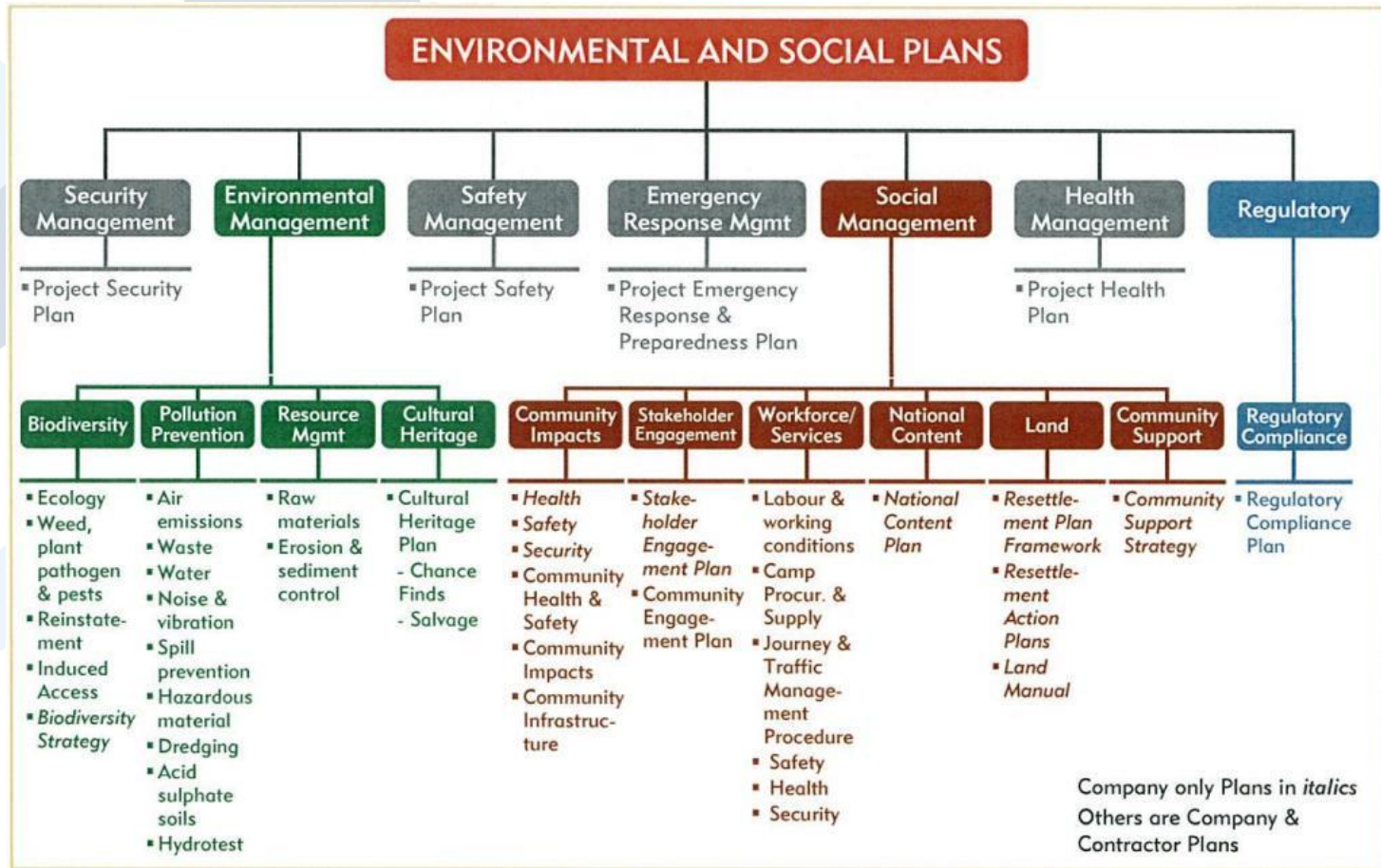
- IFC Performance Standards
- Equator Principles

PS1 – Assessment and Management of Environmental and Social Risks and Impacts



- PS1 relevant to almost all transactions
- Application of PS1 determines which of the other seven PSs are relevant

ENVIRONMENTAL & SOCIAL MANAGEMENT



PS2 - Labour and Working Conditions

- Fair treatment, non-discrimination, and equal opportunity
- Working conditions
- Worker health & safety
- Vulnerable workers such as children, forced labour



PS3 – Resource Efficiency and Pollution Prevention



- Avoid or minimize pollution from project activities
- Sustainable use of resources, including energy and water
- Reduce project-related GHG emissions.

PS4 – Community Health, Safety and Security

- Avoid adverse impacts on the health and safety of neighbouring communities
- Carry out security activities in accordance with relevant human rights principles



PS5 – Land Acquisition and Involuntary Resettlement



- Minimize adverse social and economic impacts from land acquisition or restrictions on use
- Improve living conditions among physically displaced persons
- Improve living standards of economically displaced persons

PS6 – Biodiversity Conservation and Sustainable Management of Living Natural Resources

- Protect and conserve biodiversity
- Maintain benefits from ecosystem services
- Promote sustainable management of living natural resources



PS7 – Indigenous Peoples (IP)



- Project must foster full respect for the human rights, culture, and livelihoods of IP
- Avoid or minimize and/or compensate adverse impacts of projects on communities of IP
- Free, Prior, and Informed Consent (FPIC) of IP

PS8 – Cultural Heritage

- Protect cultural heritage from adverse impacts and support its preservation
- Promote equitable sharing of benefits from using cultural heritage



MONITORING – Security

Army mobilised amid anger over PNG gas project

By PNG correspondent



DUE DILIGENCE – NEGOTIATIONS

Lenders Required:

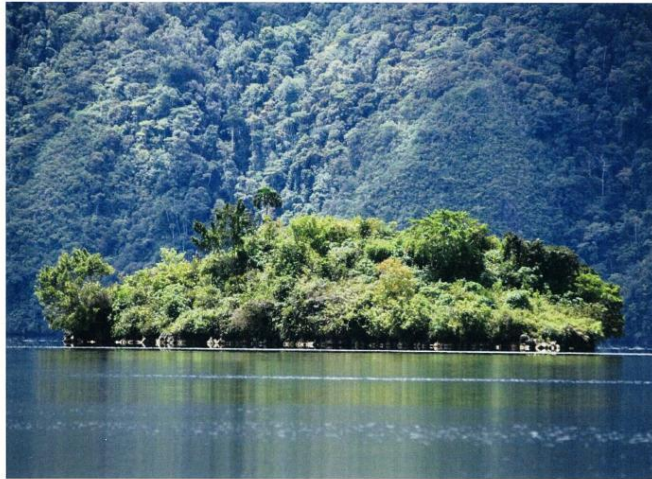
- Preparation of specific management plans, e.g.
 - Framework ESMP
 - Resettlement Policy Framework
 - Induced access
- An ESAP – schedule to the legal agreement
- An LESR



Environmental & Social – common areas of difficulty

- Social Issues
 - labour
 - resettlement
 - community engagement
- Tailings Management
 - dam safety
 - decommissioning

CSO Commentary



Risky Business

Shining a spotlight on Australia's export credit agency

A report by Jubilee Australia



PIPE DREAMS

The PNG LNG Project and the Future Hopes of a Nation

