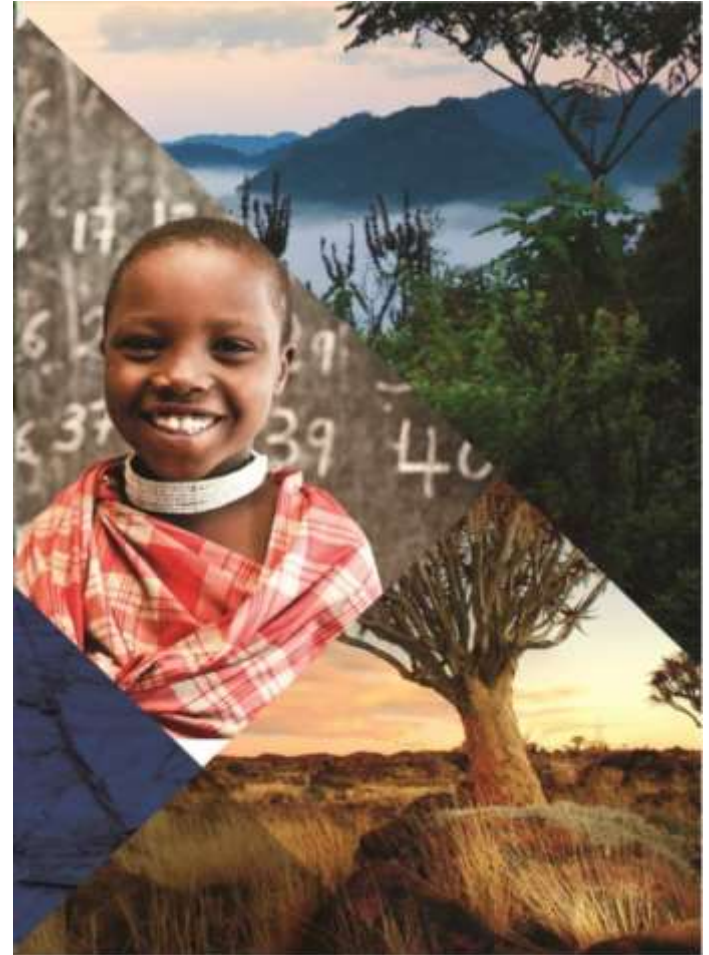




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Project Financing & Meeting International Social & Environmental Standards in Africa

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Overview

1. Defining “international standards” in environmental and social sustainability.
2. Key environmental and social performance issues:
 - Biodiversity
 - Resettlement
 - Cultural heritage
 - Community Health, Safety and Security
3. Implications for Project finance.

Defining 'International Standards'

Good international industry practice, articulated as, for example:

- International Finance Corporation (IFC) Environmental and Social Performance Standards;
- World Bank Group EHS Guidelines; and
- Equator Principles.

Application of recognised standards has the objectives of:

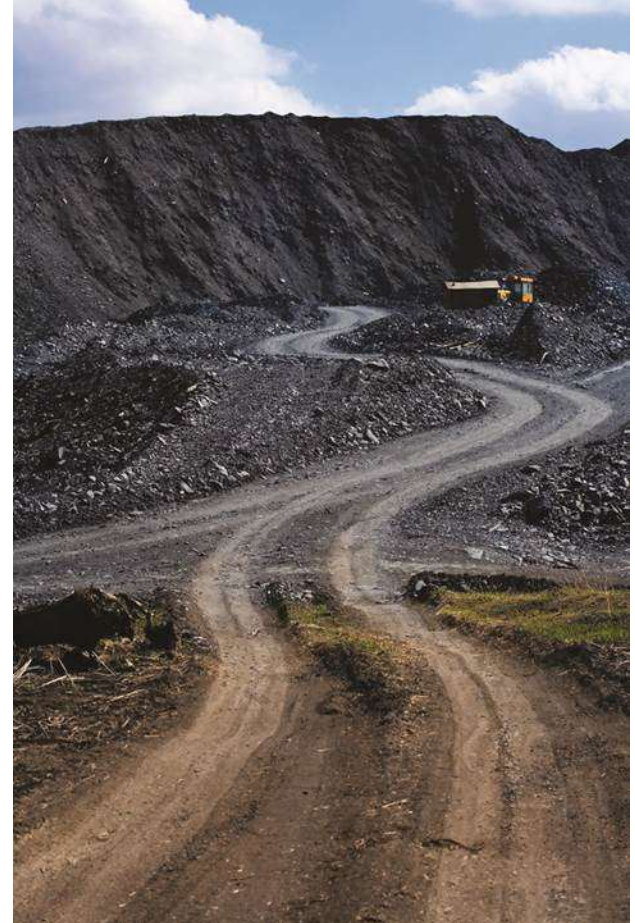
- Minimising social and environmental risks of the Project; and
- Provides a benchmark for verification of performance.

Implications for Project Finance & Insurance

- **Financial institutions** may become involved with a Project in a number of ways.
- Financial institutions include:
 - Major Multilateral Financial Institutions (IFIs) such as the IFC, African Development Bank; Multilateral Investment Guarantee Agency (MIGA)
 - Export Credit Agencies (ECAs) – Australian Finance and Insurance Corporation, Export Development Canada; and
 - Investment banks.
- Many of these institutions follow **international standards for social and environmental performance**.
 - The Equator Principles (EP) are one of the most common; and
 - EPs are based on the IFC Performance Standards.
- Use Project compliance to **recognised international standards** as a way to promote **potential shareholder interest** in the company and project.

Benefits of the Performance Standards

- **GUARD AGAINST UNFORESEEN RISKS AND IMPACTS**
- **IMPROVE FINANCIAL AND OPERATIONAL PERFORMANCE**
- **SOCIAL LICENSE TO OPERATE**
- **PROJECT ENDORSEMENT AT A LEVEL RECOGNISED INTERNATIONALLY**



What are the Performance Standards?

Performance Standard:

- 1. ASSESSMENT & MANAGEMENT OF ENVIRONMENTAL & SOCIAL RISKS & IMPACTS**
- 2. LABOUR & WORKING CONDITIONS**
- 3. RESOURCE EFFICIENCY & POLLUTION PREVENTION**
- 4. COMMUNITY HEALTH, SAFETY, & SECURITY**
- 5. LAND ACQUISITION & INVOLUNTARY RESETTLEMENT**
- 6. BIODIVERSITY MANAGEMENT & SUSTAINABLE MANAGEMENT OF LIVING NATURAL RESOURCES**
- 7. INDIGENOUS PEOPLES**
- 8. CULTURAL HERITAGE**



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Complying with the Performance Standards

- Performance Standards operate through the Environmental and Social Management System (ESMS) established for each project.
- Companies required to undertake an environmental and social impact assessment (ESIA) of the social & environmental impacts, risks and opportunities of the project. An ESIA involves:
 - Gathering baseline information on the “state” of the environment and society likely to be affected by project activities.
 - Based on anticipated project impacts, the ESIA identifies potential measures to avoid, minimise or mitigate these impacts.
- Finance Institutions and Equator Principal banks review ESIA and/or instruments that demonstrate environmental and social performance
- Compliance with Environmental and Social commitments of the ESIA may be linked to financing term sheet obligations

Key Risks for Projects in Africa – Resettlement

Performance Standard 5 - Land Acquisition and Involuntary Resettlement:

Concerned with the mitigation of adverse social and economic impacts from land acquisitions as well as the ongoing goal to improve, or restore the standards of living of displaced persons.

Legal risks:

- Free, prior and informed consent, particularly where indigenous peoples are involved or land is communally owned.
- Failure to observe consultation and consent mechanisms & effective compensation, may result in civil /criminal sanctions.

Financial risks:

- Companies perceived to be causing involuntary resettlement or obstructing a community's development, may face negative publicity by NGOs and activists.
- Divestment by investors / customer boycotts, may result in financial losses.
- Resettlement activities that are not well structured, managed and audited may result in time delays, additional costs of purchasing land and infrastructure.

Operational risks:

- Ongoing litigation may delay of projects and legal decisions may revoke permits and suspend operations.
- Community opposition may result in protests and worker strikes, not only disrupting operations but, if met with violence from public or private security employed by the company, may lead to allegations of human rights abuses or of complicity in those abuses.



Resettlement Issues

Tanzania

- Livelihood restoration is critical and often overlooked; just as important as making sure physical resettlement actions are met so that displaced people are not worse off because of the Project's land requirements; can be complicated when people using land are not living directly on it (e.g. tenant farmers, artisanal miners)
- 'Cut off' date - agreeing a date with Govt and community after which any new settlers will not be compensated for new assets (e.g. planting new crops, clear date to avoid legal claims later)
- 'Bush lawyers' – local communities have seen Government resettlement projects before and have some information and expectations; need a clear stakeholder engagement plan specific to resettlement and land acquisition as well as local legal advice at all stages, to make sure the process is well understood, agreed and communicated effectively.

Key Risks for Projects in Africa – Community Health, Safety & Security

Performance Standard 4 - Community Health, Safety and Security:

Objective is to avoid or minimize the risks and impacts on the health, safety and security of affected communities during a project's life-cycle.

Complicity/legal action risk:

- Penalties prosecution for violations of H & S regulations and laws.
- Poor management of security risks may increase risk of lawsuits. This particularly applies to extractive sector companies operating in high risk areas (i.e. Africa), as they may depend on both public and private security to maintain a stable environment.

Reputational and brand risks:

- Poor health and safety records may erode confidence in the quality of products and services within a supply chain.
- Human security-related violations could lead to the loss of social and political licenses to operate.

Financial risks:

- Claims on insurance coverage can lead to increased premiums as well as increased costs of improving workplace systems.
- Boycotts, legal suits and operational impacts stemming from health, safety and security risks may impact on profitability and competitiveness.

Operational risks:

- Business disruption due to accidents, loss of staff, and damage to equipment.
- Decrease in employee morale, increased absenteeism and reduced ability to recruit / retain qualified members of the workforce.



Key Risks for Projects in Africa – Biodiversity

Performance Standard 6 – Biodiversity Conservation and Sustainable Management of Living Natural Resources:

- Conservation of biological resources & sustainable management of natural resources are most difficult in countries or regions with high resource insecurity. Resource security considers the availability of food, energy & water resources.
- Countries at greatest risk are in Africa, underlining the lack of access to food, water & energy in many nations. Additionally ongoing conflict, lack of investment & poor governance add to resource insecurity.

Reputational and brand risk:

- Companies heavily dependent on water face the reputational challenges, particularly where business operations are perceived to be damaging local communities

Financial risk:

- Price of business necessities may be higher in resource scarce countries.
- Pressure on local water resources in a highly water-stressed country may result in pollution that would incur further costs.

Operational risk:

- Primary resource security concerns include water and energy resources. Aside from financial fluctuations, the availability of these resources is uncertain, affecting day-to-day operations.

Human security risk:

- Resource insecurity can cause unrest among the populace.

Biodiversity Issues

Common issues for demonstrating compliance with biodiversity performance standards in Africa:

- Lack of suitable baseline data and the need for seasonal data often means that 1-2 years of baseline data gathering for ESIA;
- Critical habitat issues are often triggered by support infrastructure associated with roads, access and water supplies rather than the direct impact of mining;
- Secondary biodiversity impacts are often associated with increasing access to remote areas and therefor increasing hunting pressure from non mine related personnel;
- Biodiversity offsets are often needed to address residual impacts but lack of governance or management resources may limit the ability to contribute to the conservation estate in many jurisdictions.

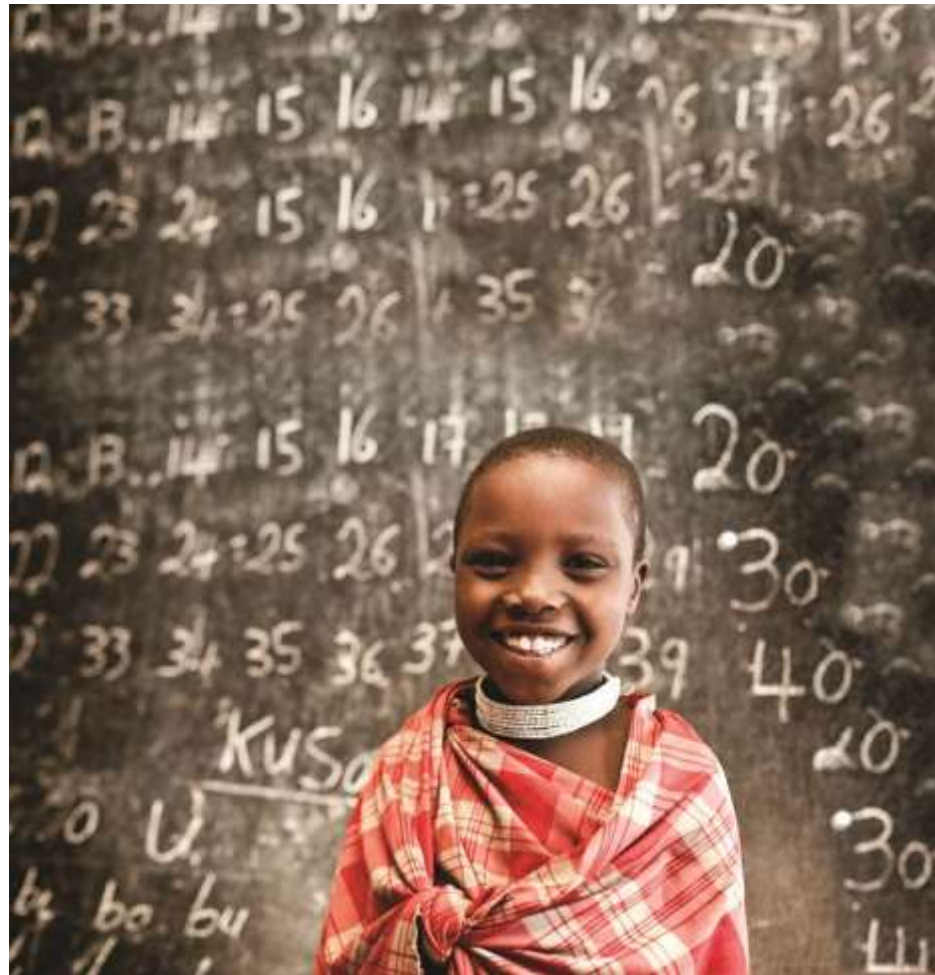
Applying the Performance Standards in Practice

- Linking performance standards into project development:
 - Local / national permitting requirements;
 - Feasibility studies (DFS / BFS); and
 - Environmental and social impact assessment.
- Realistic budgets and timeframes:
 - Good planning saves time and cost later.
 - ESIA to meet IFC performance standards are expensive and take time.
- Ongoing management commitments:
 - Audited action plans may be required where multilateral IFI's are involved.

Sustainability's Capabilities

- ESIA
 - Risk assessment;
 - Impact assessment;
 - Mitigation / Management Plans and Monitoring Measures;
- Social and Environmental Due Diligence and Feasibility Studies
- Corporate Social Responsibility Strategy
- Community –based Programme Development
- Environmental and Social Auditing
- Stakeholder Engagement and Community Relations
- Resettlement and Livelihood Restoration Planning and Processes
- Social, Environmental, and OHS Training and Capacity Building of Local Teams
- Climate Change Adaptation and Disaster Risk Reduction Planning

Any Questions?



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