

SUMMARY OF PROPOSED CHANGES IN EP4 DRAFT

For consultation June-August 2019

This document provides an overview of the main proposed changes between EPIII and the draft of EP4 – it is not meant to be a comprehensive review of all of the proposed changes, and we invite all stakeholders to read the full EP4 proposed text. Changes have been made in four key areas:

1. The scope of applicability of the EPs
2. Applicable standards in designated vs. non-designated countries
3. Human Rights and social risk
4. Climate change

1. SCOPE OF APPLICABILITY

Overall, the scope of applicability remains within the Project-related realm.

The total threshold for Project-Related Corporate Loans (PRCLs) has reduced to US\$50 million, where the total aggregate loan amount and the EPFI's individual commitment (before syndication or sell down) meets the new threshold (see section Scope).

Project-related Refinancing and Project-related Acquisition Financing is added to the scope of the EPs with the following criteria:

- » The underlying Project was financed in accordance with the EPs;
- » There has been no material change in the scale or scope of the Project;
- » The Project is not yet completed (see section Scope).

For Project-Related Corporate Loans, the exception for sovereign borrowers is removed for Category A, and as appropriate for Category B Projects (see Exhibit 1: Glossary of Terms: 'Project-Related Corporate Loans').

2. APPLICABLE STANDARDS IN DESIGNATED VS. NON-DESIGNATED COUNTRIES

Principle 3 retains the list of 'Designated Countries' i.e. high-income OECD countries as a proxy for governance. However, it clarifies that the EPFI will evaluate the specific risks of the Project to determine whether one or more of the IFC Performance Standards could be applied to address those risks, in addition to host country laws. In addition, the EPs require that the EPFI's due diligence includes, for all Category A and Category B Projects, a review of how the Project meets each of the Equator Principles.

3. HUMAN RIGHTS AND SOCIAL RISK

The Preamble states that EPFIs will fulfil their responsibility to respect Human Rights in line with the UN Guiding Principles on Business and Human Rights. Principle 2 strengthens language on human rights, stating that the Environmental and Social Impact Assessment

(ESIA) included in the Assessment Documentation should include the assessment of potential adverse Human Rights impacts.

Two options related to 'Free, Prior and Informed Consent' (FPIC) are presented:

Option 1

For projects with impacts on indigenous peoples as described in IFC Performance Standards 7, clients "are expected to engage in meaningful consultation with affected Indigenous People, with the goal of achieving their Free Prior and Informed Consent." In the case that it is unclear whether consent has been achieved, the EPFI should evaluate if further consultation efforts are required and whether the clients' mitigation and remedy plans are appropriate.

Option 2

For projects with impacts on indigenous peoples as described in IFC Performance Standards 7, clients "must demonstrate to the EPFI's satisfaction, that the Free, Prior and Informed Consent of the indigenous peoples affected by the Project is obtained."

4. CLIMATE CHANGE

The Preamble recognizes EPFI's role in the 2015 Paris Climate Change agreement, as well as responsibilities for reporting climate-related information in line with the TCFD recommendations.

Principle 2 introduces Climate Change Risk Assessment as a requirement for certain Projects:

- » For Category A and as appropriate, Category B Projects, the climate change assessment will include consideration of relevant physical risks.
- » For all Projects, in all locations, when combined Scope 1 and Scope 2 Emissions are expected to be more than 100,000 tons of CO₂ equivalent annually, the climate change assessment will include consideration of relevant transition risks and the completion of an alternatives analysis to evaluate less Greenhouse Gas (GHG) intensive alternatives. The depth and nature of this assessment will depend on the type of Project, as well as the nature of risks, including their materiality and severity.

Annex A: requires clients to use the GHG Protocol or national reporting methodologies if they are consistent with or equivalent to the GHG Protocol; specifies questions that the climate change risk assessment should address including the identification of transition and/or physical risks and mitigation efforts; and specifies that the climate change risk assessment should consider the project's compatibility with the country's most recent relevant climate/energy policies including e.g. Nationally Determined Contributions.