

C A L E N D A R

■ **Diggers & Dealers Mining Forum 2006**

August 7–9, 2006
Goldfields Arts Centre
Kalgoorlie, Australia
e-mail: admin@diggersndealers.com.au

■ **Argentina Mining 2006**

August 29–31, 2006
Emilio Civit Convention Center
Mendoza, Argentina
e-mail: info@argentinamining.com

■ **Oil Sands Trade Show & Conference 2006**

September 12–13, 2006
C.A. Centre
Fort McMurry, Alberta, Canada
e-mail: stevehenrich@ca.dmgworldmedia.com

■ **29th Platts Coal Marketing Days**

September 14–15, 2006
Marriott City Center
Pittsburg, Pennsylvania
e-mail: james_gillies@platts.com

■ **12th Central Asia Exhibition and Conference**

September 20–22, 2006
Ataken Exhibition Centre
Almaty, Kazakhstan
e-mail: oleg.netchaev@miningandevents.com

■ **Runge North American Professional Development Courses**

Dragline Mining Systems

Denver: Sept. 27–28

Mining Economics

Denver: Sept. 21–22 Calgary: Sept. 25–26

Mining for Non Miners

Calgary: Sept. 15 Denver: Sept. 29

Truck & Loader

Calgary: Sept. 18–20 Denver: Oct. 2–4

For additional information or to register,

Project Financing and the New IFC Performance Standards

Introduction

During the 1990s the private lending arm of the World Bank (WB), the International Finance Corporation (IFC), developed a set of safeguard policies directed toward ensuring that environmental and socio-economic issues were considered in projects that IFC lent money to. In 2003, major resource lending institutions developed a set of principles meant to ensure sound environmental and social practices were followed in projects they finance. These principles are referred to as the Equator Principles (EP). As of April 2006, a revised "Policy on Social and Environmental Sustainability" was released by the IFC, including a set of what are now referred to as Performance Standards, replacing the former Safeguard Policies. In parallel to this, there has also been the release of an updated version of the Equator Principles.

Globally, there is a wide variation in the level of environmental regulation and enforcement from country to country. However, lending institutions operate on an international stage, and although companies may comply with specific countries environmental and social

requirements, public scrutiny of projects is also directed toward the application of international best practice. This may pose some concern considering that larger senior mining companies often have people / departments dedicated to the implementation of such policy frameworks, such as that developed by the IFC, the smaller midsize or junior companies can be faced with an overwhelming volume of information and requirements for environmental and community interaction that may be beyond their capability. The revamping of the IFC policy framework, while still a significant challenge to meet, has provided a much more refined management system approach to its implementation with added clarity to the standards requirements.

Equator Principles

The Equator Principles consist of 10 specific principles a listing of which is available on the EQ web site at www.equator-principles.com. The principles cover issues including environmental, social, gender and pay equity, as well as a grievance mechanism for affected communities. References within Principle 3: (Applicable

Environmental and Social Standards) references the application of the IFC Performance Standards and the World Bank Industry Specific Guidelines, thus creating the link between the EP and the IFC / WB standards. Application of the EP is generally applied to projects greater than 10 million USD and also utilizes the IFC's screening criteria. This screening criteria divides projects into three categories A to C. Category A includes projects > 10 million in funding which have a "potential significant adverse social or environmental impacts that are diverse, irreversible or unprecedented." while Categories B and C deal with lesser impacts. Due to the capital requirements of most mining projects and the degree to which they impact on local communities and the environment, they are most often categorized as class A projects. As such, these mining projects must meet the full requirements referred to by the EP, IFC and World Bank. While the EP lays out ten specific principles to be adhere to, there is little in the way of specifics as to how they are to be implemented. Reference is therefore made within the EP to the IFC Performance Standards, thus providing an operational and auditable component.

To date more than 40 major banks have signed on to the equator Principles, representing 80+ % of global project lending. With these numbers in play, it is doubtful that any major mining project seeking bank financing

will not eventually be held accountable to the Equator Principles and thus the IFC Performance Standards.

IFC Performance Standards

The following is a brief discussion of the new Performance Standards section of the IFC policy framework, and some of the potential impacts on companies looking for financing.

Performance Standard 1: Environmental and Social Assessment

This new standard brings the concept of management systems to the performance standards. While there are a great many aspects to the application of this performance standard, it is the integration of environmental and social assessment into an overall environmental management system that is the most powerful aspect of the standard.

The key requirement for this standard is that the project must develop a Social and Environmental Management System, which includes a Social and Environmental Assessment, management program, organizational capacity, training, community engagement, monitoring and reporting (both internal and external).

Performance Standard 2: Labor and Working Conditions

Performance Standard 2 attempts to bring balance to income

generation and workers rights. This standard references the International Labor Organizations conventions as well as United Nations conventions. Its application extends not only to the direct employees of the project, but also the supply chain and in particular regarding the use of child labor or forced labor.

The requirements of the standard include sections on working conditions and the management of worker relations, protecting the work force, occupational health and safety, non-employee workers, and adverse impacts associated with the supply chain. Through these requirements the section is looking to improve worker management relations; promote fair treatment including non-discrimination and equal opportunity; guard against improper use of child labor and prevent the use of forced labor; and to promote a safe and healthy workplace.

Performance Standard 3: Pollution Prevention and Abatement

This standard is focused on the avoiding, minimizing or reducing adverse impacts on human health and the environment throughout the project life cycle. The general requirements include the development of systems based on avoidance or minimization in relation to waste management, handling of hazardous materials, and emergency preparedness and response. Other requirements spell

out much of what is needed in the environmental assessment, including the current status of the environment and existing and future land use and alternatives, and strategies designed to reduce or minimize the negative affects of the project. Also included in this standard is a requirement for the project to promote the reduction of greenhouse gases and to develop a comprehensive pest management plan if appropriate focusing on the management of pesticides to ensure minimizing the human and environmental impacts.

**Performance Standard 4:
Community Health, Safety and Security**

The objective of this standard is to avoid or minimize the health and safety risks and impacts on the local communities throughout the life cycle of the project. This standard includes sections on infrastructure and equipment safety, hazardous materials safety, environmental and natural resource issues, community exposure to disease, and emergency preparedness and response. This is all couched in terms of reducing risk to communities and disclosure to communities regarding the potential risks and impacts.

**Performance Standard 5:
Land Acquisition and Involuntary Resettlement**

Involuntary resettlement is where the community, even though they may willingly negotiate, has no choice in the ultimate relocation.

Resettlement refers to both the physical relocation, as well as economic displacement. The objective of this standard is essentially two fold; first off there is an objective of avoiding or minimizing the actual relocation; and, second where relocation does occur, to restore or better the standard of living of the displaced persons.

The general requirements of this standard include ensuring project alternatives have been reviewed, providing compensation for displaced persons, ensuring that there is consultation process (documented) throughout the relocation, and that there is a grievance mechanism in place which includes an impartial recourse mechanism to resolve disputes. Further requirements involve extensive, documented planning for the actual resettlement process, including ensuring appropriate land tenure is gained for displaced persons and that their economic base is intact. Issues involving the cultural / social integrity of displaced persons, and the compatibility of displaced persons with other potential receiving populations must also be assessed.

There are a number of different specific requirements for this standard depending on the nature and scale of the resettlement. Considering that this can be one of the most contentious and high profile aspects of any project, development organizations which specialize in socio-economic and

resettlement issues are almost always used.

**Performance Standard 6:
Biodiversity Conservation and Sustainable Natural Resource Management**

This standard's defined purpose is to protect and conserve biodiversity and to promote the sustainable management of natural resources. Largely addressed through the assessment process, the application of this standard is expressed in the mitigation measures and management plans developed as part of the overall management system. The requirements are focused on the avoidance, elimination or minimization of impacts to biodiversity, and a requirement to demonstrate that renewable resources are managed in a sustainable manner.

**Performance Standard 7:
Indigenous Peoples**

This standard recognizes the unique situation that indigenous peoples are often in when faced with project development, and seeks to ensure that dignity, human rights, aspirations, cultures, and resource based livelihoods are respected. The requirements for this standard included ensuring there are detailed assessments, information disclosure and consultation directed toward avoidance or minimization of impacts to indigenous peoples.

This standard also addresses the issue of customary or traditional

lands, and the need for indigenous people's involvement in the assessment of traditional use. As well it stresses the need for expert documentation and in fact requires that experts be used to document the land use. This standard also develops requirements regarding relocation of indigenous peoples and protection of their cultural resources.

**Performance Standard 8:
Cultural Heritage**

While similar in many ways to Performance Standard 5 and 7, this standard focuses on the preservation of cultural heritage; ensures that it is included in the management system of the project; and, that impacts to cultural artifacts are minimized with relocation being a last resort. There also is the requirement for a plan regarding the chance finding of cultural artifacts and the requirement to utilize competent specialists in assessing cultural artifacts prior to any disturbance of the artifact. This standard also

requires extensive consultation with local communities, as well as the involvement of the appropriate regulatory authorities regarding the disturbance of any cultural artifacts.

Summary

The common thread through all of the standards is the application of detailed assessment upfront in the project, consultation with affected peoples / communities, and ensuring that there are documented plans and consultative procedures in place as part of the overall environmental management system.

The application of these performance standards has become a critical part of the project review involved in project financing. Lending institutions who have signed the Equator Principles stipulate that compliance with the Performance Standards is a key lending requirement. Extensive reviews and independent engineering studies are done on projects to determine their

compliance. Where compliance is not possible in a reasonable time frame compatible to the lending requirements, the loan will not be made. This highlights the need for companies engaged in project development to ensure that the performance standards have been adhered to with as much attention as that applied to the engineering and geological details of the project.

This article has attempted to provide a brief outline of the performance standards associated with the EP/IFC social and environmental policy framework. Extensive information required for the implementation of these standards is available through the IFC web site at www.IFC.org. Particular note should be taken of the document titled [International Finance Corporation's Guidance Notes: Performance Standards on Social & Environmental Sustainability](#).

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