Environmental and Social Responsibility in Lending: Citi’s Journey with the Equator Principles

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– Why do we need to manage environmental and social risk?

– Why did Citi join the Equator Principles?

– What has Citi gained from joining the Equator Principles?

– How does Citi implement the Equator Principles?
The New Global Business Environment

Increasing resource scarcity

Growing stakeholder awareness

Strengthening legislative, regulatory and enforcement frameworks worldwide

Increased transmission of global reputational risk to the financier
There have been – and continue to be – criticisms of financial institutions…
How have the Equator Principles helped Citi?

• The Equator Principles have helped us go from purely risk and brand management...to brand enhancement and positive reputation

• The Equator Principles have informed and are the backbone of our broader ESRM Policy

• We partner better with:
  – Clients
  – Other Equator Principles Financial Institutions (EPFIs)
  – Multilaterals (like the IFC), bilaterals and ECAs
  – Civil society and NGOs

• Sustainability and environmental issues are now considered center-of-the plate issues for the Firm
How have the Equator Principles helped Citi?

The business benefits are clear:

– We are viewed as a leader in banking & sustainability
  
  • Citi ESRM Policy is viewed as a market leader
  
  • Recent Position Statement on Climate, including a USD 50 billion commitment over ten years focused on climate-related issues
  
  • Successive commendations from Financial Times Sustainable Banking Awards
  
  • 2007 Corporate Award from International Association of Impact Assessment
  
– Citi is a leader in micro-finance
Environmental & Social Risk Management (ESRM) at Citi is a Shared Responsibility

**ESRM Unit:**

- Director, VP, and analyst (New York)
- ESRM Champions (London, Hong Kong, Mumbai, Sao Paulo, and Mexico City)

The ESRM unit serves as a technical resource and counsel for our Markets and Banking Unit.

**Portfolio Banker:** Continues ESRM monitoring over life of loan, in consultation with ESRM Unit, as needed

**ESRM Approvers:** Certain senior credit officers are appointed ESRM Approvers by CMB’s Chief Risk Officer. The ESRM Approvers have review and approval responsibilities for transactions with sensitive environmental and social risks

**Transactor:** screens transactions and complies with approval, analysis, documentation and process requirements
INDIA: Palanpur-Udaipur Toll Road

How did Citi approach a challenging India-based Equator deal?

• Category A project financing

• Equator Principles applied, including IFC standards / Performance Standard 5

• Government responsible for resettlement implementation (not Citi’s client)

• Independent review by a qualified consulting firm – the consultant helped facilitate discussions with Government agencies

• Monitoring: Innovative partnership with local NGO
From a Target of Criticism to Positive Reputation in the Financial Sector – From Reactive to Proactive

• We have been a leader in the development of the Equator Principles (partnering together with other Financial Institutions)

• Key leading role in the 2006 Equator Principles II Updating process

• We have had a broader ESRM Policy since 2003 (updated March 2006)

• ESRM Policy foundation: known use of proceeds

• We categorize Transactions according to their environmental and social risk (based on IFC process)
  • Category A = higher risk
  • Category B = medium risk
  • Category C = minimal or no risk