

Interactive Session:

Description:

Using a fictitious case, the purpose of the exercise is for participants to design a system that will ensure appropriate:

- **Monitoring** of an environmentally sensitive project, including who monitors, how and when (frequency),
- **Reporting** to one or more relevant stakeholders, or to interested third party stakeholders,
- **Recourse** should there be non-compliance to an undertaking by one of the stakeholders or the occurrence of an environmental event having an impact on the financial and/or reputation risk of one or more relevant stakeholders.

The case discussions will seek to explore the possibilities of how to best combine the often varying and/or divergent interests of stakeholders to find the optimum solution, which derives maximum benefit or minimum risk to **all** stakeholders (“win-win”).

Discussion will take place initially in smaller groups to be formed from the 5 representative stakeholder groups with interest in the development of the hypothetical project, and a facilitator who will facilitate resolution and report back to the plenary:

The 5 representative stakeholders groups are:

- The project **CEO and Owner**
- The **ECA** providing insurance or guarantee of debt support
- The **International Commercial Bank** providing debt
- The local **NGO**
- The host country **Regional and National Government**

Each participant will be assigned a “Stakeholder Identity” card, with a description of the basic interests of their representative stakeholder.

Each group **facilitator** will be given a reference document to help the project group develop a list of monitoring and reporting requirements the stakeholders in the project group agree should be in the commercial and/or financing agreements. Stakeholder(s) in the project group may also identify one or more monitoring and reporting systems not normally covered in any project agreements. For example; a stakeholder may propose a system to monitor local media reporting of environmental issues or events occurring in the host country.

Instructions:

Once the Project Groups are formed with two representatives per stakeholder group and one Facilitator (a total of 11 participants per group), the exercise will be in **3 phases**:

First, The stakeholder pairs with similar identity cards will meet in groups of two to review the project and together to develop and refine their respective stakeholder position statements.

Second, project groups with the help of a facilitator will develop a list of stakeholder concerns **acceptable** to all members of the project group.

- a. Each stakeholder pair will briefly state its environmental concern(s) and suggest a monitoring/reporting/recourse system for each concern. The facilitator will record each concern on a flip chart.
- b. Through discussion the project group will agree:
 - If a stakeholder concern should form part of the commercial and financial agreements, identify the agreement and make rough text suggestions for insert into the agreement,
 - If a stakeholder concern is valid but should not be part of the project agreements, how should the concern be addressed to the satisfaction of the concerned stakeholder?

Third, there will be a debriefing to the Plenary of how each project group intends to monitor and report on the environmental concerns of its stakeholders.

Interactive Session Summary

<i>Phase 1:</i>	<i>Phase 2:</i>	<i>Phase 3</i>
Establish position of each of the 6 Stakeholder Groups in pairs	Each Project Group will: (A) Develop a list of Environmental Concerns (B) Identify the optimum system to: <ul style="list-style-type: none"> • Monitor • Report and • Recourse in the event of environmental concerns or events 	Each Project Group presents to the other Project Groups how it intends to monitor and report on the concerns or events of each stakeholder in the group
STAKEHOLDERS	PROJECT GROUPS	PLENARY

Project Description

Terrasol is a country located along the equator with a population of 50 million and GDP per capita of USD400. Terrasol had previously encouraged the harvest of tropical forests to export logs and develop large plantations to produce palm oil for domestic consumption. Now the policy of Terrasol is to develop its forestry industry. In 1998 the Ministry of Natural Resources awarded a concession for a new pulp mill to be located on the Muddy River.

Construction of the USD1.0 billion Sunshine Pulp Mill is scheduled to begin in early 2003. When completed in late 2005 the mill will produce 200,000 metric tons of pulp annually. The Sunshine Pulp Mill will be located 50 kilometers from the Silver Lake Plantation, a source of recently planted acacia magnum trees to be used as feedstock for the new pulp mill. Pulp will be shipped via rail to the port city of Rideau Falls for export to Europe, Japan and China.

Sunshine Pulp Mill will be financed 40% by equity from Sunny Investments Group, 100% owned by a wealthy family in Terrasol with extensive investments in sawmills, palm oil plantations, and manufacturing facilities. A syndicate of international commercial banks will provide term loans of USD600 million. Two European ECAs and one North American ECA are prepared to provide insurance cover and/or loan guarantees for up to 80% the banks' loan exposure.

Silver Lake Plantation is a separate entity, owned 51% by Terrasol's Department of Natural Resources, 34% by a small syndicate of investors from Terrasol's capital city, and 15% by Sunshine Pulp Mill. Transportation of logs to the pulp mill will be by truck. The approved Plantation Development and Logging Plan includes the construction of a logging road network and a bridge across the Muddy River to be completed by mid 2005 when the Sunshine Pulp Mill commences mill commissioning tests.

Silver Lake is a small village located on the north shore of the Muddy River adjacent to the Silver Lake Plantation. The village, which has relied in the past on fishing and harvest of tropical forests as its major sources of employment, sees the plantation and pulp mill as an economic boost to the region.

The Technical Advisor engaged by the commercial banks and ECAs to review the project economic feasibility and environmental impact recently reported;

- The Sunshine Pulp Mill could be built within budget and on schedule,
- The Sunshine Pulp Mill will be commercially viable based on the agreed budgets and pulp price forecasts. However;
 - The design of the mill's wastewater treatment plant assumes that the discharged treated effluent will be diluted in the Muddy River.
 - Should this dilution not occur for extended periods, the local fish populations and aquatic habitats may be endangered.

- The wastewater treatment plant design assumes the 30 year historical average rainfall and Muddy River water level and flow will be maintained over the expected economic life of the mill.
- Terrasol is experiencing a 3rd consecutive year of drought in the Muddy River region,
- Other current or planned activities identified along the Muddy River will have an impact on the environment such as municipal waste handling, logging, landfills and other industries.
- Pulp Mill or treatment plant design changes at this time to ensure the wastewater is properly treated in the uncertain event of reductions in river flow are estimated to cost USD75 million, making the project economics unacceptable to the owner.
- The Silver Lake Plantation Development and Logging Plan although recently approved by the Ministry of Natural Resources has an optimistic schedule for planting trees and developing needed logging transportation infrastructure. The Technical Advisor also noted:
 - There is some question regarding ability of single species plantations to maintain productivity rates and soil quality through several successive growth cycles,
 - The location of primary logging roads and the proposed bridge for crossing the Muddy River may have an environmental impact on a nearby wetlands used by migratory birds.

Project Commercial and Financial Agreements

The latest draft financing agreements include Sunshine Pulp Mill undertakings to:

- Ensure all necessary government approvals, permits, licenses, consents, registrations, etc for project implementation and performance of the pulp mill will be maintained in full force,
- Comply with all applicable laws including environmental laws and regulations.
- Permit the technical advisor to conduct semi-annual site visits to the mill and plantation during construction and operation and report findings to the commercial banks and ECAs.

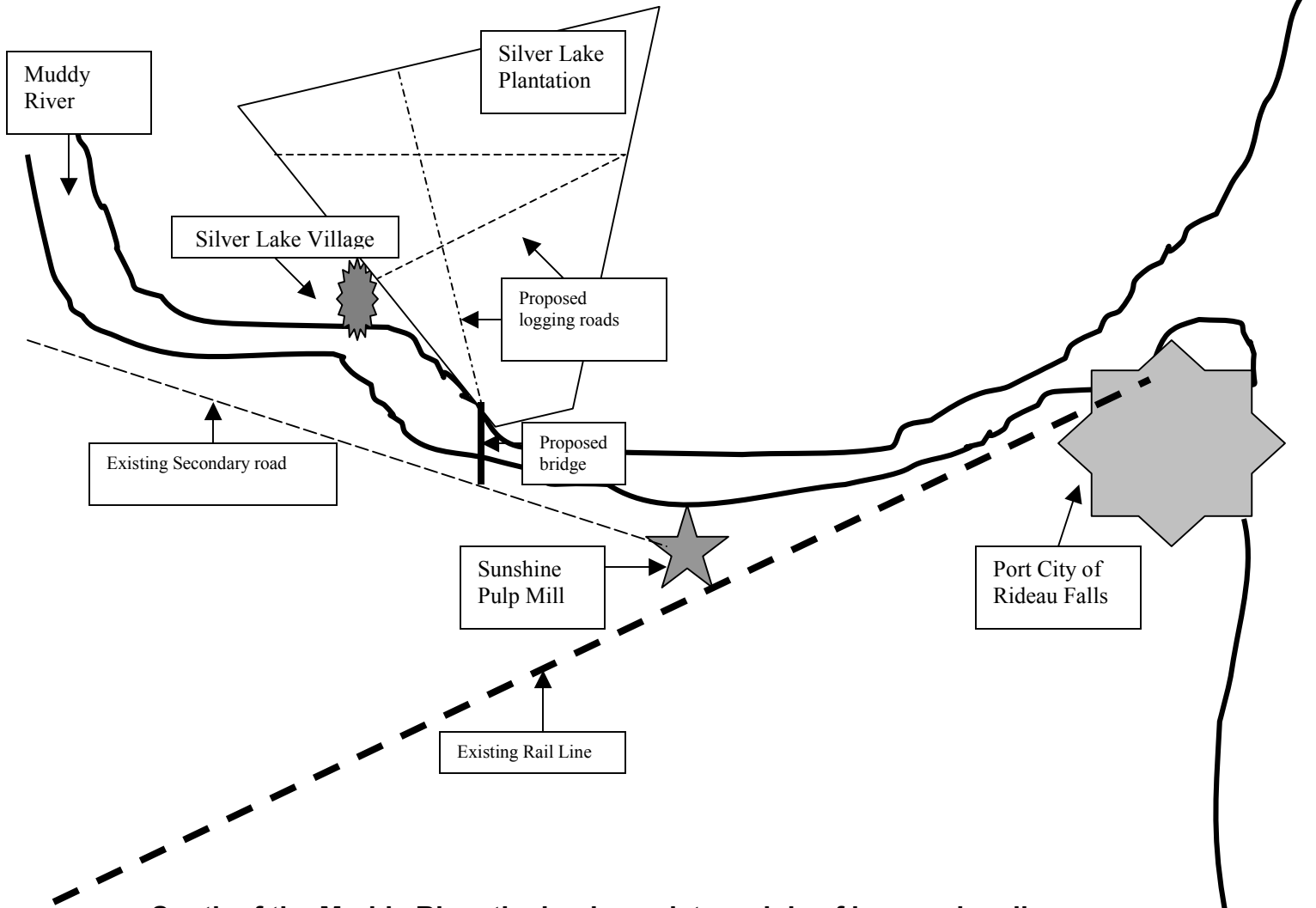
Commercial Banks and ECA underwriters after reviewing the technical advisor's EIA report and the Local Press Headlines (see Appendix A) feel stronger monitoring and resolution processes are required to deal effectively with any environmental concerns or events which might have an impact on either the credit risk or reputation risk of their exposure to the project.

November 7, 2002 Meeting

Stakeholder representatives have agreed to meet on Nov 7 in Hamburg, Germany to identify and resolve environmental concerns.

Annex 1: The Muddy River Region of Terrasol

North of the Muddy River, the land is largely tropical forest



South of the Muddy River the land consists mainly of large palm oil plantations

Annex 2: Sunshine Pulp Mill Environmental “Media Headlines”

Year	Media Headline
1995	“Terrasol To Develop Forestry Industry North of the Muddy River”
1998	“Sunshine Pulp Mill to Produce Annually 200,000 tons of Pulp by 2005”
1999	“The World Bank Warns Harvest of Tropical Forests Exceeds Sustainable Rate in Terrasol”.
	“Terrasol Announces New Forest Management Regulations”
	“Local Environmental Group Criticizes New Forestry Regulations: No Impact on Illegal Logging and the Political Power in the Forestry Sector”
2001	“Funds From Hardwood Exports Not Directed to Forestry Development As Promised”
	“Sunny Investment Group’s Largest Sawmill Closed For Environment Violations”
2002	“Terrasol Introduces New Environmental Standards for 2005”
	“Terrasol in 3 rd year of a Drought: No End in Sight!”
	“Local Environmental Group Releases New Study “The Environmental Impact of Industry on the Muddy River Water Quality””.
	“Sunshine Pulp Mill Set To Begin Construction In January, 2003”

Annex 3: Sunshine Pulp Mill Key Commercial and Financial Agreements

Commercial Agreements	Counter Parties
“Build the Pulp Mill”	Sunshine Pulp Mill EuroConsort Eng Ltd.
“Supply Softwood”	Sunshine Pulp Mill Silver Lake Plantation
“Purchase Pulp”	Sunshine Pulp Mill and China Paper Tiger, Euro Paper Distributing Inc and Japan Quality Printing Papers
“Transport Pulp to Port”	Sunshine Pulp Mill Terassol National Rail
Financing Agreements	Counter Parties
“Invest Equity”	Sunshine Pulp Mill and Sunny Investments Group
“Lend Money”	Sunshine Pulp Mill Commercial Banks
“Loan Insurance and/or Guarantees”	ECAs Commercial Banks
“Independent Technical Advice”	ECAs Commercial Banks NorAm Eng Consult

All agreements have undergone extensive negotiation and the commercial agreements are initialed as final subject to lender approvals.

Owner's Representative

You are the CEO of Sunshine Pulp and a long time, loyal senior employee of the local family that owns and operates several companies in Terrasol through the Sunny Investments Group.

The Sunny Investments Group has been known in the past to ignore environmental requirements and employee safety and training to improve its 'bottom line'.

To protect the owner's "bottom line" you might be willing to consider more stringent environmental monitoring but only upon assurances that:

- Existing environmental standards are not replaced, or at least deferral of any new environmental standards until bank loans are repaid,
- Softer commercial repayment terms will be offered for the USD600 million of debt,
- Additional subsidized tax relief or grants of up to USD75 million will be available to pay for any new environmental equipment,
- The start of construction and mill commissioning is not delayed by new environmental studies and approvals,
- The recourse of lenders and other parties to various contracts and agreements to Sunshine Pulp Mill does not exceed industry norm and current practice for similarly financed projects in Terrasol.



You have the authority to negotiate and agree to any proposed amendments to the project agreements.

Local NGO Representative

You are the head of a Non Governmental Organization in Terrasol. The NGO you created in 1995 has grown in size and reputation to the point where you have gained considerable credibility as an objective critic of Terrasol's environmental record and forestry management policies.

In doing so:

- You have established strong connections with international environmental groups who provide much needed research support.
- Your group has completed studies that show that industry development in the Muddy River region has reached the limit of sustainability and that further development will pollute the river to an extent that fish, which is an important food source to the villagers, would be affected .
- You have petitioned the government for the Sunshine Pulp Mill project to be cancelled. However, the Sunny Investment Group has convinced the Ministry of Natural Resources that any reduction in design capacity will render the project uncompetitive for exporting to Europe, Japan and Asia.
- You are concerned that the new bridge across the Muddy River that is planned to be constructed within the context of the project, will be located near a wetland providing habitat for migratory birds.
- Your organization has opposed with little success the creation of large plantations in Terrasol which would benefit only a few stakeholders, including the Government of Terrasol.

The Sunshine Pulp Mill project has advanced to a stage where it is not likely that the project will be cancelled, downsized or postponed.

You are not a party to any of the commercial and financial agreements; therefore your objective is to influence other stakeholders in order to achieve:

- Consensus to adopt strong environmental monitoring processes, and
- Full disclosure to the public on the mill's and plantation's environmental performance.

Ministry of Natural Resources Representative

You are the Director of the Forestry Department's Muddy River North Regional Office in Silver Lake which is part of the Ministry of Natural Resources. You believe the implementation of another forest industry project like Sunshine Pulp Mill will:

- Fit nicely within the department's longer term plans for Terrasol to be more than an exporter of logs and lumber,
- Incite new investments in Silver Lake Village and new local employment in skilled positions at the mill and the plantation.

You are optimistic the Ministry of Natural Resources 2001-2005 year budget will include funds for:

- The Silver Lake Plantation Development and Logging Plan
- A new Forestry School in Silver Lake to train locals.

You are concerned about the Muddy River water quality being affected by large industry in the region as reported in recent NGO studies, however, you believe

- The owner of the pulp mill will invest additional capital to meet new environmental standards,



- The drought is cyclical and not due to any permanent climate change.

The Ministry of Natural Resources is a 51% shareholder in the Silver Lake Plantation. You represent the Ministry on the Silver Lake Plantation Board of Directors. You have authority to approve or reject on behalf of Silver Lake Plantation any proposed changes to the current draft Wood Supply Agreement with Sunshine Pulp Mill.



Facilitator's Guide for Project Group

Your role is that of a “project advisor” in the discussion between project stakeholders in your group. Your mandate is to help them to prioritize their concerns in order to finalize a monitoring and reporting system acceptable to all parties.

The stakeholders may or may not always agree or accept a solution that requires incorporation into the commercial and or financial agreements of the hypothetical project. You will attempt to have all the stakeholders:

- Find common ground
- Engage in a full discussion
- Test the practicality of any proposed monitoring and reporting system

Remember, there is no right answer! It is the process of encouraging discussion that is important, not the outcome.

In Phase 1 of the Interactive Session the two participants for each stakeholder will identify their respective stakeholder environmental concerns using their role descriptors as a guide.

Your role as facilitator begins with **Phase 2 of the Interactive Session**.

In Phase 2A, each stakeholder will express his/her major concerns to other members of the project group. As facilitator you should develop a list of all of the stakeholder concerns. You should encourage other stakeholders to seek clarity on a particular concern but limit debate at this time. A sample worksheet is provided.

In Phase 2B, you will **first** seek consensus on the top 5 concerns to all members of the project group. All stakeholders should be encouraged to participate in this discussion and to concede on any point when appropriate.

Next you will seek consensus from the stakeholders on the optimum monitoring, reporting and compliance system for the 5 top concerns by

- Identifying the project document for establishing responsibility,
- Developing draft text,
- Determining responsible party and recourse.

A sample worksheet is provided.

Final step as facilitator is to identify a spokesperson to summarize your group's report to the Plenary in Phase 3 of the Interactive Session. This should take no more than a minute or two.

Commercial Bank

You are the loan officer at Benevolent Bank responsible for obtaining final approvals and syndication of the commercial bank financing of USD600 million. You also are responsible for securing the bank debt on a sharing of risk basis with a small group of ECAs supporting their respective exporters supply of goods and services to the project.

The Technical Advisor and other environmental reports indicate that tighter monitoring and reporting controls will be required.

You have determined the financial viability of the project is at risk if:

- Project completion is delayed by more than 6 months for any reason, including new environmental impact studies and approvals,
- Capital costs increase significantly due to last minute design changes to the water treatment equipment. Additional new equity or bank debt is not likely.
- Wood supply is not available as scheduled due to infrastructure development delays at the plantation or interrupted for more than 180 days during operations.

You expect the meeting today will resolve among the various stakeholder groups how best to monitor, report and ensure compliance of a number of environmental requirements without delaying the project start (construction) early next year.

You have authority to negotiate and approve any amendments to the financing agreements.

ECA Representative

You are the Underwriter responsible for recommending final authorization of your ECA's support for the Sunshine Pulp Mill project.

Your agency has completed a review of the Environmental Review Policy established in 1999. A number of changes have been proposed based on:

- Past experience with approving, monitoring and reporting on environmentally sensitive projects,
- Exposure to and cooperation with other ECAs, banks and international bodies, such as the OECD, Berne Union and UNEP,
- Reaction of the exporting community and NGO groups to environmental sensitive projects approved since 1999

The Business Team review of the Sunshine Pulp Mill EIA, the report of the Technical Advisor and recent events in Terrasol have increased concern the project will not be acceptable unless some significant provisions requiring project monitoring and reporting are included.

However, your ECA's staff resources to monitor projects, review project reports, site visits, address project issues, prepare and report to ECA stakeholders and answer media and NGO requests are limited. Therefore you are interested in a system for dealing with environmental issues at Sunshine Pulp Mill that is both effective and practical.

You are concerned that any delays in finalizing the project agreements by the end of the year may re-open your exporters equipment and services supply contracts to a new round of negotiations and further delays in project construction and start.

You have the authority to accept or reject any proposed amendments to the project agreements that your ECA will be party to and or your exporters are party to.