

GCF-EBRD SEFF Co-financing Facility

Environmental and Social Management System

Background

The proposed SEFF co-financing facility (the “Facility”) will comprise the provision of funding to range of participating financial institutions (PFIs), including local banks, microfinance institutions and leasing companies. The GCF funds will be held internally in a Special Fund at EBRD, and be allocated to PFIs in EBRD’s SEFF operations based on market demand. The PFIs will then on-lend the proceeds for the financing of a range of energy efficiency, renewable energy and climate resilience projects in developing countries across the Middle East and North Africa, Western and Central Asia, the Caucasus, and southern and eastern Europe. The programme will also include a technical assistance component covering investment assistance, training and marketing activities.

Sub-projects financed by the PFIs will mainly cover the industrial, commercial and residential sectors. The majority of residential loans (e.g. households obtaining energy efficient equipment) will be investments from a list of pre-approved technologies (from the list of Best Available Technologies - BATs). The List of BATs is a market-specific technology database that introduces technologies that have been identified as having high performance at a reasonable cost to achieve energy efficiency, renewable energy and climate resilience (in the local context). The list will contain around 50 climate technology categories, 500 sub-categories and performance criteria; equipment models, materials available in the market; list of manufacturers, suppliers and installers. The list is publicly available on each project website and sub-borrowers can obtain Eligibility Certificates by applying for it on the website.

Loans to the industrial and commercial sectors will typically be investments that require eligibility assessments by experts, unless they comprise vendor finance. Sub-projects in this category will be typically medium size investments (e.g. industrial and buildings energy efficiency). Experts procured by EBRD will conduct supply chain analysis, review proposed investment plans and determine eligibility. Where appropriate, experts will add value by enhancing sub-project performance and prioritising investment recommendations. An Eligibility Assessment Report will serve as evidence for sub-project eligibility for loan approval to PFIs.

Through the above mentioned investment approach, participating financial institutions together with the EBRD’s project implementation team are expected to deliver at least 20,000 sub-projects with clients in all range of sectors from small and medium-sized enterprises, corporate and industrial sector, renewable energy project developers, farmers and households.

The Environmental and Social Management System (ESMS)

EBRD will establish a comprehensive ESMS for the Facility, based on its established Environmental and Social Policy. This will ensure that PFIs financed through the facility will comply fully with all requirements needed to ensure mitigation of environmental and social risks relating to the implementation of projects. PFIs will also have to define roles and responsibilities for designated staff members for the oversight and day-to-day implementation

of their ESMS and ensure that adequate technical expertise is available (either in-house or externally sourced) for the implementation of their ESMS.

PFI will be categorised, and will have a number of requirements placed on them. These are further outlined below. Comprehensive monitoring, also further outlined below, will be carried out by EBRD and technical consultants implementing the support of the Facility. Reporting to the GCF will be based on the results of this monitoring.

Categorisation of PFIs

Given that the financing structure of the Facility involves provision of financing through financial intermediaries (FIs), EBRD will categorise all projects under this facility as “FI”. The PFIs will therefore generally have to follow the same environmental and social appraisal process as directly financed projects by EBRD would. However, the nature of environmental and social appraisal will be adjusted to the specific characteristics of PFI projects.

Unlike other IFIs, such as IFC, the EBRD does not formally further categorise its FIs into FI-1, FI-2 and FI-3. However, EBRD does, at the time of categorisation, undertake an informal risk categorisation of the FI and its current and proposed activities. In the context of the Facility, loans provided to PFIs for residential financing will typically be considered as low E&S risk, whereas loans provided for the financing of industrial and commercial projects would typically be considered low-medium, or high-medium, risk and in a few cases high risk, particularly where financing is to be provided for selected renewable energy projects.

Each PFI will be considered on a case-by-case basis. When appraising the environmental and social risks associated with a PFI, EBRD will consider a variety of factors, including the following:

- What is the nature of the PFI’s business (e.g. micro, small or medium-sized or large enterprise lending, corporate finance, leasing)?
- What is the nature of the proposed project, for example credit line or leasing?
- In the event of credit lines, what is the nature of eligible subprojects?
- Does the PFI have any particular current exposures that present high environmental and social risks?
- What are the current environmental, social and human resources policies, procedures and/or management systems of the PFI?
- Is the Bank familiar with the PFI’s policies, practices and operations through current or past projects?
- Is the PFI engaged with other international financial institutions/multilateral development banks/donors/Equator Principles financial institutions?

The environmental and social due diligence for PFI projects will start with questionnaires, which must be completed by the PFI’s client and submitted to EBRD for review. Based on the information obtained through reviewing the questionnaires completed by the PFI’s client, EBRD will determine:

- whether further environmental and social investigation is needed;
- if there is a need for additional requirements for sub-projects;
- if there is a need for training to strengthen the environmental and social and/or human resources management capacity of the FI; and

- the nature of reporting and monitoring requirements to be imposed on the project.

Performance Requirements, Exclusions, and Compliance with Relevant Laws and Regulations

General

All sub-projects financed by the PFIs must comply with EBRD's Environmental and Social Exclusion List as well as applicable local and national environment, health, safety and labour regulations and standards.

In cases where the PFIs finance projects that would be classified 'A' on the environmental risk assessment if they were to be financed by EBRD, the PFI will be required to ensure that all such subprojects meet the criteria in the indicative list of Category A projects included as Appendix 2 in the EBRD Environmental and Social Policy (ESP); such subprojects will be required to meet PRs 1 to 8 and 10. Appendix 2 can be found on Page 9 of the EBRD's Environmental and Social Policy [at this link](#).

Specific Performance Requirements

All PFIs financed through the Facility will also be required to comply with the relevant EBRD's Performance Requirements, as set out below.

- 1) Applicable to the PFI itself and not the sub-project portfolio
 - a. PR2: Labour and Working Conditions. The key requirements of PR2 are that the PFIs comply, at a minimum, with (i) national labour, social security and occupational health and safety laws, and (ii) the fundamental principles and standards embodied in the ILO conventions.
 - b. PR4: Health and Safety. The key requirements of PR4 are that PFIs take steps to identify and prevent accidents, injury and disease to workers and affected communities arising from or associated with, or occurring in the course of the project activities and prepare and implement preventative measures and plans to manage health and safety risks in accordance with the mitigation hierarchy approach and GIP.
- 2) Applicable to the PFI and to its activities and portfolio

PR9: Financial Intermediaries. The key requirements of PR9 are that PFIs put in place a clearly defined Environmental and Social Management System (ESMS), including an environmental and social policy and environmental and social procedures commensurate with the nature of the FI, the level of environmental and social risks associated with its business activities, and the type of the project and subprojects.

The full PRs can be found following [this link](#). To assist the PFIs in implementing the above requirements, EBRD has developed a number of guidance documents. All of these can be found through [this link](#).

Monitoring

On an annual basis, all PFIs will be required to submit to the EBRD annual environmental and social reports on the implementation status of the ESMS, PR9, PR 2, the occupational health and safety requirements of PR 4, as well as the environmental and social performance of its portfolio

of subprojects. EBRD also reserves the right to conduct site visits to PFIs to monitor the implementation of the Bank's requirements and to visit sub-projects as necessary.