

PROCEDURES FOR ENVIRONMENTAL AND SOCIAL APPRAISAL AND MONITORING OF INVESTMENT PROJECTS

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ABBREVIATIONS

AESR	Annual Environmental and Social Report
CRM	Concept Review Memorandum
EBRD (the Bank)	European Bank for Reconstruction and Development http://www.ebrd.com/pages/homepage.shtml
ESAP	Environmental and Social Action Plan
ESD	Environment and Sustainability Department
ESDD	Environmental and Social Due Diligence
ESIA	Environmental and Social Impact Assessment
ESMP	Environmental and Social Management Plan
ESP	Environmental and Social Policy http://www.ebrd.com/downloads/research/policies/esp-english.pdf
FI	Financial Intermediary
FRM	Final Review Memorandum
IESE	Initial Environmental and Social Examination
OAD	Operations Administration Department
OGC	Office of the General Counsel
OL	Operation Leader
OpsCom	Operations Committee
PR	Performance Requirement
PSD	Project Summary Document
SEP	Stakeholder Engagement Plan
SRM	Structure Review Memorandum

1. INTRODUCTION

The Board of Directors of the European Bank for Reconstruction and Development (“EBRD” or the “Bank”) approved a revised Environmental and Social Policy (“ESP”) on 7 May 2014, which entered into force on 7 November 2014. The ESP establishes the framework for translating into practice the EBRD’s mandate to promote environmentally sound and sustainable development in the full range of its activities. The ESP incorporates ten Performance Requirements (“PRs”) which all projects financed by EBRD shall be structured to meet.

The Environmental and Social Procedures (herein referred to as the “Procedures”) aim at describing the Bank’s process for the environmental and social¹ appraisal and monitoring of projects and the way in which this process is integrated into the overall EBRD project cycle and decision making process. The Procedures also describe the respective roles and responsibilities of EBRD clients and the organisation and management of the Bank involved in this process. The Procedures need to be applied in conjunction with the ESP and the PRs, as well as relevant guidelines and tools developed by EBRD.

The term “project” refers to the defined set of business activities for which EBRD financing is sought by a client, or where EBRD financing has already been committed, the set of business activities defined in the financing agreements, and as approved by the Board of Directors or other decision-making bodies. The Procedures apply to the following types of projects:

Direct financing:

Projects for which EBRD provides, among other, direct finance in the form of a loan, equity, subordinated loan or other mezzanine finance or guarantee.

Intermediated financing:

Projects which involve intermediated financing through banks, other financial institutions or legal entities.

¹ For the purpose of these Procedures, the term “social” refers to those issues which pertain to project affected people and their communities and workers and related to socioeconomic status, vulnerability, gender identity, human rights, sexual orientation, cultural heritage, labour and working conditions, health and safety and participation in decision making.

Financing frameworks or facilities:

Some Bank projects involve a financing framework or facility for future financing of a number of projects, subject to specific criteria and conditions.

All projects proceeding to the initial stage of internal management review (currently termed the “Concept Review”) as of 7 November 2014 are governed by the ESP and the Procedures. All earlier projects under consideration or approved continue to be governed by the EBRD policy and procedures which were in effect at the time of the initial stage of the management review unless otherwise agreed with a client.

2. OVERVIEW OF THE ENVIRONMENTAL AND SOCIAL APPRAISAL AND MONITORING OF PROJECTS

All projects undergo environmental and social appraisal to help EBRD decide if the project should be financed and, if so, the way in which environmental and social issues should be addressed in its planning, implementation and operation.

The environmental and social appraisal and monitoring of projects is integrated into EBRD’s overall project cycle and decision making process; typically as illustrated in Figure 1 below.

Figure 1
Indicative Environmental and Social Appraisal and Monitoring Process

		APPRAISAL		APPROVAL	MONITORING	
		CONCEPT REVIEW	DUE DILIGENCE	STRUCTURE/FINAL REVIEW	BOARD	MONITORING OF PROJECT IMPLEMENTATION
ESD ACTIONS		<ul style="list-style-type: none"> • Identification of potential E&S impacts, risks & opportunities • Project categorisation • Identification of relevant requirements • Due diligence scoping • Drafting E&S content for CRM 	<ul style="list-style-type: none"> • Review existing information • Site visit (if required) • Due diligence commissioning • On-going liaison • Action plan definition • Drafting PSD content 	<ul style="list-style-type: none"> • E&S info to SRM (if required) • E&S info to FRM • Define E&S monitoring requirements • Define E&S covenants for legal agreement • Define derogations to the E&S Policy (if any) 	<ul style="list-style-type: none"> • E&S content for Board documents • PSD updates 	<ul style="list-style-type: none"> • Review of monitoring reports • Management of material changes to Projects • Site visits/inspections • Compliance verification • Approval of waivers
INPUTS					PROJECT SIGNING	
Shared Information: Project & EBRD		<ul style="list-style-type: none"> • Preliminary information • Initial due diligence questionnaires 	<ul style="list-style-type: none"> • Detailed information: EIA, SIA, etc. • Additional information: (if required) 	<ul style="list-style-type: none"> • Due diligence findings • PR compliance data • E&S Action Plan • SEP / NTS • Other reports 		<ul style="list-style-type: none"> • Monitoring Plan • Monitoring / incident reports • 3rd party / stakeholder communications • Annual Environmental & Social Report
Gathered Information: EBRD & 3rd Parties		<ul style="list-style-type: none"> • IESE / Initial Site Visit (if required) 	<ul style="list-style-type: none"> • EBRD/Lender's Consultant review & site visit (Cat. A & B) • Baseline PR KPI's 			<ul style="list-style-type: none"> • EBRD/Lender's Consultant monitoring reports • Latest KPI updates
OUTPUTS						
ESD Internal Process		<ul style="list-style-type: none"> • E&S content for CRM • ESDD Plan (if required) • IESE Report (if required) 	<ul style="list-style-type: none"> • Due diligence ToR • E&S Assessment Report • PR compliance data • E&S Action Plan • Reviewed SEP / NTS • Outline monitoring plan 	<ul style="list-style-type: none"> • E&S content for SRM (if required) • E&S content for FRM 	<ul style="list-style-type: none"> • ESD content in Board papers 	<ul style="list-style-type: none"> • Remedial action requests • Corrective actions • PR compliance data update • PSD updates • ESD content to Operation Change memos • Publish AESR
Published Information to External Stakeholders by:						
Project			<ul style="list-style-type: none"> • SEP or equivalent ESIA documents 	<ul style="list-style-type: none"> • Stakeholder engagement responses (if required) 		<ul style="list-style-type: none"> • Public reporting (Category A projects) • Interaction with shareholders
EBRD			<ul style="list-style-type: none"> • Project Summary Document • ESIA documents 		<ul style="list-style-type: none"> • Updated PSD 	<ul style="list-style-type: none"> • Updated PSD • Annual Sustainability Report

3. ENVIRONMENTAL AND SOCIAL APPRAISAL OF DIRECTLY FINANCED PROJECTS

3.1 INTRODUCTION

The environmental and social appraisal will assess whether the project is capable of being implemented in accordance with the ESP and the PRs and include the assessment of the potential financial, legal and reputational risks as well as identify potential environmental or social opportunities. The appraisal will be appropriate to the nature and scale of the project, commensurate with the level of environmental and social impacts and issues.

The ESP establishes three key elements to be considered in the environmental and social appraisal of projects:

- the environmental and social impacts, issues, risks and opportunities associated with the project;
- the capacity and commitment of the client to implement the project in accordance with the relevant PRs; and

- to the extent appropriate, the environmental and social impacts and risks related to facilities and activities that are associated with the project, but are not financed by EBRD.

The scope of EBRD's environmental and social appraisal of projects will be defined on a case by case basis depending on the nature of the project. There may be projects for which initial management review is not required and are submitted directly to the final stage of management review. These projects will be subject to all provisions of the ESP and the Procedures. The environmental and social appraisal process will be adapted to the specific nature of the projects.

3.2 ROLES AND RESPONSIBILITIES DURING ENVIRONMENTAL AND SOCIAL APPRAISAL OF PROJECTS

The key responsibilities of the client and the organisation and management of the Bank during environmental and social appraisal of projects are summarised in the Table 1 below.

Table 1
Key responsibilities during project appraisal

Client

The client's responsibility is to ensure that adequate information is provided so that the Bank can undertake an environmental and social appraisal in accordance with the ESP. The client is also responsible for managing the environmental and social issues associated with the projects to meet the PRs over a reasonable period of time. The client may be required to commission appropriate environmental and social studies and conduct stakeholder engagement and cover the costs of these. The client is also expected to allow EBRD representatives and independent consultants to access project facilities and records. The client's role also includes agreeing on the Environmental and Social Action Plan ("ESAP") and the environmental and social content of the Project Summary Document ("PSD").

Operation Team

The Operation Team, led by an Operation Leader ("OL"), has the overall responsibility for the project on behalf of the Bank, including the environmental and social aspects of the project. This includes:

- relaying the Bank's environmental and social requirements to the client;
- facilitating communication between the client and the ESD;
- obtaining adequate environmental and social information in good time for the ESD's review prior to final stage of management review of the project;
- identifying with the client whether there might be opportunities to incorporate additional environmental and social enhancements within the project design, related to, among other, gender issues or climate change
- incorporating the findings of the environmental and social due diligence ("ESDD") into the overall project appraisal

The OL, supported by the ESD, has responsibility for advising the client on how to structure the project to meet the PRs. The OL should agree with the ESD and the client the wording of environmental and social content in

the project documentation and the PSD. It is the responsibility of the OL, together with the relevant Office of the General Counsel (“OGC”) lawyer, to ensure that the ESD’s agreement is obtained for project specific environmental and social requirements in financing agreements.

Environment and Sustainability Department

The key responsibilities of the ESD include:

- the appraisal of environmental and social impacts, risks and opportunities of each potential project in accordance with the ESP, including identifying the ESDD requirements for each project;
- assisting Operation Teams and clients in the structuring of the ESDD, including, for example, the preparation of Terms of Reference for Environmental and Social Impact Assessments (“ESIAs”), audits and stakeholder engagement plans;
- assisting Operation Teams and clients in identifying potential environmental and social impacts, risks and opportunities associated with the projects and developing appropriate measures to avoid or mitigate risks and impacts and enhance benefits either within the project’s design or as part of the ESAP developed for the project;
- evaluating environmental and social due diligence information provided to the Bank and discussing necessary actions with the Operation Team and the client;
- drafting environmental and social sections included in the project documentation and the Project Summary Document (“PSD”);
- ensuring that the EBRD environmental and social requirements applicable to the project are communicated to the client and agreeing the ESAP with the client;
 - agreeing with the relevant OGC lawyer and the OL the environmental and social provisions to be included in the financing agreements;
- advising the Operation Team, the management and the Board of Directors on the environmental and social risks and opportunities associated with a proposed project and whether the project has been structured to meet the ESP and the PRs; and
- documenting, recording and storing adequate environmental and social appraisal information with appropriate quality assurance framework.

Operations Committee

The Operations Committee (“OpsCom”) makes decisions throughout the project approval cycle relating to project and its fit with the Bank’s mandate, policies and strategies, and sets conditions to its approval as necessary. This role includes determining whether or not the relevant environmental and social issues associated with a project are managed in accordance with the ESP. For certain projects, the OpsCom may delegate this role and these responsibilities to other EBRD decision making bodies.

Office of the General Counsel

The OGC ensures that the Bank’s environmental and social requirements, which have been agreed with the client, are incorporated into the financing agreements in agreement with the ESD. To the extent necessary, the OGC will also advise on the interpretation of the ESP and applicable regulatory framework for the project in the jurisdiction where the project is located.

Board of Directors

The Board of Directors approves projects taking into consideration the overall benefits and risks of the project and their adequacy and compliance with EBRD mandate, policies and strategies. The Board of Directors has the discretion to agree that certain elements of environmental and social appraisal take place following Board approval and after the signing of the financing agreements, or grant derogations in respect of the ESP on a project by project basis, after considering the overall impacts, risks and benefits of the proposed approach.

3.3 CONCEPT REVIEW

Environmental and social appraisal at the Concept Review involves the following tasks:

- 1) identification of potential environmental and social impacts, risks and opportunities as well as relevant requirements and standards;
- 2) categorisation of the project;

- 3) determining the Bank's environmental and social due diligence and stakeholder engagement (information disclosure and public consultation) requirements; and
- 4) identifying whether: a) it is likely that the project will result in disproportionate gender impacts and/or b) there are opportunities to mainstream gender considerations into the design of a project.

3.3.1 Project categorisation

EBRD categorises each directly financed project either as A, B or C, in accordance with sections 23 to 26 and Appendix 2 of the ESP, to determine the nature and level of environmental and social investigations, information disclosure and stakeholder engagement required. This will be commensurate with the nature, location, sensitivity and scale of the project, and the significance of its potential adverse future environmental and social impacts. The rationale and justification for the assigned category of the project will be documented.

A project is categorised:

- "A" when it could result in potentially significant adverse future environmental and/or social impacts which, at the time of categorisation, cannot readily be identified or assessed, and which, therefore, require a formalised and participatory environmental and social impact assessment process. A list of indicative Category A projects is presented in Appendix 2 to the ESP.
- "B" when its potential adverse future environmental and/or social impacts are typically site-specific, and/or readily identified and addressed through mitigation measures. Environmental and social appraisal requirements may vary depending on the project and will be determined by EBRD on a case-by-case basis.
- "C" when it is likely to have minimal or no potential adverse future environmental and/or social impacts, and can readily be addressed through limited environmental and social appraisal.

3.3.2 Initial environmental and social examination

Initial Environmental and Social Examinations ("IESEs") will be carried out where insufficient information is available at the time of categorisation to determine the appropriate category and scope of

appraisal. The IESE may involve a review of additional environmental and social information, a questionnaire, discussions with the client and/or a site visit by the ESD to see the project site and the surrounding areas, in order to gain a better understanding of the project and its potential adverse future environmental and social impacts.

3.3.3 Defining the scope and content of environmental and social due diligence

For each project, the ESD defines the scope and content of the ESDD, information disclosure and stakeholder engagement requirements that are proportionate to the potential environmental and social risks, issues and impacts associated with the project, if known at this stage. For more environmentally and/or socially complex or high risk projects, the ESD may decide that a formalised ESDD plan also needs to be prepared.

3.4 ENVIRONMENTAL AND SOCIAL DUE DILIGENCE

3.4.1 Reviewing existing information

The ESDD starts with identification and a review of available relevant environmental and social information related to the project. Such information is determined by the Operation Team and/or ESD together with the client.

3.4.2 Site visits

Depending on the nature of the project and the information received from the client, the ESD may require a site visit to the project at the initial stage of the due diligence to determine the detailed scope and content for the ESDD. Specific objectives will be defined for such visits.

3.4.3 Commissioning due diligence investigations

The client is responsible for ensuring that the ESDD complies with the PRs and provides the Bank with adequate information to undertake the environmental and social appraisal. The ESD's role is to assist the client with this task and advise on the scope and content of the due diligence studies required to meet the PRs.

The ESDD is expected primarily to be conducted by independent consultants or other third party experts. In some cases the project or client may have in-house specialist staff or retained consultants who can conduct the necessary work. The Bank may in exceptional situations decide that the ESDD of a

project is appropriate to be undertaken internally by the ESD.

3.4.4 Action plans

The client is required to take into account the findings of the environmental and social assessment process and the outcomes of stakeholder engagement in order to develop and implement a programme of actions to address the identified environmental and social impacts and issues of the project as well as to determine any performance improvement measures to meet the PRs.

Depending on the project, the programme may consist of a combination of documented operational policies, management systems, procedures, plans, practices and capital investments, collectively known as Environmental and Social Management Plans (“ESMP”). Components of such plans or programmes may include, for example, a Biodiversity Action Plan, Emergency Response Plan, Resettlement Action Plan, Livelihood Restoration Framework, Indigenous Peoples’ Development Plan, Human Rights Action Plan, Stakeholder Engagement Plan and/or other specific plans. Alternatively, these may be stand-alone documents.

Where the project does not meet the PRs from the outset, the client and the Bank will in addition to the ESMP agree on an ESAP, which will include technically and financially feasible, and cost-effective measures for the project to achieve compliance with the PRs within a time frame acceptable to EBRD. The ESAP is the key tool to structure projects to meet the PRs as well as a key instrument for monitoring of the project’s ongoing environmental and social performance by EBRD. The ESAP may also include measures for the client to manage environmental and social risks and/or to improve their practices in line with the PRs in their other operations that are associated with but not part of the project (see paragraphs 37 of the ESP and 17-20 of PR 1).

If no corrective actions have been identified in the environmental and social due diligence, an ESAP would not be required.

3.4.5 Stakeholder engagement

For projects that could have adverse environmental and social impacts, clients are expected to, as an integral part of the assessment process, identify all the project’s stakeholders and design a plan for engaging with the stakeholders. Consultation should

be meaningful to take the views and concerns of stakeholders into consideration in planning, implementing and operating the project. The client will identify the stakeholders potentially affected by and/or interested in the project, disclose sufficient information about the impacts and issues arising from the project and engage with relevant stakeholders, in proportion to the potential impacts associated with the project and level of concern.

For Category A projects, the client and the Bank will make available to the public the ESIA documents. For private sector projects, the ESIA documents shall be available for a minimum of 60 calendar days prior to consideration of the project by the Board of Directors, for public sector projects 120 calendar days prior to Board consideration. The ESIA documents are produced by clients, and the EBRD makes them available without any comment or implied endorsement. However, before disclosure, the ESD must consider the ESIA documents appropriate and fit for purpose for the consultation process.

In addition, PR5 and PR7 include specific requirements for consultation on projects that could result in physical and/or economic displacement or affect Indigenous Peoples.

3.4.6 Environmental and social content of the Project Summary Document

The PSD will be prepared for each project where approval is sought from the Board of Directors. Where there are significant environmental or social issues, PSDs are also prepared for projects approved by EBRD decision making bodies other than the Board of Directors. The ESD will draft and agree with the Operation Team and the client the environmental and social content of the PSD. PSDs will summarise:

- the rationale for categorisation of a project;
- a description of the main environmental and social issues associated with the project;
- key measures agreed to mitigate the risks and impacts;
- results of the greenhouse gas assessment, where required;
- a summary of any disclosure or consultation activities; and
- a link to the ESIA page for Category A projects.

In particular, a description of any derogations to the ESP requirements sought from the Board of Directors must be included in the PSD.

PSDs will be updated if material changes, as approved by the Board, are made to the project following the release of the original PSD. For Category A projects, the environmental and social content of the PSDs will be reviewed annually and updated as appropriate for the duration of EBRD involvement in the project. For projects on which the Board of Directors has agreed that certain elements of environmental and social appraisal take place following Board approval and after the signing of the financing agreements, the PSD will be updated to disclose information on the results of such further environmental and social appraisal and associated contingent disbursement decisions.

3.5 STRUCTURE REVIEW

In the event that a project is required to undergo an interim stage of internal management review (currently termed the “Structure Review”) at OpsCom, the ESD prepares an environmental and social section to be included in the Structure Review Memorandum (“SRM”) to summarise the due diligence findings up to that stage, clarify the remaining due diligence that needs to be completed before the final stage of the management review and summarise any significant new issues that have arisen.

3.6 FINAL REVIEW

The ESDD is normally expected to have been completed and the ESAP agreed with the client before the final stage of the internal management review (currently termed the “Final Review”). This allows the ESD to advise the OpsCom or other EBRD decision making bodies on any significant environmental and social issues and associated costs.

The Final Review Memorandum (“FRM”) for each project includes an environmental and social section which summarises the results of the environmental and social due diligence and any stakeholder engagement carried out. The environmental and social section of the FRM is prepared by the ESD and it will include a description of the environmental and social appraisal, substantive impacts and issues, identified mitigation measures and a summary of stakeholder engagement, and the way in which these impacts and issues are being or will be addressed by the client.

For certain projects with complex or extensive environmental and social impacts and risks, the FRM may include an environmental and social annex

to provide appropriate level of detail to support the decision making.

3.6.1 Determining environmental and social monitoring requirements

Monitoring activities are determined by the ESD on the basis of the issues and impacts identified during the ESDD. Monitoring activities will be commensurate with the environmental and social impacts and issues associated with the project. They may also reflect any significant stakeholder concerns and include an environmental and social project completion review or audit, where relevant. As a minimum, monitoring activities will include reviewing Annual Environmental and Social Reports on projects prepared by clients on the environmental and social performance of the project and progress on the implementation of the ESAP.

3.6.2 Determining legal requirements

The ESD together with the OGC will specify appropriate environmental and social covenants to be included in the financing agreements that reflect the ESDD outcomes. These may include specific covenants, such as requirements that must be met prior to effectiveness or disbursement of funds.

3.7 PROJECT APPROVAL

Projects considered for financing by the Bank are normally submitted to the Board of Directors for consideration following Final Review. The Board of Directors will take the environmental and social issues into consideration in its decision-making process as part of assessing the overall benefits and risks of the project. In some financing structures the Board may delegate final approval authority to the OpsCom or other EBRD decision-making bodies, for example, of sub-projects under a Framework or Facility.

Normally, the Board documentation contains environmental and social information of the same scope and content as the FRM (see section 3.6 above) which is updated as appropriate before the documentation is submitted to the Board.

The Board of Directors has the discretion to agree that in exceptional cases certain elements of environmental and social appraisal take place following Board approval and after the signing of the financing agreements, providing that appropriate contingencies or other obligation placed on the Client are included in the financing agreements. In

such cases, the Board documentation will include a description of the approach and the disbursement and implementation conditions and requirements relating to further environmental and social appraisal. The Board will consider the overall impacts, risks and benefits of the proposed approach and may request to receive information when the appraisal has been completed. The PSD will be updated to disclose information on the results of such further environmental and social appraisal and associated contingent disbursement decisions.

3.8 FINALISING THE FINANCING AGREEMENTS AND SIGNING

Draft financing agreements are circulated by the OGC to the ESD for review and comment. The relevant OGC lawyer and the OL must ensure that the environmental and social provisions included in the financing agreements have been reviewed and agreed by the ESD prior to completion of negotiations and signing.

4. ENVIRONMENTAL AND SOCIAL APPRAISAL OF FINANCIAL INTERMEDIARY PROJECTS

Financial Intermediary (“FI”) projects are categorised FI, if the financing structure involves the provision of funds through financial intermediaries (FI) whereby the FI undertakes the task of sub-project appraisal and monitoring. They generally follow the same environmental and social appraisal process as directly financed projects. However, the nature of environmental and social appraisal is adjusted to the specific characteristics of FI projects. The FIs typically assume delegated responsibility for the environmental and social assessment, risk management and monitoring as well as overall portfolio management.

For FI projects, EBRD will conduct due diligence on the FI and its portfolio to assess:

- the FI’s existing environmental and social policies and procedures and its capacity to implement them;
- environmental and social issues associated with the FI’s existing and likely future portfolio; and
- the measures necessary to strengthen the FI’s existing environmental and social safeguard system.

When appraising the environmental and social risks associated with an FI project and determining the

ESDD required the ESD considers a variety of factors, including the following:

- What is the nature of the FI’s business (e.g. micro, small or medium-sized or large enterprise lending, corporate finance, equity investments, insurance, trade, finance)?
- What is the nature of the proposed project, for example credit line, equity investment or trade finance?
- In the event of credit lines, what is the nature of eligible subprojects?
- Does the FI have any particular 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 FI?
- Is the Bank familiar with the FI’s policies, practices and operations through current or past projects?
- Is the FI engaged with other international financial institutions/multilateral development banks/donors/Equator Principles financial institutions?

The ESDD for FI projects normally starts with Questionnaires, which must be completed by the client and submitted to the ESD for review. Based on the information obtained through reviewing the Questionnaires completed by the FI client, the ESD will determine:

- whether further ESDD investigation is needed;
- if there is a need for additional requirements for sub-projects other than those stated in PR 9;
- 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.

The PSDs for FI projects include an environmental and social section prepared by the ESD.

5. ENVIRONMENTAL AND SOCIAL APPRAISAL OF FINANCING FRAMEWORKS AND FACILITIES

Some EBRD projects involve a financing framework (“Framework”), or a financing facility (“Facility”), for the future financing of a number of sub-projects, subject to specific criteria and conditions. These sub-projects may not yet have been identified at the stage of submitting the Framework or Facility to Board for consideration. Normally, the Frameworks

or Facilities themselves are not categorised, however, each of the sub-projects are categorised as they are identified. Where the Framework or Facility involve delegation of certain future sub-project appraisal and monitoring tasks to the client, the Bank's environmental and social appraisal will be based on the principles outlined below.

For all Frameworks and Facilities the ESDD will assess, to the extent possible, the likely environmental and social impacts, risks and opportunities associated with the nature of the sub-projects to be financed under the Framework or Facility. The ESDD will focus on assessing the client's corporate environmental and social policies, management systems and past and current performance, including the client's capacity to assess and manage environmental and social impacts and risks associated with future sub-projects under the Framework or Facility in accordance with the PRs 1 to 8 and 10.

Based on a review of the information received from the ESDD, the ESD will, for each Framework or Facility, design specific environmental and social procedures, which allow the Bank to satisfy itself that all sub-projects to be financed under the Framework or Facility will be structured to meet the Bank's PRs within a timeframe satisfactory to the EBRD. The specific environmental and social procedures will incorporate the requirements of the PRs (as deemed relevant), and will define the nature, format and timing of due diligence information and monitoring reports to be submitted by the client. If the client has limited capacity to

assess and manage projects in accordance with the PRs, EBRD may identify appropriate capacity building initiatives to support the client.

For Category A projects approved under a Framework or Facility, either a separate PSD will be prepared, or the Framework or Facility PSD will be updated, to include summary information on the sub-project's significant environmental or social issues and agreed mitigation measures. For all sub-projects under Frameworks or Facilities that could result in potentially significant adverse environmental or social impacts, a separate PSD will be published or the Framework or Facility PSD will be updated.

6. ENVIRONMENTAL AND SOCIAL MONITORING OF PROJECT IMPLEMENTATION

6.1 INTRODUCTION

Monitoring of the environmental and social impacts of projects by the Bank is based on the monitoring activities initially determined upon completion of the ESDD (see section 3.6.1 above). Monitoring should be risk driven, with higher risk projects subject to more intensive monitoring. The risk evaluation is subject to ongoing review and amendment according to the project's environmental and social performance during implementation. The key responsibilities of the client and the organisation and management of the Bank during environmental and social monitoring of projects are summarised in the Table 2 below.

Table 2

Key roles and responsibilities during environmental and social monitoring of project implementation

Client

Following signing, it is the responsibility of the client to comply with the agreed environmental and social provisions included in the financing agreements to the satisfaction of the Bank, and to monitor the project's performance against these requirements as part of the client's environmental and social management system. The client will typically be required to provide periodic environmental and social reports to the Bank as well as occasional information, e.g. prompt reporting of material incidents or accidents. The client will also facilitate monitoring visits or audits by the ESD or consultants.

Operation Team

The Operation Team, led by the OL, is responsible for monitoring the project's performance against the Bank's policy and legal requirements. The OL maintains contact with the client and monitors compliance with all covenants with the assistance of Operation Administration Department ("OAD") and with the ESD in respect of compliance with environmental and social covenants.

Environment and Sustainability Department

The ESD reviews the periodic environmental and social monitoring reports, including updates on the implementation of the ESAP, provided by the client and, as necessary, makes field visits to ensure project conformity with agreed environmental and social requirements. The ESD is involved in the compliance monitoring process with respect to environmental and social covenants by advising OLs and OAD on any environmental and social issues that may arise, and by signing off on the client's compliance with the environmental and social requirements. The ESD will document, record and store adequate environmental and social appraisal information with appropriate quality assurance framework. The ESD also approves waivers requested on covenants, which either have explicit environmental and social implications or may have such implications as a result of the proposed changes.

Operation Administration Department

OAD tracks and monitors the specific covenants for a project. OAD, or the OL, forwards environmental and social reports or information relating to environmental and social covenants to the ESD for review. OAD, or the OL, will obtain the ESD sign-off on the compliance of the project and the client with environmental and social provisions (e.g. disbursement condition, affirmative or reporting covenant) as evidence that the client has met the relevant environmental and social requirements and maintains compliance records. Where a waiver, consent or amendment concerning environmental and social matters is required, the OAD will produce the internal waiver, consent or amendment and, if necessary, circulates it for approval by other Bank departments, including the ESD. OAD will consult with the ESD when processing waivers, consents or amendments which either have explicit environmental and social implications or may have such implications as a result of the proposed changes.

Operations Committee

Material changes to any project as well as any significant adverse material environmental and/or social incidents, or significant non-compliances must be brought to the attention of the OpsCom.

Board of Directors

Material changes which could affect the achievement of the environmental and/or social objectives of the project may also need to be reported to the Board of Directors or be subject to Board approval.

6.2 REVIEW OF PROJECT REPORTS

The ESD determines the client's environmental and social reporting obligations as part of the monitoring provisions (see section 3.6.1 above) and they may vary in terms of nature, scope and frequency depending on the environmental and social issues of the project. On the majority of projects, the client is required to submit Annual Environmental and Social Reports ("AESRs") to the Bank.

At a minimum, an AESR should include:

- an assessment of the project's performance against the environmental and social legal covenants, the ESAP and/or other plans and programmes agreed with the client, applicable PRs or other relevant EBRD environmental and social requirements;
- a summary of the project's compliance with regulatory environmental and social requirements;
- details of any significant incidents or material non-compliances;
- client-generated monitoring data for the project agreed with the client on the basis of the ESDD;
- where relevant, a summary of stakeholder engagement activities and implementation of the grievance mechanism during the reporting period; and
- future plans and opportunities for continuous environmental and social performance improvement.

Normally, clients are provided with a template for AESRs adapted to the specific requirements of each project, as appropriate. The Bank's monitoring can also use existing client reporting systems as long as they provide sufficient information on the issues and requirements agreed between the Bank and the client.

The quality and contents of the reports provided by clients can be used for adjusting the ESD's on-going monitoring of each project. Where reporting indicates significant environmental or social risks, the ESD may increase the monitoring activities. Conversely, where reporting demonstrates satisfactory environmental and social performance, the monitoring activities may be reduced.

6.3 MONITORING VISITS

On-site monitoring visits are an essential tool for evaluating whether projects are being implemented and operated in line with the requirements and

standards agreed between the client and the Bank upon completion of the ESDD. The number and/or frequency of site visits are based upon the needs, risks and circumstances of each project. A risk-based approach and flexibility, reflecting changing project circumstances, needs to be maintained throughout the project life time.

Monitoring visits will normally focus on reviewing compliance with the Bank requirements, regulatory compliance and the ESAP implementation, or specific issues or problems identified through client reporting or other sources.

6.4 THIRD PARTY MONITORING

Third party monitoring is normally carried out by an independent consultant, funded by the client and approved by the Bank, working under a Terms of Reference agreed between the client and the Bank. Third party monitoring allows for more in-depth supervision and includes, for example, detailed reviews of documentation and permits, emissions data, etc. For complex projects, third party monitoring might focus on a particular aspect of a project, for example air emissions, health and safety performance, impacts on biodiversity or the implementation of resettlement requirements. The findings of the third party monitoring may result in amending the ESAP and/or the ESD increasing the monitoring activities. For higher risk projects it may be appropriate to require the client to appoint independent monitoring consultants to report regularly to the Bank.

6.5 ADDRESSING ISSUES ARISING DURING IMPLEMENTATION

Monitoring activities may identify unforeseen issues during implementation, non-compliance with agreed environmental and social standards and commitments from the ESAP or legal agreements. These should be identified by the client's own monitoring programme and reported to the Bank through reporting mechanisms² or incident notification, but may also be identified by the Bank's monitoring. The Bank may also be prompted on a potential issue of project performance by various

² Legal documentation generally requires clients to incorporate additional mitigation measures into the ESAP if the agreed measures are insufficient to meet the PRs within the agreed timeframe, or if unforeseen circumstances arise. Such changes to the ESAP must be approved by the EBRD.

project stakeholders. Where issues are identified, it is essential that they are promptly followed up and addressed. If the Bank becomes aware of significant issues during project monitoring, it may increase monitoring activities.

If the client fails to comply with its social and environmental commitments, as set out in the financing agreements, EBRD may agree with the client on remedial measures to be taken by the client to achieve compliance. If the client fails to comply with the agreed remedial measures, the Bank may take such action and/or exercise such remedies contained in the financing agreements that it deems appropriate. EBRD will also review any performance improvement opportunities related to projects together with the client.

6.6 MATERIAL CHANGES TO PROJECTS

Material changes may occur to the nature and scope of projects following Board approval and signing. Such changes may have significant material environmental and social implications and may require additional appraisal.

Financing agreements normally contain covenants with regard to management of material change and require clients to report such material changes to the Bank. The OL must inform the ESD of any material changes so that they can determine if any environmental or social re-appraisal is needed for the modified/restructured project and whether additional due diligence investigations are required.

Additional due diligence investigations may be required if a change in the financial or physical characteristics (e.g. sites, facilities, processes, collateral) of the project could potentially involve different environmental and social issues from those initially appraised. The ESD will determine which additional investigations and stakeholder engagement activities, if any, are needed, and agree with the OL and client on the time schedule for carrying them out.

Operation change reports should be reviewed by the ESD before the Operation Team submits them to the management, the OpsCom and/or the Board of Directors to allow the ESD to include in the document a summary of the changes in the environmental and social impacts and risks and additional mitigation requirements. Based on the outcome of the environmental and social investigations, the ESD will determine if any additional environmental and social covenants and/or conditions need to be included in the amended legal agreements or if an amendment to the ESAP is required. If materially new or different environmental or social impacts and risks are predicted or experienced from those made known to OpsCom prior to Board, the ESD may request an update be submitted to OpsCom, who will consider whether the Board needs to be informed. In cases of material change in environmental and social impacts and risks, the PSD will need to be updated to reflect the changes.