Special Study

Achieving the Bank's Environmental Mandate through Financial Intermediaries

November 2006

Evaluation Department
(EvD)

European Bank
for Reconstruction and Development

SPECIAL STUDY

PREFACE

This Special Study

The subject of this Special Study is the Bank's implementation of its environmental mandate through investments with Financial Intermediaries (FI). Dennis Long, (Senior Environmental Evaluation Manager) served as operations leader for this special study. To implement the study the Evaluation Department (EvD) hired a UK based consulting firm to carry out the data collection, analyse the results and prepare background reports. The conceptual design of the study was conceived by Dennis Long; the bulk of the field work was carried out by the consulting team, who also prepared the initial background and summary reports, while EvD staff prepared this final report.

Staff within the FI Banking Team and Environmental Department (ED) also played a critical role in providing information, organizing portfolio and project date, arranging contacts for the web-based survey, and facilitating field visits. Without the full support of the FI Banking Team and Environmental Department staff, it would have been impossible to complete this study. EvD wishes to particularly thank Alan Popoff, Yvonne Vilhelmsen, and all the portfolio managers and OLs of the FI Team, plus Mark Hughes, Anne Maria Cronin, and Kate Guscott of the Environmental Department. EvD also wishes to thank all the FI partners that completed the web-based survey questionnaire and/or hosted members of the evaluation team during site visits.

This report represents a shared effort by the consultants and EvD staff.

SPECIAL STUDY

ACHIEVEMENT OF THE EBRD'S ENVIRONMENTAL MANDATE THROUGH FINANCIAL INTERMEDIARIES

TABLE OF CONTENTS

		Page
	PREFACE	
	ABBREVIATIONS	**ii**
	EXECUTIVE SUMMARY	1
1.	**BACKGROUND AND AIM OF THE SPECIAL STUDY**	5
2.	**METHODOLOGY**	9
3.	**STUDY RESULTS AND PORTFOLIO ANALYSIS**	11
3.1	Overview of the FI Portfolio	11
3.2	Overview of the FIs Surveyed	12
4.	**ANALYSIS AND FINDINGS**	15
4.1	How effective is EBRD in implementing its environmental policies/procedures for FIs	15
4.2	How effective are the FIs in implementing EBRD's environmental policies and procedures	20
4.3	How effective are the sub-projects in implementing EBRD's environmental policies and procedures	30
4.4	Assessment of EBRD's Environmental Policy and Procedures for FIs	33
5.	**RECOMMENDED CHANGES TO THE APPROACH TO IMPLEMENTATION OF THE ENVIRONMENTAL MANDATE FOR THE CURRENT FI PORTFOLIO**	36
5.1	Environmental Responsibility at FIs	36
5.2	Prioritisation of EBRD Resources on Non-EU Countries	36
5.3	Higher Focus of Support to FIs on Environment Earlier in the Relationship	37
5.4	Promote an Even Playing Field	38
5.5	Monitoring of FIs by EBRD's Environment Department	39
5.6	Communication between EBRD's Environmental Department and FIs	40
5.7	Resources in EBRD's Environment Department	42
5.8	Risk Categorisation	42
5.9	Senior Commitment	43
5.10	Implementation Plan for Key Recommendations	44

APPENDICES

Appendix 1	List of FIs Consulted
Appendix 2	List of FIs for Visits and Interviews
Appendix 3	Summary of results of Consultation with FIs

ACHIEVEMENT OF THE EBRD'S ENVIRONMENTAL MANDATE THROUGH FINANCIAL INTERMEDIARIES

ABBREVIATIONS

AEOR	Annual Evaluation Overview Report
AER	Annual Environmental Reports
AGM	Annual General Meeting of EBRD
CEE	Central and Eastern Europe
COO	Countries of Operation
EAP	Environmental Action Plan
EBRD	European Bank for Reconstruction and Development
ED	Environmental Department
EDD	Environmental Due Diligence
EIA	Environmental Impact Assessment
ETC	Emerging Transition Countries
EU	European Union
EvD	Evaluation Department (formerly PED)
FI	Financial Intermediaries
HSE	Health, Safety and Environment
IFC	International Finance Corporation
IS	Integrated Skills Limited
NIS	Newly Independent States
OGC	Office of the General Counsel (EBRD
OL	Operation Leader
OPER	Operation Performance Evaluation Review
OT	Operation Team
PED	Project Evaluation Department (now EvD)
RM	Relationship Manager
SE	South East Europe
SME	Small and Medium Enterprises
TI	Transition Impact
UNEP	United Nations Environment Program
WB	World Bank
XMRA	Expanded Monitoring Report Assessment

Special Study on the Achievements of the EBRD's Environmental Mandate through Financial Intermediaries

Executive Summary

The objective of this study was to assess the effectiveness of achieving the Bank's environmental mandate through financial intermediaries (FIs). The findings of this study are based on the results of a web-based electronic questionnaire completed by 62 % of the Bank's FI clients, phone interviews of selected clients, and site visits to a sample of clients and their sub-projects. The FI portfolio is distinguished by five sub-groups: bank lending, small business finance, bank equity, equity funds and non-bank FIs (as defined in the main text). The underlining assumption of this study is that the Bank's environmental mandate is important and should be applied to FIs with the same degree of emphasis as for direct investments.

The study found that the Bank is largely achieving its mandate (applying its policies and procedures, which are then appropriately applied by the FIs to achieve sustainable development objectives) with bank lending, the small business finance program, and with equity funds, although with equity funds it is unclear if the bank has set the correct level of environmental performance standards. The main area for improvement is with bank equity projects, where at least 6 of the 24 local banks visited/ interviewed in this study in which EBRD has equity are not implementing EBRD's requirements across all business activities, as required, but only under EBRD related credit lines. There are also some similar issues and other improvements necessary with non-bank investments.

At about 12 of the 30 FIs visited / interviewed, it was apparent that they have significantly more focus on management of environmental pollution risks than potential health and safety, and social risks, i.e. their definition of "environment" is more limited than EBRD's. For many of the activities carried out at sub-projects, the higher potential risks are related to health and safety aspects, rather than environmental pollution. It is apparent that these FIs are misunderstanding that the EBRD term "environment" also includes health and safety and social issues. Although it is clearly defined in the environmental procedures, the definition is not being passed on to all relevant employees of the FIs or to the sub-projects.

The other main area for improvement is the appointment of a manager at FIs with responsibility for environmental risk management. 68 out of the 147 FIs consulted have formalised this important EBRD policy requirement, introduced at the time of the 2003 policy update. For many of the other FIs it would be a simple step to appoint a manager with the required environmental responsibility because they have good environmental practices, but no one with overall responsibility.

About 50% of FI clients have acknowledged receiving the CD-ROM of the Environmental Risk Management Manual (or downloaded it from the website), and most of these stated that it is useful. Many have integrated the Manual into their systems. As noted by the Environment Department (ED), use of a CD-ROM is an effective tool to try to address the problem of high staff turn-over within the FIs, and helps in institutionalizing the information contained on the CD-ROM. The EBRD's Environment Department will soon be distributing an updated version of the Manual to all FI clients and it will be important for ED to step up communication with the FIs to ensure that the benefits of the Manual are realised and that it is disseminated to the relevant officers of the FIs in the field.

52 of the 147 FIs consulted said that they have received training from EBRD and 27 said they have received ED monitoring visits. The training and monitoring has been particularly effective in helping the FIs to implement the procedures and better manage their environmental risks.

The success of the training, monitoring and Environmental Risk Management Manual has only impacted on a small proportion of FIs. This is because the limited resources in ED are a serious constraint on the implementation of the mandate for FIs. The FI portfolio has greatly increased over recent years but the resources in ED have not increased in proportion. Although there is a major need to increase the resources in ED, there are opportunities, identified during this assignment, to develop a better approach in some activities of the Department. In particular, the few FIs that had direct communication between their Environmental Officers and the Environmental Specialists in ED had a greater understanding of environmental risk management. Building these direct communication links with all FIs will considerably improve practices at FIs, ensure the Manual is used and strengthen monitoring and reporting by FIs. Many FIs stated that they do not receive feedback on their Annual Environmental Reports (AERs), and there is some evidence that they are becoming lax in reporting. This also demonstrates the need for more communication from ED. In addition, more consistent approaches from Environmental Specialists from ED when monitoring FIs in the field, for example use of consistent monitoring protocols and check-lists, would be beneficial.

As well as better use of resources, there are now opportunities for ED to prioritise its resource use better, particularly because of the changing circumstances in some countries of operation (COO). The higher standards of regulation, and particularly enforcement in the countries that have recently joined the EU, mean that ED can afford to rely more on the robust regulatory framework and focus resources on training, monitoring and support of FIs in non-EU countries (particularly Early Transition and Russia / NIS countries). In general, the capacity of local consultants in EU countries has improved, and ED could train local consultants to carry out much of the monitoring and support of FIs in these countries. In addition, ED should implement a training programme for the OLs, who could step up their involvement in identifying environmental risks during project preparation, and ongoing monitoring of FIs, with little extra work.

ED would have more impact on environmental risk management at FIs if it focused efforts on the overall relationship with FIs, rather than on a project-by-project basis. The Environmental Specialists and OLs should focus on demonstrating the benefits of environmental risk management at the start of the relationship with FIs, so that responsibilities and systems are set up at this point, and EBRD can be confident that FIs have strong environmental risk management practices across all activities when future projects are agreed.

Although many FIs are properly implementing EBRD environmental procedures and managing environmental risks, in general the practices are not filtering down to create significant environmental change at sub-projects. Most of these FIs are focusing on management of environmental risks by ensuring that sub-projects provide evidence of compliance with regulation (e.g. permits and certificates). This is now a more applicable approach for EU countries, but could result in major problems in non-EU countries where enforcement of regulation remains very weak.

The management system approach adopted by many FIs is therefore now more applicable in EU countries, and there is an opportunity to formalise this approach in these countries so that ED can focus resources elsewhere. The approach involves management of the risks by the FIs through including covenants with sub-projects that they should provide evidence of compliance, and actions by FIs to check the ongoing compliance of sub-projects. EBRD should train and use local consultants in these countries, making use of the fact that they are more cost-effective. EBRD should then monitor the FIs to ensure that they are properly implementing this management system approach. This change in system could be quickly set up as a pilot in a few EU countries and then rolled out as appropriate.

The lack of resources at ED is leading to a few shortfalls in implementation of the mandate, but also resulting in only a few instances where significant environmental change has been implemented at sub-projects, and most of these are indirect impacts (e.g. from the introduction of new production technology). As well as focusing resources on FIs in higher priority countries, ED should consider methods for creating more *environmental change*[1]. This shift in approach from managing risks to also influencing *environmental change* would require more resources, but could initially be piloted in certain countries, and is the mandate of the Bank. Several FIs that were consulted expressed an interest in working with EBRD specifically on programmes to invest in environmental improvements at clients.

Some of these recommendations require a shift in policy or at least a major change in approach. It will be important to develop objectives and measurable performance indicators in parallel with changes in the EBRD environmental policy for FIs. A step-up in senior commitment at EBRD is essential for better implementation of the current mandate, particularly if there is a change in policy or approach, for example to focus more on generating *environmental change*.

The major recommendations include:

- Recognizing that the Bank's countries of operation (COO) have differentiated – ranging from EU members to ETC countries – and that the Bank's approach should be tailored to reflect this new reality. New EU members and pending EU members have been pushed by the EU to bring their environmental legislation into compliance with the EU and to improve overall enforcement. In these countries, environmental performance of sub-projects is increasingly driven by local law and enforcement, thus the Bank's role can and should be reduced, allowing the Bank to concentrate its limited resources were most needed. Given the serious constraint on Bank staff resources, and faced with a growing portfolio, either additional resources must be provided or the Bank will have to triage its efforts – both steps may be necessary. The shift in approach will be important because the countries of operation will continue to further differentiate in future.

- The Bank should take a client rather than a project approach as the Bank has many clients with whom it has multiple operations, and as such, has greater leverage than might be achieved under each individual operation. The Bank's ability to influence a client's environmental performance will depend on the nature of the relationship and the products. While there is more opportunity to influence the client when there is an equity investment, and particularly when the Bank has a Board seat, it is important to recognize that minority equity positions may limit the Bank's capacity to require full compliance with our environmental and social policies and procedures.

- It should be noted that all of the Bank's FI Operations Policies have indicated that its wholesale lending through FIs is to be targeted at (but not limited to) small and medium enterprises. It is based on this broad assumption that the Bank's environmental polices only require application of local environmental and social laws. Some of the sub-projects that fall under FI structures are clearly, in scope and design, beyond a reasonable definition of "small and medium" and as such (i) directly compete against the Bank's direct lending programs and (ii) potentially create undue environmental vulnerability. To the extent that the Bank undertakes larger sub-projects within its FI portfolio, the assumption regarding environmental vulnerability should be revisited. This is particularly true under bank equity and equity funds. A possible approach would be to raise the bar – i.e. move to EU standards – for larger sub-projects and / or higher risk sectors such as extractive industries, forestry, and chemical industries. EvD recognises that this may be a challenge where EBRD is a minority equity investor (bank equity and equity funds), but EBRD often provides leadership for the other investors on environmental issues, thus the question remains relevant even when EBRD is a minority investor.

[1] ED has indicated that the focus has not been creating environmental change "beyond compliance", that achieving compliance is a major achievement in itself. While the study largely agrees with this observation, this study argues that (1) promotion of environmental change is part of the mandate and (2) that to not do so is a missed opportunity.

- The Bank's internal integrity is threatened by continuing to undertake an approach for bank equity which both Banking staff and Environmental staff recognize is not adequate. The report proposes an alternative approach to bank equity that is based on (i) taking a relationship rather than an operation specific approach and (ii) recognizing the limitations inherent in bank equity not claiming to do what is not achievable.
- The Bank's current approach to achieving its environmental mandate through FIs is highly procedural and regulatory and is based on a command-control approach. (Note this is still the approach in many western countries – setting of standards and using an enforcement approach rather than market-based principles such as pollution trading.) In many cases the level of effort is not justified by the results. One possible change would be to encourage / allow a market-based competitive environmental approach and promote self-policing within the industry.

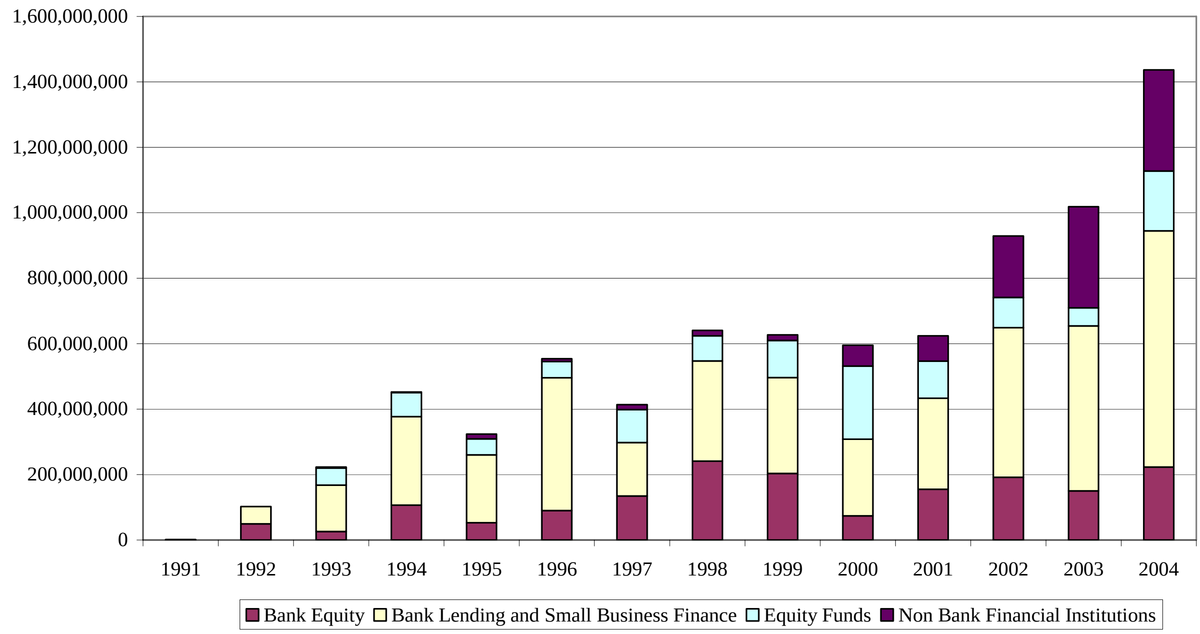
- A cultural change within the Bank could help to better promote the Bank's environmental mandate. The Evaluation Team was often informed, by senior management and staff, that environment was NOT a major component of the Bank's work with FIs, and therefore the focus on environment should be minimized to the essential. In several cases the Evaluation Team would agree. To this end, the Bank should consider classifying projects which clearly have "no to minimal environmental impact" as Category C; for example, a non-banking pension program which can only invest in government bonds. However, attitudes of senior management can send signals to banking staff, which may then be carried onto the Bank's clients. Interestingly, the majority of the respondents to the questionnaire found that the questionnaire was "useful in raising the awareness of environment" within their institution. Some had had little to no contact with the Bank's Environment Department as the communication was through their credit staff and the Bank's Operation Leader. When communication did happen it was unfortunately focused on issues of non-compliance, for example missing reports, which tended to send a negative message. However, the Team also came across examples where the client had consulted the Bank's Environment Department on a difficult issue and the staff had been extremely helpful. More of this "adding value" could enhance the image and as a result lead to increased business. Further, some FIs specifically asked if the Bank could offer / promote more operations which target environment (e.g. the Bulgarian renewable energy project). There appears to a willingness by our clients to undertake environmental initiatives that has not been fully exploited by the Bank. The Evaluation Team argues that the Bank's mandate incorporated environment in recognition of the environmental legacy that existed at the time the Bank was established and that remains today. Small and medium industries are significant contributors to environmental pollution when looked at as a sector rather than as individual operations – e.g. the food service industry. While the business may have been wholesaled through FIs this does not negate the mandate AND EvD believes that the Bank can and should do more to promote environmental quality through its investments with FIs.

- Finally, a basic banking principle is ***"Know Your Client"***. Because of the volume culture within the Bank and the demands on very limited staff (within the Environment Department only 3-person years of effort on FIs) both for due diligence (approaching 80 new FI operations per year) and project monitoring (over 600 active operations) the approach can unfortunately fall into the category of "box ticking" and use of standard boiler plate. Tailoring legal and other documents to the specifics of the project may require an increased effort up front but will simplify documents (e.g. why include 83 definitions of leasing operations for a company who only plans to lease office equipment?), thus providing better clarity and in the long term a reduced level of effort. Recognising that the Bank is not a regulatory agency, relying more on local environmental capacity, and focusing on "adding value" by becoming a "knowledge Bank" will better help promote the Bank's sustainable development objective.

1. Background and Aim of the Special Study

The implementation of EBRD's environmental mandate, policy and procedures (as summarized in Box 1) through financial intermediaries (FIs) presents a major challenge. Since 1991 the EBRD's portfolio of FI clients has shown significant and sustained growth in terms of total value of projects and number of projects (FI projects made up 33% of total value of EBRD investments and over 50% of the total number of EBRD projects in 2004). There are currently over 300 FIs with which EBRD has active projects (there are over 600 active projects in total as EBRD has more than one project with many FIs). In addition, there is now a wider variety of types of project with FIs - projects do not just cover bank lending, SME credit lines and bank equity projects, but also several other types such as insurance, pension funds and trade facilitation, categorised under non-bank projects, although some of these activities are managed through banks. Further, the sub-projects vary across a range of industries and are not always small to medium in scope. These points are illustrated in Figure 1.1.

Figure 1.1 - Growth in FI Portfolio by Volume



Most of the FIs have a significant number of clients (sub-projects). In particular the SME and micro-credit lines may involve hundreds of sub-loans. For example, ProCredit Moldova alone, in which the EBRD has equity and credit lines, has nearly 10,000 active loans at present; and Europlan in Russia has over 5,000 leasing sub-projects. It is difficult to impossible to expect EBRD staff to know about and monitor all the sub-projects – indeed the objective of the FI program is to delegate to the participating banks. Finally, the growth in the portfolio since 2001 has been lead by a growth in non-bank FIs (which are mainly located in Central and Eastern Europe (CEE)) and Bank Lending and Small Business Finance.

Implementing the environmental mandate across such a large and varying portfolio in all the countries of operation (COO) - which themselves vary enormously in terms of their culture, environmental awareness and attitudes, and strength of legislation and enforcement - presents a major challenge to the Operation Leaders (OLs) in the EBRD's FI Department and to the Environmental Specialists in the Environment Department (ED). In addition, the Bank's approach to FI's has matured over time, as reflected in the FI Operations Polices and the 1996 and 2003 Environmental Policies.

Box 1: Overview of EBRD's Environmental Mandate, Policy and Procedures for FIs

The EBRD is directed by its founding agreement to promote, in the full range of its activities, environmentally sound and sustainable development. EBRD works with its FI clients to develop staff and implement lending procedures that are tailored to the needs of *small and medium* enterprises and reflect EBRD's policies, including those related to environmental and social issues, in line with its Environmental Policy (April 2003). While several active projects may have been approved under the 1992 or the 1996 Environmental Policy, this Study used the 2003 Policy as reflective of current best practice.

In developing the components of the Environmental Policy on FIs, which delegates much responsibility for environmental risk management onto the FIs, EBRD has recognised that it is important for FIs to achieve an appropriate balance between ensuring their investment criteria reflect EBRD's environmental policy and being sensitive to the affordability of some environmental actions to small enterprises. The FIs should ensure that their clients (sub-projects) are compliant with local environmental regulations as a minimum requirement, and where EBRD requirements are not affordable at the time of investment preparation, the FIs should ensure that the sub-projects develop and implement realistic environmental action plans (EAPs) to improve performance.

The EBRD has various methods to help FIs to manage and influence the environmental performance of the companies that it finances, including:

- Development and implementation of Environmental Procedures that outline how to incorporate the Bank's environmental mandate into investment projects. These include:
  - Environmental Procedures for EBRD Intermediated Financing through Local Banks (i.e. bank lending and bank equity projects)
  - Environmental Procedures for Private Equity Funds
  - Environmental Procedures for Small and Micro Loans
  - Environmental Guidelines for Passive Investments
  - Environmental Guidelines for Residential Mortgage Lending
  - Environmental Procedures for Property Development and Acquisition Funds
  - TFP Environmental Procedures
  - Environmental Procedures for Leasing
  - Environmental Guidelines for the Insurance Sector
  - Environmental Guidelines for Franchising
  - Environmental Procedures for International Factoring
- Development of Sub-sectoral Environmental Guidelines to assist investment officers in FIs.
- Provision of an Environmental Risk Management Manual to FIs to help them to assess the environmental risks and opportunities associated with potential investments.
- Training to FIs and monitoring visits to support the implementation of procedures.

The EBRD procedures encourage the "*identification of opportunities for environmental benefits.*" The procedures state that these technical measures might include "*raw material or energy savings, waste minimisation and cleaner production.*" Thus EBRD's policy is to move beyond a compliance based approach (local laws) to adding value, i.e. to enhance positive environmental change.

The EBRD environmental procedures clearly define "environment" to incorporate "*not only ecological aspects, but also worker protection issues (health and safety, harmful child labour, forced labour and discriminatory practices) and community issues, such as cultural property, involuntary resettlement, and impacts on indigenous peoples*".

The **aim of this Special Study** is to assess the effectiveness of the EBRD's implementation of its environmental mandate through the FI portfolio, and to advise whether this mandate remains applicable now that the portfolio is much larger and the projects are more varied. The study focused on the following questions:

- How effective is EBRD in implementing its environmental policies / procedures for FIs?
- How effective are the FIs in implementing EBRD's environmental policies and procedures?

- How effective are the sub-projects in implementing EBRD's environmental policies and procedures?

The study was undertaken at the request of the Board of Directors and the Business Group Director for the FI Banking Team. In this context, it is useful to understand past experience. The Evaluation Department (EvD) undertook a study on provision of environmental training to FIs in 1999[2] which found that the Bank's performance was *Successful* overall but training could be expanded and improved.

It is also useful to review past performance. Box 2 summarizes the Bank's past environmental performance with respect to FIs, as assessed through Operations Performance Evaluation Reports (OPERs) and Expanded Monitoring Report Assessments (XMRAs) completed through 2004. As explained in the box, the results are unexpected as compared with EBRD's direct investments. While the Bank's FI portfolio has a *Good* overall environmental performance rating, which exceeds the Bank's overall performance (see EvD's 2005 AEOR), the extent of estimated environmental change is limited. This finding seems to suggest that the procedural approach that the Bank has taken – emphasis on training, reporting and delegation - has minimized the banks environmental risk (as measured by performance which is a measure of compliance) but has not helped to further the Bank's mandate through improvements in environmental quality as assessed by estimating environmental change over the life the operations. EvD also recognizes that the instrument – environmental change – may not be capturing the information intended when Bank and Evaluation staff determine the ratings (XMRAs and OPERs). From individual FI project evaluations, EvD recognizes that there is sometimes a lack of sub-project specific data from which to make an appropriate assessment and the measure of Environmental Change is often a guesstimate at best. Nevertheless, this finding regarding environmental change and limited impact achieved through FIs offers a hypothesis which can be tested in the context of this Special Study.

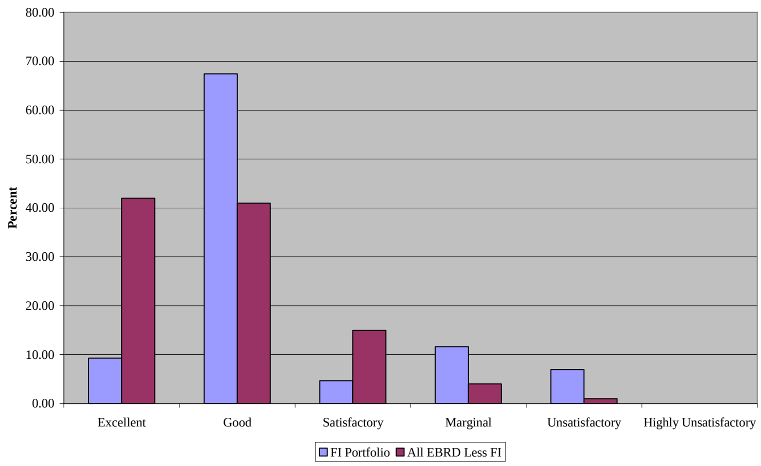
[2] PE98-112T

Box 2: Comparison of Results with the Findings of Evaluation Department Studies

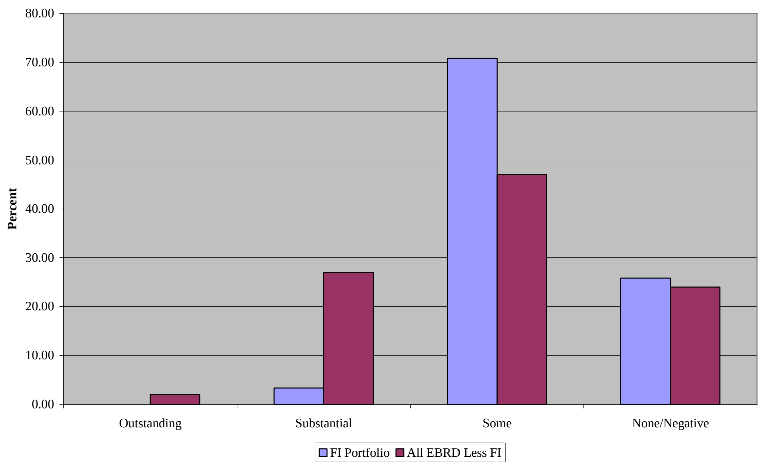
Up to the end of 2004, the Evaluation Department (EvD) evaluated 120 FI projects, which were made up of 43 OPERs and 77 XMRAs. It is useful to review this study's findings in the context of EvD's past results, i.e. the past performance of FI projects on the Bank's two environmental indicators: Environmental Performance and Environmental Change.

Considering Environmental Performance, 82 % of the projects were rated satisfactory or better. The data are highly skewed to an Environmental Performance rating of "Good". On Environmental Change, 79 % of the projects were rated "Some" or better; however, the data are again highly skewed, but at the opposite end, to a rating of "Some" (71%). Comparison is made with the all EBRD data less the FI results over the same time period. These results suggest that overall the FI sector is performing in-line with Bank expectations; however, (1) environmental performance and change lag behind the results of the banks direct investments and (2) the evaluation instruments used by the Bank to measure Environmental Performance and Change for FI projects are not differentiating variations in performance. These data also suggest that FI projects are meeting the requirements of the Bank with respect to screening, reporting etc., but EBRD's approach to encouraging sustainable development and environmental change through FIs is having minimal impact. These findings are also contrary to other evaluation findings from EvD's sector reviews (e.g. Extractive Industry and Power and Energy) where there is a positive correlation between environmental performance and environmental change.

Environmental Performance for FI and All EBRD Projects Evaluated Between 1996 and 2004



Environmental Change Rating for FI and All Projects Evaluated Between 1996 and 2004



2. Methodology

This Special Study was carried out by a combined team from EBRD's Evaluation Department (EvD) and Integrated Skills Ltd. (ISL) – an independent consulting firm selected through open tender. Members of the FI Banking Team and Environment Department also contributed to the study and participated in selected site visits. Thus, this Special Study represents a team effort, but remains the sole responsibility of EvD.

The core of the study involved consultation with FIs through a web-based survey, interviews by telephone, and visits to FIs in COO. In addition, visits were carried out to sub-projects to assess the impacts of EBRD's Environmental Policy and Procedures. It should be noted that while the sample population includes projects approved under the earlier policies (1992 and 1996), the team used the 2003 Environmental Policy and Procedures as the bench mark for this study[3]. The approach also involved proactive consultation with EBRD's FI and ED teams to discuss current practices related to the Environmental Policy for FIs, as well as to discuss specifics related to the methodology, such as the design of the survey and interview questions, the contacts at FIs, and the arrangements for field visits. Finally, the approach was NOT about finding fault, particularly given the past positive performance results (Box 2); rather, the Evaluation Team's approach was to identify what is working and should be expanded, and where corrections could be made, to improve the Bank's achievement of its environmental mandate through FIs.

The specific steps to the study were:

- Design of a web-based survey to assess the environmental management practices of FIs.
- Development of a database of FI clients and relevant contacts.
- Distribution of the survey to 189 FIs via initial contact from the OLs in the FI team. 83 of the FIs were not contacted because of sensitivities in the relationship or because the OLs were not able to provide the contact details. This may have skewed the data – one assumes towards less negative findings - however, as the survey results are more negative than the site visit data (see Section 3) EvD assumes that there was little to no adverse impact in the findings resulting from these missing cases. Further, the missing cases did not skew the overall sub-sector or country distribution[4].
- Random sampling of 30 FIs for visits and interviews. The sample covered a spread across EU, CEE/SE, Russia/NIS and ETC categories of country, as well as a spread of different project types and different lengths of relationship with EBRD. The sample was partly used to test for sample basis, and formed our primary data of sub-project results.
- Visits to 17 FIs and 30 sub-projects in 9 countries.
- Telephone interviews with a further 13 FIs.
- Analyses of the responses to the consultation with FIs (117 FIs responded to the survey, meaning useful information was obtained from a total of 147 FIs).
- Discussion of current activities related to the Environmental Policy for FIs with managers and other FI and ED team members, as well as the Legal Specialists in OGC.

A list of the FIs consulted is provided in Appendix 1 and a list of the FIs visited and interviewed is provided in Appendix 2. A summary of the survey results is provided in Appendix 3. There are about 300 FI clients at EBRD and the number is changing on a continuous basis as new projects are signed and EBRD exits projects. However, up-to-date information on the number of FI clients at EBRD was not readily available to the evaluation team and the information on the total number of FI clients and projects in this report should be taken as approximate. Partly through the process of undertaking this study, the FI Team has put together a central database, but now must ensure that the system is used by

3 The team did gate the data but found it made little difference in the findings, while adding confusion – two sets of tables. Where differences were observed they are noted in the text.

4 A reward of one pass to the Bank's Annual General Meeting (AGM) was offered as an incentive to complete the questionnaire. The winner is to be selected randomly from all participating FIs.

all OLs and kept up-to-date. This will be particularly useful as the FI Team and ED shift to taking a "relationship" approach to their FI clients, as was the approach in this Study.

The approach taken was for consultation with a client once in a country (i.e. a focus on the relationship with EBRD and not individual projects). Several client institutions (at the parent level) have projects with EBRD in more than one country. In these cases, all operations in one individual country with each client were surveyed. This was useful to compare the variation in environmental performance between countries. The exception to this was the "Regional" clients for which their head office was consulted. The use of a web-based survey enabled a larger than expected and more representative sample of FIs to be surveyed. In addition, the tool allowed easy downloading into a database for analysis of the results. Those FIs in Russian-speaking countries were given the opportunity to receive the survey in Russian language; however, only a few utilized this opportunity.

The evaluation team was sensitive to the relationships between OLs and their clients and the approach was taken for the OLs first to inform the FIs about the surveys, interviews and visits, before the evaluation team carried out the consultation. This approach, and the copying of OLs on correspondence with FIs to maintain clear communication lines between EBRD and FIs, has contributed to the strong co-operation received from the FIs.

The aim of the visits and interviews was to generate more detailed information on environmental activities at FIs, and on the influence of EBRD. These site visits also provided validity checks on the survey data. The interviews with FIs (by telephone and in meetings) were designed with the same questions as the survey, plus several additional open questions. Major field visits were carried out by the Evaluation Team to Russia, Poland, Romania and Moldova, as well as short additional visits to Lithuania, Latvia, Croatia, Slovakia and Czech Republic as add-ons to other country visits undertaken for other purposes. A representative of the EBRD Environment Department joined the visits in Romania, which provided a good opportunity for discussion of observations and initial findings. Operational Leaders (OLs) and other banking staff also participated in some of the field visits / meetings. The Evaluation Team was open and transparent in its approach, identification of who was interviewed and through which instrument, and has shared client specific findings with the FI and ED teams. Meetings were also held with Operation Leaders from the FI Department of EBRD, where possible, before and during visits.

The visits to sub-projects involved a different set of questions and a site walk-through. For meetings / interviews with FIs and sub-projects the question sets had been designed to give the interviewer the flexibility to vary the focus of questions to take into account the wide range of types of FI projects and sub-projects. For example, the types of sub-project company varied greatly from shops to offices to manufacturing, and not all questions were asked during visits as several were not relevant in some cases. Finally, the web-based approach and survey instruments developed for this study provide a useful basis for on-going monitoring by ED.

3. Study Results and Portfolio Analysis

This section presents a descriptive overview of the FI portfolio based on the survey results.

3.1 Overview of the FI Portfolio

EBRD has approximately 302 active FI clients as of November 2005, involving a total of about 614 operations (there is more than one operation with many FIs). The analysis in this report covers 4 categories of projects:

- Bank lending / SME finance
- Bank equity
- Equity fund
- Non-bank FI

For some countries SME finance projects have been categorised directly under bank lending projects and therefore these two categories have been combined in the analysis in this study.

EBRD has bank lending and / or SME finance projects with about 184 FIs. It has equity fund projects with about 68 FIs and non-bank projects with about 58 FIs. In addition, EBRD has bank equity with about 46 FIs. Table 3.1 provides a summary of the number of FI clients in each of the Bank's regions, and the different project types. For the purposes of this study we have distinguished new members of the EU as a hypothesis was that the environmental legislation in these countries had advanced to the point where a difference in outcomes might be discernable.

Table 3.1 - Number of Clients / Projects in Each Category (approximate)

	Clients	**Projects (approx.)**				
	Total number of FI clients (approx.)	**Total Number of Active Projects**	**Bank Lending / SME Finance**	**Bank Equity**	**Equity Funds**	**Non-Bank FIs**
Regional projects	24	36	0	1	33	2
EU	75	130	44	11	22	53
Other CEE/SE	67	152	110	19	10	13
Russia/NIS	84	196	102	13	70	11
ETC	52	100	83	13	0	4
Total	**302**	**614**	**339**	**57**	**135**	**83**

EU Members (Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary, Slovenia).
Other Central, Eastern and Southern European countries (Bulgaria, Romania, Croatia, Bosnia-Herzegovina, Serbia and Montenegro, Albania, FYR Macedonia)
Russia and other NIS countries (Belarus, Ukraine, Kazakhstan, Turkmenistan)
Early Transition Countries (ETC) (Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Tajikistan, Uzbekistan).

The portfolio of EBRD's FI clients shows the following characteristics with respect to categories of COO:

- There is now a low proportion (13%) of Bank Lending / SME projects in EU countries compared to other categories of country. This reflects this Bank's objective to move east.
- There is a fairly even spread of Bank Equity projects across all types of country.
- Over 50% of Equity Fund projects are in Russia and NIS countries, while the majority of the Regional projects are Equity Funds. However this may be misleading as in the Russian portfolio counts individual sub-projects.

- A high proportion (64%) of the non-bank projects are in the EU (demonstrating that these newer types of projects are tried out first in less risky countries with more mature markets and appropriate legislation that supports such instruments).
- In ETC countries, at present over 80% of the projects are in the potentially simpler categories of Bank Lending or Small Business Finance.

Several of the EBRD's FI clients are owned by an international private company (i.e. non-state). This is important with respect to environmental practices because the parent company often requires the FIs to implement its own environmental procedures. Out of the 147 FIs that were consulted (i.e. those that responded to the survey plus those interviewed / visited), 145 answered the question on ownership, and 97 (67%) are under international private ownership, while only 35 (24%) are under local private ownership in their COO.

Most of the FIs are relatively large organisations. Those FIs that were consulted varied in size from 1 branch (17% of FIs) to more than 100 branches (13% of FIs) in the COO. EBRD's environmental policies and procedures do not look at the internal environmental impacts of their FI clients. This finding (on FI size) suggests that the environmental footprint of some of the FIs may be substantially larger than that of their individual customers, which suggests that perhaps the Bank should include this aspect when the Environmental Policy is updated in 2006.

Some FIs had less than 10 employees while others several thousand employees. Over 40% of the total consulted have more than 500 employees in the COO (this excludes Regional projects that cover several countries). The FIs that are managing Equity Funds, including regional projects, tend to be much smaller (21 of the 22 FIs with only equity fund projects have less than 50 employees). 143 FIs provided an estimate of the approximate percentage of female employees and the majority of FIs have more female than male employees. About 85% of FIs consulted stated that they had more than 40% female employees. The study did not capture gender splits within the management structure of the FIs.

EBRD has had long relationships with many FI clients. 43% of the 147 FI clients consulted have been working with EBRD since before 2001 (i.e. over 5 years). Of these, some had investments both before and after the introduction of the 2003 policy. 100 of the 147 FIs stated that other IFIs / MDBs / Donors are engaged with them on a finance basis. This is important because in many cases the other IFI has also required environmental procedures to be implemented. However, 98 of these FIs stated that EBRD's environmental procedures are dominant. This finding supports an argument that EBRD is having an impact and suggests that the low Environmental Change rating may not be capturing the actual impact of EBRD's programs.

3.2 Overview of the FIs Surveyed

189 FIs were sent the web-based survey and those that had not responded within two weeks were sent a reminder. A total of 117 responded (62%). Combined with the telephone interviews and visits, the total number of FIs consulted was therefore 147. The breakdown of responses to the survey per region is provided below.

Table 3.2 – Breakdown of FI Clients Responding to the Survey and Total No. of FIs Consulted

	Total No. of FI Clients (Approx.)	No. of FIs Interviewed / Visited	No. of FIs Receiving Survey	No. of FIs Responding to the Survey	% of FIs Responding to the Survey	Total No. of FIs Clients Consulted
Regional projects	24	3	14	6	42%	9
EU	75	9	48	32	67%	41
Other CEE/SE	67	8	51	33	65%	41
Russia/NIS	84	4	42	25	60%	29
ETC	52	6	34	21	62%	27
Total	**302**	**30**	**189**	**117**	**62%**	**147**

An analysis was carried out to check if there was a difference in response rate for FIs with a longer or shorter relationship with EBRD, but the group of FIs with a relationship of more than 5 years, and the group of FIs with a relationship of less than 5 years, both had a response rate close to 60%.

The consultation with the 147 FIs covered a total of 312 active projects made up of the following:

- Bank lending / SME finance - 182 projects at 94 FIs
- Bank equity projects at 24 FIs
- Equity funds - 62 projects at 22 FIs
- Non-bank FIs - 39 projects at 26 FIs

Based on other surveys, and when compared for verification with the telephone sample (which itself was a random sample) the Evaluation Team believes that the sample is representative and that therefore the findings are a good indicator of EBRD’s performance. The one group for which the response rate was less than 60% was Regional projects. This group predominately consists of equity funds (see Table 3.1); therefore, the findings may not be as accurate in estimating the Bank’s performance with respect to equity funds. EvD is implementing a follow-up Special Study on equity funds in 2006 which will allow for a second look at this important sub-population.

3.2.1 Role of those Consulted in the FIs

The roles of the people consulted at the FIs varied. Generally the person at the FI with the main link to EBRD for the relationship was contacted wherever possible. The Evaluation Team’s entry to the clients was via the OL which tended to result in a link to someone in the credit department of the FIs. As will be discussed later, the link to the FI’s environmental officers is significantly weaker. In some cases the credit officer at the FI completed the survey or participated in the interview, while in several cases the person responsible for environmental risk management, where an FI has such a role, completed the survey or participated in the interview. In several FIs that were visited / interviewed, the person that is responsible for overall performance reporting has been given overall responsibility for environmental risk management (e.g. Director of the client’s Credit Department). Environmental due diligence is generally seen as a risk mitigation exercise and thus is handled in parallel with risk management, not unlike EBRD.

The results for the visits / interviews were generally significantly more positive for many of the key questions. Further, information from ED demonstrates that there are cases where environmental training was provided but this was not reflected in the response to the questionnaire. This indicates that, in some cases, it is likely that the survey was not completed by the most appropriate person with the required knowledge and understanding at the FIs relationship with EBRD.

3.2.2 Feedback on the Survey

At the end of each consultation / questionnaire, the 147 FIs were asked whether the survey was useful; and the fact that over 50% of FIs thought the survey was useful shows that there could be benefits if

EBRD stepped up communication with FIs on environment. An assessment of the usefulness of the survey method is provided in Box 3.

Box 3: Assessment of Survey Method

The use of web-based survey tools has major advantages in surveying a large number of stakeholders because it generates a larger and more representative sample than could be reasonably obtained through direct evaluation methods and site visits. In addition, the data are entered into an analytical database, which therefore saves much time. Web-based tools have potential future applications for EBRD, and the following points are noted in relation to this survey of FIs:

- It was important to start with accurate contact information for the FIs, particularly the main contact at each FI and his / her e-mail address. This information was not readily available at EBRD when the study was initiated in September 2005.
- It was important for the main contact at each FI to be notified about the survey by a familiar contact at EBRD (usually the OL).
- The FIs that had not responded were chased by the OLs in EBRD. For the first batch of surveys sent out to 117 FIs, 41% had responded within 2 weeks and a further 22% responded following the reminder e-mail.
- Few FIs (about 10%) out of those completing the survey in Russia/NIS/ETC countries took advantage of the option to complete the survey in Russian.
- Only five FIs had technical problems with the web link, thus the technology did not present a problem.
- The use of web-based surveys provides EBRD with opportunities for future consultation and reporting by FIs, and, as more businesses in COO link to the web, it might in future provide an opportunity for surveying loan officers and environmental staff at FIs and potentially even at the level of sub-projects.
- In addition, such methods could be considered and tested as a mechanism for annual environmental reporting by FIs.
- For future surveys, it is important that EBRD ensures that the survey reaches the right person at each FI, who has the knowledge and understanding to answer appropriately.

4. Analysis and Findings

This section presents the analysis of the survey results and the major findings in response to the following questions:

- How effective is EBRD in implementing its environmental policies / procedures for FIs?
- How effective are the FIs in implementing EBRD's environmental policies and procedures?
- How effective are the sub-projects in implementing EBRD's environmental policies and procedures?

Each section first provides a summary followed by specific results to support the conclusions reached.

An overall assessment of EBRD's Environmental Policy and Procedures for FIs is then provided, with recommendations for changes to the approach to implementation of the Policy and Procedures.

4.1 How effective is EBRD in implementing its environmental policies /procedures for FIs?

The EBRD portfolio of FIs has grown in number of clients (EBRD has over 600 active projects with over 300 clients), types of projects, and particularly the number of sub-projects (measured in tens of thousands when micro loans are included). Based on the findings from the 147 FIs consulted, the environmental mandate is being effectively implemented for the FI portfolio by the majority of FIs. There are cases of non-compliance at FIs with EBRD's environmental requirements, and there are some parameters for which a widespread improvement across many FIs would be beneficial (e.g. the appointment of an employee with formal responsibility for environmental risk management). Overall, in the cases where there is a major non-compliance, the FI's portfolio of sub-projects appears to be mainly low risk. However, the system as designed is mainly tracking low risk projects and, for the most part is an expensive operation with limited value as measured by *Environmental Change*.

Overall, the findings from the 117 responses to the survey could be a concern, because performance appears to be lower than expected for many parameters. However, the field visits and interviews demonstrated that, in practice, performance is better than the survey implies. The equivalent answers in the field visits and interviews, where the respondent had a much better explanation and understanding of the background to each question, were much more positive than those in the survey. Put another way, the respondents to the survey questionnaire were more self critical than the evaluation findings from the site visits.

One of the shortfalls in implementation of the environmental mandate through FIs relates to bank equity projects. EBRD has bank equity projects with 46 FI clients (plus equity in about 20 non-bank institutions). At least 25% of these clients are not implementing EBRD procedures throughout all business activities, as required, and in practice this is likely to be much higher than 25% of these FIs.

It is positive that 97 of the 147 FIs consulted (66%) have improved their environmental procedures as a result of EBRD's requirements or adopted environmental procedures, having not had any before their first project with EBRD.

Although the EBRD is generally implementing its environmental mandate through FIs to good effect, there are several aspects to the approach that could be improved to increase the effectiveness and efficiency of implementation, and recommendations are presented later in this section of this report. Although the size of the FI portfolio has shown major growth, the resources in the Environment Department at EBRD have not grown in a similar proportion. As a result, ED is only able to focus on a management system, or "tick-the-box" approach, and is unable to proactively generate *environmental change*. Although more resources in ED are needed, there is now potential for more efficient use of the existing resources. For example, the market has changed in EBRD's countries of operation with respect to enforcement of environmental regulations, and "one approach for all countries" is no longer the most efficient way of implementation. Different approaches could be adopted for EU countries and ETC countries, which would focus resources on the potentially higher risk relationships. It is important for the FI and ED teams to review the prioritisation of efforts related to the environmental mandate, and recommendations on this are also provided.

Key Points: ***How Effective is EBRD in Implementing its Environmental Policies / Procedures for FIs?***

- Based on the findings of the consultation with FIs, EBRD is implementing its environmental mandate effectively through its FI portfolio, although some aspects need urgent attention and improvement (for example for those FIs in which EBRD has equity).
- Implementation of the environmental mandate through such a large and varied portfolio presents a major challenge and reallocation of existing resources and/or additional resources are needed in the Environment Department to enhance environmental monitoring where it is most needed, i.e. ETC countries and high risk projects.
- The efficiency of implementation can be strengthened in some areas. For example, the "one shoe fits all" approach is no longer appropriate as countries have matured, and EBRD can and should focus its limited resources on non-EU countries (particularly Russia / NIS / ETC).

4.1.1 Environmental Aspects of the Preparation of Agreements with EBRD and FIs

Box 4 illustrates environmental considerations and actions in the steps to project agreements between EBRD and FIs. The OLs review the environmental risks and the environmental management methods at the client during the planning of a project. OLs then contact the Environmental Specialists in ED for advice on certain issues. Comments on the process are contained within the Box and discussed further below.

4.1.2 Tools for Environmental Risk Management provided by EBRD

The Environment Department at EBRD has developed an Environmental Risk Management Manual, which includes items such as:

- EBRD Environmental Policy
- Model environmental procedures for various types of sub-projects
- Sub-sector environmental guidelines
- Generic presentation on environmental issues and environmental management.

The manual is available on the EBRD web site and as a CD-ROM, which is about to be re-distributed to FIs having recently been updated. The manual has been translated into several languages. 53 of the 147 FIs consulted (36%) stated that they have received the CD-ROM, and 60 of the 147 FIs consulted (41%) stated that they had downloaded the manual from the website. 66 FIs stated that they had incorporated the environmental components of the manual into their environmental appraisals of clients.

During the site visits and interviews, there was positive feedback on the manual. However, only about half of all the FIs consulted overall seem to be aware of the manual and have incorporated some of the guidance into their activities. Given that those that are using the manual are finding it very useful, but a smaller than expected proportion of FIs are using the manual, it is very important for ED to remind FIs about the manual, its uses and benefits.

Box 4 - Environmental Considerations and Actions in the Steps to Project Agreements between EBRD and FIs and Project Implementation

Step	Main Outputs
1. Concept Review	**Concept Review Document**
2. Final Review	**Final Board Paper Key legal documents / agreements**
3. Board Approval	
4. Board Signing	
5. Project Implementation, Monitoring, Evaluation, and Closure	**EBRD Monitoring, Evaluation, and Closure Reports plus FI AERs.**

Considerations on Environment

At Concept Review stage the OL contacts ED for identification of potential environmental issues to consider during due diligence. ED also assigns an environmental classification to the potential project of A, B, C or FI (all the projects related to this study are classified FI).

The Environmental Summary (ES) document is prepared by ED and submitted to OpsCom. The ES takes into account the types of sectors covered by the FI's portfolio of clients.

At Final Review ED updates the Environmental Summary which takes into account the conclusions on environmental aspects in the due diligence of the FI, and includes environmental provisions that EBRD requires the FI to implement. These provisions are also included in the legal agreement. Usually, these are prepared in London without the advantage of a site visit by ED staff. ED also provides the OL with the text for Section 3.3 of the FRM and the Board Document.

The typical procedure for environmental aspects related to project documents is for the OL and legal team to include standard text on covenants into the legal Agreement, and they will then ask the Environment Department to check the draft Agreement. Given that it is unlikely that ED staff will have visited the client, it is possible that these documents do not fully capture all aspects of the project and there tends to be reliance upon standardized templates. OGC staff expect ED staff to modify the templates as appropriate, but ED staff are reluctant to do so (but may do so when necessary). (The FI template has been updated as lessons are learned.) The result is often very similar language in one Board Document / Operations Report to the next and similarly in the key covenants etc. This is contrary to the "know your client" approach to sound banking.

During implementation the FI is required to provide an Annual Environmental Report (AER), which the OL should pass to ED for review and approval. ED provides training and carries out monitoring visits to some FIs, where funds are available. ED raised travel funding as a constraint, but the FI Banking Team indicated that to their knowledge they had always responded positively to ED's travel requests. Travel costs are shared between the two teams and therefore the constraint seems to be on the ED budget. More clients and subprojects were visited as part of this study than ED normally visits in a given year, indicating the potential for increased environmental field monitoring.

The majority of communication from ED with the FI is through the OL, rather than direct to the Environmental Officer in the FI (if it has one appointed).

4.1.3 Communication and Monitoring by EBRD on Environmental Aspects

In general, based on the information from the surveys and visits / interviews, the number of monitoring visits to FIs by environmental specialists in ED was lower than expected, and communication with FIs about the environment was less frequent than expected.

27 of the 147 FIs consulted stated that they had received a monitoring visit by an environmental specialist from the EBRD's Environment Department. However, cross-checking from ED indicated that the actual number of FIs that have received monitoring visits is 41, which is still only 28% coverage. Although the number of monitoring visits has increased recently, there are a much lower number of visits than expected, with typically between 2 and 4 countries visited per year. In addition, the majority of visits have focused on Central and South-Eastern Europe, whereas the FIs in Russia / NIS / ETC countries would benefit the most from monitoring visits in terms of environmental risk management, and should be a higher priority. ED is planning a monitoring programme for FIs in the Balkan countries using external consultants in 2006, (again the emphasis is on CEE and SEE countries rather than NIS and ETC countries).

ED has a risk assessment and triage approach to project monitoring, which gives higher priority to Category A projects and environmentally high risk project. From a project-by-project perspective, most FI projects would be classified as low risk, thus not justifying site visits, given ED's limited staff resources. However, the majority of FIs have more than one operation with EBRD and in a few cases the number of operations reached double digits. Further, EBRD's largest single relationship is with Raiffeisen Bank – spread over several countries. If ED took a relationship approach, not only would their leverage increase, but several of the relationships would no longer be classified as low risk and thus additional monitoring travel could be justified. By taking a relationship approach, as each operation is approved, it would build on and support existing agreements between EBRD and the client. This approach also offers greater efficiency in managing the Bank's FI portfolio. While there may be Chinese wall issues for banking, no such conflict should exist for ED.

Based on the visits of the Evaluation Team to FIs, it was observed that the monitoring visits of ED are having a positive impact on the attitudes, awareness and performance of FIs in implementing environmental procedures. The monitoring visits are useful for building a relationship between the environmental specialist in ED and the environmental officer at the FI, and opens opportunities for direct future communication if there are enquiries on the environment. The environmental officers at the FIs in Romania, which had received monitoring visits within the previous year, had a high understanding of the methods and benefits of implementation of the procedures and a much higher confidence in decision-making on environmental actions.

At most FIs, the person with responsibility for environmental risk management has a banking background, rather than a technical / environmental background. It was noted during the visits that some of these people lack the confidence to make decisions on environmental screening. Increased communication from ED directly with these people at FIs, as well as increased monitoring visits, will help to build their confidence and demonstrate to them that they have support if needed.

The OLs at EBRD are required to produce a Monitoring Report on each FI deal every 6-12 months, and they visit the FIs at least once a year in preparation of Monitoring Reports. This presents a good opportunity for basic monitoring of environmental performance. 48 of the 147 FIs consulted (33%) stated that the EBRD bankers sometimes discuss environmental aspects when visiting, amongst other topics, and 44 FIs stated that EBRD enquires about environmental aspects, but only in correspondence. 26 FIs stated that there is no monitoring by EBRD on environmental aspects. In discussions with OLs, it was apparent that they would benefit from additional environmental training, which would help them to identify environmental risks and monitor environmental performance. The training would also demonstrate to them that these tasks are not a large amount of extra work, and would simply involve a few additional questions and a site walk-through during visits.

4.1.4 Annual Environmental Reports

All FIs are required to submit Annual Environmental Reports (AERs) to EBRD, and loan disbursements cannot be made until these reports are submitted. EBRD provides a template for AERs as an annex to the environmental procedures. 119 of the 147 FIs consulted (81%) state that they provide an AER to EBRD (note that some FIs have not submitted an AER yet because their first deal with EBRD was signed less than one year ago). 86 of these FIs stated that they use the template provided by EBRD in the environmental procedures. More detailed questions on AERs were asked during the interviews / visits, and the AERs were reviewed in detail for most of those FIs interviewed / visited. The following points were evident from the assessment:

- The majority of FIs questioned stated that the template for the AERs was useful.
- Many of the AERs were a high standard and there was an appreciation at some FIs that this was not just a reporting process, but a useful way for the FI to monitor its own environmental risk management.
- 15 of the 30 FIs that were interviewed / visited stated that they had received no feedback from EBRD on the AERs.
- In some cases the AERs are very similar in wording each year (for example, for one fund, the detail of the AERs has reduced over 4 years and the 2003 and 2004 AERs were identical in wording except the date).
- There were only 2 cases where the FI stated that it perceives the AER process as a burden. However, for FIs with many small and low risk loans (e.g. small/micro-finance) it is not clear if the reporting is adding value.
- It would be useful to add a section in the AER to enable FIs to provide feedback and suggestions to EBRD.
- A section could be added to the AER for FIs to provide information on whether EBRD's environmental procedures are implemented under all FI activities or just some FI activities (e.g. specific credit lines).
- Finally, the AER report structure is process oriented and informative about the number and environmental categorization of FI sub-projects, but does not allow an assessment of the "environmental footprint" of the individual FI portfolio.

The fact that so many FIs stated that they had not received feedback from EBRD on the AERs is a potential concern. ED may have provided positive feedback to the OL who failed to pass this onto the FI or if the OL did so, it may not have reached the environmental officer who drafted the AER, while negative feedback is almost always effectively communicated. This accidental screening leaves a negative impression when it may not be intended. As discussed below, one approach to overcome this problem would be to establish formal links between ED staff and their counter-parts within the FIs.

The lack of feedback is a concern because this provides the potential for FIs to be lax and simply produce a similar AER each year, without assessing the real environmental risks / performance at the time. Many FIs are providing similar AERs each year, which is potential evidence of this point. If FIs receive feedback from EBRD on the AERs, whether positive or negative feedback, then this will encourage them to continue to consider environmental risks in future years in the knowledge that EBRD's Environment Department is monitoring and supporting them. When spread over 600 plus active projects, the task for ED is onerous. Taking a relationship approach could help reduce the paper flow.

4.1.5 Communication

The above findings demonstrate the positive impact of monitoring visits, and the potential negative impact of the lack of feedback on AERs. This shows the importance of communication between the Environmental Specialists in ED and the people with responsibility for environmental risk management (the Environmental Officers) in the FIs. In cases where the Environmental Specialists at

EBRD have built a strong relationship with the Environmental Officers at FIs, then the environmental risk management at the FIs appeared generally better. However, for the majority of the FI portfolio the route of communication from the Environmental Specialists in ED is via the relevant OL.

During the interviews / visits FIs were asked to summarise the overall communication on environmental aspects with EBRD. It was evident that there is generally minimal communication except, in some cases, at the time of the AER when EBRD has a query. In addition, although a 62% response rate could be considered higher than expected for this study, the fact remains that nearly 40% did not respond despite the request being made by the OL. As most FIs are required in the agreements to report any requested information to EBRD, this response rate could in fact be considered to be inadequate.

4.1.6 Resources at EBRD for Monitoring and Support

Out of a Department of 18 professionals, there are 8 Environmental Specialists at present working on monitoring and support of FI environmental performance. However, these specialists are not working full-time on FIs, and their combined time on FI projects is equivalent to 3 full-time specialists. The majority of the work in ED relates to the higher risk major investment projects of EBRD.

The main problem for EBRD related to monitoring the environmental performance of its FI portfolio is the limited resources available for the tasks. The portfolio has been rapidly growing, but the number of Environmental Specialists in the ED team that are responsible for monitoring and supporting projects with FIs has not grown in proportion. Although there are several aspects of the work of the ED team identified in this report, which could be changed to improve their approach for FIs allowing them to focus on the higher priorities (e.g. less focus on FIs in the new EU countries), the resource issue needs to be addressed by EBRD Management if ED is to monitor the FI portfolio properly. In addition, this problem means that the Environmental Specialists are only able to try to monitor compliance with procedures, and do not at present have the extra time to take actions to pro-actively encourage change. This is unfortunate as in the few cases where staff had been asked for technical support, they got extremely good feedback on the value of their contribution to the FI.

4.2 How effective are the FIs in implementing EBRD's environmental policies and procedures?

The results and analysis demonstrate that, overall, the FIs are generally implementing EBRD's environmental procedures. 89% of those FIs consulted are using the Exclusion and Referral Lists, 65% are using the Risk Categorisation List, and 46% have appointed an employee with environmental responsibility in the country. Based on the data from the consultation, such as the percentage of FIs using the Exclusion and Referral Lists and the Environmental Risk Categorisation List, there is minimal difference in performance between FIs in EU countries and other categories of country.

Based on the visits / interviews with 30 FIs, it is concluded that the driver for implementing the environmental procedures is the management of environmental risks, rather than influencing sub-projects to implement positive environmental improvements. Most FIs that were visited / interviewed stated that they do not invest in high risk projects. Environment is a screening tool to eliminate high risk projects, not an opportunity to assist in the transition to a safer cleaner environment. In addition, most FIs focus on the compliance of sub-projects with environmental regulations – over 70% of the 147 FIs consulted stated that they specifically require sub-projects to comply with environmental regulations in their agreements with their clients. However, only 30% of the 147 stated that they pro-actively encourage and promote good policies on labour issues (e.g. child labour, discrimination), waste minimisation and energy efficiency, or health and safety management. Although there is a limited focus of FIs on influencing environmental change at their clients, during the visits and interviews several FIs expressed an interest in potentially working with EBRD to identify investments that specifically focus on environmental improvements.

About half of the FIs that were consulted use EBRD's environmental risk management manual, and most FIs visited / interviewed specifically stated it was useful. 52 of the 147 FIs stated that they had received environmental training related to the EBRD projects. However, the key point is to ensure that the tools and the knowledge from training are widely disseminated and used by the relevant staff of the FIs (e.g. loan officers). These staff are the ones in the front-line and offer the greatest opportunity to influence sub-projects. Increasing their understanding on environment is important. It is difficult, however, for EBRD to focus on this without visits to the FI for training and monitoring.

Key Points: ***How Effective are the FIs in Implementing EBRD's Environmental Policies and Procedures?***

- Most FIs are implementing EBRD's environmental procedures to help them to manage their environmental risks, and it is important for ED to follow up with those higher priority FIs that are not implementing the procedures.
- Increasingly sub-projects are moving beyond the category of small and medium enterprises, especially under and equity funds, which increases their vulnerability to environmental risks and liabilities.
- The driver for implementation by FIs is to manage risks through ensuring that the sub-projects are in compliance with regulations, rather than pro-actively trying to influence positive *environmental change*.
- Training and monitoring of FIs, and the risk management manual, are having a positive impact on the environmental performance of FIs, although fewer than expected have received the manual, training and monitoring visits.

4.2.1 Environmental Performance at FIs

The 30 FIs that were visited / interviewed were rated according to the rating scheme used by the EBRD Evaluation Department[5], with the following results:

- none of the FIs had excellent environmental performance
- 12 (40%) of the FIs had good environmental performance
- 12 (40%) of the FIs had satisfactory environmental performance
- 5 (17%) of the FIs had marginal environmental performance
- 1 (3%) of the FIs had unsatisfactory environmental performance
- none of the FIs had highly unsatisfactory environmental performance

These results mirror image the past evaluation results (Box 2). 9 of the 30 FIs that were visited /interviewed had received a monitoring visit by an Environmental Specialist from EBRD. 4 of these were rated as good environmental performance and the rest satisfactory, indicating that EBRD Environmental Specialists add value when making site visits. This finding was substantiated by the positive feedback received by the FIs visited.

142 of the 147 FIs consulted responded about the importance of environmental risks to their institution, which provided the following responses:

- 30 FIs stated that environmental risks are "very important to our business"
- 62 FIs stated that environmental risks are "important, but not a priority"
- 45 FIs stated that environmental risks are "only important for some areas of business"
- 5 FIs stated that environmental risks are "not important"

4.2.2 Implementation of EBRD Environmental Requirements at FIs

98 of the 147 FIs consulted (68%) stated that they have implemented environmental procedures. 36 out of the 98 FIs that have adopted and implemented the procedures indicated that their environmental procedures have been improved as a result of EBRD requirements. In addition 61 out of the 98 FIs did not have procedures before the project with EBRD and have therefore improved their environmental

[5] As defined in the 2004 EBRD Evaluation Policy.

risk management. Therefore, EBRD has influenced 97 of 147 FIs (66%) to develop / improve environmental procedures, which is a further indication that *Environmental Change* is more significant than as indicated by past evaluation results (Box 2).

The various projects with the FIs have different environmental requirements in the Agreements and it is not possible from the survey analysis to state exactly how many FIs are complying with the requirements. However, overall analysis of the consultation indicated that 43 out of the 147 FIs (29%) that were consulted have strong environmental management practices (Table 4.1). This analysis is based on responses related to the four main parameters that provide an indication of good implementation of environmental risk management practices:

- Implementation of environmental procedures (which includes compliance with local environmental and social laws and regulations)
- Responsibility for environmental risk management
- Use of the Environmental Exclusion and Referral List
- Use of the Environmental Risk Categorisation List

These are the EBRD requirements as per 1996 Environmental Policy, except for the appointment of an environmental manager, which became a policy requirement in 2003. In principle, those FIs that state that they comply with these four factors do not necessarily have good environmental performance, because they would also need to carry out appraisals for high-risk sub-projects, need to ensure all loan officers understand and implement procedures, etc. However, these parameters do provide a good indication of FIs that are likely to fully understand and implement the environmental requirements.

Although Table 4.1 indicates that only 29% of the FI clients have strong environmental risk management practices, in reality, the visits and interviews have shown that many FIs that do not formally comply with some of these EBRD requirements still have good practices.

Table 4.1 – Overview of Responses for 4 Key Parameters for FIs in Categories of Country

	Total No. of FI Clients (approx.)	**Total Number of FI Clients Consulted**	**Positive Responses to 4 Key Parameters**				**No. of FIs Responding Positively to all 4 Key Parameters**
			No. of FIs Implementing Environment Procedures	**No. of FIs With Env. Officer Appointed***	**No. of FIs Using Exclusion & Referral List**	**No. of FIs Using Risk Cat. List**	
Regional projects	24	9	9	4	7	7	2 (22.2%)
EU	75	41	21	9	35	22	6 (14.6%)
Other CEE/SE	67	41	33	21	34	27	17 (41.5%)
Russia/NIS	84	29	21	16	26	23	13 (44.8%)
ETC	52	27	14	9	21	16	5 (18.5%)
Total	302	147	98	59	123	95	43 (29.3%)

In the above analysis, for those FIs in which EBRD has bank equity, a positive response to the question on the Exclusion and Referral list has been indicated in the table only if the list is used across all FI activities.
* Although this only became an EBRD requirement in 2003, it was included in the survey of all FIs, including those with projects pre-2003 as it represents good practice

Many of the 95 FIs with international ownership are likely to have requirements for environmental procedures from their parent organisation (see Box 5). The overall environmental performance (based on the four key parameters) indicates that only 32% of the FIs with international ownership have properly adopted and implemented EBRD environmental procedures as required in the Agreements. Although this is only slightly higher than the average, observations when visiting FIs showed that the influence of parent ownership is often significant. EBRD has provided training to parent companies to increase its spread effect, although more follow-up training is needed. The relatively poor performance of FIs with international parents, some of whom are Equator banks, suggests that there are limitations of the Equator concept but also presents an opportunity for EBRD to use the Equator Principles as additional leverage to encourage its clients to adhere to these basic principles.

Box 5: Example Influence of Parent Ownership on the Environmental Performance of FIs

EBRD has lending and non-bank (leasing) projects with one of the Local Banks in a Baltic country. The relationship with this FI started in 2000. The FI has a parent company in Sweden that has stringent environmental procedures and other requirements, including quarterly reporting requirements on environmental risk and social responsibility. Given the good environmental performance of the FI, the parent company requirements, and the higher standard of enforcement of regulation now that the country has joined the EU, this presents an opportunity for EBRD to step down its monitoring and support, and focus on higher priority clients.

4.2.3 Implementation of Environmental Procedures by FIs

The following points (Box 6) summarise the main requirements of the current 2003 EBRD environmental procedures for bank lending and bank equity.

Box 6: Key Requirements of EBRD's Main Environmental Procedures for FIs

The 2003 procedures specify the following requirements of FIs:

- *The Local Bank will conduct its activities with due regard to environmental factors and with the principles of environmentally sound and sustainable development.*
- *The Local Bank's operations must comply with the Bank's FI Environmental Exclusion and Referral List.*
- *Operations supported by Local Bank funds shall comply at a minimum with the health, safety, worker protection and environmental regulations and standards applicable in the relevant country.*
- *The Local Bank will provide periodic reports to EBRD.*
- *The Local Bank will appoint a member of management to have overall responsibility for environmental risk management and implementation of these procedures within the Local Bank.*

The stages in the Environmental Due Diligence (EDD) process are described in the procedures, including screening of potential investments, and provide requirements for EIA or environmental audits of high risk sub-projects, including requirements for actions for risk control and prevention. In addition, the procedures provide the requirements for environmental monitoring and reporting by the FI.

The EBRD Environmental Exclusion and Referral List and Environmental Risk Categorisation List are attached to the procedures as Annexes. Other Annexes mainly relate to guidance for EIAs, environmental audits and EDD reports. Guidance on the structure of an AER is also included in an Annex.

The Evaluation Team finds that these standards are exemplary. They set a standard for local level performance for local banks. As many of the banks within the COO are already Bank clients and therefore adhering, or should be adhering to such principles, the Evaluation Team recommends that the Bank consider establishing (in conjunction with other IFIs and the Equator Principal Banks) an agreed upon set of standards for local banks and encourage its clients to sign up to and to adhere to such basic principles.

4.2.3.1 Implementation of Environmental Procedures for Different Project Types

Table 4.2 provides some results and analysis for specific project types by the four key parameters. However, it is difficult to compare these results for different project types because EBRD has more than one project with many FIs. The main finding related to project types is for equity projects, for which the FIs are required in the Agreements to implement the procedures across all businesses. EBRD has equity investments in 46 local banks. For 35 of these local banks, EBRD also has other projects, such as credit lines. Out of the FIs consulted, EBRD has bank equity projects with 24 FIs. It would appear from the consultation that at least 25% of the FIs are not implementing EBRD procedures across all business activities, but only for the business under the other EBRD projects. However, based on the interviews / visits, it is likely that a higher proportion of the FIs with bank equity projects are not implementing the procedures across all areas of their business.

The equity fund project category has potentially the higher impact at sub-projects. 22 FIs were consulted out of 68 FIs in this project type. Generally the performance was good (e.g. 21 are using the exclusion and referral list, 20 are using the risk categorization list); however, only a few had appointed a specific environmental officer. Although only 11 of 22 equity fund FIs have an environmental officer appointed, 20 of the 22 relationships with these FIs had started before 2003 when the requirement to make an appointment for environmental responsibility was included in the agreements with FIs. These FIs typically have small teams of fund managers that would be expected to all be trained in environmental risk management. The Senior Fund Manager is generally very experienced and has an appreciation that environmental liabilities and concerns will affect the ability to sell the fund's investments at a good price. Despite the strong performance of the FIs that involve equity funds, EBRD should carefully monitor these projects in Russia / NIS / ETC countries. The Evaluation Team noted that some of the sub-projects were larger than other FI sub-projects, arguably larger than small and medium enterprises which is the primary target for EBRD's FI projects, and can involve investments in sectors that carry potentially higher environmental risk, e.g. extractive industries such as oil and gas exploration, forestry operations, and chemical processes. EvD previously raised this as a concern in its Extractive Industry and Power and Energy Sector Reviews. In these cases, one can question if EBRD has set the bar at the correct level and whether requiring EU/WB standards for the larger and riskier investments would be more appropriate.

Table 4.2 – Overview of Responses for 4 Key Parameters for Project Types

Project Types	Total No. of FI Clients (approx.)	Total Number of FI Clients Consulted	Positive Responses to 4 Key Parameters				No. of FIs Responding Positively to all 4 Key Parameters
			No. of FIs Implementing Env. Procedures	No. of FIs with Env. Officer Appointed	No. of FIs Using Exclusion & Referral List	No. of FIs Using Risk Cat. List	
FIs with lending and/or SME finance projects only	133	68	45	25	61	39	16 (24%)
FIs with bank equity projects only	11	3	3	2	1	1	1 (33%)
FIs with equity and another deal	35	21	18	13	17	17	11 (52%)
FIs with equity fund deal only	68	22	19	11	21	20	9 (41%)
FIs with non-bank deal only	39	26	7	7	17	12	5 (19%)
FIs with one deal only (regardless of deal type)	251	114	73	44	97	70	31 (27%)
FIs with more than one deal	51	33	25	15	26	25	12 (36%)

EBRD has "non-bank" projects with 58 FIs, covering activities such as insurance, leasing, etc. About 30% of these projects involve equity in these institutions and some are not implementing the EBRD's environmental procedures across all activities. For example, a Romanian insurance company in which EBRD has equity had not implemented EBRD's procedures. However, many of these project types involve low risk sub-projects (e.g. life insurance, pension funds, etc). Indeed the Evaluation Team felt that several could be more appropriately classified as Category C or FI-C, which in turn would result in less need for the FI to report and monitor on its low / no risk portfolio.

4.2.3.2 Environmental Exclusion and Referral Lists

One of the main EBRD requirements of its FI clients is that they use the Environmental Exclusion and Referral Lists. 128 of the 147 FIs (87%) consulted stated that they use the Exclusion and Referral Lists. In general, unless FIs have other similar requirements from parent organisations, it is good practice for the FI to use the Exclusion and Referral Lists across all business activities, and FIs that take environmental risk management seriously will understand the benefits of doing this. 74 of the 147 FIs (about 50%) use them for all business activities, whereas 54 use them only for activities under the projects with EBRD (e.g. credit lines). 18 of the 24 FIs consulted in which EBRD has bank equity stated that they use the Environmental Exclusion and Referral Lists for all business activities, as required.

Although FIs are required not to finance activities on the Exclusion List, those activities on the Referral List must not be financed without prior written approval from EBRD's Environment Department. 20% of the FIs consulted stated that they had referred a potential deal to EBRD for advice on environmental issues. This reflects the fact that most FIs are investing only in sub-projects with low environmental risk (see Box 7). However the survey instrument did not provide a method to verify whether any FIs were approving projects on the Exclusion and Referral Lists, although the visits presented some opportunities to do this. Past EvD evaluations have identified isolated cases where projects have been approved that should have been excluded, e.g. sale and use of asbestos.

Box 7: Implication of Too Much Reliance on Screening Tools.

One Baltic Bank (part of visited sub-sample) with which EBRD has seven operations including credit lines and equity, commented that while EBRD's environmental procedures had had a significant positive impact on its corporate governance, due to the nature of their portfolio (all assessed as environmentally low risk) they had never been presented with a project which would have violated the Exclusion List, nor had they ever had to refer a project to EBRD. Indeed, they argued that their portfolio would have been unchanged with and without EBRD's environmental procedures and, as local laws and enforcement were the drivers behind good environmental outcomes, there was no impact of the bank's implementation of EBRD's environmental procedures.

However, this bank acknowledged that they did not know how to comply with EBRD's requirements under the equity project, were not applying the procedures across their full portfolio, and requested EBRD assistance. Further, some sub-projects screened as low risk could arguably have been screened as medium risk. Finally, responsibility for all sub-projects under €50,000 had been delegated to local branches and, therefore, were not screened by the appointed and trained environmental officer. Local branch mangers had also received environmental training therefore one can assume that such projects were screened, but as screening was based on project size rather than environmental impact, it is possible that some projects that should have been identified for further environmental review were not being picked up. As a result of this study, ED has committed to taking a closer look to how it handles bank equity projects.

4.2.3.3 Environmental Risk Categorisation List

Another main requirement that is a core aspect of implementation of the procedures is the use of the EBRD's Environmental Risk Categorisation List. FIs are required to screen potential investments into high, medium or low environmental risk, and then to carry out more detailed environmental appraisals for the medium and particularly high risk projects. 95 of the 147 FIs (67%) consulted stated that they use the Environmental Risk Categorisation List.

During the visits to FIs it was noted that several FIs (at least 9 of the 30) are not necessarily categorising the risks correctly. For example, the level stated in some AERs is not the level provided in the Environmental Risk Categorisation List, and the FIs would need to have particular reason to drop the level. It would be expected that ED would follow up on the potential concerns with the categorisation, but 15 of the 30 stated that they did not receive feedback on the AERs. In fact in most cases observed during the visits, there was good reason for the categorisation to be dropped.

In several cases, where sub-projects had involved construction, there had been misunderstandings by the FIs on the categorisation process. For example, for construction of hotels, the categorisation had been rated as low by FIs. They seemed to be categorising the sub-project under "hotel and restaurant" (Code 55) rather than "construction" (Code 45), which in these cases would have been medium risk, mainly because of the health and safety aspects. Given the health and safety risks of construction, particularly in some countries where health and safety practices are weak and regulations are not enforced effectively, this is a point for EBRD to carefully monitor when checking AERs.

4.2.3.4 Environmental Appraisals / Due Diligence

Most of the FIs visited / interviewed stated that the majority of their investment activities are with sub-projects that are low risk, and therefore usually environmental appraisals and due diligence are not necessary. 81 of the 147 FIs consulted stated that they carried out an environmental risk appraisal for major transactions and 77 stated that they develop an environmental due diligence report for relevant transactions (i.e. those that are screened as medium or high environmental risk). 51 of the 147 FIs (35%) stated that they have pulled out of signing potential sub-projects with a client because of various issues, including environmental risks, and 30 (20%) stated that they had pulled out of a sub-project solely because of environmental problems. Only 39 of the 147 FIs (27%) consulted stated that they have employed external environmental experts for reasons other than training.

4.2.3.5 Covenants in Agreements with Sub-Projects

The EBRD environmental procedures require that the "*operations supported by local bank funds comply at a minimum with health, safety, worker protection and environmental regulations and standards applicable in the relevant country*". 103 of the 147 FIs consulted (70%) stated that, in the legal agreements with their clients, they specifically require the clients to comply with local environmental regulations and standards. Out of the 20 FIs interviewed / visited, 90% include this in the legal agreements, again indicating that the real situation is more positive than the survey implies,
Other potential risk control strategies, as indicated in the environmental procedures, that FIs could discuss with their potential sub-projects and incorporate covenants in the agreement, include:

- Agreement with the FI's client to incorporate specific environmental investments.
- Agreement that the FI's client will implement an environmental action plan (EAP) to manage environmental risks and ensure compliance.
- Requirement that the FI's client should take out environmental insurance.
- Requirements for environmental performance monitoring and reporting.

Based on the interviews and visits to FIs, the majority of FIs are only requiring their clients to comply with environmental regulations, and these are generally the only covenants included in the deals between FIs and their clients. Health and safety was identified as a potentially more serious risk factor (see below) than environment (pollution and ecological impacts). Health and safety normally comes under the Ministry of Health rather than Environment, and Ministries of Health are generally recognized as weaker with health and safety being a lower priority. Similarly, core labour standards would normally come under the Ministry of Labour. In informal discussions with some of the FIs visited, while they relied upon proof of environmental permits and most customers could produce environmental certificates, it was not clear that the FIs had considered or requested certificates from other equally relevant Ministries. EBRD's staff and procedures may need to be more explicit in defining the term "environment" to incorporate the full range of environment, health and safety and social impacts as covered under EBRD's 2003 Environmental Policy.

4.2.4 Environmental Responsibility at FIs

The appointment of someone with responsibility for environment is an essential step for any organisation that is serious about managing its environmental risks, and this has been included since 2003 as one of the main requirements of EBRD in the procedures. 68 of the 147 FIs consulted (46%) have appointed at least one employee with this responsibility, although at 9 FIs this employee is within the parent organisation outside the COO in which the FI was consulted. The majority (65%) of the 68 FIs have appointed someone at senior management level (Director or Senior Manager). 54% of the FIs that have appointed someone with responsibility stated that they created this position as a result of EBRD requirements, again indicating that EBRDs *Environmental Change* indicator may not be adequately capturing the full impact of EBRDs influence.

It should be noted that there has not been an increase in the percentage of FIs appointing someone with environmental responsibility since 2003. In fact, since 2003 when the requirement was introduced, 58 of the 147 FIs consulted have signed their first deal with EBRD, but only 35% of these have made such an appointment. This is a cause for concern. Although 54% of the FIs consulted stated that they do not have an employee with overall responsibility, the visits to FIs showed that in practice the situation might be better than this indicates. Out of the 30 FIs interviewed / visited, 66% have appointed at least one employee with environmental responsibility, again indicating that performance at FIs is likely to be better than the survey is showing. In addition, for several of the 30 FIs visited / interviewed; although, there was no formal responsibility for environmental management, there was still good implementation. For example, loan officers carry out the screening and someone in central office (e.g. Head of the Finance Department) checks the environmental aspects of sub-projects. At others that had no formal responsibility, this often seemed to be because the role had been split for projects with different IFIs, and there was no one appointed who had an overview. In many of the 54% of FIs that have not assigned someone with responsibility, it would be an easy step for the FI to meet this formal requirement.

The appointment at FIs with someone with responsibility for environment is also important as this person can provide a valuable communication link with the Environment Department regarding EBRD tools, AERs and other enquiries and is a natural coordination point for environmental training.

4.2.4.1 Environmental Training

86 of the 147 FIs consulted (59%) stated that they have received training on environmental risk management, although nearly 20% of those responding did not answer this question (see Box 8). 52 (60%) of these FIs stated that the training had been provided by EBRD. However, the cross-checking of the EBRD Environmental Specialists noted that the correct figure is that 73 of the FIs have received training from EBRD. (This may indicate that the person completing the questionnaire was not knowledgeable or that the impact of the training had been significantly diluted through staff changes etc.) One of the most important aspects of the training is that the knowledge and practices are disseminated to all relevant operating staff (i.e. to the loan officers that are in the field regularly assessing potential sub-projects). It is also important that training takes account of the fact that many FIs have a high turnover of staff and, when staff leave and new staff are recruited, that there is continuity in environmental risk management practices. To fully integrate environmental training into FI activities, EBRD could consider working more closely with the training unit in the FI on their core training courses covering all aspects of banker training, with environmental training fully imbedded into the FIs overall staff training programs rather than as an isolated specialized activity. Further, the Bank may wish to create an Environmental Trainee "alumni group" to allow for mutual support and cross sharing. The Study did not identify any situations where there was cross sharing among EBRD FI clients, but this could be occurring on an informal basis.

Based on the training provided to those 147 FIs consulted, the amount of training has increased since 2001, although Russia / NIS countries have not benefited from much training compared to other countries.

Box 8: Types of Environmental Training Provided to FIs

- *Specific training to individual FIs* – generally involves working with the FI to help them to develop / improve environmental procedures and then a train-the-trainer approach to implementation. The training is likely to involve a visit to the FI of the environmental training consultants and / or EBRD staff for about 3 days, and will typically include a half-day workshop for loan officers. This is more effective than the general training (below) but also much more expensive per FI.
- *General training to several FIs at the same time* – this involves training to a small number of representatives from several FIs. It is not as effective as the specific training (above) because it cannot be tailored to the needs of individual FIs, but it is much cheaper per FI and, if planned correctly, can still take the format of training-the-trainer to help the FIs spread the knowledge and practices so that procedures are used by the loan officers in the branches.

Both types of training benefit if regular follow-up / communication is provided after the courses to support FIs in implementation. As well as this formal training, the role of informal training of Environmental Officers at FIs during monitoring visits is important. Creating an alumni network could enhance the longer-term benefits of the training.

In the majority of cases the training is provided only to a few staff, and it is important that the knowledge and good practices are passed onto all operating staff, who are the ones assessing the risks of potential sub-projects. In these cases, training that takes the format of train-the-trainer, has major advantages. 77 of the 86 FIs that stated that they had received training also stated that they ensure that training is disseminated within the institution by those with responsibility for the environment so that all relevant staff have the necessary capabilities to implement the environmental procedures.

4.2.4.2 Monitoring Environmental Performance of Sub-projects

Monitoring by FIs of the environmental performance of sub-projects is a particularly important aspect of environmental risk management, particularly in countries where enforcement of regulations is weak. The EBRD environmental procedures *suggest* that FIs monitor the environmental performance of sub-projects.

110 of the 147 FIs consulted stated that they monitor their clients in relation to environmental risk management. 67 of these stated that they only do this for those clients with a major environmental risk. Out of the 110 FIs that monitor clients, 81 FIs stated that they monitor their clients' environmental performance through visits to their sites, and 25 stated that they monitor performance through a reporting system rather than visits.

4.2.4.3 Health and Safety and Social Aspects

Since 2003, the EBRD environmental procedures clearly define "environment" to incorporate "*not only ecological aspects, but also worker protection issues (health and safety, harmful child labour, forced labour and discriminatory practices) and community issues, such as cultural property, involuntary resettlement, and impacts on indigenous peoples*". It was apparent from the visits and interviews that 12 of 30 FIs put more focus on environmental pollution aspects than health and safety and social aspects. The visits to sub-projects confirmed that health and safety and working conditions should be considered by many FIs as important as environmental pollution aspects. However, the use by EBRD of the term "Environment" to encompass all these issues is causing misunderstanding at FIs and less focus on the issues that are probably of most importance at many FIs and their clients (i.e. health and safety), (See Box 9).

98 of the 147 FIs consulted said that they have an "Environmental" policy, but for only 46 of these the policy covers environmental issues and occupational health and safety and social aspects (i.e. for many FIs the policy only covers environmental pollution). Although some FIs might have had misunderstandings on this question in the survey, this finding was backed up by the field observations and demonstrates that there is a need for EBRD to raise awareness of FIs on health and safety and social aspects.

There would be benefits if EBRD were to encourage FIs to develop and adopt an overall policy, covering environment, health and safety, and social aspects, helping to raise the profile of all these aspects with stakeholders of the FIs. The environmental policy for FIs should not only address portfolio issues, but could also address internal environmental issues of the FI – i.e. similar to EBRD's approach. Currently the EBRD approach to environment for FIs does not look at the internal activities (i.e. working conditions, buildings, waste management, transportation, etc.) of the FI, only at their subprojects. As many of these FI are large organizations in their own right (with over 500 employees) and with many branches, they may have a significant environmental footprint.

Box 9: Examples related to Health and Safety and Social Aspects

At many sub-projects visited, environment, health and safety and social aspects are low risk. At some that were visited, for example a food processing plant and a paper production plant in CEE countries, environmental pollution aspects are potentially a higher priority risk to the company than health and safety aspects. However, at several sub-projects visited, health and safety aspects present a high risk, for example:

- Manufacture of metal products (CEE) involving use of cutting and machining tools, as well as welding activities.
- Construction activities, including working at heights (CEE, ETC).
- Long distance road transport of goods (ETC)
- Storage of heavy goods on high shelving in warehouses (CEE/SE)
- Open quarrying using explosives (ETC)
- Exposure to toxic chemicals, paint fumes, etc.

Several FIs stated during visits / interviews that they focus more on environmental aspects than health and safety and social aspects, including:

- One FI in CEE stated that it focuses on environmental aspects and relies on compliance with legislation for health and safety, but one of its clients had a fatal accident because of poor working practices at the client.
- One FI in the Baltic countries stated that their procedures cover environment only, not health and safety or social issues, although loan officers integrate these issues into credit risk management.
- One FI in CEE has developed a questionnaire that loan officers use at visits to potential clients during deal preparation, but the questions only cover environmental aspects, not health and safety or social aspects.

However, EBRD's relationship with one FI in former Yugoslavia is a good example related to positive implementation of procedures covering health and safety and social aspects as well as environmental. Prior to the first deal with EBRD, which was signed in 2000, the FI had implemented similar procedures to EBRD's, as required under projects with the World Bank. However, the World Bank procedures focused on environment, and not on health and safety and social issues. The FI has implemented the EBRD procedures to a good standard, and stated that they have helped the FI to manage its risks because health and safety and social aspects are now included in credit risk assessments. The FI stated that it has noted improvements to health and safety performance at some sub-projects as a result of its influence, for example increased use of PPE, and this can be directly linked to the FI expanding its procedures to include health and safety and social issues as a result of the covenants in the project with EBRD.

4.2.4.4 Publication of Information by FIs

It is stated in the environmental procedures that "*EBRD encourages FIs to disclose, to their external stakeholders, information on how the FIs address environmental issues in their business and operations*." Some FIs provide a general statement on their environmental policy and activities in their annual report. However, 101 of the 147 FIs consulted (69%) stated that they do <u>not</u> disclose information on the environment.

EBRD provides useful information on its website on many FI projects. This includes a statement on the environmental aspects of the deal and the environmental requirements of the FI. However, the text is very similar for many (but not all) projects. In addition, the text is often unclear whether the FIs will implement the environmental requirements across all business activities or just the activities related to the EBRD deal (e.g. credit line). It is important that the text on environment is tailored as necessary in these statements. Again, a "relationship" approach could enhance transparency.

4.3 How effective are the sub-projects in implementing EBRD's environmental policies and procedures?

A large number of FIs are using the Exclusion and Referral List and the Environmental Risk Categorisation List. Most of the 30 FIs visited / interviewed stated that they do not invest in high risk projects, and several stated that EBRD has had some influence on this policy. Overall, the EBRD procedures have had a positive impact on the make-up of the sub-project portfolio as EBRD has influenced the FIs to assess the potential risks. Based on discussions in the visits and interviews, and a review of some AERs, the sub-project portfolio comprises mainly low risk projects. The Evaluation Team accepts that its sample of sub-projects is minimal and may not have fully captured the full picture with respect to sub-project performance.

Out of the 30 sub-projects that were visited, all except one appeared to be compliant with health, safety and environmental (HSE) regulations. This sub-project has an Environmental Action Plan (EAP) to improve performance in order to comply with regulations. However, at two of the sub-projects visited, which had the permits required by regulations, major potential health and safety risks were observed.

It is concluded from visits to FIs and sub-projects that the environmental management at sub-projects is driven mainly by regulation, rather than the influence and requirements of FIs. Most FIs include requirements for compliance with environmental regulations in their agreements with sub-projects, and many FIs that were visited clearly follow-up with sub-projects and require evidence of permits and compliance. This approach is now sensible environmental risk management in EU countries, where EU regulations have been implemented and enforcement is now effective. However, an approach which relies on regulations remains risky in non-EU countries where enforcement of regulations is much weaker, particularly in ETC countries. EBRD should focus more effort on FIs in non-EU countries and encourage these FIs to undertake monitoring activities that go further than just checking permits and other regulatory documents. During due diligence EBRD staff should also assess environmental regulatory and enforcement capacity. In selected EU countries, on a pilot basis, EBRD could consider devolving its environmental monitoring responsibilities to local environmental authorities (who are doing it anyway) and Banking Supervisor Authorities in the pilot test cases, which would further support their capacity development and integration into the EU. Extensive annual reporting about low risk projects is not adding value and most likely is not picking up the few high risk projects, which might even be masked by the numbers of low risk projects.

In general, EBRD's procedures have had limited impact on *environmental change* at sub-project level. Some of the sub-projects that were visited stated that, by regularly checking their compliance with environmental regulations, the FI has raised their awareness of environmental issues.

Key Points: ***How Effective are the Sub-Projects in Implementing EBRD's Environmental Policies and Procedures?***

- EBRD's environmental mandate has had an impact on the make up of the sub-project portfolio as most FIs invest only in sub-projects with low environmental risk. However, this may not be the case for equity funds, where the sub-projects may be larger and may be in higher risk sectors. For these projects, EBRD should consider raising the bar to EU/WB standards.
- The focus of FIs on monitoring evidence of compliance with regulations (e.g. permits) is appropriate in EU countries but is risky in non-EU countries.
- There has been limited positive *environmental change* at sub-projects resulting from EBRD's environmental mandate.
- The silent partner is the local environmental regulator. Effective enforcement is the driver to effective environmental compliance at the sub-project level.

4.3.1 Environmental Performance of Sub-projects

A total of 30 sub-projects were visited during the evaluation assignment, and these varied in type of activity, including shops, markets, hotels, construction, metal products, pharmaceuticals, food processing, paper, open quarrying, petrol and gas distribution, central heating installation, and financial services. A weakness of this study was a limitation of the number of sub-projects it was possible to visit. However, even if the number of sub-project site visits had been increased ten-fold statistically this will still be insignificant. EvD recognizes that this is a limitation of the study. The 30 sub-projects that were visited were rated according to the scheme used by the EBRD Evaluation Department, with the following results:

- 2 of the sub-projects had excellent environmental performance
- 6 of the sub-projects had good environmental performance
- 17 of the sub-projects had satisfactory environmental performance
- 4 of the sub-projects had marginal environmental performance
- 1 of the sub-projects had unsatisfactory environmental performance
- None of the sub-projects had highly unsatisfactory environmental performance

Most FIs (70%) are including covenants in their agreements with their sub-projects to require the sub-projects to demonstrate compliance with environmental regulations (e.g. provide copies of permits). Many FIs (about 55%) are proactively monitoring this requirement by checking documents at the higher risk sub-projects at least once per year. In addition, at some FIs the loan officers are raising awareness at the sub-projects on general environmental practices. However, in most cases the FIs are doing no more than this monitoring of compliance and raising awareness. FIs lack the capacity to offer technical engineering and environmental assistance and seldom make use of environmental consultants.

Out of the 30 sub-projects visited, only one was observed to be non-compliant with regulations, and this one was implementing an environmental action plan (EAP) to bring its performance up to compliance standard. Apart from this sub-project, no major environmental, health and safety or social issues were observed at most sub-projects, and many have negligible environmental risks. No major difference in environmental performance was observed between countries.

At two other sub-projects, poor health and safety practices were observed. These companies had the required permits, and officially complied with regulations but there were still major health and safety risks. See Box 10.

Box 10: Case Example of where Compliance with Regulation Does Not Necessarily Mean Good Practices

One of the sub-projects visited in Former Yugoslavia was an SME that processes recycled plastics. The company has all the necessary environmental, health and safety permits. However, there were major health and safety risks observed at the site, in particular related to the untidy and unorganised storage of large quantities of waste plastics in different areas of the site. These present major potential fire risks. The Company does not yet have any emergency procedures or an action plan for dealing with a fire or similar event.

This simple case demonstrates that the evidence of permits and other documents to demonstrate compliance with regulations does not necessarily mean good practices are being implemented. In many of EBRD's countries of operation, monitoring and enforcement by local regulatory authorities is weak, and the system of obtaining permits is sometimes inappropriate.

4.3.2 Environmental Change at FIs and Sub-projects

The EBRD procedures encourage the "*identification of opportunities for environmental benefits*." The procedures state that these technical measures might include "*raw material or energy savings, waste minimisation and cleaner production*." Visits to a total of 17 FIs and 30 sub-projects were carried out in November and December 2005. In addition, another 13 FIs were interviewed by telephone. The EBRD Evaluation Department's rating system has been used to assess the performance of FIs and sub-projects related to environmental change. For this study the rating system was changed to provide greater clarity by splitting the "none" and "negative" category (note the high percentage in this group in Box 2).

Based on the interviews with FIs by telephone and during visits, the FIs rated as follows in terms of environmental change:

- Outstanding - no FIs
- Substantial - 9 FIs (30%)
- Some - 17 FIs (57%)
- None - 4 FIs (13%)
- Negative - no FIs

Based on the meetings and site visits at the 30 sub-projects, these rated as follows in terms of environmental change:

- Outstanding - No Sub-projects
- Substantial - 1 Sub-project
- Some - 12 Sub-projects (40%)
- None - 17 Sub-projects (57%)
- Negative - No Sub-projects

21 of the 30 FIs visited / interviewed stated that they had observed improvements in environmental management at sub-projects since they started doing business with these clients. In addition, 61 of all the 147 FIs consulted have adopted environmental procedures and did not have them before the agreement with EBRD, and 36 of the 147 FIs did have environmental procedures at the time of the agreement with EBRD but have improved them as a result of EBRD requirements. This demonstrates an overall improvement in environmental risk management at FIs because of the influence of EBRD. See Box 11.

Box 11: Examples of Environmental Change

- One FI in Macedonia has seen environmental improvements at several clients as a result of activity under EBRD credit, e.g. investments in cleaner technology.
- A regional fund based in CEE, proactively invests in projects that create positive environmental change, and other investments (e.g. in new technology) create indirect improvements in environmental performance.
- Another FI in Macedonia has noted improvements in health and safety practices at sub-projects since the projects started with EBRD (e.g. use of PPE).
- An FI in the Baltic States has noted some improved environmental risk management at clients and particularly raised awareness as a result of its environmental procedures.
- An FI in Poland stated that investments in new technology have resulted in direct environmental improvements, particularly in health and safety.

Although EBRD has clearly had a positive impact on the environmental performance of some FIs, this has not filtered down to generate many obvious environmental improvements at sub-projects. FIs are generally focusing on ensuring their clients are complying with regulations, rather than encouraging environmental change.

Any positive improvements at sub-projects, of which several examples have been noted, have generally been an indirect result of investments (e.g. new technology) rather than as a result of FIs pro-actively looking for opportunities to invest in sub-projects that will generate environmental benefits. There is an impression that such investments will not generate new income making it more difficult to prepare bankable projects; and thus require subsidies. This sentiment was also expressed within EBRD by both ED and FI staff. However, investments in environmental improvements for pollution reduction can result in significant cost savings, will reduce environmental fees and fines and may be company saving (i.e. avoid being closed for pollution liabilities). Finally, several FI specifically asked if EBRD could offer more instruments that promote environmental, e.g. energy efficiency, support to making pollution control technology, health and safety measures, etc.

4.4 Assessment of EBRD's Environmental Policy and Procedures for FIs

Based on the findings of the study, an assessment has been carried out of the EBRD Environmental Policy for FIs and the Environmental Procedures for FIs. See Box 12.

Box 12: Comments on EBRD's Environmental Policy for FIs

The following points provide comments on EBRD's environmental policy for FIs:

- The Policy overall is longer than necessary and would be clearer if it was made shorter, more directive and less process / procedural orientated.
- Several points in the section on Financial Intermediary Projects (Section 18 of the Policy) are related to specific procedures or requirements of FIs, rather than policy statements, and could be taken out of the Policy (and kept in the procedures) in order to shorten this section.
- The main recommendation on the Environmental Policy for FIs is that EBRD should review the Policy for FIs in which EBRD has equity. The Policy states that "*When EBRD financing is an equity investment, the requirements will apply to the entire portfolio*." Although there are benefits to FIs of improving environmental risk management across their entire portfolio, this is an ambitious requirement and a difficult one for EBRD to monitor and enforce.
- The point that a balanced approach is needed, made in the Policy for FIs, is important: "*The EBRD needs to ensure proper implementation of its environmental mandate in its FI projects while respecting the principle of delegated responsibility which characterises such projects*."
- The market has differentiated across EBRD's countries of operations, with some new-EU members having fully adopted EU environmental directives, while other countries are still at an early stage in their transition. The environmental policy should recognize and support the accession process and delegate more to local environmental agencies in the advanced countries.

Comments on the main EBRD environmental procedures for FIs, for bank lending and bank equity projects, are provided below (Box 13).

Box 13: Comments on EBRD's Main Environmental Procedures for FIs

The following points provide comments on EBRD's main environmental procedures for FIs on **bank lending** and **bank equity** projects.

- Overall, the procedures are clear on the requirements for FIs.
- The procedures focus on actions related to high-risk sub-projects (e.g. EIAs, environmental audits). As the majority of FI sub-projects are low risk, a short, easily identifiable section on low risk projects would be useful to raise the awareness of FIs that there could still be some risk in these projects and that some actions could be taken. The procedures do state for low risk projects that "*there may be opportunities to incorporate environmental measures which would enhance the sub-project through minor (low-cost) modifications in the design without reducing efficiency*" and that "*such opportunities should be discussed between the Local Bank and the borrower.*" However, these statements are rather hidden amongst the majority of the text that applies to high risk investments. Most FIs interviewed had the perception that no actions were required for low risk sub-projects.
- There is a useful paragraph early in the procedures that helps FIs decide which of their lending activities are relevant to these procedures (below a threshold of US$100,000 the simpler procedures for small and micro-loans apply). However, there is no paragraph that states that these procedures apply for all activities for FIs in which EBRD has equity. EBRD has equity projects with several FIs that are not complying with the requirements across all business and other activities of the client bank may not be "small to medium" and may involve high risk sectors, e.g. oil exploration.
- There are useful flow diagrams in the Environmental Risk Management Manual. However, these are not repeated in the printable version of the procedures, which are likely to be printed and passed around to loan officers at FIs (many of whom might not have access to the electronic version of the manual). Including these or other flow diagrams (e.g. yes/no decision routes) in the printable version would help provide an overview of the procedures.
- There is a useful list of the 5 main requirements on the first page of the procedures (see also Boxes 6 and 7 of this report), but this excludes the requirement for FIs to use the Environmental Risk Categorisation List.
- The procedures go into detail on the role of environmental consultants, but only briefly mention the need for the Local Bank to appoint a member of management to have overall responsibility for environmental risk management and the implementation of the procedures. Including example Terms of Reference (ToR) for such a role would be useful for FIs. Fewer FIs than expected have made this appointment and a ToR would help FIs to do this.
- Some wording in the procedures could be sharpened because it currently provides scope for FIs to misunderstand certain aspects and/or allows them to avoid or scale down some of the requirements in the procedures. For example, the procedures state that "*…the next steps in the environmental screening process is to broadly categorise the level associated with environmental risk.*" The word "*broadly*" provides scope for FIs to categorise sub-projects lower than is potentially appropriate (some FIs appear to be categorising sub-projects at a lower risk than expected). The introductory text to the Environmental Risk Categorisation List also provides scope for FIs to lower the categorisation.
- The procedures are not always clear on what is a requirement and what is simply guidance. Based on the visits, not all Environmental Officers at FIs are aware of the exact covenants in the deal agreements, and it would be beneficial if the procedures were sharper on the exact requirements. For example, there is a title in the procedures "*Summary of **Suggested** Procedures for Local Banks*".

Even though there is a clear definition early in the EBRD procedures on the term "Environment," the use of this word does imply that health and safety and social aspects are less important. There is potential for health and safety and social aspects to receive less focus and action at FIs and sub-projects as the procedures are disseminated. The Evaluation exercise found that for many sub-projects, health and safety issues may be more important than environmental pollution and ecological issues. Sub-projects in violation of core labour standards are on the Bank's FI Exclusion List and whilst additional guidance on these standards has been included in the updated Electronic Environmental Risk Management Manual for FIs, it is not clear how the Bank monitors this aspect of the FI Environmental Procedures. It is strongly recommended that the definition of the term

"Environment" is clarified in the procedures, and perhaps expanded to "Environmental, Health, Safety and Social" or a similar term.

4.4.1 Overview of Potential Change in Approach for EBRD

The focus of the implementation of the environmental procedures of EBRD, and the approaches taken by FIs, is on ***environmental risk management***, rather than ***influencing environmental change***. In general, apart from requiring evidence of environmental permits, FIs are not having much influence on environmental practices and performance of sub-projects. This is demonstrated both from the study results and from past EvD evaluations. The large majority of FIs are carrying out environmental screening of sub-projects, many of which are categorised as low risk, but there is limited to no effort to proactively promote "environmentally sustainable development" at the level of the FIs. If our FI partners are unable to do so, then this limits the Bank's capacity to achieve its mandate.

The reliance of FIs on the environmental regulation and enforcement to ensure that the sub-projects are compliant is risky for some countries, where regulation and particularly enforcement is weak. This approach is much more valid in the countries that have recently joined the EU because their legislation has been / is being strengthened in line with EU standards. More importantly, the monitoring and enforcement of compliance has greatly improved in these countries. There is now a strong case for EBRD to take advantage of this change in the regulatory framework in EU countries and focus its limited resources for monitoring FIs on the higher priority non-EU countries where enforcement is weak. A different approach for different countries is now more appropriate – the "one shoe fits all" model is no longer valid.

Although there are certain points with some individual FIs that EBRD should follow up to ensure procedures are being properly implemented, EBRD has been effectively implementing its environmental mandate across the majority of its FI portfolio in terms of managing environmental risks. While this represents a significant effort on behalf of EBRD and the FIs, this has shown minimal impact at sub-project level, except potentially to raise levels of compliance with regulations. Measured in terms of effort for results, the current approach does not seem justified. The EBRD policy and procedures encourage the identification of additional environmental benefits through the projects. However, the current approach focuses on risk management and not on driving environmental change. Therefore, a shift in overall approach of EBRD to the implementation should be considered. This would have two angles:

- To focus resources on the priorities in terms of environmental risk management (e.g. non-EU countries and high risk sub-projects).
- To focus resources on driving environmental change.

The Evaluation Team recommends that while ***environmental risk management*** is a necessary component it is not sufficient; the Bank, through FIs, should also be ***influencing environmental change*** to promote sustainable development – a cleaner and safer environment for the citizens of our COOs.

5 Recommended Changes to the Approach to Implementation of the Environmental Mandate for the Current FI Portfolio

As concluded above, the implementation of EBRD's environmental mandate is generally effective through its FI portfolio, although there are several improvements that could be made to the approach to further increase the effectiveness. These changes mainly cover a shift in priorities, strengthening resources for monitoring and improving efficiency of implementation. The main recommendations coming out of this study are covered in this section. These recommendations are offered as suggestions for Management's consideration. The findings and fundamental issues remain and need to be addressed by Management.

5.1 Environmental Responsibility at FIs

One of the key aspects of the EBRD approach is for the FI to appoint someone with responsibility for environmental risk management. If this person is sufficiently senior, has a good understanding, and strong commitment, then EBRD can have some confidence that the environmental procedures are likely to be implemented to a satisfactory standard. However, only 46% of the 147 FIs stated that they had formally appointed someone with responsibility. Even though this has only been a requirement of EBRD since 2003 and therefore many FIs are actually not required to do this, it is an important parameter for EBRD to improve.

However, there is potentially some confusion at FIs over the actual EBRD requirement. Some FIs during interviews stated that no one is formally responsible, but further discussion demonstrated that someone is carrying out much of the required role and it would be an easy step for the FI to formalise this responsibility. The database of contacts, recommended below, would help to identify FIs that have not appointed someone with formal responsibility. Also, it would be useful for FIs if EBRD provided a clearer definition of the role of responsibility for environmental risk management.

Based on the visits to FIs, the Environmental Officer at FIs (where one is appointed) has a high commitment, but often a lack of confidence in making decisions on environmental management (most have a banking background rather than environment). Generally these Environmental Officers had more confidence and understanding on environmental actions for FIs that had recently received a monitoring visit from ED. Increased monitoring and communication between ED and FIs would provide an increase in confidence of the Environmental Officers and an associated improvement in overall performance is likely.

Recommendation: *Environmental Responsibility at FIs*

- Fewer than expected FIs have formally appointed a manager with responsibility for environmental risk management. This is a policy requirement and "good practice."
- EBRD should remind FIs of the benefits of appointing a person with responsibility for environmental risk management, and provide FIs with an example ToR for the person with environmental responsibility.
- ED should step up direct communication with Environmental Officers at FIs.
- The appointed Environmental Officer should also consider preparing an Environmental Policy for the FI, supervise training, and coordinate project screening.

5.2 Prioritisation of EBRD Resources on Non-EU Countries

Although there were no major differences in environmental performance of FIs according to the survey responses, in general there are higher environmental risks associated with FI activities in non-EU countries, especially Russia / NIS / ETC.

The major change in legislation in some countries of operation (e.g. new EU countries) since EBRD started FI projects, and importantly the major improvement in monitoring and enforcement means that EBRD could vary its priorities and approach for different countries. The approach for FIs could be made simpler for countries that have joined the EU, on the assumption that environmental regulatory authorities are doing an effective job in monitoring and enforcement of environmental compliance of sub-projects. The capacity of local consultants has increased in these countries and there is scope for EBRD to utilise these cheaper local resources to monitor and support FIs. This approach furthers the capacity development in these countries and their transition to full integration into the EU.

Recommendation: ***Prioritisation of EBRD Resources on Non-EU Countries***

- An approach that relies on compliance with legislation is far more valid in new EU countries than in ETC countries and EBRD should consider varying efforts in training / monitoring for different types of countries.
- This would free up more time of ED specialists to focus on monitoring and support to the higher-risk FIs, such as equity funds, in the higher risk countries, such as Russia/NIS/ETC.

5.3 Higher Focus of Support to FIs on Environment Earlier in the Relationship

In its business with FIs, EBRD tends to address environmental aspects on a project by project basis, rather than as an overall relationship. As Noreen Doyle has stated, EBRD is a "Project Bank". While the Bank is increasingly taking a relationship approach, in general, EBRD activity on environment focuses around the build up to each project / operation, and then tails off between projects. It would be a better use of resources to focus on environmental aspects and procedures in much more detail during the preparation and implementation of the first project, and pointing out to clients the benefits of adopting EBRDs environmental procedures across the clients' business lines. Part of this would be taking more time to demonstrate to the FIs the benefits of implementing the procedures to manage their environmental risks across all their activities, and not just for activities under EBRD credit lines, for example. A frequent pattern for EBRD is to start with credit lines or other targeted instruments, and subsequently take an equity position. As the banking structures grow with maturity, so the environmental support could equally leverage across the different operations. This approach would also help to improve the implementation of environmental procedures across all activities for FIs in which EBRD has an equity stake. Further, this approach should be a shared effort between the Relationship Manager (RM) and the Environmental Specialists. The Relationship Manager has the responsibility, supported by ED, to communicate and promote the Bank's environmental policies and procedures early in the relationship with the FI. However, ED has the primary responsibility to monitor environmental performance, while working closely with the RM and the project OL.

The approach to focus early on the relationship would not only help EBRD with its resource constraints, but would also improve the overall risk management related to the FI portfolio. FIs that perceive environmental risk management as part of overall credit risk management, and integrated into their business approach, tended to demonstrate more sensible attitudes and better performance, whereas those that perceive environment as a separate issue gave the impression that their operating staff had less commitment to environmental aspects.

At present, with separate FI and ED teams, EBRD appears to FIs to be treating environmental risk management as a separate activity. For example, specialists from ED are not treated as a part of the banking team for a particular project but as "support". ED also plays two roles at EBRD – project support and project screening. At times these two roles can be in conflict. The FI Team suggested co-location of ED project support staff, but at current staffing levels, this is not a reasonable possibility. It is important to demonstrate to FIs that environmental risk management should be fully integrated into credit risk management, and the perception should be given that the ED specialists are full members of the banking team. Taking the approach described above of focusing early in the relationship on strengthening environmental practices at the FI, and building across projects in the

Bank's relationship with a client, would also address this issue, while not unduly burdening overloaded OLs during project preparation.

Recommendation: ***Higher Focus of Support to FIs on Environment Earlier in the Relationship***

- As well as the support provided by ED in the lead up to specific projects, it is recommended that ED visits the FI as soon as possible after the project is signed, supporting the FI to identify an environmental officer and to set up the procedures.
- Subsequent projects should build on and support the environmental approaches established under the initial project, for example moving from a credit line to equity involves expanding the environmental approach established under the credit line to the full portfolio of the bank.
- This focus on support on environment earlier in the relationship will also establish direct communication links between the environmental officer and ED, which is an important recommendation provided below.
- The responsibility to promote the Bank's environmental procedures is a shared responsibility between the RMs and the Environmental Specialists.

5.4 Promote an Even Playing Field

The Bank's efforts to convince FIs of the benefits of adopting environmental and social management systems across the full range of their portfolio are somewhat hampered by the fact that this practice is still not "mainstream" in the financial sector in the region, particularly not amongst local financial institutions that are not in receipt of IFI funding. Therefore, in addition to its project activities, EBRD should work with others – other international institutions as well as the commercial sector –to promote good practices in the financial sector and to level the playing field upwards.

The Bank is already aware of this issue and has taken valuable steps in the right direction. Most importantly, EBRD joined the UNEP Finance Initiative (UNEP FI) in 2004 and is chairing UNEP FI's new Central and Eastern European Task Force, with the objective to help promote better environmental management in the region's financial sector. Since 2005, the Task Force has been organising awareness-raising conferences for senior management in financial institutions in Croatia, Poland and Russia and Lithuania on corporate responsibility, environmental regulations influencing financial services, and environmental and social risks in project financing. UNEP FI is also promoting EBRD's popular Electronic Environmental Risk Management Manual among all signatory banks, regardless of whether they are EBRD clients.

The Bank should continue to play a leading role in UNEP FI's Central and Eastern European Task Force. In addition, the Bank should dialogue with other IFIs and leading commercial banks, with a view of agreeing on good practice principles and procedures that would be expected of a mainstream financial institution, based on an updated and streamlined version of EBRD's FI Environmental Procedures and Electronic Manual. Careful consideration should be given to publicising and marketing this approach in order to incentivise potentially sceptical institutions to take it on board. Capitalising on the "Equator brand"[6] and down scaling it to the local level (in line with EBRD's FI procedures) might be one way to do this, although the current Equator Principles apply to project finance and do not provide general environmental and social management guidance that could be applied across a local bank's portfolio. This issue should be further explored with commercial banks.

[6] The "Equator Principles", initially launched in 2003, commit signatory banks to apply IFC's environmental and social performance standards to project finance above USD 10 million and advisory services. Some 40 commercial banks are signatories to date.

Recommendation: ***Promote an Even Playing Field to Enhance Demonstrating Effect***

- EBRD should continue its leadership role in the UNEP FI CEE Task Force.
- EBRD should explore appropriate approaches to down scaling and promoting a set of generalized performance standards for all local banks in EBRDs COO. The EBRD's FI Environmental Procedures could form the basis of such standards and the market place used to facilitate creation of an even playing field (both for local banks EBRD supports and for other banks in the market.)

5.5 Monitoring of FIs by EBRD's Environment Department

Monitoring of FIs by EBRD's Environment Department is constrained by a lack of resources. The team of 8 specialists in ED that is responsible for monitoring of the environmental performance of FIs also work on other types of projects at EBRD. The team has the equivalent resources in terms of time of 3 specialists on a full-time basis. However, they only carry out monitoring visits to 2-5 countries per year, and this needs to be increased. By comparison, during the 2 months of field work for this Study, the team visited 17 FIs and 30 sub-projects.

Based on the visits to FIs by the Evaluation Team, the monitoring visits carried out by ED are having a significant impact on the performance of FIs in implementing environmental procedures. During a visit to an FI, the Environmental Specialist provides support and advice to the FIs in how to improve the system of implementation of procedures, particularly in training and provision of support to loan officers. The visit therefore represents much more than just monitoring.

The relationship between an Environmental Officer at FIs and ED is important. Where there is communication between ED and FIs, and particularly where monitoring visits have been carried out by ED, the FIs look to ED for environmental support and "coaching". It is strongly recommended that monitoring by ED is increased for priority FIs. Further, establishing a network, or alumni organization, of trained FIs environmental officers would allow for greater sharing of ideas and mutual support which in turn may help to overcome a lack of confidence by these individuals in carrying out their responsibilities.

The use of external consultants for monitoring as one-off activities has advantages because of the lack of time available of the Environmental Specialists in ED, but does not have the impact of the visits by ED because the visits by external consultants focus more on the monitoring and less on the "support" and there is not an ongoing continuity of communication. However, the use of local consultants in EU countries should be considered because the capacity of consultants is now strong enough, and the FIs are a lower priority than for non-EU countries because of the more effective enforcement of regulations. This would help the Environmental Specialists in ED to focus their monitoring visits on higher priorities such as ETC and other non-EU countries. Note this local capacity component is a potential opportunity for the BAS program.

Recommendation: ***Monitoring of FIs by ED***

- Visits to FIs by Environmental Specialists from ED are adding significant value to the environmental performance of FIs, and activities during the visit are much more than just monitoring (i.e. they include training, support, etc).
- However, only a small proportion of FIs have received such visits, and more resources for monitoring are needed. ED should step up monitoring for priority FIs – again taking a relationship approach.
- In EU countries of operation, there is scope for monitoring to be carried out by local consultants, allowing ED to focus on priority FIs in non-EU countries, particularly for low risk portfolios.
- Consider the creation of a network of FI Environmental Officers across FIs.

5.6 Communication between EBRD's Environment Department and FIs

Apart from the monitoring visits to some FIs, there is less communication than expected between the Environmental Specialists at EBRD and FIs. The majority of communication on environment currently passes through the OLs. For example, in most cases an enquiry about environmental aspects from FIs will currently be communicated to the OL at EBRD initially. Although the OLs are responsible for the strong relationship with FIs, and it is important to keep them informed of all communications, there would be benefits from opening more communication lines directly between Environmental Specialists at EBRD and the Environmental Officers in the FIs (Figure 5.1).

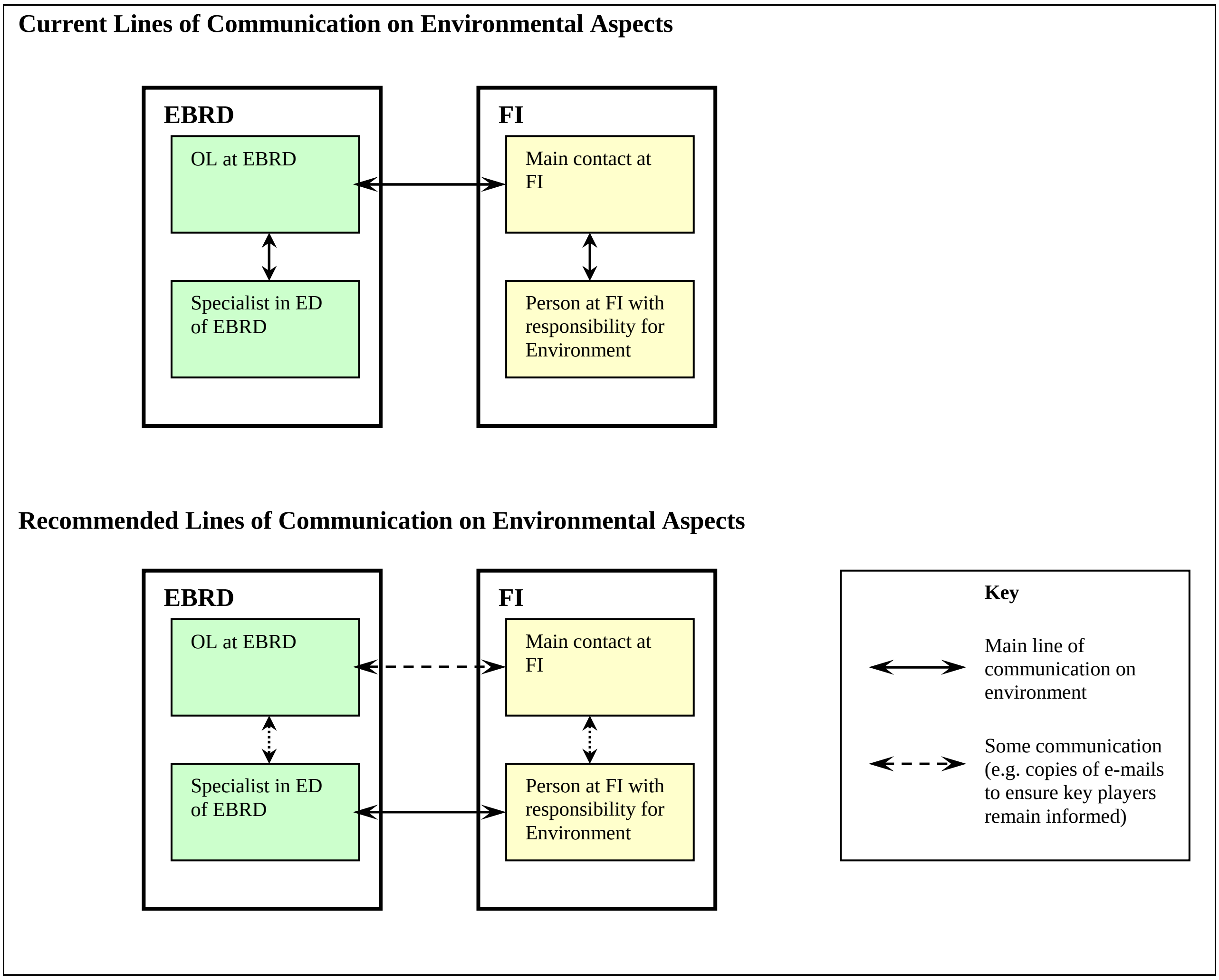
The lack of feedback provided to FIs on AERs demonstrates that more communication is needed. An increase in communication from ED will help to provide support to FIs to manage environmental risks, help ED to identify any shortfalls in the implementation of environmental procedures, and will increase the confidence of the Environmental Officers at the FI. An unexpected number of FIs that were consulted (over 50%) stated that they found the consultation useful, and this backs up the conclusion that more communication from ED would be beneficial. Also, the overall positive response to the survey and indication that it helped raise awareness of environmental issues implies that there is significant scope for achieving greater *environmental change* through more effective communication. Finally, in a few cases where EBRD staff had been asked for technical support on environmental issues related to individual sub-projects, the FIs commented that this support had been invaluable. This suggests that there is a role for EDRD environmental specialists to be resource specialist to EBRDs FI clients – a "knowledge bank." Finally, reviewing AERs is one way to build the relationship and better know the client.

The ongoing implementation of environmental procedures at FIs is affected by the problem that FIs may have high staff turnover. This includes turnover of loan officers and environmental officers. EBRD should step up communication when a key player at an FI leaves, to ensure continuity of implementation of environmental procedures.

The situation is complicated by the fact that there are several OLs for many FIs (because of different types of projects) and these OLs, who are busy developing business for EBRD, might in some cases make the assumption that the other OLs are reminding the FI about their environmental commitments. Clearer responsibility on environment is needed, and this should be coordinated through the Relationship Manager.

In addition, it is essential that an up-to-date database is developed and maintained of FIs and the relevant contacts as this would help communication with FIs and ensure continuity when FI staff leave. The database would be useful for other functions at EBRD but, from the ED perspective, it would be useful to also add contact details (phone numbers and e-mails) and other details (e.g. training and monitoring visits) to the database. This database will also help ED to identify those FIs that have not appointed a person with responsibility for environmental risk management.

Figure 5.1 – Recommended Changes in Approach to Communication on Environment



In addition to e-mail and phone communications between the Environmental Specialists at EBRD and the Environmental Officers in the FIs, it is recommended that the ED at EBRD initiates a quarterly environmental newsletter to FIs, sent to the main contacts and Environmental Officers at all FIs. This would have the advantage of reminding the FI about environmental aspects and could be a vehicle for informing FIs about available tools, case studies on good practices, requirements of international regulations, etc. It would also build on and support the "FI Environmental Officer Network".

Recommendation: ***Communication between ED and FIs***

- Direct communication between the Environmental Specialists at EBRD and Environmental Officers at FIs should be increased because those FIs with which there is currently direct communication appear to have a better understanding on environment. This will help ED to identify environmental risks and provide more support to FIs on environment.
- One of the first steps to improve monitoring of the environmental performance of the FI portfolio should be the development of a database of FIs and relevant contacts.
- A quarterly newsletter from ED to FIs would have many advantages (e.g. reminding FIs of their commitments and the benefits of environmental risk management, etc).
- FIs tend to have a high turnover of staff, and increased communication will identify when important employees at FIs are leaving and where environmental and other support might therefore need to be increased.
- Establishing a regional network of Environmental Officers at FIs, and distribution of a newsletter, will help to raise the status and generate awareness of the importance of the environmental function within each FI.

5.7 Resources in EBRD's Environment Department

Since 1994, the FI portfolio (new business) has increased from about €400 million per year to over €1.4 billion in 2004, with approximately €5 billion in active projects requiring monitoring (see Figure 1.1). Although the FI portfolio has increased over this time, resources in the Environment Department for monitoring work on FIs have not increased.

The number of specialists in ED assigned to the FI portfolio is insufficient to carry out the role properly. The limited resources mean that the role of ED at present can only be to try to monitor compliance with procedures, and not to take the extra steps to encourage *environmental change*. Less environmental training courses and monitoring visits of ED have been carried out than expected (35% of FIs consulted stated that they had received environmental training from EBRD and 18% stated that they had received a monitoring visit from ED, although the actual numbers are higher than this). There is a much higher focus on the environmental aspects of major EBRD projects than FI projects, and, although this prioritisation is likely to be appropriate, a step up of resources for FI projects is necessary now that the portfolio has grown substantially. In particular, future screening on a client basis, rather than just a project basis, would identify FIs that have many projects with EBRD and which represent large clients and therefore increased environmental vulnerability.

In addition to stepping up resources in ED for the FI portfolio, the approach of ED could be changed to strengthen the efficiency and impact of its activities. For example, more monitoring visits should be carried out with the resources that ED has. In addition, the ED team should ensure that specialists pro-actively visit FIs when in a COO on other business. Most FIs are located in the capital cities therefore it should be relatively easy to follow-up with the FI in conjunction with other country visits.

As mentioned, resources at ED could be used more efficiently to manage environmental risks by focusing on non-EU countries, and using local consultants for tasks in EU countries. Further, use of consultants in London for the more mundane monitoring tasks could free up time to better focus on adding value. In addition, it is important to ensure that all RMs and OLs in the FI Department are well trained on environment as they are the main front-line contact between the EBRD and the client.

Recommendation: *Resources in ED*

- The FI portfolio has shown major growth in number and type of projects, but the resources in ED to monitor environmental performance have seen only minimal growth. A step increase in resources in ED is needed for EBRD to implement its environmental mandate through FIs properly.
- However, resources at EBRD could be used more efficiently, for example Environmental Specialists should carry out more monitoring visits (especially to Russia / NIS / ETC countries) and OLs should be trained so that they will be able to identify environmental problems.
- As EBRD expands its operations into Russia / NIS / ETC countries, ED will need to hire staff with relevant country experience or make greater use of local consultants who bring local knowledge and language.
- The Project OLs have an important role to play in monitoring environmental performance, but the primary responsibility is that of the ED specialists.

5.8 Risk Categorisation

Many of the investments of FIs are in sub-projects that carry minimal risk, such as office-based businesses or shops. Many of these are very small companies. Given the need to focus the limited resources on the higher risks, EBRD should consider the introduction of a "no or negligible risk" category to the Environmental Risk Categorisation List that is used by the FIs. This would help FIs to focus their resources on the higher environmental risks, and would also greatly reduce the reporting burden. However, the new categorisation would only be successful if FIs use the categorisation list correctly, and their methods in using the list would need to be monitored more carefully.

At present EBRD categorises all FI projects as FI. However, some of the non-bank projects have no or negligible environmental risk. EBRD should consider categorizing such non-bank FI projects as no impact (e.g. Category FI-C) if this can be demonstrated at the screening stage. However, these non-bank FIs should still be required to use the Exclusion and Referral List and be required to inform EBRD of any major changes in activity that might lead to a higher environmental risk.

On the other hand, the Evaluation Team observed that, particularly for equity funds, the scope and nature of many of the sub-projects was beyond what might reasonably be classified as small and medium enterprises and could reasonably compete with EBRD's direct investment operations. Some of the sub-projects were in higher risk areas such as extractive industries, forestry, and chemical industries. For these sub-projects, the Evaluation Team suggests that EBRD should consider raising the bar to EU/WB standards. As many of the Regional equity funds target new EU countries or countries which aspirer to join the EU and all of these countries are or are in the process of adopting EU environmental standards, this does not, in fact, represent a significant shift in policy. Further, it supports the Accession process. Finally, this was a recommendation made by EvD in the context of the Extractive Industry Sector Review.

Recommendation: ***Risk Categorisation***

- EBRD should consider an additional category of risk, representing sub-projects where there is virtually no environmental risk. This would help EBRD and FIs to prioritise monitoring and minimize unnecessary paperwork.
- EBRD should consider amending the process of screening of FIs to allow certain non-bank projects that have no risk to be categorised as "FI-C".
- EBRD should raise the bar to EU/WB standards for sub-projects in certain high risk sectors.

5.9 Senior Commitment

The commitment at senior level (i.e. EBRD Board, Senior Management, and FI Department Management) to implementation of EBRD's environmental policy through FIs is essential. In addition, the commitment of senior management will be needed if the recommended shift in priorities and increases in resources are to be properly implemented. Senior Management sends signals on priorities which staff respond to.

A stated impression by senior staff is that environment is a low priority for EBRD's FI clients where the risk is minimal (due to the high number of low risk projects) and therefore EBRD should minimise its impact on the FIs. Unfortunately, this is understood by OLs, OGC, and ED management and staff into "do the minimal necessary" for risk management. This study found a desire from the FIs for greater input from EBRD on environmental issues, and support for tailored environmental credit lines. Senior management needs to signal to staff that environment should not just be addressed from a risk management perspective but that EBRD should actively promote sustainable development, as called for in the mandate. Further, experience has shown that so called sustainable development market indicators out perform overall market indicators. Bottom-line: Promoting good environmental practices is ***good business***.

There is also a need for senior commitment at the FIs themselves, if they are going to implement the environmental procedures properly. In cases where EBRD has a seat on the Board of an FI, then this should be used to raise the profile of environmental risk management and generate senior commitment and support at FIs. The weak performance in implementation of environmental procedures across all business activities of FIs in which EBRD has an equity stake suggests that this is not a priority for EBRD representatives on FI Boards.

Recommendation: ***Senior Commitment***

- Many of the recommendations in this report require a shift in policy and approach for environmental risk management at FIs, and senior commitment at EBRD is essential.

5.10 Implementation Plan for Key Recommendations

Some key recommendations for moving forward are summarized in the following table.

Table 5.1: Recommended Main Actions for EBRD

Action	Details	Responsibility
Monitor FIs with equity projects	Carry out desk review of AERs of all FIs with which EBRD has equity projects and identify those where there is uncertainty with implementation of procedures across all activities. Contact or visit FIs as necessary to check their implementation.	ED / OLs
Review resources in ED	High-level meeting at EBRD to review resources in ED for implementation of the environmental mandate in FIs. Discussion should include mechanisms to increase resources and potential shifts in approach to better use and prioritise existing resources.	EBRD Management
Develop example ToR for manager at FIs with responsibility for environment.	Finalise example ToR so that FIs can be provided this as guidance.	ED
Develop database of FIs clients.	Set up database of all FI clients, with names and contact details of Environmental Officer at FI. The database should also show the OL, ED specialist, types of deal, etc.	FI Team / ED
Identify those FIs that are not using the Exclusion and Referral List.	ED should follow-up with the FI clients that stated that they are not using the Exclusion and Referral List. EvD to provide data.	ED / OLs
Identify those FIs which have not appointed a manager with formal responsibility for environmental risk management.	Based on the database, it will be clear for which FIs there is uncertainty about whether they have appointed a manager with environmental responsibility. These should be contacted to check this, and advised as necessary (using the example ToR). EvD to provide data.	ED / OLs
Open direct communication between ED specialists and Environmental Officers at FIs.	Use the distribution of the updated manual on CD-ROM to kick-off direct communication links. Ensure relevant OLs are copied into communication.	ED
Develop quarterly environmental newsletter for FIs.	The newsletter will strengthen communication between ED and Environmental Officers at FIs, and the first edition could highlight the key aspects and benefits of the CD-ROM and also remind FIs that “Environment” includes health and safety and social aspects. As an example, the Communication Department has developed a very useful newsletter for NGOs.	ED
Environmental training for OLs at EBRD	Environmental training to OLs on various aspects would encourage them to carry out a few extra tasks, which would not take up much extra time of OLs, but would greatly assist ED. In particular, training of OLs should cover: • The content and benefits of the Environmental Risk Management manual. • Potential environmental risks to look out for at FIs. In addition, the training sessions should include discussion between OLs and ED to agree and plan changes in approach, such as communication lines between ED and FIs, etc.	ED / OLs
Develop and pilot web-based tool for AERs.	The system of reporting by FIs needs strengthening to ensure that they are thinking about environmental risks on an ongoing basis. The use of a web-based survey tool, with a mix of closed and open questions, should be piloted in some countries. The communication links established above will facilitate the feedback process from ED, which needs to be stepped up.	ED
Design formal management system approach for FIs in EU countries and pilot.	Review regulatory framework and enforcement for selected countries to confirm high standards of regulation and strong enforcement. Carry out monitoring visits of FIs in pilot countries by ED with selected local consultants to develop EAPs for the FIs and train local consultants in monitoring. This will then enable ED to focus resources on other countries.	ED
Review the use of the term “Environment” at EBRD and simplify the EBRD Environmental Policy for FIs	Review and discuss at senior level whether the misunderstandings at FIs on the term “environment” (i.e. the risks associated with the lower focus on health and safety) might justify a change of name. The alternative would be a major programme to raise awareness at FIs on the definition, and that their procedures should include management of health and safety and social issues.	EBRD management
Work with UNEP FI, other IFIs and commercial banks to promote good practices and level playing field in the financial sector in COO.	This will help in moving to market based systems to encourage sustainable development and best practices at local Banks.	EBRD UNEP FI, other IFIs

LIST OF FIs CONSULTED

Country	Organisation	Year of Signing First Deal	Total No. of Active Projects	Bank Lending	Small Business Finance	Bank Equity	Equity Funds	Non-Bank FI
<Regional>	Argus Capital	2000	1				1	
<Regional>	Euroventures Capital Advisory Kft	2001	1				1	
<Regional>	Emerging Europe Capital (Royalton)	1999	1				1	
<Regional>	Global Finance	1998	3				3	
<Regional>	Advent International Corporation / Advent Private Equity Fund - Central Europe	1997	3				3	
<Regional>	New Europe East Investment Fund	1993	1				1	
<Regional>	AS Hansa Capital	2003	1					1
<Regional>	Baltic Investment Fund / Baltic SME Fund	1995	3				3	
<Regional>	Raiffeisen International Beteiligungs AG	2001	1			1		
Albania	TEA Sh.p.k	2003	1				1	
Albania	ProCredit Bank Albania	1999	1		1			
Armenia	CJSC Inecobank	2005	2	1	1			
Armenia	Agricultural Co-operative Bank of Armenia	2003	3	2	1			
Armenia	Bank Anelik	2002	1	1				
Armenia	Cascade	2005	1					1
Azerbaijan	Microfinance Bank of Azerbaijan	2002	1		1			
Azerbaijan	Azerdemiryolbank	1999	3	3				
Azerbaijan	Azerigazbank JSB	2003	2	2				
Azerbaijan	Bank Respublika/ ResPublica	2004	2	2				
Belarus	Priorbank – Joint Stock Commercial Bank	1998	5	3	1	1		
Bosnia - Herzegovina	Horizonte Venture Management GmbH	1998	1				1	
Bosnia - Herzegovina	ProCredit Bank	1997	4		4			
Bosnia - Herzegovina	Raiffeisen Bank d.d. / Hrvatska Postanska Banka	1999	5	5				
Bosnia - Herzegovina	UniCredit Zagrebacka banka dd	1999	4	4				
Bosnia - Herzegovina	UPI Banka d.d.	1999	5	4		1		
Bosnia - Herzegovina	Volksbank BiH d.d.	2003	2	2				
Bulgaria	Bulgarian American Credit Bank (BACB)	2000	2	2				
Bulgaria	Union Commercial Bank Ltd (Unionbank)	2000	4	3		1		
Bulgaria	Bulbank	2004	1	1				
Bulgaria	Commercial Bank Biochim Plc	2004	1	1				
Bulgaria	DSK Bank	2004	3	3				
Bulgaria	Bulgarian Post Bank	2003	3	3				
Bulgaria	TBI AD Bulgaria	2003	1					1
Bulgaria	Raiffeisen Investment Bulgaria EOOD	2002	2	2				
Croatia	Privredna Banka Zagreb d.d.	2001	2	1		1		

Country	Organisation	Year of Signing First Deal	Total No. of Active Projects	Bank Lending	Small Business Finance	Bank Equity	Equity Funds	Non-Bank FI
Croatia	Croatia Capital Partnership Ltd	1997	1				1	
Croatia	Uniqa	1999	2					2
Croatia	Zagrebacka Banka d.d.	1998	3	3				
Croatia	Erste Mandatory Pension Fund	2000	1					1
Czech Republic	Volksbank CZ - a.s	2003	1	1				
Czech Republic	SG Equipment Finance Czech Rep. / Komercni banka as	2003	2	1				1
Czech Republic	Uniqa Pojistovna	1999	1					1
Czech Republic	Ceska Sporitelna a.s.	2000	2	2				
Estonia	LHV Asset Management	2002	1					1
FYR Macedonia	Macedonia Microcredit Bank	2003	1		1			
FYR Macedonia	Export and Credit Bank a.d.	2000	3	2		1		
FYR Macedonia	Komercijalna Banka AD Skopje	1996	2	1		1		
FYR Macedonia	SEAF (Small Enterprise Assistance Funds)	1999	1				1	
FYR Macedonia	Tutunska Banka Skopje	2000	2	2				
Georgia	United Georgian Bank	1997	2	1		1		
Georgia	Bank of Georgia	1998	3	2		1		
Hungary	Tecnicredito SGPS SA	2001	1					1
Hungary	Hungarian Equity Partners LP	1997	1				1	
Hungary	Budapest Bank Rt. / Budapest Leasing	1996	3	1				2
Hungary	CIB	2004	2					2
Hungary	SG Equipment Finance Hungary Plc.	2004	1					1
Hungary	Euroleasing	2003	1					1
Hungary	UNIQA Biztosito	2004	1					1
Hungary	Volksbank Ltd	2003	2	2				
Kazakhstan	Kazkommerts Policy Insurance Company	2003	1					1
Kazakhstan	Small Entrepreneurship Development Fund	1998	1		1			
Kyrgyz Republic	Bai-Tushum	2005	1		1			
Kyrgyz Republic	National Bank of the Kyrgyz Republic	1995	1	1				
Kyrgyz Republic	Eridan Bank / Inexim Bank	2000	5	1	3	2		
Latvia	Rietumu Banka	2002	1	1				
Latvia	Latvijas Unibanka / Unilizings	2000	3	2				1
Lithuania	AB bankas Nord/LB	1998	2	2				
Lithuania	Siauliu Bank	2005	2	1		1		
Moldova	Moldindconbank SA	2000	2	2				
Moldova	Mobias Bank	2002	3	3				
Moldova	Procredit S.A.	2000	3		3			
Poland	PKO Bank Polski SA	2003	1	1				

Country	Organisation	Year of Signing First Deal	Total No. of Active Projects	Bank Lending	Small Business Finance	Bank Equity	Equity Funds	Non-Bank FI
Poland	AIB WBK Fund Management	2001	1				1	
Poland	Europejski Fundusz Leasingowy		1					1
Poland	Rheinhyp-bre	2002	1					1
Poland	Wielkopolski Bank Kredytowy (WBK) S.A.	1999	4	3				1
Poland	Bank Slaski SA Poland / ING Bank Slaski SA	2000	2	2				
Poland	UNIQA TU	2003	2					2
Poland	BISE S.A.	2004	1			1		
Poland	Fortis Bank Polska S.A.	2001	1	1				
Poland /Regional	Enterprise Investors Corporation / Polish Enterprise Fund	1992	3				3	
Romania	Romania Post Privatisation Fund	1997	1				1	
Romania	Volksbank Romania	2002	1	1				
Romania	Raiffeisenbank Romania	2002	2	2				
Romania	BT Leasing	2003	1					1
Romania	Alpha Bank Romania SA	2001	2	2				
Romania	ProCredit Bank	2005	1		1			
Romania	Banca Romaneasca S.A.	2003	2		1	1		
Romania	Banca Transilvania	1999	10	6		3		1
Romania	Bancpost S.A	1998	4	3		1		
Romania	Interamerican	2002	1					1
Russian Federation	Absolut Bank	2003	2	2				
Russian Federation	Moscow Credit Bank	2005	2	2				
Russian Federation	NBD Bank	2001	7	2	4	1		
Russian Federation	Transcapital Bank	2004	2	2				
Russian Federation	Quadriga Capital Russia GmbH & Co KG	1996	10				10	
Russian Federation	"Joint Stock Company Bank ""Center-invest"""	2002	2	1		1		
Russian Federation	AIST Associatsiya Informatsionnykh Setei Togliatti	2004	1				1	
Russian Federation	Delta Leasing	2004	1					1
Russian Federation	Locko - Bank	2005	1	1				
Russian Federation	Spurt Bank	2005	1	1				
Russian Federation	West Siberia Regional Venture Fund	2000	3				3	
Russian Federation	International Moscow Bank	2000	6	3		3		
Russian Federation	DeltaCredit	2002	1					1
Russian Federation	Raiffeisen Bank	2000	2	1				1
Russian Federation	The National Registry Company	1995	1					1
Russian Federation	Orgresbank	2005	1	1				
Russian	Probusinessbank	2003	2	1		1		

Country	Organisation	Year of Signing First Deal	Total No. of Active Projects	Bank Lending	Small Business Finance	Bank Equity	Equity Funds	Non-Bank FI
Federation								
Russian Federation	Norum	1996	13				13	
Russian Federation	Eagle Black Earth Fund	2000	5				5	
Russian Federation	Europlan	2002	2					2
Russian Federation	Uraltransbank	2002	5	2	2	1		
Serbia And Montenegro	Volksbank	2003	2	1		1		
Serbia And Montenegro	Kasabank	2005	1	1				
Serbia And Montenegro	Cacanska Banka	2004	2	2				
Serbia And Montenegro	Alter Modus	2004	1		1			
Serbia And Montenegro	Opportunity Bank	2003	2		2			
Slovak Republic	Ludova Banka	2004	2	1				1
Slovak Republic	OTP Bank	2004	1	1				
Slovak Republic	Vseobecna Uverova Banka	2001	2	2				
Slovak Republic	CAC Leasing	2002	2					2
Slovak Republic	UniBanka as	2004	1	1				
Slovak Republic	Tatra Raiffeisen Capital - Ltd.	2003	1					1
Slovak Republic	Slovenska Poistovna	2003	1					1
Slovak Republic	Slovak Post Privatisation Fund	1997	6				6	
Slovenia	Bank Austria Creditanstalt	2004	1	1				
Slovenia	Banka Koper	2000	2	2				
Slovenia	Nova KBM d.d.	2000	1	1				
Slovenia	Probanka dd	2004	1	1				
Slovenia	Raiffeisen Leasing d.o.o.	2003	1					1
Slovenia	Nova Ljubljanska banka dd Ljubljana	2002	2	1		1		
Tajikistan	Eskhata Bank	2004	2	1	1			
Tajikistan	Tajprombank	2003	2	1	1			
Tajikistan	Imon	2005	1		1			
Tajikistan	Agroinvest	2005	1		1			
Ukraine	West Ukrainian Commercial Bank	1999	2	1		1		
Ukraine	CJSC Furshet	2002	1				1	
Ukraine	"Joint Stock Commercial Bank ""Nadra"""	2001	1	1				
Ukraine	ProCredit Bank Ukraine	2000	3	1	2			
Ukraine	Agio; Joint Stock Bank	2005	1	1				
Uzbekistan	Asaka Bank	1996	2	2				
Uzbekistan	UzDaewoo Bank	1996	2	1		1		
Uzbekistan	ABN	1996	1			1		

Country	Organisation	Year of Signing First Deal	Total No. of Active Projects	Bank Lending	Small Business Finance	Bank Equity	Equity Funds	Non-Bank FI
Uzbekistan	Uzpromstroybank	1999	1	1				
Uzbekistan	Hamkor Bank	2002	2		2			
Uzbekistan	Pakhta Bank	2000	2	1	1			
Uzbekistan	Ipoteka Bank (former Uzjilsberbank)	2004	2	1	1			
TOTAL			**312**	**143**	**39**	**29**	**62**	**39**

LISTS OF FIS FOR VISITS AND INTERVIEWS

The 30 FIs below (Table A2.1) were selected by random sampling for the visits / interviews. However, some of the above FIs were not interviewed because of current sensitivities with the relationship or they were unable to be interviewed. The final number of those visited / interviewed was 30 and these are listed in Table A2.2. Some additional FIs were visited (rather than just interviewed by telephone) where opportunities arose to add on meetings to business trips for other projects.

Table A2.1 – Selected 30 FIs by Random Sampling

	Client Name	Country Name
1	Raiffeisen International Beteiligungs AG/	Regional
2	Baltic Investment Fund / Baltic SME Fund	Regional
3	AS Hansa Capital	Regional
4	Cascade	Armenia
5	Raiffeisen Investment Bulgaria EOOD	Bulgaria
6	Ceska Sporitelna a.s.	Czech Republic
7	SEAF (Small Enterprise Assistance Funds)	FYR Macedonia
8	Komercijalna Banka AD Skopje	FYR Macedonia
9	Tutunska Banka Skopje	FYR Macedonia
10	OTP Bank Ltd.	Hungary
11	Latvijas Unibanka / Unilizings	Latvia
12	Siauliu Bankas	Lithuania
13	AB bankas Nord/LB	Lithuania
14	Moldova-Agroindbank S.A. (MAIB)	Moldova
15	Enterprise Investors Corporation / Polish Enterprise Fund	Poland /Regional
16	BISE S.A.	Poland
17	Fortis Bank Polska S.A.	Poland
18	Danube Fund Limited	Romania
19	Interamerican	Romania
20	Sector Capital Fund Limited	Russian Federation
21	Eagle Black Earth Fund	Russian Federation
22	Europlan	Russian Federation
23	Uraltransbank	Russian Federation
24	Sberbank	Russian Federation
25	Chelindbank	Russian Federation
26	Vneshtorgbank	Russian Federation
27	Nova Ljubljanska banka dd Ljubljana	Slovenia
28	Agio, Joint Stock Bank	Ukraine
29	Pakhta Bank	Uzbekistan
30	Ipoteka Bank (formerly Uzjilsberbank)	Uzbekistan

Table A2.2 – Final List of FIs for Visits / Interviews

	Client Name	Country Name	Consultation
1	AS Hansa Capital	<Regional>	Telephone interview
2	Baltic Investment Fund / Baltic SME Fund	<Regional>	Telephone interview and Visit to country
3	Raiffeisen International Beteiligungs AG	<Regional>	Visit to country
4	Cascade	Armenia	Telephone interview
5	Raiffeisen Investment Bulgaria EOOD	Bulgaria	Telephone interview
6	Erste Mandatory Pension Fund	Croatia	Visit to country
7	Ceska Sporitelna a.s.	Czech Republic	Visit to country
8	Komercijalna Banka AD Skopje	FYR Macedonia	Telephone interview
9	SEAF (Small Enterprise Assistance Funds)	FYR Macedonia	Telephone interview
10	Tutunska Banka Skopje	FYR Macedonia	Telephone interview
11	Latvijas Unibanka / Unilizings	Latvia	Telephone interview
12	AB bankas Nord/LB	Lithuania	Telephone interview
13	Siauliu Bankas	Lithuania	Visit to country
14	Moldindconbank SA	Moldova	Visit to country
15	Mobias Bank	Moldova	Visit to country
16	Procredit S.A.	Moldova	Visit to country
17	BISE S.A.	Poland	Visit to country
18	Enterprise Investors Corporation / Polish Enterprise Fund	Poland /Regional	Visit to country
19	Fortis Bank Polska S.A.	Poland	Visit to country
20	Banca Transilvania	Romania	Visit to country
21	Bancpost S.A	Romania	Visit to country
22	Interamerican	Romania	Visit to country
23	Eagle Black Earth Fund	Russian Federation	Visit to country
24	Europlan	Russian Federation	Visit to country
25	Uraltransbank	Russian Federation	Visit to country
26	Slovak Post Privatisation Fund	Slovak Republic	Visit to country
27	Nova Ljubljanska banka dd Ljubljana	Slovenia	Telephone interview
28	Agio Joint Stock Bank	Ukraine	Telephone interview
29	Pakhta Bank	Uzbekistan	Telephone interview
30	Ipoteka Bank (former Uzjilsberbank)	Uzbekistan	Telephone interview

SUMMARY OF RESULTS OF CONSULTATION WITH FIs

The following table presents a summary of the results of the main questions for 147 FIs that were consulted. Numbers at the start of each box refer to specific questions on the questionnaire.

Question / Response	Number	%
7. How many branches / outlets does the Institution have in the country?		
1	25	17.1%
2 - 10	31	21.2%
11 - 50	57	39.0%
51 -100	14	9.6%
> 100	19	13.0%
Total	**146**	**100.0%**
8. Is the Institution an international organisation?		
Operates in more than one country	44	29.9%
Operates only in this country	103	70.1%
Total	**147**	**100.0%**
9. Number of employees of the Institution in the country:		
< 50	29	19.7%
51 - 100	9	6.1%
101 - 500	47	32.0%
> 500	62	42.2%
Total	**147**	**100.0%**
10. What is the approximate % of female employees in the Institution in the country?		
0 - 20%	3	2.1%
20 - 40%	20	14.0%
40 - 60%	64	44.8%
60 - 80%	55	38.5%
80 - 100%	1	0.7%
Total	**143**	**100.0%**
11. Majority of company ownership:		
State Ownership	4	2.8%
Private Ownership (in country)	35	24.1%
Private Ownership (international)	97	66.9%
Listed on Stock Exchange	9	6.2%
Total	**145**	**100.0%**
12. Other IFIs / MDBs / Donors engaged with the Institution on a finance basis:		
IFC	46	
EIB	20	
EU	12	
World Bank	17	
ADB	4	
FMO	13	
KFW/DEG	44	
Other	52	
Total	**208**	
13. If other IFIs / MDBs / Donors are engaged with Institution on a finance basis, then which is the dominant one with respect to requirements on the		

Question / Response	Number	%
Institution's environmental procedures?		
IFC	8	
EIB	2	
EU	0	
World Bank	0	
ADB	0	
FMO	1	
KFW/DEG	3	
EBRD	98	
Other	5	
Total	**117**	
17. Did anyone from EBRD discuss environmental aspects with the Institution during project planning?		
Yes	116	78.9%
No	16	10.9%
Don't know	15	10.2%
Total	**147**	**100.0%**
19. Were requirements for the Institution to adopt / improve environmental procedures included in the Agreement with EBRD?		
Yes	112	76.7%
Don't know	21	14.4%
No	13	8.9%
Total	**146**	**100.0%**
20. Does the Institution have a formally adopted Environmental Policy?		
Yes	98	67.6%
No	47	32.4%
Total	**145**	**100.0%**
21. What aspects does the Environmental Policy cover?		
Environment	96	
Social (eg labour issues)	46	
Occupational Health and Safety	55	
22. Does the Institution have formally adopted Environmental Procedures?		
Yes	98	68.5%
No	45	31.5%
Total	**143**	**100.0%**
23. Prior to the Agreement with EBRD, did the Institution have Environmental Procedures?		
Yes	37	34.3%
No	71	65.7%
Total	**108**	**100.0%**
24. If the Institution did have Environmental Procedures prior to the Agreement, have you improved them as a result of EBRD requirements?		
Yes, improved as a result of EBRD requirements	36	37.9%
We have improved our Procedures, but not as a result of EBRD requirements	7	7.4%

Question / Response	Number	%
No changes made	11	11.6%
Not applicable (no procedures)	41	43.2%
Total	**95**	**100.0%**
25. If the Institution has Environmental Procedures, are these known and used by all operating staff in all branches?		
Yes, used by all operating staff in all branches	74	68.5%
Used by operating staff only in the branch /business line for which the EBRD project applies	17	15.7%
Procedures have limited or no use by Institution staff at present	6	5.6%
Not Applicable (no procedures)	11	10.2%
Total	**108**	**100.0%**
26. Does the Institution have an employee with overall responsibility for environmental risk management within the Institution?		
Yes, in the parent organisation and/or outside this country	9	6.3%
Yes, one employee responsible in this country	41	28.5%
Yes, several employees responsible in this country	18	12.5%
No (continue with question 31)	76	52.8%
Total	**144**	**100.0%**
28. At what level of management is the employee with overall responsibility for environmental risk management within the Institution?		
Board / Director Level	9	11.7%
Senior Management (below Board Level)	35	45.5%
Other Employee	23	29.9%
Not Applicable (no single employee responsible)	10	13.0%
Total	**77**	**100.0%**
29. How long has the current person been in this position of responsibility?		
Less than 1 year	12	17.9%
1 - 2 years	17	25.4%
2 - 5 years	15	22.4%
More than 5 years	23	34.3%
Total	**67**	**100.0%**
30. Did the Institution create this position of responsibility as a result of EBRD requirements?		
Yes	41	53.9%
No	25	32.9%
Not Applicable (no employee responsibility)	10	13.2%
Total	**76**	**100.0%**
31. Does the Institution use EBRD's Environmental Exclusion and Referral List to determine whether business should be carried out with a client?		
Yes, for all our business	74	51.4%
Yes, but only for business related to the EBRD Agreement	54	37.5%
No	13	9.0%
Don't know	3	2.1%
Total	**144**	**100.0%**

Question / Response	Number	%
32. Does the Institution carry out an Environmental Risk Appraisal for major transactions?		
Yes, for all our business	81	56.3%
Yes, but only for business related to the EBRD Agreement	40	27.8%
No	20	13.9%
Don't know	3	2.1%
Total	**144**	**100.0%**
33. Does the Institution use EBRD's Environmental Risk Categorisation List to help with the Environmental Risk Appraisal?		
Yes	95	66.9%
No	22	15.5%
Not Applicable (appraisals not carried out)	14	9.9%
Don't know	11	7.7%
Total	**142**	**100.0%**
34. Does the Institution develop an Environmental Due Diligence Report for relevant transactions (i.e. those that are screened as medium or high environmental risk)?		
Yes	77	53.5%
No	56	38.9%
Don't know	11	7.6%
Total	**144**	**100.0%**
35. Has the Institution ever referred a potential deal to EBRD for advice on environmental issues?		
Yes	28	19.6%
No	100	69.9%
Don't know	15	10.5%
Total	**143**	**100.0%**
36. Has the Institution ever refused to sign a deal with a client because you considered their environmental performance was a risk?		
Yes, we pulled out solely because of environmental issues	30	20.8%
We pulled out because of several problems, including environmental	51	35.4%
No	46	31.9%
Don't know	17	11.8%
Total	**144**	**100.0%**
37. In the Legal Agreements with the Institution's client, does the Institution specifically require the clients to comply with local environmental regulations/standards?		
Yes	103	71.5%
No	36	25.0%
Don't know	5	3.5%
Total	**144**	**100.0%**
38. Does the Institution disclose project / environmental information to stakeholders? (eg via web site, local newspapers, dialogue with NGOs on environmental matters, etc)		
Yes, we disclose information on our projects and environmental aspects	29	20.6%

Question / Response	Number	%
We disclose information on projects, but not environmental aspects	32	22.7%
We disclose information on the overall environmental performance of our Institution	11	7.8%
We do not disclose information on projects or the environmental aspects	69	48.9%
Total	**141**	**100.0%**
39. Was the Institution provided tools by EBRD to help with environmental actions?		
Yes	113	79.0%
No	22	15.4%
Don't know	8	5.6%
Total	**143**	**100.0%**
40. Does the Institution use EBRD's tools to help with environmental actions? (tick more than one option if applicable)		
EBRD Environmental Risk Categorisation List	111	
EBRD Model Environmental Procedures	93	
EBRD Environmental Risk Management Manual	59	
EBRD Environmental Exclusion and Referral List for FIs	50	
None	18	
41. Do the Institution's investment / operating staff receive environmental training?		
Yes, all operating staff in all branches receive environmental training	22	17.9%
Yes, all operating staff in the branch for which the EBRD project applies	17	13.8%
Only a few staff, including the person with overall responsibility for environmental risk management	47	38.2%
No	59	48.0%
Total	**123**	**100.0%**
42. Who provided the environmental training?		
EBRD or training organisation paid by EBRD	52	36.4%
Another IFI /MDB / Donor organisation or training organisation paid by them	14	9.8%
Other training organisation paid for by our Institution	16	11.2%
Not Applicable (no training)	61	42.7%
Total	**143**	**100.0%**
43. Does the Institution ensure that training is disseminated within the Institution by those with responsibility for the environment so that all relevant staff have the necessary capabilities to implement the environmental procedures?		
Yes	77	54.2%
No	7	4.9%
Not Applicable (no training and/or no procedures)	58	40.8%
Total	**142**	**100.0%**
44. Does the Institution employ external environmental experts for reasons other than training?		
Often	6	4.2%
Occasionally	33	23.1%

Question / Response	Number	%
Never	104	72.7%
Total	**143**	**100.0%**
45. Has the Institution received a CD-ROM from EBRD to help you with Environmental Risk Management?		
Yes	53	37.1%
No	67	46.9%
Don't know	23	16.1%
Total	**143**	**100.0%**
46. Has the Institution downloaded environmental guidelines and procedures off EBRD's web site to help with Environmental Risk Management		
Yes	60	41.7%
No	66	45.8%
Don't know	18	12.5%
Total	**144**	**100.0%**
47. If the Institution has received the CD-ROM, or downloaded environmental guidelines and procedures off EBRD's web site, has the Institution incorporated the environmental components into its appraisals of clients?		
Yes	66	46.5%
No	12	8.5%
Don't know	15	10.6%
Not Applicable (no CD-Rom received and no material downloaded)	49	34.5%
Total	**142**	**100.0%**
48. Has EBRD monitored environmental aspects since the Agreement		
Yes, a visit from an environmental specialist	27	18.6%
The EBRD operating staff (Bankers) sometimes discuss environmental aspects when visiting, amongst other topics	48	33.1%
EBRD enquire about environmental aspects, but only in correspondence	44	30.3%
No	26	17.9%
Total	**145**	**100.0%**
49. Does the Institution provide EBRD with Annual Environmental Reports?		
Yes, based on the template in the Environmental Procedures	86	59.7%
Yes, we provide a brief summary	33	22.9%
No	25	17.4%
Total	**144**	**100.0%**
50. Does the Institution monitor its clients in relation to ongoing environmental risk management?		
Yes, all clients	43	29.9%
Yes, but only those clients with a major environmental risk	67	46.5%
No	34	23.6%
Total	**144**	**100.0%**
51. How does the Institution monitor the clients in relation to ongoing environmental risk management?		

Question / Response	Number	%
Representative of Institution visits clients at least once per year to assess environmental risk management	58	40.0%
Ad-hoc visits less than once per year to assess environmental risk management.	23	15.9%
No visits, but monitoring of environmental risk management through reports from clients	25	17.2%
Not applicable (no monitoring)	39	26.9%
Total	**145**	**100.0%**
52. Which of the following statements best describe the Institution's relationships with its clients on environmental matters? (tick more than one option if applicable - please explain your answer in the final question below)		
We proactively encourage our clients to develop and implement environmental procedures	40	
We proactively encourage and promote good policies on labour issues (eg child labour, discrimination) to our clients.	20	
We proactively promote waste minimisation and energy efficiency to our clients	32	
We proactively promote health and safety management to our clients	26	
We require evidence from our clients that they comply with environmental regulations	73	
We only discuss environmental matters with those clients where there is a major environmental risk	59	
Environment is not part of our core business therefore we do not actively promote the above issues	23	
53. Do the Institution's clients receive visits by local regulatory authorities to monitor their environmental performance?		
Most receive no visits	15	10.5%
Some receive visits, but not frequently	54	37.8%
Most receive visits at least once per year	35	24.5%
Don't know	39	27.3%
Total	**143**	**100.0%**
54. How important are environmental risks to the Institution?		
Very important to our business	30	21.1%
Important but not a priority	62	43.7%
Only important for some areas of business	45	31.7%
Not Important	5	3.5%
Total	**142**	**100.0%**
56. What best describes the Institution's relationship with EBRD on environmental risk management?		
We do not consider environment as an important part of our business	12	8.9%
We understand there is a need to manage environmental risks but the requirements from EBRD related to environment are too bureaucratic	19	14.1%
EBRD has provided some useful help related to environmental risk management, but we need more support in order to properly implement environmental procedures	29	21.5%

Question / Response	Number	%
EBRD has helped the Institution to improve the environmental procedures and better manage environmental risks	56	41.5%
EBRD has helped the Institution to improve the environmental procedures and better manage environmental risks, and helped us to see the value in promoting good environmental practices at our clients	19	14.1%
Total	**135**	**100.0%**
60. How do you rate this survey? (tick more than one option if applicable)		
The survey is not relevant to our Institution	10	
The survey is too long	17	
The survey has some relevance to our Institution	50	
The survey is useful to raise the profile of environmental issues	81	